CARIBBEAN ECONOMIC PERFORMANCE REPORT DECEMBER 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

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1.0 EXECUTIVE SUMMARY

The global economic recovery is still largely on track but significant vulnerabilities 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 5.1 per cent in 2010 but this was due in large part to high growth in emerging and developing economies since growth in developed market economies was much slower. 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. Additionally, consumer expenditure, a major catalyst for growth in developed market economies, which had rebounded to 1.6 per cent in 2010 compared to a 0.1 per cent increase in 2009, is expected to fall to 1.3 per cent in 2011 on fears about the sustainability of the global recovery. In the case of emerging market economies, the huge disparity in growth has raised fears of overheating. 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 instability. Another major risk relates to the possibility of significant spikes in commodity prices, especially oil prices. Once these risks do not materialize, the global economy is forecast to continue growing by approximately 4.0 per cent in 2011 and 2012 as it 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. Trends in growth in developed market economies, as well as developments in international commodity and financial markets, drive the fortunes of Caribbean economies. Buoyant commodity prices have in particular strengthened growth in commodity-based economies in the region. On the other hand, many tourism-based economies have not recovered fully. The average growth in the region therefore improved from 0.22 per cent in the first half of 2010 to 1.65 per cent in the corresponding period in 2011 but average regional growth still lags pre-crisis levels. Inflation pressures are also on the increase, driven by high and rising commodity prices and some improvements in the international economic environment. In this context, the average inflation rate for the region in the first half of 2011 rose to 6.5 per cent, up from a rate of 4.8 per cent recorded in the same period in 2010. Available evidence suggests that the nascent recovery in growth is still not wide and deep enough to be reflected in the strengthening of labour markets in the region as unemployment remains high in many jurisdictions.

In contrast, the improvements in the growth performance of the region have impacted measurably on the fiscal accounts. Available data for the first half of 2011 indicate an improvement in the current fiscal position of most countries when compared to the corresponding period in 2010. Improvements were recorded for Barbados, Belize, The ECCU Area, Guyana, Haiti, Jamaica and Suriname, with unfavourable movements in Aruba and Trinidad and Tobago. The position on the overall fiscal balance largely reflected developments on the current account with the exceptions being Guyana and Haiti which experienced a weakening in their overall fiscal balance in spite of their improvement on the current account. This was due in large part to the ratcheting up of their public sector infrastructure programmes. 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, The ECCU Area 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.

The region's performance on the external accounts was mixed. Improved performances on the current account of the balance of payments were recorded by Suriname, Aruba, the Bahamas and Guyana while both Barbados and Belize experienced a weakening of their current account positions. 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 the second quarter in 2010 to US$19.8 billion at the end of the second quarter of 2011, largely as a result of increases in Trinidad and Tobago, Jamaica and Haiti.

Based on 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 lower but still buoyant commodity prices are expected to strengthen growth in tourism and commodity-dependent economies with the IMF expecting regional economies to grow by 2.2 and 3.0 per cent respectively in 2011 and 2012.

In the context of the recent economic environment, most countries in the region were generally able to meet the import cover and exchange rate stability criteria. There were problems, however, in meeting the inflation and debt servicing criteria in 2010 but the lack of semi-annual information on debt servicing does not allow comparisons for the first half of 2011. The fact that a majority of reporting jurisdictions were able to meet the fiscal criterion in very difficult circumstances in 2010 is testament to the fact that the region can make progress in this very challenging area of fiscal and debt sustainability but again high frequency data on this area did not allow for an evaluation of the performance in this area for the first half of 2011.

2.0 GLOBAL ECONOMIC DEVELOPMENTS

The global economy weakened in the second quarter of 2011 as the inventory cycle turned down with global industrial production falling 1.1 per cent in April 2011. This largely reflected the impact of the Japanese earthquake and tsunami and, to a lesser extent, the 25 per cent increase in oil prices in the second quarter as a result of unrest in the Middle East. The impact of the Japanese disaster on global output underscored the wide scope of Japan's export market and this country's key role in the global supply network. Fortunately, the effects of these shocks are temporary and are likely to dissipate as Japan rebuilds and as the situation in the Middle East settles down.

The drag on the global economy caused by the sovereign debt and banking problems in the Euro Area, fiscal uncertainty in the United States, recent increases in financial volatility caused by these problems in Europe and the United States and policy indecision in crisis hit countries are more serious and intractable problems. The difficulties encountered in attempts to deal with the fiscal and sovereign debt problems in Europe, most notably in Greece, have led to volatility in financial markets. Difficult negotiations in the United States to raise the debt ceiling have also generated increased uncertainty in financial markets.

These difficulties have led to increased volatility in equity markets in developed market economies. Very importantly, interbank markets have come under pressure again as banks in the United States, the UK and Germany assess their exposures to sovereigns in Europe that have funding difficulties. The Bank for International Settlements has indicated that banks in the United States held approximately US$193 billion and UK and German banks a total of approximately US$500 billion of net debt exposures to Greece, Ireland and Portugal at the end of 2010. These exposures are small as a proportion of total bank assets but, given the uncertainty that abounds, this has led to problems in the interbank market. Risk premiums have also increased significantly for some European sovereigns. In particular, spreads on credit default swaps (CDS) for Greece have risen to a record high of 2237 basis points in June 2011, with the market anticipating default. CDS spreads have also risen significantly for Ireland and Portugal and the spreads could rise for Italy, Belgium and Spain if uncertainty remains about the resolution of fiscal and debt problems.

Consumer and business confidence in developed market economies hasalso fallen at a time when the global economy was buffeted by mostly temporary shocks that were dissipating. This lack of confidence was manifested in the rising price of gold and strong sovereign bonds as investors look for safe havens. The factors contributing to this lack of confidence seem to be the tenuous recovery and continuing high unemployment in developed market economies, the fiscal and debt challenges in Europe, uncertainty with respect to governments' ability to continue expansionary policies and, very importantly, the apparent lack of political consensus to take difficult corrective action on the fiscal and debt fronts. This situation is complicated by the fact that private demand is still not at a level where public spending can be retrenched.

The cumulative effect of these challenges led to unexpectedly weak growth in the first half of 2011 but particularly in the second quarter of 2011. These headwinds are expected to continue affecting advanced economies, especially the United States and the Euro Area with their growth in 2011 expected to average 1.5 per cent and 1.6 per cent respectively. The global economy will continue to be sustained by lower but still robust growth in emerging and developing economies which is expected to average 6.4 per cent and 6.1 per cent in 2011 and 2012 respectively. In this environment, global growth is expected to remain relatively muted in the second half of 2011 with growth for 2011 and 2012 expected to average 4.0 per cent (see Table 1).

Table 1: GLOBAL ECONOMIC GROWTH

	World	Advanced Economies	USA	Euro Area	Japan	Emerging and Developing Economies	LA	Brazil	China	India
2009A	-0.7	-3.7	-3.5	-4.3	-6.3	2.8	-1.7	-0.6	9.2	6.8
2010Q1	4.9	2.6	2.2	0.9	5.5	8.4	6.1	9.3	12.0	9.3
2010Q2	5.3	3.3	3.3	2.1	3.3	8.3	7.5	9.1	10.4	8.9
2010Q3	5.0	3.4	3.5	2.0	4.8	7.3	6.1	6.8	9.7	8.9
2010Q4	4.7	2.9	3.1	2.0	2.4	7.2	5.4	5.0	9.6	8.4
2010A	5.1	3.1	3.0	1.8	4.0	7.3	6.1	7.5	10.3	10.1
2011Q1	4.3	2.2	2.2	2.4	-0.7	7.3	5.5	4.2	9.7	7.7
2011Q2	3.7	1.5	1.5	1.6	-0.9	6.8	4.2	3.1	9.6	7.8
2011Q3	3.6	1.3	1.2	1.3	-0.8	6.7	4.4	3.6	9.4	5.4
2011Q4	3.6	1.4	1.1	1.1	0.5	6.7	4.1	3.8	9.1	8.2
2011A	4.0	1.6	1.5	1.6	0.5	6.4	4.5	3.8	9.5	7.8
2012A	4.0	1.9	1.8	1.1	2.3	6.1	4.0	3.6	9.0	7.5

Source: World Economic Outlook: September 2011, IMF.

In this environment downside risks predominate. 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 financial markets reminded most policymakers that the legacy from the recent international financial and economic crisis in 2008 and the policy measures deployed to manage that crisis have resulted in imbalances that must be addressed. Weak sovereigns in advanced economies and their potential impact on the international financial system have highlighted the vulnerability of the banking sector to sovereign risks and added to worries about the sustainability of the recovery. The lack of a concerted and forceful policy stance based on consensus to deal with these problems has added to the uncertainty and accentuated the negative feedback from the financial system to the real sector.

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 have 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.

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 but is expected to remain high in 2011 and 2012. High unemployment is one of the main factors contributing to weak consumer expenditure in most advanced economies which was a significant drag on global growth and this situation appears set to continue for most advanced economies (see Tables 3 and 4).

Table 3: UNEMPLOYMENT RATES IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany	NICs
2009	8.0	9.3	5.1	9.6	8.3	7.5	7.7	4.3
2010	8.3	9.6	5.1	10.1	8.0	7.9	7.1	4.1
2011	7.9	9.1	4.9	9.9	7.7	7.8	6.0	3.5
2012	7.9	9.0	4.8	9.9	7.7	7.8	6.2	3.5

Source: World Economic Outlook Dataset, September 2011, IMF.

Table 4: CONSUMER EXPENDITURE GROWTH IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany	NICs
2009	-1.4	-1.9	-1.9	-1.2	0.4	-3.2	-0.1	0.4
2010	1.9	2.0	1.8	0.8	3.3	0.7	0.6	4.2
2011	1.3	1.8	-0.7	0.3	1.8	-0.5	0.5	4.6
2012	1.3	1.0	1.0	0.6	1.8	1.5	0.5	4.7

Source: World Economic Outlook Dataset, September 2011, IMF.

Inflationary pressures have been on the rise generally as the global economy and commodity markets rebounded. Rising inflation is still evident, especially in emerging and developing countries; however the recent problems in developed market economies have eased inflationary pressures in those jurisdictions. Inflation is expected to be higher in 2011 relative to 2010 in most countries because of commodity price trends, and to moderate in 2012 as commodity prices moderate. This leveling off of prices in 2012 is expected to be more significant in developed economies because of sluggish demand driven by the high unemployment, low confidence and fiscal and debt problems. 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 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	6.1	6.0	3.3	12.0
2011	2.6	3.0	-0.4	2.5	2.9	4.5	7.5	6.7	5.5	10.6
2012	1.4	1.2	-0.5	1.5	2.1	2.4	5.9	6.0	3.3	8.6

Source: World Economic Outlook Dataset, September 2011, IMF.

In advanced economies, although progress has been made in terms of improved capital adequacy ratios and in recognizing 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 Greece, Ireland, Portugal, Spain, the UK and the USA. 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 reform 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 CAPITAL FLOWS TO EMERGING AND DEVELOPING COUNTRIES (US$B)

Year	2005	2006	2007	2008	2009	2010	2011	2012
Net Portfolio Inflows	32.1	-45.2	81.1	-66.1	98.8	197.5	127.1	121.3
Net FDI Inflows	291.5	303.6	441.4	467.0	310.6	324.8	429.3	462.0
Other Private Inflows	-0.1	44.1	192.6	-155.3	-142.0	-40.1	18.4	27.7
Net Private Inflows	323.5	302.5	715.1	245.6	267.5	482.3	574.7	610.9

Source: World Economic Outlook Dataset, September 2011, IMF.

The increasing integration of financial markets globally and the prevalence of cross border exposures also imply 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 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 to reassess the role that credit rating agencies play in sanctioning products and the behaviour in the financial sector.

International trade has also recovered as the global economy improved. Merchandise export volumes, which had decreased dramatically in the first half of 2009, rebounded strongly to regain pre-crisis levels by the June 2010. World trade therefore improved from a decline of 10.7% in 2009 to a 12.8% increase in 2010. Trade is projected to grow by 7.5 % and 5.8% in 2011 and 2012 respectively as global growth transitions from the high growth recovery stage evident in 2010 to a lower but more sustainable level in 2011 and 2012 (see Table 7).

Table 7: WORLD TRADE AND PRICES (% Change)

Year	2009	2010	2011	2012
World Trade Volume	-10.7	12.8	7.5	5.8
World Trade in US dollars Price Deflators	-10.2	5.2	10.1	0.8
Volume of Exports in Advanced Economies	-11.9	12.3	6.2	5.2
Volume of Exports in Emerging and Developing Economies	-7.7	13.6	9.4	7.8

Source: World Economic Outlook: September 2011, IMF.

Prices for major commodities increased significantly in the first quarter of 2011 and through April; however, they eased significantly in May and June of 2011. The easing of commodity prices in May and June was due in large part to the slowing of global growth particularly in the second quarter of 2011 driven by sovereign debt and related banking sector problems in many developed market economies. Additionally, China, which accounts for 40 per cent of global metal and 18 per cent of global energy demand, has been successful in its attempts to prevent overheating by stabilising growth at more sustainable levels. This has reduced China's import demand for many commodities and made a significant contribution to the softening in global commodity prices in the second quarter of 2011. The increase in risk aversion in financial markets because of Euro Area sovereign debt problems has led to the appreciation of the US dollar which has reinforced the decline in commodity prices in the second quarter of 2011. In spite of this decline in May and June, commodity prices were in most cases higher in the first half of 2011 relative the corresponding period in 2010, given the large increases recorded in the first four months of 2011 (See Tables 8 and 9).

In terms of the prospects for commodity prices moving forward there are some commodity- specific factors as well as global economic factors which will influenced the trajectory of prices. In terms of global economic trends, commodity prices are likely to decline moderately driven by a slight pick-up in growth in developed market economies which will more than likely be overshadowed by slowing demand from emerging and developing countries as they tighten their policy stance and as global growth transitions to a lower but more sustainable level. In terms of commodity-specific factors, better harvests are expected to dampen prices of many foods and agricultural raw materials. Base metals are also expected to moderate on improving supply conditions. This prognosis seems to be borne out by some recent data for October which indicates that almost all commodity prices as well as broad commodity price indices have fallen relative to the first half of the year. Prices for most commodities in 2011 and 2012 are also expected to moderate slightly relative to the first half of 2011 (See Tables 8 and 9).

Price spikes are still a very real possibility, however, especially in the energy sector given the price inelastic supply and geopolitical risks faced by the oil and gas industry. In this environment relatively small spikes in demand or adverse supply shock can lead to significant increases in energy prices which remain one of the most important risks to global growth.

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% 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 natural gas price is expected to increase by approximately 20% over the next two years but remain below historical averages (see Tables 8 and 9).

Table 8: SELECTED COMMODITY PRICES

Commodity	Averages				Latest	Forecast	
	J-D 2009	J-D 2010	J-J 2010	J-J 2011	October 2011	J-D 2011	J-D 2012
Crude Oil – average $/bbl	61.76	79.04	77.62	104.9	99.85	107.2	102.1
Natural Gas US - $/mmbtu	3.95	4.39	4.73	4.27	3.57	4.3	5.3
Aluminium - $/mt	1665.0	2173.0	2129.7	2556	2181.0	2525	2550
Rice Thai 5% - $/mt	555.0	488.9	493.89	502.15	599.0	500.0	480.0
Sugar (World) - cent/kg	40.0	46.93	43.38	57.63	56.11	55.0	40.0
Bananas (US) - $/mt	847.0	868.0	821.58	984.0	954	950.0	850.0

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

Table 9: COMMODITY PRICE INDICES (2000=100)

Commodity	Averages				Latest	Forecast	
	J-D 2009	J-D 2010	J-J 2010	J-J 2011	October 2011	J-D 2011	J-D 2012
Energy	214.3	271.2	275.4	354.9	340.2	362.1	345.4
Non Energy	208.8	266.5	281.0	335.7	292.8	321.6	284.9
Agriculture	197.8	231.3	246.7	296.1	264.5	278.8	231.5
Beverages	219.9	253.8	262.8	302.5	261.5	286.0	237.6
Food	205.1	224.1	241.2	281.4	262.3	267.0	223.8
Metals	221.9	337.2	349.0	413.3	333.5	406.3	394.7

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

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. The tourism industry has historically been one of the most resilient sectors and recent data has again given credence to this view as global tourist arrivals increased by 3.7 per cent and 5.2 per cent in the first and second quarters of 2011, to average 4.5 per cent for the first half of 2011 when compared to the corresponding periods in 2010. This is above the long term average of 4.0 per cent for growth in tourist arrivals.

Growth was recorded in all regions, with the notable exception of the Middle East and North Africa because of political unrest in those jurisdictions. Tourist arrivals in developing countries grew by 4.8 per cent compared to growth of 4.1 per cent in developed market economies in the first half of 2011. This disparity would have been greater but for the political problems in the Middle East and North Africa. 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 the Americas growth was strongest in South America at 15.4 per cent followed by the Caribbean at 4.2 per cent (see Table 10).

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 has been slower than the growth in arrivals in 2011.

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. 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 10 years implies that it has huge potential as a source market for tourists. 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

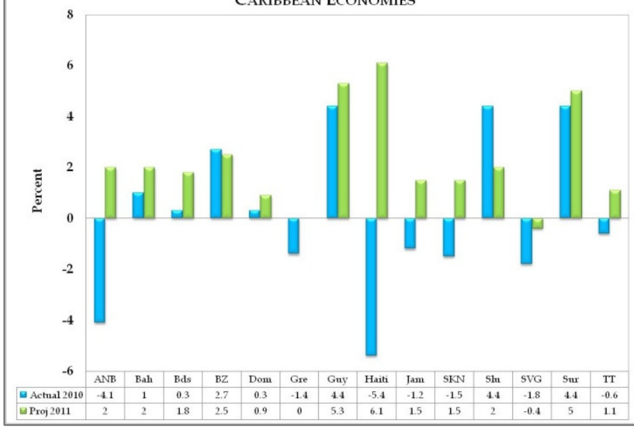
Country/Region	Total (Millions)		% Change over corresponding period in previous year			
	2009	2010	2010Q1	2010Q2	2011 Q1	2011 Q2
Europe	**460.9**	**475.8**	**1.4**	**2.4**	**4.8**	**7.4**
Northern Europe	57.7	58.1	-4.7	-1.7	4.7	8.2
Western Europe	148.6	153.7	2.2	3.9	3.1	3.6
Cent./East. Europe	90.2	95.0	0.4	4.0	8.2	10.3
South./Med. Europe	164.4	169.0	4.0	1.8	4.4	9.0
Asia and the Pacific	**181.0**	**204.1**	**13.4**	**15.8**	**4.4**	**5.8**
North-East Asia	98.0	111.6	11.4	21.0	0.9	-0.1
South-East Asia	62.1	69.9	17.0	10.2	9.1	15.6
Oceania	10.9	11.6	6.5	4.0	-0.5	0.0
South Asia	9.9	11.1	18.0	10.2	11.7	14.5
Americas	**140.7**	**149.7**	**4.6**	**7.6**	**4.5**	**6.6**
North America	92.1	98.1	3.9	9.7	1.3	5.5
Caribbean	19.5	20.1	5.6	0.4	3.7	4.7
Central America	7.6	7.9	5.5	6.5	2.1	4.8
South America	21.4	23.5	5.6	5.8	15.6	15.2
Africa	**46.0**	**49.6**	**8.7**	**7.7**	**1.8**	**0.8**
North Africa	17.6	18.7	9.2	4.4	-13.1	-12.7
Sub-Saharan Africa	28.4	30.9	8.4	9.9	8.7	9.2
Middle East	**52.9**	**60.7**	**19.8**	**19.3**	**-5.4**	**-15.7**
Advanced Economies	**474.0**	**498.0**	**4.6**	**5.6**	**2.8**	**5.4**
Emerging Economies	**407.0**	**442.0**	**8.6**	**8.7**	**4.6**	**4.9**
World	**881.0**	**940.0**	**6.6**	**7.0**	**3.7**	**5.2**

Source: World Tourism Organisation, World Tourism Barometer Volume 9, No. 4, August 2011.

3.0 REGIONAL ECONOMIC PERFORMANCE

3.1 ECONOMIC GROWTH

FIGURE 1: IMF PROJECTED REAL GDP GROWTH RATES (%) OF CARIBBEAN ECONOMIES



Caribbean economies continue to struggle in 2011 to achieve their pre–recession levels of economic growth. Based on available information, the average real economic growth for the region for the first half of 2011 was 1.7 per cent compared to 0.2 per cent for the corresponding period in 2010. Most economies registered either relatively low or negative growth rates, with the exception of Guyana which registered a growth rate of 5.9 per cent. IMF projected growth rates for the year 2011 (Figure 1) however are promising as all of the Caribbean economies are expected to experience a positive increase in economic activities.

Aruba's business perception continued to be positive in the first quarter of 2011 indicating that its economic activities have begun to increase. One significant event of 2011 was the reopening of the Valero Aruba Refining Co. N.V. after it was temporarily closed in July 2009. The tourism sector recorded an increase of 2.2 per cent in its activities for first quarter of 2011 when compared to the same period in 2010. Activity in the important Construction sector has been relatively slow but there was a notable increase in the amount of cement imported which is indicative of a pickup in the execution of unfinished projects. Also the utilities index fell by 4.6 per cent in the first quarter of 2011 due to lower usage of water and electricity in comparison to the same period in 2010.

The Bahamian economy has shown signs of recovery in 2011; preliminary data for Jan-June 2011 indicate that the Tourism and Construction sectors have maintained a positive increase in output for the period under review. In particular the Tourism sector experienced steady gains in hotel earnings and there was an increase in cruise ship arrivals.

The growth in economic activities in Barbados for the period Jan-Sep 2011 was one per cent, a mere 0.55 percentage point increase for the same period in 2010. The two main drivers of the economy – Tourism and the International Business and Financial Services sectors reported low levels of economic activity for the first nine months of 2011. Contractions were also reported in the following sectors - Manufacturing (-2%), Sugar production (-8%) and Non-Sugar agricultural output (-4%). However, there was an increase in economic activities in Construction (3%) and Wholesale & Retail Trade (2%) for the period Jan-Sep 2011.

FIGURE 2: REAL GDP GROWTH RATE (%) - BARBADOS

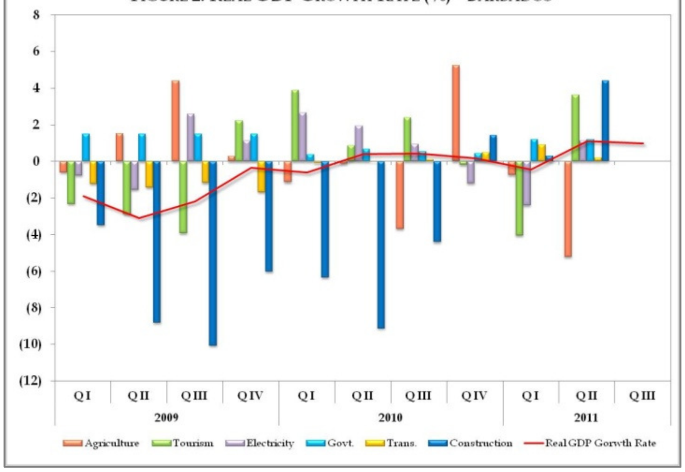


FIGURE 3: REAL GDP GROWTH RATE (%) - ECCU

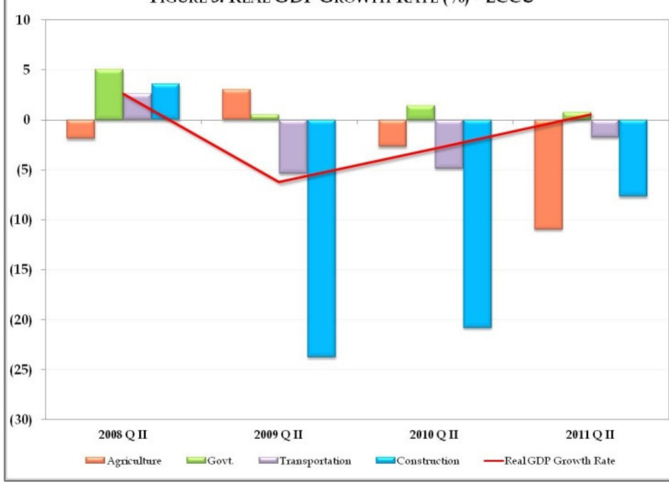
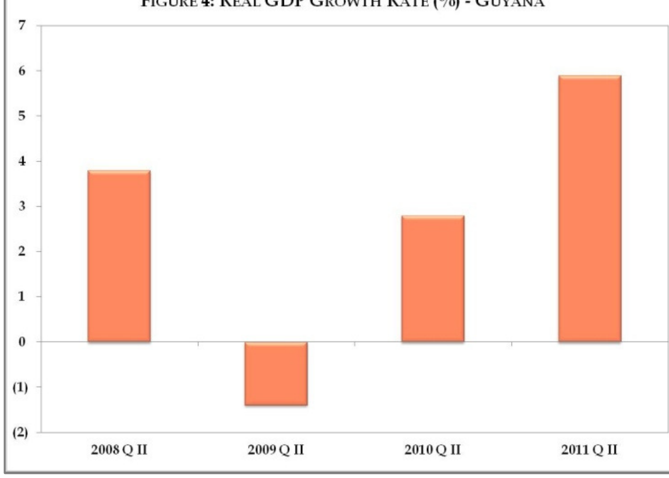


FIGURE 4: REAL GDP GROWTH RATE (%) - GUYANA



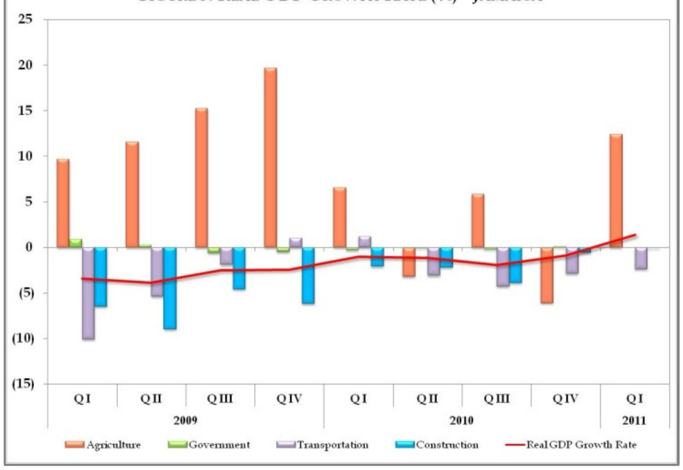
An increase in output of 2.8 per cent was registered for Belize for the first half of 2011; this was due to a significant increase in output in the first quarter of 6.7 per cent which was then offset by a one per cent decline in the second quarter of 2011.Belize experienced contractions in Agriculture (-17.6%), Electricity & Water (-4.3%) and Construction (-16.4%) for the period Jan-June 2011.

After 10 consecutive quarters of negative economic growth the ECCU registered a positive increase of 0.6 per cent in its economic activities in the second quarter of 2011. There is a recent pick-up in construction activity, but its output continues to be negative, having registered a 7.7 per cent fall in activities for Jan-June 2011. The Agriculture sector however continues to deteriorate having experienced a fall in output of 8.2 percentage points when compared to the same period in 2010.

Economic activities in Guyana continue to increase with a 5.9 per cent growth rate recorded for the period Jan-June 2011. This represented a 3.1 percentage points improvement over the growth rate recorded in the same period in 2010. This continued increase in economic activities in Guyana in 2011 was propelled by increased activities in the following sectors - Agriculture, Mining & Quarrying, and Manufacturing & Services. Favourable weather conditions, high commodity prices, increased investment and spending were the major factors responsible for this improved performance. On the other hand, the Forestry, Fishing and Diamond industries contracted during this period.

Jamaica's economy grew by an estimated 1.4 per cent in the first half of 2011. This reflected an increase in the following sectors: Agriculture, Forestry and Fishing (10.4%), Mining and Quarrying (33.5%) and Hotels and Restaurants (3.2%). However there was a decline in the Construction; Finance & Insurance Services and Transport, Storage & Communication sectors.

FIGURE 5: REAL GDP GROWTH RATE (%) - JAMAICA



Significantly low growth rates have been estimated for the Netherland Antilles – Curacao and Sint Maarten for Jan-June 2011.Their growth rates are highly correlated to their major trading partners – US and European countries. Curacao experienced a modest growth in its exports, which was driven by increases in the Tourism and Oil Refinery sectors. However, this was offset by significant declines in domestic demand due to a fall in consumer confidence and a tighter fiscal stance. For the same period, Sint Maarten experienced a decline in stay-over tourism, which was offset by a strong increase in cruise tourism.

Suriname is expected to experience positive growth again in 2011 as they continue to benefit from favourable commodity prices and capital investments in the mineral sector. Economic activities in Trinidad and Tobago continued at a slow pace, having reported a further decline in economic growth of 1.5 per cent for the first quarter of 2011. This was reflective of weak performances in the energy and non-energy sectors of the economy. The energy sector reported year-on-year declines in crude oil (8%) and natural gas (2.1%) due to the delay in the resumption of oil production from BHP Billiton in the last quarter of 2010 and the temporary maintenance shutdowns of bpTT's natural gas facilities. Mixed performances were registered in the non-energy sector; growth was reported in the Manufacturing sector due to the introduction of melamine production from the Methanol Holdings Trinidad Limited (MHTL) AUM Plant. The Distribution sector grew by 0.4 per cent as retail sales rose following eight consecutive quarters of decline. A major contributing factor to slow growth has been the fact that construction activity remained subdued.

3.2 INFLATION

CARICOM's average[1] inflation rate at the end of June 2011 stood at 6.54 per cent; it ranged from 0.84 (Trinidad and Tobago) to 21.1 (Suriname) for June 2011. Inflationary pressures subsided but in most cases price levels remained high in 2011 mainly because of increases in international oil and food prices.

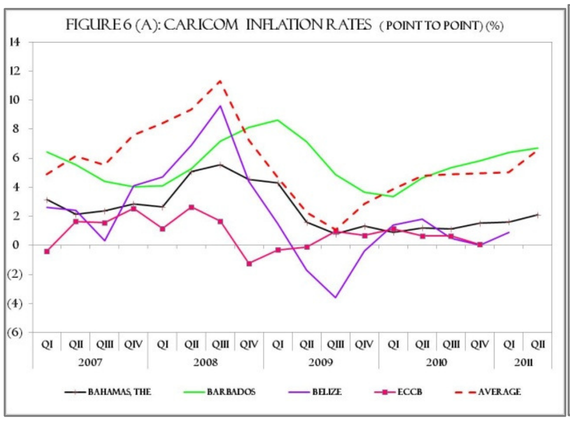


FIGURE 6 (A): CARICOM INFLATION RATES (POINT TO POINT) (%)

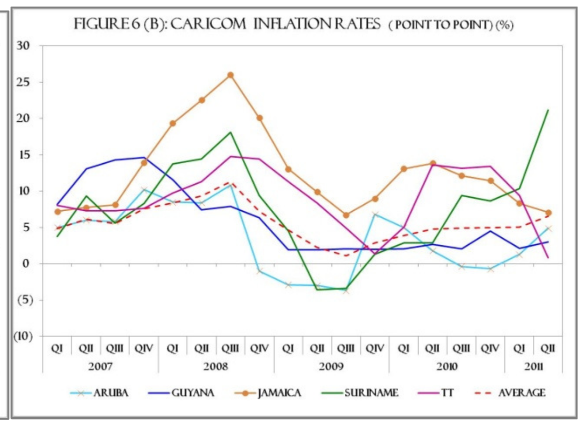


FIGURE 6 (B): CARICOM INFLATION RATES (POINT TO POINT) (%)

The upward inflationary trend which started in 2010 in Aruba continued into 2011 with the CPI for July 2011 increasing by five per cent when compared to the same month of 2010; this was due to the 2.6 percentage point increase in the energy component of the CPI.

Inflation for the 12 months to June 2011 in The Bahamas was 2.1 per cent, which is partly reflective of the increase in international oil prices. Average cost increases were recorded in almost all categories, the increases ranged from six per cent (Transportation) to 0.1 per cent (Food and Non-Alcoholic beverages).

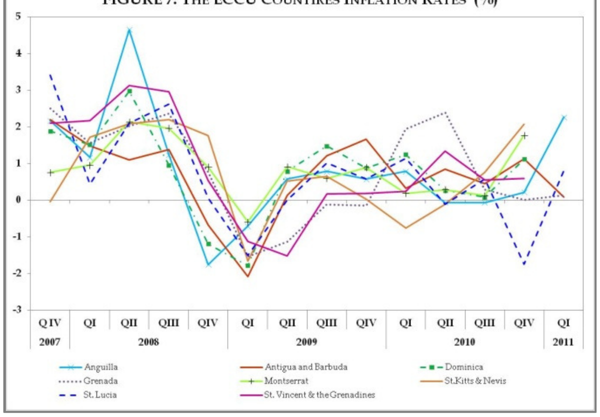
Belize's price levels are heavily influenced by the increase in fuel acquisition costs. The CPI rose by 1.1 per cent over the quarter (Nov 2010 to Feb 2011) and by 0.9 per cent over the year (Feb 2010 to Feb 2011). Year-on-year prices increased across all categories, except Food, Beverages and Tobacco (-2.0%) and Clothing and Footwear (-2.6%). The

[1] Average rate was calculated based on the countries for which data was available.

decrease in prices in these two sectors muted the inflationary pressures in Belize for the period under review and is also a reflection of the government's zero rating of basic food items and major household durables in April 2010.

Price levels in Barbados increased in 2011 as a result of increases in the price of food and fuel and light. Its inflation rate at the end of the second quarter in 2011 was 6.7 per cent, having increased by 2.1 percentage points when compared to the same period in 2010. While inflationary pressures in Guyana appear to have been muted, a minimal increase in its inflation rate occurred moving from 2.65 per cent (Jan-June 2010) to 2.97 per cent (Jan-June 2011). Rising fuel and food prices remain the cause of inflation in Guyana.

FIGURE 7: THE ECCU COUNTIRES INFLATION RATES (%)



Based on available data, ECCU countries' price levels remained low in the first quarter of 2011. The four countries that reported their inflation rates had a range of 0.08 per cent (Antigua and Barbuda) to 2.26 per cent (Anguilla) for the first quarter of 2011.

Jamaica's general price levels for June 2011 increased by 7.2 per cent compared to 13.2 per cent in the corresponding period of 2010. Its inflationary pressures for the first half of 2011 were as a result of increases in crude oil prices and increases in prices of domestically produced and processed foods. However, the continued stability in the foreign exchange market and weak domestic demand moderated the impact of those factors on the inflation rate.

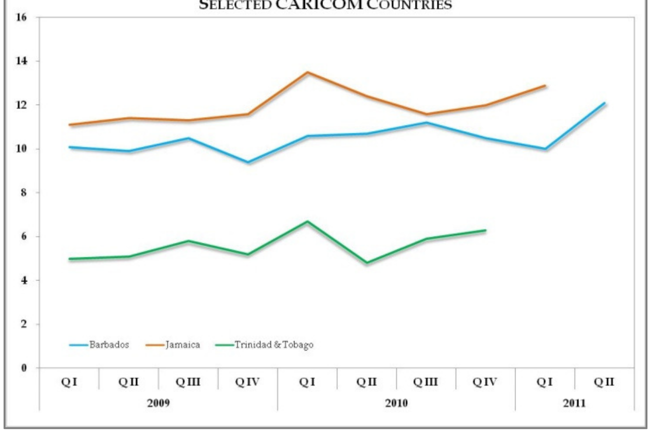
All indicators suggest that the inflation rate of the Netherland Antilles – Curacao and Sint Maarten - has increased in 2011 due to increases in international oil and food prices. Also, the increases in fuel taxes, devaluation and higher world food prices have caused the inflation rate in Suriname to accelerate to 13.6 per cent in the first half of 2011.

After four consecutive quarters of double digit inflation, the inflation rate of Trinidad and Tobago stood at 0.84 per cent at the end of the second quarter of 2011. The consistent decline in food inflation since the start of 2011 is partly a result of the "base effect" associated with the rise in food prices last year. The 12-month increase in the prices of fruits slowed to 18.8 per cent in June 2011, while prices of vegetables declined by 12.1 per cent. In contrast, prices gained momentum for the meat, milk, cheese and eggs and bread and cereals categories. An increase in imports of several food commodities helped to boost supplies for domestic consumers and limit price rises in early 2011.

3.3 LABOUR MARKETS

Unemployment rates within the Caribbean region in 2011 remain relatively high. Only three countries reported unemployment data for the period under review- The Bahamas, Barbados and Trinidad and Tobago.

FIGURE 8: UNEMPLOYMENT RATES (%) - SELECTED CARICOM COUNTRIES



The Bahamas continues to experience a relatively high unemployment rate, having a recorded a modest increase of 0.5 percentage points from May 2009 (13.7%) to May 2011 (14.2 %). Underlying this increase was a 34.8 per cent surge in the number of discouraged workers and a 32 per cent increase in persons engaged in informal sector activities. However the unemployment rates fell in the main islands. In New Providence it went from 14 per cent (May 2009) to 13.2 per cent (May 2011) while the unemployment rate in Grand Bahama went from 17.4 per cent (May 2009) to 15.4 per cent (May 2011).

Barbados's unemployment rate increased from 10.7 per cent (June 2010) to 12.1 per cent (June 2011) due to sluggish economic growth and the prolonged period of weak cash flows which hindered the private sector from maintaining staff levels. There were approximately 700 new claims for unemployment benefits for the period March - September 2011, suggesting that the rate of unemployment was around 11 per cent for the end of September 2011.

Partial data for Trinidad and Tobago suggest that labour retrenchment has continued in 2011, albeit at lower levels than in 2010. During the period Jan-June 2011 it was reported that 377 persons were retrenched, down from 645 during the same period in 2010.

3.4 FISCAL ACCOUNTS

3.4.1 Current Fiscal Account

Available data for the first half of 2011 indicate an improvement on the current fiscal account for most Caribbean countries covered by this report when compared to the current fiscal outturn for the first half of 2010. Improvements were noted for Barbados, Belize, the Eastern Caribbean Currency Union (ECCU), Guyana, Haiti, Jamaica and Suriname, while unfavourable movement was noted for Aruba and Trinidad and Tobago. Fiscal data were unavailable for The Bahamas and The Netherlands Antilles.

In absolute terms, Jamaica recorded the largest improvement in its current account position, moving from a deficit of US$166.6m in the first half of 2010 to a surplus of US$40.6m in the period January to June 2011. This performance was occasioned by a seven per cent (US$129.3m) growth in current revenue and a 2.7 per cent reduction in current expenditure. The improvement in the revenue performance resulted from increases of 25.4 per cent and 18.8 per cent respectively in the receipts of taxes from international trade as well as the intake from the General Consumption Tax (GCT). The growth in receipts from taxes on international trade was due in part to an US$523.8m increase in the value of imports in first half of 2011 relative to the corresponding period of 2010. The increased intake in the GCT is consistent with the estimated 1.4 per cent expansion in economic activity in the first half of 2011 relative to the decline of 1.5 per cent estimated for the corresponding period of 2010. The reduction in current expenditure resulted from a 19.1 per cent decline in interest on debt payments.

Haiti also recorded a favourable reversal in its current account, recording a surplus of US$ 116.3m in the first half of 2011 compared to a current account deficit of US$17.2m in the first half of 2010. The improvement in the current account resulted from a 56.6 per cent (US$197.4m) expansion in current revenue which more than compensated for 17.4 per cent (US$ 63.8m) increase in current expenditure. The increase in current revenue appears to be connected in part to donor transfers related to the ongoing reconstruction necessitated by the 2010 earthquake. Receipts from income tax grew by 53.4 per cent (US$37.6m) while taxes on international trade yielded a 26.2 per cent (US$55.6m) increase in receipts. The increase in current expenditure resulted from growth in expenditures on goods and services as well as transfers and subsidies of 20.7 per cent (US$ 65.9m) and 25.6 per cent (US$7.3m) respectively.

In Suriname the current account surplus increased by US$24.2m to US$27.5m in the period January to June 2011 when compared to the corresponding period in 2010.

Unfavourable developments in the exchange rate between the Suriname dollar and the US dollar militated against an even greater expansion in the current account surplus when measured in US dollars. This increase was due to a 33.3 per cent (US$139.8m) expansion in current revenue which surpassed the 27.8 per cent (US$115.6m) growth in current expenditure. The growth in current revenue in the first half of 2011 was consistent with the reported level of buoyancy in the economy and was further bolstered by revenue-enhancing measures instituted by the Government in the early part of the first quarter. The growth in current expenditures in the main resulted from the implementation of the last phase of the civil servants' wage reform in early 2011, and accelerated repayments of arrears by the government.

The current account surplus also widened for the ECCU, Guyana and Belize. In the case of the ECCU, a surplus US$16.1m was reported for the period January to June 2011- an increase of US$13.4m over the corresponding period of 2010. This performance was due to a 5.8 per cent (US$36.5m) increase in current expenditure which mainly resulted from 47.9 percent growth in the yield from sales-based taxes. Current expenditure in the ECCU grew by 3.7 per cent due to increases in expenditures on wages and salaries (3.7 per cent), transfers and subsidies (5.8 per cent) and interest payments (8.7 per cent). In Guyana the current account surplus increased by 8.2 percent to US$ 113.7m in the first half of 2011 when compared to the first half of 2010. The growth in the current account surplus was the result of a 13 per cent (US$34.7m) expansion in current revenue and a 13.7 per cent increase in current expenditure. The expansion in revenue was largely consistent with the general level of economic buoyancy, and major taxation headings reported increases from 10.2 per cent to 18.5 per cent. The increases in expenditure on goods and services (20.7 per cent) as well as transfers and subsidies (25.6 per cent) were the main contributors to the growth in current expenditure. In Belize the current account surplus increased by 3.8 per cent to US$23.7m in the first half of 2011 when compared to the corresponding period in 2010. Current revenue expanded by US$12.5m or 6.5 per cent on account of increased revenue intake from the petroleum industry as well as improved revenue performance from import duties. Increases in expenditure on goods and services (9.2 per cent) as well as interest payments (17.7per cent) accounted in the main for the expansion in current expenditure.

In Barbados the current account deficit declined by 4.8 per cent to US$176.9m in the first half of 2011 when compared to the corresponding period in 2010. This improvement was occasioned by higher growth in revenue of 2.5 per cent relative to a 1.7 per cent increase in total current expenditure. Data available for the first six months (April-September) of the Barbados fiscal year show a continued improvement on the current fiscal accounts with the deficit down to 5.3 per cent of GDP, down from 9.3 per cent for the comparable period in the 2010/2011 fiscal year. For the period January to June 2011, substantial increases were noted in the following revenue lines: value added tax (12.5 per cent) and non-tax revenue (47.3 per cent). Income tax decreased by 7.3 per cent over the period January to June 2011 when compared to the same period in 2010. On the expenditure side, outlays on goods and services dropped by 5.1 per cent, while transfers and subsidies and interest payments on debt increased by 4.5 per cent and 3.5 per cent respectively.

Aruba moved from attaining a surplus of US$16.9 million on the current fiscal accounts for the first half of 2010 to a current deficit position of US$77.1 million for the period January to June 2011. This was due to significant deterioration in revenue performance as current expenditure declined by 10.2 per cent relative to the first half of 2010. In June of 2010, the Government of Aruba received an atypical tax receipt of US$118.54 million due to a settlement with the crude oil refinery: Valero Aruba. Total current revenue declined by 33.1 per cent over the period January to June 2011, largely explained by an 83.1 per cent drop in revenue associated with the Sales tax. For the first half of 2011, income tax also fell by 11.8 per cent, but this was partly mitigated by an increase in taxes on international trade (18.0 %) and non-tax revenue (3%).

For the first half of 2011, the current account surplus for Trinidad and Tobago narrowed by US$237.6 million to reach US$732.4 million. Growth in current expenditure of 17.4 per cent outpaced a modest increase of 5.9 per cent in current revenue. Significant increases in income tax (30.2 per cent or US290.9 million) and taxes on international trade (12.3 per cent or US$15.5 million) were more than outweighed by growth of 30.8 per cent (US$407.9 million) in transfers and subsidies on the expenditure side. Over the review period, non-tax revenue dropped by 34.5 per cent when compared to the outturn for the first half of 2010. The improvement in revenue for the first half of 2011 can be partly attributed to higher oil prices in 2011 than 2010. Historical price records indicate an average oil price of US$71.2 per barrel in 2010 compared to US$86.8 per barrel year-to- date 2010.[2] Revenues from non-energy sectors have grown at a slower rate and can be associated with the slow recovery of those sectors. This is evidenced by the slow rate of growth of value added tax of 3.5 per cent for the first half of 2011 compared to the outturn in 2011. Growth in value added tax has also been influenced by an increase in the monthly payment of refunds from approximately US$46 million to

[2] *See: http://inflationdata.com/inflation/inflation_Rate/Historical_Oil_Prices_Table.asp*

US$62.million. Of the other expenditure categories, interest payments on debt decreased by 7.2 per cent while outlays on goods and services and wages and salaries increased by 7.0 per cent and 4.1 per cent respectively.

3.4.2 Overall Fiscal Balance

Available data suggest mixed performance on the overall fiscal accounts for reporting countries. Barbados, Belize and Suriname reported improvements on the overall fiscal accounts for the first half of 2011 compared to the same period in 2010. Deterioration on the overall balance on the fiscal accounts was noted for Aruba, Guyana, Haiti, Jamaica and Trinidad and Tobago.

During the first half of 2011, the overall fiscal deficit balance for Barbados was reduced by US$9.0 million to reach US$173.2 million. This improvement is due mainly to improvements on the revenue side. Belize moved from an overall fiscal deficit of US$4.5 million for the first half of 2010 to an overall surplus of US$5.9 million for the period January to June 2011. In the case of Suriname, the overall deficit dropped to US$7.1 million for the first half of 2011, an improvement from US$68.7 million recorded for the same period in 2010.

Over the period January to June 2011, the overall fiscal deficit widened to US$90.5 million for Aruba, up from a deficit of 0.6 million posted for the first half of 2010. Haiti moved from an overall surplus of US$57.7 million registered for January to June 2010 to an overall deficit of US$44.9 million for the first half of 2011, likely due to increased expenditure due to implementation of infrastructural programmes on the capital side.

The overall fiscal surplus for Guyana dropped by US$5.9 million to US$25.6 million when compared to the performance for the first half of 2010. This was likely due to implementation of the Public Sector Investment Programme, as an improvement was noted on the current fiscal accounts. Trinidad and Tobago observed a marked deterioration on the overall fiscal accounts. The overall surplus moved from US$519.6 million for the first half of 2010 down to US$62.8 million for the first half of 2011. This can be attributed to the deterioration in the current surplus as well as accelerated expenditure on the capital side. Over the period May to June 2011, the pace of capital expenditure for Trinidad and Tobago increased with an average monthly outlay of US54.1 million.

3.4.3 External Debt

Most regional economies incurred growth in debt in the first half of 2011 when compared to the end of 2010. In many cases, the increase in debt in the first half of 2011 was greater than the increase in the same period in the first half of the previous year. The countries recording increased debt in the first half of 2011 were The Bahamas (2.4%), Belize (1.7%), Guyana (6.5%), Jamaica (2.4%) and Suriname (7.2%). However, some countries recorded a reduction in debt owing in most cases to debt servicing. These countries were Barbados (-2.2%), ECCU (-1.3%), Haiti (-42.9%), and Trinidad and Tobago (-0.6%).

Table 11: GROWTH IN EXTERNAL DEBT

COUNTRY	2010 Second Quarter Growth in Debt	Annual Growth in Debt in 2010	2011 Second Quarter Growth in Debt
The Bahamas	0.6	3.5	2.4
Barbados	(0.9)	12.4	(2.2)
Belize	(0.2)	(0.6)	1.7
EC Currency Union	1.2	7.9	(1.3)
Guyana	3.5	11.8	6.5
Haiti	22.7	(33.6)	(42.9)
Jamaica	16.9	27.2	2.4
Curacao and St Marteen	(15.2)	n.a.	n.a.
Suriname	n.a.	n.a.	7.2
Trinidad & Tobago	2.8	11.9	(0.6)

Source: Regional Central Banks

3.5 Banking and Finance

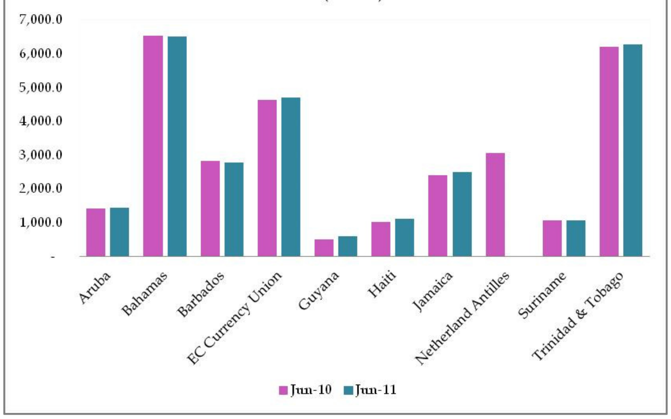
During the first half of 2011, most reporting countries witnessed slow to modest gains in credit activity. In many cases, credit growth was stronger on the consumer side than on the commercial side. Liquidity remained high, reflecting a buildup of deposits within the banking system of most countries, as the private sector remained timid about investment in the context of rising global uncertainties. Consequently, at least two central banks sought to stimulate lending by lowering their policy rate, in the hope of a similar response from the commercial bank lending side. Another central bank sought to contain liquidity through active open market operation.

Domestic Credit

Over the period January to June 2011, the pace of credit activity increased significantly for Belize and Guyana, when compared to the growth registered over the period

January to June 2010. For the first half of 2011 domestic credit for Belize increased by 6.9 per cent compared to the modest outturn of 3.7 per cent obtained for the first half of 2010. This performance can be attributed to strong activity on the real side during the first quarter, despite deteriorating performance in the electricity and water and construction sectors during the second quarter of 2011. Guyana witnessed domestic credit expansion of 6.4 per cent for the first six months of 2011, slowing slightly from 6.8 per cent growth for the first half of 2010. This reflects the strong real growth performance of 5.9 per cent during the period driven largely by investment and spending in the following sectors: services, agriculture, manufacturing, quarrying and mining.

Figure 9: Domestic Credit for First half 2010 and First half 2011 ($USM)



Modest domestic credit performances were achieved by Haiti and Jamaica during the first half of 2011. In Haiti, domestic credit grew by 3.8 per cent over the period January to June 2011, compared to a decline of 3.8 per cent registered over the same period in 2010. This is consistent with the likely rebuilding effort following the earthquake of January 2010. During the first half of 2011, the pace of growth of domestic credit for Jamaica eased to 2.4 per cent, down from 2.7 per cent observed for the same period in 2010. This was attained in an environment of monetary easing where the Central Bank reduced the interest rate on 30-day Certificates of Deposits by 75 basis points via two separate policy actions in February 2011.

Aruba, the ECCU and Trinidad and Tobago all registered minimal increases in domestic credit over the period January to June 2011. For the first half of 2011 domestic credit increased by 0.4 per cent for Aruba relative to a decline of the same magnitude for January to June 2010. This is consistent with contraction of the economy of Aruba by 2.9 per cent in 2010 and weak performance in credit growth for the first four months of 2011. Data available for the period May to July 2011 suggest that private sector credit is expanding as evidenced by a 2.1 per cent increase in credit to enterprises in July 2011. In the ECCU, domestic credit increased by 0.61 per cent for January to June 2011, down from 1.1 per cent growth for the same period in 2010. Trinidad and Tobago recorded growth in domestic credit of 0.25 per cent, in contrast to a decline of 4.4 per cent observed for the first half of 2010. This minimal increase in credit growth can be associated with the monetary easing stance of the Central Bank of Trinidad and Tobago. During the period January to July 2011, the Central Bank lowered the "repo" rate three times: in January, February and July, to reach 3.0 per cent. This led to commercial banks reducing lending rates to stimulate credit activity. Consequently, consumer loans from the commercial banks have therefore recovered by 4.7 per cent as of May 2011 on a year-on-year basis. However, this recovery has not filtered to the commercial sector as credit to businesses fell by 2.2 per cent in May 2011 on a year-on-year basis.

Over the period January to June 2011, declines in domestic credit were noted for The Bahamas, Barbados, and Suriname when compared to the outturn for the first half of 2010. Domestic credit for January to June 2011 fell by the same magnitude of 1.1 per cent for The Bahamas and Barbados relative to the performance for the same period in 2010. For Barbados, the decline in domestic credit represents deterioration from marginal growth in credit of 0.2 per cent obtained over the period January to June 2010. This outturn can be attributed to sluggish economic growth, as real GDP growth is estimated at 1.0 per cent for the first nine months of 2011. The 1.1 per cent decline in domestic credit which was recorded for The Bahamas for the first half of 2011 is of equal size to the decline recorded for the same period in 2010. The decline was mainly due to a fall in the net claims on government held by the commercial banking sub sector, as credit to the private sector increased marginally. For the first half of 2011, growth in private sector credit was largely driven from the consumer side, as there were significant decreases recorded in the tourism, construction and professional services sectors.

Interest Rates and Spreads

Interest rates generally moved downwards during the first half of 2011 when compared to the same period in 2010. The weighted average loan rate decreased for most countries covered by this report, except for The Bahamas and Suriname. In The Bahamas, the weighted average loan rate increased by 44 basis points to reach 11.28 per cent at the end of June 2011. This development may have been due to the fact that the Central Bank's 75 basis point reduction in the discount rate took effect on June 6, 2011, and therefore commercial banks' reactions may not be fully incorporated in interest rate movements over the period January to June 2011. Since the June 6 policy measure, commercial banks have reduced their prime lending rates by about 75 basis points to 4.75 per cent. On the deposit side, the average 3-month deposit rate dropped by 0.75 basis points in June 2011, relative to the same period in 2010. This, in conjunction with the increased weighted average loan rate, allowed for widening of the average commercial bank spread by 129 basis points to 8.9 per cent. In June 2011 the weighted average loan rate grew by 10 basis points in Suriname relative to the position in June 2010. The average three-month deposit rate remained unchanged resulting in minimal change in commercial bank average spreads in Suriname.

Jamaica and Trinidad and Tobago - the two countries that adopted monetary easing policies very early in 2011 - observed declines in the weighted average loan rate of 101 basis points and 122 basis points respectively. Reduction of the policy rates in both countries placed downward pressure on the weighted average loan rate, with greater results in terms of credit growth in Jamaica as opposed to Trinidad and Tobago. In Trinidad and Tobago the average three-month deposit rate fell by 36 basis points to result in a deterioration of the average spread for commercial banks of 86 basis points to reach 8.68 per cent. In contrast, commercial banks in Jamaica adjusted sharply on the deposit side to accommodate falling loan rates. The average three-month deposit rate declined by 199 basis points in June 2011 compared to the rate obtained in June 2010. Average spreads therefore increased by 105 basis points to 16.28 per cent.

For the first half of 2011, the weighted average loan rate for Aruba, Belize and Guyana dropped marginally by 50 basis points, 49 basis points and 38 basis points respectively, due mainly to elevated liquidity levels in those countries. For Guyana, the average three-month deposit rate dropped by 49 basis points with the net result being an increase in the average spread by 11 basis points. Monetary policy in Guyana focused on the sale of Government Treasury securities on the open market to manage liquidity. For the first half of 2011, average three-month deposit rates for Belize dropped 97 basis points, leading to an increase in the average spread of 47 basis points. In Belize, excess demand for Government securities from the commercial bank sub-sector prompted the Central Bank on April 1, 2011 to lower the securities requirement for commercial banks from five per cent of their deposit liabilities to three per cent of their deposit liabilities. Aruba witnessed a significant increase in the average spread for June 2011 when compared to the outturn in June 2010. The average spread advanced by 320 basis points as a result of the combined effect of a drop in the average deposit rate of 120 basis points and an increase in the weighted average loan rate of 50 basis points.

Barbados, the ECCU and Haiti all posted minimal reductions in the weighted average loan rate of 18 basis points, 19 basis points and 17 basis points respectively. On the deposit side, Barbados and the ECCU both witnessed no change in the average three-month deposit rate, resulting in minimal change in the average spread for these two countries. In Haiti, the average three-month deposit rate moved downward by 15 basis points, with the combined lending and deposit reductions resulting in the average spread advancing by 43 basis points.

Banking Sector Deposits and Loans

Among the ten reporting countries, five recorded an increase in total loans outstanding and the other five countries posted a decline in total banking sector loans outstanding during the first half of 2011 compared to total loans outstanding for the comparable period in 2010. For the first half of 2011, The Bahamas registered a decline in total banking sector loans of 1.6 per cent relative to growth of 1.2 per cent for the first half of 2010. A decline in the banking sector's net claim on the Government of $107.6 million combined with a fall in domestic credit is a likely contributor to this performance. Similarly, total banking sector loans outstanding in Barbados for the first half of 2011 contracted by 1.5 per cent compared to a modest growth of 3.1 per cent achieved for the first half of 2010, perhaps due to reduced credit activity during the period under consideration. The ECCU also recorded a marginal reduction in total banking sector loans outstanding during the January to June 2011 of 0.09 per cent following a similar decline of 0.6 per cent for the first half of 2010. This performance is consistent with minimal growth in domestic credit of 0.6 per cent achieved during the first half of 2011.

For the first half of 2011, total banking sector loans outstanding in Haiti fell 13.4 per cent, building on a decline of 11.5 per cent which occurred during the similar period in 2010. This occurred despite a 3.8 per cent increase in domestic credit, and may be due to commercial banks having to write off significant loans following the January 2010 earthquake. In like manner, Suriname posted a decline of 5.2 per cent in total banking sector loans outstanding for the first half of 2011, relative to growth of 3.3 per cent for the same period in 2010. This result in part reflects the significant decline (6.1 per cent) in domestic credit registered for the period January to June 2011.

Consistent with strong growth in domestic credit in Guyana during the first half of 2011, total banking sector loans outstanding increased by 5.3 per cent. Aruba, Belize, Jamaica and Trinidad and Tobago registered small increases in total banking sector loans outstanding for the first half of 2011. In the case of Aruba, total banking sector loans outstanding increased by 0.44 per cent, broadly in line with the rate of credit growth. For the first six months of 2011, total banking sector loans outstanding increased by 0.83 per cent for Trinidad and Tobago, an improvement on the decline of 3.0 per cent recorded during the first half of 2010. Total banking sector loans outstanding increased by 0.40 per cent and 0.27 per cent for Belize and Jamaica respectively during the period January to June 2011. The performance for Jamaica followed growth of total outstanding banking sector deposits of 2.1 per cent for the first half of 2010 consistent with slower credit growth in 2011.

With the exception of Aruba, The Bahamas and Guyana, all countries recorded increases in US dollar deposits for the first half of 2011. US dollar deposits increased by 15.6 per cent in Barbados following strong growth of 11.4 per cent for the first half of 2010. Similarly, Belize posted growth of 21.2 per cent of US dollar deposit for January to June 2011, following an increase of 16.1 per cent for the same period in 2010. Growth in US dollar deposits for the first half of 2011 for Suriname stood at 10.1 per cent in contrast to a decline of 5.9 per cent posted for the first six months of 2010. The ECCU and Trinidad and Tobago registered growth in US dollar deposits of 4.6 per cent and 3.3 per cent respectively, following declines of 3.2 per cent and 10.9 per cent for the first half of 2010. Aruba and Guyana witnessed a fall in total US dollar deposits within the banking system of 7.7 per cent and 8.0 per cent respectively over the period January to June 2011. A small decline of 1.9 per cent in total US dollar deposits was posted for The Bahamas for the first half of 2011, in contrast to growth of 2.6 per cent recorded for the same period in 2010.

Reflecting overall high liquidity conditions in the region, total banking sector deposits grew in all but two reporting countries over the period January to June 2011. Barbados witnessed the largest increase in banking sector deposits of 23.9 per cent for the first half of 2011, compared to a decline of 13.6 per cent for the comparable period in 2010. Growth in deposits stood at 6.0 per cent for Guyana for the period January to June 2011, slightly below the growth figure of 7.6 per cent recorded for the first half of 2010. For the first half of 2011, total banking sector deposits for Haiti grew by 4.0 per cent building on the 23.4 per cent growth recorded during the same period in 2010. After minimal growth in banking sector deposits of 0.3 per cent for January to June 2010, Belize posted growth in total deposits of 4.2 per cent for the same period in 2011. In the ECCU, growth in total banking sector deposits also strengthened to reach 3.5 per cent following a slower pace of 2.0 per cent recorded for the first half of 2010. Jamaica recorded a negligible increase in the total banking sector deposits of 0.03 per cent, following a robust performance of 6.4 per cent for the period January to June 2010. In The Bahamas, the rate of increase of total banking sector deposits slowed to 2.8 per cent, down from the 3.3 per cent climb achieved for the first half of 2010. Following a drop in banking sector deposits of 4.9 per cent in Trinidad and Tobago over the period January to June 2010, banking sector deposits increased by 2.2 per cent during the first half of 2011.

Consistent with the slower pace of economic activity, total banking sector deposits for Aruba fell by 1.9 per cent for the first half of 2011, following an increase of 4.2 per cent for the same period in 2010. Similarly, Suriname posted a decline in total banking sector deposits of 4.0 per cent during the first half of 2011.

Prudential Indicators

A crude estimate of the loans-to-deposit ratio using data available to the CCMF shows that liquidity conditions improved during the first half of 2011, relative to the first half of 2010 for Haiti, Jamaica and Trinidad and Tobago, as the loans-to-deposit ratio dropped. Liquidity conditions remained steady for Guyana, while conditions eased slightly in Belize and the ECCU compared to the position for January to June 2010. The banking system remained relatively liquid in both Aruba and Suriname. The estimate for The Bahamas and Barbados reflects tighter liquidity conditions in those countries.

Table 12: Crude Loans/Deposit Ratios

Country	June 2010	June 2011	Change in Basis Points
Aruba	0.7	0.74	0.04
The Bahamas	1.4	1.11	(0.03)
Barbados	4.8	4.33	(0.47)
Belize	0.88	0.87	(0.02)
ECCU	0.88	0.85	(0.03)
Guyana	0.30	0.30	0.01
Haiti	0.46	0.28	(0.18)
Jamaica	0.70	0.69	(0.01)
Netherland Antilles	0.63	n.a.	(0.63)
Suriname	n.a.	0.66	0.66
Trinidad and Tobago	0.64	0.62	(0.02)

Source: CCMF

With respect to indicators of asset quality during the first half of 2011, these indicators improved marginally for some of the countries for which data was available. In Aruba, the ratio of non-performing loans dropped to 9.8 per cent at the end of the first quarter of 2011 from 10.8 per cent in December 2010, as a result of write-offs of a share of the non-performing portfolio. At the end of June 2011, The Bahamas recorded a 16 basis point decline in the ratio of private sector arrears to total loans to 18.4 per cent on a year-on-year basis. This was due to a fall in commercial loan delinquencies, as consumer delinquencies increased. In Trinidad and Tobago, the ratio of nonperforming loans to total loans increased to 5.3 per cent at the end of March 2011 up from 5.0 per cent in December 2010 and four percent in April 2010. For Guyana, on a year-on-year basis, the ratio of nonperforming loans to total loans increased marginally from 4.9 per cent in June 2010 to 5.1 per cent for June 2011.

For the first quarter of 2011, the average risk-weighted capital asset ratio stood at 19.5 per cent for the Aruba banking system, above the 14 per cent required minimum. In Trinidad and Tobago, commercial banks witnessed improvements in capital adequacy ratio from 22.0 per cent in March 2010 to 24.6 per cent in March 2011. Guyana registered an improvement in the ratio of regulatory capital to risk-weighted assets, from 19.0 per cent in June 2010 to 20.0 per cent in June 2011.

In The Bahamas, overall profitability for the first quarter of 2011 of the banking system dropped by 4.6 per cent compared to growth in profitability of 10 per cent for the first quarter of 2010, due to a net loss from non-core operating activities. In Guyana, licensed depository financial institutions recorded improved levels of profit for the first half of 2011 compared to the performance in 2010.

3.6 External Trade

3.6.1 External Current Account

There were mixed performances on the external current account in the first half of 2011 compared to the corresponding period of the previous year, see Table 13. From among the countries for which data were received, Suriname was the best performer as it continued to consistently record surpluses. However its surplus declined by 15 per cent in the second half of the year to reach US$179.9 million. For Aruba, the external account balance rebounded in the second quarter to reach a surplus of US$91.2 million following a deficit of US$88.5 million in the previous quarter.

Table 13: External Current Account Balance (US$M)

COUNTRY	2010		2011	
	QI	QII	QI	QII
Aruba	88.5	(48.9)	(258.9)	91.2
The Bahamas	(49.2)	(109.5)	(198.2)	(126.1)
Barbados	(8.7)	(106.9)	(110.2)	(136.5)
Belize	9.8	(1.4)	27.2	(6.2)
EC Currency Union	n.a.	n.a.	n.a.	n.a.
Guyana	(115.1)	(29.2)	(109.4)	(75.4)
Haiti	n.a.	n.a.	n.a.	n.a.
Jamaica	(44.4)	(240.6)	(199.7)	n.a.
Curacao and St Marteen	(19.2)	(231.4)	n.a.	
Suriname	248.9	193.8	207.6	179.9
Trinidad & Tobago	966.4	842.0	n.a.	n.a.

Performances also improved in terms of reduced deficits for The Bahamas and Guyana in the second half of 2011. For The Bahamas, the deficit reduced to US$126.1 million in the second quarter of 2011, compared to US$198.2 in the first quarter of 2011. Also, for

Guyana the deficit reduced to US$75.4 million from US$109.4 million in the previous quarter. The deficit widened for Barbados with its current account balance reaching US$136.5 million, which represented an increase of US$26.3 million. Belize also reported a weakening of the current account balance in the second quarter of 2011.

There was a general strengthening of trade performances for the first half of 2011 compared to the corresponding period of the previous year, see Table 14. Aruba recorded the strongest improvement as exports more than tripled while imports almost tripled in the second quarter of 2011. Exports consistently declined over successive quarters for the ECCU, but rebounded in the second quarter of 2011. For all other countries for which data were available, the strengthening of trade was shared across both quarters.

Table 14: Growth in Trade in Goods and Services to Corresponding Quarter of Previous Year

COUNTRY		2010				2011	
		QI	QII	QIII	QIV	QI	QII
Aruba	Exports	(45.0)	(55.8)	(32.0)	(7.0)	145.8	365.5
	Imports	(45.5)	(52.6)	12.2	29.8	250.9	298.1
The Bahamas	Exports	4.3	5.0	7.1	13.1	2.4	5.1
	Imports	(5.2)	(9.6)	5.5	14.5	12.7	9.8
Barbados	Exports	4.2	0.7	38.4	17.8	22.5	9.4
	Imports	5.6	9.1	9.4	7.1	16.0	17.2
Belize	Exports	24.5	33.1	24.0	34.3	36.5	31.6
	Imports	(4.9)	3.7	(1.8)	28.5	30.1	17.6
ECCU	Exports	(21.7)	(31.1)	(31.1)	(57.3)	(55.0)	12.6
	Imports	(12.2)	6.2	(3.8)	0.2	7.4	0.9
Guyana	Exports	9.9	13.2	11.3	24.2	24.3	42.7
	Imports	25.2	29.1	19.2	9.6	16.6	33.7
Haiti	Exports	22.0	(23.3)	0.6	8.3	5.9	85.2
	Imports	(0.2)	35.1	76.4	24.0	37.2	23.0
Jamaica	Exports	5.5	(10.7)	(11.1)	13.9	11.6	n.a.
	Imports	(3.7)	10.1	(2.4)	8.6	21.0	n.a.
Netherland Antilles	Exports	(0.8)	(4.3)	(2.5)	n.a.	n.a.	n.a.
	Imports	5.3	5.6	3.8	n.a.	n.a.	n.a.
Suriname	Exports	n.a.	n.a.	n.a.	8.7	28.1	n.a.
	Imports	(73.9)	n.a.	n.a.	n.a.	13.1	12.0
Trinidad and Tobago	Exports	(31.2)	66.8	64.9	65.0	n.a.	n.a.
	Imports	7.0	(12.6)	(3.6)	(15.1)	n.a.	n.a.

There were mixed performances with respect to the tourism industry, see Table 15. Only Aruba and Belize reported consistently improved performances in tourism revenues for both quarters of the first half of 2011. The strongest improvement of over 31 per cent was recorded by Belize. Barbados continued to record a contraction of the industry as growth declined for the fourth consecutive quarter, recording negative growth of 7.2 per cent in the second quarter of 2011. The Bahamas and Guyana recorded negative growth in at least one of the quarters in the year, for The Bahamas in the first quarter (3.7%) and Guyana in the second quarter (41.7%).

Table 15: GROWTH IN TOURISM REVENUE COMPARED TO CORRESPONDING QUARTERS FOR PREVIOUS YEAR

COUNTRY	2010				2011	
	QI	QII	QIII	QIV	QI	QII
Aruba	3.6	6.2	(1.3)	1.1	7.3	11.6
The Bahamas	6.7	5.6	12.2	23.1	(3.7)	4.0
Belize	24.5	33.1	24.0	34.3	36.5	31.6
Guyana	0.0	107.4	221.2	165.7	149.9	(41.6)
Netherland Antilles	(2.1)	11.1	14.5	n.a.	n.a.	n.a.
Trinidad & Tobago	(31.2)	66.8	64.9	65.0	n.a.	n.a.

There were mixed performances for the Minerals and Fuels sector, see Table 16. From the early data received, The Bahamas and Guyana recorded positive growth while the industry recorded a contraction for the first quarter of 2011. Data were not yet available for Trinidad and Tobago for 2011, but the data showed that the industry recorded consecutive positive growth for the last three quarters of 2010.

Table 16: GROWTH IN MINERALS AND FUELS COMPARED TO CORRESPONDING QUARTER OF PREVIOUS YEAR

COUNTRY	2010				2011	
	QI	QII	QIII	QIV	QI	QII
The Bahamas	77.7	96.8	(9.0)	34.2	33.4	n.a.
Guyana	10.5	33.4	28.6	25.0	48.6	41.1
Jamaica	65.5	25.1	4.4	30.1	(22.3)	n.a.
Trinidad & Tobago	(36.5)	51.7	28.4	28.1	n.a.	n.a.

The manufacturing sector exhibited mixed fortunes (Table 17). Guyana and Haiti recorded the best performances for the sector as preliminary data showed that the sector continued to record consistent growth in successive quarters. Barbados recorded the weakest performance of the sector as it exhibited consistent declines in successive quarters of 2011. There were declines reported in The Bahamas and Jamaica in the first quarter of 2011. However data were not available for the second quarter. Similarly, data were not available for Trinidad and Tobago.

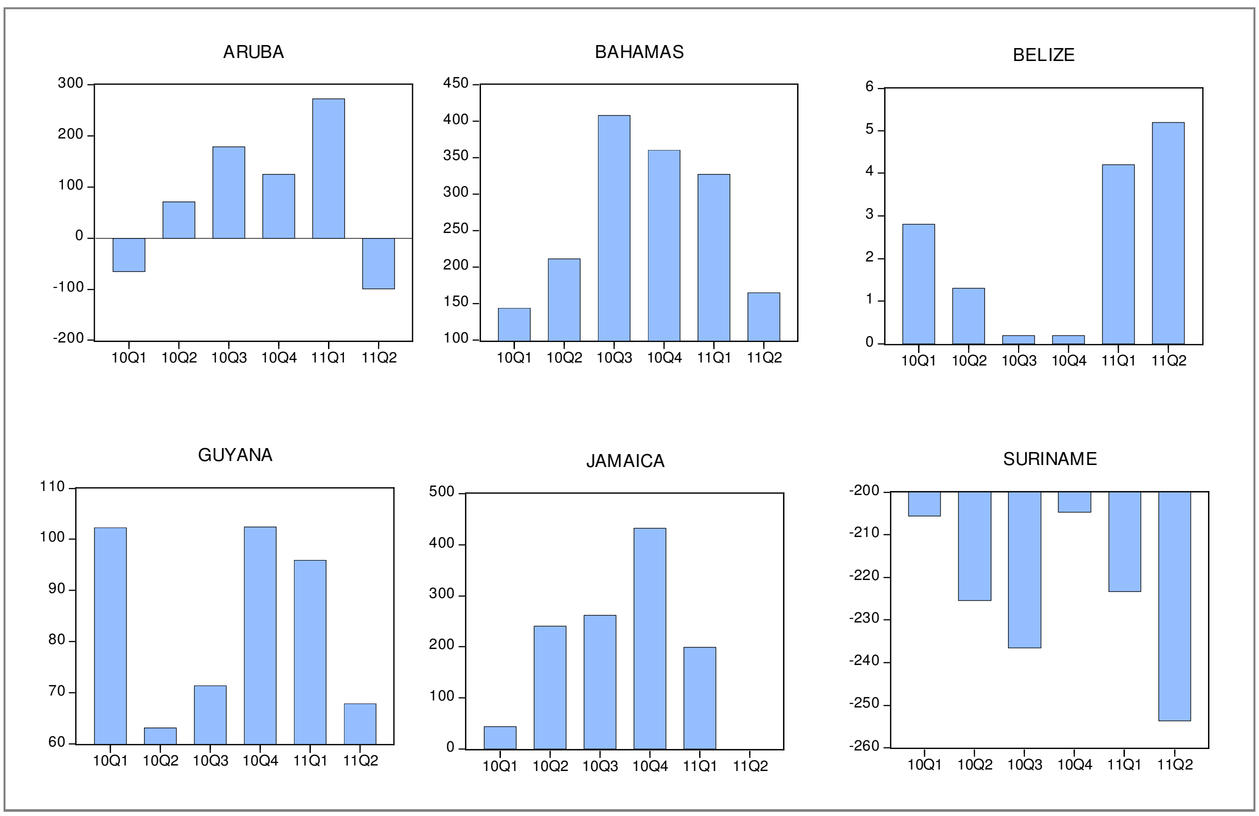
Table17: GROWTH OF MANUFACTURING COMPARED TO CORRESPONDING QUARTER OF PREVIOUS YEAR

COUNTRY	2010				2011	
	QI	QII	QIII	QIV	QI	QII
The Bahamas	6.7	5.6	12.2	23.1	(3.7)	4.0
Barbados	4.0	(8.4)	32.5	16.1	(1.4)	(1.2)
Guyana	30.0	27.5	24.1	1.2	17.7	17.5
Haiti	23.2	(24.5)	2.8	8.1	11.6	96.4
Jamaica (in US $M)	371.4	(28.5)	77.4	387.0	(84.8)	n.a.
Trinidad & Tobago	(8.0)	281.0	65.8	21.2	n.a.	n.a.

3.6.2 External Capital Account

The adverse performance of the external current account in most regional economies continued to leave them dependent on external capital inflows. However, in most cases the performance of the capital account weakened in the second quarter of 2011. This was particularly the case in Aruba, The Bahamas, Guyana and Jamaica. Two reasons for the weakening of the account were net outflows to finance oil imports and a weakening of FDI. In contrast, inflows increased in Belize. Suriname continued to exhibit net external capital outflows.

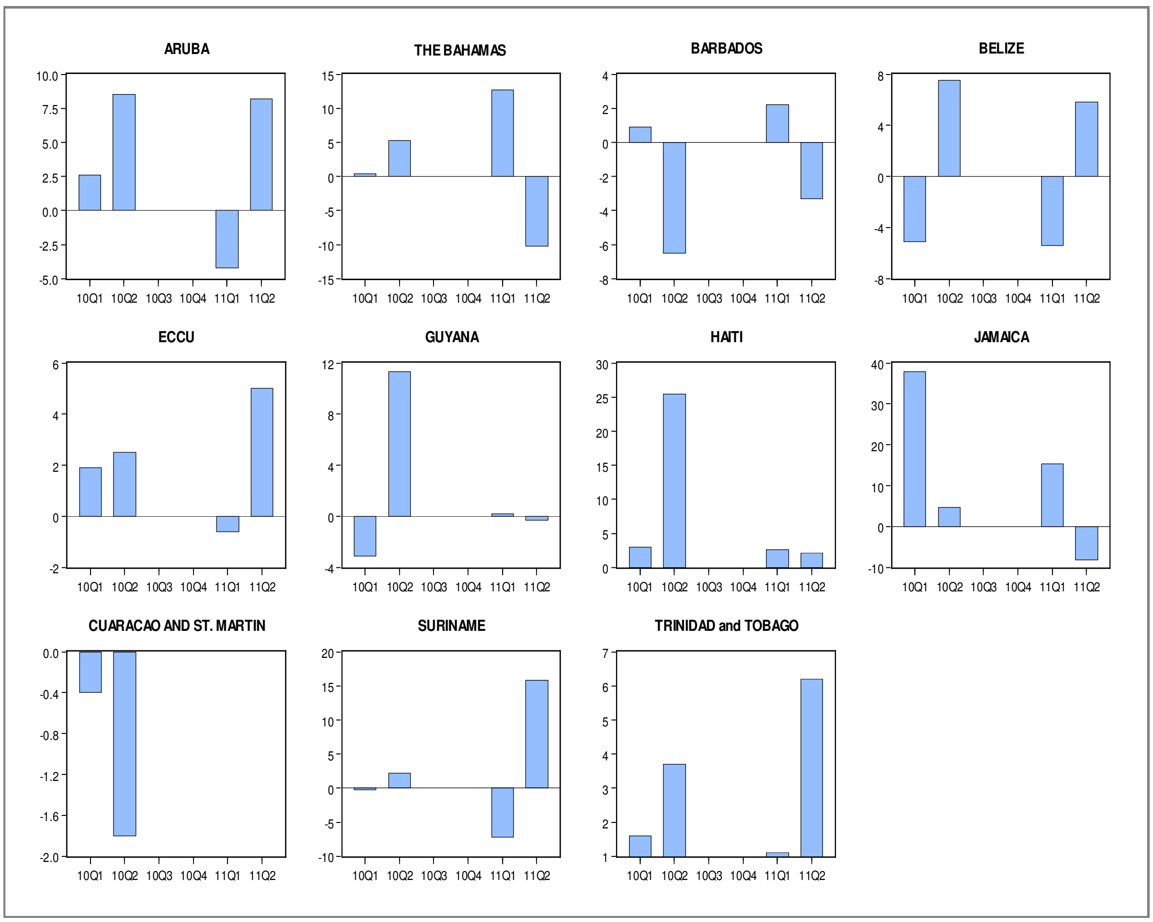
Figure 10: EXTERNAL CAPITAL ACCOUNT



3.6.3 Foreign Exchange Reserves

The region's gross reserves increased from US$17.7 billion at the end of the second quarter in 2010 to US$19.8 billion at the end the second quarter of 2011, largely as a result of increases in Trinidad and Tobago, Jamaica and Haiti. Growth in foreign exchange reserves strengthened in the second quarter of 2011 in Suriname and Trinidad and Tobago. The majority of countries, however, had to resort to using their reserves. Growth in reserves declined in the second quarter of 2011 in these countries compared to the corresponding period of the previous year. This was particularly the case in The Bahamas, Barbados, Guyana and Jamaica where there was a slump in excess reserves to negative growth. In addition, the growth of foreign exchange reserves weakened in Aruba, Belize and Haiti as there was a slowdown in growth in these territories.

Figure 11: COMPARISON OF GROWTH OF FOREIGN EXCHANGE RESERVES



4.0 CARIBBEAN ECONOMIC PROSPECTS

The prospects for growth in the Caribbean hinge largely on developments in the global economy. In particular, the fortunes of the Caribbean are closely linked to that of developed market economies since they 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 most are net importers of energy supplies, facts which have huge import for their external accounts.

Given that growth is recovering but at a slow 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 high by historical standards. Oil prices are expected to remain just above US$100 per barrel for long periods and to spike above this level 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.

Table 18: CARIBBEAN GROWTH PROSPECTS

Country	Actual		Projections	
	2009	2010	2011	2012
Antigua and Barbuda	-9.6	-4.1	2.0	2.5
The Bahamas	-5.4	1.0	2.0	2.5
Barbados	-4.7	0.3	1.8	2.2
Belize	0.0	2.7	2.5	2.8
Dominica	-0.7	0.3	0.9	1.5
Grenada	-7.6	-1.4	0.0	1.0
Guyana	3.3	4.4	5.3	6.0
Haiti	2.9	-5.4	6.1	7.5
Jamaica	-3.0	-1.2	1.5	1.7
St. Kitts and Nevis	-4.4	-1.5	1.5	1.8
St Lucia	-1.3	4.4	2.0	2.6
St Vincent and the Grenadines	-2.3	-1.8	-0.4	2.0
Suriname	3.1	4.4	5.0	5.0
Trinidad and Tobago	-3.5	-0.6	1.1	2.6
Regional Average				

Source: IMF, Global Economic Prospects, September 2011.

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 the latest IMF estimates, the average growth for the region is expected to improve from 0.11% in 2010 to 2.24% in 2011 with further strengthening to 3.0% in 2012. Guyana, Haiti and Suriname are expected to record growth in excess of 3% in 2011 and

2012 (see Table 18). 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, were 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 and 2012.

5.0 APPENDIX

Country Reports

ARUBA

Economic Survey – October 2011
(Central Bank of Aruba)

According to the latest estimates, the Aruban economy contracted by 2.9 per cent in real terms in 2010, due mainly to the operations of the Valero refinery being dormant for the whole year, which had significant negative repercussions throughout the economy. In addition, the economic recovery in the United States was insufficient to trigger a significant rebound in either tourist arrivals or tourism receipts in real terms. Business investment experienced a steep decline due to increased uncertainty among business and consumers and the challenging international economic environment. The lack of major investment projects under execution to jumpstart the economy was another cause for concern, as several planned projects, both private and public, encountered significant delays. Under these weak economic conditions, unemployment estimated at 9.0 per cent remained relatively high in 2010. This was especially the case in the construction sector.

Aruba's economy is regaining strength in 2011, primarily as a result of the restart of the Valero refinery in January 2011. Moreover, the construction of the Ritz Carlton Hotel is progressing in 2011, and together with other investment projects currently in the pipeline, contributes to an increase in investment. Meanwhile, based on the outcome of the first eight months of 2011, the tourism sector showed further strong improvements. Consequently, the economy is estimated to grow by 10.6 percent in real terms in 2011. Note that about 2/3 of this growth is attributed to the reopening of the Valero refinery.

In 2012, Aruba's real GDP will continue its recovering path, growing by an estimated 3.6 percent in real terms, a more moderate pace than in 2011. This forecast is strongly influenced by the assumptions regarding the amount of investment projects that will be implemented. It is difficult to forecast with any degree of certainty which of these projects will actually be executed during 2012. The Central Bank van Aruba (CBA) has based its estimate of investments in 2012 on the assumption that the level of investments will continue to grow, supported by the ongoing economic recovery and improving investor confidence. These events will bring the level of investment higher than the level expected in 2011, but still below the level recorded in 2008.

1. Tourism

According to data provided by the Aruba Tourism Authority (ATA), the number of stay-over visitors went up by 6.5 percent during the first eight months of 2011 compared to the corresponding period of 2010.
The increase is indicative of Aruba's recovering economy. In addition, balance of payments data indicates tourists were spending more during 2011, as tourism receipts[3] went up by 9.2 percent. After a weak performance in 2010 (-6.2 percent growth), the activities in the cruise tourism industry grew significantly during the first eight months of 2011, rising by 10.7 percent. For 2011 as a whole, growth in stay-over tourism is projected to widen by 4.4 percent.

2. Inflation

In August 2011, the consumer price index increased by 6.9 percent compared to the same month in 2010. The 12-month average inflation rate accelerated to 2.1 percent. In August 2011, the inflation in Aruba was o.3 percentage point lower than in the United States. Therefore, the attractiveness of Aruba to tourists from the United States improved slightly during this period. The 12-month average inflation is expected to reach 3.6 percent for the year 2011 and 2.9 percent in 2012.

3. Government finance

The government registered an Afl. 208.7 million financial deficit on a cash basis in 2010. On a cash-adjusted basis, which takes into account changes in the unmet financing requirements, the government financial deficit amounted to Afl. 194.3 million in 2010, compared to a deficit of Afl. 162.6 million in 2009. This deterioration was, on balance, the result of an Afl. 75.0 million increase in government revenues and an Afl. 106.9 million rise in expenditures (including net lending) on a cash-adjusted basis. The rise in the government revenues was due largely to an incidental receipt related to a tax settlement agreement reached with the Valero Oil refinery in February of 2010. As a result of the agreement, taxes owed by the Valero oil refinery in the amount of Afl. 259.9 million were settled in June 2010 by means of a payment of Afl. 211.6 million by the Valero oil refinery to the government of Aruba, this means that the company obtained a tax reduction of Afl. 48.3 million.

When excluding the one-off tax reduction, government expenditures primarily grew in 2010 as a result of higher personnel-related outlays, transfer to the General Health Insurance (AZV), interest payments, and payments for goods and services. In the first half of 2011, the largest increases in expenditure were recorded in personnel-related outlays and interest payments.

At end-June 2011, Aruba's outstanding public debt reached Afl. 2,562.0 million or 57.6 percent of nominal GDP (Table 4). In the second quarter of 2011, the government issued bonds and

[3] As registered on a cash basis in the balance of payments.

treasury bills on the domestic market totaling Afl. 258.8 million, while total repayments amounted to Afl. 99.2 million. Since the end of 2008, the debt-to-GDP ratio is on an increasing path.

5. Monetary development

Aruba's money supply rose by Afl. 63.6 million or 2.0 percent to Afl. 3,218.2 million in the first eight months of 2011 (Table 5), owing to an Afl. 116.0 million expansion in net domestic assets. Meanwhile, net foreign assets contracted by Afl. 52.4 million. The net foreign assets of the monetary system (excluding revaluation differences of gold and official foreign exchange holdings) amounted to Afl. 1,256.9 million at the end of August 2011, down 16.3 percent compared to August 2010.

After rebounding in 2010, net domestic assets expanded further in the first eight months of 2011. It should be noted however that a large part of the growth in net domestic assets was attributable to the purchase of government bonds by the commercial banks. Banking sector's credit to the private sector continued to show a weak performance in 2010 and in the first four months of 2011. As of May 2011 onwards, total credit to the private sector increased by Afl. 52.0 million (+2.1 percent), brought about mainly by credit to enterprises.

6. Balance of payments

During the first two quarters of 2011, the current account of the balance of payments recorded a deficit of Afl. 300.3 million, in contrast to a surplus of Afl. 70.8 million registered in the corresponding period of 2010 (Table 6). This was mainly the result of the large import of crude oil in 2011 versus the inactivity in the oil sector in 2010. The lower outcome of the current account (net) in the non-oil sector is explained by substantial higher import of goods.

The capital and financial account (including items not yet classified) posted an Afl. 312.3 million net inflow in the first two quarters of 2011, overshadowing the Afl. 6.2 million net inflow in the corresponding period of 2010. This outcome reflected to a large extent the net inflow of the oil sector in the form of supplier credit received to finance crude oil imports. Consequently, the balance of payments registered an Afl. 12.1 million overall surplus (excluding banking transactions).

The net international reserves of the monetary system (including revaluation differences of gold and foreign exchange holdings) rose by of Afl. 38.9 million in the first half of 2011. This reflected an Afl. 67.2 million increase in the official reserves, which was partly mitigated by a contraction in the net foreign assets of the commercial banks. The 12-month coverage ratio of all current account payments stood at the end of June 2011 at 5.5 months, down from 6.3 months at the end of 2010.

7. Conclusion

After a disappointing 2010, the Aruban economy is on a recovery path in 2011. The main driver of this growth is the reopening of the Valero oil refinery, although the tourism sector is also contributing strongly to this recovery. The current level of investment, together with the investment projects planned by the government, will stimulate further economic growth in 2012.

Despite these observations, there still are some points of concern. Fueled by external factors, domestic inflation is increasing and is expected to remain at elevated levels. Government debt is growing rapidly to nearly 60 percent of GDP, which is considerably higher than deemed satisfactory. Also, while a declining trend can be seen in the level of the net foreign assets since June 2010, it still remains at a level that is considered adequate.

Central Bank van Aruba
Research Department
October 17, 2011

THE BAHAMAS

ECONOMIC REVIEW – JUNE 2011
(CENTRAL BANK OF THE BAHAMAS)

THE DOMESTIC ECONOMIC DEVELOPMENTS

The recovery in the Bahamian economy was sustained at a modest pace during the second quarter of 2011, despite growing signs of economic and fiscal challenges in the key United States market. Indications are that tourism output was supported by steady, although moderate, gains in hotel earnings, in the context of an improvement of the group business segment—and continued strengthening in cruise arrivals. The firming in construction output benefitted from a combination of foreign investment led activity and the public sector's ongoing infrastructure programmes. However, the economic challenges posed by the narrowness of the recovery continued to be evidenced in high unemployment— although the rate has declined over the last two years, to 13.7% in May 2011—and borrowers' difficulty in meeting debt servicing obligations. On the prices front, domestic inflationary pressures stayed relatively benign over the twelve-months to May, but with some firming in fuel costs, amid elevated international oil prices.

Fiscal sector developments registered a narrowing in the overall deficit for the eleven months of FY2010/11, when compared to the same period a year earlier, supported by several significant one-off revenue transactions, which boosted total receipts and mitigated a modest growth in aggregate expenditure. Budgetary financing was sourced mainly through domestic borrowings, and was augmented by privatization proceeds from Government's sale of 51% of its shares in the Bahamas Telecommunications Company Ltd. (BTC).

Monetary sector activity featured expansions in both liquidity and external reserves, associated mainly with the receipt of foreign currency inflows from the BTC privatization exercise, ongoing foreign investment inflows and, to a lesser extent, tourism activities. Meanwhile, private sector credit remained anemic, reflecting continued softness in domestic demand. With borrowers' capacity constrained by the ongoing challenging economic environment, banks' asset quality indicators remained elevated over the review quarter, necessitating increases in loan loss provisions. In interest rate developments, the lowering of the Central Bank's Discount Rate and commercial banks' Prime rate, by 0.75 percentage points each in early June, contributed to the widening in the interest rate spread, as the reduction in the weighted average deposit rate outpaced the falloff in the corresponding lending rate.

In the external sector, indications are that the current account deficit widened, owing to an expansion of the merchandise trade deficit, partly associated with outward payments linked to foreign investment activity, which offset a modest rise in the surplus on the services account. In addition, the capital account surplus narrowed, as the expansion in other "miscellaneous" net outflows, led by public sector repayments of short-term foreign currency borrowings, outpaced the slight increase in net inward direct investments.

FI SCAL OPERATIONS

OVERVIEW

During the eleven months of FY2010/11, the overall fiscal deficit contracted by 27.5% to $237.0 million, as several significant one-time transactions led to revenues firming by 9.8% to $1,268.0 million, which outstripped a 1.6% increase in expenditure to $1,505.0 million.

REVENUE

The growth in revenue was led by an 18.9% ($183.5 million) boost in tax receipts—which comprised 91.2% of total collections—to $1,155.9 million. Underpinning this outturn was an 82.0% ($104.2 million) surge in the "nontrade" stamp tax segment, to $231.2 million, which benefited from tax-related receipts associated with the sale of a local oil refinery. The $30.6 million (50.3%) gain in departure taxes, to $91.5 million, was primarily due to timing-related factors. In particular, selected taxes on services rose by 66.8% ($21.6 million) to $54.0 million, as arrears payments boosted gaming taxes by 84.7% ($8.2 million), while hotel occupancy taxes firmed by 59.1% ($13.4 million). Despite relatively mild consumer demand impulses, taxes on international trade transactions— which accounted for the majority of receipts—rose by 5.6% ($28.3 million) to $531.8 million; as gains in import taxes (2.9%), stamp taxes from imports (9.9%) and excise taxes (11.0%) outpaced the 4.5% contraction in export taxes. More modest increases were recorded for business and professional license fees ($10.2 million) and motor vehicles ($6.2 million). However, miscellaneous revenue, as captured in the 'other' category and property taxes declined by $9.7 million and $0.9 million, to $38.3 million and $86.1 million, respectively.

Non-tax inflows were lower by 38.6% ($70.4 million) at $112.1 million over the period, as income receipts returned to trend levels, following a 36.0% surge in the prior year that was related to the sale of a local oil facility. Consequently, revenues from this category receded by 73.0% ($76.6 million) to $28.4 million, given the 75.2% ($77.6 million) contraction in receipts from other sources. However, income from public enterprises advanced by 54.8% ($1.0 million), and collections of fines, forfeits & administration fees were higher by $5.7 million at $82.9 million.

EXPENDITURE

On the spending side, both current and capital outlays advanced, by 2.7% ($34.4 million) and 22.7% ($29.1 million), to $1,301.9 million and $157.4 million, respectively. In contrast, net lending to public enterprises contracted by almost 50% ($40.4 million) to $45.7 million.

The expansion in current outlays was primarily explained by higher transfer payments, which advanced by $35.6 million (7.0%) to $542.6 million and overshadowed the $1.2 million (0.2%) softening in consumption expenses to $759.3 million. Within the transfers category, interest payments on debt obligations firmed by $18.7 million (10.9%) to $189.9 million, reflecting the growing debt levels, while subsidies and other transfers rose by $16.9 million (5.0%), buoyed by increased outlays to households ($15.1 million), non-financial public enterprises ($2.1 million), transfers abroad ($1.4 million) and nonprofit institutions ($0.8 million). Conversely, reductions were registered for subsidies ($1.5 million) and allocations to public corporations ($1.1 million).

By functional classification, recurrent outlays for general public services, which accounted for 27.1% of current spending, advanced by 5.0% ($16.8 million) to $352.8 million, with those earmarked for general administration higher by 8.6% ($15.9 million). Spending for economic services was augmented by $9.2 million (7.2%) to $136.1 million, distributed among public works & water supply ($9.5 million), tourism ($3.3 million) and post office operations ($1.2 million), which outweighed contractions in transportation ($4.4 million) and agriculture & fisheries ($0.5 million). Disbursements for education ($9.7 million), health ($4.5 million) and other community & social services ($1.6 million) were reduced, while payments for unallocable expenses and social benefits grew by $18.7 million and $5.2 million, respectively.

Capital spending rose by 22.7% to $157.4 million, reflecting a $12.2 million (10.5%) increase in infrastructure outlays to $128.9 million. In addition, expenditures for asset acquisitions surged more than two-fold ($18.1 million) to $25.8 million, owing mainly to higher purchases of land ($7.7 million), equity investments in small and medium sized businesses ($7.7 million), and other "miscellaneous" assets ($2.6 million). In contrast, capital transfers to public corporations fell by one-third to $2.2million; and those to non-financial public enterprises were marginally reduced to $0.5 million.

On a functional basis, growth in capital spending reflected a more than two-fold expansion in general public service outlays to $29.6 million, as property purchases from an oil company, combined with equity investments, led to general administration costs increasing more than three-fold to $28.4 million. Similarly, disbursements for economic services grew by $17.1 million (18.0%) to $112.5 million, owing mainly to an $18.8 million hike in public works and water supply expenditures.

FINANCING AND THE NATIONAL DEBT

During the eleven months through May 2011, budgetary financing was dominated by Bahamian dollar borrowings of $283.6 million and the net receipt of $210 million in proceeds from the sale of Government's 51% interest in BTC. In terms of the former, the bulk of the funding comprised Government bonds ($235.0 million), while loans & advances accounted for the remaining $48.6 million. Also, internal foreign currency financing was sourced from commercial banks, via a $70.0 million short-term loan, and external borrowing amounted to $46.2 million. Debt repayments totaled $254.2 million, made up of $174.6 million in Bahamian dollar denominated commitments and $70.9 million in mainly short-term foreign currency loan repayments. An additional $8.7 million in external obligations were also repaid.

At end-June 2011, the Direct Charge on Government was reduced by $199.2 million (5.3%) to $3,541.5 million from the previous three-month period, but was $140.6 million (4.1%) above the year earlier level. In terms of the components, Bahamian dollar debt accounted for 79.0% of the Direct Charge and foreign currency obligations, the remaining 21.0%. The largest portion of the debt was held by commercial banks (36.2%), followed by private and institutional investors (31.0%), public corporations (24.6%), the Central Bank (7.9%) and other local financial institutions (0.3%). By instrument, long-term Government bonds made up the majority of debt (88.3%), and the balance by Treasury bills (9.1%), and loans & advances (2.6%).

The National Debt, which includes contingent liabilities, was lower by $206.6 million (4.8%) during the quarter, due mainly to a decline in the outstanding liabilities of the Bahamas Electricity Corporation and the Bahamas Mortgage Corporation. However, the debt stock firmed, on a yearly basis, by 2.8% to $4,074.7 million at end-June, 2011.

PUBLIC SECTOR FOREIGN CURRENCY DEBT

Public sector foreign currency debt fell by 7.3% ($100.1 million) to $1,268.1 million in the June quarter, compared to last year, as amortization payments of $80.0 million overshadowed new drawings of $12.0 million, and the sale of Government's controlling interest in BTC led to its debt ($32.1 million) being reclassified as liabilities of the private sector. Accounting for the bulk (58.8%) of the total, Government's foreign currency obligations fell by 9.0% to $745.1 million, while the public corporations' segment decreased by 4.9% to $523.0 million.

Over the one year period, debt service payments advanced by $70.2 million to $110.1 million. The Government's component increased by $70.0 million to $96.2 million, as part proceeds from BTC's privatization were utilized to repay an outstanding commercial bank loan, while interest payments totaled $22.9 million. Public corporations' debt servicing firmed marginally to $13.9 million, with amortization and interest payments of $6.8 million and $7.1 million, respectively. As a result of these developments, debt service (inclusive of a lump sum repayment of $70 million in short-term funding) as a proportion of estimated goods and non-factor services grew by 7.6 percentage points to an estimated 12.3%.

By creditor profile, the largest holders of foreign currency debt were private capital markets (47.3%), followed by commercial banks (24.3%), other institutions (15.2%) and multilateral institutions (11.3%), with the smallest proportion being held by bilateral companies (1.9%). On average, the stock of outstanding debt matures in 14.9 years and the majority (98.0%) was denominated in US Dollars, with the Chinese Yuan and other "miscellaneous" currencies accounting for much smaller shares of 1.5% and 0.5%, respectively.

2011/2012 BUDGET HIGHLIGHTS

The Government's budget for FY2011/12, which was presented to Parliament on 25th May 2011 and approved in June, shifted its focus from the prior year's fiscal austerity to one of promoting job creation and the return to more normal conditions for public sector workers in terms of compensation. The most significant revenue measure related to the establishment of a Tax Administration Division, with the objective of modernizing and improving the efficiency of revenue collection. As a result of these measures, the Government estimates that the fiscal deficit will widen as a percentage of GDP, to 3.0% in FY2011/2012 from the 1.7% forecasted outturn in FY2010/11—which includes the receipt of proceeds from the sale of BTC. Similarly, the debt-to-GDP ratio is projected to firm to 46.2% at end-FY2011/12, relative to the 44.9% projected outturn a year earlier.

Headlining the authorities' revenue measures is the proposed creation of a Tax Administration Division, under the Ministry of Finance, with the mandate of collecting business license, real property, stamp, as well as casino & hotel occupancy taxes in an efficient and cost effective manner. A number of measures were also devised to further rationalize tariff and excise tax rates, promote the use of energy efficient products and offer relief to certain categories of consumers. In this vein, customs duties on several food and household items were reduced and in some instances, removed. Other measures included the amendment of the Stamp Act to provide tax exemption for all mortgage transfers between banks for all homeowners—to increase competition among institutions; a 100% waiver of the commercial property tax surcharge on arrears payments for 6 months and a one year exemption on the payment of business license fees for small and medium sized businesses. In combination, these measures are poised to raise tax revenue by 2.1% to $1,385.2 million. However, with non-tax receipts budgeted to contract by 10.5% to $110.5 million, overall collections are set to rise by a mere 1.9% to $1,520.2 million.

In terms of a breakdown of tax revenues, receipts from international trade & transactions are projected slightly higher by 0.8% ($5.6 million) at $717.9 million, occasioned by gains in import taxes ($11.7 million) and excise taxes ($2.0 million); however, stamp taxes from imports as well as export taxes are projected to decline by $1.5 million and $8.2 million, respectively. Income from business and professional licenses fees are forecast to grow by $7.7 million to $125.2 million, receipts from departure taxes, by $18.3 million to $110.6 million and property taxes, by $10.8 million to $116.8 million. With no proposed changes to the motor vehicle tax schedule, receipts in this segment are projected to be flat at $32.9 million.

The weakening in projected non-tax revenues is primarily due to an anticipated $15.8 million contraction in income from public enterprises, mainly dividends, and other sources, to $21.3 million, following the Government's divestment of a major stake in BTC. Further, in the absence of large-scale property sales, income from such transactions is expected to stabilize at $0.7 million, while fines, forfeits & administrative fees are budgeted to grow by $3.0 million to $88.4 million.

Total expenditure is budgeted to expand by $146.2 million (8.4%) to $1,879.6 million, led by gains in recurrent outlays, by $130.8 million (8.9%) to $1,598.0 million, and with smaller accretions to capital spending, of $9.7 million (4.3%) to $237.3 million. Net provisions for budgetary support to the public corporations were raised by $5.6 million (14.6%) to $44.4 million.

By economic classification, current spending on Government consumption is placed $91.5 million higher at $971.3 million, reflecting projected increases in outlays for goods & services ($54.8 million) and personal emoluments ($36.8 million)—with the latter reflecting, in part, the removal of restrictions on the payment of increments, allowances and promotions for public servants. Further, transfer payments are anticipated to firm by $39.2 million (6.7%) to $626.6 million, as the rising stock of debt is projected to lead to a $10.4 million expansion in interest payments—although the recent 75 basis point cut in the Prime rate will reduce the level of Government's interest costs. With the readjustment of several categories of subsidies back to FY2010/11 levels, aggregate outlays are expected to grow by $28.9 million.

On a functional basis, broad-based expansions are anticipated for all major categories. In particular, payments for general public services, education, economic services, health and un-allocable expenses are projected to increase by $73.1 million, $16.0 million, $11.3 million, $10.7 million and $10.4 million, respectively. Less significant gains, of under $5.0 million, are budgeted for the remaining categories.

Capital expenditure is budgeted to grow by 4.3% to $237.3 million, fuelled by a $5.9 million advance in infrastructure spending to $189.9 million, alongside a $2.4 million hike in outlays for the acquisition of assets to $43.1 million, mainly for land purchases. Similarly, transfers to public corporations and non-financial public enterprises are set to increase by $1.1 million and $0.3 million, respectively.

Budgetary financing is expected to be primarily sourced from the domestic market, with Bahamian dollar borrowings estimated at $220.6 million, slightly below the $235.0 million recorded a year earlier. External loans are projected higher at $94.0 million, relative to $55.0 million in FY2010/11. Additional funding is be secured from Government's planned divestment of 9.0% of its remaining interest in BTC, 10% of the Arawak Cay Port and part of its debt holdings in the Airport Development Company. Debt repayments are budgeted at $58.7 million, the bulk of which ($48.9 million) is allotted for Bahamian dollar commitments.

At end-FY2011/12, both the Direct Charge on Government and the National Debt are poised to expand, by $256.0 million, to $3.8 billion and $4.3 billion, respectively.

BARBADOS

Review of the Economy first nine months - SEPTEMBER 2011
(Central Bank of Barbados)

Real output of the Barbadian economy in the first nine months of the year is estimated to have been one percent higher than for the same period of 2010, only half the rate of growth projected at the start of the year. Tourism, Barbados' leading foreign exchange earner and the principal engine of sustained growth in the economy yielded less foreign exchange than in 2010, despite a significant increase in long stay arrivals. Moreover, activity has not returned to pre-recession levels in the international business and financial services sector, second in importance as a source of foreign exchange. At the same time, spending on imports rose because of increased prices of fuels and other commodities. However, an increase in net long-term capital inflows helped to finance the gap between foreign exchange inflows and outflows, while fiscal consolidation constrained the demand for imports. As a result, foreign exchange reserves at end-September were the equivalent of 19 weeks of imports, compared to 20 weeks at December last year.

The number of long stay tourist arrivals was up around nine percent in the first eight months, compared to the same period last year, but the average visitor spent only 5 days, as compared with 5 1/2 days last year. The three largest markets for Barbados' tourism are the UK (where visitor numbers rose 10 percent), the US (up 8 percent) and CARICOM (up 15 percent). The introduction of a new regional airline brought with it a reduction in airfares within the region, and increased seating capacity into Barbados. In addition, the number of cruise ship calls increased, and cruise visitor numbers rose 5 percent. However, all told it is estimated that there was no noticeable increase in real tourism output.

The sectors where there was some growth in real output were construction (3%) and wholesale and retail trade (2%). There were contractions in manufacturing (2%), sugar production (8%) and non-sugar agricultural output (4%).

Tourism receipts contributed 46 percent of foreign exchange earnings in the first nine months of the year. Foreign inflows for international business and other services accounted for 18%, sugar exports 0.6%, rum 1.3%, and chemicals 2.5%.

The current account deficit rose to 9 percent of GDP for the first nine months of 2011, compared with 8.7 percent for the corresponding period of 2010, mainly because of the impact of higher oil and commodity prices. Even though imports of gasoline, diesel, fuel oil and aviation fuels were down by between one-half percent and 11 percent in volume terms, price increases of up to 42 percent meant that the fuel import bill was up by about one-third. Over the first six months of the year, the prices paid for imports of corn, wheat and soya beans had increased by 46 percent, 51 percent and 27 percent, respectively.

For the first nine months of 2011, it is estimated that there were $580 million in net long-term capital inflows, a 27 percent increase over the same period in 2010. The largest single transaction recorded over the nine-month period was the sale of BL&P shares to Emera Inc. ($188 million), in the first quarter.

Sluggish economic growth and the prolonged period of weak cash flows have made it increasingly difficult for private sector employers to maintain staff levels, and there has been some increase in the unemployment rate. There were about 700 new claims for unemployment benefits between March and September, suggesting that the rate of unemployment was around 11 percent for end-September. This is supported by a survey of 30 large employers in tourism, construction, and wholesale and retail, as well as trade unions and the Employer's Confederation.[4]

The average of retail prices for the 12 months ending in July was about 7 percent higher than in the previous 12 months. This represents an acceleration in the rate of inflation, which stood at 5.8 percent at December 2010. The prices of food items, which account for 34 percent of average household consumption, rose 2.8 percent over the 12 months to September, and fuel and light prices were up around 1 percent.

Provisional data for the period April to September (the first six months of the current fiscal year) show the fiscal deficit down from 9.6 percent of GDP[5] last year to 5.3 percent. Approximately two-thirds of the improvement in the deficit was due to higher revenue, mainly VAT ($68 million), excise taxes ($20 million) and corporate taxes ($9 million). On the expenditure side, notable reductions were made in the outlays for wages and salaries ($11 million), transfers to households ($13 million) and subsidies to government owned or supported corporations ($32 million).

Government funded the April-September deficit almost entirely from domestic sources. The National Insurance Board's contribution of $14 million, 3 percent of the financing need, was equivalent to 12 percent of the National Insurance surplus for the period. Private nonbank

[4] The rate of unemployment in the Barbadian labour force (approximately 145,500) is estimated on the basis of a quarterly survey of a sample of 1,800 households. The survey produces an estimate of the unemployment rate, which for June falls within a 3.7 percentage point range. The rate usually quoted is the mid-point of that range. On occasion it happens that there is evidence that the unemployment rate does not lie at the mid-point of the estimated range. This seems to be the case for the result of the June survey, based on market feedback on job losses since the end of the first quarter.

[5] Based on the revised nominal GDP estimates from 1990 to 2010, released by the Barbados Statistical Service.

institutions provided 34 percent of government's financing, and the Central Bank of Barbados 34 percent. External financing amounted to no more than 1.3 percent of the total.

The deficit resulted in a further increase in the overall debt owed by Government and state-owned institutions to private firms and individuals. This increase was virtually matched by growth in nominal GDP, leaving the net public sector debt ratio virtually unchanged from December 2010 at 51.2 percent at end-September. When the debt owed to National Insurance is taken into account and government-held assets are excluded, the public debt stood at approximately 96.2 percent of estimated GDP by the end of the nine-month period.

Commercial bank lending has increased only marginally on average since 2009, while the average rate of growth of domestic deposits was flat over the same period. Interest rates were largely unchanged from 2009 levels.

Outlook for the Remainder of the Year & 2012

Prospects of a full recovery from the economic recession have become more distant because of the weakened growth prospects for the US, the UK and other advanced economies. Growth in the Barbados economy this year is now projected to be not much better than one percent. Although the economy is expected to pick up speed somewhat next year, the uncertain prospects for global recovery introduce a considerable margin of error to any forecast.

The UK Air Passenger Duty and the airline industry's adoption of the Emissions Trading Scheme are not expected to have a significant impact on visitor arrivals for the remainder of the year. However, the impact of the London 2012 Summer Olympic Games may weaken the growth in arrivals next year.

Forecasts of international prices of oil and commodities are for a reduction in the region of 3 percent in 2012, and the average rate of inflation in Barbados should ease somewhat if these projections materialise.

Government continues to pursue a strategy designed to reduce the fiscal deficit in line with a medium term strategy for debt reduction. However, in view of the impact of the economic recession on government revenues, it is prudent to adopt a somewhat longer horizon for the achievement of an overall fiscal balance, and the fiscal targets published in the Medium Term Fiscal Strategy (MTFS) are being modified accordingly. Even so, Government will be challenged to find avenues for further reducing its expenditure, while averting reductions to social spending, and holding employment levels in the public sector. At the same time, further tax increases are to be avoided, for fear of crippling the tentative recovery in output.

International reserves at year-end are projected to be equivalent to about 18 weeks of imports, compared to 20 weeks last December. This level of reserves offers an adequate cushion to protect the value of the Barbados dollar, and to accommodate expected fluctuations in the demand and supply of foreign exchange on the interbank market.

BELIZE

REVIEW OF BELIZE ECONOMY: JANUARY – JUNE 2011
(CENTRAL BANK OF BELIZE)

Domestic output rose by 2.8% in the first half of the year as a strong first quarter was followed by a 1.0% decline due to contractions in agriculture, electricity & water and construction. Primary production was down by 3.1% as decreases in banana, sugarcane and grapefruit production outweighed increases in the orange harvest, an upswing in forestry activities and a 3.7% increase in fishing. Although petroleum output fell, the contraction was not large enough to drag down growth in manufacturing, which continued to be vibrant due to a robust expansion in sugar and citrus juice production. Construction activity shrank by an estimated 16.3% and growth in electricity & water slowed to 4.3% due to reduced rainfall and problems with the turbines of the cogeneration plant. The services sector registered a 3.9% increase that mainly reflected growth in cross border free zone trade with Mexico as well as increased activity in hotels and restaurants with the latter being buttressed by a 3.1% growth in stay over tourist arrivals.

With the removal of the 12% GST tax from fuel imports, inflationary pressures were moderate as the Consumer Price Index rose by 0.3% over the quarter (March 2011 to May 2011). With respect to the twelve month period (May 2010 to May 2011), the Consumer Price Index rose by 1.0% driven by higher fuel acquisition costs. The price increases were general with the notable exceptions being the "Household Goods & Maintenance" and in "Food, Beverages and Tobacco".

A substantially higher external current account surplus of $53.5mn was recorded as a sharp decline in profit repatriation and a reduced trade deficit more than offset lower grant inflows and higher outlays on freight and services. Contrasting with this, the capital and financial account shifted from a surplus of $31.9mn to a $50.2mn deficit that reflected lower foreign direct investment, higher net loan repayments by the private sector, as well as a build-up in the net foreign balances of the commercial banks. The gross international reserves consequently remained flat at $436.3mn, the equivalent of 4.2 months of merchandise imports.

Central Government's revenue and grants were 4.3% higher than that of the first half of 2010, while expenditure edged up by 0.9% as a $22.7mn increase in current expenditure outweighed a $19.2mn fall in capital spending. The revenue growth came mostly from the petroleum industry and import duties. The fiscal outturn consequently improved, as the primary balance increased by 50.3% to $63.7mn, and the overall balance went from a deficit to a surplus of $11.4mn. Zeroing in on how it performed in the first quarter of its new fiscal year (April to June), Central Government's operations yielded primary and overall surpluses of 0.9% and

0.6% of GDP, respectively, with the combination of an overall surplus, external borrowings and proceeds from further sale of BTL shares facilitating a build-up of government deposits.

Since the BTL privatization proceeds were sterilized in anticipation of an eventual settlement with the previous owner, Central Government continued to rely on its Central Bank overdraft to meet its interim financing needs. Its domestic debt consequently increased by 4.5% to $384.2mn as a $17.8mn expansion in direct borrowing from the Central Bank overshadowed amortization payments to the Debt for Nature Swap, BSSB, Heritage Bank and Fort Street Tourism Village. The public sector external debt also rose by $30.0mn or 1.5% to $2,049.4mn, in large part due to the one-off shift of $21.9mn in debt from private to the public sector following the nationalization of the electricity company in June.

Notwithstanding a modest rise in commercial bank loans to the private sector, net domestic credit contracted by $37.3mn due to the aforesaid build up in government deposits. Monetary growth in the first semester was therefore entirely fuelled by a $104.0mn expansion in net foreign assets that included improvements in the net positions of the Central Bank as well as the commercial banks, the $86.5mn increase in net holdings of the latter being largely the result of higher inflows from domestic exports and free zone sales.

Against the backdrop of increasing excess liquidity and sluggish credit demand, interest rates declined as the weighted average deposit rate fell by 70 basis points to 4.91% almost two times faster than the weighted average lending rate which declined by 39 basis points to 13.39%. Given the high amount of liquidity in the system, commercial bank demand for government paper was generally in excess of the amount being traded and the Central Bank consequently decided to lower the securities requirement of commercial banks from 5.0% to 3.0% of their average deposit liabilities on 1 April. This followed the Bank's decision to reduce its lender of last resort rate from 18.0% to 11.0%, effective February 1, as part of its continued efforts to bring interest rates in line with current market and economic conditions. Subsequently, commercial banks' holdings decreased by merely $4.4mn despite the reduction in aggregate securities requirement from $97.7mn to $58.8mn due to sluggish credit demand and limited investment opportunities.

ECCU

Economy Review January – June 2011
(*Eastern Caribbean Central Bank*)

Overview

Economic activity in the Eastern Caribbean Currency Union (ECCU) continued to be adversely affected by the anaemic economic recovery in the USA and the UK, the main trading partners of the region. ***Preliminary data indicate that economic activity in the ECCU fell during the January to June 2011 period***. The estimated contraction in the ECCU was influenced by a fall in activity in construction, transport, storage and communication, as well as wholesale and retail trade. On an individual country basis, output is estimated to have decreased in Antigua and Barbuda and Anguilla. Of the remaining territories, all recorded modest expansions in economic activity.

Private sector construction, which had been driven by investments in tourism related projects, is estimated to have contracted due to a fall in foreign direct investments (FDI) inflows, the main source of funding for these projects.

Agricultural production is estimated to have contracted in the first half of 2011 relative to the performance in the corresponding period of 2010, largely reflecting an 84.3 per cent fall in banana output. Declines were recorded in output of banana in Saint Lucia and St. Vincent and the Grenadines reflecting the protracted effects from the damage caused by the passage of hurricane Tomas in the last quarter of 2010 combined with the effects of Black Sigatoka and Moko disease. In addition to bananas, other non-banana agricultural crops and livestock were negatively affected by adverse weather conditions especially in Saint Lucia and St Vincent and the Grenadines and to a lesser extent Grenada.

The overall contraction in economic activity was moderated by an increase in activity in the tourism industry, in the first six months of 2011. This assessment is based on a 3.4 per cent increase to 514,863 in the number of stay-over visitors compared with growth of 2.9 per cent in the corresponding period of 2010. Increases were recorded in arrivals from all major source markets; the UK (5.1 per cent), Canada (4.7 per cent), the USA (1.9 per cent) and the Caribbean (1.7 per cent). Higher stay-over arrivals were recorded in all member countries across the ECCU with the exception of Montserrat. Of the other categories of visitors, cruise ship passenger arrivals fell by 3.9 per cent to 1.6 m, influenced in part by a 4.4 per cent reduction in the number of cruise ship calls.

Consumer prices rose in all countries, influenced by increased cost for fuel and associated increases in prices for some food items. Price increases ranged from 0.6 per cent in St. Kitts and Nevis to 5.2 per cent in Anguilla. ***The merchandise trade deficit is estimated to have narrowed,*** on account of an increase in the value of re-exports.

The consolidated accounts of the central governments showed a decrease in the overall fiscal deficit, attributable to lower capital expenditure and an improvement in the current account balance. Capital expenditure fell by 18.9 per cent to $329.9m, as a number of territories either delayed or cancelled capital projects in response to rising budgetary pressures and financing constraints. A current account surplus of $39.3m was realised, an increase from the surplus of $7.3m in the first half of 2010. The larger surplus stemmed from a 5.6 per cent rise to $1,764.4m in current revenue, reflecting increases in both tax and non-tax revenue. Increased tax receipts reflected the revenue effect of proceeds for the value added tax (VAT).

The outstanding debt of the public sector increased. Preliminary data indicate that outstanding stock of public sector debt rose by 0.5 per cent to $11,972.7m during the first half of 2011. The expansion was driven by an increase in the indebtedness of the central governments as the debt of public corporations declined.

In the ***banking sector***, monetary liabilities expanded at a slightly more rapid pace than during the corresponding period of 2010, while domestic credit contracted at an accelerated rate. Commercial bank liquidity eased and the spread between the weighted average interest rates on loans and deposits widened.

Activity on the RGSM for the first half of 2011 reflected an increase in new issues to the market and a relative easing of market conditions for issuing governments. Four member governments and the Nevis Island Administration brought a total of 13 issues to the market, compared to 15 offerings for the comparative period of 2010. Short-term instruments continued to be used by issuing governments to better manage cash flows and to refinance maturing issues. Of the thirteen issues on the RGSM, ten were 91-day bills. Market conditions eased for Issuing Governments during the first half of 2011, as the demand for securities was boosted by improving liquidity levels. The weighted average interest rate on 91-day Treasury bills in the first half of the year narrowed by 45 basis points to 4.75 per cent, relative to the rate in the comparative period one year earlier. The rate on 180-day Treasury bills fell less significantly, by 10 basis points to 4.90 per cent while the rate on 365-day T-bill remained flat at 6.75 per cent for the first half of the year.

Outlook

The economic outlook for the currency union for the rest of 2011 will largely be influenced by developments in the global economy, particularly the circumstances in the major trading partners. Declining consumer optimism, combined with lower global growth prospects and protracted financial fragility in major trading partner countries, are likely to continue to constrain the demand for leisure services and to negatively affect the inflow of foreign direct investment into the region.

GUYANA

REVIEW OF THE ECONOMY - JUNE 2011
(BANK OF GUYANA)

Real economic growth for the first half of 2011 reached 5.9 percent and was driven by the agriculture, mining and quarrying, manufacturing and services sectors. Favourable weather conditions, high commodity prices, increased investment and spending were the major factors responsible for the sectors' performance. The forestry, fishing and diamond industries contracted during the review period. Inflation stood at approximately 2.97 percent due to rising fuel and food prices.

The overall balance of payments deteriorated to a deficit of US$19.6 million compared with a surplus of US$34.6 million a year ago. This outturn was a result of an expansion in the current account deficit caused by higher merchandise trade and services deficit which were partly offset by higher transfers. The capital account recorded a lower surplus of US$163.8 million due to higher petrocaribe financing of US$79.3 million. Higher exceptional financing contributed to an increase in the gross foreign assets of the Bank of Guyana which provided an import cover of 4.3 months.

Foreign exchange market transactions grew by 19.2 percent to reach US$2,861.7 million. Transactions at the Cambios and the Bank of Guyana grew by 23.5 percent and 27.5 percent, respectively. However, those related to foreign currency accounts experienced a 10.0 percent increase. The Guyana dollar vis-à-vis the United States dollar retained its path of stability, depreciating marginally by 0.25 percent.

The overall financial operations of the public sector recorded a lower surplus. This outturn resulted from a decline in the central government surplus due to a higher capital account deficit from a 23.9 percent growth in capital spending. The current account surplus expanded as a result of a 13.0 percent growth in revenues. The Non-Financial Public Enterprises (NFPEs) account recorded a reduction in the overall deficit due to a 27.7 percent increase in current receipts which more than offset a 22.4 percent growth in current expenditure.

The stock of domestic and external public debt increased by 9.1 percent and 15 percent, respectively from end-June 2010 level. The former is attributed to an increase in the issuance of treasury bills to sterilize excess liquidity, while the latter is due to disbursements from the IDB and bilateral credit delivered under the Petrocaribe Initiative. Domestic debt service decreased as a result of lower interest payments associated with the issuance of treasury bills while external debt services was higher on account of higher principal and interest payments during the first half of 2011.

Monetary aggregates of reserve and narrow money contracted while broad money expanded during the first half of 2011. Deposits of both the private and public sectors expanded while net domestic credit by the banking system increased on account of high private sector credit. Commercial banks' interest rates trended downwards with interest rate spreads remaining relatively high. The non-bank financial institutions were active in mobilizing resources which translated to a 10.1 percent increases in their net deposits.

The Licensed Depository Financial Institutions (LDFIs) reported higher levels of capital and profits for the first half of 2011. The Capital Adequacy Ratio (CAR) when compared with end-June 2010 remained well above the prudential benchmark of 8.0 percent. The stock of non-performing loans deteriorated from the end-June 2010 level but showed some improvement when compared with the end-December 2010 level. The LDFIs recorded a 21.0 percent rise in provision which improved the level of provision against non-performing loans to 75.0 percent, up from 62.4 percent for the corresponding period in 2010.

The conduct of monetary policy continued to focus on price stability, ensuring adequate level of liquidity is in the system and creating an enabling environment for credit and economic growth. The Bank continued to use treasury bills in the primary open market operations for the effective management of liquidity. Purchases and sales of foreign exchange by the Bank were also used to control liquidity. There was a G$3.9 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.

Global economic growth has slowed to 4.3 percent in the first half of 2011. High food and fuel prices, post crisis difficulties in industrialized countries and natural disasters have adversely affected global growth. Economic activities continued to be weak in industrialized countries after the impact of the financial crisis while most emerging and developing economies continued to experience strong growth. Global unemployment continued to be high. Global inflation increased on account of higher commodity prices and demand pressures.

During the second half of 2011, world economic recovery is projected. Inflation and exchange rates are expected to be stable. However, global growth is very much dependant on the revival of international trade. The Guyanese economy is projected to grow by 5.1 percent by end of year 2011. Inflation will be monitored and is expected to increase by 4.8 percent on account of rising food and fuel prices while the exchange rate will remain relatively stable as a result of a net supply of foreign exchange in the system. The Bank will continue to control the liquidity level in the banking system to support efforts in promoting and sustaining macroeconomic stability.

JAMAICA

CONVERGENCE INDICATOR REPORT- *AN OVERVIEW OF MACROECONOMIC DEVELOPMENTS IN JAMAICA* - JANUARY– JUNE 2011
(*BANK OF JAMAICA*)

Summary

Gross Domestic Product (GDP) for the Jamaican economy is estimated to have expanded by 1.4 per cent in the first half of 2011, relative to the decline of 1.5 per cent registered for the similar period in 2010. The recovery in economic activity was reflected in both the tradable and non-tradable industries. In particular, there was robust growth in the Mining & Quarrying and Agriculture, Forestry & Fishing industries.

The current account deficit of Jamaica's balance of payments (BOP) is estimated to have deteriorated by US$443.8 million to US$705.3 million for the review period, relative to the comparable period of 2010. The deterioration in the current account reflected larger deficits on the goods and income accounts and a lower surplus on the services account.

Net official and private investments were sufficient to finance the current account deficit. In this context, the NIR of the Bank of Jamaica (BOJ) increased by US$95.7 million to US$2267.1 million as at end-June 2011, with gross reserves representing 21.8 weeks of imported goods and services.

The fiscal deficit improved by $11.9 billion during the review period, relative to the corresponding period in 2010. This improvement was attributed primarily to a 7.8 per cent decline in expenditure and a marginal increase in tax revenue.

The foreign exchange market remained relatively stable during the review period as the weighted average selling exchange rate depreciated by 0.1 per cent compared to an appreciation of 4.0 per cent in the corresponding period of 2010. In the context of the relative stability in the foreign exchange market in conjunction with other favourable macroeconomic developments, the Bank continued to loosen its monetary policy stance in the review period. Accordingly, the Bank reduced the interest rate on its 30-day OMO instrument by 75 basis points between January and June 2011.

Gross Domestic Product (GDP)

The Jamaican economy is estimated to have expanded by 1.4 per cent in the first half of 2011, relative to the similar period of 2010. The economy's performance reflected increases in most industries with the main drivers of growth being Agriculture, Forestry & Fishing, Mining & Quarrying and Hotels & Restaurants. Declines were, however, estimated for Construction, Finance & Insurance Services and Transport, Storage & Communication.

Agriculture, Forestry & Fishing is estimated to have grown by 10.4 per cent in the review period, relative to growth of 1.7 per cent in the corresponding period of 2010. The industry's performance was reflected in both the domestic and export segments. Increased crop production partly reflected favourable weather conditions, improved productivity as well as normalization, relative to the depressed level in 2010. During the period, domestic crop production increased by 20.4 per cent relative to the similar period in 2010.

Mining & Quarrying is estimated to have expanded robustly by 33.5 per cent in the review period, relative to a decline of 24.5 per cent for the first half of 2010. The industry's performance reflected increases in capacity utilization in the alumina and bauxite industries to 43.4 per cent and 98.4 per cent, respectively, from 29.8 per cent and 94.7 per cent for the similar period in 2010. Increased utilization in the alumina industry was attributed to the reopening, in June 2010, of one of the three alumina plants that were closed in 2009. In this context, total bauxite and alumina production increase by 27.7 per cent and 44.5 per cent, respectively, relative to declines of 3.1 per cent and 36.9 per cent for the comparable period of 2010.

Hotels & Restaurants is estimated to have expanded by 3.2 per cent in the first half of 2011, relative to an increase of 2.8 per cent in the comparable period of 2010. The performance of the industry reflected growth of 3.3 per cent in total stop-over visitor arrivals, which was influenced by increased marketing, primarily in the USA and Canada for the winter season, increased airlift out of Canada and above-normal snowfall in the major source countries.

Labour Market

Information from the Statistical Institute of Jamaica (STATIN) indicated that the unemployment rate was unchanged at 12.9 per cent for the first half of 2011, relative to the similar period of 2010. The job seeking rate, however, increased by 0.2 percentage point to 8.4 per cent, relative to the corresponding period of 2010.

Inflation

The annual average inflation for the first half of 2011 was 9.7 per cent, relative to 10.7 per cent for the comparable period in 2010. On a point-to-point basis, the general price level increased by 7.2 per cent compared to 13.2 per cent in the corresponding period of 2010. For the first half of the year, inflation was 2.5 per cent compared to 6.8 per cent for the similar period of 2010.

Inflation for the first half of 2011 was largely influenced by the impact of continued increases in crude oil prices on electricity rates. In addition, there was the effect of higher grains and energy prices on the costs of domestic processed foods. Inflationary impulses also emanated from contracting domestic agriculture supplies during the latter part of the review period. However, continued stability in the foreign exchange market and weak domestic demand moderated the impact of these factors on inflation.

Public Finance

For the review period, Government operations resulted in a fiscal deficit of $23.5 billion, $11.9 billion less than the deficit recorded for the first half of 2010. This improvement largely reflected a reduction of 21.0 per cent in interest payments. Further, capital expenditure declined by 16.8 per cent, relative to the similar period of 2010.

The stock of external and domestic debt increased to J$737.6 billion (US$8.6 billion) and $839.1 billion, respectively, at end June 2011. This was relative to J$663.3 billion (US$7.7 billion) and $773.3 billion, respectively, at end June 2010. The growth in the domestic debt was attributed primarily to the issuance of Benchmark Investment notes while the increase in external debt was due largely to increase loans from the multilateral and bilateral agencies.

Balance of Payments

The deficit on the current account of the Balance of Payments is estimated to have deteriorated in the first half of 2011 by approximately US$443.8 million to US$705.3 million, relative to the corresponding period of 2010. The deterioration in the current account reflected wider deficits by US$354.0 million and US$98.5 million on the goods and income sub-accounts, respectively, and a lower surplus by US$20.8 million on the services sub-account.

The deterioration in the goods account resulted from an increase of US$523.8 million in the value of imports, which outweighed an increase of US$169.9 million in the value of exports. The expansion in the value of imports was largely related to fuel imports, which increased by 41.2 per cent. Growth in the value of exports was mainly influenced by the expansions of 70.0 per cent and 52.7 per cent in alumina and sugar exports, respectively. The lower surplus on the services account was attributed primarily to a widening of the deficit on the transportation sub-account by US$40.9 million.

For the review period, net official and private investment flows were sufficient to finance the current account deficit. In this context, there was an increase of US$95.7 million in the NIR to US$2267.1 million as at end-June 2011. Gross reserves of US$3156.8 represented approximately 21.8 weeks of projected goods and service imports.

Foreign Exchange Market

The foreign exchange market remained relatively stable during the first half of 2011, reflecting a marginal depreciation of J$0.05 or 0.1 per cent to J$85.91 = US$1.00. This stability was underpinned by growth in net private capital flows which primarily reflected the maturity of a Government of Jamaica (GOJ) Eurobond in May 2011. There were also official inflows of US$405.7 million representing the receipt of the proceeds of a GOJ Eurobond offer as well as a loan of US$50.0 million from the Inter-American Development Bank.

Monetary Policy and Interest Rate

During the review period, the Bank continued its cycle of monetary policy easing. In this regard, there were two interest rates reductions in the interest rate on its 30-day Certificates of Deposit (CD) to end the period at 6.75 per cent. This was in the context of continued favourable inflation outlook, weaker than anticipated domestic demand conditions, relatively strong NIR as well as a stable foreign exchange market.

On 01 February 2011, the Bank reduced the interest rate applicable to the 30-day CD by 25 basis points (bps) to 7.25 per cent. A further 50 bps reduction was effected on 23 February. However, the rate was held at this level for the rest of the review period due to upside risks to the inflation outlook from developments in the international commodity market.

Outlook

The outlook for the domestic economy is for continued growth for the remainder of the calendar year. However, the growth momentum could be adversely affected by the increasing uncertainty surrounding the strength of global growth, particularly the possible slowing of expansion in output in the USA. The increased fragility of the global economy is exacerbated by the on-going debt crisis in the Euro area. These concerns have recently led to increased volatility in global equity and commodity markets. In addition, the delay of the fourth and fifth reviews of the Stand-By Agreement between Jamaica and the International Monetary Fund poses a threat to domestic investor' confidence.

For 2011, headline inflation is forecasted to be in the range of 5.0 per cent to 7.0 per cent. This projection is underpinned by excess domestic capacity conditions and declining inflation expectations which will moderate the impact of projected higher import prices. Accordingly, the BOJ policy stance will continue to be guided by its outlook for inflation.

SURINAME

BRIEF REVIEW OF MACRO ECONOMY IN 1ST HALF 2011
(CENTRAL BANK OF SURINAME)

Real sector

Real GDP growth increased from 3.5% in 2009 to 4.5% in 2010. Nominal GDP rose by 11% which was more or less in line with the changes in the CPI and the GDP deflator. The growth was largely driven by a rebound in prices of Suriname's main export commodities (gold, alumina and oil), and higher production/exports of gold and oil. The export of alumina, however, declined. Higher government spending also added to the growth. For 2011, the economy is estimated to grow by 4%, supported by the favorable commodity prices, and capital investments in the mineral sector.

Inflation accelerated in the first half of 2011 to 13.6% (twelve-month inflation in 2010: 10.3 %). On January 20, 2011 the authorities devalued the official exchange rate by 20% vis-a-vis the US dollar. This, together with revenue increasing measures of the government has brought the official rate in line with that in the parallel market. The increase in fuel tax pushed up the pump prices drastically. The devaluation, government tax increases, and higher world food prices negatively affected inflation. However, since May 2011, the monthly price increase has been easing significantly, from a peak of 4.5% in February to 0.3% in May.

Fiscal sector

In the first half of 2011, the fiscal deficit declined considerably compared to the same period in 2010. Current revenues in the first half of 2011, increased by 70.7% compared to the same period in the previous year. Current expenditures, however, rose by 49.1%. Favorable commodity prices and measures taken by the government generated the increase in the revenues. On January 20, 2011 the authorities raised the fuel tax (government take per liter of fuel) by almost 70%. They also increased excise duty on alcohol and casino taxes. The authorities are preparing additional measures to further increase the revenues.

The growth in expenditures followed from the implementation of the last phase of the civil servants wage reform at the beginning of 2011, and repayments of arrears by the government. The fiscal deficit is estimated to remain between 2 to 3% of GDP in 2011.

The total government debt rose during the first half of 2011. Domestic debt increased from 13.1% of GDP at end-2010 to 15% of GDP at the end of June 2011. Over the same period foreign debt went up from 9.4% to 12.1% of GDP.

In January 2011, the authorities raised the legal limit for domestic debt from 15% to 25% of GDP. At the same time, the ceiling for foreign debt was lowered from 45% to 35% of GDP.

Monetary sector

During the first half of 2011 money growth was significantly higher than during the same period of the previous year. During the first half of 2011 broad money increased by 15.1% compared to 2.6% in the first half of 2010. The growth largely reflects the mechanical effects of the devaluation (given the high financial dollarization of the banking system). The growth of international reserves, and higher government spending also contributed to the money growth.

Credit growth has eased significantly. Total local currency credit growth of other depository corporations fell from 11.7% in the first half of 2010 to 5.2% in the first half of 2011. Credit in foreign currency rose marginally.

Balance of payments

In the first half of 2011 gross international reserves rose by US$ 56 million, to US$ 813 million at the end of June. This is equivalent to 5.8 months of import cover. The growth can largely be attributed to the increased exports, especially crude oil and gold.

During the first half of 2011 exports increased by 11.7% in comparison with the same period of the previous year. On the other hand, the imports of goods grew relatively strong. The imports of goods for the first half of 2011 rose by 19.4%.

In the first half of 2011 the current account recorded a surplus of US$ 276 million, whereas a surplus of US$ 395.4 million was realized in the first half of 2010. The main reason for the reduced surplus is a significant increase in the imports of services combined with a decline in the exports of services. The imports of services increased with 66.1% in the first half of 2011 in comparison with the first half of 2010. While the exports of services declined by 13.7% for the same period. The increase in the imports of services for the first half 2011 is largely the result of an improvement in coverage.

NETHERLAND ANTILLES

KINGDOM OF THE NETHERLANDS—CURACAO AND SINT MAARTEN
2011 ARTICLE IV CONSULTATION DISCUSSIONS: PRELIMINARY CONCLUSIONS
SEPTEMBER 19, 2011
(INTERNATIONAL MONETARY FUND)

Background

1. **Following the dissolution of the Netherlands Antilles on October 10, 2010 Curacao and Sint Maarten became autonomous countries within the Kingdom of the Netherlands, with a currency union**. Alongside, the Dutch government gave substantial debt relief to both countries, although the finalization of the discussions on the payment of arrears for Sint Maarten remains to be completed. Agreement was reached on new fiscal frameworks as well. Average living standards are relatively high in comparison with the region. The banking sector also appears sound, and weathered the global crisis relatively well.
2. **The two countries share some similarities, but there are distinct differences as well**. Both are small highly-open island economies, but Curacao's economy is more than three times larger than that of Sint Maarten, and more diversified. Tourism exports are much more important for Sint Maarten than for Curacao, accounting for around 82 percent of GDP and 13 percent of GDP, respectively. Curacao has other important sectors including the oil refinery, the free zone, and international financial services (IFS). Sint Maarten has enjoyed considerable success in increasing cruise tourism arrivals, boosting its average GDP growth significantly above that of Curacao over the past decade. Nevertheless, growth rates in both countries have been low, and unemployment rates are high, particularly among the youth. Population aging is a challenge in both countries, particularly for Curacao, and is generating significant fiscal spending pressures. Sint Maarten also needs to upgrade and establish the institutions to provide a range of services previously being the responsibility of the Netherlands Antilles government.
3. **Macroeconomic challenges are substantial**. In addition to low growth, high unemployment, and aging pressures, the current account deficit for the currency union has widened rapidly in recent years to 25½ percent of GDP in 2010, well above historical levels (which averaged 3½ percent of GDP over 2000–06), and calls for dollarization (adopting the US dollar as legal tender) or dismantling the currency union have been rising in official circles.

• Even after eliminating identifiable temporary factors, such as increases in FDI inflows and the breakdown of Curacao's oil refinery, the mission estimates that the underlying current account deficit remains large at over 15 percent of GDP.

• Pronounced weaknesses in export performance (with both countries losing export market share in recent years), demand pressures primarily from rapid bank credit growth, and inadequate pass-through of recent increases in international oil and food prices particularly in

2010, appear to be the main drivers of the external deficit. The pass-through mechanism has however improved since June 2011.

• A complete separation of the current account deficit between the two countries is not possible because of data gaps, but the available data indicates that the widening is primarily due to Curacao. While international reserves have risen in recent years, vulnerabilities are substantial, and strong efforts are needed to reduce the current account deficit to sustainable levels by restraining demand—including tighter monetary policy by the central bank and tighter fiscal policy—and overhauling the regulatory framework to enhance wage and price flexibility and improve the business environment.

4. **In several areas comprehensive policy responses are at an advanced stage of preparation and prompt implementation will be key**. In Curacao, new tax legislation has been passed, and measures to overhaul health sector legislation, raise the retirement age, set up an e-government system to speed up the granting of business licenses and permits, set up a competition authority, strengthen competition rules and liberalize administered prices are at an advanced stage. Sint Maarten has upgraded its tourism development strategy, is overhauling its health sector to contain costs, is in the process of reviewing its social system, and intends to improve the business license and permit framework, and to increase the retirement age.

5. **Increased dialogue between social partners is needed to foster a consensus on reforms and boost private sector confidence.** Business sentiment appears to be declining in both countries, amid rising concern about the economic outlook and uncertainty about future public policies. Private sector representatives in both countries called for a structured dialogue on reforms, involving government, business, and unions, to provide a broad social consensus, clarity, and confidence building on the reforms needed. Both governments intend to further strengthen the dialogue through the social economic councils entrenched in their constitutions.

Recent developments

6. **Following economic contractions in 2009, in the wake of the global crisis, activity was anemic in 2010**. The mission estimates that in 2009 GDP contracted by 1¼ percent in Curacao and 2 percent in Sint Maarten, as global turmoil led to significant declines in exports and domestic demand. In 2010, we estimate GDP growth of about ½ percent and zero in Curacao and Sint Maarten, respectively. Exports in Curacao declined further due to a sharp decline in oil refinery output and continued contraction in tourism. As a result the contribution of net exports to GDP turned negative, largely offsetting the impact of strengthening private consumption. In Sint Maarten, a rebound in cruise tourism was largely offset by continued decreases in stay over arrivals, while domestic demand and imports remained subdued. With lower growth, the progress in reducing unemployment rates in both countries stalled. In Curacao, the unemployment rate stayed around 10 percent over 2009–10, after steady declines since 2007, while, in Sint Maarten, the unemployment rate stayed around 12 percent after steadily declining since 2003. Inflation declined sharply during the crisis, but has since increased with renewed oil and food price pressures. Credit continued to outpace nominal GDP growth in 2010, and since

2004 the credit/GDP ratio has risen by about 20 percentage points. Banks are profitable and capital and liquidity buffers appear robust, though the Non Performing Loan (NPL) ratio has been rising.

7. **Excluding the impact of debt relief, both island governments run modest fiscal deficits over 2009–10**. Excluding debt-relief grants, Curacao had fiscal deficits of ¾ percent of GDP in both 2009 and 2010. Fiscal expenditure data for 2009–10 for Sint Maarten are still unavailable, but the mission's estimates indicate fiscal deficits of about one percent of GDP in both 2009 and 2010, excluding the impact of debt relief. As of end-2010 public debt stood at 34½ percent of GDP and 28¼ percent of GDP in Curacao and Sint Maarten, respectively.

Outlook and risks

8. **Low growth is expected to persist over 2011–12**. In Curacao, available indicators indicate that domestic demand is decelerating in 2011, likely reflecting declining consumer confidence and a tighter fiscal stance. However, exports appear to be growing modestly, led by tourism—with increased hotel capacity and new flight connections—and renewed activity in the oil refinery. In Sint Maarten, continued declines in stay over tourism have offset the strong rebound in cruise tourism. In this context, we expect GDP to be broadly flat in both countries in 2011, and to grow by ¾ percent and ½ percent in Curacao and Sint Maarten, respectively, in 2012. Alongside, unemployment rates are expected to stay elevated. Inflation is expected to stabilize around 2¾ – 3½ percent in both countries. The current account deficit is expected to improve somewhat, but remain substantial.

9. **But some pickup is anticipated over the medium and long term if needed reforms are promptly implemented.** With the current regulatory framework and policy uncertainties exerting a significant drag on activity, growth potential will be heavily influenced by the pace of implementation of reforms to improve competitiveness and wage and price flexibility. Overall, the mission projects growth rising to about 2 percent in both countries by 2016, still on the low side. Low exposure to the faster growing Asian and Latin American countries will limit upside potential in both countries. And aging will weigh on potential growth over the medium and long run. Space constraints may also limit the long term scope for increasing tourism, which would particularly affect Sint Maarten.

10. **Uncertainties to the outlook are substantial but tilted downward**. Growth rates are highly correlated with major trading partners (particularly the U.S. and European countries), which themselves are confronted with major downside risks to activity from fragilities in sovereign debt markets, and the possibility that the contractionary impact of simultaneous fiscal tightening in several advanced countries could exceed current estimates. If those risks materialize, spillover effects on Curacao and Sint Maarten could be substantial. Domestic risks are largely related to the large current account deficit and constrained policy options for responding to shocks. Shocks to external financing flows could potentially generate a sharp adjustment in domestic demand and growth. With monetary policy constrained by the peg, fiscal policy constrained by the new framework, and significant structural rigidities, any

adverse shocks could have a more pronounced and prolonged impact on the outlook than currently envisaged. Upside risks, on the other hand, originate primarily from unexpectedly strong emerging market growth spurts which raise global growth, and the possibility of attracting large investment projects into both countries.

Policies

11. **Against this background, Curacao and Sint Maarten must seize the moment and implement policies to mitigate external vulnerabilities, entrench fiscal soundness, and advance structural reforms to enhance competitiveness and growth**. A reduction of about 10 percentage points of GDP is needed to bring the underlying current account deficit to historically sustainable levels over the medium term. This could be facilitated by measures to restrain credit growth, supported by fiscal consolidation. In addition, structural reforms to generate wage and price flexibility and improve the business environment will be needed to realize durable gains in competitiveness. Moreover, clarity is needed on dollarization and the future of the currency union to provide investors with a stable business environment and to avoid undermining confidence in the economy and the guilder.

Monetary and financial sector

12. **In principle, the existing exchange rate peg remains appropriate, though dollarization could also be adopted under the right conditions**. In common with the majority of small island economies, the Netherlands Antilles, and now Curacao and Sint Maarten, have adopted fixed exchange rate regimes because floating typically generates excessive volatility of nominal and real exchange rates due to small markets. Either the current peg or dollarization would continue this tradition. However, dollarization, while removing the threat of currency crisis, would also permanently remove exchange rate adjustment from the policy toolkit, leaving wage and price flexibility as the primary means to recover competitiveness.

13. **We recommend that any plans for dollarization should wait until the competitiveness and the flexibility of both economies have been substantially enhanced**. Notwithstanding concerns about the current account deficit, there have been no indications of pressures against the guilder. Also, membership in the Kingdom of the Netherlands provides an implicit guarantee against a disorderly exit from the peg. Thus there is no particular urgency to dollarize. Moreover, dollarization would also constrain the lender of last resort function of the CBCS. Given current weaknesses in competitiveness, dollarizing without first enhancing wage and price flexibility risks locking-in protracted low growth, with adverse effects on fiscal sustainability and employment. We also see little economic rationale currently for dissolving the currency union, as it could dampen the efficiency of the banking sector and raise supervisory costs. There is also a risk that continued efforts in this direction may undermine confidence and the investment climate in both countries.

14. **Ensuring that credit grows slower than nominal GDP will help curb the current account deficit**. Relaxing limits on foreign investment by domestic nonbank financial institutions would help contain credit growth and domestic demand. Under current rules, domestic nonbank financial institutions can invest no more than 40–60 percent of their assets abroad without penalty. This has forced pension funds and insurers to invest large portions of their portfolios in bank deposits. Recent global turmoil has also caused them to invest more in local instruments. In turn, ample deposits have stimulated rapid credit growth, boosting domestic demand and contributing to the current account deficit. Incentives for lending to the private sector have intensified with debt relief and the new fiscal rules, which have substantially reduced the scope for banks to invest in public debt. The mission therefore welcomes the CBCS's plans to gradually relax the limits. The recent increase in reserve requirements is also a step in the right direction, and we recommend further measures by the central bank to help reduce credit growth, including higher reserve requirements and risk weights or tougher provisioning rules.

15. **The mission also urges the authorities to press ahead with plans to enhance crisis resolution arrangements**. The authorities are moving towards setting up a funded deposit guarantee scheme, which is welcome, but progress has been stalled by the discussions on dissolving the currency union. We urge that efforts in this area be redoubled, and also recommend that to enhance its effectiveness as a crisis resolution tool it should be preferably authorized to fund bank resolution operations (including by financing the transfer of deposit books and "purchase and assumption" transactions) if they reduce costs, and enjoy depositor preference. We are also encouraged that other crisis resolution arrangements are in place, including: (a) robust understandings with parents of foreign banks on the support that would be forthcoming for distressed subsidiaries; (b) a clear regime with appropriate objectives (including financial stability), tasks and powers for the official administrators of intervened banks; (c) orderly liquidation procedures for banks. To strengthen arrangements further, we recommend that clear understandings be developed on the roles of the two governments in the event that public bailout of a bank is ever contemplated.

Fiscal

16. **The 2011 fiscal outturns in both countries are on track with respect to the fiscal rules.** Data on budget execution indicate that Curacao will achieve a current budget surplus in 2011, as savings on expenditure on goods and services due to efficiencies from the integration of Netherlands Antilles and Island Curacao government operations are realized. Sint Maarten is also on track to achieve a balanced current budget outcome in 2011. Including capital expenditure, Curacao is expected to run a balanced overall budget, while, in Sint Maarten, significant delays in major planned infrastructure spending will imply an overall deficit of ½ percent of GDP, well below the 5¼ percent of GDP deficit budgeted for 2011.

17. **And further welcome efforts are anticipated in the 2012 budgets and beyond to ensure continued adherence to the fiscal rules**. For 2012, Sint Maarten faces significant spending

pressures related to institutional build-up, and substantial efforts are underway to streamline current spending to match current revenues. Moreover, plans are well advanced to set up a new national health insurance scheme with premiums and coverage adjusted to ensure sustainability ahead of the onset of spending pressures. In the case of Curacao, pressures related to health care and pensions are already significant, and comprehensive measures are planned shortly to integrate the public sector funds, increase the health insurance premium, and contain costs through re-examining insurance coverage and deductibles and reducing the rate of growth of spending on equipment, pharmaceuticals, and personnel. To contain pension pressures, plans are being developed to increase the statutory retirement age from the current 60 years to 65. Other measures are also being considered for the public sector pension funds in the two countries (APS and AP), such as reducing the rate of accrual of benefits and redefining the pension base over a longer time period.

18. **In our view, fiscal tightening of some 2-3 percent of GDP is needed over the near to medium term to support the efforts to reduce the current account deficit.** Given the relative size of Curacao and data suggesting that it is primarily responsible for the widening of the current account deficit, the bulk of the adjustment will need to come from Curacao. As noted above, significant tightening is already expected in Curacao for 2011, which is a step in the right direction. In addition to efforts to contain aging and institutional buildup-related pressures, areas that could be targeted in this effort include social benefits, goods and services, and wages. Social benefit spending in Curacao is substantial and could be better targeted. Scope for savings on expenditure on goods and services arising from synergies from the merger of Netherlands Antilles and Island Curacao governments appear substantial, given pronounced under-utilization of budgeted amounts for this category in the 2011 budget. And public sector wage moderation would strengthen consolidation efforts while also providing a strong signal for private sector wage restraint. In Sint Maarten, scope for reducing expenditures appears limited, given institutional gaps. However, tax reforms as well as compliance increasing measures being developed will likely need to be moderately revenue enhancing.

19. **Public debt appears sustainable in both countries over the medium term, assuming continued adherence to the fiscal rules**. Thanks to debt relief, debt-GDP ratios are relatively low. Our projections, assuming continued adherence to the fiscal rules, indicate that for Curacao, the debt ratio is on a slightly declining path over the medium term, while, for Sint Maarten, debt rises temporarily in the near term on account of substantial public investment but stabilizes thereafter.

20. **Comprehensive tax reforms, which will help enhance competitiveness by reducing rates on labor and profits, are being prepared in both countries**. Rebalancing from direct to indirect taxes would also support productive activity and moderate consumption, thus contributing to a reduction of the underlying current account deficit.

• New legislation in Curacao envisages revenue-neutral reforms that broaden the tax base, raise the sales tax rate, and lower personal and corporate income tax rates. These are commendable and move in the right direction. We are also encouraged by the authorities' intentions to go further in this area along the lines recommended by the 2009 Technical Assistance mission of the IMF's Fiscal Affairs Department, which proposed a corporate tax rate at 20 percent, the top income tax rate at 35 percent, and a VAT at 10 percent.
• Tax policy reform in Sint Maarten also aims to broaden the tax base, shift from direct to indirect taxes and moderately increase overall tax revenue. We recommend that the timing of implementation of reforms be brought forward as much as possible. Given the shared border with the French side, synchronization of tax policy on both sides would be critical to avoid arbitrage across borders. Membership in the Caribbean Regional Technical Assistance Center (CARTAC) would provide useful technical assistance in this endeavor.

Structural reform

21. **Deep structural reforms are needed to enhance price and wage flexibility and improve the business environment**. With a currency peg, domestic price and wage flexibility is the primary channel by which the economy adjusts to shocks and sustains competitiveness.
• Labor market legislation and regulations should be overhauled in both countries, as intended, to substantially enhance wage flexibility, the ease of adjusting company workforces, and incentives for job search. This would also help reduce the proliferation of short-term contracts and the grey economy.
• The business licensing and permit regimes should also be substantially streamlined, as decided by both governments, so that the process of forming new businesses becomes timely and predictable.
• The widespread use of administered prices should be phased out and replaced by strong competition legislation, as planned. In addition, pricing of petroleum products should continue to be adjusted on a monthly basis in line with international prices to stimulate appropriate demand responses and minimize losses in public utilities.
• Measures to increase the efficiency of public utilities and strengthen the corporate governance of public enterprises would also help improve the business environment. We also suggest that tri-partite processes, involving government, employers, and workers, be strengthened to facilitate regular consultation and consensus of all major stakeholders in the structural reform process, as has been done successfully in many countries including the Netherlands and Aruba.

Other

22. **We would like to stress that there is an urgent need to upgrade the statistical infrastructure**. Data gaps are substantial, representing a significant impediment to macroeconomic diagnosis and policy-making in both countries. For example, nominal expenditure-side national accounts data have not been published since 2006, and there are no

data on deflators or real GDP. Data on fiscal expenditures for Sint Maarten are not available as yet for 2009–10, complicating the assessment of its fiscal policy. Moreover, data on the operations of the Netherlands Antilles central government in 2010 are limited, impeding a proper assessment of the degree of fiscal tightening in the currency union in 2011. Fiscal reporting standards still need improvement. Estimates of individual island current account deficits are subject to significant margins of uncertainty, as some imports destined for Sint Maarten are booked as Curacao imports.

TRINIDAD AND TOBAGO

REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS - JULY 2011

(Central Bank of Trinidad and Tobago)

OVERVIEW

The presentation of the July 2011 Economic Bulletin takes place in the aftermath of heightened nervousness in the international economy. For weeks, uncertainty about a United States (US) Congressional agreement to lift the country's debt ceiling and avoid a possible default coupled with the Euro area's debt rescheduling challenges threatened to disrupt the world's financial markets, undermine business and investor confidence and lead to a sharp rise in short term interest rates. Though an agreement was arrived at on the verge of the August 2nd deadline, uncertainty persists about a possible sovereign rating downgrade and the likely impact which this action would have on international financial markets. Meanwhile, concerns about the spread of the debt crisis from the small peripheral countries of the Euro area to Italy and Spain have further destabilized world financial markets. These developments, against the background of weakening growth in the US, the Euro area and Japan, have raised new fears about a double-dip recession.

Preliminary data show that the US economy expanded at a meagre 1.6 per cent (year-on-year) in the second quarter of 2011, falling from 2.2 per cent in the previous quarter. The combined growth for the first six months of 2011 was the worst since the recession ended. In the United Kingdom (UK), economic growth slowed to 0.7 per cent (year-on-year) in the second quarter from 1.6 per cent in the first quarter. In the Euro area, after expanding at an annualized rate of more than 3 per cent in the first quarter, preliminary data suggest that growth decelerated to about half that rate in the second quarter. There is also evidence of slowing growth in Germany, which had been the driver of the economic resurgence in the Euro area.

Growth in the emerging market economies continue to outpace that of the advanced economies. Most notably, growth in India and China reached 7.8 per cent and 9.5 per cent during the first and second quarters of 2011, respectively. Brazil also posted healthy growth of 4.2 per cent (year-on-year) during January to March 2011. The strong economic performance by the emerging market economies has given rise to fresh concerns about possible overheating. Many low-income developing countries are also enjoying faster real growth, though surging commodity prices are complicating efforts at poverty alleviation.

In the first quarter of 2011, several Caribbean economies began to emerge from the prolonged economic slump of 2009-2010. Jamaica reported real GDP growth of 1.4 per cent (year-on-year) during the first quarter of 2011 following four consecutive quarters of decline. Related to a pickup in tourist arrivals, economic activity in Barbados grew by 2.1 per cent (year- on-year) during the first half of 2011 compared with a decline of 0.5 per cent during the same period in 2010. Increased tourism activity is also leading to a modest recovery in 2011 in the Eastern Caribbean Currency Union (ECCU). Meanwhile, the growth momentum remains strong in Guyana, Suriname and the Dominican Republic.

In Trinidad and Tobago, preliminary data suggest a decline in real GDP of 1.7 per cent (year-on-year) during the first quarter of 2011, following two consecutive years of negative growth. Indicators suggest weaker performance in both the energy and non-energy sectors. In the energy sector, there were year-on-year declines in crude oil output (8.0 per cent) and natural gas production (2.1 per cent). These reductions were related to, in the first instance, the delay in the resumption of oil production from BHP Billiton following upgrades to its offshore facilities during the last quarter of 2010. Also, temporary maintenance shutdowns of BPTT's natural gas producing facilities affected deliveries to the National Gas Company Limited (NGC), which negatively impacted the operations of some petrochemical companies.

The performance of the non-energy subsectors during the first quarter of 2011 was mixed. Growth in the manufacturing sector was driven mainly by the introduction of melamine production from the Methanol Holdings Trinidad Limited (MHTL) AUM Plant. Apart from this, other manufacturing output increased modestly to satisfy a resumption in demand from CARICOM markets. Nevertheless, capacity utilization among manufacturers remained at about two-thirds. Based on available indicators, the distribution sector grew by 0.4 per cent during the first quarter as retail sales rose, following eight consecutive quarters of decline.

Construction activity has remained subdued. Indicators, such as local sales of cement and retail sales of hardware and construction materials, suggest a further decline in private construction activity from the already depressed levels of 2010. Fiscal data also indicate that public sector construction activity remained at a low level during the first quarter of 2011.

Partial data suggest that labour retrenchment has continued in 2011, albeit at lower levels than in 2010. The Ministry of Labour and Small and Micro Enterprise Development reported 377 persons retrenched during the first half of 2011, down from 645 during the same period in 2010 (Chart IV). The latest official employment data are for the second quarter of 2010, when the unemployment rate was estimated at 4.8 per cent.

Provisional data provided by the Ministry of Finance suggest that the central government recorded a surplus of $1,227 million for the first nine months of the fiscal year. Elevated oil and petrochemical prices coupled with collections from the tax amnesty resulted in a year-on-year increase in government revenue of 8.4 per cent. Moreover, despite a noticeable pickup in the pace of spending in May and June, government expenditure was lower than budgeted, particularly with respect to the capital programme. Ministry of Finance officials indicate that, among other factors, administrative delays related to the execution of the public sector investment programme, as well as substantially lower than- budgeted interest payments, contributed to the lower-than-expected spending. Capital expenditure has, however, began to pick-up. After averaging approximately $350 million per month during the first six months of fiscal 2011, the pace of capital expenditure has quickened significantly to average just over $1 billion per month in the third quarter of the fiscal year. The Ministry of Finance is currently working on revised projections for the year as a whole. The budget estimates, including the Supplemental Appropriation announced in May, would add up to a deficit (excluding transfers to the Heritage and Stabilization Fund) of around $6.5 billion. Given the pace of government expenditure, the Central Bank estimates the outturn for the deficit to be somewhat less.

Headline inflation decelerated rapidly to 0.8 per cent (year-on-year) in June 2011 from 13.4 per cent at the end of December 2010, as food price inflation fell from 29.5 per cent to 0.1 per cent over the period. Over the period also, core inflation fell from 4.7 per cent to 1.4 per cent. The sharp deceleration in food price inflation is partly due to the base effect. To illustrate, in the second quarter of 2010, there was cumulative food price inflation of 21.1 per cent, which caused the base to rise significantly. In the corresponding period of 2011, food price inflation rose by less than 2 per cent, exaggerating the year-on-year decline. Increases in domestic production of fruits and vegetables also contributed to the decline in food price inflation.

With core inflation well contained, the Central Bank adopted an accommodating monetary stance aimed at boosting domestic demand. The resulting reduction in bank interest rates (following upon the lowering of the repo rate) - contributed to a modest turnaround in consumer credit and an expansion in mortgage lending. However, bank lending to the business sector has continued to fall, though the decline seems to be bottoming out.

Bank excess liquidity has declined somewhat from unusually high levels. This has led to an increase in 3-month treasury bill rates from a historic low of 0.38 per cent in December 2010 to 1 per cent in June 2011.

Domestic stock market indices rose appreciably in the first six months of 2011, albeit on low trading volume. The Composite Price Index and the All Trinidad and Tobago Index increased by 13.7 per cent and 17 per cent, respectively, over the first half of 2011. Growth in these indices was mainly driven by increases in prices of shares of financial institutions, which posted impressive results. However, trading activity continued to be relatively weak – slightly less than in the first half of 2010 - as holders held on to the profitable stocks in the face of lower interest rates and limited alternative investment opportunities. There was also a notable reduction in activity in the domestic bond market which remained dominated by issues from public sector entities. In the six months to June, there were seven primary bond market issues, raising roughly $3.2 billion compared with fourteen bond issues in the corresponding period of 2010 which raised $7.2 billion.

Preliminary trade data for 2010, which have now become available, showed that the external current account balance strengthened to total US$3,842 million (18.8 per cent of GDP). Merchandise imports declined marginally (6.7 per cent), with sizeable reductions in imports of manufactured goods, and machinery and transport equipment. However, based on higher international prices for Trinidad and Tobago's energy exports1 and increased demand from the CARICOM region, there was a sizeable increase in merchandise exports (22.1 per cent). Indicators suggest that exports continued to perform well into 2011 and as a result, at the end of June 2011, gross official reserves were estimated at US$9,736.5 million, equivalent to 13.1 months of import cover. The capital account remained in deficit over the period, to the tune of US$3,423.6 million as capital outflows persisted and foreign direct investment dipped below US$550 million. For 2010 as a whole, the overall balance on the external accounts registered a surplus of US$418.4 million (2.0 per cent of GDP).

In terms of national competitiveness, movements in the trade weighted real effective exchange rate (TWREER) suggested a marginal improvement. There was a depreciation of 4.6 per cent in the TWREER during the period December 2010 to May 2011 on account of an appreciation in the exchange rates of major currencies against the US dollar and lower domestic inflation.

OUTLOOK

The following discussion on the short and medium-term outlook takes into consideration views expressed by several private sector representatives in a meeting held at the Central Bank on July 20, 2011. The main factors influencing the short-term economic outlook were cited as:

i. With the completion of major upgrades to the facilities of some of the key natural gas producers, natural gas production is anticipated to return to more normal levels during the second half of 2011. This should assist in alleviating the natural gas shortage and contribute to a pick-up in petrochemical production in the second half of 2011.
ii. Indicators of retail sales have continued to show growth in the second quarter. This, together with the slow but steady rise in bank credit to consumers, could indicate that the rise in domestic demand is gaining momentum.
iii. (Some manufacturing industries are beginning to see increased export demand as tourism activity in the Caribbean region improves.
iv. There are signs of a marked increase in government infrastructure spending in the last quarter of fiscal 2011. As more projects get off the ground, the pace of public sector construction should remain elevated in the second half of the calendar year 2011.
v. Better access to incentive programmes by farmers is having a positive impact on acreage under cultivation and on agricultural production.

Given the above factors, there was a consensus between the Central Bank and the private sector representatives that an improved second half performance could lead to real GDP growth of 1.2

per cent. The private sector representatives noted, however, that given the current fragility of business confidence, the risks to this projection are mostly on the downside. In particular, they expressed concerns about the deteriorating industrial relations climate which could contribute to work stoppages and possible retrenchments, affecting consumer demand and putting a halt to any resurgence in economic activity. They also noted that the short-term economic prospects would be enhanced by:

(i) accelerating payments of arrears to contractors;

(ii) quickening the rate of VAT refunds to businesses and;

(iii) the sustained implementation of the public sector investment programme.

The private sector representatives thought that economic growth could remain weak over the medium-term, unless several structural impediments were addressed immediately. Some of the imperatives identified were:

(i) Increasing oil production through enhanced oil recovery arrangements. This may require freeing up some of the acreage currently held by the state oil company.

(ii) Specific measures to increase productivity such as increasing efficiency at the ports and introducing systems to reduce bureaucracy and promote business facilitation;

(iii) A clearly defined diversification strategy that inter alia, identifies a number of industries to serve as growth poles; and

(iv) Formation of a tripartite committee which could serve to address issues on the investment climate and provide a forum for the resolution of other economic challenges.

To add to this list, the Central Bank is of the firm view that, following three years of fiscal deficits, faster medium-term growth would require fiscal consolidation so as to contain public debt and provide fiscal space for sustained infrastructural investment.

INTERNATIONAL ECONOMIC DEVELOPMENTS

In the first half of 2011, advanced economies generally continued along a path of tepid recovery. The US economy expanded by 1.6 per cent (year-on-year) in the second quarter of 2011, following growth of 2.2 per cent in the previous quarter. Similarly, the UK posted growth of 0.7 per cent in the second quarter of 2011, down from 1.6 per cent in the previous quarter. During the first quarter of 2011, growth in the Euro area was 2.5 per cent, while Japan contracted by 1.0 per cent. In these advanced economies, unemployment levels remained high with continued weakness being experienced in housing markets.

Early 2011 saw heightened geo-political tensions in the Middle East and North Africa (MENA) region and a major natural disaster in Japan. The March 2011 earthquake and tsunami in Japan disrupted Japanese supply chains and caused significant damage to several nuclear plants, refineries and production machinery. However, the overall impact on global industrial output and commodity prices was well contained. Meanwhile, disruptions to oil production in several

MENA countries added significant upward pressure to world oil prices. With the price of oil breaching US$120 per barrel, fears of a 'double dip' recession lingered.

Market concerns surrounding the Euro area re-emerged as sovereign debt challenges intensified. Notwithstanding the approval of a joint EU/IMF financing package of €110 billion (US$157.1 billion) to Greece in May 2010, market fears over Greece's fiscal position persisted. Greece's sovereign debt ratings were downgraded by several international credit rating agencies who cited growing concerns of unsustainable debt dynamics. Meanwhile, due to its rapidly deteriorating fiscal situation, Portugal was granted a €78 billion (US$113.2 billion) support package, a joint EU/IMF venture. Fears of US sovereign indebtedness were allayed in early August with the signing of legislation that increased the US Government borrowing limit.

In contrast, several large emerging markets recorded robust growth and continued to attract significant capital inflows. In the second quarter of 2011, China's economy grew by 9.5 per cent (year-on-year), while in the first quarter, India's economy increased by 7.8 per cent and Brazil's by 4.2 per cent. As capacity constraints tightened, inflationary pressures expanded in China and India. Meanwhile, according to IMF estimates, net private capital flows for emerging economies rebounded sharply in 2010 to US$470.1 billion from US$236.6 billion in 2009. Flows are expected to remain elevated, but dip to US$388.1 billion in 2011 before rising to US$411.5 billion in 2012.

Overall, global growth is expected to be in the order of 4.3 per cent in 2011 and 4.5 per cent in 2012.2 Growth in advanced economies is projected at 2.2 per cent and 2.6 per cent in 2011 and 2012, respectively. Emerging economies however, are expected to grow at a faster rate of 6.6 per cent in 2011 and 6.4 per cent in 2012.

International food prices surged in the first half of 2011, mainly on account of cereals. The Food Price Index produced by the United Nations Food and Agriculture Organization (FAO) rose by 39.1 per cent (year-on-year) in June 2011. In particular, grain prices climbed sharply, with the FAO's Cereal Price Index rising by 71 per cent in June 2011 on a 12-month basis, due to dwindling stocks of wheat and corn and unfavourable weather in Europe and North America. The planned removal of the Russian Federation's export ban during 2011 may temper price increases, but, over the next few months, food prices could remain high as there is not expected to be a large increase in production in the world's top grain exporting regions.

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