CARIBBEAN CENTRE FOR MONEY & FINANCE

CARIBBEAN ECONOMIC PERFORMANCE REPORT

Presented at the meeting of the Committee of Central Bank Governors

Hosted by: Central Bank of Barbados

27th May 2011

CARIBBEAN CENTRE FOR MONEY AND FINANCE

Established under the joint auspices of the
Central Banks of the Caribbean Community and
The University of the West Indies

CARIBBEAN CENTRE FOR MONEY AND FINANCE
The University of the West Indies
St. Augustine, Trinidad and Tobago
Phone: (868) 645-1174**, Fax:** (868) 645-6017
E-Mail: ccmf@sta.uwi.edu
Website: www.ccmfuwi.org

TABLE OF CONTENTS

1.0 EXECUTIVE SUMMARY

The global economic recovery is strengthening and widening but significant vulnerabilities still remain because of sovereign debt problems in Europe, an unfinished financial reform agenda and the disparities in growth between developed market economies and emerging and developing economies. Global economic growth surged to 5.0 percent in 2010 but this is driven by high growth of 7.3 percent in emerging and developing economies with more muted growth of 3.0 percent in developed market economies. This two speed global growth process, which is likely to continue for some time, implies that the global economy is still exposed to significant downside risks. In many developed market economies unemployment remains high and there are significant sovereign debt problems and banking sector weaknesses, especially in some European countries. There are signs of improvement, however, as consumer expenditure, a major catalyst for growth in developed market economies, increased by 1.6 percent in 2010 compared to a 0.1 percent increase in 2009. In the case of emerging market economies, the huge disparity in growth has raised fears of overheating in some of these countries. Property values and financial asset prices have soared in many of these countries, exactly the type of environment in which the crisis evolved in developed market economies. This, together with low interest rates in developed market economies, has already generated large capital flows to emerging and developing economies in search of yield and currency returns. This risky behaviour carries the risk of sudden stops in capital flows and the related currency and capital market crises. Another major risk relates to the possibility of significant spikes in commodity prices, especially oil prices. Once these risks do not materialize global growth is forecast to continue growing by 4.4 percent and 4.5 percent respectively in 2011 and 2012 as the global economy transitions from the rapid recovery stage to a more moderate and sustainable consolidation stage.

These international economic and financial developments have profound effects on all Caribbean economies because of their highly open nature. The improvements in growth in developed market economies, especially the improvements in consumer expenditure, signal that confidence is returning and this has helped to drive the rebound of the tourism industry in the Caribbean. Buoyant commodity prices have also strengthened growth in commodity based economies in the region. The average growth in the region therefore improved from -2.2 percent in 2009 to -0.3 percent in 2010. Inflation pressures are also on the increase in the region in the context of high and rising commodity prices and a more robust economic environment. In this context, the average inflation rate for the region rose to 4.8 percent in 2010, doubling the rate experienced in 2009. The nascent recovery in growth in the region is, however, still not wide and deep enough to be reflected in the strengthening of labour markets in the region. Unemployment remains high in many jurisdictions and available data suggest that the unemployment rate has only fallen in Aruba and Trinidad and Tobago.

In contrast, the improvements in the growth performance of the region have impacted measurably on the fiscal accounts. In 2010, the current fiscal balance of all countries except The Bahamas improved relative to 2009. Belize, Guyana, Suriname and Trinidad and Tobago recorded significant increases in surpluses driven by robust revenue growth related to improving terms of trade. In other jurisdictions the improvements were driven by fiscal consolidation. The position on the overall fiscal balance largely reflected developments on the current account with Trinidad and Tobago being the only country recording an overall surplus in 2010 and all other countries recording reduced deficits. The predominance of deficits in 2009 and 2010 also meant that debt levels generally increased in 2010 with notable exceptions in the case of Barbados, Belize and Haiti.

The financial systems in the region were conditioned in large part by the relatively muted economic recovery in 2010. They were therefore generally characterized by slow credit growth and lower loan interest rates. In this environment the banking system in most countries carried a high degree of liquidity with the notable exceptions of Guyana and Suriname where credit to the private and public sectors mopped up a significant amount of the liquidity in the banking system.

In the same vein Caribbean countries generally recorded improved performance, either in the form of greater surpluses or reduced deficits, on the balance of payments in 2010 when compared to 2009. These better performances were driven primarily by improvements in the tourism sector, improved terms of trade for commodity based economies in the region and some improvement in manufacturing. In spite of this better performance, the majority of countries still recorded deficits which meant that a significant amount of borrowing was undertaken, leading to surpluses on the capital account. These conditions resulted in the relatively muted growth in international reserves but the region's gross reserves still increased from US$17.7 billion at the end of 2009 to US$20.6 billion at the end of 2010, largely as a result of increases in Jamaica and Haiti.

Based on the nascent recovery of Caribbean economies in 2010 and the expected continued improvement of the global economy in 2011 and 2012, it is expected that economic growth in the region would widen and deepen in the next two years. Improvements in the tourism sector and buoyant commodity prices are expected to strengthen growth in tourism and commodity dependent economies with the IMF expecting regional economies to grow by 3.0 and 3.4 percent respectively in 2011 and 2012.

2.0 GLOBAL ECONOMIC DEVELOPMENTS

The global economy registered growth of 5.0 per cent in 2010 up from the -0.5 per cent recorded in 2009, driven largely by a surge in inventory and fixed investments and strong corporate balance sheets in developed market economies, as well as robust demand in emerging and developing economies. Advanced economies have recovered to post growth of 3.0 per cent in 2010 up from -3.4 per cent in 2009 while emerging and developing countries have recorded growth of 7.3 per cent in 2010 up from 2.7 per cent in 2009. Global growth is also forecast to fall slightly to 4.4 per cent and 4.5 per cent respectively in 2011 and 2012 when compared to 2010 as growth moves from the robust recovery stage to a more sustainable stage which is closer to long-term growth potential (see Table 1). Emerging and developing countries have therefore led the global economic recovery with domestic demand in these countries accounting for approximately 46 per cent of global growth in 2010. The catalyst for robust growth in these countries included the rebound in capital flows due in part to low interest rates in developed market economies and the related search for yield, the increased buoyancy of commodity prices, the rebound in the tourism industry and increases in the flow of remittances as global demand picked up. These countries are likely to be pivotal to global growth in the future, especially since much of their current strength is derived from the growth of their internal markets and domestic demand rather than external demand, resulting in more stable growth trajectories. Very importantly also, private consumer demand has recovered much of the ground lost during the crisis in a wide range of countries and is now poised to replace public expenditure as one of the main drivers of growth. This development has gone a long way to reducing the risks to growth associated with implementing the inevitable fiscal consolidation needed in many countries.

In spite of these positive developments, significant downside risks still persist. The fiscal crisis in many European economies, the related turmoil in sovereign debt markets in Europe and the correlation of these events to volatility in international stock markets reminded most policymakers that the legacy from the recent international financial and economic crisis of 2008 and the policy measures deployed to manage that crisis have resulted in imbalances that must be addressed. The financial situation in Europe has since improved through forceful intervention by policymakers but this event highlighted the vulnerability of banks' balance sheets to sovereign risks and added to worries about the sustainability of the recovery. Other downside risks include the still stagnant real estate markets in developed market economies, political uncertainty in the Middle East, high and volatile commodity prices and booming asset markets in many emerging and developing countries which has the potential for sharp corrections driven by interest rate changes, capital flow reversals and related currency shocks. The policy tension between the promotion of growth and the need for medium term fiscal consolidation is also still very strong as highlighted by the recent reversal of US policy from consolidation to expansion in 2011, as well as the interruption of the consolidation plans in Japan because of the need to rebuild after the earthquake and tsunami.

Table 1: GLOBAL ECONOMIC GROWTH

	World	Advanced Economies	Canada	USA	Euro Area	Japan	UK	Emerging and Developing Economies	Brazil	Mexico	China	India
2009	-0.5	-3.4	-2.5	-2.6	-4.1	-6.3	-4.9	2.7	-0.6	-6.1	9.2	6.8
2010	5.0	3.0	3.1	2.8	1.7	3.9	1.3	7.3	7.5	5.5	10.3	10.4
2011	4.4	2.4	2.8	2.8	1.6	1.4	1.7	6.5	4.5	4.6	9.6	8.2
2012	4.5	2.6	2.6	2.9	1.8	2.1	2.3	6.5	4.1	4.0	9.5	7.8

Source: World Economic Outlook: April 2011, IMF.

The need for fiscal consolidation is more pressing in advanced economies where unprecedented government intervention has ratcheted up public debt considerably (see Table 2).

Table 2: GROSS DEBT TO GDP RATIO IN ADVANCED AND EMERGING ECONOMIES

	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Emerging Economies	LAC	China	India
2009	93.2	84.6	216.3	79.3	83.4	63.3	35.9	51.0	17.7	71.1
2010	98.7	91.6	220.3	85.0	84.1	77.2	35.1	50.4	17.7	69.2
2011	103.9	99.5	229.1	87.3	84.2	83.0	33.6	49.9	17.1	68.2
2012	104.6	102.9	233.4	88.3	83.1	86.5	32.7	49.0	16.3	67.7

Source: World Economic Outlook Dataset April 2011, IMF.

Very importantly, unemployment appears to have peaked in most advanced economies and is expected to come down in 2011 and 2012. High unemployment was one of the main factors contributing to weak consumer expenditure in most advanced economies, and this was a significant drag on global growth in 2009 (see Tables 3 and 4). This improvement in the labour market and the related increase in consumer expenditure are important markers that the global economy has turned a significant corner in its recovery and from this point these developments would form the basis for more sustainable growth in the near term.

Table 3: UNEMPLOYMENT RATES IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany	NICs
2009	7.9	9.3	5.1	9.5	8.3	7.5	7.5	4.3
2010	8.2	9.6	5.1	10.0	8.0	7.8	6.9	4.1
2011	7.8	8.5	4.9	9.9	7.7	7.8	6.6	3.6
2012	7.4	7.8	4.7	9.6	7.3	7.7	6.5	3.6

Source: World Economic Outlook Dataset April 2011, IMF.

Table 4: CONSUMER EXPENDITURE GROWTH IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany	NICs
2009	-1.1	-1.2	-1.9	-1.1	0.4	-3.2	-0.2	0.5
2010	1.7	1.8	1.8	0.8	3.4	0.6	0.4	4.2
2011	2.0	2.9	-0.2	1.1	3.2	0.4	1.2	4.6
2012	2.1	2.2	1.6	1.3	2.6	1.5	1.1	4.4

Source: World Economic Outlook Dataset April 2011, IMF

In this environment inflationary pressures would tend to rise as robust demand eliminates excess capacity created during the crisis and capacity constraints begin to bite. Significant increases in food and energy are also likely to create demands for increased wages. This dynamic caused average global inflation to rise from 0.1 per cent in 2009 to 1.6 per cent in advanced economies in 2010. In these economies inflation is expected to increase moderately in 2011 and decrease slightly in 2012 as food and energy prices soften, and wages grow slowly in the context of still weak labour markets. Rates are generally expected to remain below historical averages in the near term. In the case of emerging economies generally, inflation rates increased from 5.2 per cent in 2009 to 6.2 per cent in 2010. Rates are expected to increase in 2011 but slow in 2012 as food and energy prices soften. In some emerging market jurisdictions, however, robust demand has driven up asset prices and there is the possibility of overheating in economies where inflation is above central bank targets most notably in India (see Table 5).

Table 5: GLOBAL INFLATION RATES

	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Emerging Economies	LAC	China	India
2009	0.1	-0.3	-1.4	0.3	0.3	2.1	5.2	6.0	-0.7	10.9
2010	1.6	1.6	-0.7	1.6	1.8	3.3	6.2	6.0	3.3	13.2
2011	2.2	2.2	0.2	2.3	2.2	4.2	6.9	6.7	5.0	7.5
2012	1.7	1.6	0.2	1.7	1.9	2.0	5.3	6.0	2.5	6.9

Source: World Economic Outlook Dataset April 2011, IMF.

The improving global economic environment has helped to foster greater financial stability through stronger balance sheets and a greater appetite for risk, but significant uncertainties still persist. In particular, in advanced economies, although progress has been made in terms of improved capital adequacy ratios and in recognising losses, significant sovereign and banking sector vulnerabilities remain. Emergency measures to control expenditure and ease imbalances, as well as financing from multilateral financial institutions have helped but vulnerabilities persist. The expected tightening of monetary policy in developed markets economies could therefore result in increased funding risks for vulnerable sovereigns and banks. This is particularly so in Europe where there are serious concerns about the quality of many institutions' assets given banks exposure to troubled sovereigns and property markets in Ireland, Spain, the UK and the US. More importantly, significant work still needs to be done in terms of restructuring or resolving weaker financial institutions and the turbulence in some European markets recently attest to this fact. Confidence in the financial system has therefore not been fully restored in many countries and lingering vulnerabilities could once again be a flashpoint for crisis given the unfinished re-regulation agenda.

The low interest rates among developed market economies have also inadvertently fostered behaviour such as capital inflows to emerging and developing countries attracted by unsustainable trends such as currency appreciation and search for yield which could motivate investment in high risk projects. In fact capital flows to developing countries have largely recovered from the levels during the crisis and are likely to increase in 2011 and 2012 given the disparities in growth between developed market economies and emerging and developing countries (see Table 6). This could contribute to unsustainable increases in asset prices and exchange rates which all set the stage for sudden reversals in capital flows and the attendant crisis in capital and currency markets.

Table 6: NET INTERNATIONAL CAPITAL FLOWS TO DEVELOPING COUNTRIES (US$B)

Year	2005	2006	2007	2008	2009	2010	2011	2012
Net Portfolio Inflows	67.5	107.7	135.1	-53.2	108.2	153.4	145.1	134.3
Net FDI Inflows	273.6	343.3	508.1	587.1	354.1	409.6	486.0	589.9
Net Equity Inflows	341.1	451.0	643.2	533.9	462.2	563.0	631.1	724.2
Net Private Inflows	528.9	679.9	1110.4	716.0	521.5	753.2	838.6	874.5

Source: World Economic Prospects

The increasing integration of financial markets globally and the prevalence of cross border exposures also implies that there is need for a coordinated response to the challenges. The G-20 agreement on a set of principles, including cooperation among national regulatory and supervisory agencies to deal with cross border regulatory and supervisory issues, is likely to be a critical element of financial reforms to deal with current problems and to deal with future crises. This need to widen the regulatory net includes bringing institutions and markets such as hedge funds and OTC derivative markets that were not previously covered or were covered imperfectly by any regulatory regime into some regulatory domain. Other pressing issues that need urgent attention are the need to reduce pro-cyclicality in prudential standards and reassessing the role that credit rating agencies play in sanctioning products and behaviour in the financial sector.

International trade has also recovered as the global economy improved driven largely by a rebound in industrial activity and consumer demand. Merchandise export volumes which had decreased dramatically in the first half of 2009 rebounded strongly to regain pre-crisis levels by June 2010. World trade therefore improved from a decline of 10.9 per cent in 2009 to a 12.4 per cent increase in 2010. Trade is projected to grow by 7.4 per cent and 6.9 per cent in 2011 and 2012 respectively as global growth transitions from the high growth recovery stage to a lower but more sustainable level (see Table 7).

Table 7: WORLD TRADE AND PRICES

Year	2008	2009	2010	2011	2012
World Trade Volume	2.9	-10.9	12.4	7.4	6.9
World Trade in US dollars Price Deflators	11.3	-10.3	5.8	8.5	0.8
Volume of Exports in advanced developed economies	1.9	-12.2	12.0	6.8	5.9
Volume of Exports in Emerging and developing economies	4.0	-7.5	14.5	8.8	8.7

Source: World Economic Outlook: April 2011, IMF.

Commodity prices have increased across the board in 2010 reflecting the trajectory in global growth and the approximately 10 per cent depreciation of the US dollar against major currencies over the course of 2010 (see Tables 8 and 9). Robust demand from China, for energy and metals especially, drove the price dynamics in commodity markets. Agriculture prices increased as well but not as much as energy and metals which are more closely tied to growth cycles. A notable exception was the price of rice which fell by 11.9 per cent in 2010 when compared to the previous year. This was due in large part to increased production, a decision by the Philippines to limit imports and the decision by Thailand to release a large stock onto the market.

Oil prices rose by approximately 28 per cent between 2009 and 2010 based on robust demand and uncertainties about the potential supply. OPEC's price band has now been widened from US$70-80 a barrel to US$70-90 price range reflecting this uncertainty about the supply response to prices above the previous band. Oil prices are expected to increase during 2011 but fall back a little in 2012 as the global economy transitions to a more sustainable growth stage. In contrast, although natural gas prices have increased by 11.1 per cent between 2009 and 2010, prices have remained relatively low by recent historical standards as the potential for huge supplies of natural gas from shale deposits put downward pressure on prices. In this context, the natural gas price is expected to increase by approximately 20 per cent over the next two years but remains below historical averages. Going forward, all major commodity categories are expected to register increases in 2011 but fall off a little in 2012 as the high growth recovery stage comes to an end and as output stabilises in 2012 (see Tables 8 and 9).

Table 8: SELECTED COMMODITY PRICES

Commodity	Annual Averages			Latest	Forecast	
	J-D 2008	J-D 2009	J-D 2010	April 2011	J-D 2011	J-D 2012
Crude Oil - $/bbl	96.99	61.76	79.04	116.24	96.8	92.3
Natural Gas US - $/mmbtu	8.86	3.95	4.39	4.24	4.4	5.3
Al1uminum - $/mt	2573	1665	2173	2678	2475	2500
Rice Thai 5 per cent - $/mt	650.2	555.0	488.9	484.3	500	480
Sugar (World) - cent/kg	28.21	40.00	46.93	53.70	50.00	40.00
Bananas (US) - $/mt	844	847	868	1027	900	850

Source: Commodity Price Pink Sheet, May 2011, World Bank

Table 9: COMMODITY PRICE INDICES (2000=100)

Commodity	Annual Averages			Latest	Forecast	
	J-D 2008	J-D 2009	J-D 2010	April 2011	J-D 2011	J-D 2012
World (non-fuel)	275.2	208.8	266.5	340.4	302.7	273.3
Food	247.4	205.1	224.1	279.9	243.4	213.9
Beverages	210.0	219.9	253.8	306.4	254.1	226.0
Agricultural Raw Material	229.5	197.8	231.3	299.8	254.6	219.3
Metals	335.8	221.9	337.2	421.1	400.0	383.3
Energy	342.0	214.3	271.2	389.1	328.7	314.0

Source: Commodity Price Pink Sheet, May 2011, World Bank

Going forward, the factors that will drive commodity prices include waning demand as the inventory cycles turn, demand from large emerging markets such as China and India and commodity specific bottlenecks and inventory buffers on the supply side.

The international tourism industry suffered badly in 2009 with international tourist arrivals falling by 4.0 per cent and tourism receipts falling by 5.7 per cent. This occurred as the global economy fell into recession with advanced economies, the major source market for tourists being more severely affected. The tourism industry has historically been one of the most resilient sectors and recent data have again given credence to this view as tourist arrivals rebounded, increasing by 6.7 per cent when compared to 2009 to reach 935 million in 2010.

Growth was recorded in all regions with arrivals in developing countries growing by 8.2 per cent compared to 5.3 per cent in advanced economies. This reflects in large part the trend in the global economy where emerging and developing countries are growing faster than developed economies and this trend is likely to persist for some time. In terms of regions, the Middle East, Asia and the Pacific, the Americas, Africa and Europe recorded growth in tourist arrivals of 13.9 per cent, 12.6 per cent, 7.7 per cent, 6.4 per cent and 3.2 per cent respectively in 2010. In the Americas growth was strongest in South America (10.4 per cent) and weakest in the Caribbean (3.9 per cent) (see Table 10). The weak growth in Europe was due in large part to the closure of European airspace in April due to the ash cloud from Iceland's Eyjafjallajokul volcano and the uncertainty caused by sovereign debt and banking sector problems in many European countries. The one exception has been Germany which recorded growth in arrivals of 11 per cent in 2010. After a major reversal, volume tends to recover faster than income and tourists are likely to stay closer to home and travel for shorter periods. Price competition intensifies in these conditions and increased arrivals have in many cases been bought by reduced prices so the growth in real tourism receipts (5 per cent) has been slower than the growth in arrivals in 2010.

The outlook for the tourism industry is for growth to continue but at a more muted pace in line with expected trends in the global economy. Growth in tourist arrivals is expected to exceed the historical average of about 4 per cent to post approximately 4.5 per cent barring no major negative event in 2011. Indeed, the growth in arrivals for the first two months of 2011 has averaged 4.7 per cent. Emerging market destinations such as Asia and the Pacific are likely to continue leading growth in the international tourism industry, taking advantage of the demand from high growth neighbouring countries. Tapping into the high demand from these large, fast growing emerging markets is likely to be a key strategy to boost inbound tourism in all destinations, given their increasing importance in the global economy. In fact China has reinforced its importance in the international tourism industry. China is now ranked third in terms of arrivals and fourth in terms of tourism receipts. Very importantly also, China is now ranked third in terms of the expenditure on tourism and its high growth in this regard in the last ten years implies that it has huge potential as a source market for tourists. Major events also demonstrated their ability to boost tourism even in difficult economic conditions based on the experience of South Africa (World Cup), India (Commonwealth Games) and Canada (Winter Olympics). Negative recent events such as political troubles in the Middle East and North Africa and natural disasters in Japan are likely to have only a limited impact on international arrivals as tourists change to other destinations.

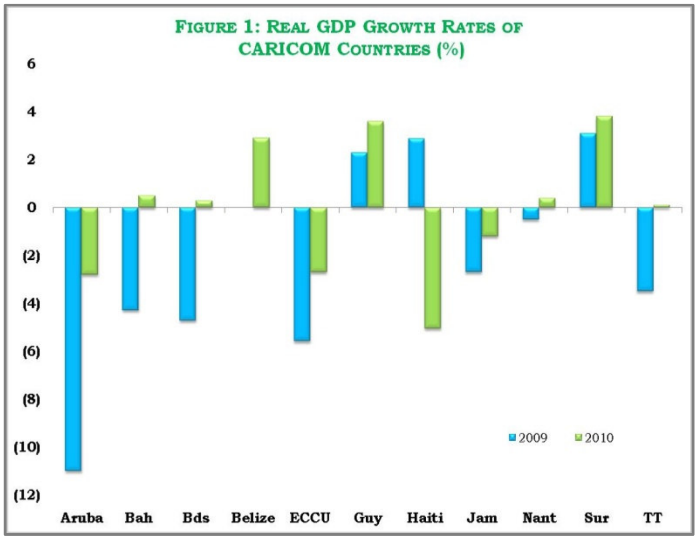
Table 10: International Tourist Arrivals

Country/Region	Total (Millions)		per cent Change Over Previous Period	
	2009	2010	09/08	10/09
Europe	**456.9**	**471.5**	**-5.0**	**3.2**
Northern Europe	53.4	53.3	-5.5	-0.1
Western Europe	148.6	156.1	-3.0	5.1
Cent./East. Europe	89.9	93.7	-10.1	4.2
South./Med. Europe	165.1	168.4	-3.5	2.0
Asia and the Pacific	**181.0**	**203.8**	**-1.7**	**12.6**
North-East Asia	98.1	111.7	-2.9	13.9
South-East Asia	62.1	69.6	0.5	12.1
Oceania	10.9	11.6	-1.6	6.0
South Asia	9.9	10.9	-3.4	10.1
Americas	**140.5**	**151.2**	**-4.9**	**7.7**
North America	92.1	99.2	-5.8	7.8
Caribbean	19.5	20.3	-2.8	3.9
Central America	7.6	8.3	-7.4	8.3
South America	21.3	23.5	-2.3	10.4
Africa	**45.8**	**48.7**	**3.1**	**6.4**
North Africa	17.6	18.6	2.5	5.8
Sub-Saharan Africa	28.2	30.1	3.5	6.9
Middle East	**52.7**	**60.0**	**-5.7**	**13.9**
Advanced Economies	**468.0**	**493.0**	**-4.3**	**5.3**
Emerging Economies	**409.0**	**442.0**	**-3.5**	**8.2**
World	**877.0**	**935.0**	**-4.0**	**6.7**

Source: World Tourism Organisation, World Tourism Barometer Volume 9, No. 1, February 2011.

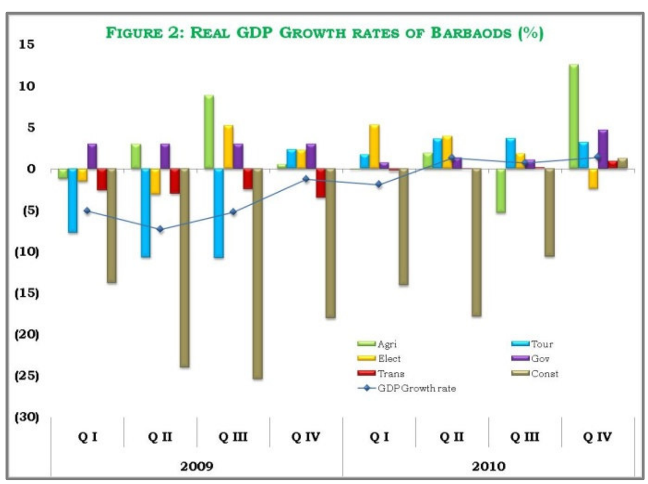
3.0 REGIONAL ECONOMIC PERFORMANCE

3.1 ECONOMIC GROWTH

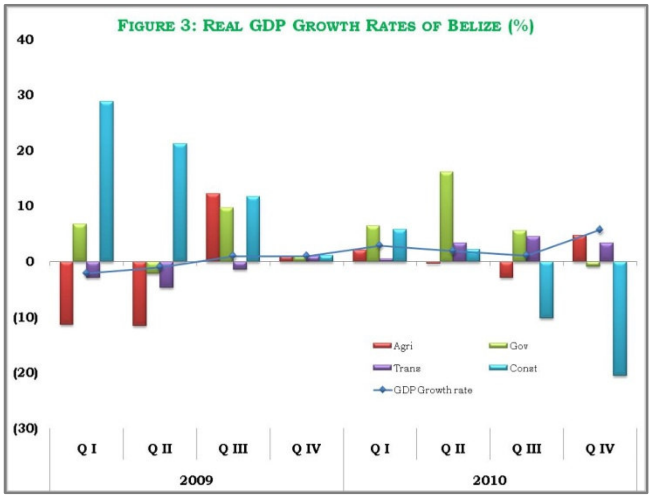


Most Caribbean economies, with the notably expectation of Haiti, have reported an improvement in their economic activities for 2010, with the regional growth rate moving from -2.2 per cent (2009) to approximately -0.3 per cent (2010). This general improvement in growth levels is driven by a rebound in global economic growth, particularly in the emerging markets. Figure 1 shows that the real GDP growth rates for the Caribbean region in 2010 ranged from -5.1 per cent (Haiti) to 3.8 per cent (Suriname), the following territories experiencing negative growth rates: Haiti (-5.1 per cent), Aruba (-2.8 per cent), ECCU (-2.7 per cent) and Jamaica (-1.2 per cent). Haiti reported the biggest contraction in its economic activity in 2010 (Box1).

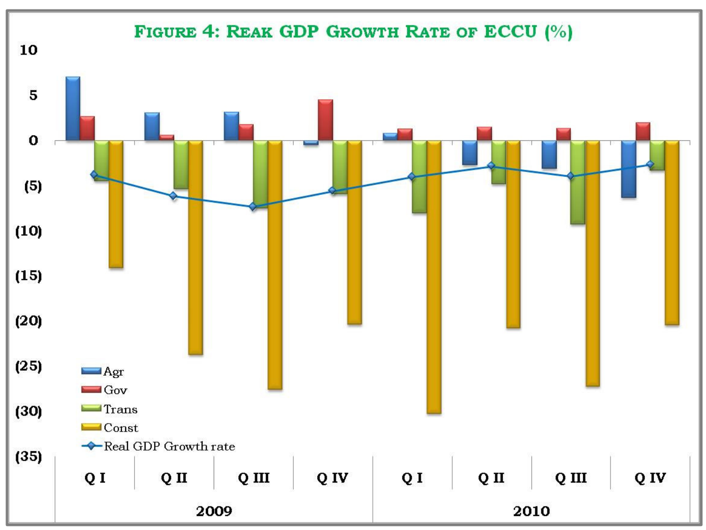
Aruba's growth rate improved from -11.0 per cent (2009) to -2.8 per cent in 2010. Most sectors, reported slight improvements in 2010 compared to 2009, in particular - Hotel and Restaurant and Utilities, while sectors such as Transportation and Construction continue to struggle.



A comparison of the level of output for 2009 and 2010 for the Bahamian economy indicates that the economy seems to be stabilizing, having moved from -5.4 per cent to 1.0 per cent. There were moderate gains in the tourism sector and construction activity also increased in 2010. Similarly in Barbados, output increased moving from -4.7 per cent (2009) to 0.2 per cent (2010). The major sources of its growth were the improvements in its tourism, wholesale and retail, international business and financial sectors (Figure2).



Belize's output for 2010 increased by 2.9 per cent whereas in 2009 its economy recorded no growth in output. The services sectors all benefitted from the global recovery with most sectors registering improvements - trade and tourism (2.2 per cent), wholesale and retail trade (6.2 per cent), hotels and restaurants (5.5 per cent) and transport and communication (2.9 per cent). In contrast the construction and the agriculture sector recorded poorer performances in 2010.



Economic activity within the ECCU was sluggish in 2010, as economic activity contracted in all member countries except St. Lucia. Although output levels for most sectors for 2010 were generally muted or negative, real growth in the ECCU improved from -5.6 percent in 2009 to -2.7 percent in 2010. The main reason for the continued negative growth in the ECCU is the slowdown in activity within the construction sector since the first quarter of 2009 which is a result of the difficulties in financing private sector and public sector projects. Data for the first nine months of 2010 show that the range of declines in the construction sector when compared to the same period in 2009 were -40.8 per cent (Anguilla) to -2.4 per cent (St. Lucia). The agriculture sector also reported a negative growth rate of 6.3 per cent for the period January to September 2010 mainly due to pest infection and drought conditions that affected banana production. The manufacturing sector reported a decline in output of -3.2 per cent for the period Jan-Sep 2010 but this represents an improvement of 0.67 percentage points when compared to its output for the same period in 2009. Grenada was the only country to show an increase, 33.1 per cent for the first nine months of 2010 in its manufacturing sector that heavily mitigated the declines in the other ECCU member countries which ranged from 17.2 per cent (St. Lucia) to 3.3 per cent (St. Vincent and the Grenadines). The hotels and restaurant sector recorded a significant increase of 5.2 per cent (Jan- Sep 2010) after three consecutive years of decline (Jan-Sep 2007 to 2009); this was a result of an additional airlift that began in the last quarter of 2009. Reports for 2011 indicate that the ECCU is experiencing sluggish increases in its economic activities, particularly in the following sectors – Construction, Hotels and Restaurants and Transportation.

Guyana recorded its fifth consecutive year of positive economic growth in 2010 with a growth rate of 3.6 per cent. Its performance in 2010 was due mainly to increased activity within its services sectors – Construction, Wholesale & Retail, Transportation and Storage, and Information and Communication. There was a marginal increase in the agriculture sector, however, there were contractions in sugar, poultry and eggs which fell by 5.5 percent, 8.1 percent and 26.4 percent, respectively. These were offset by positive performances in the rice and forestry industries. Mining and quarrying activities slowed with contractions in bauxite (27.1 percent) and diamond (65.2 percent). In contrast, gold production increased by 2.9 percent. Suriname also reported positive growth of 3.8 per cent for 2010, up from 3.1 per cent in 2009. Suriname's positive growth for 2010 is attributable to higher prices of its main commodity exports (gold, petroleum and alumina), higher alumina production and elevated government spending.

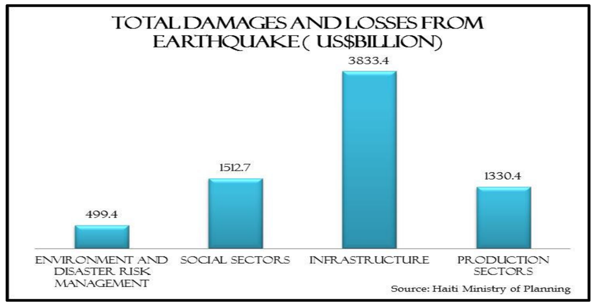
BOX 1: HAITI THE REALITY OF 2010 AND THE OUTLOOK FOR 2011

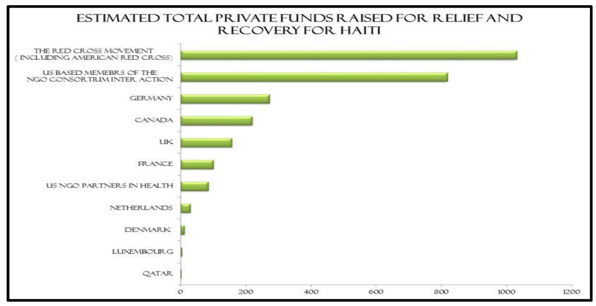
Haiti was moving towards a more stable economy before the natural disasters in 2010. These events proved to be the most catastrophic in the last decade.

Table 1: Summary of the last four Disasters in Haiti

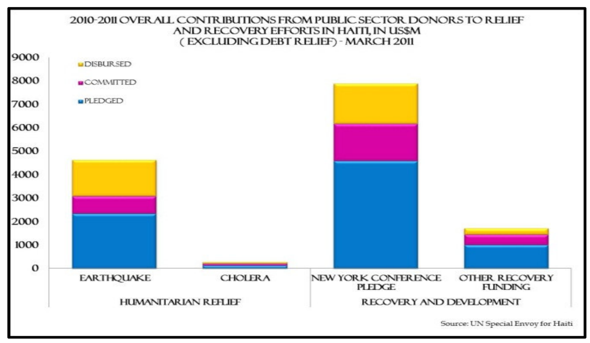
Event	Effect on GDP	Individuals Affected	Dead
2004 – Hurricane Jeanne	7 per cent	300 000	5000
2007- Hurricanes Dean and Noel	2 per cent	194 000	330
2008- Hurricanes Fay, Gustav, Hanna and Ike	15 per cent	1 000 000	800
2010*- Earthquake, Hurricane Tomas and Cholera Epidemic	120 per cent	594 000	229 954

Source: Haiti Earthquake PDNA (March 2010) and IMF Reports
*: Estimated figures

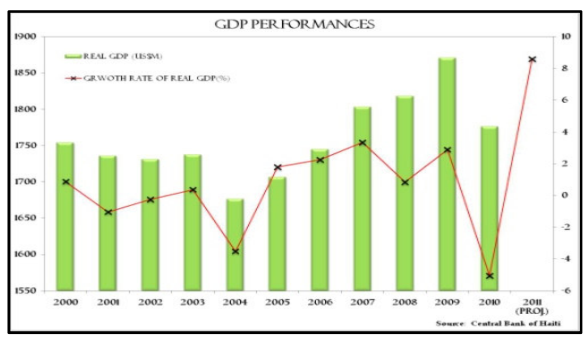


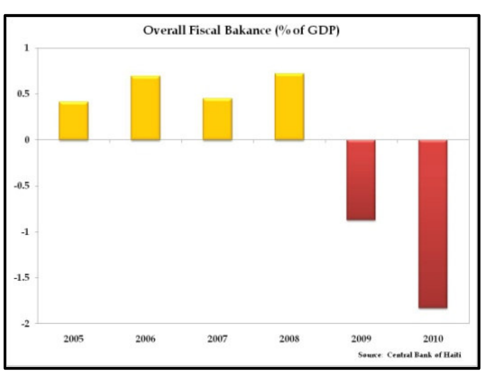


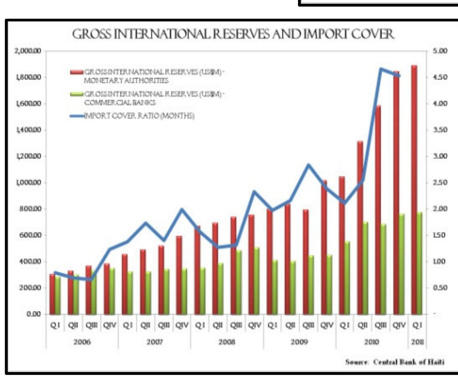
The humanitarian and financial response that occurred over the past 15 months has saved countless lives. Nevertheless, Haiti's economy contracted by 5 per cent in 2010, however, it is expected to growth by 8.6 per cent in 2011. This projected growth is hinged on increases in government expenditures, capital expenditures, foreign financing of investments and foreign reserves. The fiscal deficit increased in 2010 which is reflective of higher capital spending. The BOP current account deficit widened due to an increase in imports but gross international reserves have increased considerably reaching US$2,668 million at the end of first quarter of 2011.



The outlook for the remainder of 2011 is still subject to some uncertainty as there could be delays in disbursements of funds to Haiti. Also the recent riotous general elections and the delay in the establishment of a new government may lead to a slowdown in public expenditures resulting in slower economic growth. Rising commodity and oil prices and increases in inflationary pressures are also impediments to Haiti's recovery.







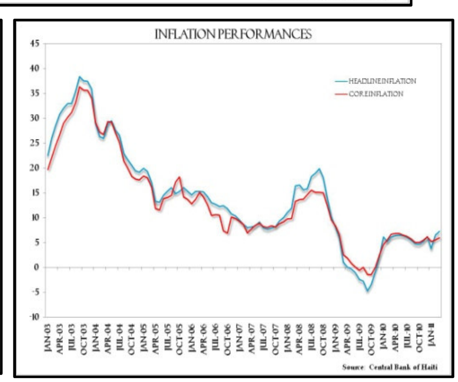
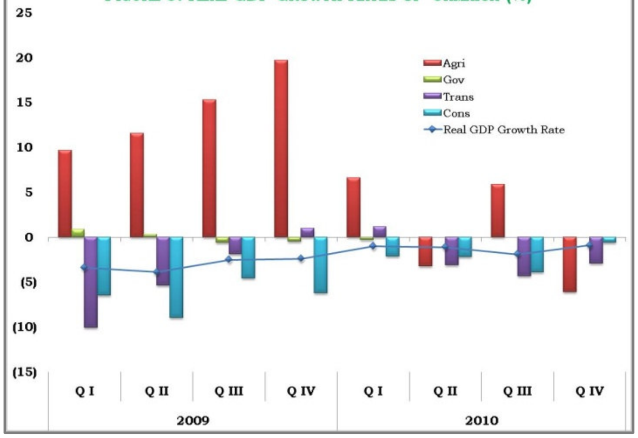


FIGURE 5: REAL GDP GROWTH RATES OF JAMAICA (%)

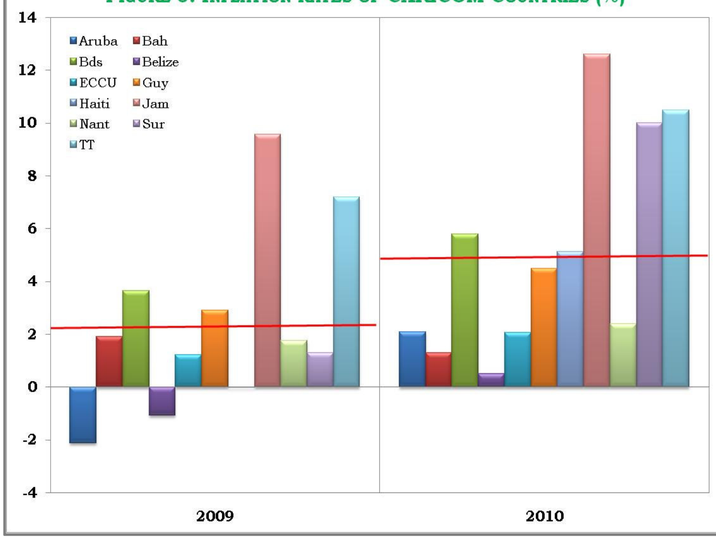


A 1.2 per cent contraction in output was experienced by the Jamaican economy in 2010, an improvement on the average decline of 2 per cent for the past two years. This slight improvement was led by increases in the agriculture, forestry and fishing (0.9 per cent) and hotels & restaurants (3.4 per cent) sectors. The marginal increase in the agriculture sector was a result of drought in the first half of 2010 and Hurricane Nicole in September 2010. The hotels & restaurant sector increased in 2010 because of increased airlifts to the island, major discounting by hotels, aggressive promotions by the Jamaican Government and industry players and expanded room capacity. All other sectors within the Jamaican economy registered contractions in 2010.

The Netherland Antilles economy reported an increase 0.4 per cent for its growth of economic output for 2010 due mainly to improvements in the Financial Services and the Public Sectors. Trinidad and Tobago's economy declined by 0.6 per cent in 2010 following negative growth of 3.5 per cent in 2009, as growth in the energy sector (1.7 per cent) was unable to offset the decline in the non-energy sector (-2.3 per cent). The non-energy sectors that recorded positive growth for 2010 were: water and electricity (5.5 per cent) - because the full operationalization of energy plants boosted electricity generation - and finance, insurance and real estate (2.3 per cent). On the other hand, sectors such as construction and agriculture contracted by 5.8 per cent and 14.8 per cent respectively in 2010.

3.2 INFLATION

FIGURE 6: INFLATION RATES OF CARICOM COUNTRIES (%)



Inflation in the Caribbean region doubled in 2010, to approximately 4.8 per cent for 2010 compared to 2.4 per cent in 2009. Most countries reported an increase in their inflation rate, with rates ranging from 0.5 per cent (Belize) to 12.6 per cent (Jamaica) in 2010 compared to a range of -2.1 per cent (Aruba) to 9.57 per cent (Jamaica) in 2009. The Bahamas was the only country to have reported a minimal decrease in its inflation rate in 2010 when compared to 2009. The main source of inflationary pressures for most of the countries was the increase in commodity prices, particularly international oil prices.

Inflation in The Bahamas decreased by a mere 0.6 percentage points in 2010 when compared to the 1.9 per cent recorded in 2009. Price declines were noted for Food and Non-Alcoholic Beverages and Communications which decreased by of 1.1 per cent and 0.4 per cent respectively.

Aruba price levels rose in 2010, having moved from deflation in 2009 (-2.12 per cent) to a positive inflation rate 2.1 per cent in 2010.This rising trend has continued in 2011, as the reported increase in the rate of inflation for the period Jan-March 2011 is 1.3 per cent. The rise in price levels in Aruba is mainly due to increasing international oil prices.

Barbados's rate of inflation was also higher in 2010 driven by high oil prices but this was reinforced by fiscal measures that were implemented in the 2010/11 budget which resulted in higher prices for imports, food and housing. Inflation moved from 3.6 per cent (2009) to 5.8 per cent (2010). For the 12 months ending January 2011 prices are on average six per cent higher than a year earlier. For this period the increases were 2.3 per cent (Food), 0.9 per cent (Transport), 0.7 per cent (Housing), 0.4 per cent (Fuel and Light) and 0.5 per cent (Household Operations and Supplies).

Inflationary pressures have also risen in Belize and the ECCU countries, again because of increases in international prices of food and oil. Belize's inflation rate increased by 1.58 percentage points for the period 2009 to 2010 while in the ECCU inflation increased from 1.23 per cent (2009) to 2.07 per cent (2010). During the period January - March 2011, prices within the ECUU continued to rise with inflation rates ranging from 0.9 per cent (Anguilla) to 5.9 per cent (Grenada). Grenada's high prices were also due to the introduction of VAT in early 2010.

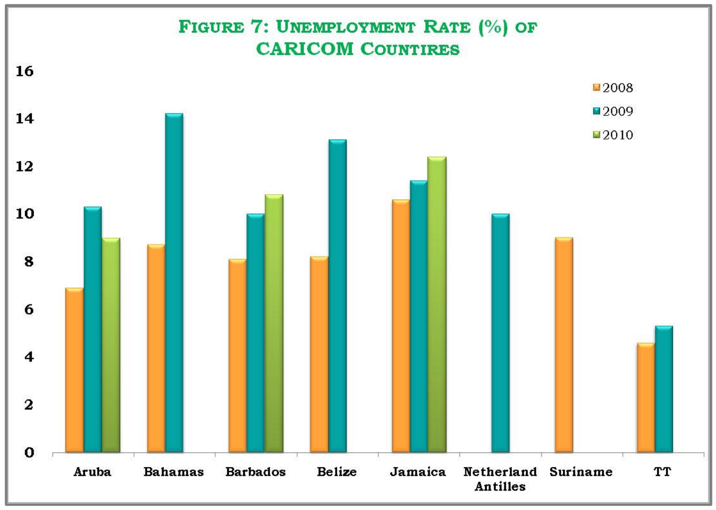
Guyana's inflation rate was 3.6 percent in 2009 and 4.5 percent 2010 mainly on account of rising food prices – meat and fruits and vegetables. The rise in inflation in Jamaica was influenced by both domestic and external weather-related shocks, as well as the pass-through of various administrative cost adjustments and fiscal measures. This resulted in Jamaica's inflation rate being increased by 3.1 percentage points in 2010.

The Netherland Antilles and Suriname both experienced an increase in price levels in 2010 because of higher food prices and international oil prices. The inflation rate of the Netherland Antilles increased from 1.8 per cent (2009) to 2.4 per cent (2010), while Suriname's inflation rate increased significantly from 1.3 per cent (2009) to 10 per cent (2010). Other factors that contribute to Suriname's higher price levels are the depreciation of their exchange rate in the parallel market and expansionary government spending.

Escalation of food prices was the main source of inflationary pressure in Trinidad and Tobago in 2010 as the inflation rate for the year increased by 3.4 percentage points. The Food and Non- Alcoholic Beverages sub-index, which measured 2.7 per cent in January

2010, peaked at 39.1 per cent in August 2010, before easing to 29.5 per cent by the end of 2010.

3.3 LABOUR MARKETS



The slight increase in economic activities for the Caribbean in 2010 is yet to be reflected in the unemployment rates of the region, as they continue to be high. Of the four countries that reported unemployment rates for 2010, two experienced increases - Barbados and Jamaica, while the other two recorded decreases - Aruba and Trinidad and Tobago.

The average unemployment rate for Barbados in 2010 was 0.8 percentage points higher than the ten per cent recorded in 2009, which is reflective of the slowdown in the construction sector. Jamaica's average unemployment rate for 2010 was 12.4 per cent, a slight increase when compared to its rate of 11.4 per cent in 2009. This increase is reflective of job losses in all industries except Real Estate and Business Activities.

Aruba's high expectations of an upswing in business activities were reflected in the 1.1 percentage point decrease in its unemployment rate between 2009 and 2010. The unemployment rate in Trinidad and Tobago averaged 5.8 per cent for the first two quarters of 2010 compared to the 5.1 per cent for the corresponding period in 2009. The construction sector recorded the most significant job losses for this period with over 16.100 jobs being lost as a result of the cancellation and deferral of several major construction projects, the agriculture sector also experienced a falloff in the number of jobs. On the other hand, employment in the services sector increased by 1500 jobs, reflecting the increase in activities in the month of May due to general elections.

3.4 FISCAL ACCOUNTS

3.4.1 Current Fiscal Account

Data on the fiscal operations of Caribbean countries suggest an improvement in the fiscal outturn for all reporting countries except The Bahamas when compared to the performance in 2009. Among reporting countries; Trinidad and Tobago, Haiti, Guyana, Suriname and Belize all registered surpluses on the current fiscal accounts. Bahamas, Barbados and the Eastern Caribbean Currency Union recorded current fiscal deficits.

The current account surplus for Trinidad and Tobago more than doubled to US$999.5 million at the end of 2010, while that for Belize jumped sharply from a deficit position of US$4.2 million to a current surplus of US$29.5 million. The performance on the current fiscal accounts for Belize reflected strong revenue growth of 12.5 per cent relative to an increase in expenditure of 2.3 per cent. Revenue performance was influenced by increases in the revenue lines: income tax and sales tax of 17.8 and 17.3 per cent respectively. All items of expenditure grew except interest

BOX 2 : DEVELOPMENTS IN CREDIT RATINGS FOR CARIBBEAN COUNTRIES

The global recession which began at the end of 2007 in the United States has been protracted in most Caribbean countries. The IMF in its recent Western Hemisphere Outlook report argues that the Caribbean will emerge from the recession in 2011. Among the downside risks to sustainable growth is the high public sector debt in some countries. With growing concerns regarding the public sector debt of some Caribbean countries; regional and international rating agencies have been reviewing their ratings for these countries. Country ratings have implications for countries seeking to raise finance for projects or deficit financing on international or regional capital markets. They also have implications for financial and other institutions operating within those countries, who seek credit ratings in order to raise capital.

On May 3, 2011 Standard and Poor's Ratings Services affirmed its 'BBB-/A-3' local and foreign currency sovereign credit rating with stable outlook for Barbados. This affirmation was based on projections for higher output in 2011 and improvement in the fiscal position of the government in 2010, with a projection for continued fiscal consolidation.

In January 2011, Standard and Poor's Ratings Services affirmed an "A" foreign currency and 'A+' local currency long term sovereign credit rating with stable outlook for Trinidad and Tobago. This rating was based on a "solid external and fiscal profile resulting from several years of high energy prices ..."

In December 2010, Standard and Poor's affirmed its 'B-' long term and 'C' short term sovereign credit rating for Jamaica. S&P stated that this rating reflects the "modestly improved fiscal position after the Government concluded its distressed debt exchange in February 2010." S&P in May 2011 revealed that Jamaica's sovereign credit rating has constrained the NCB Jamaica from obtaining a rating upgrade due to high exposure to the government and wider public sector

On the regional front; CariCRIS on May 12, 2011 reaffirmed its credit ratings for the Government of Saint Lucia (to debt size USD38 million); *Cari***BBB**+. The rating was based on moderate balance of payments performance, but was tempered by limited fiscal space due to a narrow tax base and rising fiscal pressures.

payments which fell by 1.3 per cent mainly on account of a lower overdraft balance for the Government of Belize held at the Central Bank. Similarly for Trinidad and Tobago, growth in current revenues of 14.4 per cent surpassed the minimal increase of 2.6 per cent in current expenditure. The revenue performance was largely due to a boost of 19.7 per cent to taxes on income and profits as well as an increase of 11.1 per cent in taxes on international trade. Non-tax revenues fell by 20.2 per cent. Trinidad and Tobago would have benefited from positive terms of trade developments in 2010, as revenue estimates were based on an oil price of US$55 per barrel in contrast to an average outturn of US$71.00 per barrel. On the expenditure side, interest payments on debt dropped markedly by 13.0 per cent while outlays on wages and salaries declined marginally by 0.4 per cent.

The current surplus for Guyana and Haiti almost doubled to reach US$144.1 million and US$78.9 million respectively. The wider current account surplus for Guyana in 2010 was mainly on account of slower growth in current expenditure of 9.6 per cent in contrast to a climb in current revenue of 13.6 per cent. The slower growth of current expenditure was due to a 46.4 per cent drop in transfers and subsidies as all other revenue lines registered increases. For the first quarter of 2011, Haiti registered a current fiscal surplus of about US$10.1 million relative to a current deficit of roughly US$11.5 million in March 2010.

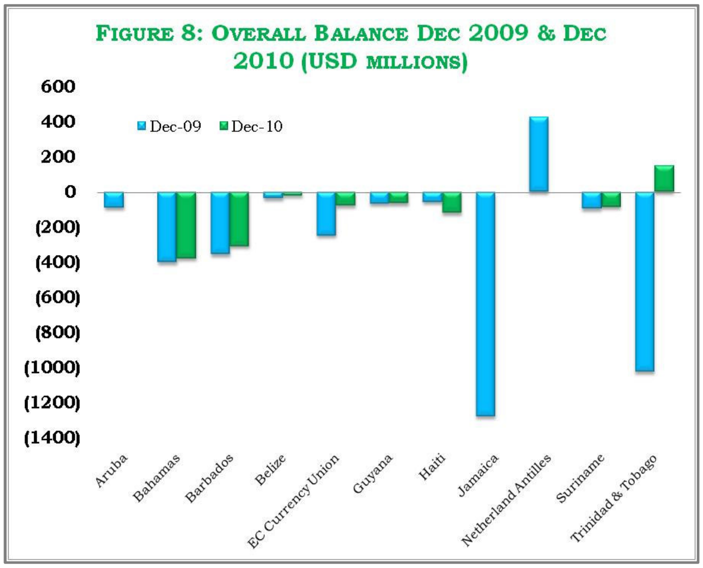
Suriname witnessed a 20 per cent increase in the current account surplus to US$42.7 million. This performance was influenced by the net effect of a 2.4 per cent rise in current expenditure associated with civil servant wage reform and the occurrence of a general election in May 2010, as well as a 3.2 per cent increase in current revenue buoyed by growth in taxes on international trade of 2.1 per cent.

Barbados and the ECCU both recorded narrowing current fiscal deficits in 2010 when compared to the outturn in 2009. In Barbados the current fiscal deficit eased by US$33.7 million (9.2 per cent) to US$333.2 million largely as a result of expenditure containment measures, as current revenue declined by 3.8 per cent. Total current expenditure in Barbados for 2010 declined by five per cent reflecting declines in outlays on goods and services (11.6 per cent), wages and salaries (3.3 per cent) and transfers and subsidies (1.8 per cent). In contrast, interest payments associated with Government debt increased by 10.4 per cent. On the revenue side, income tax and non tax revenue dropped by 15 per cent and 58 per cent respectively. Growth of 3.9 and 10.7 per cent respectively was recorded for the following line taxes respectively: taxes on international trade and value added tax. At the end of the first quarter of 2011, the current fiscal deficit for Barbados as a percentage of GDP stood at 6.8 per cent compared to 7.6 per cent in March 2010 and 5.9 per cent as at December 2010. The current fiscal deficit for the ECCU dropped to US$16.8 million down from US$58.9 million in December 2009 mainly due to a 6.5 per cent decline in expenditure on goods and services. Improvements in the yield of non tax revenue and higher current grants also contributed to the narrowing of the deficit on the current fiscal accounts for the ECCU.

In 2010, the current fiscal deficit for the Bahamas widened to US$164.9 million, compared to an outturn of US$90.9 million in 2009. The impact of a 6.0 per cent decline in current revenue more than outweighed a marginal ease in current expenditure of 0.4 per cent. Significant containment of expenditure on goods and services of 13.8 per cent was hampered by growth of 17.9 per cent in interest commitments on government debt.

3.4.2 Overall Fiscal Balance

For the year ended December 2010, only Trinidad and Tobago among reporting countries registered an overall surplus on the fiscal accounts, moving from a deficit of US$1025.1 million (5.3 per cent of GDP) in December 2009 to a surplus of US$150.0 million (0.7 per cent of GDP) recorded in 2010. This performance is largely due to significant improvement in revenue intake as well as a drop in capital expenditure. All other reporting countries except Haiti reported narrowing fiscal deficits in December 2010 compared to the performance in 2009.



The overall fiscal deficit decreased by 1.1 per cent for Guyana to reach US$66.3 million as a result of stronger growth in revenue relative to expenditure. In like manner, the overall deficit for The Bahamas declined by 6.5 per cent, settling at US376.7 million at the end of 2010. This performance was partly due to expenditure containment in the procurement of goods and services and slower than anticipated implementation of the capital programme.

Barbados and Suriname both posted moderate reductions in the overall fiscal deficits of 13.6 per cent and 11.9 per cent respectively. The narrowed overall fiscal deficit in Barbados was mainly due to strong expenditure containment measures especially related to the implementation of the public sector investment programme which is estimated at approximately 42 per cent lower than expenditure levels in 2009.

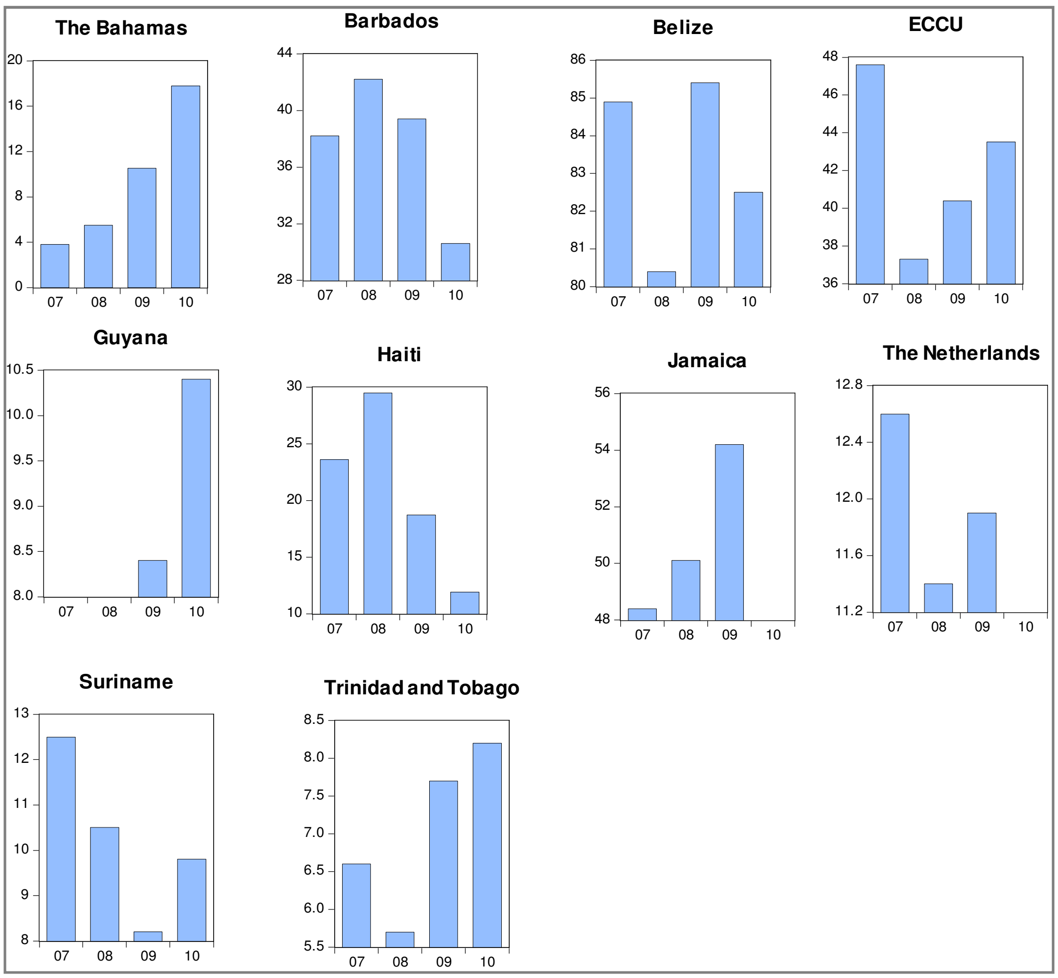
Stronger declines in the overall fiscal deficit were noted for the ECCU (68.2 per cent) and Belize (43.6 per cent). In Belize; the improved performance on the overall fiscal accounts can be attributed to an increase in revenue from taxes on domestic oil production, as both capital expenditure and current expenditure increased. Collections from general service tax increased albeit at a slower rate due to an increase in the number of zero rated items, while personal income tax declined as a result of tax relief extended to persons in lower income brackets. The ECCU posted an overall deficit of US$79.1 million down from US$248.8 million recorded in December 2009. The reduction in the overall fiscal deficit for the combined members of the ECCU was largely the result of a drop in capital expenditure, due to slow PSIP implementation and higher than expected grants in other countries. Improvements on the current side of the fiscal accounts also contributed to a reduction in the overall deficit.

During 2010, the overall fiscal deficit for Haiti widened, likely due to intensive implementation of the public sector investment programme consistent with rehabilitation efforts following the January 2010 earthquake.

3.4.3 Public Sector Debt

Foreign Debt

FIGURE 9: EXTERNAL DEBT TO GDP RATIO (PER CENT) OF CARICOM COUNTRIES

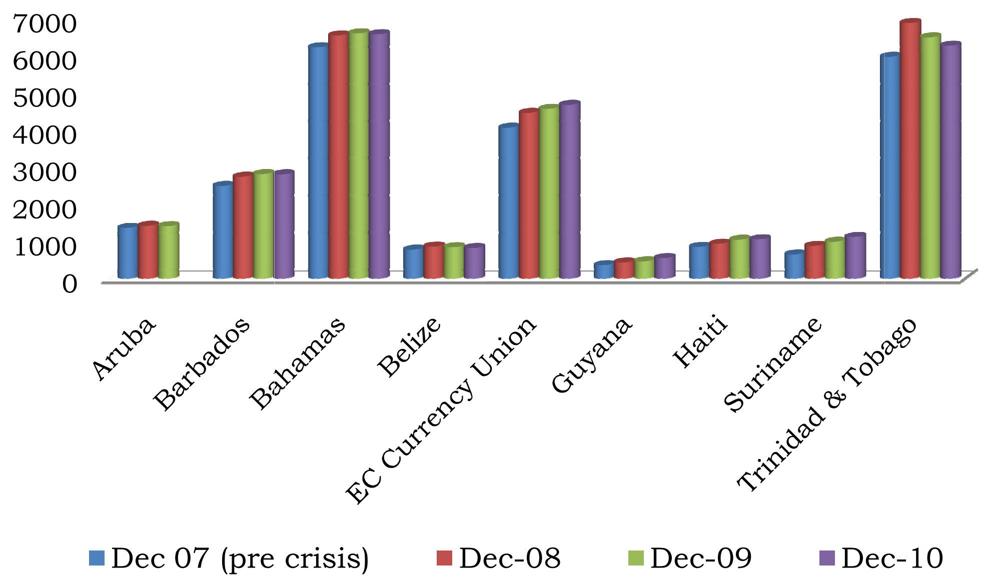


Most of the regional territories registered increases in external debt in 2010 in relation to the previous year (Figure 9). The highest increase in national debt was in The Bahamas (9.4 per cent), though the increase was less intensive compared to the previous year (21.4 per cent). Debt also increased in 2010 in ECCU (3.1 per cent), Guyana (2.0 per cent), Suriname (1.6 per cent), and Trinidad and Tobago (0.5 per cent). In contrast, debt decreased in Barbados (8.8 per cent), Haiti (6.8 per cent), and Belize (2.9 per cent).

Box 3: Private Sector Credit 2007-2010

While growth in credit to the private sector has been slow for most Caribbean countries in 2010, domestic credit to the private sector has risen beyond the levels obtained during the pre crisis period at the end of 2007. For most countries growth has been slow but steady over the period 2007 to 2010. For Trinidad and Tobago, however, private sector credit seemed to have peaked in 2008, and has been on a downward trend since then.

Domestic Credit 2007-2010 (USD Millions)



3.5 BANKING AND FINANCE

Financial and monetary conditions varied across the Caribbean during 2010 with most countries experiencing slow growth in private sector credit. While the pace of private sector lending was dampened, liquidity conditions ranged from high liquidity countries such as Trinidad and Tobago, Belize and Guyana that implemented policy measures aimed at easing liquidity, to Barbados which experienced a drop in liquidity in the banking system during 2010.

1. *Liquidity and Domestic Credit*

Domestic credit to the private sector as at December 2010 was slightly lower than the levels obtained in December 2009 for the following reporting countries: The Bahamas, Barbados, Belize and Trinidad and Tobago. Trinidad and Tobago posted a decline in domestic credit of 3.5 per cent to US$6263.1 million as at December 2010 - an improvement on the drop of 5.6 per cent recorded as at December 2009. The decline in domestic credit is consistent with minimal growth in output for the domestic economy during 2010, in contrast to a fall in output recorded for 2009. As a result of uncertainty on the international and domestic economy, business confidence remained low in 2010 resulting in sluggish growth of private sector credit and high levels of liquidity. Liquidity within the domestic banking system remained high in 2010 with excess reserves as a percentage of total deposit liabilities posted at 5.9 and 6.8 for the second and third quarters of the year. Consequently, the Central Bank in November 2010, in an attempt to reduce excess liquidity within the financial system, required that all commercial banks place deposits of US$1 billion in an interest bearing account with the Central Bank for 18 months.

Consistent with the slow pace of economic activity, the economy of Barbados registered a marginal decline of 0.18 per cent in credit to the private sector in December 2010 when compared to growth of 2.6 per cent obtained in December 2009. The decline in domestic credit was accompanied by a drop in liquidity within the banking system and an increase in the ratio of non-performing loans to total loans. Available data for Barbados suggest that domestic credit continued to decline during the first quarter of 2011. Similarly, private sector credit in The Bahamas fell slightly by 0.35 per cent in December 2010 compared to growth of just under one per cent in 2009. The weakness in private sector credit was accompanied by marginal improvement in credit quality indicators as, commercial banks wrote off some impaired loans. Liquidity in The Bahamas during 2010 was influenced by slower growth of credit as well as a one-off foreign currency inflow associated with capitalization of an international bank. Liquid assets of the banking system increased by US$314.3 million and exceeded the statutory minimum requirement by 85.4 per cent compared to 53.2 per cent in 2009.

Following a decline of 2.3 per cent in 2009, domestic credit to the private sector for Belize fell by 2.4 per cent in December 2010 to US$821.7 million. In spite of improvements in the pace of economic activity domestic credit declined in 2010 due to a substantial one-off loan repayment in the primary output sector, while net loan repayments in the tertiary sectors of tourism, finance and real estate also declined. Lethargic credit conditions as well as foreign exchange inflows resulted in a build-up of liquidity within the financial system, despite the implementation in May 2010 of a new securities requirement designed to mop up liquidity.[1] Data available for January 2011 suggest the presence of excess liquidity in the banking system mainly due to easing of private sector credit demand and a seasonal build-up of foreign assets within the banking system. Consistent with tightening economic conditions, the Central Bank reduced its interest rate on loans to commercial banks as well as the securities requirement in January 2011.

In contrast, Suriname and Guyana experienced significant growth in domestic credit to the private sector of 13.1 per cent and 18.9 per cent respectively when compared to the outturn in December 2009. In Suriname, growth in domestic credit for 2010 was

[1] From May 1st 2010 commercial banks in Belize are required to hold a minimum of 6.5 per cent of their average deposit liabilities in treasury bills.

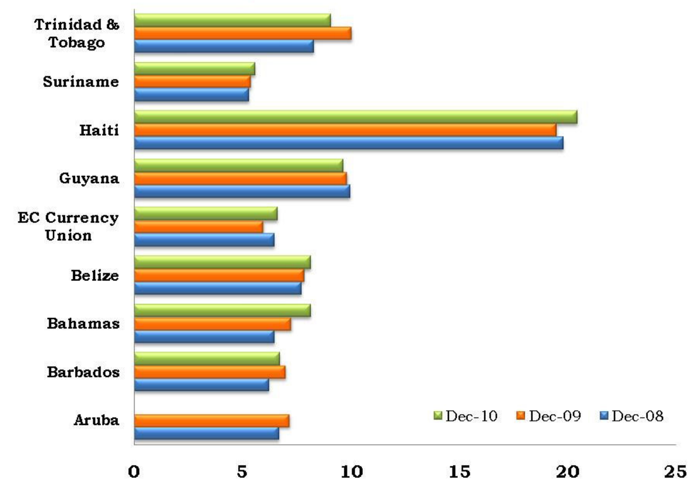
influenced by higher intake of treasury bills on the part of the financial sector, with commercial bank credit to central government increasing by about 132 per cent. Consequently, excess reserves of commercial banks held with the central bank declined. Similarly developments in domestic credit for Guyana reflected a 24.9 per cent increase in credit to the public sector. The financial sector remained relatively liquid as the Bank of Guyana utilized open market operations and foreign currency sales/purchases to manage liquidity conditions.

The ECCU and Haiti both registered slower growth in credit to the private sector of 2.3 per cent and 0.9 per cent respectively. Growth in credit to the private sector for the ECCU in 2010 was marginally slower than the pace recorded in 2009, reflecting the contraction in output on the real side of the economy. Liquidity within the commercial banking system eased during 2010 as the loans to deposit ratio dropped 2.1 percentage points to reach 88.6 per cent. Available data for the ECCU for the first quarter of 2011 suggest that output is likely to increase relative to the outturn in 2010 with likely positive developments for domestic credit. Private sector credit may have remained slow in Haiti for 2010 as individuals and businesses may not have adjusted in a post-earthquake environment. Thus, private sector credit may rebound in 2011, as the rebuilding process intensifies in the private sector.

2. *Interest Rates and Spreads*

The weighted average loan rate decreased for all reporting countries except Suriname and the Bahamas. Trinidad and Tobago registered the most significant decline of 153 basis points in the weighted average loan rate. The Central Bank, despite inflationary concerns, utilized the repo rate as a policy rate in the context of high liquidity to stimulate credit and economic activity. The repo rate was lowered by 25 basis points in February 2010, and this was followed by a gradual reduction totaling 125 basis points to 3.75 per cent between the period July to December 2010. The weighted average loan rate for commercial banks dropped 153 basis points while the average three month deposit rate fell by 64 basis points. As a result, average interest rate spread for Trinidad and Tobago narrowed by 98 basis points to 9.08 per cent by the end of December 2010. Worthy of note is the three month Treasury bill rate which dropped to a historical low of 0.28 per cent in October 2010 coming from 1.34 per cent at the beginning of the year.

Figure 10 : Commercial Bank Interest Rate Spreads , Dec. 2008 to Dec. 2010



The weighted average loan rate declined by 27 basis points to 9.49 per cent for Barbados while the average three month deposit rates remained steady at 2.65 per cent. This resulted in falling average interest rate spreads. The average rate on domestic three month Treasury bills edged downwards to reach 3.35 per cent by December 2010. Data for the first quarter of 2011 suggest that interest rates in Barbados may be turning upward, as the three month Treasury bill rate increased marginally to 3.45 per cent at the end of March 2011. The average interest rate spreads for Guyana decreased by 18 basis points reflecting a fall in the weighted average loan rate (22 basis points) and a marginal cut in the average three month deposit interest rate (4 basis points).

The average weighted average loan rates remained relatively unchanged for the ECCU and Belize decreasing by one and two basis points respectively. On the deposit side, the average three month deposit rate fell by 51 basis points for Belize and 62 basis points for the ECCU. In the ECCU, the average three month Treasury bill rate for 2010 stood at 5.08 per cent down 75 basis points from the 5.83 per cent obtained in 2009, while the average interest rate spread advanced by 62 basis points. Average interest rate spreads increased by 31 basis points to 8.17 per cent for Belize as average deposit rates fell faster than average lending rates.

During 2010, the weighted average loan interest rate for Haiti also dropped by 21 basis points to 20.96 per cent, while the average three month deposit rate dropped significantly by 116 basis points. This resulted in a widening of the average interest rate spreads by 95 basis points by the end of December 2010. The reduction in average deposit rates for Haiti may be associated with significant increases in deposits to the banking system during 2010 and the banks' response in an attempt to lower their cost of funds.

In The Bahamas, the weighted average loan rate advanced by 46 basis points to 11.05 per cent, and the average three month deposit rate also dropped by 36 basis points to 3.19 per cent in 2010. Consequently, the average interest rate spread widened by 81 basis points. During 2010, average domestic Treasury bill rate for The Bahamas also fell by 37 basis points to 2.44 per cent. Average loan rates, deposit rates and, by extension, interest rate spreads remained fairly stable for Suriname in December 2010, with the three month deposit rate decreasing by four basis points and the weighted average loan rate increasing by a mere one basis point.

3. *Banking Sector Deposits and Loans*

On a year-on-year basis ending December 2010 all reporting countries except Barbados and Trinidad and Tobago posted increases in total deposits of the banking system. Haiti, Guyana and Suriname all posted significant increases in total banking sector deposits.

In Haiti significant inflows of remittances and foreign aid would have boosted the level of banking system deposits by 32.5 in the post earthquake period. Consequently US dollar deposits grew by 34.5 per cent in December 2010 when compared to the value in December 2009. Total loans outstanding to the banking system dropped by 23.7 per cent likely due to high non-performing loans and consequent write-off of loans following the earthquake. In Guyana, higher foreign inflows on the current account of the balance of payments as well as a higher volume of trade were associated with the strong growth in banking sector deposits of 15.6 per cent. Total loans outstanding to the banking sector in Guyana grew by 15.8 per cent in 2010 consistent with a vigorous revival in output for 2010. In Suriname total banking sector deposits rose by 10.7 per cent reflective of moderate to strong output performance. Commensurate with the increase in deposits, total loans outstanding to the banking system increased by 10.4 per cent. US dollar denominated deposits within the banking system were augmented by approximately 3.7 per cent

During 2010, total banking sector deposits for the ECCU grew by 2.1 per cent to US$6211.2 million, while total loans outstanding for the banking sector decreased marginally by 0.23 per cent to US$5502.3 million. This performance mainly reflects the slow pace of economic activity during 2010. Total deposits of the banking system of The Bahamas grew by 2.4 per cent, with total loans outstanding increasing by 1.8 per cent perhaps reflecting the tepid recovery in the tourism sector for 2010.

The economy of Belize registered a minimal increase of 0.34 per cent in total deposits of the banking system in December 2010. In contrast, United States dollar denominated deposits declined by 2.3 per cent to US323 million. Total loans outstanding from the banking system fell by 2.4 per cent to US$880.9 million as a result of reduced demand for private sector credit.

In Barbados, total deposits of the banking system dropped by 14.7 per cent (on a year-on-year basis) to $472.5 million following a 16.3 per cent decline witnessed in December 2009. US dollar denominated deposits increased by 0.56 per cent to US$589.8 million. On a year-on-year basis total loans outstanding to the banking system increased by 4.17 per cent.

Total banking sector deposits in Trinidad and Tobago declined by 1.5 per cent in December 2010 when compared to the outturn in December 2009. US dollar denominated deposits declined by about 17.8 per cent. Total loans outstanding to the banking sector experienced a marginal decline of 0.68 per cent reflecting lethargic credit conditions. The pattern of falling deposits and sluggish credit growth may be explained by the existence of weak business and consumer confidence, where individuals and businesses postpone lending decisions and draw down on existing deposits to finance "necessary" activities.

3.6 EXTERNAL TRADE

3.6.1 External Current Account

Table 11: Growth in Trade in Goods and Services to Corresponding Quarter of Previous Year

		2009				2010			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Aruba	**Exports**	**(7.2)**	**(2.6)**	**(36.5)**	**(14.3)**	**3.8**	**(21.8)**		
	Imports	(36.0)	19.6	(41.1)	(11.3)	(14.3)	4.5		
The Bahamas	**Exports**	**(5.8)**	**4.2**	**(13.3)**	**(2.8)**	**18.8**	**4.8**	**(11.5)**	
	Imports	(16.3)	13.9	(4.2)	(7.0)	(6.6)	8.6	11.8	
Barbados	**Exports**	**(1.6)**	**39.7**	**(29.1)**	**8.2**	**(2.7)**	**35.1**	**(2.6)**	**(7.9)**
	Imports	(30.5)	4.2	7.3	8.7	(13.2)	7.7	7.6	6.5
Belize	**Exports**	**(11.7)**	**3.6**	**8.6**	**(0.5)**	**11.3**	**10.7**	**1.2**	**7.7**
	Imports	(23.2)	11.7	5.1	(7.3)	(12.7)	21.8	(0.4)	21.2
ECCU	**Exports**	**(12.4)**	**10.0**	**(11.4)**	**132.9**	**(12.8)**	**(46.4)**	**(11.6)**	**(7.0)**
	Imports	(20.0)	(11.8)	5.6	6.1	(6.8)	6.2	(5.4)	14.9
Guyana	**Exports**	**(51.2)**	**21.6**	**1.7**	**9.1**	**-17.3**	**23.4**	**(4.5)**	**34.7**
	Imports	(20.0)	(11.8)	5.6	6.1	(6.8)	6.2	(5.4)	14.9
Haiti	**Exports**	**(14.2)**	**(5.0)**	**40.1**	**0.1**	**(8.4)**	**(40.3)**	**83.8**	**7.8**
	Imports	(13.6)	(13.3)	5.3	12.4	(2.7)	17.4	37.4	(21.0)
Jamaica	**Exports**		**2.6**	**3.5**	**(17.0)**	**19.6**	**(13.1)**	**3.0**	**6.4**
	Imports		(6.7)	13.3	4.5	(12.8)	6.6	0.4	16.3
Netherland Antilles	**Exports**		**2.6**	**3.5**	**(17.0)**	**19.6**	**(13.1)**	**3.0**	**6.4**
	Imports		(4.4)	9.9	8.5	(7.6)	(4.1)	8.0	
Suriname	**Exports**						**(8.2)**	**(10.3)**	**29.7**
	Imports						3.5	6.5	1.3
Trinidad and Tobago	**Exports**	**(1.9)**	**(61.3)**	**(5.4)**	**29.1**	**45.8**	**(6.7)**	**(16.8)**	
	Imports	(25.1)	15.6	(3.8)	11.8	(27.5)	(14.0)	-5.5	

CARICOM member countries recorded an improved balance of payments performance in 2010 compared to 2009. The improved performances were either in terms of increased surpluses or reduced deficits compared to the previous year. The countries showing stronger surpluses were Barbados, Suriname and Trinidad and Tobago, while the territories recording lower deficits were Belize, ECCU and Jamaica. Suriname recorded the greatest improvement in the external current account balance as it was 17.1 per cent of GDP in 2010, compared to 3.4 per cent of GDP in 2009. This was followed by Trinidad and Tobago, where the external current account balance was 14.1 per cent in 2010, compared to 8.2 per cent in 2009. For the countries which recorded deficits, Belize managed to record a narrower deficit of 2.8 per cent in 2010 when compared to its deficit of 7.8 per cent in 2009. The ECCU recorded a narrower deficit of 18.3 per cent in 2010 compared to 21.8 per cent in 2009.

The improved external current account performances were not supported by firm and stable performances in various sectors. Tourism fluctuated in each economy in terms of its growth performances in each quarter for 2010 compared to the corresponding quarter of the previous year. The best quarter was the first quarter for 2009 where all the territories were able to show improved performances compared to the same quarter for 2008. Similarly the first quarter of 2010 represented the best performance in tourism receipts for all territories except for Guyana. Within the second and third quarters for 2010 territories recorded negative growth in tourism revenues.

Table 13: Growth in Tourism Revenue Compared to Corresponding Quarters of Previous Year

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Aruba	2.7	(21.5)	3.0	11.5	14.1	(20.0)		
The Bahamas	16.4	0.3	(19.0)	(4.8)	38.0	(1.1)	(13.9)	
Barbados	11.6	(29.6)	5.6	8.4	30.3	(29.8)	(4.0)	0.4
Belize	31.1	(19.0)	(19.9)	16.3	43.2	(25.8)	(17.5)	13.1
Guyana	51.6	69.0	(29.8)	40.0	(39.8)	250.5	8.8	15.8
Netherland Antilles		(32.3)	(4.8)	27.6	19.1	(23.2)	(1.9)	
Trinidad and Tobago	10.5	17.7	43.5	(52.0)	96.7	(8.1)	(19.4)	

Growth in the minerals and fuel sector was most stable in Guyana, where it recorded three consecutive quarters, second to fourth quarters, of positive growth. Notwithstanding this, Guyana was the only territory to record negative growth in that sector for the first quarter of 2010. In contrast, The Bahamas, Jamaica and Trinidad and Tobago recorded strong first quarter growth in this sector. However, the growth performances in this sector were not maintained.

Table 14: Growth in Minerals and Fuels Compared to Corresponding Quarter of Previous Year

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
The Bahamas	(23.5)	(21.5)	66.9	(3.8)	41.0	(13.1)	(22.8)	
Guyana	(28.9)	4.7	11.7	11.4	(15.2)	26.5	7.6	8.4
Jamaica		(9.5)	(8.0)	(30.6)	186.9	(31.6)	(23.3)	(13.5)
Trinidad and Tobago	14.1	(67.9)	(18.3)	41.5	71.2	(23.4)		

The fourth quarter of 2010 showed strongest signs of recovery for manufacturing as growth in that sector ranged from 0.7 per cent in the case of Guyana to 19.1 per cent in the case of Jamaica. Data were not available for all the quarters for The Bahamas and Trinidad and Tobago, but they both showed signs of recovery as they recorded positive growth in the quarters for which data were available.

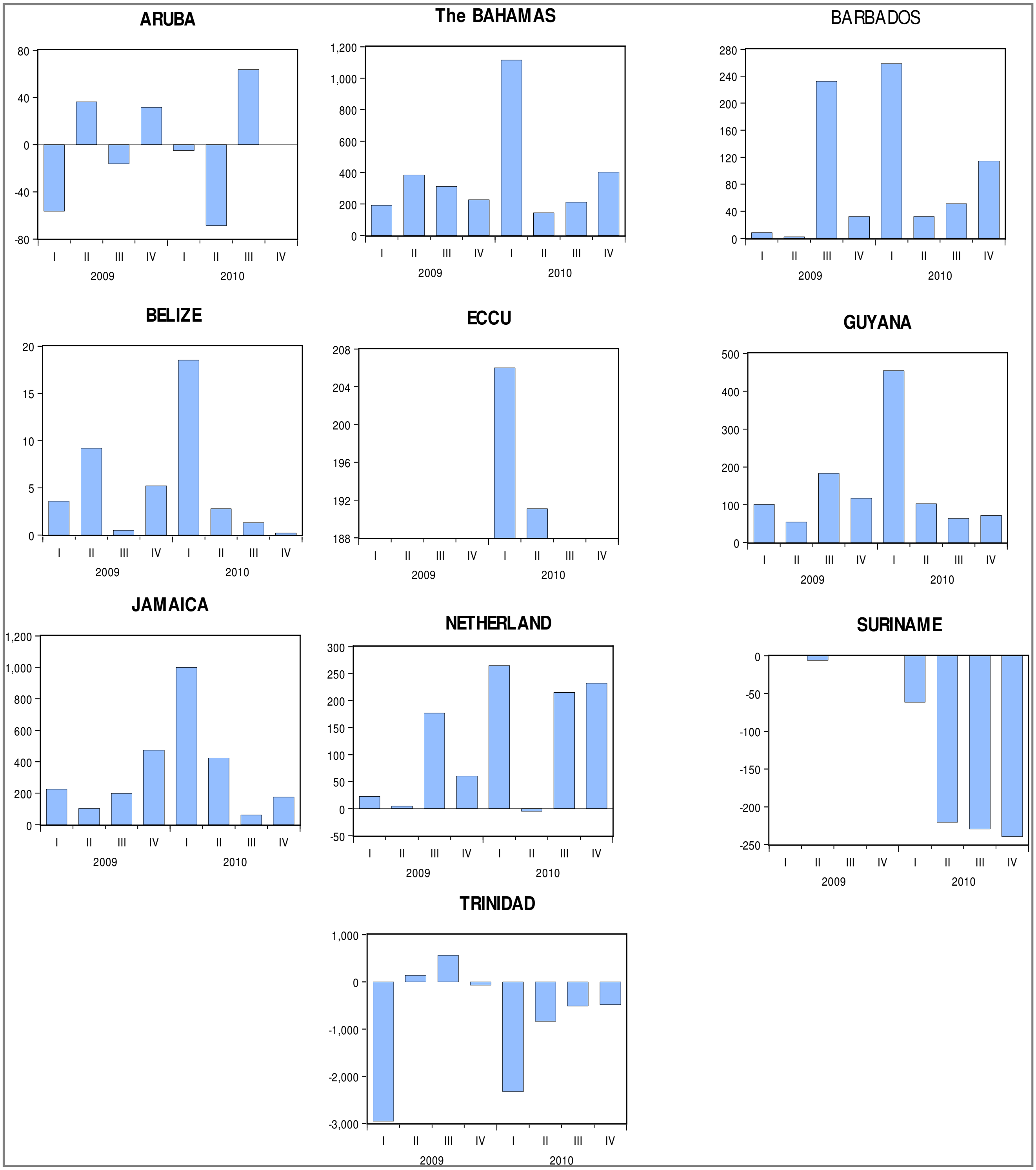
Table 15: Growth of Manufacturing compared to corresponding quarter of previous year

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
The Bahamas	(32.6)	4.5	(40.5)	(42.1)	31.5	4.5	2.4	
Barbados	93.8	47.9	(28.6)	6.8	(5.9)	42.4	(8.3)	1.7
Guyana	(70.0)	17.6	(0.5)	21.9	28.8	4.4	(1.1)	0.7
Haiti	(14.3)	(5.8)	36.6	4.3	(8.2)	(42.2)	86.0	9.7
Jamaica		439.3	(64.9)	(56.6)	473.9	(18.2)	(13.0)	19.1
Trinidad and Tobago	(31.5)	(65.7)	128.4	(3.0)	21.0	42.1		

3.6.2 External Capital Account

External capital flows peaked in terms of absolute US dollars for the first quarter of 2010 compared to other quarters in 2009 for most territories, in particular, The Bahamas, Barbados, Belize, ECCU, Guyana, Jamaica and the Netherland Antilles. This stemmed from the fact that external borrowing rose in the first quarter of 2010, given weak FDI inflows and other capital inflows which occurred in the previous year. Net capital outflows continued in Suriname and Trinidad and Tobago, though in the latter it weakened progressively over the course of 2010, while in Suriname the reverse was evident as it picked up during the year.

Figure 11: Capital Flows of CARICOM Countries

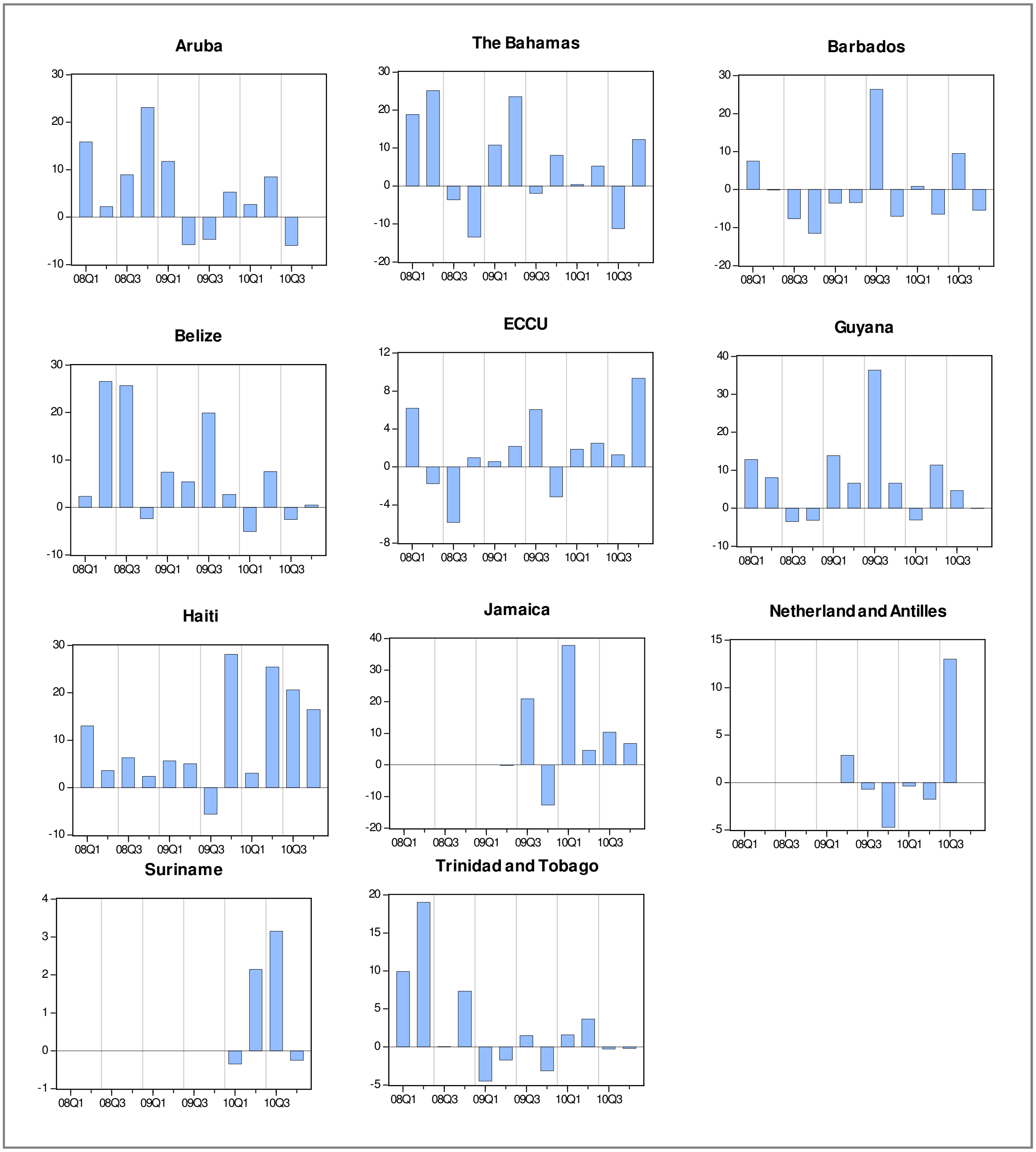


3.6.3 Growth in Foreign Exchange Reserves

Quarterly growth of foreign exchange reserves was largely subdued in most regional economies. Most territories had to resort to using foreign exchange reserves for at least three quarters between the second quarter of 2008 to the end of 2010. These territories were Aruba, The Bahamas, Barbados, Belize, ECCU, Guyana, Netherland Antilles and Trinidad and Tobago. Haiti was an exception as it recorded more consistent growth in foreign exchange reserves as growth was negative for only one quarter for the period 2007 to 2010. Besides Haiti, consistent growth in foreign exchange was also recorded by the ECCU and Jamaica in 2010.

Haiti and Jamaica did not withdraw from their reserves during the year 2010. However, most other territories dipped into their external reserves in two quarters for the year 2010. In the second and fourth quarters, Barbados used 6.48 and 5.43 per cent of its foreign exchange reserves respectively. Belize dipped twice into its foreign exchange reserves in the first and second quarters using 5.1 and 2.51 per cent respectively. In the case of The Netherland Antilles reserves were withdrawn in the first and second quarters by 0.38 and 1.78 per cent respectively. Suriname withdrew 0.35 and 0.25 per cent of its reserves in the first and fourth quarters respectively. Similarly Trinidad and Tobago marginally dipped into its reserves in the third and fourth quarters, withdrawing 0.27 and 0.18 per cent respectively. The territories withdrawing once from their foreign exchange reserves were Aruba (5.97 per cent in the third quarter) and The Bahamas (11.22 per cent) also in the third quarter.

Figure 12: Quarterly Growth of Foreign Exchange



4.0 CARIBBEAN ECONOMIC PROSPECTS

Table 16 : Caribbean Growth Prospects

Country	Actual		Projections	
	2009	**2010**	**2011**	**2012**
Antigua and Barbuda	-8.9	-4.1	3.1	2.5
The Bahamas	-4.3	0.5	1.3	2.3
Barbados	-4.7	-0.5	2.0	2.5
Belize	0.0	2.0	2.3	2.5
Dominica	-0.3	1.0	1.6	2.5
Grenada	-7.6	-1.4	1.0	2.8
Guyana	3.3	3.6	4.7	5.9
Haiti	2.9	-5.1	8.6	8.8
Jamaica	-3.0	-1.1	1.6	2.4
St. Kitts and Nevis	-9.6	-1.5	1.5	1.5
St Lucia	-3.6	0.8	4.2	3.9
St Vincent and the Grenadines	-1.1	-2.3	2.5	2.5
Suriname	3.1	4.4	5.0	5.0
Trinidad and Tobago	-3.5	0.0	2.2	2.4
Regional Average	**-2.7**	**-0.3**	**3.0**	**3.4**

Source: IMF, Global Economic Prospects April 2011.

The prospects for growth in the Caribbean hinge on developments in the global economy. In particular, the fortunes of the Caribbean are closely linked to those of developed market economies which are the major source markets for tourists and financing. Developments in commodity markets are also critical since many countries in the region are significant commodity producers and the vast majority are net importers of energy supplies, facts which have huge import for their external accounts. Given that growth is recovering but at a slower pace in advanced economies, especially in Europe given the sovereign debt and banking sector weaknesses in many countries, growth in many Caribbean jurisdictions in the near term would increase as the global recovery gathers pace but growth will tend to be on the low side for many countries especially those dependent on tourism. Additionally, oil prices have risen and although they are not close to the highs recorded in the pre-crisis period they are still relatively high and are expected to remain in the band US$70-90 per barrel for a long period and to spike above this band driven by events affecting the supply side. This implies further pressure on the external accounts for many countries which are already vulnerable in this area.

The outlook for most countries is for cautious optimism that their growth performance would improve in all jurisdictions in 2011 based on the recovering global economy. Based on IMF estimates the average growth for the region is expected to improve from -0.3 per cent in 2010 to 3.0 per cent in 2011 with further strengthening in 2012. Antigua and Barbuda, Guyana, Haiti, St. Lucia and Suriname are expected to record growth in excess of 3 per cent in 2011 (see Table 16). A combination of improvements in the tourism sector in countries such as The Bahamas, Barbados, ECCU countries and Jamaica, as well as increased commodity prices in Belize, Guyana, Suriname and Trinidad and Tobago, are expected to be the main drivers of this recovery. The lack of fiscal space and the need for fiscal consolidation has hampered growth in Jamaica while disbursements from aid agencies for reconstruction will be the main driver of growth in Haiti in 2011.

5.0 APPENDIX

CARICOM COUNTRY REPORTS

Aruba

(Monthly Bulletin March 2011 – Central Bank of Aruba)

Monetary developments

In March 2011, the money supply expanded by Afl. 10.3 million to Afl. 3,174.1 million, due to an Afl. 12.3 million increase in the net domestic assets. However, an Afl. 1.9 million net outflow of foreign funds slightly offset this increase. As a consequence, net foreign assets (excluding revaluation differences of gold and foreign exchange holdings) fell to Afl. 1,330.8 million, which is Afl. 189.5 million less (-12.5 percent) than the amount recorded for the corresponding month of 2010. An Afl. 23.4 million decline in government deposits was the main contributing factor for the expansion in the net domestic sets, along with an Afl. 2.9 million contraction in development funds. Claims on the private sector fell by Afl. 12.4 million, associated with reductions in both consumer credit (-Afl. 4.7 million) and credit to enterprises (-Afl. 9.6 million). Housing mortgages, which have been on a continuous rise since May of last year, grew by Afl. 2.2 million or 0.25 percent to a total of Afl. 881.5 million. This amount is Afl. 56.1 million or 6.8 percent more than the amount registered as per the end of March 2010 Total commercial bank credit to the private sector over the first three months of 2011 fell by 0.6 percent. Government bond holdings by the commercial banks also declined by 0.6 percent in this period. The interest rate margin rose by 1.2 percentage points to 8.8 percent for the month under review, due to rising interest rates on commercial loans. The rate on commercial mortgages grew by 0.9 percentage points and that of other commercial loans rose by 2.6 percentage points for the month of March.

Inflation

The consumer price index (CPI) for March 2011 registered a 1.3 percent increase compared to the same month of 2010 (Chart 2). This elevation is associated for the most part with the upward movement in the prices of food (an effect of +0.4 percent) and transport (+0.7 percent). The latter is a result of higher gasoline prices amid rising oil prices. When excluding the effects of energy and food components, the CPI shows a rise of 0.6 percent. The 12-month average inflation rate, an indicator of price movements on the longer term, reached 0.9 percent in March 2011 (Chart 3). When subtracting the energy and food components from the 12-month average rate, consumer prices reveal a 0.5 percent decline. This indicates that prices in general remained relatively stable.

Tourism

Tourism arrivals for the month of March decreased by 0.1 percent in comparison to the corresponding month of 2010. This could, for the most part, be attributed to declines in tourist arrivals from the United States (-6.5 percent), Venezuela (-9.3 percent), and Europe (-2.1 percent). Thanks to increased airlift from Brazil, Latin America overall recorded a rise of 4.6 percent to 11,051 tourist arrivals. For the same reason,

the Canadian market also performed remarkably well in March and increased to 6,546 (+47.5 percent). Total stay-over visitors for the first quarter of 2011 grew by 2.2 percent when compared to corresponding period of the previous year. The number of cruise passengers registered a significant growth of 32,840 (+42.4 percent) to 110,363 persons compared
to the same month of 2010, due to the upturn in the number of ship calls to a total of 60 calls (+46.3 percent). According to provisional balance of payments data, tourism receipts for the month of arch[2] augmented by Afl. 16.2 million (+8.5 percent) to Afl. 207.8 million compared to the corresponding month of 2010.

Government Revenue

In March 2011, government revenue showed a contraction of Afl. 9.6 million (-11.1 percent) to a total of Afl. 76.6 million, when compared to March of the previous year. This was for the most part associated with declines in nontax revenue (-Afl. 15.4 million), along with income from taxes on property (-Afl. 1.9 million), and from taxes on services (-Afl. 3.8 million). The tourist levy produced a total of Afl. 6.3 million in revenue, which exceeds that from the hotel room tax (Afl. 3.8 million) of the corresponding month of 2010, a rise that could in part be explained by an increase in the rates.
Although overall government revenue decreased, tax income expanded by Afl. 5.8 million (+8.8 percent) when compared to the same month of the previous year. This expansion occurred in spite of a loss in tax revenues due to the change of the hotel room tax to a tourist levy, and the subsequent removal of hotel room tax recording as a government tax revenue component. This growth in tax revenues can be attributed to larger receipts from the profit tax and the excises on gasoline of, respectively, Afl. 5.1 million and Afl. 4.5 million. In addition, turnover tax revenue registered a growth of 9.7 percent to a total of Afl. 6.8 million when compared to March of last year. All in all, the higher revenues from both the turnover tax and the profit tax, together with the increase in the tourism levy, give an indication that the Aruban economy is on a recovery path.

[2] These comprise the tourism receipts registered by the commercial banks only and the Central Bank van Aruba.

The Bahamas

(The Central Bank of The Bahamas – 2010 Annual Report and Statements of Accounts)

Indications are that the domestic economy stabilized in 2010, in comparison to 2009, when the adverse effects of the global recession led to a 4.3 per cent contraction in output (see Table 5). Favourable developments in the key tourism sector were mainly responsible for the improved economic momentum, as a number of private/public sector initiatives, combined with sustained growth in the key source markets, buoyed broad-based gains in both stopover and cruise arrivals. However, weakness persisted in other sectors, including construction, as both private sector and foreign investment projects stayed below pre-recession levels. Against this background, unemployment rates remained elevated while domestic infl ation was subdued—although fuel costs increased significantly, due to higher international crude oil prices.

Amid the softness in domestic demand, Government's tax revenue performance for FY2009/10 remained well below projections, with weakness concentrated in the heavily weighted international trade category. However, modest contractions in spending supported an improvement in the estimated overall deficit to 4.6 per cent of GDP from 4.9 per cent in the previous period—although exceeding the 3.9 per cent budget estimate. Although tax revenues firmed in the first six months of FY2010/11, the overall deficit expanded by 0.5 percentage points to 2.9 per cent of GDP, owing to a sharp contraction in non-tax receipts, following a significant one-time transaction in the previous fiscal period. These developments, inclusive of Government Guaranteed liabilities, resulted in the National Debt advancing to 56.4 per cent of GDP at end-December 2010 from 52.9 per cent a year earlier.

In monetary developments,both liquidity and external reserves registered notable gains, in the context of weak consumer demand and several extraordinary foreign currency receipts. External reserves grew to an estimated 21.7 weeks of non-oil merchandise imports, compared to 20.8 weeks in 2009. Credit expansion was primarily fuelled by Government's increased budgetary requirement, while private sector credit growth remained anaemic. Banks'profitability contracted marginally over the twelve-month period to September, refl ect-ing lower interest income, an increase in provisions against loan losses and higher operating costs. However, a reversal in non-core transactions to a net earnings gain slowed the fall off in net income to a fraction of the previous year's contraction. With no broad-based improvement in borrowers'capacity to service their debt, the deterioration in banks' credit quality continued, although the rate of growth in delinquent and non-performing loans slowed considerably over the previous year.

Buoyed by a tourism-led expansion in the services account surplus, the current account deficit narrowed in 2010 by 0.6 of a percentage point to 11.5 per cent of GDP. By contrast, a decline in Government's foreign currency borrowings offset a capital-led increase in direct investment, to result in a slight narrowing of the capital account surplus.

The Bahamas: DOMESTIC ECONOMIC OUTLOOK FOR 2011

The domestic economic recovery is expected to gain some momentum in 2011, amid the ongoing

improvements in developed markets, which should provide further gains for the tourism sector—particularly the high value-added stopover component. In addition, construction activity, which was supported by the public sector over the last two years, should strengthen as a result of the commencement of several varied-scaled foreign investment projects. These developments will eventually have spill over effects on other real sector activity over the medium term thereby broadening the favourable impact on employment conditions. Infl ationary pressures are likely to
increase, amid the upward trajectory in fuel costs, which has occurred as a result of the global recovery and political tensions in a major oil producing region. In particular, the transportation and energy sectors, whose costs are directly correlated with international fuel prices, are expected to be significantly affected.

Government's near-term fi scal performance is anticipated to be impacted by a number of significant one-off revenue infl ows, which should provide some support for the overall defi cit. However, medium-term prospects will depend on the extent of the economic recovery, as well as the measures implemented to increase revenue and restrain growth in expenditure.

The outturn for the external account balance will be infl uenced by ongoing oil price developments and the usual hikes in non-oil imports occasioned by elevated levels of FDI activity. Some offset should be provided by tourism led gains in the services account surplus, as a result of the projected expansion in the tourism sector. With the anticipated net infl ows related to foreign investment activity and one-time payments, the capital account surplus should improve.

On the monetary side, liquidity conditions are expected to remain relatively buoyant over the year. Key influences are the anticipated measured recovery in domestic demand, which is still constrained by a combination of the general weakness in economic activity and both high unemployment and consumer indebtedness. This environment, along with anticipated foreign investment inflows, should help to maintain external reserves at levels above international benchmarks.

BARBADOS

(Economic Review – March 2011: Central Bank of Barbados)

The winter tourist season has been encouraging, with a significant rebound in tourist arrivals from the UK and the US. This was the main cause of the growth of real GDP in the first quarter, estimated at 2.8 percent. The stock of international reserves stood at $1,474 million at the end of
March 2011, $20 million above that recorded at the end of 2010, and equivalent to approximately 20 weeks of imports of goods and services. However, as a result of soaring international oil and commodity prices, the average rate of inflation for the 12 months ending January 2011 increased to 6 percent. The unemployment rate for the last quarter of 2010, which has now become available, was 10.5 percent.

Marketing efforts and incentives directed to the UK market appear to have paid dividends, and arrivals from the UK posted growth of 15 percent. The announcement of a temporary freeze in further increases in the UK's air passenger duty removes a potential threat to recovery in this market. Arrivals from the US grew 7 percent, aided by additional airlift capacity from the southern region. However, arrivals from Canada fell slightly, largely because of competition from Mexico.

The West Indies Cricket Board's T20 tournament may have been instrumental in boosting regional arrivals in January, but relatively high airline prices have continued to hamper travel within the Caribbean. Arrivals from the region fell by 2.1 percent in February. Cruise arrivals increased by an average of 1.5 percent over January and February; however cruise has represented only 18 percent of total tourist days for the year thus far[3]. Overall, travel receipts are estimated to have grown by $49 million, 7 percent more than the earnings received during the first three months of 2010.

The number of active companies in the International Business and Financial Services Sector at the end of March 2011 was 2,411, a 6 percent increase compared to March 2010. Private capital inflows were significantly higher than in the corresponding period of 2010. The main reason was the transfer of funds associated with the sale of shares in the Barbados Light and Power Co. Ltd. to EMERA Inc.

Tourism receipts contributed 60 percent of foreign exchange inflows in the first quarter, with other services, mainly international business and financial services, contributing a further 12 percent. Other significant contributors to foreign exchange earnings were chemicals (2 percent), and crude oil and rum (about 1 percent each). The sugar industry is expected to contribute more foreign exchange earnings during 2011, as a better harvest should result from higher yields than in 2010.

Foreign exchange earnings fell short of import demand by an estimated $45 million. Imports of consumer goods rose 15 percent, largely reflecting the rise in world commodity prices, which were 34 percent higher than in February of 2010. Oil prices were 37 percent higher on average than for the first quarter of 2010, driving up imports of fuels by 19 percent. Imports of machinery and other capital goods rose 12 percent.

[3] Tourist days are the number of tourist multipled by the avergae number of days each vistor spends in Barbados.

Indicators of construction activity, and mining and quarrying, recently updated to the end of 2010, showed an improvement in the latter half of the year. As a result, the estimated outcome for real GDP in 2010 is now a positive 0.3 percent, as opposed to the negative 0.4 percent estimated earlier on the basis of partial data.

The Retail Price Index for the 12 months ending in January 2011 was 6 percent higher than a year earlier, a slight acceleration from December (5.8 percent) and January 2010 (4.5 percent). The recent surge in international oil and commodity prices, coupled with the fiscal measures from the 2010/11 Budget, were the main factors accounting for the rise in prices of food (2.3 percent), transport (0.9 percent), housing (0.7 percent), fuel and light (0.4 percent) and household operations and supplies (0.5 percent). These are the average values of price indices in the 12 months ending in January 2011, compared with the 12 months ending January 2010.

The level of unemployment declined from 11.2 percent in September to 10.5 percent in December, but remained 0.5 percentage points higher than at the end of 2009. The average rate of of unemployment for all of 2010 was 10.8 percent, compared with 10.0 percent in 2009.

Preliminary estimates suggest an improvement of $90 million in the fiscal defiocit compared to 2009/2010 fiscal year, equivalent to a 1.6 percent reduction of the fiscal deficit to GDP.

Tax revenue grew by 4 per cent over the fiscal year largely due to chnages in tax rate announces in the 2010/11 Budget[4], especially VAT revenues, which grew by 13 percent . Government income from personal income taxes picked up by 2 percent, while corporate taxes fell for the thrid consective year, by 11 percent.

Reflecting the self-imposed restraints of Government's Medium Term Fiscal Strategy (MTFS), capital expenditure fell by 34 percent , and expenditures on wages and salaries declined by 3 percent. However, pensions and transfers to corporations, including the UWI, increased 5 per cent. As a result of the additional debt incurred, interest payments increased by 10 percent.

Government finded the deficit mainly from domestiv sources. The National Insurance Scheme supplied 44 percent of the required finanaicng, while private nonbank entities supplied 34 percent. Foregin inflows, primarly from the captial market and policy loans, provided another 40 percent. The Central Bank was therefore able to reduce its net lending to Government by the equivalent of 8 percent of its deficit.Net credit from commercila banks was also down, by the equivalent of 9 percent of the deficit.

As a result of these financing flows, Governments external debt outstanding increased by $262 million relative to the 2009/2010 fiscal year, while the domestic portion grew by $642 million. This translated into an increase in the general government Debt-to-GDP ratio from 51 percent to 56 percent after accounting for NIS holdings and Government deposits.

[4] Some of the tax chnages that took effect during the period under review were: an increase in VAT from 15 per cent to 17.5 per cent beginning December 1, 2010; the elimination of tax free allowances for travelling and entertainment for employees beginning January 1, 2011; an increase in the excise tax on gasoline by 50 per cent; and an increase in the various fees charged for services performed by the immigration department.

Credit to the private sector declined by 2 percent, and commercial banks' domestic deposits grew by 3 percent resulting in an increase in the excess liquidity ratio from 9 percent to 10 percent. The interest rate on 3-month treasury bills increased marginally, from 3.35 percent to 3.45 percent.

Based on the apparent recovery in tourism in the winter season, the industry is expected to grow in real terms by in excess of 3 percent in 2011, provided the summer season also recovers from the doldrums. However, tax revenues from the international business and financial sector remain depressed. On the basis of these and other indicators, overall growth for 2011 of a little more than 2 percent remains possible. Inflation is expected to continue to accelerate, under pressure of international oil and commodity prices. In January, the IMF expected oil prices in 2011 to average US$90 per barrel, and commodity prices to be 11 percent higher[5]. With the adverse effect of political uncertainty in the Middle East, the IMF's new projections, due to be issued this week, are expected to be much higher. Foreign exchange reserves should end the year around the

same level as at December 2010, provided Government continues on the trajectory of the Medium Term Fiscal Strategy, and provided anticipated foreign direct investment materialises as expected.

[5] See IMF, WEO Update, January 2011,www.imf.org

BELIZE

(Monthly Economic Review – January 2011: Central Bank of Belize)

Monetary and Finacial Sector Developments

The broad measure of money supply (M2) increased by 0.6 per cent in January as a 3.8 per cent rise in net foreign assets outweighed a 0.6 per cent decline in net domestic credit.

The expansion in net foreign assets reflected a $31.3mn growth in net holdings of commercial banks as those of the Central Bank declined by $7.7mn. Higher inflows from CFZ sales, domestic exports and tourism were the principal drivers facilitating a $28.9mn improvement in commercial banks' foreign assets and $2.4mn repayment of their foreign liabilities. Central Bank's foreign assets declined by 7.9mn, with inflows of $8.0mn and outflows of $15.9mn that included $11.6mn in sales to Central Government, of which $8.7mn was for external debt servicing. At the end of January, gross international reserves stood at $424.0mn, a $12.0mn decline from December 2010.

Net domestic credit fell by $11.0mn mostly reflecting a $9.9mn contraction in private sector borrowings. Net repayments on personal loans of $5.0mn led the credit declines which were across all sectors. Lending to the primary sector fell by $1.9mn as repayments by entities engaged in mining & exploration as well as marine and sugarcane production outweighed new loans to citrus and other agricultural producers. The $1.6mn reduction in secondary sector credit reflected a $2.2mn decrease in credit to manufacturers. Credit to the tertiary sector also fell by $1.6mn as net repayments by financial institutions and entities involved in real estate activities,
professional services and tourism outweighed increased borrowing by businesses involved in distribution and transportation.

During January, loans and advances by the five largest credit unions fell by $0.8mn as repayments mostly by entities engaged in real estate activities overshadowed increased lending to individuals and entities engaged in construction and manufacturing.

Net domestic credit to Central Government also fell by $0.9mn with lower financing from commercial banks and the Central Bank of $0.7mn and $0.2mn, respectively. The former was attributable to commercial banks lowering their holdings of Treasury bills. The transfer by Central Government of BNE's tax and royalty payments from the overdraft to a debt service escrow account was largely responsible for an $11.0mn increase in the overdraft and an offsetting $11.7mn growth in deposits.

On January 1, 2010, the Central Bank further lowered the commercial banks' securities' requirement from 6.5 per cent of average deposit liabilities to 5.0 per cent, which effectively reduced their mandated Treasury bill holdings from $128.3mn to $97.7mn. The new measure was aimed at increasing the amount of competition among financial institutions, which are the major investors in domestic securities. Even though the securities' requirement was reduced by 30.6mn, commercial banks decreased their Treasury bill holdings by only $0.5mn to $152.5mn at the end of January.

In another development, the Central Bank reduced its interest rate on loans granted to local commercial banks in its capacity as lender of last resort, from 18.0 per cent to 11.0 per cent per annum, eff ecti ve 1 February 2011. The downward adjustment of the rate was to bring it into greater alignment with current economic conditions in the domesti c economy and the country's main international trading partners.

Notwithstanding a 4.5 per cent dip during the month, excess liquidity at the end of the month was 41.8 per cent higher than 2010's January positi on. Slackened private sector credit demand and the seasonal build-up in commercial banks'foreign assets underpinned the $153.0mn in excess liquidity, which was 34.0 per cent above the required level. While excess cash reserves fell by 12.2 per cent to $53.1mn, it remained some 31.9 per cent above the required level.

During January, the weighted average interest rate spread widened by 9 basis points, with decreases of 10 basis points to 5.51 per cent in the weighted average deposit rate and 2 basis points to 13.76 per cent in the weighted average lending rate.

On March 2, Treasury bill issue 4/2011, valued at $35.6mn, was rolled over. The issue was over-subscribed and out of the 5 insti tuti ons that tendered, four were successful in obtaining the amounts requested. The average yield for the issue fell to 2.46454 per cent, compared to the 2.49371 per cent of issue 3/2011. As a consequence, commercial banks' holdings of Treasury bills declined by $0.5mn, bringing their holdings in excess of the statutory requirement to $54.8mn as at the end of January.

Real Sector Decelopments

Review of 2010

Led by a resurgence in the service sector, the economy rebounded in 2010 with GDP growth in real terms of 2.9 per cent. A recovery in the global economy underpinned increased trade and tourism acti vity, so 'Wholesale and Retail Trade', 'Hotels and Restaurants' and 'Transport and Communicati ons" grew by 6.2 per cent, 5.5 per cent and 2.9 per cent, respecti vely. A two year decline in stay-over tourist arrivals was reversed with growth of 2.2 per cent in 2010, while cruise ship disembarkati ons rose by 8.4 per cent with the successful marketi ng of short haul trips by the cruise lines. Public sector acti viti es such as the 2010 Populati on Census increased the value added from 'Government Services', while a modest growth in the secondary sector reflected a strong boost in 'Electricity and Water' arising from the expansion in electricity generati on capacity that offset a contraction in manufacturing mostly due to lower oil producti on from the Spanish Lookout field.The primary sector experienced marginal growth as increased agricultural activities outweighed declines in fishing.

Annual imports grew by 5.8 per cent to $1.4bn, as a 67.8 per cent increase in imports for the Corozal Free Zone eclipsed a 40.0 per cent decline in imports of Export Processing Zone companies that was linked to lower farmed shrimp and fish producti on. Imports for domesti c consumpti on rose by 1.2 per cent, refl ecti ve largely of a 10.1 per cent increase in 'Mineral Fuels & Lubricants' that was partly due to the surge in fuel acquisition costs. The latt er was the main source of inflationary pressure in 2010 as the annual average inflation was 0.9 per cent, compared to the 1.1 per cent deflation of 2009.

Overview of 2011

Production for 2011 commenced on a high note with increased output of some major export commodities,petroleum being an excepti on. Producti on of sugarcane, sugar, citrus and banana recorded double digit growth in January when compared to the same month in 2010. The upswing in producti on was matched by an upturn in the export revenues of these commoditi es with higher volume boosting banana and sugar revenues, while better prices were responsible for the increased receipts from petroleum and citrus.

Excluding land arrivals from the northern border which are not yet available, arrivals of stay-over tourists increased by 2.9 per cent as visitors through the sea and international airport grew by 24.3 per cent and 2.6 per cent respecti vely, when compared to January 2010. Cruise disembarkati ons fell by 32.4 per cent to 57,452 as the number of port calls fell to 26 compared to the 38 calls recorded in January 2010. This steep decline in a peak cruise month was due to the deliberate cancellations of port calls by Carnival Cruise Line that was sparked by contenti ons with local tender operators. The controversy involved the insistence by the cruise line on using tenders at a specifi ed price per head with a minimum capacity of 150 persons that is much larger than the facilities currently off ered by domestic operators.

ECCU

(ECCU Economic review 2010 and First Quarter 2011 – ECCB)

Economic Developments in 2010 and Q1 of 2011

The ECCU recorded a second consecutive year of negative growth in 2010 when real output contracted by 2.7 per cent, following a decline of 5.6 per cent in 2009. Weak external demand for goods and services, reduction in public sector capital spending as well as tourism related foreign direct investment (FDI) combined with unfavourable weather were the main factors contributing to the downturn in real economic activity. Economic activity contracted in all member countries except Saint Lucia.

Major sectors, including construction, wholesale and retail trade and financial intermediation, continued to decline, albeit at a slower rate than in the previous year. Meanwhile, value-added in the hotels and restaurants sector increased by 2.7 per cent, influenced by a 3.3 per cent rise in stay-over arrivals. Further, it is expected that both poverty and unemployment levels have increased, although reliable estimates are not available. The attendant challenges of social and economic dislocation (crime, disillusionment) pose further risks to social and economic stability and growth prospects. Nevertheless, the rate of decline slowed considerably in 2010 and the negative output gap narrowed.

Available data suggests that economic activity continued the tepid rebound during the first quarter of 2011. Stay-over arrivals are estimated to have risen by 1.3 per cent, signalling a further increase in tourism activity. Moreover, there is some evidence of a partial recovery in average daily expenditure. This is likely to have a positive impact on the hotels and restaurants and transportation sectors. Imports of construction materials also increased, consistent with activity in the construction sector.

Price Development

Inflationary pressure increased on account of international developments, where rapid growth in emerging and developing economies combined with slow supply response to shocks, led to a resurgent in commodity prices, particulary food and oil. Oil and food prices have risen sharply over the last few months, and are now close to their June 2008 peak. Global oil prices averaged US$102.00 in March 2011, 26.0 per cent above the level recorded one year earlier. The Food and Agriculture Organisation's (FAO) world food price index rose by 12.3 per cent between December 2010 and March 2011, following a 17.2 per cent increase in 2010. As net importers of commodities, rising commodity prices pose significant policy challenges for the ECCU member states. During the period, January to March 2011 inflation rates in the ECCU ranged from 0.9 per cent in Anguilla to 5.9 per cent in Grenada. Retail prices of gasoline, diesel and LPG across the ECCU have increased significantly. This is primarily as a result of the pass through methodology being used by most of the ECCU countries .

Gasoline retail prices rose by approximately 15.2 per cent and 11.5 per cent in 2010 and during the first quarter of 2011 respectively. As at end March 2011, average year-to-date prices across the sub-region ranged from $12.50 per gallon in St. Vincent and the Grenadines to $14.49 per gallon in Montserrat .

Fiscal Developments

The aggregated fiscal operations of the central governments led to an overall deficit (after grants) of $226.6m, lower than the one of $671.7m recorded in 2009. A combination of lower capital expenditure, higher than expected grants and improvements in current operations, were the main factors driving the reduction in the overall deficit. Additionally, the operations resulted in a primary surplus (after grants) of $194.7m, in contrast to deficit of $248.9m in 2009. Across the member countries, the results varied as some countries overall fiscal position improved while some deteriorated.

The current operations of the central governments realised a deficit of $36.1m compared with $145.4m in 2009. A reduction in expenditure and increase in current revenue, driven mainly higher collection of non-tax revenue contributed to this lower deficit. Grants (both current and capital) rose by 21.2 per cent to $415.4m (2.8 per cent of GDP). Current expenditure fell by 1.2 per cent to $3,410.4m, in contrast to growth of 2.3 per cent in 2009, reflecting the introduction of a number of cost cutting and savings measure by member governments. With the exception of outlays for wages and salaries, spending fell in all other categories of expenditure. Capital expenditure fell further in 2010 by 28.5 per cent to $637.3m, following a 17.2 per cent decrease in 2009. A combination of deliberate targeting of this line item for cuts, as well as reduced access to financing in the wake of the global crisis, would have contributed to this outturn.

Public Sector Debt

The public sector debt of the ECCU member countries stood at $11,900.7m at the end of 2010, compared with $11,814.5m at the end of 2009. As a percentage of GDP, the debt rose to 84.0 per cent from 82.9 per cent during 2009. This increase in the debt stock was due to a 2.1 per cent rise to $10.0b in central government borrowings as that of public corporations fell.

On a year-on-year basis, the debt service to current revenue ratio for the currency union rose by 10.9 percentage points. The marked increase for Anguilla resulted from the repayment of a number of domestic loans, facilitated by a Policy Based Loan from the CDB .

Developments on the RGSM

Activity on the Regional Government Securities Market (RGSM) decreased during 2010 as indicated by a fall in both the volume and value of issues on the primary market, due to a reduction in the number of issuance by a member government. The number of auctions decline to 34 from 42 in 2009, while the total value of issues decreased by 2.5 per cent to $721.6m. This contraction was the result of lower number of issuance, 2, by one member government in 2010, compared with 10 in 2009. An analysis of the activity by maturity shows that the decline in overall activity was mainly related to Treasury bills which fell to 27 from 36 in 2009, while the value of $482.5m was lower than $611.6m raised in 2009. Meanwhile, the long dated securities, bonds, increased both in terms of the number of issuance and value to 7 and $239.4m respectively, up from 6 and $128.3 in 2009. Investor confidence, and as a consequence, demand remained weak during 2010 as evidenced by the 6.4 per cent contraction in total annual subscriptions to $852.3m and the three undersubscribed issues. In terms of participation the governments of Saint Lucia and of St Vincent and the Grenadines were the most active as they accounted for approximately 75.0 per cent of the gross value of issues in 2010. Antigua and Barbuda, another major player on the market, reduced its activity as it only issued two securities, while the Nevis Island Administration returned to the market with the issuance of a 365-day T-bill. Treasury bills remained the dominant product on the RGSM in 2010, however its share of total instruments issued fell to 74.7, down from 85.7 per cent in 2009. Bonds share of the market increased to 33.1 per cent, on account of activity of St Lucia, which remains the sole issuer of these long-dated instruments.

The rates on the instruments varied, however they trended down for short dated securities, partly indicating a waning of demand during 2010. The average weighted yield on 91-day Treasury bills fell by 75 basis points to 5.08 per cent at the end of 2010, compared with 5.83 per cent at the end of 2009, while for 180-day Treasury bills the rates declined by 45 basis point to 4.75 per cent in 2010. Additionally, the average weighted yield on the 365-day Treasury bills decreased 3 basis points to 6.19 per cent. There was some divergence in the movements of the rates for the limited long-term instruments. The average weighted yield on the 6-year bond increased to 7.25 percent from 7.19 per cent in 2009, while the yield on the 5- year bond contracted to 6.80 per cent down from 7.00 per cent in 2009.

Monetary Developments

Monetary liabilities (M2) grew by 2.3 per cent to $12,673.4m during 2010, compared with growth of 1.7 per cent at the end of 2009. This pickup in the growth rate of M2 was driven mainly a recovery in that of narrow money supply M1, as the growth rate of the other main component of M2, quasi money, slowed. Domestic credit decreased by 1.5 per cent, a turnaround from the 4.9 per cent growth recorded in 2009, reflecting primarily developments in the public sector. The central governments' net debt with commercial banks fell by 34.3 per cent ($454.2m) to $871.3m, attributed primarily to the restructuring of some debt by a member country.

The net foreign assets of the banking system rose by 16.0 per cent to $2,197.5m, in contrast to a decline of 16.6 per cent in 2009. This outturn was as a result of a 15.8 per cent increase in net foreign assets held by the Central Bank as assets accumulations strengthen and liabilities contracted. Commercial banks for the second consecutive year had a net liability position which increased further during 2010 by 14.9 per cent to $300.7m.

Reserve accumulation by the Central Bank continued to increase in the first three months of 2011, advancing by 0.5 per cent on a quarter on quarter basis. The reserve position of the Central Bank was buoyed by substantial grant and loan inflows in 2010, totalling an estimated $908.7m. These flows are anticipated to decelerate in 2011 to approximately $547.2m, based on current commitments. The importance of these flows are substantial, as traditional drivers of reserve accumulation – such as export earnings and private financial inflows – are expected to remain below pre-crisis levels in the short-term.

The ratio of gross foreign assets to demand liabilities (backing ratio) declined slightly to 95.7 per cent as at end March 2011, from 96.3 per cent at the end of the final quarter of 2010. The ratio stood at 96.0 per cent in the fourth quarter of 2009. The deceleration can be largely attributed to the moderation in reserve growth in quarter one of 2011. At the end of February 2011, reserves were sufficient to cover 4.8 months of imports. It is anticipated that the import cover ratio will remain above the three-month rule in the near-term.

Liquidity in the commercial banking system eased during 2010, as reflected in a 2.1 percentage points decrease in the ratio of loans and advances to deposits 88.6 per cent, as growth in deposits outpaced that of loans and advances. In addition, the cash reserves to deposit ratio rose to 9.1 per cent up from 7.8 at the end of 2009. The improvement in liquidity notwithstanding, the weighted average interest rate spread between lending and deposit rates increased to 6.33 percentage points from 6.27 percentage points at the end of December 2010.

Balance of Payments

Provisional data show that for the second year the overall balance of payments was in a surplus position. However, the $282.4m surplus realised in 2010 was lower than the $422.0m in 2009, reflecting lower inflows on the capital and financial account, as the current account deficit narrowed.

The current account deficit contracted by 16.6 per cent to $2,590.7m (18.5 per cent of GDP), from $3105.1m (20.5 per cent of GDP) in 2009, with all the major sub-accounts contributing to the narrowing of the deficit. The deficit on the goods and services account moved to $2,616.9m down from $2,915.2 at the end of 2009, as the surplus on the services account increased and deficit on the goods account narrowed. The merchandise trade deficit decreased by 2.8 per cent to $4,656.9m, driven by a decline in payments for imports (f.o.b.). The contraction in economic activity contributed to this lower import bill, as the concomitant fall in aggregate demand resulted in lower import volumes which more than offset the price effect associated with the impact of increases in international commodity prices, particularly oil. Net inflows from services grew by 8.8 per cent, largely due to an increase in net travel receipts, the largest category under the services account.

The surplus on the capital and financial account decreased by 16.5 per cent to $2,944.8m, following a 20.3 per cent contraction in 2009. A reduction in inflows of foreign direct investment (FDI), public sector capital transfers and lower commercial bank drawn down on external funds, were the major factors contributing to this smaller surplus. This drop in these tourism-related flows is indicative of the fragility of global capital and financial markets in the wake of the financial crisis, as well as the extent to which investors and lenders have become more risk averse given the weak economic conditions and associated uncertainties in the business environment.

Prospects and Policy Challenges

The uneven pattern in global growth is projected to continue, with emerging market economies projected to contribute more than a half of global growth in 2011 and 2012. This has important implications for economic activity in the ECCU area, given the general orientation of trade towards the slow growing advanced economies, as demand from those markets is likely to remain subdued for some time. Preliminary forecast for 2011 is for growth of 2.7 per cent in the currency union, with all member countries expected to record positive growth. All major sectors, including construction, hotels and restaurants, and wholesale and retail trade, are expected to contribute positively to growth.

Tourism exports are anticipated to remain around current levels in the short-term, as exports to advanced economies comprise two-thirds of tourism exports. Tourism exports are also anticipated to be negatively affected by elevated oil prices.

Monetary liabilities are forecasted to increase, in line with economic activity. The commercial banks would maintain a net foreign liability position. However this was reduced in the last two quarters of 2010. In 2011, reserve accumulation will remain supported by grant and official inflows and the Central Bank would continue to maintain adequate reserves.

The outlook for the fiscal accounts is one of continued tightening, especially in respect of capital projects, as governments attempt to create the fiscal space needed in order to address the challenges posed by rising oil and commodity prices, rising unemployment and the threat of an active hurricane season.

GUYANA

(Annual Report 2010 – Bank of Guyana)

The world economy is estimated to have grown by 5.0 percent mainly on the back of the exceptional economic performance of the emerging market and developing economies. Industrial countries economic performance remained lacklustre with growth of 3.0 percent while emerging and developing countries recorded 8.4 percent and 5.3 percent, respectively. Industrial countries growth was due to the easy monetary and fiscal policy stance adopted while emerging and developing countries growth accrued from increased domestic demand. High unemployment continued in industrial countries while increase in inflation in emerging market remained a major challenge for macro-economic stability.

The Guyanese economy grew by 3.6 percent after the modest growth of 2.3 percent in 2009, reflecting continued resilience to the effects of the global financial crisis. The growth was attributed to positive performances in the services sector; particularly the construction, wholesale & retail industries and transportation-storage & information-communication. The agriculture and manufacturing sectors also recorded positive growth while the mining and quarrying sector contracted on account of lower output in the bauxite and diamond industries. Inflation was high at 4.5 percent due to rising food prices.

The balance of payments continued to record an overall surplus which contracted to US$116.5 million from US$234.4 million in 2009. This position is explained mainly by a contraction in the capital account surplus due to the one time IMF disbursement of US$108 million in 2009 and holding of increased foreign assets by the commercial banks. The current account recorded a modest increase in deficit due to higher transfers and lower services deficit, which was partly offset by an expanded merchandise trade deficit. The overall surplus contributed to the accumulation of gross foreign reserves by the Bank of Guyana which amounted to US$780 million.

The foreign exchange market recorded a 9.4 percent increase in transactions with the accumulated volume traded amounting to US$5,134.5 million. The market was buoyed by higher inflows and foreign trade. Overall, there was a net purchase of US$158.1 million, which contributed to a relatively stable exchange rate; with the Guyana dollar depreciating slightly by 0.12 percent against the US dollar to reach US$203.50.

The overall financial operations of the public sector deteriorated due to a large increase in the deficit of the Non-Financial Public Enterprises (NFPEs) which more than offset an improvement in the financial operation of the central government. Central government overall deficit narrowed on account of an increase in the current account surplus from higher current revenue. The NFPEs overall balance deteriorated due to a sharp increase in current expenditure by GUYOIL, GUYSUCO and GPL.
The stock of both government's domestic bonded debt and external guaranteed public debt increased but as a percent of Gross Domestic Product declined to 22.1 percent and 46.6 percent from 34 percent and 73.8 percent in 2009, respectively. The increased stock of domestic debt reflected an expansion in the issuance of government treasury bills to sterilize excess liquidity, which is consistent with the Bank's monetary policy objectives.The growth in the stock of external debt resulted mainly from disbursement

received under the PetroCaribe Initiative and Inter-American Development Bank (IDB). Both domestic and external debt service rose sharply by 15.1 percent and 63.5 percent, respectively.

The monetary aggregates of reserve and broad money grew by 22.9 percent and 15.5 percent respectively.The former was due mainly to a 21.8 percent increase in Bank of Guyana's net foreign assets while the latter resulted from an increase in net domestic credit because of a 24.9 percent expansion in public sector (net) and a 19.0 percent growth in private sector credit. Commercial banks interest rates remained relatively stable moving marginally. Non-bank financial institutions continued to actively mobilize financial resources that resulted in increased claims on the private sector and the banking system.

The conduct of monetary policy continued to focus on price stability while ensuring adequate level of liquidity in the system and creating an enabling environment for economic growth. The Bank continued to use treasury bills in the primary open market operations for the effective management of liquidity. The Bank also used purchases and sales of foreign exchange to control liquidity. There was a G$18.4 billion net issue of treasury bills. The Bank continued to facilitate efficient intermediation through the issuance of
notes and coins as well as promotion of enhanced payment system operation.

The Licensed Depository Financial Institutions (LDFIs) continued to report higher levels of capital and marginally lower profits when compared with the previous year. The Capital Adequacy Ratio (CAR) was well above the prudential 8.0 percent benchmark, increasing by 80 basis points from end 2009. The loan portfolio grew by 20.0 percent and improved with a 6.0 percent falloff in the level of non-performing loans. The LDFIs reported adequate provision against adversely classified loans.

In 2011, the world economy is expected to grow by 4.2 percent with the emerging market economies contributing the bulk of the share of growth. Growth in industrialized countries is expected to be lacklustre at 2.2 percent, while emerging and developing countries are forecasted to grow by 6.5 percent. The Latin American Region is expecting growth of 5.8 percent despite being closely tied to developments in North America. Caribbean economies that depend on service-oriented exports, except for Guyana and Suriname, is projected to grow by 2.2 percent. The Guyanese economy is projected to grow by 4.6 percent. This growth is expected to be driven by all sectors of the economy. Inflation is targeted at 4.4 percent. This position is anticipated from rising food and fuel prices. Against this background, the Bank will continue to manage the expansion in base money and seek to maintain low inflation. Additionally, it will also ensure that credit to the private sector is encouraged to facilitate growth in the economy.

HAITI

(Recent Economic Developments and Outlook – Central Bank of Haiti)

The Haitian economy is recovering slowly following a long string of severe shocks that have hampered productive capacity and retarded the fight against poverty. The latest one has been the major earthquake of January 2010 which destroyed hundreds of thousands of human lives and caused casualties estimated at more than 120 per cent of GDP. Disaster had struck in the middle of a recovery from a long period of stagnation dominated by hurricanes, floods, commodity price spikes and food riots and political tensions. As a result, output growth has remained elusive and poverty has not declined despite vigorous measures (supported by bilateral and multilateral financial institutions) in public finances and monetary management that contained inflation and currency depreciation: after a contraction of about 5 per cent in 2010, output growth is expected to reach 8.6 per cent this year.

Recent Economic Developments

Output

Domestic output has not exhibited dynamism in recent years with average growth increasing slightly to 1 per cent (from 0.9 per cent) between 2006 and 2010 with absolutely no improvement in per capita income. Still the 2010 hit would have been more painful were not for extraordinary fiscal efforts supported by foreign aid (as budget support) and workers remittances. The rebound of GDP in 2011 is expected to come from a substantial increase in total government expenditures from 27.3 to 33.8 per cent of GDP and capital expenditures from 15.9 to 22.7 per cent. Of the latter foreign financing of investment will reach 14.5 per cent from 10 per cent. Exports are adding to the fiscal stimulus with a 97.8 per cent increase in the 12 month ending in February 2011, reaching and even exceeding the pre-quake level thanks to the recovery of the US economy. Export rebound is led by assembly industry and also mango shipments which should continue growing with the preferential schemes offered to Haiti in the US markets.

Private bank credit is fueling further the incipient recovery after strong policy measures like reduction in reserve requirement on real estate or reconstruction loans and the opening of the *Partial Guarantee Credit Fund* inside the *Fonds de Dévelopment Industriel* (FDI), a state-funded second floor financial institution. So far nominal bank credit –which is expected to grow à 21.6 per cent this year- is running at the same pace than inflation for the second quarter and is pushing forward manufacturing (Graph II) and construction activities along with wholesale and retail trade.

Fiscal policy

As in the couple of years following 2004, fiscal policy has benefited in 2010 from increased foreign grants in the form of budget support and projects financing which allowed **i)** additional expenditures including more public investments **ii)** drastic reduction in domestic borrowing from the Central Bank and **iii)** , as a side effect, strong trend toward appreciation of the local currency. Total expenditures, financed by foreign aid, rose from 6.6 per cent of GDP in 2009 to about 10.4 per cent in 2010 and should reach

14.5 per cent of GDP in 2011[6] , shouldering sensible domestic fiscal efforts and shielding monetary policy from deficit financing. Debt cancellation amounting to $695.2 millions (or 12.5 per cent of GDP) notably by IMF has also helped relax the fiscal constraint. So far fiscal policy has been on the moderate side: while domestic revenues exceeded –although slightly- the second quarter targeted level of 6.0 per cent of GDP, total expenditures still lag their targeted level by 20 per cent, reflecting the unexpected delay in aid disbursement.

Monetary policy

This fiscal policy stance has paved the way for a monetary policy geared at a) maintaining inflation at moderate level and b) sustaining the recovery effort and, thus, a strong and safe expansion of real bank credit to the private sector, through low nominal interest rates and other measures like lower required reserves of bank mortgages and establishment of a partial private credit guarantee scheme. Inflation remained below 6 per cent for most of the last 12 months, averaging 5.7 per cent a year for CPI inflation and 5.9 per cent for core inflation.

Base money expanded significantly to offset the undesirable real appreciation of currency following relatively large inflows of foreign exchange (as workers remittances and grants) in the wake of the earthquake and also to rebuild the stock of international reserves. The increased variability observed at the second quarter results from a fiscal policy reversal over the subvention of retail gas and gasoil prices. The gas prices hikes led to a relative price adjustment that caused substantial increases in the overall index. In reality, inflationary pressures appeared in Haiti as early as December 2010 with upward trend in world commodity prices and are expected to continue through the fiscal year. The target inflation rate for the current fiscal year is 9.1 per cent and, barring further upward movement in world commodity and energy prices, should not be difficult to meet.

Monetary policy is formulated and executed by the *BANQUE DE LA RÉPUBLIQUE D'HAITI* (BRH), the central bank of Haiti, which uses basically the 3-month interest rate on its own securities, the BRH bonds, as the main policy instrument. BRH also intervenes in the foreign exchange market to smooth out erratic or seasonal movements and to rebuild its foreign exchange reserves. Required reserves have not been used in recent years[7] and BRH keeps open a discount window to provide liquidity to the interbank market. Treasury bills issued at market rates will be introduced later this year by Government to be used for monetary policy purpose. As for the transmission mechanism, since the credit market is bank dependent, monetary policy relies on the domestic banking system to relay interest rate changes to the rest of the economy and to influence aggregate expenditure and the price level. This, of course, takes place with long lags, a lot of asymmetries and many market imperfections. Moreover, as a small, open and dollarized

[6] There is a risk that foreign aid disbursement might be delayed and/or that prior commitment will not be honored on time.

[7] Since January 2011, mortgage or housing loans to help banks finance the construction efforts are exempt from the 31 per cent reserve requirement.

economy, the pass-through from exchange rate and/or foreign prices to domestic prices tends to be strong and fast so that to stabilize *inflation expectations* the dollar value of the local currency must be stable.

In Haiti, domestic banks are allowed to offer checking, savings and term deposits denominated in foreign currency with market determined interest rates, like local currency deposits. These foreign currency deposits amount to almost half of broad money in Haiti. Banks loans can also be issued in foreign currency–beside Gourdes denominated loans- up to 50 per cent of forex deposits. The banking system is made up of nine commercial banks holding assets amounting to 46 per cent of GDP making most of the formal (net) credit market (10 per cent of GDP). This relatively small banking system has been under considerable stress recently: from domestic stagnation and major earthquake to world recession. Non productive loans (NPLs) rose to 12.3 per cent of gross loans in March 2010 (3 months after the earthquake) from 9.7 per cent in September 2008 before returning to a more reassuring level of 5.4 per cent in December 2010 bringing back the system to profitability: return on average assets is back up to 1.3 per cent December from 0.14 per cent in March.

Relatively stable average inflation rate throughout 2010 had called then for a stable nominal short term rate to stimulate economic recovery after the January catastrophe. This policy – which was reinforced in the current fiscal year - was made possible by large inflows of foreign exchange and the ensuing need to resist currency appreciation and helped limit the economic contraction (of GDP) to less than 6 per cent in 2009-10.

Conclusion or Short Term Outlook

The outlook is not certain for the remainder of the year. Delays in disbursement linked to the recent tumultuous general elections and the excessively slow arrival of a new governing team could well lead to slowdown in public expenditures and to a growth rate lower than targeted. Moreover, rising world commodity and oil prices may well hamper the incipient recovery, add to inflation and force a monetary policy less conducive to economic expansion. Such policy reversal would entail interest rate hikes, jeopardize the private bank credit revival and thus darken the growth prospect.

JAMAICA

(Convergence Indicator Report – An Overview of Macroeconomic Developments in Jamaica 2010 – Bank of Jamaica)

Jamaica's Gross Domestic Product (GDP) contracted at a rate of 1.2 per cent for 2010, following average decline of 2.0 per cent for the two previous years. The decline in 2010 reflected the continued impact of falling real incomes and job uncertainty on domestic demand as well as weak external demand.

The annual average inflation rate increased to 12.6 per cent for 2010 relative to 9.6 per cent recorded for 2009. The inflation outturn was influenced by both domestic and external weather related shocks as well as the pass-through of various administrative costs adjustments.

The current account deficit of Jamaica's balance of payments (BOP) is estimated to have narrowed, relative to 2009, by US$136.0 million to US$991.5 million or 7.4 per cent of GDP. Net private and official investment inflows were more than sufficient to finance the deficits on the capital and current accounts. Consequently, the NIR of the Bank increased by US$442.1 million to US$2 171.4 million at end-December 2010, with gross reserves representing 22.7 weeks of projected goods and services imports.

The fiscal accounts improved significantly during the review period, attributed primarily to the success of the Jamaica Debt Exchange Programme. This improvement was mainly reflected in a decline of 1.1 per cent in expenditure, attributed mainly to a contraction of 12.3 per cent in domestic interest payments.

During 2010, the Central Bank maintained an expansionary monetary policy stance. In this context, the Bank lowered the interest rate on its 30-day Certificate of Deposit (CD) by 300 basis points.

The foreign exchange market was characterized by generally favourable conditions during 2010. The weighted average selling rate of the Jamaica Dollar vis-à-vis its US counterpart appreciated by 4.4 per cent for 2010, relative to a depreciation of 10.2 per cent in 2009.

NETHERLAND ANTILLES

(Quarterly Bulletin 2010 III – Central Bank of the Netherlands Antilles)

The pace of economic activity in the Netherlands Antilles declined in the third quarter of 2010 with real Gross Domestic Product contracting by 0.4 per cent compared to the third quarter of 2009. The economic contraction stemmed from a decline in net foreign demand as imports of goods and services rose while exports dropped. A decline in private investment also contributed to the economic downturn. In contrast, both public and private consumption grew. The expansion in public consumption was related to increased government expenditures on goods & services and wages & salaries. Meanwhile, private consumption rose reflecting increased consumer loans and import demand. Increased international oil and other commodity prices continued to feed into domestic consumer prices. Hence, the annualized inflation rate accelerated to 2.7 per cent at the end of September 2010.

An analysis by sector shows that almost all sectors recorded a decline in activities, but the economic contraction was driven largely by the manufacturing and construction sectors. The decline in manufacturing was due mainly to a drop in value added by the Isla refinery owing to the prolonged shutdown of the refinery as of March 2010. Also, activities shrank in the ship repair industry. Little confidence for expanding construction activities in the Netherlands Antilles resulted in the poor performance of the construction sector. After the completion of the harbor expansion in St. Maarten and several hotel and retail projects in 2009, no major investment projects were reported on the islands.

The financial services sector and the transport, storage & communication sector also recorded negative results during the September quarter of 2010. The contraction in financial sector output was attributable to a decline in domestic financial services, offset partly by a growth in international financial services. In the transport, storage & communication sector, real value added dropped due to, among other things, a decline in harbor activities. The third quarter of 2010 saw a decline in the number of ship calls, cargo movements, oil storage, and transshipment activities. Moreover, air transportation and airport-related activities fell, reflecting a decline in total passenger traffic, particularly in Curaçao and Bonaire. In contrast, output in the communication sector increased.

Activities in the restaurants and hotels sector fell, albeit at a slower pace than in the third quarter of 2009 because of a decline in the number of stay-over visitors in Curaçao and St.Maarten. On both islands, the number of stay-over tourists from North and South America dropped, offsetting increases in the number of visitors from Europe and the Caribbean.The contraction in stay-over tourism was mitigated by a growth in cruise tourism. In contrast, output in the wholesale and retail trade sector rose, accounted for primarily by increased tourism and domestic spending.

The deficit on the current account of the balance of payments increased in the third quarter of 2010 compared to the third quarter of 2009 due to a worsening of the trade, services, and current transfer balances. Higher merchandise imports and a decline in exports explain the deterioration of the trade balance. The increase in imports was attributable to, among other things, higher merchandise imports by the free-zone companies to replenish their inventories. Moreover, the growth in private consumption, increased tourism spending, and higher international oil and other commodity prices contributed to the import growth. A decline in re-exports by the free-zone companies, related to currency restrictions in Venezuela, caused the decline in merchandise exports. The services balance worsened mainly because of a decline in the fee received for refining operations in Curaçao. The latter was related to the shutdown of operations of the Isla refinery. In addition, oil storage fees received from abroad dropped, reflecting a decline in oil storage activities. The worsening of the services balance was mitigated by increased foreign exchange revenues from the tourism industry and a decline in construction services received from abroad. The current transfers balance deteriorated as the Dutch government transferred fewer debt relief grants in the third quarter of 2010 than in the third quarter of 2009. The income balance, in contrast, improved as a result of a decline in interest payments related to foreign investments in the Netherlands Antilles. The current account deficit was financed primarily by external financing of the private sector due to increased direct investments and net loans and credits from abroad. The latter resulted from, among other things, a transfer from the Netherlands of taxes on dividends paid by Dutch companies to their parent companies in the Netherlands Antilles. Also, the repatriation of foreign assets by financial corporations, the withdrawal of funds abroad by domestic companies, and increased net trade credits received on imports contributed to the growth in loans and credits from abroad. However, net portfolio investments abroad dropped, reflecting increased investments by institutional investors in foreign equity and debt securities. Due to the strong net inflow of capital, our international reserves increased, reflecting a surplus on the balance of payments.

The general government's surplus improved in the third quarter of 2010 compared to the third quarter of 2009 due to an increase in revenues, offset in part by a growth in expenditures. The increase in revenues was due entirely to grants received from the Netherlands, including debt relief funds, dividend tax transfers, and transfers to settle obligations related to the activities of the Netherlands Antillean coast guard. In contrast, both tax and nontax revenues declined. Almost all tax categories showed lower collections. Meanwhile, nontax revenues shrank because of a decline in the profit and license fee payouts by the central bank to the central government. Furthermore, the island government of Curaçao received fewer dividend payouts from public enterprises. The increase in expenditures occurred primarily in the categories wages & salaries and goods & services and was related mainly to the ongoing constitutional reform. The cash surplus contributed to a decline in outstanding government debt, reaching 61.9 per cent of GDP at the end of September 2010.

The money supply grew in the third quarter of 2010, due to an expansion in net foreign assets, which was offset in part by a drop in net domestic assets. The latter can be ascribed to a decline in net credit extended to the government, reflecting the further implementation of the debt relief program. In contrast, net credit extended to the private sector increased in the third quarter of 2010, albeit at a slower pace than in the third quarter of 2009. During the July - September period of 2010, the Bank continued its policy of monetary easing, motivated by the solid import coverage and the absence of excessive credit extension.
Hence, the reserve requirement percentage was reduced every month by 25 basis points reaching 8.00 per cent at the end of the quarter. Furthermore, maturing certificates of deposit issued by the Bank were refinanced only at the biweekly auctions. The Bank's official lending rate was left unchanged at 1.00 per cent.

The recent economic developments show us once again how vulnerable Curaçao and St. Maarten are to economic shocks. Because of their small scale and high openness – and in the case of St. Maarten, high dependence on one sector – Curacao and St. Maarten are very susceptible to shocks, especially when we are confronting increasing international oil and other commodity prices. This vulnerability can hamper economic growth and, hence, the sustainable development of both countries.

To reduce this vulnerability, both countries have to improve their investment climate. In this context, it is important that we realize that private investment is the main driver of sustainable economic growth. By creating an attractive investment climate, Curacao and St. Maarten will become more competitive vis-à-vis the region and, hence, will be able to attract more investments. We still need to address several areas, including our labor market, bureaucracy, and the tax system. Investor confidence can easily be affected by measures that lack consistency and long-term perspective and that increase uncertainty. Therefore, we should refrain from promoting measures that will prove counterproductive in attaining our objective of a sustainable higher level of growth.

SURINAME

(Review of the Surinamese Economy in 2010 – Central Bank of Suriname)

Real sector

Although official figures for the GDP are not yet released, real GDP growth is estimated to have increased to 3.8 per cent in 2010 compared to an increase of 3.1 per cent in 2009. The growth was driven by buoyant world market prices for Suriname's main export commodities (gold, alumina and oil), and higher production/exports of gold and oil. The export volume of alumina declined. However, the increase in prices outpaced the decline in volume resulting in an overall increase in exports of alumina. In addition, increased government spending, partially election related, also added to the economic growth.
The twelve-month inflation increased to 10.3 per cent in 2010 (2009: 1.3 per cent). This outcome resulted from higher food prices, depreciation of the exchange rate in the parallel market, and expansionary government spending.

Fiscal sector

Total current expenditures increased by 2.4 per cent in 2010 to SRD 2.3 billion, representing 81.6 percent of the total expenditure and 24 per cent of GDP. The implementation of the second phase of the civil servants wage reform (FISO-2), and spending related to the general elections held in May 2010, were the main drivers of the expenditures. Revenues increased by 0.7 per cent to SRD 2.5 billion, amounting to 26.9 per cent of GDP.
The fiscal balance registered a lower deficit of 2.6 per cent of GDP in 2010 compared to 2.9 per cent in 2009. The issuing of treasury bills which were primarily bought by the commercial banks constituted an important financing item for the government.
Domestic debt stood at 14 per cent of GDP in 2010 (2009: 10.3 per cent). Foreign debt increased from 8.2 per cent in 2009 to 9.8 per cent in 2010. In January 2011, the authorities raised the legal limit for domestic debt from 15 per cent to 25 per cent of GDP. At the same time, the ceiling for foreign debt was lowered from 45 per cent to 35 per cent of GDP.

External Sector

In 2010 transactions with the rest of the world resulted in an increase of gross international reserves of US$ 34.3 million[8]. At the end of December 2010 gross international reserves stood at US$ 757.1 million equivalent with an import coverage ratio of 5.3 months. This can largely be attributed to an increase in the value of Suriname's main exports. Imports of goods also showed an increase with 11 per cent in comparison with 2009. Payments abroad for purchases of gasoline and diesel rose with 30 per cent in 2010 as a result of an increase in world market prices. The external current account improved from 3.4 per cent in 2009 to 17.1 per cent of GDP in 2010.

Monetary sector

Money growth eased substantially in 2010. Broad money growth fell from 15.2 per cent in 2009 to 10.7 per cent in 2010, reflecting a deceleration in the growth of international reserves, and limited Central Bank financing of the government. However, domestic credit picked up, mainly due to credit to the government (treasury bills). Credit to the private sector increased by 13.1 per cent in 2010 (2009: 12.6 per

[8] Includes valuation changes.

cent). Commercial banks' credit to the government grew by 132 per cent in 2010, resulting in a decline in the level of reserves of commercial banks at the Central Bank.

TRINIDAD AND TOBAGO

(2010 Annual Economic Survey – Central Bank of Trinidad and Tobago)

OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2010 AND OUTLOOK FOR 2011

In 2010 the global economy slowly emerged from recession. While economic conditions improved in developed countries, still elevated unemployment rates provide evidence that there is not yet sufficient momentum to support a self-sustaining recovery. Further, in many economies, fiscal fragilities have come to the fore, as government initiatives implemented to promote economic growth have had dire consequences on public finances. In contrast to their industrialized counterparts, emerging markets continued to display signs of vigorous growth on account of strong domestic demand. Meanwhile, a nascent recovery in tourism and higher commodity prices contributed to improved economic activity in the Caribbean region over the year.

Following a contraction of 3.5 per cent in 2009, economic growth in Trinidad and Tobago remained relatively flat in 2010. Although the energy sector experienced moderate growth, the non-energy sector continued to decline, albeit at a slower rate than during the previous year. The performance in the energy sector was mainly on account of increased output of natural gas. On the other hand, several of the non-energy sub-sectors such as construction and distribution remained weak.

Crude oil production fell in 2010 largely as a result of the shutdown in operations by a major producer, as well as maturing oil fields. Notwithstanding an increase in drilling activities of a developmental nature, the decline in production had a damaging knock-on effect on service contractors. In contrast, production of gas and petrochemicals improved markedly during the year.

Labour market conditions remained relatively unfavorable. Over the first six months of the year, the average unemployment rate increased to 5.8 per cent compared with 5.1 per cent in the corresponding period of 2009. Consistent with the decline in activity in the non-energy sector, job losses were concentrated in the construction, government and transport, storage and communication sectors.

As the year progressed, inflationary pressures mounted considerably. Following lows in 2009, inflation peaked at 16.2 per cent (year-on-year) in August 2010. Headline inflation ended 2010 at 13.4 per cent, compared with 1.3 per cent in December 2009. Food prices, a key component of the Index of Retail Prices, rose considerably in light of adverse weather conditions. With the business environment still displaying signs of fragility, the Central Bank, in an effort to bolster domestic demand and private investment, reduced its main policy rate by 25 basis points to 5.00 per cent in January 2010. This rate was further reduced by 125 basis points to 3.75 per cent between July and December 2010.

The more accommodative stance of monetary policy had an impact on interest rates as commercial banks reduced their median prime lending rates to 8.38 percent in December from 9.75 per cent at the beginning of the year. Further, over the first three quarters, the weighted average lending rate of commercial banks fell by 73 basis points to 10.28 per cent. During this time, the weighted average deposit rate fell by 15 basis points to 0.97 per cent. Despite these interest rate movements, private sector credit continued to decline in the face of economic uncertainty. In the 12 months to November 2010, private sector credit extended by the consolidated financial system contracted by 2.5 percent on a year-on-year basis.

The monetary aggregates grew rapidly during 2010 before slowing at the end of the year. In the 12 months to November 2010, M-2 grew by 9.3 per cent (year-on-year) compared to 28.7 per cent in January 2010. Faced with scant investment alternatives, commercial banks continued to experience high levels of excess liquidity. In an effort to rein in excess liquidity, in November 2010 the Central Bank requested that banks place $1 billion in an interest bearing account for 18 months. Helped by higher energy sector collections, the outturn on Central Government operations for the fiscal year (October 2009 to September 2010) was better than budgeted. In the FY 2009/2010, the Central Government recorded an overall budget deficit of $308.2 million (0.23 per cent of GDP) which was much lower than the budgeted amount of $7,702.6 million. Energy revenues rose to 16.6 per cent of GDP from 14.2 per cent of GDP in the prior fiscal year. Meanwhile, total expenditure fell slightly to $43,520.1 million (32.0 per cent of GDP) from $45,730.8 million (33.7 per cent of GDP). The Central Government transferred a total of TT$3,026.5 million into the Heritage and Stabilization Fund, the third largest transfer since the establishment of the Fund. Similar to 2009, state enterprises and the Central Government continued to be active borrowers in the domestic primary bond market. In 2010, there were nineteen bond issues of which state enterprises and the Central Government accounted for seventeen. In FY 2009/2010, Central Government domestic debt increased by $3.8 billion to $38.9 billion. Meanwhile, contingent liabilities rose by 6.6 per cent to $22.6 billion by the end of the fiscal year. Helped largely by buoyant energy prices, data for the first nine months of 2010 indicated that Trinidad and Tobago recorded a balance of payments surplus of US$434.8 million over this period. In particular, the current account registered a surplus of US$2.3 billion, 23.1 per cent more than the surplus recorded in the corresponding period of 2009. On the contrary, the capital account registered a deficit of US$2.1 billion. Over the course of the entire year, the country's gross official reserves increased by US$418.4 million to US$9,070 million while the exchange rate depreciated slightly against the United States dollar by 0.5 per cent.

ECONOMIC OUTLOOK FOR 2011

The global economy is likely to continue its slow recovery in 2011. While several downside risks still remain, one of the most important risks is further financial turmoil in Europe. The continued global recovery is therefore heavily reliant on the implementation of policies to improve fiscal imbalances whilst restoring confidence and stability. In advanced economies, inflation is projected to remain low due to substantial resource slack, while unemployment levels are expected to remain considerably high. As output approaches its potential in emerging economies, rising food and fuel prices are expected to place upward pressure on inflation. Following a challenging year, the Trinidad and Tobago economy is anticipated to return to growth in 2011. In FY 2010/2011, government funds have been designated to provide further stimulus, including sizeable transfers to households and incentives to encourage business activity. Further, the government has stated its intention to embark on several major construction projects and a deficit of $7.7 billion (5.2 per cent of GDP) has been budgeted. Economic growth is projected at about 2 per cent, with most of the expansion remaining energy-based. This is dependent on stable growth in the global economy, a sustained recovery in the Caribbean region and a pickup in domestic business confidence. Despite the existence of a large degree of unused business capacity, this modest expansion may create job opportunities and halt an increase in the unemployment rate. Barring adverse weather conditions, initiatives to boost production in the agricultural sector should serve to dampen inflation, although surging international food prices could put pressure on domestic food prices.