Latin American Spotlight Special - The Caribbean

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CARIBBEAN: AFTER THE STORM

SUMMARY AND OUTLOOK

The Dominican Republic, Jamaica, Haiti, Cuba, and Trinidad and Tobago are the key economies of the Caribbean. Global economic conditions have, if anything, been unfavorable for the Caribbean countries in recent years. The events of September 11, 2001 as well as hurricanes hit some of the countries where it hurt most – the tourism industry. In addition, the oil price hike strained the countries' current accounts, with Trinidad and Tobago being the exception due to their own gas reserves. Last year was characterized by a tendency of rebounding tourism figures, enabling the Caribbean states to achieve an average growth rate of 2.5%.

The individual Caribbean countries show great divergence in the stage of their development. Crises-stricken Haiti, for instance, is right at the bottom of the ranking ladder with a per-capita income of only US$ 360. Civil war and hurricanes have turned the island into one of the poorest nations in the world. Quite the opposite applies to the neighboring country, the Dominican Republic which, in comparison with other regions, managed to achieve above-average prosperity through tourism and the in-bond processing (*maquila*) industry. However, triggered by a severe banking and balance-of-payment crisis, the country was recently faced with liquidity problems and will most probably reschedule its foreign debt in a few months' time. Cuba seems to be the "odd man out" altogether. While the majority of developing countries have made progress towards liberalization worldwide, Cuba has retrogressed instead in the last couple of years. The country's ideological orientation hinges primarily on president Fidel Castro. Jamaica has a – relatively – sound economic and political structure. However, its public-sector debt of 140% of GDP renders the country extremely susceptible to any kind of shocks, resulting in an additional fiscal burden. Finally, there is Trinidad and Tobago, the model country of the Caribbean that merits favorable mention. Its excellent investment policy has put the two-island state in an ideal position to make the most of the commodity boom of the past few years. This is clearly evidenced by growth averaging 4% over the last five years.

At the beginning of this year, the global environment for the Caribbean is favorable. In line with moderate growth of the global economy and of the U.S. economy in particular, revenues from exports and tourism should continue to rise, and we expect the region's GDP to increase by about 3.3%.

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CUBA: INCREASING CENTRALIZATION

Area	110 860 sq. km
Population	11.2 million (+ 0.3 % p.a.)
State president	Fidel Castro Ruz
Finance minister	Georgina Barreiro Fajardo
Central bank president	Francisco Soberon
Next elections	2008
GDP per capita	US$ 2800 at the official exchange rate (2003) 133 US$ at the unofficial exchange rate
Rating	Moody's: Caa1 S&P: NR

ANNUAL FIGURES AND FORECASTS

Cuba		2001	2002	2003	2004e	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	3.0	0.5	2,0	2,0	2,0
GDP	US$ bn	28.7	29.4	30.2	31.0	31.9
Inflation (year-end)	%	5.0	7.0	-1.0	6.5	2.2
Budget balance*	% GDP	-2.5	-2.8	-2.8	-3.0	-3.0
EXTERNAL SECTOR						
Merchandise exports	US$ mn	1660	1440	1700	2100	2300
Merchandise imports	US$ mn	4790	4160	4600	5200	5500
Trade balance	US$ mn	-3130	-2720	-2950	-2750	-3000
Current account balance	US$ mn	-556	-560	-635	-400	-400
Current account balance	% GDP	-1.9	-1.9	-2.1	-1.3	-1.3
US$ exchange rate (official), year-end	CUP	1.0	1.0	1.0	1.0	1.0
FOREIGN DEBT						
Gross foreign debt	US$ mn	11100	11700	12000	12100	12100

*central government ** goods and services e=estimate f=forecast

Domestic policy: uncertain political outlook

President Fidel Castro (78) remains firmly in power although his age gives rise to speculation about the continued existence of the regime. His succession remains uncertain. Defense minister Raul Castro – Fidel's brother, who is only marginally younger – appears to be the designated successor. However, he seems to lack the charisma and political strength needed to maintain the authority of the regime.

Economic policy: increasing centralization

In the mid-nineties, Cuba undertook tentative economic liberalization measures. By legalizing possession of dollars, facilitating foreign investments in the form of joint ventures with Cuban enterprises and promoting tourism, the government wanted to raise the efficiency of the central command economy without actually intending to change the economic system. Investments in particular went into the mining, tourism, telecommunications and biotechnology sectors. It is evident, however, that the liberalization measures were only undertaken because of the adjustment pressure resulting from the loss of support from the former Soviet Union. Now that the severe economic crisis seems to have been largely overcome (without the economy having been placed on a solid footing), a tendency towards centralization is beginning to rise again.

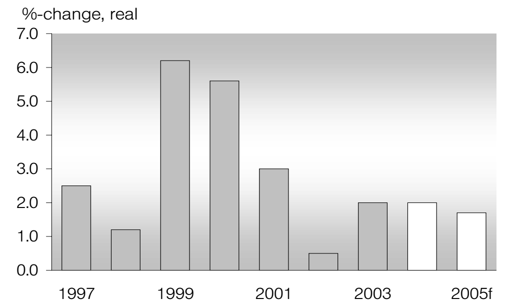
Recent regulations of the Cuban government provide for the abandonment of the US dollar as legal tender. Since early November 2004, US dollars for business transactions have had to be exchanged for pesos at a 10% conversion fee. Following its legalization in 1993, the dollar had established itself as a state-tolerated secondary currency. The abandonment of the dollar is also impacting on the tourism industry and the approx. 400 Cuban-foreign joint ventures. In addition, all foreign exchange transactions have had to be processed through a collective central bank account since the beginning of this year. Since mid-2003, state-owned companies have no longer been able to maintain their own foreign currency accounts. Each foreign exchange transaction requires central bank approval, intensifying the politicization of the economy even further.

Ultimately, these measures mean that enterprises may no longer dispose of foreign exchange earnings generated by themselves. Even though some of these measures do not apply to joint ventures with foreign companies, the latter are likewise feeling the brunt of the marked deterioration in the investment climate.

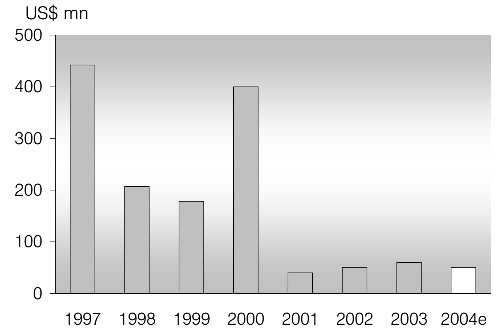
SUMMARY AND OUTLOOK

Following its selective liberalization measures of the nineties, Cuba has retrogressed instead in the last couple of years. This includes, for example, the abandonment of the US dollar as legal tender. Tourism remains a key economic mainstay but will not even remotely be able to exploit its potential due to economic over-regulation. Anything beyond economic growth that has kept per-capita income largely constant has not been achievable over the last few years. This should also continue to apply to the years ahead.

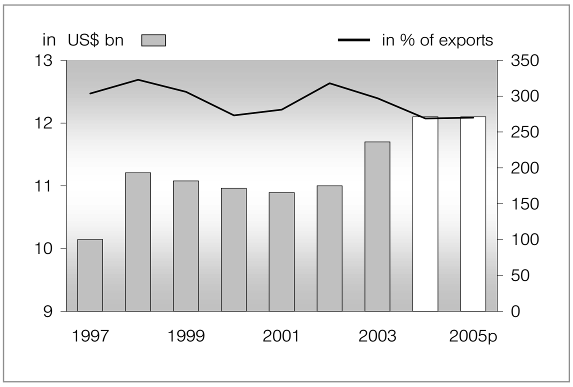
GDP CHANGE (REAL)



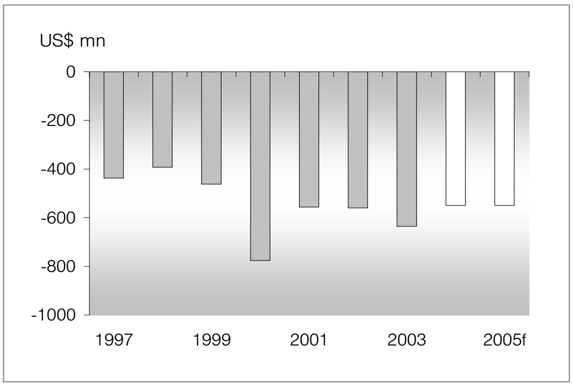
FOREIGN DIRECT INVESTMENT



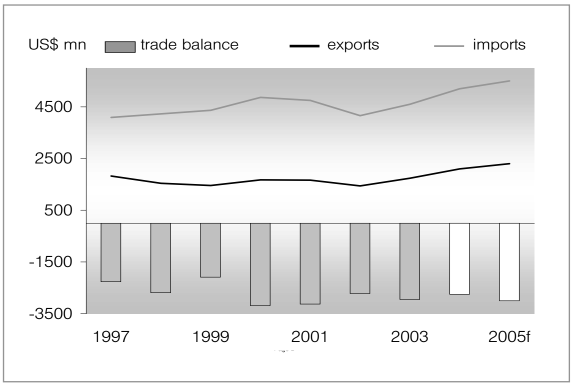
EXTERNAL DEBT



CURRENT ACCOUNT BALANCE



EXTERNAL TRADE



Economic activity: tourism remains key sector

Cuba's economy remains weak. While GDP had still risen relatively sharply in 1999 and 2001, overall economic growth has lost momentum since 2002. Sugar exports have dropped sharply compared with tourism as the country's key earner of foreign exchange. The droughts of the last three years led to a dramatic drop in sugar production and the closure of almost half of all mills. According to estimates, growth in the agricultural sector slumped to 0.9% in 2004 after having already turned out low in the previous year (2.6%). We expect industrial production – mainly oil derivatives, textile manufacturing and cement industry – to grow by 1.1%. In the previous year, this sector shrank by 0.9%. Based on our estimates, GDP growth amounted to 2% in the year 2004.

Foreign trade: exiled Cubans financing imports

Cuba's chronic trade deficit amounted to approx. US$ 2.8 billion in the year 2004. For one thing, this is attributable to the U.S. trade embargo on Cuba. For another, it is also the typical pattern of an economy that relies on transfers from outside as the key earner of foreign exchange (exiled Cubans transfer approx. US$ 1 billion per annum) and on tourism (tourism revenues amounted to roughly US$ 2 billion in 2004). By imposing stricter limits on travel to Cuba and money transfers in July 2004, the U.S. government tried to hit the nerve of Cuba's economy in this regard. The extra "benefit" of these measures should be limited, however.

In connection with the trade balance, the oil price hike is worthy of mention. Although this resulted in higher imports, its impact has most probably been cushioned by the trade agreements in place between Cuba and its friendly oil-producing neighbor, Venezuela, which provide for certain discounts. As a result, the current account deficit has even dropped to an estimated 1.3% of GDP, also due to higher tourism revenues having recovered significantly since their sharp slump following the events of September 11, 2001. Foreign debt is estimated at US$ 13 billion, or 270% of visible and invisible exports and therefore is not sustainable, particularly since Cuba remains barred from access to international financial and development organizations and borrowing from private banks is becoming increasingly difficult.

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DOMINICAN REPUBLIC: MARKET-FRIENDLY DEBT RESTRUCTURING?

Area	48 442 sq. km
Population	8.6 million (+ 1.6 % p.a.)
State president	Leonel Fernández
Finance minister	Vicente Bengoa
Central bank president	Hector Valdez Albizu
Next elections	State president: 2008 Parliament: May 2006
GDP per capita	US$ 1 883 (2003)
Rating	Moody's: B3 S&P: CC

ANNUAL FIGURES AND FORECASTS

DOMINICAN REPUBLIC		2001	2002	2003e	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	3.2	4.1	-0.4	1.5	2.0
GDP	US$ bn	21.4	21.2	16.2	19.4	22.5
Inflation (year-end)	%	4.4	10.5	42.8	35.5	12.7
Inflation (year-average)	%	8.9	5.2	27.5	52.5	12.9
Budget balance, public sector	% GDP	-2.0	-2.0	-3.5	-7.0	-5.0
Public sector debt	% GDP	39	40	58	51	48
EXTERNAL SECTOR						
Merchandise exports	US$ mn	5333	5183	5439	5600	5700
Merchandise imports	US$ mn	8784	8883	7883	8200	8600
Trade balance	US$ mn	-3451	-3700	-2444	-2600	-2900
Current account balance	US$ mn	-839	-877	867	1000	750
Current account balance	% GDP	-3.9	-4.1	5.3	5.1	3.3
Net foreign direct investment	US$ mn	1198	961	450	450	600
Foreign exchange reserves, year-end	US$ mn	1340	828	489	870	800
Import cover*	months	1.1	0.5	0.3	1.0	0.9
US$ exchange rate, year-end	Pesos	17.1	21.2	42.0	28.0	35.0
US$ exchange rate, average	Pesos	16.9	18.7	32.0	39.7	34.3
FOREIGN DEBT						
Gross foreign debt	US$ mn	5100	5350	8400	7900	8000
Foreign debt	% exports*	60	63	89	83	84
Short-term foreign debt	US$ mn	1295	1300	1150	900	1000
Foreign debt amortization	US$ mn	376	609	480	1100	600
Foreign debt service	US$ mn	605	884	1116	1325	925
Foreign debt service	% exports*	7.1	10.4	9.2	9.4	9.9

*goods and services e=estimate f=forecast

Economic activity: moderate outlook for 2005

GDP grew by 1.4% year-on-year in the first nine months of last year. The level of expansion was particularly strong in the agricultural sector (+5.1%), which accounts for 11% of GDP. Industrial production (16% of GDP) rose by 3.3%, while the tourism industry (7% of GDP) stagnated year-on-year. For the year as a whole, we project a growth rate of 1.5%, which should rise only slightly (+2%) in 2005.

The public sector's heavy new debt burden is crowding out private borrowers and keeping real interest rates at a very high level. The massive peso appreciation will have a negative impact on growth in exports and the tourism industry. And finally, due to the persistent uncertainty in connection with the unresolved restructuring of foreign debt, the investment climate remains gloomy. Weak domestic demand, accompanied by the appreciation of the peso, in combination with recently restrictive monetary policy, resulted in a marked drop in inflation once again (end-2004: 35 %).

The dark side, however, is the sharp increase in the quasi-fiscal deficit rung up by the central bank, which sells interest-bearing central bank instruments in order to absorb excess liquidity, to approx. 4% of GDP. The total public-sector deficit is likely to amount to 7% of GDP. This is impeding the ongoing negotiations with the IMF regarding a new agreement and the planned restructuring of public foreign debt (see below).

External sector: excessive appreciation of the peso

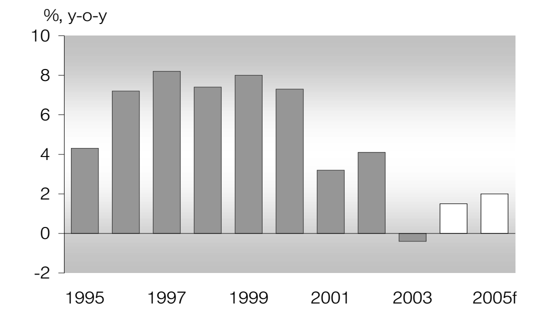
Due to capital flight and the associated depreciation of the peso, the balance of payments underwent a substantial adjustment, particularly last year. A rise in exports and tourism revenues, combined with a decline in imports, resulted in a positive current account, which had traditionally recorded high deficits.

Meanwhile, there has also been a marked slowdown in capital flight. Reserves (1 month's import cover) have recovered from their all-time lows. The extent of the peso's appreciation cannot be justified by fundamental improvements, however. We assume that the peso will start depreciating again, reaching an average of about 40 pesos/US$ this year.

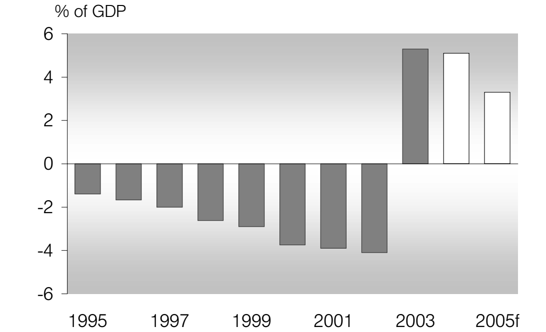
SUMMARY AND OUTLOOK

The new government under president Fernandez, who took office in August of last year, appears to be determined to stabilize the country. Even though GDP should have grown by at least 1.5% in 2004, the past track record has been far from reassuring, however. For instance, the fiscal reform passed is far from comprehensive enough, the central bank has accumulated a high quasi-fiscal deficit and finally, the restructuring of foreign debt still remains pending. For the current year we project only a slight revitalization of the economy.

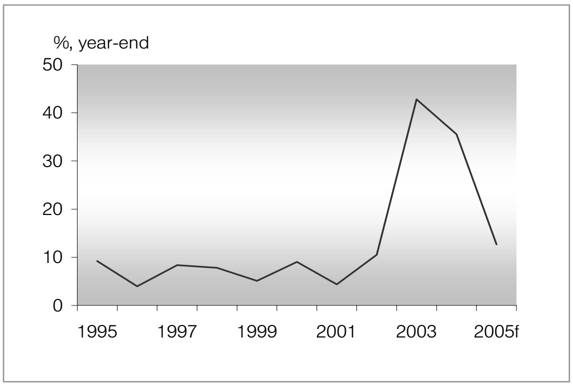
GDP CHANGE (REAL)



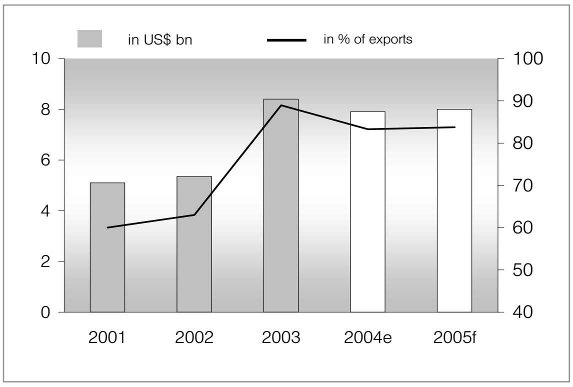
CURRENT ACCOUNT BALANCE



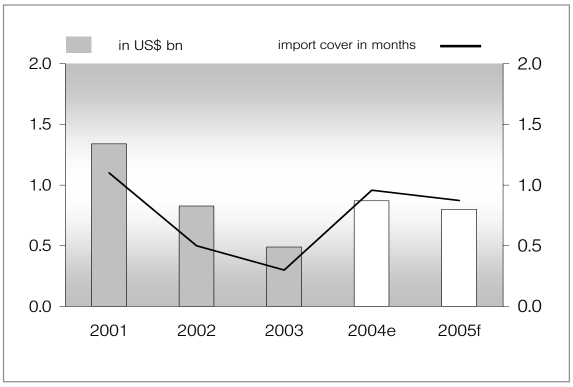
INFLATION



EXTERNAL DEBT



FOREX RESERVES AND IMPORT COVER



Debt rescheduling: self-inflicted misery

Given relatively good macro-economic indicators, it seems rather surprising that the country should have any problems repaying its foreign debt and be on the verge of rescheduling. In fact, foreign debt is in the region of 83% of visible and invisible exports, a value generally considered to be fundamentally solid. By way of comparison: Chile, which has been given investment-grade ratings by the rating agencies, has a foreign debt burden equivalent to 117% of export revenues. Whereas public-sector debt has risen sharply, it has by no means reached an unacceptably high level at around 50% of GDP. Costa Rica's public-sector debt stands at approx. 60% of GDP.

The country's payment difficulties are clearly attributable to the government's poor debt management. The Treasury will have to repay US$ 1.3 billion to foreign creditors in 2005 and US$ 1.7 billion next year. Additionally, there were payment arrears of US$ 333 million as at September 2004. The poor debt management is also reflected by the low level of foreign currency reserves, which were already insufficient to cover even one month's imports before the banking crisis in the year 2003. In these circumstances, the country's susceptibility to shocks is particularly high. To sum up, it was not economic weakness that plunged the Dominican Republic into a debt crisis but a lack of managerial skills.

We consider it fairly likely for a market-friendly debt rescheduling to emerge. Applied to the bonds, this would mean that the nominal value as well as the extent of the coupons would be maintained, with "only" the maturities of the bonds being extended. In this respect, the Paris Club is bound to play a key role, however. An agreement has already been reached with this body of creditors in the sense that the member countries have made concessions particularly with respect to the extension of maturities yet also subject to the condition that the government of the Dominican Republic would treat private creditors on a comparable footing. It cannot be ruled out that the debt rescheduling will not proceed in an orderly fashion, particularly since the new government is receiving little support from congress. One of the results of this is that the planned tax reform could only be implemented in a severely diluted form. This might cause a new agreement with the IMF to fail at the last moment.

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HAITI: DIFFICULT TIMES

Area	27 750 sq. km
Population	7.7 million (+ 1.7 % p.a.)
State president	Boniface Alexander
Finance minister	Raymond Magloire
Central bank president	Henri Bazin
Next elections	State president: September 2005 Parliament: September 2005
GDP per capita	US$ 360 (2003)

ANNUAL FIGURES AND FORECASTS

Haiti		2001	2002	2003	2004e	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	-1.0	-0.5	0.4	-5.0	3.0
GDP	US$ bn	3.5	3.2	2.8	2.6	3.0
Inflation (year-end)	%	12.3	10.1	42.5	25.0	12.0
Inflation (year-average)	%	16.8	8.7	32.5	28.1	15.0
Budget balance*	% GDP	-2.7	-2.9	-3.7	-5.0	-2.1
Public sector debt	% GDP	37	39	49	40	42.0
EXTERNAL SECTOR						
Merchandise exports	US$ mn	305	273	330	338	345.0
Merchandise imports	US$ mn	1055	983	1116	1081	1120
Trade balance	US$ mn	-750	-709	-785	-743	-775
Current account balance	US$ mn	-73	-10	-45	4	-15
Current account balance	% GDP	-2.1	-0.3	-1.0	0.2	-0.3
Net foreign direct investment	US$ mn	4.0	6.0	4.0	3.5	4.0
Foreign exchange reserves, year-end	US$ mn	109	53	39	28	40
Import cover **	months	1.0	0.5	0.3	0.2	0.3
US$ exchange rate, year-end	J$	26	38	42	36	40
US$ exchange rate, average	J$	24	29	42	35	38
FOREIGN DEBT						
Gross foreign debt	US$ mn	1252	1248	1250	1255	1100
Foreign debt	% exports**	273	286	285	272	276
Short-term foreign debt	US$ mn	185	154	140	145	143

*central government ** goods and services e=estimate f=forecast

Domestic policy: continuing unrest

Following violent clashes between supporters of President Jean-Bertrand Aristide and rebel troops of the opposition in February 2004, Haiti was hit by severe tropical storms in May and September of last year. The economic damage caused by the political crisis alone is estimated at 5.5% of GDP. Following Aristide's hasty resignation end-February 2004 and his flight into exile, a transitional government was appointed for a period of 18 months, with former World Bank official Gérard Latortue being chosen as prime minister.

While legitimation of the government is weak at the national level, it nevertheless enjoys strong international support. The transitional government is facing the difficult task of doing justice to the critical social situation of the population on the one hand and taking account of financial and economic stability on the other. The country needs massive economic aid and technical support for the reconstruction of state institutions and public infrastructure. Since June 2004, Haiti has been under supervision of a UN peace-keeping mission (Minustah) led by Brazil, with the aim of restoring political stability and creating the preconditions for free and fair elections scheduled for September 2005. However, a fresh escalation of violent clashes between supporters of exiled president Aristide and rebels from the opposition is delaying the continuation of the peace process.

Fiscal policy: international support

The IMF anticipates that due to the political conflict, GDP declined by 5% (which corresponds to our estimate) and the public-sector budget deficit amounted to 5.8% of GDP in fiscal 2003/2004. At the end of July, Prime Minister Latortue presented an extensive development program in Washington and tried to gain the confidence of international investors. The international donor countries agreed to support Haiti with US$ 1.1 billion (42.3% of GDP) over the next two years. The transitional government is planning to utilize international funding for the reconstruction of state institutions and the country's infrastructure, and to provide the population with basic commodities. In addition, it is aiming for an improved tax collection system as well as the resumption of interest arrear payments. Due to political instability and the withdrawal of foreign lenders, Haiti has been unable to access public international sources of funding since 2001.

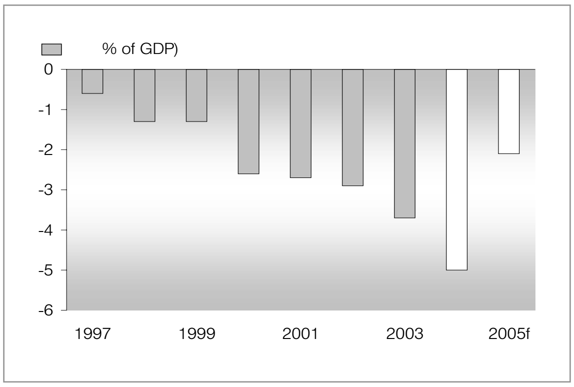
Economic activity: sustained growth impossible

Haiti's economy is characterized by a number of structural deficits. The small size of enterprises and the high proportion of subsistence farming are preventing sustained growth in the agricultural sector. The industrial

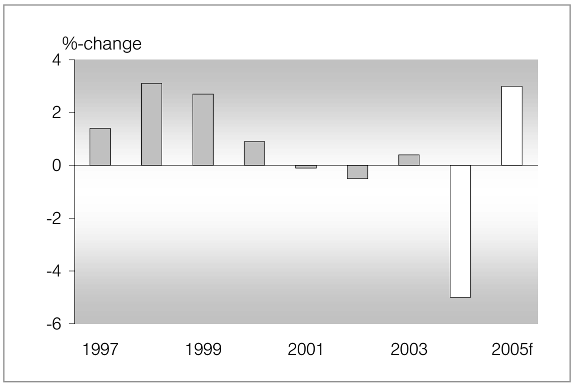
SUMMARY AND OUTLOOK

Following the political crisis and resignation of President Aristide in February 2004, the transitional government under prime minister Gérard Latortue faces great challenges. The political conflict and severe hurricane damage have largely destroyed the economy. The announcement of multilateral assistance and the assignment of a UN peace-keeping force have helped to stabilize the gourde, which has been trading at 35 G/US$ since early April 2004. On the political front, we expect things to settle down this year along with subdued economic growth, which should be underpinned by the construction sector.

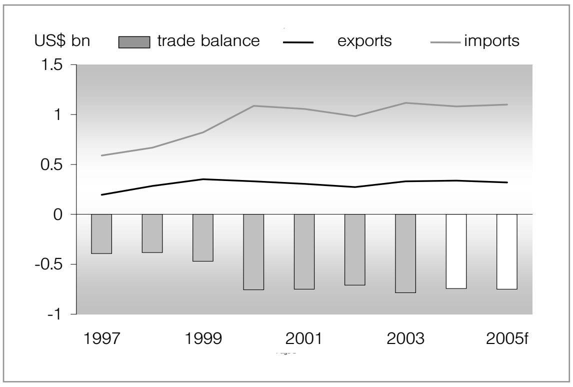
PUBLIC FINANCES



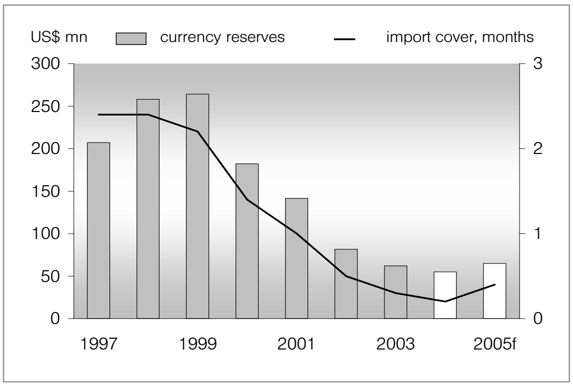
GDP CHANGE (REAL)



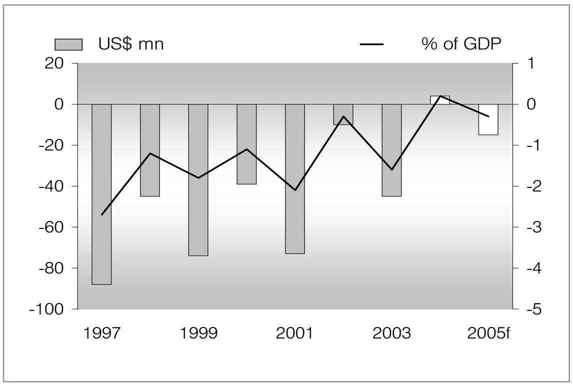
EXTERNAL TRADE



FOREX RESERVES & IMPORT COVER



CURRENT ACCOUNT BALANCE



sector, largely confined to the manufacture of clothing for export, is of marginal importance, especially since production has virtually come to a standstill as a result of the political conflict and hurricane damages. Roughly 51% of the working population is employed in the informal sector; the official unemployment rate stands at 60%. With a 50% illiteracy rate, qualified labor is rare. The devastating damage caused by the hurricane in September 2004 contributed to a further deterioration of the situation; without any long-term external support, Haiti's economy will not be able to recover in the foreseeable future.

Monetary sector: no time for a respite

Due to high prices of oil and other imported goods, the inflationary target of 25% for 2004 (year-end) was presumably not met. Haiti's central bank is attempting to counter the pressure on prices by, among other things, selling central bank bonds. Foreign currency reserves have been increased since the change of government in March 2004; however, they are still at an extremely low level of US$ 30 million (0.2 months' import cover).

External sector: transfers on the rise

Haiti is one of the countries whose key source of foreign currency income are transfer payments from outside (Haitians living abroad transfer approx. US$ 700 million each year) as well as funds from multilateral and bilateral investors.

The balance of payments reflects this accordingly. The trade balance saw a deficit estimated at US$ 740 million (29% of GDP) in 2004, transfer payments are expected to have amounted to US$ 925 million and the capital account shows a substantial surplus. At the same time, the level of debt service at US$ 20 million (forecast for the year 2004) is low since approx. US$ 1.2 billion in foreign debt was largely taken out on special terms.

In spite of this, there are debt arrears to the World Bank, for instance. Relations with multilateral organizations – and, therefore, the prospect of further financial aid – have improved considerably after Aristide's resignation, however. This also contributed to a slight strengthening of the national currency, the gourde.

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JAMAICA: PUBLIC FINANCES REMAIN ACHILLES HEEL

Area	11 425 sq. km
Population	2.7 million (+ 0.9 % p.a.)
State president	P.J. Patterson
Finance minister	Omar Davies
Central bank president	Derick Latibeaudiere
Next elections	2007
GDP per capita	US$ 3 000 (2003)
Rating	Moody's: B1 S&P: B

ANNUAL FIGURES AND FORECASTS

JAMAICA		2001	2002	2003	2004e	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.7	1.0	2.0	2.5	2.4
GDP	US$ bn	8.1	8.4	7.9	8.5	8.9
Inflation (year-end)	%	8.8	7.3	14.2	12.6	9.0
Inflation (year-average)	%	6.9	7.1	10.3	9.2	8.5
Budget balance*	% GDP	-5.6	-7.6	-7.0	-4.0	-2.5
Public sector debt	% GDP	132	146	145	138	132
EXTERNAL SECTOR						
Merchandise exports	US$ mn	1454	1309	1368	1613	1672
Merchandise imports	US$ mn	3073	3180	3293	3636	3816
Trade balance	US$ mn	-1619	-1871	-1925	-2023	-2144
Current account balance	US$ mn	-759	-1119	-955	-911	-963
Current account balance	% GDP	-9.4	-13.3	-12.0	-10.7	-10.8
Net foreign direct investment	US$ mn	525	400	350	570	600
Foreign exchange reserves, year-end	US$ mn	1901	1643	1110	1800	1500
Import cover **	months	4.3	3.8	2.4	3.9	3.5
US$ exchange rate, year-end	J$	47.3	50.8	62.0	63.0	68.0
US$ exchange rate, average	J$	46.0	48.4	58.0	61.5	65.5
FOREIGN DEBT						
Gross foreign debt	US$ mn	5348	5463	5288	5964	5992
Foreign debt	% exports**	116	117	104	107	103
Short-term foreign debt	US$ mn	925	775	805	867	902

*central government ** goods and services e=estimate f=forecast

Domestic policy: high continuity

The political situation is characterized by a high degree of continuity as evidenced by the 2002 elections that were won by the People's National Party for the fourth time in succession. And yet, the government failed to make use of the relatively high degree of political stability to bring about sound economic policy management. This is evidenced by the extremely weak level of economic growth spanning several decades as well as public debt getting out of hand (see below).

Public finances: debt burden unsustainable

The current budget for fiscal 2004/2005 provides for a 50% reduction of the budget deficit to 3.5% of GDP and a balanced budget is officially forecast for as early as the next fiscal year. The government will most probably try to achieve this target chiefly by means of savings in the public service sector. Even though the trade unions have supported the government's concept up until now, we nevertheless anticipate mounting resistance from the population in view of substantial cuts in pay for public-sector employees. Special expenses for damage relief measures following the hurricane in September 2004 represent an additional burden on the budget. Debt service will remain the biggest expense item in the 2004/2005 budget as well. Public debt (138% of GDP) still remains unsustainable. We do not believe that the government will succeed in reducing its debt below the 100% mark of GDP by 2010, not even in light of a positive growth scenario over the next few years. The liquidation of the state-owned holding company FINSAC (Financial Sector Adjustment Company Ltd.), created in 1997 to save the bankrupt financial sector, remains another important budget item. Multilateral loans to the tune of US$ 350 million from the World Bank, IADB and the Caribbean Development Bank have been earmarked to underpin the process. Moreover, the government had to raise US$ 400 million on the capital market to this end.

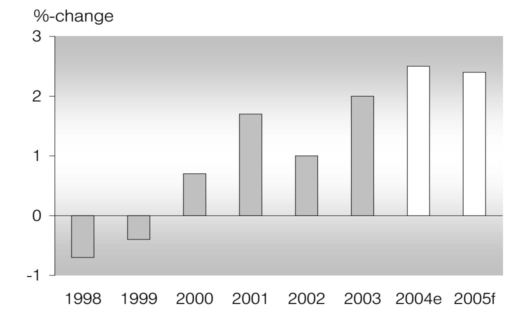
Domestic policy: moderate growth

Last year, the government managed to stabilize the economy and to reinforce market confidence – despite Jamaica's exceptionally high level of public debt. GDP rose by 2.6% in the first half of 2004. We do not expect the damage caused by hurricane Ivan in September to have a sustained impact on economic growth since the key sectors (mining industry and tourism) had only been affected to a minor extent. Due to the ongoing good performance in such fields as mining and tourism as well as a rebounding agricultural sector, GDP growth should have reached roughly 2% in 2004.

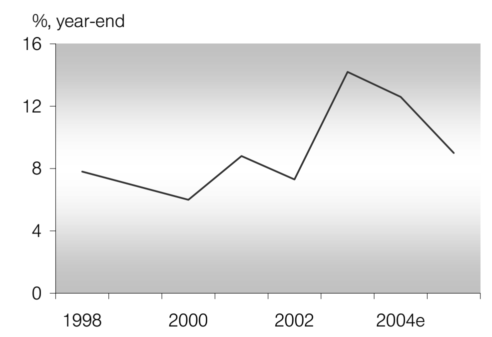
SUMMARY AND OUTLOOK

The scorecard for Jamaica's situation in 2004 shows mixed results. Although public debt is declining, it remains unsustainable at 140% of GDP. The economy only grew moderately (2%), and inflation was too high (15%). However, on a positive note, the external sector has improved, it was possible to boost foreign currency reserves significantly, and the exchange rate has stabilized. The financial sector has recovered from the 1996 banking crisis but is coming under strain due to the weak economy.

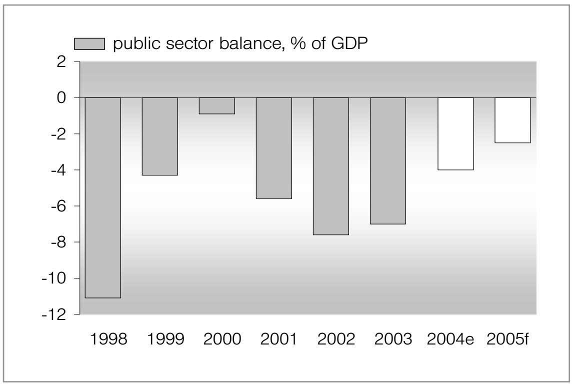
GDP CHANGE (REAL)



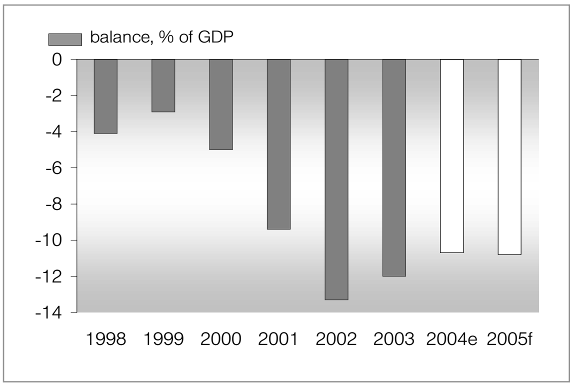
INFLATION



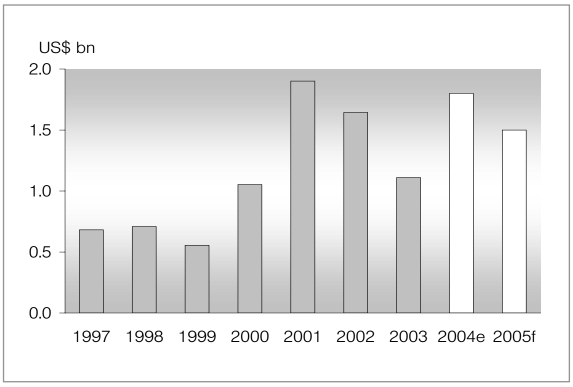
PUBLIC FINANCES



CURRENT ACCOUNT BALANCE



FOREIGN EXCHANGE RESERVES



Monetary sector: inflation higher than planned

Following the 1996 banking crisis, the restructuring of the banking system has been largely completed and the financial sector has stabilized appreciably. Jamaica's Union Bank was privatized by selling it to the Royal Bank of Trinidad and Tobago (RBTT).

Even though private lending staged a recent recovery chiefly in the tourism and telecommunication sectors, the share of foreign assets increased and key figures such as loan-loss provisions, equity ratio and profitability are in line with international standards, the banking sector is still suffering from the relatively weak domestic economy. The monetary base has grown faster than GDP in the last several years. Coupled with the hike in oil and seed prices, this led to an average inflation rate of approx. 15% in 2004.

External sector: recovery of foreign currency reserves

The external economic situation, under pressure since mid-2003, eased somewhat in the course of the year 2004. Growing international demand, higher export prices and devaluation-induced competitive advantages attained in the year 2003 boosted revenues from tourism and aluminum exports.

However, relatively high oil prices, rising capital goods imports for investments in the mining and hotel industry as well as a considerable interest burden will prevent the current account deficit from falling below the 10% of GDP mark in the next several years as well.

Almost half of the deficit should be covered by direct investment inflows in the current year. Furthermore, as the government issued an international bond worth US$ 200 million in July, maturing in 2012, it was possible to boost foreign currency reserves substantially, to US$ 1.8 billion, i.e. equivalent to approx. four months' import cover. Against this backdrop, the exchange rate stabilized at 60J$/US$.

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TRINIDAD AND TOBAGO: COMMODITY BOOM BENEFITS

Area	5 124 sq. km
Population	1.3 million (+ 0.4 % p.a.)
State president	George Maxwells Richards
Finance minister	Patrick Manning
Central bank president	Ewart S. Williams
Next elections	State president: 2006 Parliament: October 2007
GDP per capita	US$ 7700 (2003)
Rating	Moody's: Baa3 S&P: BBB+

ANNUAL FIGURES AND FORECASTS

TRINIDAD AND TOBAGO		2001	2002	2003e	2004e	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	4.1	2.7	4.4	6.0	7.0
GDP	US$ bn	9.1	9.3	10.0	11.0	12.4
Inflation (year-end)	%	3.2	4.3	3.5	4.5	4.8
Inflation (year-average)	%	5.5	4.2	3.8	4.0	4.7
Budget balance, public sector	% GDP	1.6	-0.3	1.5	0.5	0.0
Public sector debt	% GDP	35	35	31	28	25
EXTERNAL SECTOR						
Merchandise exports	US$ bn	4.3	3.9	5.0	7.0	7.6
Merchandise imports	US$ bn	3.6	3.7	3.9	4.5	4.7
Trade balance	US$ bn	0.7	0.2	1.1	2.5	2.9
Current account balance	US$ bn	0.4	0.1	0.9	2.0	2.3
Current account balance	% GDP	4.6	0.5	9.0	18.1	18.6
Net foreign direct investment	US$ bn	0.7	0.7	0.4	0.5	0.4
Foreign exchange reserves, year-end	US$ bn	1.9	2.0	2.5	2.9	3.3
Import cover *	months	5.0	5.3	6.0	5.9	6.3
US$ exchange rate, year-end	TT$	6.3	6.3	6.3	6.3	6.3
US$ exchange rate, average	TT$	6.2	6.3	6.3	6.3	6.3
FOREIGN DEBT						
Gross foreign debt	US$ bn	4.5	4.8	5.3	5.4	5.4
Foreign debt	% exports*	91	105	92	69	64
Short-term foreign debt	US$ bn	1.9	2.0	2.4	2.6	2.7
Foreign debt amortization	US$ bn	0.1	0.1	0.1	0.4	0.1
Foreign debt service	US$ bn	0.3	0.3	0.2	0.5	0.3
Foreign debt service	% exports*	5.0	5.9	4.0	6.9	3.2

* goods and services e=estimate f=forecast

Domestic policy: problems tackled

The government of Prime Minister Patrick Manning (in office since December 2001) is taking advantage of the presently quite favorable financial situation to invest in the social development of the multi-ethnic state in a strategic manner. This strategy, combined with the strengthening of the security forces, might also contribute to combating violent crime, which has been escalating sharply, costing the government a substantial loss of confidence among the population. The additional judicial and social reforms required to this end, which cannot be implemented without a qualified parliamentary majority, are being blocked by the opposition party, however.

Public finances: no need to worry

The unexpectedly high world market prices of crude oil, natural gas and petrochemical products have increased public revenues significantly. Part of these windfall revenues was invested in a stabilization fund created in the year 2000 (currently amounting to US$ 440 million), to be retained for times of low energy prices: At the same time the government also managed to finance additional spending. In fiscal October 2003/September 2004, there is likely to have been a slight budget surplus of approx. 0.5% of GDP. As the economic climate remains favorable, it should at least be possible to balance the budget in the current fiscal year, in spite of ongoing transfers to the stabilization fund. Consequently, total public-sector debt, which is very low at less than 30% of GDP, is set to decline further.

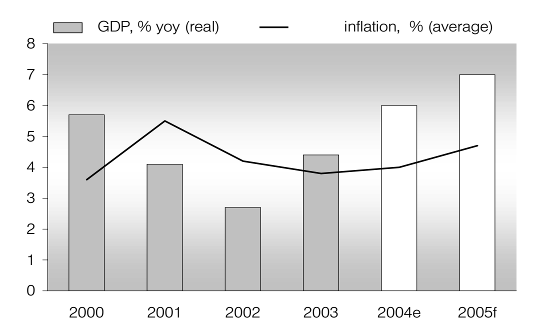
Domestic policy: solid foundations for economic growth

The economic trend over the last years has been characterized by the exploitation of the crude oil and natural gas reserves as well as downstream processing of these inputs in refineries and petrochemical plants (including, in particular, production of ammonia and methanol) and the production of liquid gas. These activities meanwhile account for roughly 33% of GDP, the liquefied gas production having recorded the most vigorous growth over the last several years. The country has meanwhile become the fifth largest exporter of this product in the world and already covers around 75% of U.S. import demand. Further capital investments in this sector are bound to further increase the production capacity in the years ahead. Up to now, the manufacturing industry, construction sector and energy production have only reached a total of 17% of GDP; while the government intends to continue its liberal investment policy, it will nevertheless ensure that for the sake of employment growth (the jobless rate is over 10%), local enterprises will be given higher preference as suppliers in investments projects in the energy and petrochemical sectors than in the past. Furthermore, the government attaches a great deal of importance to extending production lines that depend on natural

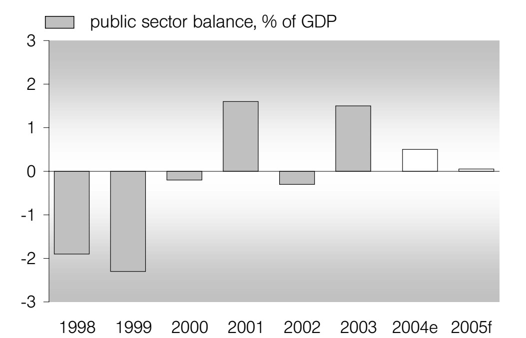
SUMMARY AND OUTLOOK

High prices of energy and petrochemical products as well as the good state of the U.S. economy are currently boosting the economy of the island state, which, however, has done a great deal itself to attract foreign investors and thus secure its future. The high growth rate of the crude oil and natural gas sector is starting to boost other economic sectors as well, enabling the government to invest more funds in social development. At the same time, high current account surpluses are causing foreign currency reserves to surge.

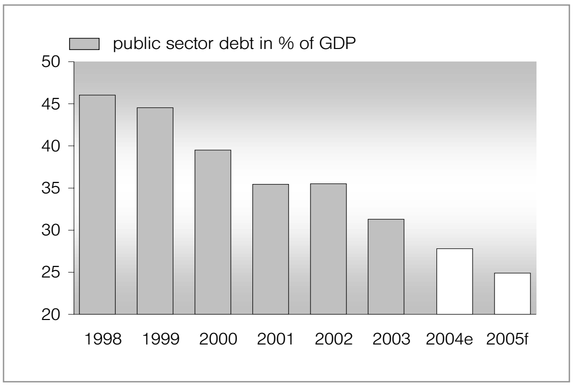
GDP CHANGE (REAL) & INFLATION



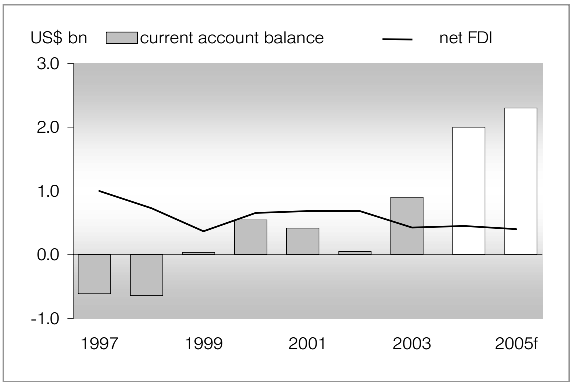
PUBLIC FINANCES



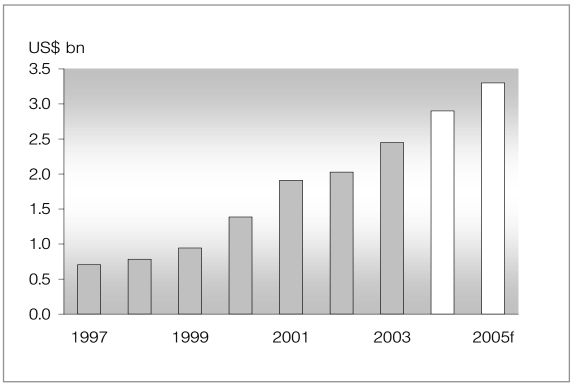
PUBLIC DEBT



CURRENT ACCOUNT BALANCE & FDI



FOREIGN EXCHANGE RESERVES



gas as an input commodity. The GDP share of the agricultural sector has meanwhile dropped to roughly 1%. Public and private services sectors (including tourism) account for just under 50% of GDP.
We expect GDP, which has already been growing non-stop for a decade now, to increase by 7% this year. The momentum in the energy and petrochemical sectors, combined with the fact that interest rates have dropped and investment activity of domestic and foreign enterprises is continuing, should be sufficient to spur continued strong economic growth over the next few years. Since the TT dollar is unlikely to depreciate against the U.S. dollar, we assume that the central bank may still keep the inflation rate (June 2004: 3.2% yoy) under 5% p.a., although it should increase again due to strong growth in domestic demand.

External sector: foreign currency reserves growing

Crude oil and natural gas as well as petrochemical products account for roughly 80% of exports. Since these products in particular are currently commanding high prices on the world market, export revenues in 2004 are likely to have witnessed a substantial year-on-year increase once again. The trade balance is expected to post a record surplus of around US$ 2.5 billion even though imports have likewise risen sharply due to major investment projects in the natural gas and petrochemical sectors. We can assume, however, that the current account surplus did not grow to the same extent, because the economic sectors mentioned above also increased profit transfers to their foreign owners. Nevertheless, we project a very high current account surplus of US$ 2 billion (18% of GDP) for last year. As the capital account has most probably recorded an increase as well, partly because foreign direct investments amounted to almost US$ 1 billion (gross), we project that foreign currency reserves have grown by about US$ 0.5 billion, to approx. US$ 2.9 billion (6 months' import cover). For this year, we expect the trend to be just as favorable. Although we expect an average annual decline in energy prices, we nevertheless project a further increase in liquid gas output due to the brisk level of capital spending.

Exchange rate: stable dollar rate

While the TT dollar is not pegged to the U.S. dollar, the central bank has succeeded over the last few years to keep the exchange rate stable, trading at about 6.29 TT$ per US$. Foreign currency inflows allow the central bank to continue this policy.

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CEO = Chief Executive Officer
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