THE CARIBBEAN

BARBADOS

The Barbados economy continued to perform well in 1998, experiencing economic growth for the fifth consecutive year. Overall growth in the economy is expected to be on the order of 2%, with inflation of approximately 0.2%. For the calendar year, the fiscal deficit is projected to be US$ 57.4 million, some 2.5% of gross domestic product The balance-of-payments current account is expected to produce a reduced surplus of some US$ 5.5 million, as domestic exports have declined, reflecting a contraction in sugar earnings.

BARBADOS: MAIN ECONOMIC INDICATORS

	1996	1997	1998[a]
	Annual rate of variation		
Gross domestic product	5.1	3.0	2.0
Consumer prices	1.8	3.6	0.2
Real effective exchange rate[b]	-0.6	-5.8	1.7
	Percentages		
Urban unemployment rate	16.4	14.5	12.1

Source: See the statistical appendix.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

Growth in tourism is expected to be around 6% by the end of 1998, although the decline in performance observed in the third quarter is expected to continue into the fourth quarter of the year. Manufacturing should show a slight improvement over the previous year despite mixed fortunes in 1998. According to projections, real growth in non-tradables will be sustained by strong activity in the private sector, especially in construction.

Government policy in 1998 was characterized by increased emphasis on social services, a comprehensive poverty eradication programme, direct support for businesses in non-traditional sectors and the creation of financial schemes to assist the working poor. The value-added tax system (VAT), which provided for zero rating on a number of basic commodities, established a direct correlation between the incidence of the tax and expenditure on consumption, thereby reducing reliance on the system of direct income taxation. VAT opened a window of opportunity for service activities that could be undertaken by small and medium-sized enterprises that did not qualify to pay VAT.

The upward trend in investment in 1997 continued into 1998, strengthening the country's capacity to generate foreign exchange and sustainable employment over the medium and long term. Careful management of the substantial economic gains registered in the first three quarters of 1998 continued to assist in the financing of the Government's parallel initiatives to underwrite social progress. The pace of foreign exchange reserve accumulation moderated somewhat, and the fiscal deficit widened as a result of Government's commitment to its social policy.

In the first nine months of the year, the **economy** continued to register strong growth with low inflation and a further reduction in unemployment. Real GDP rose by an estimated 4%, significantly faster than the average growth rate of 2.9% for the corresponding period in the previous five years. In order to avoid overheating the economy, the Government announced plans to slow down its capital works programme. Growth continued to be led by the non-tradables sector, with construction providing the impetus and new job opportunities; the private sector's contribution to the industry consisted mainly in residential construction and tourism-related and commercial infrastructure projects. Increased employment in tourism and manufacturing helped to reduce the unemployment rate in 1998.

With respect to **agriculture**, cane fires during the crop season and drought during the planting season in 1997 reduced sugar production by 25.9% in 1998. The drought extended into 1998 and contributed to a fall in production of milk and food crops. Fish catches recovered by 28.3% in 1998, while poultry production increased by 2.8%.

The **construction** sector grew by some 13.2% in the first nine months of 1998 –almost twice the rate for the corresponding period of 1997. Activity in this sector was dominated by public sector works. Quarrying and other construction-related subsectors increased output by 40.1%.

For the second consecutive year, **manufacturing output** increased during the first nine months. Growth was estimated at 5.7%. Food processing output rose by 4.3%, while the production of beverages increased by 10.9%. A contraction of 12.7% in the output of electronic components was recorded, continuing the declining trend which began in 1992 and continued unabated thereafter, except in 1996, when output increased by 6.5%. Declining production was also observed in the chemical (5.5%) and the garment (24%) industries. The oil refinery, which had been refining domestic crude obtained through secondary recovery practices and a large proportion of imported crude, ceased operations in February 1998.

The wholesale sector recorded growth of 6.5% in 1998, as it responded to strong demand for imports and the overall favourable performance of the tourist industry.

Tourism continued to be the fastest-growing earner of foreign exchange and recorded its highest level of growth, estimated at 7%, compared with the first nine months of each year since 1994. In spite of a slowdown in long-stay arrivals during the third quarter, total arrivals between January and August rose by 8.9%. The vulnerability of the sector's international competitive position was highlighted when the inauguration of cheaper flights from the United Kingdom to South-East Asia was reflected in a slight contraction in arrivals from that country, especially in July. The sector also faced increased competition from some Mediterranean routes, resulting in a 2.0% decline in the number of cruise ship passenger arrivals.

At the end of September 1998, the annual rate of **inflation** stood at 0.2%, a significant drop from the 7.2% observed over the corresponding period in 1997. This was due in part to the zero rating of some food items in the implementation of the VAT system. Lower prices were recorded for food items, fuel and electricity, household utilities and supplies, and clothing and footwear, while retail prices increased for all other categories.

In spite of a modest expansion in the labour force, the **unemployment** rate declined to 12.1% at mid-year 1998 as compared with a rate of 14.5% at mid-year 1997.

The **current account** of the balance of payments was in surplus at US$ 41.9 million, the lowest recorded for the nine-month period in the previous six years, when the surpluses averaged US$ 96.5 million. A 50% contraction in export earnings from sugar contributed to the decline in earnings from domestic exports. Retained imports increased by 11.7% with significant increases in outlays on electronic components, construction materials, textiles and machinery. These negative influences on the current account balance were partially offset by earnings from services, which increased by 13.4%, mainly as a result of increased earnings from tourism (12.7%) and from transportation services. Net capital inflows moderated to US$ 11.4 million from a figure of US$ 14.6 million for the corresponding nine-month period of the previous year.

CUBA

Gross domestic product (GDP) declined for the second consecutive year (1.5%) owing in large part to the fall in sugar production (3.2 million tons). Limited access to capital markets continued to have an adverse effect on the economic situation. The balance-of-payments current account deficit again widened (US$ 300 million) mainly as a result of the worsening imbalance in the trade in goods and services. Current transfers (family remittances and grants) increased, while the amount of factor services remained the same as in the previous fiscal year. The capital account surplus (US$ 290 million) proved insufficient to finance the current account deficit, further eroding the already scant international reserves.

Earnings from international tourism and telecommunications continued to expand, as did family remittances and foreign investments, all of which helped to ease the island's serious foreign exchange shortage. On the other hand, the terms of trade improved significantly.

Drought in the eastern provinces and damage caused by Hurricane George generated extraordinary expenditure of some US$ 630 million, or the equivalent of 2.6% of GDP. In addition, the negative impact of the economic embargo on the Cuban economy over the last 37 years was estimated by government authorities at US$ 60 billion.

Economic policy continued to be geared towards securing the foreign currency required to restore production levels and basic services to the population. At the macroeconomic level, the priority objectives have been to achieve fiscal balance, reduce the accumulated monetary liquidity and curb inflation.

CUBA: MAIN ECONOMIC INDICATORS

	1996	1997	1998[a]
	Annual rate of variation		
Gross domestic product	7.8	2.5	1.5
	Percentages		
Unemployment rate	7.6	6.8	6.5

Source: See the statistical appendix.
[a] Preliminary estimates.

The fiscal deficit widened to 2.5% of GDP, compared with 2% in the previous year, owing to a greater increase in expenditure (2.9%) than in revenue (1.9%). Revenue from the circulation and sales tax improved by 3.6%, but the tax on services declined by 7.5%. Increases were recorded in revenue from taxes on profits (29.4%) and on use of labour (27.2%).

On the expenditure side, current expenditure increased (4.3%), while capital expenditure fell (-4.8%). The Government continued to accord priority to basic services to the population, and hence increased current expenditure on social assistance (32.6%), housing and community services (16.8%), public health (7.1%), social security (5.3%) and education (3.9%). Current expenditure on defense and public order was cut by 1.3%, reflecting the savings and austerity measures imposed by the Government in response to the current economic crisis.

The Central Bank pursued its policy of restricting both local currency credits and use of foreign currency in the public sector. It succeeded in maintaining the monetary base at virtually the same level as in the previous year (equivalent to 39% of GDP).

Rates on local-currency savings deposits remained unchanged, and, after adjustment for inflation, proved negative. On the other hand, attractive yields on foreign-currency savings accounts lured savers, making more funds available for productive purposes. The banking system disbursed over US$ 500 million in short-term loans to be used as working capital for businesses.

An important aspect of structural reform has been the treatment of foreign capital, which continued to flow in 1998, under the new Foreign Investment Act of 1995. By mid-year, 340 joint ventures involving foreign capital had been set up. In the real estate sector, 10 joint ventures had been established with foreign capital for the construction and remodeling of buildings for offices, housing, commercial establishments and related services. The semi-public enterprise, Corporación Financiera Habana, was set up by the Spanish credit institution, Caja Madrid and the Banco Popular de Ahorro de Cuba, to finance business activities. Another semi-public enterprise, Health de Cuba was formed by a British firm, Health, and a Cuban company. In the electricity sector, two joint ventures were set up involving French and Canadian capital to modernize the electricity generating plants and use gas for generation.

In 1998 Cuba became a full member of the Latin American Integration Association (LAIA) and was admitted as an observer to negotiations on the new Lomé Agreement between the African, Caribbean and Pacific (ACP) countries and the European Union.

In terms of output, the best-performing sectors were tourism (20%), mining (7%) and construction (4%). Agricultural output was down (-3%), and growth in manufacturing production slowed (2.5%).

International tourist arrivals increased to 1.4 million persons, representing gross revenue of US$ 1.9 billion. The hotel occupancy rate rose to 60% from 55% in the previous year.

Mining expanded for the fifth consecutive year (7%) as a result of the increase in nickel production (8%). The fall in agricultural output was linked mainly to the further decline in sugar cane cultivation, while cattle farming and non-cane crops showed no clear signs of recovery. The gross fish catch again increased by 14%, under the new management and worker incentive system.

Construction also expanded, buoyed by the development of tourism infrastructure, new housing starts and building repairs. Oil production increased to 1.7 million tons, which facilitated a slight increase in electricity generation.

The consumer price index rose by 5% as a net result of higher prices on the informal market and lower prices for agricultural products and government food services. Controlled market prices were maintained at virtually the same level as in the previous year.

The average nominal wage rose by less than the rate of inflation, but incentives in convertible pesos and foreign currency were extended to 1.4 million workers in high priority activities such as tourism and the energy sector. The rate of unemployment declined from 6.8% in 1997 to 6.5%; it was highest among young women in the eastern provinces.

Stronger growth in imports compared with that of exports caused the trade deficit in goods and services to widen. The higher value of merchandise imports reflected increased volumes purchased, since international prices dropped. Food imports, in particular, increased in volume.

Merchandise exports fell owing to a decline in international prices. Sugar exports were down both in volume and price, while nickel exports expanded in volume but traded at weaker international prices. In contrast, tobacco sales (US$ 300 million) and fishery products expanded substantially.

The value of sales in foreign currency on the formal domestic market went up by 15% (US$ 800 million); Cuban products accounted for a higher percentage in 1998: 44%, as against 41% in the previous year.

The external public debt increased to US$ 10.2 billion, much of that in the form of short-term loans at high interest rates. The Banco Nacional de Cuba rescheduled its approximately US$ 750 million of commercial debt owed to 28 Japanese firms.

HAITI

In 1998, output grew by close to 3%, marking an improvement over the preceding year, although results sector by sector were very uneven. Progress was made in restoring macroeconomic equilibria: inflation slowed to 8.2%, the fiscal deficit narrowed to 1.2% of gross domestic product, and the rate of exchange stabilized at 16.9 gourdes to the dollar. However, these results, attributable to strict monetary discipline, conceal the difficulties entailed in giving continuity to the structural reforms of the economy –initiated two years ago– and to the pending project of boosting economic recovery after the embargo. Investment expanded by over 7%, mainly as a result of government activity.

HAITI: MAIN ECONOMIC INDICATORS

	1996	1997	1998[a]
	Annual rate of variation		
Gross domestic product	2.8	1.1	3.0
Consumer prices	14.6	15.6	8.2
Real effective exchange rate[b]	-15.0	-14.1	-7.5
Terms of trade	-6.6	8.3	2.8
	Percentages		
Fiscal balance/GDP	-1.6	-2.0	-1.2
	Millions of dollars		
Exports of goods and services	257	289	300
Imports of goods and services	782	801	720
Current account	-73	-77	-110
Capital and financial account	24	117	105
Overall balance	-49	40	-5

Source: See the statistical appendix.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

With more than five quarters elapsed since the Prime Minister's resignation and with the cutback in external cooperation disbursements due to the failure to pass the State investment budget, the Government had to resort to a provisional arrangement with the International Monetary Fund (IMF) to promote stability and pursue some reforms and projects already underway. This "Shadow Program" for fiscal 1998 was subject to strict monitoring, on a quarterly basis, of its growth, inflation and fiscal expenditure targets, among others.

Fiscal policy was characterized by efforts to put public finances back on a sound footing by increasing tax receipts (12.6%) and curbing expenditure, which increased by only 4.7% compared with the previous year. In this way, the fiscal deficit was brought down, in relative terms, to 1.2% of GDP.

Failure to secure parliamentary approval for the budget and a lack of external financing due to the freeze on a major portion of external cooperation disbursements continued to constrain the Government's operations throughout 1998. However, the availability of domestic financing allowed for an increase in capital expenditure greater than in previous years. Fiscal improvement was due in part to containment of the wage bill, thanks to a voluntary retirement programme which 1,555 civil servants opted for.

Monetary policy tended to be restrictive. Although deposits in local currency and in dollars expanded by 11.4% and 20.5%, respectively, monetary authorities were prudent in handling liquidity, again issuing 91-day bonds of the Banque de la République d'Haïti at nominal rates of 27% towards the middle of the fiscal year. Only credit to the Government expanded (by almost 700 million gourdes) on the basis of the agreement in effect since the previous year to combine the current expenditure and investment budgets.

Despite a renewed preference for dollar deposits, strict control of the monetary variables and the increase in interest rates on local-currency deposits shored up the nominal exchange rate, stabilizing it at an average of 16.85 gourdes to the dollar, just 2% above the previous year's rate. This, combined with an inflation rate averaging 12.7%, signified an appreciation of the local currency against the dollar.

Structural reforms had been suspended since the previous year following the Prime Minister's resignation and could not be resumed on account of the continuing political crisis. As a result a number of State enterprises still await modernization through privatization, capitalization or concession, and these happen to be the largest and most important companies in terms of their economic impact: the telephone company, the electricity company, the sea ports and the airport. Reform of fiscal accounts and the design of a regulatory framework for modernizing the State apparatus are some of the first measures that will be needed to revitalize the economy.

With respect to **economic activity**, the agricultural sector performed well (3.8%), since the pattern of rainfall was favourable and Hurricane George occurred in late September after the harvest. Construction (7.5%) was boosted by public works, road-building and irrigation infrastructure in the rural areas and some residential building. A slowdown was noted in the remaining sectors except for the financial sector and the *maquila* industry, which achieved more vibrant growth than in the previous year.

Public works and imports of equipment prompted by the appreciation of the Haitian gourde account for the recovery in gross domestic investment (7.4%) following two years of decline. However, this dynamism did not extend to domestic industry, which continued to lose momentum.

The easing of exchange-rate pressures contributed to a reduction in **inflation**. The annual average was 12.7%, but towards the end of the fiscal year the slackening in prices was more pronounced, and inflation subsided to 8.2% in relation to September of the previous year. This was partly due to the good harvests of some basic crops and to falling prices for petroleum products.

The **minimum wage** continued to stagnate in nominal terms, while wages paid in agriculture and in the urban informal sector are believed to have been forced down by pressure from the large number of unemployed. Moreover, the unemployment situation deteriorated further.

The **trade deficit** –US$ 265 million as at June 1998– widened further (close to 10%), compared with the previous year. While the value of exports had increased by 55% at the close of the third quarter of the fiscal year, this was not sufficient to offset the sharp increase in imports of foodstuffs, vehicles and various manufactures during the last quarter. The expansion in exports was led by the *maquila* garment industry and traditional products such as coffee, cocoa and sisal, while it is estimated that imports consisted largely of manufactured consumer goods, since purchases of capital equipment increased little.

Service transactions are expected to show a decline due to the continued slump in tourism. In addition, the current account deficit is expected to have widened following the decrease in private remittances from abroad, notwithstanding a slight decline in debt service payments on the external debt.

Prudent fiscal management and the achievement of the targets set under the IMF Shadow Program suggest that foreign currency reserves may have attained US$ 157 million at the end of September.

JAMAICA

Data for the first half of 1998 showed the Jamaican economy turning in a sluggish performance, but for the full year GDP is expected actually to decline (-3.5%). Both monetary and fiscal instruments were used to contain inflation, the latter with mixed results. Excess liquidity was absorbed by Central Bank open market operations, and the declaration of a tax amnesty served as an incentive to pay up outstanding taxes.

JAMAICA: MAIN ECONOMIC INDICATORS

	1996	1997	1998 [a]
	Annual rate of variation		
Gross domestic product	-0.5	-2.3	-3.5
Consumer prices	15.8	9.2	10.2
Real effective exchange rate[b]	-15.8	-14.1	-6.0

Source: See the statistical appendix.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

Monetary and fiscal policies have remained consistent with the IMF-endorsed programme. In 1998, the Government fulfilled its commitment to keep prices down in order to avoid a repeat of the high rates of inflation witnessed in the earlier part of the decade. Continued containment of the growth in the money supply, a relatively stable exchange rate and low imported inflation were the strategies used to attain that objective. From the fiscal standpoint, the Government was committed to adjusting expenditure growth in line with emerging trends in revenue intake as a means of reducing the deficit. A tax amnesty was instituted to encourage tax defaulters to pay their outstanding debt, and no new taxes were imposed. The plan was to eliminate the deficit by reductions in government expenditure and restraints on public sector wage increases. However, the deficit as a percentage of GDP is projected to be on the order of 9.3% by the end of 1998. This compares with an estimate of 6.8% recorded in 1997.

Generally, **economic activity** was sluggish during the first half, with growth estimated at 0.2%. **Agricultural production** is estimated to have declined by almost 5% in the second quarter of 1998, in contrast to the 13.5% decline recorded in the corresponding quarter of 1997. The traditional export crop production sub-index increased by 8.9%, mainly because of an increase in sugar cane production, which reflected a shift in the crop cycle associated with drought conditions and postponement of the harvest. By mid-1998, there were indications of a decline of 11% in sugar cane milled and 24.9% in sugar produced. The outlook for the whole of 1998 is a shortfall of 18% compared with the production levels of the previous (1996/1997) crop and the lowest output in five years.

The **manufacturing sector** recorded some growth in the first half of 1998, especially in the food processing subsector. The petroleum products subsector declined. Mining and quarrying output for the period January-June 1998 showed an improved performance over the corresponding period of the previous year. Total bauxite production increased by 5.2% to reach 6.3 million tons in direct response to improvements in the management structure of the bauxite company. Total bauxite exports amounted to 6.5 million tons –9.6% more than in the corresponding period of 1997. The sector's total net foreign exchange earnings during the period decreased by 10.5% to US$ 153.7 million, reflecting weak world bauxite prices and depressed demand for alumina, especially in the Asian economies which continued to experience economic difficulties. Alumina prices averaged US$ 177.11 per ton in the second quarter of 1998, down from US$ 192.50 in the corresponding period of 1997.

Construction figures for the first half of 1998 show an improvement compared with the first half of 1997. While installation activity declined, construction activity is estimated to have increased. Cement production increased by 0.9%, compared with 1.4% in the corresponding period of 1997, and sales increased by 19.5%. In 1998, 3,072 housing units were completed, compared to 996 units in 1997, arresting the downward trend seen since 1994.

The financial sector, severely affected by a crisis that peaked in 1997, witnessed the collapse of a number of banks.

Tourism was affected by a prolonged decline in cruise ship passenger arrivals, partly as a result of infrastructure works in Montego Bay. Total visitor arrivals for the period January to June 1998 amounted to 985,429, representing a 1.4% decline when compared with the corresponding period in 1997. In contrast, from January to June 1997, total visitor arrivals increased by 5.9%. For the second quarter of 1998, the overall tourism performance was positive, with a higher number of total visitor arrivals and a 9.5% growth in tourist expenditure compared with the corresponding period of 1997.

A 3% rise in **inflation** was observed in the second quarter of 1998. This was almost entirely due to variations in the transportation and miscellaneous expenses sections of the index. Increases in bus and taxi fares had the most significant impact on the consumer. Inflation was moderate in the other sections of the index. The maintenance of price stability was achieved as the Government strove to meet its goals for the second quarter of 1998.

A decrease in the number of **employment** opportunities, especially in the financial sector, was observed over the first six months of 1998. There was a shift of workers from manufacturing to distribution, as displaced workers turned to less productive occupations, such as retail activities.

The balance-of-payments position improved during the period April to May 1998, as indicated by a US$ 1.4 million increase in net international reserves to US$ 597 million. This represented a turnaround from the decline of US$ 87 million recorded for the corresponding period of 1997. The current account deficit narrowed to US$ 9 million from US$ 60 million in April-May 1997. The capital account balance moved from a deficit of US$ 27 million to a surplus of US$ 10 million. This improvement was assisted by a tight monetary policy, which served to moderate consumer demand, lower inflation and stabilize the foreign exchange market. Within the current account, the surplus on the services account increased by US$ 31 million to US$ 109 million in June 1998. The surplus on the transfers account widened by US$ 1.2 million to US$ 101 million. The deficit on the merchandise trade account contracted by US$ 19 million to US$ 218 million. The smaller deficit resulted from a US$ 45 million decline in imports, which compensated for a US$ 25 million decline in exports. Export earnings for the period stood at US$ 248 million –9.2% lower– due to declines in both traditional and non-traditional exports. Earnings from sugar exports are estimated to have declined by 6.3% from the corresponding period of the previous year. A contraction in demand, mainly from the United States of America, accounted for an 11% reduction in export earnings from wearing apparel. A significant percentage of this market erosion was attributable to the increased competitiveness of production facilities located in East Asia.

A resurgence in private capital inflows, which resulted in an improvement in the balance (from -US$ 1.7 million to +US$ 42.9 million), was primarily responsible for the turnaround in the capital account balance by the end of June 1998.

DOMINICAN REPUBLIC

Economic activity expanded by 7%, which was slightly less than anticipated owing to the damage caused by Hurricane Georges. The fiscal account showed a small deficit (-0.6% of GDP) and this, too, was due to the effect of the hurricane on capital and current expenditures, although these higher outlays were partially offset by an increase in the tax take. In addition, year-on-year inflation declined to 5% as compared to 8% in 1997.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1996	1997	1998[a]
	Annual rate of variation		
Gross domestic product	6.8	8.2	7.0
Consumer prices	4.0	8.4	4.8
Real effective exchange rate[b]	-6.5	2.4	7.3
Terms of trade	-3.9	4.4	0.9
	Percentages		
Unemployment rate	16.5	15.9	14.3
Fiscal balance/GDP	-0.4	0.8	-0.6
	Millions of dollars		
Exports of goods and services	6 287	7 197	7 510
Imports of goods and services	6 611	7 574	8 440
Current account	-240	-225	-505
Capital and financial account	201	458	500
Overall balance	-39	233	-5

Source: See the statistical appendix.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

The main impetus for growth came from the demand for gross domestic investment (25%) and domestic consumption (19%). The increase in investment originated to a large extent in the construction sector, which, in addition to other stimuli, received a boost from the reconstruction work needed to repair the damage to infrastructure caused by the hurricane. Unrequited current transfers continued to climb and this, in combination with the increase in the government payroll, fuelled consumption. Among the components of external demand, exports of goods and services from the free zones were quite buoyant, but other exports declined slightly.

The **fiscal year** closed with a deficit (0.6% of GDP) due largely to the effects of Hurricane Georges. Total income rose by 9% and tax revenue by 13%, thanks to administrative improvements and the fact that the consolidation of the exchange rates used for the computation of tariffs had the effect of broadening the tax base for this type of levy, thereby increasing the tax take. Total expenditure rose by 8.7% as a result of increases in capital transfers (46%), current transfers (5.9%) and current expenditure on goods and services (4.8%).

The total public-sector debt stood at US$ 3.47 billion, which was US$ 32 million less than the year before, while interest payments were estimated at US$ 166 million.

Growth of the monetary base and of the narrowly-defined money supply (M1) was slower, reflecting a **monetary policy** designed to reduce excess liquidity through open-market operations. This pushed interest rates up. Broad money (M3) expanded by much the same rate as in 1997, since higher interest rates encouraged the substitution of longer-term deposits for cash holdings and since dollars tend to be used as a hedge during bouts of currency speculation. In July 1998, the Dominican authorities unified the official and bank exchange rates at 15.33 Dominican pesos to the United States dollar in a move that cost the Government US$ 16 million.

Important developments in the area of **trade policy** included the free trade treaties signed with the Central American countries and the Caribbean Community (CARICOM), which will enter into force in January

1999. With respect to **structural reforms**, the General Telecommunications Act was passed, and the process of privatizing the State electricity company (the Corporación Dominicana de Electricidad, or CDE) has been initiated. Distribution and generating companies were to be auctioned off towards the end of December.

Led by gross domestic investment (25%), which was a function of the availability of financial resources for the private sector, overall demand grew by 22%, thereby boosting the level of economic activity. In the aftermath of Hurricane Georges, construction activity picked up, thus contributing to the growth of gross fixed investment. Consumption (19%) responded to the increase in real wages and family remittances and to the greater availability of personal loans. Exports of goods and services were up by a modest amount over the previous year's level while imports maintained their growth rate (18%), which was buoyed up by the sustained development of the Dominican economy and by the need to satisfy the demand not met by domestic production.

The devastation caused by Hurricane Georges to vast stretches of the country, and especially to banana, rice and sugar cane plantations, limited growth in the agricultural sector to 0.2%. An upturn in the amount of funds being channelled through the commercial banking system, stable raw material supplies and increased imports of capital goods contributed to an 8% expansion of the manufacturing sector. Stronger demand for garments and an increase in investment inflows sustained an 8% expansion in free zone activities as well. The construction sector maintained its growth rate in 1998 as construction, reconstruction and rehabilitation projects continued apace. In the area of services, the tourism sector posted a growth rate of 6% and was already beginning to recover from the damage caused by the hurricane. The communications industry was the most dynamic sector of the economy (20%) even though the country's principal telephone company sustained losses equivalent to 3% of its assets as a consequence of Hurricane Georges. The electricity and drinking water sector expanded by 10%.

The lower rate of **inflation** (4.8%) is attributable to the tight monetary policy applied during the year, although the hurricane did lead to some reduction in the supply of several products that carry a high weighting in the basket of staple goods.

The rate of **unemployment** stood at 14.3% (1.6 points less than in 1997). Payroll increases were instituted by the central government, decentralized and autonomous government agencies, and municipalities.

The overall **balance of payments** posted a small deficit (-US$ 5 million). This reflects a current account deficit (-US$ 505 million) which the financial account surplus (US$ 500 million) was not sufficient to offset. The **current account deficit** was double the original estimate owing to the impact of Hurricane Georges. Exports of goods and services were lower than had been projected because of the decline in agricultural sales and in earnings from tourism.

Exports from the free zones, which account for 80% of total exports, were up by 3.2%. On the other hand, exports of domestically-produced goods contracted by 4%, mainly because of falling world ferronickel prices and the decrease in raw sugar shipments made necessary by the reduction in the country's preferential quota for exports to the United States market.

Tariff exemptions approved in late 1997 buoyed up purchases of capital goods and raw materials, thereby contributing to an overall 15% increase in imports. Another contributing factor was the urgent need for supplies during the state of emergency and the start-up of reconstruction efforts. Oil imports were down by 1% owing to the decline in oil prices.

The deficit in investment income widened (8%), but net unrequited transfers expanded by 28%, thus increasing the amount they contribute to the country's foreign exchange inflows by a figure estimated at more than US$ 300 million. The **capital and financial**

account registered a surplus of US$ 500 million. Foreign direct investment increased by US$ 90 million thanks to the reinvestment of earnings in the tourism sector and new investments in telecommunications.

TRINIDAD AND TOBAGO

On the basis of indicators for the first six months, economic growth for Trinidad and Tobago is projected at 5% for 1998. This would make it the country's fifth consecutive year of positive growth, accompanied by steadily decreasing unemployment rates. The June unemployment figure was 14%, the lowest since 1985. The rate of inflation is expected to be on the order of 6% by year end, compared with a rate of 3.5% in 1997. Growth in 1998 has been generated primarily by the non-petroleum sector, but there has been a sharp decline in agriculture. Gross foreign assets amounted to US$ 1.186 billion at the end of the third quarter of 1998. This represents an estimated import cover of 4.7 months compared with 4.0 months at the end of June 1998.

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1996	1997	1998[a]
	Annual rate of variation		
Gross domestic product	4.5	4.0	5.0
Consumer prices	4.3	3.5	6.3
Real effective exchange rate [b]	-1.3	1.0	-4.6
	Percentages		
Unemployment rate	16.3	17.2	13.4

Source: See the statistical appendix.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

In 1998, increased foreign investment spurred economic growth, while **economic policy** encouraged local investment and entrepreneurship. Continued emphasis was placed on investment in the petroleum and petrochemical sectors as generators of foreign exchange. At the same time, encouragement was given to small and medium-sized enterprises, especially in the non-oil sectors, to develop and become more competitive in order to break the dependence of the economy on the oil sector. For the fifth year in succession, the economy responded with positive growth and increased employment. Some increase in prices has accompanied this growth and will need to be addressed by policy measures to eliminate the inflation element. It was felt that some aspects of the tax regime, especially the value added tax, may have put a brake on investment at the small and micro-enterprise level. The budget presented in late 1998 for the year 1999 seeks to introduce changes in this area.

For the first nine months of 1998, overall real **economic activity** expanded by 3.3% as a result of improvements in both the petroleum (3.1%) and the non-petroleum (3.3%) sectors. Agriculture and livestock-raising were the exceptions. Activity declined in the third quarter by 0.5% compared with increases of 2.6% and 0.4%, respectively, in the first and second quarters of the year, largely because of a decline in output in the non-petroleum sectors.

In the third quarter of 1998, real value added in **agriculture and livestock-raising** was buoyed by seasonal improvements in the domestic agriculture subsector, which more than offset the declines in sugar and export agriculture; however, for the first nine months of the year, overall real economic activity declined by 17.7% as a result of bad weather conditions and operational problems at the sugar refinery.

While **oil production and exploration** indicators continued to display divergent trends, several positive events during the third quarter, including the discovery of additional hydrocarbon resources, point toward a brighter short-term future for the sector. The completion and commissioning of a refinery upgrade project increased the catalytic cracking capacity of the refinery to 160,000 barrels per day, up from 90,000 barrels per day. For the third quarter, however, refinery throughput averaged 139,100 barrels per day, marginally lower than the previous quarter, and 86% of rated capacity. Exports of crude oil and mineral fuels declined by US$ 2.7 million to a figure of US$ 39.8 million. since international crude oil prices averaged US$ 14.65 per barrel during the second quarter of 1998, down from US$ 15.81 in the previous quarter. Fertilizer production continued to exhibit robust growth in the third quarter of 1998 as a new plant commenced production. By the end of the third quarter, output was 21.4% higher than in the corresponding period of 1997. This expansion in capacity occurred at a time when world prices for fertilizer were declining. Whereas methanol production increased by 31.2% by the end of the third quarter of 1998, world prices fell and exports as well as local sales also fell slightly when compared with the previous quarter.

Manufacturing output continued to decline in the second quarter of 1998, when the index of domestic production dropped by 2.3% compared with a decline of 1.4% in the first quarter. During the entire first semester, output increased by 4.2% compared with 7.6% in the corresponding period in 1997. In particular, declines in food processing, assembly and related products were noted. In the third quarter, however, real output in manufacturing grew by 1.5%. In the **services sector**, increased activity in government and other services contrasted with declines in finance, insurance and real estate (-3.8%); distribution (-14.4%); and transport, storage and communications (-1.1%). These changes contributed to a third quarter decline of 0.5% compared with the second quarter level of output in the non-petroleum sectors.

The **retail price** index rose by 2.4% in the third quarter of 1998, compared with increases of 0.8% and 2.0%, respectively, in the first and second quarters. Higher prices for food, housing, recreation and education accounted for the increase. The annualized rate of inflation to September was 7.1%. Wholesale prices remained stable.

Stronger demand for **labour** by the end of the second quarter brought unemployment down to 13.4%. Year on year, the labour market reflected an improvement: the number of persons with jobs increased by 3.6%. The construction and transport and communications sectors accounted for the major gains in employment, while services and agriculture shed jobs.

For the first half of 1998 the country recorded a **balance-of-payments** deficit of US$ 1.6 million compared with a surplus of US$ 182 million in the corresponding period of 1997. At mid-year 1998, the current account deficit stood at US$ 271 million –a clear deterioration from the figure of US$ 24 million a year earlier. Contributing to this deterioration was a fall-off in net earnings on the merchandise and non-factor services accounts, as the increase in imports in the second quarter outstripped the increase in exports. The current account deficit was not fully financed by inflows of capital, necessitating a drawdown of official reserves. Net capital and financial movements (excluding reserves) resulted in a surplus of US$ 186 million during the second quarter of 1998, following a surplus of US$ 83 million in the previous quarter. The situation was better during the third quarter, when gross foreign assets amounted to US$ 1.186 billion, or US$ 22 million more than at the end of the previous quarter. This figure represents an estimated import cover of 4.7 months as compared with 4 months at the end of June 1998.