The Caribbean

Bahamas

The authorities of the Bahamas estimate that the country's GDP grew by just over 1% in 2004, even though hurricanes Jeanne and Frances hit the country in September, causing losses equivalent to 7% of GDP. The positive growth rate can probably be attributed to increased spending by tourists, whose numbers rose as a result of better economic conditions in the United States and the euro's appreciation against the dollar. For 2005 the authorities are forecasting growth of nearly 3%.

The fiscal deficit's tendency to shrink in 2004 was reversed by the spending increases (11%) and revenue losses that resulted from the hurricanes; the larger deficit was financed through a 30% increase in net domestic credit. The authorities adopted a looser monetary policy aimed at increasing domestic credit in order to stimulate aggregate demand, thereby boosting economic growth. This policy made it possible to cover the budget shortfall.

Inflation rose owing to the higher international price of oil and to price increases stemming from the constraints on aggregate supply that resulted from the hurricanes. Increased spending on health care and medical services also contributed to the overall upturn in prices.

The deficit on the balance-of-payments current account was more than offset by the surplus on the capital and financial account, which also made it possible to increase the stock of international reserves.

Public spending has been boosted by rehabilitation and reconstruction activities. Revenues have dropped on account of the reduction in the tax base for levies on trade and international transactions (65% of total tax revenues) through the granting of tax exemptions for certain imported products. Another factor that will continue to erode revenues is the downturn in the number of visitors in the wake of the hurricanes.

The country's public debt totalled US$ 2.034 billion in September 2004; of this amount, 14% consisted of external debt.

In order to prevent the emergence of unsustainable balance-of-payments deficits and relieve pressure on the stock of international reserves, the central bank continued to apply a tight monetary policy in the first seven months of the year. This resulted in an increase in external assets and a consequent rise in bank deposits, which tripled between September 2003 and September 2004.

The expansion of bank deposits was accompanied by a smaller rise in commercial bank loans to the private sector (6%), despite the implementation, starting in August 2004, of a more flexible monetary policy aimed at boosting economic growth. Domestic credit was directed primarily towards meeting the demand for personal loans and loans for the purchase of residential properties.

In these circumstances, the banking system's liquid assets rose by 21% in relation to its liabilities. Excess reserves amounted to 180 million Bahamian dollars at the end of September, which represents a 16% increase over the 2003 figure.

Even though tourism was the sector most badly affected by the hurricanes (with losses estimated at 3% of GDP), the 11% increase in the number of tourists in 2004 was of decisive importance in making up for the setback caused by the ravages of nature. Moreover, a generous amount of resources has been allocated to aid the tourism industry's recovery and growth.

The performance of construction reflected the buoyancy of activities related to the development of hotels, industries and housing, and this sector may have expanded faster than it did in 2003 as a result of reconstruction projects. In the housing segment alone, reconstruction needs are estimated at some US$ 69 million.

Transport and telecommunications suffered serious losses (US$ 99 million), as did other sectors linked to tourism (US$ 104 million). These sectors' growth fell off sharply because of the natural disasters. In the fishing sector, however, the impact was less severe, as losses amounted to US$ 45 million.

The current account deficit, which was 50% wider than the preceding year's imbalance, was due to increased imports of goods and services for rehabilitation and reconstruction activities and to the rise in international fuel prices. Exports were temporarily weakened not only by reduced demand for tourism services, but also by a decline in the output of the country's leading export products.

The factors that contributed to the capital and financial account surplus included smaller outlays by the banking sector, a downturn in payments on external liabilities and a decline in the flow of resources from real estate sales.

BAHAMAS: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	2.3	0.2	1.3
Consumer prices	1.9	2.3	0.5 [b]
Money (M1)	2.4	5.2	9.5 [c]
	Annual average percentages		
Unemployment rate	6.9	9.1	...
Fiscal balance / GDP	-2.6	-0.6	...
Deposit rate [d]	4.2	4.0	3.8 [e]
Lending rate [f]	11.5	11.3	12.0 [e]
	Millions of dollars		
Current account	-188	-427	...
Capital and financial account	249	538	...
Overall balance	60	111	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to August 2004.
[c] Data to September.
[d] Rate on three-month time deposit.
[e] Rate in September.
[f] Weighted average rate on loans.

Barbados

In 2004 the Barbadian economy recorded its strongest growth (3%) since 1998, thanks mainly to the buoyant performance of tourism-related activities and other service sectors.

This vigorous economic activity was reflected in an increase in the demand for imports of consumer and capital goods. This, in turn, generated higher central government customs revenues, which, together with the limited increase in public expenditure, helped to reduce the fiscal deficit.

The central bank adopted a neutral policy and, despite a decline in the financial system's liquidity, the management of the monetary aggregates did not vary substantially. A contraction in the supply of food products and the rise in international oil prices pushed inflation up slightly.

The overall balance-of-payments out-turn was negative owing to the sharp increase in imports and the loss of export competitiveness. As foreign direct investment inflows, some of which went to the tourism sector, were insufficient to finance this deficit, the authorities had to draw down the stock of international reserves.

In 2005 the Barbadian economy's growth is expected to be between 3% and 3.5%.

The reduction in the government deficit, from 3% in 2003 to a value very close to the fiscal target of 2.5% of GDP in 2004, was due to the expansion of indirect tax receipts as a result of stronger demand for imports (particularly of motor vehicles), which more than made up for a slide in receipts of direct taxes. The latter phenomenon resulted from cuts in the income tax rates applicable to corporations (from 37.5% to 36%) and individuals (from 22.5% to 20% in the case of the basic rate); in addition, the tax base for the individual income tax shrank because the tax exemption threshold was raised.

The growth of public expenditure was outpaced by that of fiscal revenues because of a contraction in capital outlays, which offset the expansion of current expenditure. This expansion was related to increases in transfers and subsidies and, to a lesser extent, in payroll expenditure. Transfers rose because the resources provided to the Queen Elizabeth Hospital, which is no longer administered directly by the central government, are now included in this category.

The deficit was financed with domestic resources from the central bank. The central government's total debt declined slightly (from 73% of GDP in 2003 to 71% in 2004), thanks to a reduction in the external debt stock from 27% to 25% of GDP over the same period.

The monetary authorities maintained a neutral stance. The financial system recorded a contraction in international reserves during the year, on account of the significant increase in imports and a moderate upturn in deposits.

Credit demand rose by 6% between January and September 2004 because of the faster pace of economic activity. Some of this credit was used for the purchase of real estate and motor vehicles. This helped to increase the loan-deposit ratio, which led to a decline in liquidity.

In this context, commercial banks' demand for treasury bonds slackened, triggering a rise in the yields on these bonds, from 0.64% in January 2004 to 2.14% in September. Nevertheless, interest rates on commercial bank loans remained unchanged.

Agriculture posted negative growth as sugar production declined for the fourth straight year, owing to unfavourable weather conditions. Growth in manufacturing stagnated (at -1% in 2003 and 0.1% in 2004), despite substantial upturns in the chemical, beverage and non-metallic mineral subsectors, since these increases were more than offset by a contraction in the food subsector.

The upswing in the growth of the transport, storage and communications sector (from 1.3% in 2003 to 3.2% in 2004) reflected strong import growth and the liberalization of the telecommunications sector. Construction benefited from remodelling works at the airport and from the building of the Hilton Hotel.

Tourism continued to recover from the negative impact of the events of 11 September 2001. The number of visitors increased by 10% between January and September 2004 (as against 7% in the same period of 2003). The number of cruise-ship passengers rose by 32% as a result of an increase in stopovers. The financial sector performed well (growing by 2% in both 2003 and 2004), notwithstanding a decline in the number of offshore banking institutions (from 14 in 2003 to 2 in 2004).

The employed population expanded from 129,400 in the second quarter of 2003 to 134,600 in the same period of 2004 (a 4% increase). The unemployment rate declined from 11.6% to 9.6% over the same period. The service sector and the transport and communications sector were the main sources of job creation.

The overall balance of payments was negative because the capital and financial account surplus was too small to offset the current account deficit. As a result, the level of international reserves held by the central bank went down.

The current account deficit was due to the negative trade balance, which outweighed the positive performance of the non-factor services account. Merchandise imports were up by 11%, partly because of the rise in international oil prices. Exports, in contrast, dipped by 2% owing to the decline in the amount of sugar produced and exported and to a deterioration in the international prices of the main traditional exports.

The performance of the capital and financial account reflected foreign direct investment in the tourism sector, public utilities and real estate.

BARBADOS: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	-0.5	2.2	3.0
Consumer prices	0.9	0.3	1.5 [b]
Money (M1)	...	23.4	22.4 [c]
Real effective exchange rate	2.4	3.5	2.5
	Annual average percentages		
Open unemployment rate [d]	10.3	11.1	10.6
Non-financial public-sector overall balance/GDP	-6.3	-3.1	-2.6
Real deposit rate	6.5	0.8	...
Real lending rate	10.1	8.3	...
	Millions of dollars		
Exports of goods (f.o.b.) and services	1 294	1 342	1 002
Imports of goods (f.o.b.) and services	1 450	1 560	1 363
Current account	-171	-211	-333
Capital and financial account	147	398	362
Overall balance	-24	187	29

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to July 2004.
[c] Data to September.
[d] Includes hidden unemployment.

Belize

Belize's robust economic growth in 2004 (7%) was due primarily to strong upturns in tourism (30%), agriculture (12%) and construction (8%), while consumer prices edged up slightly. In the external sphere, external debt servicing payments generated a negative overall balance that was financed with international reserves. Growth in 2005 is predicted to be between 4% and 5%.

The economic expansion was not sufficient to offset the fiscal deficit of 11% of GDP in fiscal year 2003/2004, given that tax receipts fell short of the authorities' projections and expenditure was higher than planned. The fiscal deficit target of 3% of GDP set by the government for fiscal year 2004/2005 is therefore unlikely to be met.[1]

Current outlays increased as a result of higher spending on wages and salaries, pensions and interest payments on the public debt. These payments amounted to 11 million Belize dollars (BZ$) for domestic debt and BZ$ 77 million for external debt. Capital expenditure, on the other hand, plunged by 43%.

Despite an increase in loans (BZ$ 19 million), external financing fell short of requirements and net inflows of such financing were negative because an amount of BZ$ 32 million was paid into the sinking fund.

The central government's domestic debt rose by 4.4%, reaching BZ$ 270 million, and was financed in part with a 13% increase in central bank loans over the preceding year's level. The external debt stock, on the other hand, shrank by 4.2%, to BZ$ 1.443 billion.

The monetary base contracted in 2004 as a result of a 32% drop in net external assets, which offset a 20% rise in net domestic credit. Nonetheless, a five-percentage-point reduction in the legal reserve requirement (from 24% in 2003 to 19% in 2004) increased the money multiplier, thus facilitating the growth of the money supply. In the first nine months of the year the narrow money supply increased by 3% (compared to 0.5% in the same period of 2003), while the broad money supply expanded by 8% (as against 3.7% in the year-earlier period).

The larger money supply resulted in lower interest rates, which boosted the demand for loans for productive activities. Credit was up by 10% in the primary sector, 20% in the secondary sector and 24% in the tertiary sector. As a result, these three sectors received 13%, 28% and 44%, respectively, of total loans granted. Credit to the sugar subsector swelled by 49%, and loans to electricity, gas and water services shot up by 62%. Personal loans, on the other hand, fell off by 9.4%.

Agriculture expanded by 12% in response to good weather conditions, efficiency improvements in production processes and higher international prices for some of the main export products.

The growth of manufacturing (4%) was based essentially on juice production. Construction, which grew by 8.1%, benefited from the liquidity conditions prevailing in the economy.

The performance of tourism reflected a jump in cruise-ship arrivals (66% in the first nine months of the year compared to the same period of 2003), which exceeded the half-million mark. The number of long-stay tourists rose by only 5.4% over the same period.

Inflation was up slightly (just over 3%) owing mainly to the hike in the international price of petroleum. In terms of the components of the consumer price index, the biggest rise was in the provision of basic services. The cost of transport and communications rose by 6%, while beverage and tobacco prices went up by 2.4%.

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

The deficit on the overall balance in the first half of 2004 amounted to US$ 9 million. This imbalance was financed through the drawdown of net international reserves.

The current account balance improved over this period thanks to a smaller deficit on the merchandise trade balance and the satisfactory performance of non-factor services. Exports were hurt by a downturn in the international prices of certain export products, including sugar, but imports declined as well, notwithstanding the rise in petroleum prices. The services account posted higher earnings as a result of the strong expansion of tourism activity, but the deficit on the factor services balance also grew over this period. Despite the improvement in the current account, a deterioration in the surplus on the capital and financial account resulted in a negative overall balance.

BELIZE: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	4.2	4.9	7.0
Consumer prices	2.3	2.6	3.4
Money (M1)	...	1.0	2.0 [b]
	Annual average percentages		
Nationwide total unemployment	10.0	13.0	...
Real deposit rate	4.4	4.8	5.3
Real lending rate	14.2	13.8	13.9
	Millions of dollars		
Current account	-165	-181	...
Capital and financial account	159	146	...
Overall balance	-5	-35	...

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

Cuba

In 2004 the growth of Cuba's gross domestic product (3%) picked up speed for the second year running, in adverse conditions created by the worst drought in 40 years and the onslaught of two hurricanes, which seriously affected the production sector's performance. Added to this was a crisis in the national electric power and energy system and the worsening of external difficulties, owing especially to the restrictions on travel to Cuba by Cuban citizens living in the United States and on the sending of family remittances from that country.

GDP is expected to grow by 5% in 2005, buoyed by tourism services and an increase in the production of nickel, oil and gas, although projections also point to a smaller 2004/2005 sugar cane harvest and a further erosion of the terms of trade.

The Cuban economy has been undergoing a process of far-reaching structural reform for over a decade, ever since the collapse of the socialist system in Europe and the disintegration of the Council for Mutual Economic Assistance (CMEA). These events deprived the country of its traditional export markets, sources of imported goods and services and external financing opportunities, all of which had an immediate impact on its external-sector accounts. The new situation forced the authorities to undertake a major restructuring of the economy in order to create conditions for enhancing Cuba's participation in the global economy and to promote the recovery of its production sector, after the severe slump in activity in the early 1990s.

The pillars of this restructuring process have been the opening of the economy to foreign direct investment, the development of the tourism sector, the expansion of mining activities, the legalization of the possession of foreign exchange and the creation of a network of dollar shops to absorb foreign exchange, mainly from family remittances. However, the State has continued to dominate almost all productive activities. Meanwhile, the protracted United States embargo continues to hobble the country's development.

In 2004 the Cuban economy was still suffering from structural problems such as a shortage of foreign exchange, distortions in the relative price system due to the overvaluation of the official exchange rate and the lack of convertibility, the two-tier monetary and exchange-rate system and market segmentation, the poor performance of the sugar industry and efficiency problems in public entities.

Starting in mid-2003 foreign exchange was concentrated in the hands of the central bank through the establishment of exchange controls and the wider circulation of the convertible Cuban peso (CUC), which became the only means of payment in transactions between cuban entities that were previously denominated in dollars or other foreign currency.

The shortage of foreign exchange became more acute in early 2004 with the deterioration in the terms of trade brought on by the significant hike in international oil prices, a downturn in FDI inflows, a rise in net factor service payments and cash purchases of food and agricultural products from the United States market, as well as other imports that became necessary when certain industries came to a standstill because of the electricity crisis.

Under new monetary and price measures introduced by the government, in mid-2004 the prices charged at hard-currency shops were raised, and in November the circulation of the United States dollar was prohibited and the convertible peso became the sole legal tender. Since then, the exchange of dollars for convertible pesos has pushed up the level of international reserves considerably, thereby easing the shortage of foreign exchange.

By virtue of this measure, everyone, including foreign visitors, must pay a 10% surcharge on cash purchases of convertible pesos with dollars. This surcharge does not apply to purchases made with other hard currencies. In addition, the convertible peso's official parity with the United States dollar has remained unchanged. Lastly, there are no restrictions on the population's foreign exchange holdings or on bank deposits.

These measures are limited to monetary matters within the national territory. They do not affect the operations of foreign companies that do business on the island, nor do they limit the use of credit and debit cards, and their negative impact on international tourism has been minimal. Most of Cuba's trade, foreign investment and tourism activity take place with countries members of the European Economic and Monetary Union and the United Kingdom.

The fiscal gap remained virtually the same (3.5% of GDP in 2004, compared to 3.4% in 2003). Current revenues rose by 9.6%, but capital inflows were down by 6.7%.

Tax receipts expanded by 11.6%, with higher revenues from both indirect taxes (17%) and direct taxes (3.7%). The intake from circulation and sales taxes increased by 18% and that from service taxes, by 6.8%. There was also an increase in social security contributions (5.3%) because more workers took part in the programme to improve business practices and the tax rate was raised (from 12% in 2003 to 12.6% in 2004). Profit tax receipts went up by 4.8% thanks to an increase in production. Non-tax revenues rose by 4.3%.

With regard to government spending, capital and current expenditure rose by 15.2% and 10.4%, respectively. Current expenditure included increased outlays on social well-being and assistance (20.5%), education (16%), culture and art (16%) and health (11.9%), under the initiative to strengthen social programmes.

In the production sector, there were upturns in international tourism services (10%), construction (7.2%), mining (4.6%) and government services (4.2%). Electricity, gas and water services, on the other hand, posted a 5.2% decline.

International tourism's 10% expansion was driven by international promotional efforts and an increase in the number of hotel rooms (to 45,000 units, an 8.2% rise); hotel occupancy rates and tourists' average length of stay also increased.

CUBA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	1.2	2.5	3.0
Consumer prices [b]	7.0	5.0	...
Money (M1)	10.3	-4.7	0.1
	Annual average percentages		
Urban unemployment rate	3.3	2.3	2.0
State fiscal balance / GDP	-3.3	-3.4	-3.5
	Millions of dollars [c]		
Exports of goods (f.o.b.) and services	4 238	4 855	5 291
Imports of goods (f.o.b.) and services	-4 754	-5 275	-5 434
Current account	-296	-155	-100
Capital and financial account	300	200	500
Overall balance	4	45	400

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

Consumer prices in local-currency shops went up, but the increase remained in the single digits (3%). The rise in petroleum prices was passed through to agricultural products and to private own-account labour costs, which are subject to competition, as well as to merchandise sold in hard-currency shops. In the case of regulated markets and basic electricity, gas and water services, however, the increase in costs was not passed on to consumers thanks to budget subsidies.

The balance-of-payments current account deficit declined to 0.3% of GDP in 2004 as a result of a smaller deficit on the balance of trade in goods and services and an increase in net current transfers, which are estimated at about US$ 1 billion. Net factor service payments rose because of an increase in international interest rates and the repatriation of profits generated by foreign investment.

Despite the significant increase in international petroleum prices, the trade gap narrowed. This was due to the expansion of earnings from services, especially tourism and telecommunications, and to the fact that the growth of exports outpaced that of imports.

Dominican Republic

After having slipped by 0.4% in 2003, economic activity in the Dominican Republic expanded by 1.8% in 2004, exceeding the projections made at the beginning of the year. Although business in the free-trade zones stagnated, external demand for tourism services and for national merchandise exports was strong. Moreover, family remittances continued to increase. Domestic demand, however, was limited owing to the lingering effects of the banking crisis experienced in 2003.

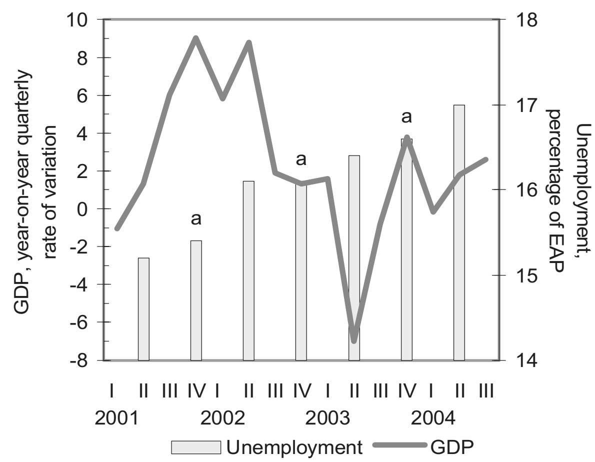
Both the exchange rate and prices stopped rising in the second quarter. The review of the standby arrangement which the country had signed with IMF in 2003, the presidential elections held in May and the subsequent change of government in August contributed to a turnaround in economic expectations. By the end of the year the local currency had recouped part of the steep depreciation it had accumulated, the rate of inflation had begun to slow down and the very high interest rates on the central bank's investment certificates had subsided. The external current account recorded a surplus and international reserves expanded. Nevertheless, the non-financial public sector and the central bank posted large deficits, and arrears were accumulated in external debt servicing. Unemployment did not worsen, thanks to the expansion of informal activities, but real wages declined.

The forecast for 2005 points to GDP growth of approximately 2%. The country is expected to sign a new standby arrangement with IMF at the beginning of the year. This should help to strengthen financial stability and reduce inflation considerably, thereby boosting domestic demand.

The new administration has given priority to stabilizing the economy, concluding a new arrangement with IMF and reducing the fiscal deficit. Accordingly, it adjusted public spending and implemented a fiscal reform in September. Strict monetary control was the predominant pattern.

The non-financial public sector ran a deficit of 3% of GDP, in contrast to the 0.2% surplus agreed upon with IMF, while the quasi-fiscal deficit was equivalent to 4% of GDP.

DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

The central government deficit, measured on an accrual basis, amounted to 2.7% of GDP, as compared to 3.8% in 2003. Measured on a cash basis, however, the balance showed a surplus of 2.4% of GDP (as against 1% in 2003) due to a series of delays in expenditure. The temporary taxes imposed at the beginning of the year and the tax reform implemented in September raised the central government's real income by 6%. The bulk of this increase came from indirect taxes, especially excise taxes (the rate of the tax on the transfer of goods and services rose from 12% to 16%) and surcharges on foreign trade. Receipts from direct taxes, on the other hand, went down.

Real expenditure diminished by 3.5% as a result of a contraction in public employment and downturns in real wages and debt-servicing payments, but transfers swelled by more than 80% owing to increases in electricity and gas subsidies. Capital outlays also declined. The external debt stood at slightly over US$ 6.4 billion, exceeding the figure recorded at the end of 2003 by 7.2%. The accumulation of debt-servicing arrears prompted the government to negotiate with the Paris Club. After the review of the country's arrangement with IMF in February, further steps were taken to absorb the excess liquidity created by the central bank's large-scale intervention in the 2003 banking crisis, whose cost amounted to 20.5% of GDP. The issuance of central bank investment certificates jumped by 70% and, in May, the required investment ratio for multi-purpose banks was raised from 5% to 8% and a ceiling was imposed on total loans from the banking system to the public sector.

The interest rate on these investment certificates increased from 35% in late 2003 to 59.7% in June 2004, after which it fell gradually until it reached 29.8% in November. In addition, the authorities extended the terms of these instruments and sought to diversify them by issuing certificates pegged to the consumer price index (CPI), the United States dollar and the rate on United States Treasury notes.

In October money creation was down by almost 9% in real terms with respect to its level in the same month of 2003. Domestic credit was down by 25%, while money and the broader monetary aggregate M2 had contracted by 4% and 13.1%, respectively. There was no significant variation in banks'nominal interest rates as a result of the exchange rate and price turbulence, but both deposit rates and lending rates were negative on average, in real terms.

The country's freely floating exchange rate reached a maximum of 54 pesos to the dollar in February, compared to 37.5 pesos at the end of 2003. Subsequently, once measures were taken to tighten the money supply and the prevailing uncertainty began to be dispelled, the exchange rate declined gradually and, towards the end of the year, stood at about 30 pesos to the dollar.

Export-oriented economic activities were buoyant, while domestic demand continued to flag; specifically, downturns were observed in construction (-4.0%) commerce (-2.7%), financial services (-0.8%) and the electricity, gas and water sector (-21.1%), in which electricity generation continued to be insufficient. On the other hand, there were upturns in agriculture (4.8%, despite the damage caused in September by hurricane Jeanne), mining (3.0%) and manufacturing (2.5%), while communications continued to grow vigorously.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	4.3	-0.4	1.8
Consumer prices	10.5	42.7	46.1 [b]
Money (M1)	13.8	38.6	46.7 [c]
Terms of trade	-0.6	-1.0	-3.2
	Annual average percentages		
Urban unemployment rate [d]	16.1	16.6	17.0 [e]
Central government overall balance / GDP	-2.7	-3.8	-2.7
Nominal deposit rate	16.4	20.6	21.1 [f]
Nominal lending rate	21.3	27.8	30.4 [f]
	Millions of dollars		
Exports of goods (f.o.b.) and services	8 236	8 875	9 166
Imports of goods (f.o.b.) and services	10 151	9 100	9 261
Current account	-798	865	1 124
Capital and financial account	243	-1 317	-674
Overall balance	-555	-452	450

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2004.
[c] Data to September.
[d] Includes hidden unemployment.
[e] Data as April.
[f] Average from January to November, annualized.

Twelve-month inflation stood at 35% in December 2004, compared to 42.7% the preceding year, reflecting a definite decline from March onward. Figures for October show that the biggest price increases were in hotels and restaurants (48.1%), food, beverages and tobacco (37.5%) and furniture and accessories (37.4%).

An employment survey conducted in April revealed that the labour-force participation rate had risen to 55.3% and the employment rate, to 45.9%. Open unemployment fell to 5.1%, but broad unemployment increased from 16.4% to 17.0%. Minimum wages were adjusted by 10% in January and 30% in November; in the latter month other wages were adjusted as well. In real terms, the purchasing power of wages declined again in 2004.

The balance-of-payments current account ran a US$ 1.1-billion surplus (5.9% of GDP), the negative balance of factor payments narrowed and remittances continued to grow. Foreign direct investment exceeded US$ 450 million, but private capital movements were negative. Despite this, the central bank built up additional international reserves.

The expansion of merchandise exports (4%) was slower than it had been in 2003. External sales of non-free-trade-zone products increased by 27%, owing especially to exports of ferronickel (which accounted for 22% of the total), tobacco and molasses. Exports of free-trade-zone products contracted by 1.5% owing to the garment sector's reduced competitiveness. At the country's ports, there was an upturn in sales of goods to cruise-ship passengers.

Slack domestic demand limited import growth to just 2%. The value of imports of petroleum and petroleum products grew by 20% as a result of the rise in international prices. Increases were also observed in imports of cast iron and steel products, agricultural inputs, vegetable fats and oils, certain consumer durables, pharmaceutical products and medicines.

Up to August tourist arrivals totalled 2.7 million people, a 7.1% increase over the number recorded in the same period of 2003. This upturn improved the position of the services account. The contributing factors behind the increase in tourist arrivals included the worldwide economic recovery, the Dominican peso's real depreciation against the dollar and the dollar's loss of value against the euro.

Guyana

The dip in economic activity that Guyana had experienced in 2003 was reversed in 2004. The economy grew by 1.5% (compared to -0.6% in 2003), boosted by improvements in agriculture and by a buoyant construction sector, since the mining sector succeeded only in posting a smaller decline. In 2005 growth is projected to be between 2% and 3%.

The stronger economic performance resulted in a slight upturn in tax receipts. Thanks in part to the implementation of administrative measures, the government had enough resources to finance higher capital expenditure and even to reduce the fiscal deficit (from 7% of GDP in 2003 to 5% in 2004). Increases in aggregate demand and in oil prices on international markets pushed up the rate of inflation.

In the external sector, the balance-of-payments current account position deteriorated, as imports rose more sharply than exports. The increase in imports was due mainly to purchases of materials and equipment for road infrastructure, the expansion of production facilities in the sugar sector and mining activity.

The central government's fiscal deficit diminished, thanks mainly to a nominal increase in current income (36% of GDP) and, to a lesser extent, the containment of increases in current expenditure (33% of GDP), particularly on wages and salaries (12% of GDP). This resulted in a current account surplus (4% of GDP) that was large enough to finance part of the programme of public investment projects. External debt servicing increased slightly to represent 43% of public revenues in 2004 (compared to 42% in 2003) and 15% of exports of goods and non-factor services.

In the sphere of monetary policy, the authorities continued to pursue their traditional objectives of price stability and exchange-rate sustainability. Commercial bank deposits increased in 2004 –with sight deposits rising by 24% and time deposits, by 5%– and exceeded the growth of credit demand (1%), whose level remained almost unchanged despite lower interest rates. The weighted average nominal rate on commercial bank loans decreased from almost 16% in 2003 to 14% in 2004. As a result of this stagnation, there was a build-up of liquidity in the commercial banking system. In early 2004 the ratio of free reserves to mandatory reserves rose to 64%, and this excess was reinvested in external assets (39%). Narrow money and broad money expanded by 9% and 19%, respectively (as against 8% and 11%, respectively, in 2003).

To complement the macroeconomic stance taken in 2004, the authorities continued to implement a reform programme designed to improve the country's production structure and institutional framework. Efforts were geared mostly towards restructuring the traditional primary sector to enhance its productivity and competitiveness, increase the profitability of investment in physical capital and improve the quality of investment in human capital. The growth of the agricultural sector (6%) reflected increases in the production of sugar (8%) and rice. The latter segment benefited from structural reforms and the higher yields that resulted from an increase in the area under cultivation. The smaller downturn in the mining sector (-9% in 2003 and -5% in 2004) was the net outcome of lower value added in the bauxite sector and higher levels of gold production. Construction benefited from an increase in the government's capital expenditure on infrastructure and housing.

The current account deficit swelled from 12% of GDP in 2003 to 16% in 2004, as the growth of imports outpaced that of exports. The expansion of imports was driven by the rise in international oil prices and an increase in purchases of the materials, equipment and machinery needed for the expansion of production facilities in the sugar and mining sectors. The upturn in exports reflected higher external sales of gold, rice and sugar (which rose by 9%, 23% and 15%, respectively). The surplus on the capital account was due to disbursements corresponding to the official assistance received by Guyana under the Heavily Indebted Poor Countries (HIPC) Initiative. In 2004 these funds were insufficient to make up for the deficit on the overall balance of payments, which amounted to US$ 6 million. The shortfall was financed with international reserves from the central bank.

GUYANA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	1.1	-0.6	1.5
Consumer prices	6.1	4.9	5.4
Wages [b]	5.5	5.0	...
Money (M1)	8.5	7.4	16.1 [c]
	Annual average percentages		
Central government overall balance / GDP	-8.0	-7.0	-5.0
Nominal deposit rate	4.3	3.8	3.4 [d]
Nominal lending rate	17.3	16.6	16.6 [d]
	Millions of dollars		
Current account	-154	-84	-119
Capital and financial account	82	74	113
Overall balance	-72	-10	-6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Public-sector minimum wage.
[c] Data to September.
[d] Average from January to July.

Haiti

In 2004 the Haitian economy faced a series of political and social upheavals that led to the President's resignation on 29 February, the deployment of a multinational force in the country, the formation of a transitional government and the launching, in June, of the United Nations Stabilization Mission in Haiti (MINUSTAH).

The precarious economic situation seen in previous years was worsened in 2004 by the political and social instability. GDP contracted by 3% and per capita GDP declined for the fifth consecutive year (-4.7%). This slump was partially mitigated by the growth of exports and an increase in current transfers to US$ 1.031 billion (equivalent to 25% of GDP). These transfers included, in addition to family remittances, international assistance provided in response to the natural disasters (floods) that struck the country in May and September, causing the large-scale loss of human life.

By signing an Interim Cooperation Framework (ICF) with the country's provisional authorities in July 2004, the international donor community and financial institutions undertook to provide US$ 1 billion in assistance over a two-year period. The high hopes raised by this initiative have yet to be fulfilled, however, as external contributions fell far short of the US$ 221 million that was to have been supplied in fiscal year 2003/2004.

If the agreed disbursements are made, the prospects for economic recovery in 2005 will be brighter. The transitional government's public works programmes, which are being financed from domestic resources; the signing of a new IMF staff-monitored programme; and an emergency post-conflict assistance programme with the same institution, under which preferential financing will be granted for a total of US$ 30 million, together with the positive forecasts for the agricultural sector, may be able to slow or even reverse the decline in GDP.

Nonetheless, the toll taken by the natural disasters of May and September has not yet been fully assessed and will probably have a significant negative impact. Another worrisome factor is the high level of violence, especially in the capital city, which is jeopardizing the fragile political and institutional situation, the implementation of economic and social programmes and the conduct of legislative, municipal and presidential elections in 2005. Should the crisis continue, Haiti's already alarming levels of poverty and deprivation could become still worse.

The transitional government's economic policy focused primarily on restoring some degree of macroeconomic stability. By the end of December 2003 the huge fiscal deficit had already exceeded the level budgeted for the entire fiscal year, prompting the new authorities to cut back public administration expenditure by 5.7% in real terms. Economic activity was at a virtual standstill in February and March, with the result that revenues fell by 7.5%. In September civil-service wages were raised by an average of 33% to make up for losses of purchasing power.

The monetary authorities maintained a tight policy to curb the bouts of inflation experienced in early 2004. Total liquidity in the economy diminished in real terms; M1 and M2 shrank by 16% and 11%, respectively, despite a gradual decline in the benchmark interest rate (the rate on central bank bonds) from 27.8% in April to 7.6% at the end of the year. This reduction did not pass through to commercial banks' nominal lending rates, which held steady (at 33% for local-currency loans) or even rose slightly, in the case of dollar loans (from 12.5% in October 2003 to 14.5% in the final months of the year). This further stifled credit to the private sector, which contracted by 12.2% as the climate of uncertainty discouraged the extension of and demand for such credit.

The gourde rose in value, essentially because of the relative abundance of foreign exchange from remittances. The central bank took advantage of the gourde's appreciation to replenish its reserves, and bought about US$ 100 million in foreign exchange between April and September. The external debt stock

HAITI: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	-0.3	0.5	-3.0
Consumer prices	14.8	40.4	22.0 [b]
Terms of trade	-1.0	-1.4	-2.8
Money (M1)	19.8	19.5	20.7 [c]
	Annual average percentages		
Central government fiscal balance / GDP [d]	-2.5	-2.7	-2.7
Nominal deposit rate	8.2	14.0	12.1 [e]
Nominal lending rate	25.5	30.7	34.3 [e]
	Millions of dollars		
Exports of goods (f.o.b.) and services	421	464	506
Imports of goods (f.o.b.) and services	1 232	1 399	1 519
Current account	-49	-42	5
Capital and financial account	-34	31	25
Overall balance	-83	-12	31

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2004.
[c] Data to September.
[d] Overall balance calculated below the line.
[e] Average from January to October, annualized.

increased by US$ 29 million to reach US$ 1.316 billion, and arrears in servicing payments amounted to US$ 72 million (as against US$ 51 million in 2003).

In the prevailing climate of instability, the productive sectors performed poorly. Public investment outlays dropped significantly (by 12%) and private investment declined more moderately, with the result that total investment contracted by 3%. This affected the performance of the construction sector. The increase in remittances softened the impact of the deterioration in purchasing power (the minimum wage contracted by 21% in real terms), but was not sufficient to prevent a 5% decline in consumption. There were severe energy shortages that improved only slightly in the second half of the year, and total thermal and hydroelectric power generation contracted by 15.5%. Consumers were particularly affected by this problem between January and June, as the cumulative decline over this period amounted to nearly 60%.

Inflation was relatively well controlled (22%), despite increases in the international prices of petroleum products. The authorities will probably resort to subsidies of some kind to keep the economic situation from worsening.

The value of exports grew by 12%, owing mainly to a 10% increase in unit values, while sales from maquila activities rose by 4.4%, despite a 7.2% decline in volume. Other products that performed well included mangoes, cocoa and coffee. The value of imports was up by 8.6%, but their physical volume was down by 5%. The terms of trade deteriorated by 3% because of sharp increases in the prices of hydrocarbons (19%) and other imported commodities, including rice (49%), wheat (6%), chicken meat and offal (21%), milk (46%) and edible oils (4%). Legumes were an exception, as their prices went down by 8%.

Remittance inflows were once again the main source of equilibrium in the balance-of-payments current account. External contributions (though meagre) and, in particular, the central bank’s foreign exchange purchases helped to reconstitute net international reserves (including commercial banks’ mandatory foreign-exchange deposits), which at the end of the fiscal year were equivalent to 42 days’ worth of imports.

Jamaica

The Jamaican economy grew by 1.9%, in a slowdown from the 2.3% recorded in 2003, owing to the destructive impact of hurricane Ivan on the southern and south-western parts of the island in early September. Total damage is estimated at US$ 580 million (8% of GDP); the sectors hardest hit were agriculture, water and electricity, and transport, storage and communications.

Losses in production sectors amounted to 13.375 billion Jamaican dollars (J$), while losses in social sectors totalled J$ 12.729 billion. Infrastructure damage was slightly lower (J$ 7 billion).

Despite the effects of the hurricane, macroeconomic stability was maintained. The government pursued its efforts to strengthen fiscal management, and interest rates continued to fall. The deficit for fiscal year 2004/2005 thus remained close to the target established by the authorities at the beginning of the year (4% of GDP).[1]

The inflation rate subsided from 14.1% in 2003 to 12.3% in 2004 (the year-on-year rate in October) as a result of greater exchange-rate stability, which partially offset the effects of the decline in agricultural output, as well as the hike in international oil prices and the resulting increase in transport costs.

The smaller current account deficit (10% of GDP) reflected strong export performance, especially in the first half of the year. The imbalance was easily covered with financial inflows from bond issues and with external inflows associated with the natural disasters. As a result of these inflows, there was an increase in net international reserves. For 2005 GDP growth is projected at 2.2%.

The fiscal deficit shrank from 6% to 4% of GDP (excluding grants) in fiscal year 2004/2005 in relation to the preceding fiscal year, owing in particular to an upturn in tax receipts (from 27% to 28% of GDP) and to the fact that the effects of hurricane Ivan necessitated only a slight increase in total spending (from 34.6% to 35% of GDP in the periods indicated).

Tax revenues reflected the economy's growth in the first eight months of the year and the full application of the package of fiscal measures adopted in 2003. Receipts were eroded very little by the effects of the hurricane, as the areas and activities that suffered damage are not significant contributors.

Current expenditure remained constant as a proportion of GDP (33%), as its main components (interest payments and payroll expenditure) did not change. Capital expenditure as a share of GDP rose from 1.5% in 2003 to 2% in 2004 owing to the reconstruction work.

With respect to wages, the agreement reached between the government and the Jamaica Confederation of Trade Unions on public-sector wage and employment restraint was implemented with effect from 1 April 2004 to 31 March 2006. Interest payments on the domestic debt (which accounts for 75% of total debt) became more moderate owing to the monetary authority's commitment to reducing interest rates. The rise in expenditure in connection with hurricane Ivan will be financed with grants and soft loans.

The stable macroeconomic conditions enabled the Bank of Jamaica to narrow the range of interest rates on its 90-day repurchase instruments (from 18% in 2003 to 14% in 2004), which lowered the cost of domestic debt servicing and open-market operations.

Meanwhile, the commercial banking system's adaptation to the credit expansion policy resulted in a decline in the weighted real interest rate on loans, from 7.1% in 2003 to 6.2% in 2004.

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

The nominal exchange rate against the United States dollar depreciated slightly in view of the lower interest rates (from J$ 59.28 in October 2003 to J$ 61.18 in October 2004).

Agricultural output (which grew by 4.7% in 2003 and -5% in 2004) was directly affected by the heavy rainfall and floods caused by the hurricane.

The manufacturing sector (-0.8% in 2003 and 4% in 2004) was able to meet higher demand thanks to an improvement in its productivity, with the result that its growth was affected only slightly by the hurricane (the rates posted in the sector were 4.7% before the disaster and 4.2% afterward). Losses in this sector were concentrated in the food processing segment.

Mining performed well (growing by 4.9% in 2003 and 9.1% in 2004) because of favourable external conditions and higher capacity utilization at aluminium and bauxite production plants. Hurricane-related losses were due to temporary interruptions in production processes. The electricity and water sector (4.7% in 2003 and 2.2% in 2004) was affected by electric power outages caused by the hurricane.

The transport, storage and communications sector grew by 2.6% in 2004 (as against 3.6% in 2003) and posted losses attributable to the temporary interruption of freight and passenger traffic, a downturn in traffic volume and higher costs associated with the use of alternative means of transport and communications. Construction activity (1.2% in 2003 and 3.4% in 2004) reflected the implementation of government infrastructure projects and reconstruction activities.

Tourism, which had recovered from the effects of the terrorist attacks of September 2001, was affected by the temporary closure of some hotels owing to the effects of hurricane Ivan.

Temporary constraints on productive activities as a result of the hurricane were most evident in labour-intensive sectors, including the banana segment, which temporarily shed 8,000 jobs. Under the agreement between the government and trade unions, wage growth was limited to less than 3% a year.

The deficit on the current account (12% of GDP in 2003 and 11% in 2004, including the post-hurricane situation) was amply offset by a surplus on the capital and financial account.

JAMAICA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	0.9	2.3	1.9
Consumer prices	7.3	14.1	12.3 [b]
Money (M1)	13.5	7.6	18.9 [c]
Real effective exchange rate [d]	0.8	16.1	0.8 [e]
	Annual average percentages		
Urban unemployment rate [f]	15.1	13.1	13.0 [g]
Central government overall balance / GDP	-7.6	-5.9	-4.2
Nominal deposit rate	9.1	8.4	8.1 [h]
Nominal lending rate	26.1	25.1	25.2 [h]
	Millions of dollars		
Current account	-1 119	-761	...
Capital and financial account	883	326	...
Overall balance	-236	-435	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2004.
[c] Data to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Data to October.
[f] Includes hidden unemployment.
[g] Official estimates.
[h] Average from January to October, annualized.

The growth of merchandise exports (11%) resulted from the combination of higher international prices for mineral products, an upturn in external demand and the negative effects of the hurricane on agricultural and mining activities. Import growth sped up (to 9%) owing to the reconstruction initiatives, the substitution of imports for lost domestic output and the hike in international oil prices.

The surplus on the non-factor services balance reflected the brisk growth of tourism activity despite the temporary interruption in the flow of visitors. Current transfers increased by 17% as many of the people affected by the hurricane received financial support from relatives living abroad.

The capital and financial account ran a surplus owing to the issuance of over US$ 250 million in bonds, an increase in financial flows associated with the reconstruction and rehabilitation activities and an upturn in insurance and reinsurance payments.

Suriname

Suriname's economic growth, at 4%, was slower than it had been in 2003 (5.6%). The expansion was based on a 5% upturn in the primary sector (which had grown by 1.1% in 2003) and, in particular, a mining boom. The performance of the country's leading mineral products was boosted by an increase in FDI and higher export prices. The performance of agriculture varied from one segment to another, while construction benefited from projects to expand production capacity in the mining sector, especially the gold subsector.

The fiscal balance deteriorated owing to higher current expenditure and, to a lesser extent, an increase in capital outlays on infrastructure. In the area of monetary policy, the growth of the monetary aggregates was brought into line with that of nominal GDP. This kept liquidity and the exchange rate relatively stable, thereby facilitating a substantial decline in inflation. Slower import growth and strong export performance helped to narrow the external current account deficit.

For 2005 a growth rate of 4.5% is expected.

In 2004 the balance of the central government's fiscal operations was negative (at 56 million Suriname dollars). The significant reduction in the fiscal current account surplus (from 48 million Suriname dollars in 2003 to 16 million in 2004) was due to an increase in the payroll, since interest payments, particularly on the external debt, declined from US$ 11 million to US$ 9 million.

The deficit was financed essentially with domestic resources. The external debt stock was down to US$ 347 million.

In general terms, the aim of monetary policy was to create conditions for reducing inflation from nearly 30% in 2003 to 10% in 2004 and to keep the Suriname dollar stable. The legal reserve requirement continued to be one of the main economic policy instruments. The authorities reduced the reserve requirement for local-currency deposits from 35% to 30% in order to boost the demand for loans. The 5% reduction in the banking system's lending rates as of September 2004 may also stimulate this demand and, ultimately, private investment as well. In view of the low demand for loans, banks used their assets to invest abroad. Meanwhile, the authorities raised the legal reserve requirement for foreign-currency deposits from 18% to 23% in order to contain the exponential growth that these deposits had shown in 2003 and part of 2004. The exchange rate remained stable throughout 2004 at approximately 2.65 Suriname dollars per United States dollar.

The agricultural sector is in the midst of a recovery process. Banana exports continued to rise, but rice production contracted owing to technical and financial difficulties. Mining expanded on the strength of bauxite, aluminium and gold production. This sector benefited from an increase in foreign investment, favourable international prices and the expansion of production facilities, which had a positive impact on the construction sector. The oil and natural gas subsector performed well in view of higher international prices and the expansion of refining facilities. The growth of manufactures accelerated from 1.5% in 2003 to 2.1% in 2004.

Inflation dropped steeply, from 26% in 2003 to 13% in 2004, owing mainly to exchange-rate stability and despite a moderate increase in transport and communications costs due to an increase in international prices for inputs. The current account deficit fell from 18% of GDP in 2003 to 13% in 2004, as imports lost momentum (because of the slower economic growth) while exports picked up speed.

SURINAME: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	3.0	5.6	4.0
Consumer prices	37.0	26.0	13.0
	Annual average percentages		
Non-financial public-sector fiscal balance / GDP	-7.0	0.2	...
Real deposit rate	5.9	-15.5	...
Real lending rate	17.7	-5.1	...
	Millions of dollars		
Exports of goods (f.o.b.) and services	369	487	...
Imports of goods (f.o.b.) and services	-322	-448	...
Current account	-131	-171	...
Capital and financial account	112	-40	...
Overall balance	-19	-211	...

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

[a] Preliminary estimates.

Trinidad and Tobago

The economy of Trinidad and Tobago expanded by 6.2% in 2004, driven by the energy sector, which had been boosted significantly by the inauguration of the Train 3 liquefied natural gas plant the preceding year. The inflation rate rose because of increases in food prices, especially at the beginning of the second half-year, while unemployment continued to trend downward. In the external sector, the overall balance of payments was positive, since the current account surplus –reflecting the effect of higher petroleum prices on exports in general– outweighed the deficit on the capital and financial account.

The economy is expected to grow by 5% to 6% in 2005, boosted mainly by the energy sector and by higher income resulting from the improvement in the terms of trade.

The authorities adopted a prudent fiscal policy stance. As in the preceding fiscal year, the fiscal accounts ran a surplus, largely because higher petroleum prices pushed up tax receipts.

The central bank's decision to lower the reserve requirement for commercial banks facilitated the financial management of fiscal policy. It also paved the way for interest rate cuts designed to stimulate demand for loans and economic growth.

The government posted a surplus in fiscal year 2003/2004, as it had in the preceding period. This was largely a result of higher corporate tax revenues (which account for almost 50% of fiscal income) due, in turn, to the rise in the prices of petroleum and petroleum products. Another factor that contributed to the surplus, albeit to a lesser extent, was the collection of taxes from individuals employed in the 108 firms and businesses in the pay-as-you-earn system.

Revenues from taxes on goods and services transactions (VAT and specific taxes) also rose, thanks to the dynamism of economic activity.

The bulk of expenditure (92%) was accounted for by the higher current expenditure that resulted from an increase in transfer and subsidy payments arising from past-due commitments (subsidies to oil companies, transfers to government enterprises and statutory boards), debt servicing and disbursements for social programmes. Capital expenditure reflected the launching of the government's public investment programme.

Despite the surplus on the fiscal accounts, the central government's debt stock climbed from 49% to 53% of GDP in fiscal year 2003/2004, as a result of its decision to issue TT$ 1.16 billion in bonds to sterilize part of the liquidity increase generated by the lowering of the reserve requirement. The government also took advantage of the drop in nominal interest rates to restructure its debt by extending maturities. The stock of external debt declined with the payment of a portion of outstanding obligations.

The intent of monetary policy was expansionary. The repo rate on discounting operations remained unchanged from the year before (5%). When the policy was first implemented, the reserve requirement was lowered by four percentage points (from 18% to 14%). In September 2004 a second phase began, with a further reduction from 14% to 11%.

The expansionary monetary policy enabled the government to finance certain fiscal operations and gave commercial banks manoeuvring room to lower interest rates in order to stimulate demand for credit. The prime rate, which had remained at 9.5% for the first nine months of the year, dropped to 8.75% in October, while nominal demand for loans expanded at rates of over 16%.

The central bank kept a close watch on the monetary aggregates to ensure that they were meeting the needs of the real economy, and accordingly carried out sterilization operations several times in the course of the year. Narrow and broad money expanded by 6% and 5%, respectively.

In 2004 the authorities introduced a single-price auction system based on the submission of purchase orders prior to the auction for government bonds administered by the central bank. The purpose of the new system is to facilitate the creation of a secondary market for trade in public debt.

The exchange rate remained stable, at TT$ 6.29 per United States dollar, despite pressures in the exchange market caused by the activities of regional corporations seeking to raise capital on the local bond market.

The energy sector grew by 11% thanks to an increase in natural gas production in the course of the year and despite the slower expansion of activities in the areas of exploration, drilling and refining. However, two subsectors (petrochemicals and natural gas processing) continued to grow apace, at rates of about 15% in both cases.

Agricultural value added declined (-20%), chiefly because of a heavy slump in the sugar sector (-43%) caused by unfavourable weather conditions, technical problems, the poor quality of the sugar cane and labour disputes.

Manufacturing was up from 5.5% in 2003 to 6.6% in 2004, led by food, beverages and tobacco (11%) and assembly industries (11%). Food, beverages and tobacco reflected higher levels of activity among producers of poultry, tobacco and non-alcoholic beverages, while the performance of the assembly industries reflected expansions in construction materials, iron and steel.

Inflation rose slightly, owing mainly to an increase in the prices of food products (10% between August 2003 and August 2004). Underlying inflation (which does not include food prices) was only 2% in that period. The government has taken a number of steps to try to slow these increases, including a zero VAT rate on certain foods and a reduction in the tariff surcharge on chicken and turkey imports from 86% to 40% between October and November.

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	3.0	4.2	6.2
Consumer prices	4.3	3.0	3.2 [b]
Real wages	3.5	7.6	...
Money (M1)	20.5	-2.0	26.2 [c]
	Annual average percentages		
Urban unemployment rate [d]	10.4	10.6	7.8 [e]
Central government overall balance / GDP	0.6	2.7	0.6
Nominal deposit rate	...	2.9	2.5 [f]
Nominal lending rate	...	11.0	9.5 [f]
	Millions of dollars		
Current account	76	1 351	919
Capital and financial account	-27	-101	-436
Overall balance	49	334	483

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to June 2004.
[c] Data to May.
[d] Includes hidden unemployment.
[e] Second quarter.
[f] Average from January to June, annualized.

Unemployment continued to trend downward. The employed population expanded by 2.5%, while the unemployment rate dropped to 10.2% in the first quarter of 2004 and 7.8% in the second (down from 10.6% in 2003).

The balance of payments posted a surplus as a result of a positive current account balance that offset the deficit on the capital and financial account. The current account reflected the positive impact of an increase in the value of exports, which resulted from the rise in the international prices of petroleum and petroleum products. Manufacturing exports also contributed to this surplus, albeit to a lesser degree.

The deficit on the capital and financial account was attributable to payments on external obligations, bond issues and the sustained expansion of Trinidad and Tobago's financial sector into other Caribbean countries in the form of direct investment.

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

The economic recovery that the countries members of OECS had begun to experience in 2002 slowed down in 2004 as a result of the damage inflicted by two natural disasters in the second half of the year. The first was hurricane Ivan, which mainly affected Grenada and, to a lesser extent, Saint Lucia and Saint Vincent and the Grenadines in September 2004. The second was the earthquake that ravaged Dominica at the end of November.

In general, the tourism and agricultural sectors bore the brunt of the devastation caused by hurricane Ivan. Saint Vincent and the Grenadines and Saint Lucia lost 20% and 40% of their banana harvest, respectively, and their hotel and yachting subsectors suffered losses equivalent to 10% of GDP. In Grenada, whose economy was practically destroyed, losses are estimated at more than double the preceding year's nominal GDP, and their effects resulted in downturns in both output and employment. Most of the impact was concentrated in infrastructure, especially housing, given that 89% of the country's total housing stock was damaged, at an estimated cost of 1.4 times the nominal GDP.

Despite the effects of the disasters, the OECS governments were nonetheless able to maintain a prudent fiscal stance characterized by tax measures aimed at increasing fiscal revenues and by the containment of public spending. In the countries hardest hit by the hurricane, however, the fiscal out-turn worsened.

The external deficit posted by the OECS member countries increased because their exports lost competitiveness while the value of their imports rose, given the higher price of oil on international markets. The deficit was financed with official and insurance inflows and with foreign direct investment, part of which was channelled into the development of the tourism sector.

Fiscal performance was uneven from one country to another. The fiscal deficit of Antigua and Barbuda narrowed (from -8.1% of GDP in 2003 to -6.3% in 2004) as economic growth boosted public revenues. This additional income offset the increase in public spending necessitated by social initiatives involving higher outlays on transfers, unemployment insurance and pensions.

In compliance with the target set in its Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF), Dominica achieved a fiscal deficit of 4% of GDP by reducing tax exemptions and public spending, raising the retirement age and broadening the tax base.

Hurricane Ivan aggravated the fiscal situation in Grenada, whose deficit reached 12% of GDP on account of non-recurrent expenditure and plummeting tax receipts. The government has taken steps to reorient its expenditure and, at the same time, to enhance efficiency.

The government of Saint Kitts and Nevis brought down its deficit (from 7% in 2003 to 6% in 2004) through cutbacks in current expenditure, higher tax receipts as a result of tax hikes, the broadening of the tax base and the elimination of fiscal incentives.

Saint Lucia's fiscal deficit widened because of efforts to shore up aggregate demand by expanding fiscal outlays, particularly capital expenditure. Saint Vincent and the Grenadines also saw its fiscal deficit worsen as a result of higher capital expenditure, despite the adoption of a series of measures to boost tax receipts. These measures included increases in the taxes imposed on airport services, in the surtax on motor vehicles and in fees for travel documents.

1 The members and associate members of the Organisation of Eastern Caribbean States (OECS) are Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. All of them except the British Virgin Islands are members of a monetary union governed by the Eastern Caribbean Central Bank.

In most of the States members of OECS, liquidity expanded in 2004 in line with the nominal growth of their respective output figures. At the aggregate level, total monetary liabilities grew by an average of 13% between September 2003 and September 2004. Saint Kitts and Nevis recorded the biggest increase in monetary liquidity (21%), while Dominica posted the smallest (9%).

The faster expansion of liquidity was mainly attributable to a jump in the growth of domestic credit (30%). Construction and public utilities showed the highest increases in demand for commercial bank loans (62% and 50%, respectively), while private demand for credit (50% of the total) was associated with financing for property purchases (housing construction and renovation) and other personal loans.

In a context of favourable macroeconomic conditions, the upward trend in activity in the OECS countries was based on the buoyancy of construction and tourism. Construction benefited from reconstruction and conversion projects, while tourism-related activities bounced back from the effects of the 11 September 2001 events and recorded a significant increase in the number of visitors (both cruise-ship passengers and long-stay tourists). Employment levels showed some improvement as well.

The increase in the OECS countries' aggregate output was due to the impressive economic growth seen in Saint Lucia, Saint Vincent and the Grenadines and Saint Kitts and Nevis. However, it was also affected by the negative repercussions that the natural disasters had on economic activity in Dominica and, especially, in Grenada.

The performance of agriculture reflected unfavourable trends in international commodity prices, adverse weather conditions and the uncertainty surrounding the future of preferential trade agreements. In Grenada, Saint Lucia and Saint Vincent and the Grenadines, weather-related problems sharply reduced the output of bananas, nutmeg and other traditional agricultural products.

Manufactures stalled because of higher production costs and low levels of competitiveness. This sector was also affected by domestic and external bottlenecks in the agricultural sector, which tend to limit growth in the supply of certain manufactures. Nonetheless, industrial output is showing strong signs of recovery in Dominica.

Construction was boosted by the high levels of liquidity in most of the OECS economies, the increase in capital expenditure in some countries and the positive effects of reconstruction and rehabilitation activities.

OECO: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	0.2	3.7	3.0
Consumer prices	3.0	0.6	1.4
	Annual average percentages		
Real deposit rate	2.7	3.0	...
Real lending rate	10.3	10.0	...
	Millions of dollars		
Current account	-576	-648	-719
Capital and financial account	639	...	...
Overall balance	63	...	...

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

Tourism-related activities made a full recovery in most of the OECS countries. According to the most recent available information, the number of visitors increased by 16% in Antigua and Barbuda, 6% in Dominica, 4% in Saint Lucia and 11% in Saint Vincent and the Grenadines. In Grenada, tourism will contract significantly owing to the damage suffered by hotel facilities and the steep reduction (90%) in the number of hotel rooms.

Aggregate inflation climbed from 0.6% in 2003 to 1.4% in 2004, owing mainly to higher international oil prices, the tax measures adopted by most of the member States and the weakness of the United States dollar.

The overall external deficit of the OECS members was equivalent to 22% of GDP and was offset by foreign direct investment inflows (16% of GDP) and, to a lesser extent, capital transfers (6% of GDP) and portfolio investments (2% of GDP).

The current account balance primarily reflected a widening of the merchandise trade deficit. This, in turn, resulted from the import growth propelled by higher international oil prices and by the natural disasters, which triggered larger external purchases of raw materials, inputs and capital goods.

External sales were hobbled by the leading export products' loss of competitiveness and by the natural disasters' adverse effects on export capacity. However, Dominica's exports of manufactures are on the road to recovery.

The services trade balance benefited from the upturn in tourism, even though the sector was temporarily undermined by the damage to tourism infrastructure (especially in Grenada and Dominica) and, on the demand side, by the suspension of international flights and the resulting downturn in the number of long-stay visitors.