CARIBBEAN ECONOMIC PERFORMANCE REPORT JAN-JUNE 2012

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CARIBBEAN CENTRE FOR MONEY AND FINANCE

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1.0 EXECUTIVE SUMMARY

Growth of the global economy for the first half of 2012 has been weak as growth picked up in the first quarter but weakened in the second quarter. The second quarter reflected the fact that the recovery was not wide spread, uncertain given fragile business and incomplete consumer responses that have characterised growth in the last four years. The most serious threats to global growth would be the possibility of fallouts from the crises in the euro area in combination with mounting sovereign debt marked by fiscal, banking sector problems related to EMU design flaws and volatile financial sector markets. Moreover, there was slowing growth of the critical emerging markets such as China, India and Brazil. Unemployment rates have remained high in the advanced industrialised economies as they averaged eight per cent. Owing to the real side problems in the developed markets, inflationary pressures have eased in these jurisdictions as inflation is expected to average 1.8 per cent for 2012, down from 2.7 per cent for the previous year. International trade eased for the first half of 2012. International tourist arrivals grew by five per cent for the first half of 2012. Asia and the Pacific were the fastest growing regions. The Americas recorded growth of 7.4% based on strong growth in South (6.2%) and Central America (6.8%) and the Caribbean (5.3%). Countries such as Cuba and the Dominican Republic were the best performers with growth of five per cent and seven per cent respectively. Growth is expected to be at 3.3 per cent for 2012 and 3.6 per cent for 2013.

The growth performance of the regional economies have been reduced by domestic investments as domestic investments have been affected by uncertainties concerning the global economy as average growth for the CARICOM member countries fell for the first half of 2012 to 0.96 per cent, compared to 1.5 per cent for the first half of the previous year. Average growth generally declined for the first half of 2012 for the region. For the data that were available, growth ranged between negative 1.78 per cent for Barbados to 2.8 per cent for Guyana. Thus, growth fell to an average of 0.96 per cent for the five territories, Barbados, Guyana, ECCU, Jamaica and Suriname. This is in contrast to 2.05 per cent for the previous year. The reduced growth for the member countries was associated with declining external current account balances and associated reductions in the construction sector. In some cases the declines were associated with declines in external demand owing to declines in the global economy. It was also associated with a fall in domestic supply owing to a fall in hotel rooms, natural disasters and declines in forestry sector. Moreover, there were disruptions in production of mining activities and slowdown in public investments owing to uncertainties. The commodity-producing economies benefitted from favourable commodity prices, in particular gold and energy prices.

On average, member countries recorded marginal declines in inflation rates as inflation for the first quarter was 5.1 per cent representing a 0.8 percentage point fall from what the rate was for the same quarter of the previous year. Rates ranged between 2.2 per cent for The Bahamas and 22 per cent for Trinidad and Tobago. Inflation rates continued to be buoyed by high imported commodity prices, in particular fuel and food prices.

From the limited data available, labour markets in most of CARICOM economies continue to be characterised by unemployment, with rate being 14.7 per cent for The Bahamas, 11.8 per cent for Barbados for the first quarter, 14.4 per cent for Belize by the second quarter and 14.2 per cent for Jamaica. Job losses were recorded primarily in tourism, construction, wholesale and retail sectors. In the case of Trinidad and Tobago job losses were recorded in the manufacturing sectors, in particular chemicals and iron and steel operations.

There were mixed performances for the first quarter of 2012 in the fiscal current accounts of the regional economies. The best performers for the first two quarters of the year were Haiti and Trinidad and Tobago as these countries recorded surpluses. The Bahamas and Curacao were the only countries to record overall fiscal surpluses for the first quarter of 2012. For the second quarter, the countries recording surpluses were Belize, ECCU, Haiti, Jamaica and Trinidad and Tobago.

Growth of private sector loans generally increased at a higher rate for the first half of 2012 compared to the same period for the previous year. The strongest increase in growth was recorded for Haiti where growth strengthened by 10.6 per cent for the first half of 2012. Interest rate spreads generally contracted in the presence of declining lending and deposit rates with the decline in lending rates outstripping the deposit rate.

The countries with the most significant addition to external debt were Haiti (30%) and Guyana (7.7%). However, countries generally reflected greater reliance on domestic rather than external debt for the first half of 2012. This was particularly the case for The Bahamas, Barbados, ECCU and Trinidad and Tobago. The two countries which exhibited the greatest reliance on domestic debt were Barbados and The Bahamas.

There were mixed performances in the external current account balances of the member countries. Surpluses were recorded for the first quarter for Belize (9.5%), St. Maarten (47.6%) and Suriname (3.4%). The gap widened in both quarters for The Bahamas, Guyana and Curacao. Export growth exceeded import growth in the first quarter of 2012. There were positive signs for the tourism sector as tourism revenues generally grew for the first half of the year. There was also growth in the mineral and fuel sectors and in the manufacturing sectors. On the downside the growth of the value of food imports increased in the first half of 2012 beyond the previous year. Net capital inflows dominated the regional economies. However, capital inflows exhibited a downward trend for Belize and Guyana. There were foreign exchange outflows in most member territories, with net outflows recorded for Aruba, The Bahamas and Jamaica while Guyana and Trinidad and Tobago recorded reductions in official external foreign exchange reserves by 2.2 and 0.03 per cent respectively.

Average growth for the region is expected to improve from 1.7 per cent for 2012 to 2.4 per cent for 2013. The prospects for regional economies may be constrained by pressures emanating from the subdued recovery of the global economy. The global economy faces significant downside risk, including significant sovereign debt overhang, and severe weaknesses in the banking sector. External accounts would be under severe pressures as oil prices are forecasted to remain high, hovering around US$100 over the next two years.

Commodity prices are expected to remain buoyant there by benefitting the commodity exporters in the region. Accordingly, commodity-based economies are expected to grow faster at over three per cent. Growth for Haiti may accelerate beyond this owing to reconstruction efforts. Trinidad and Tobago is expected to be an exception here, owing to weakening business and consumer confidence. Tourism dependent economies may be under more pressure as tourism demand would largely depend on the pace of consumer demand in the advanced developed economies. The lack of demand would create balance of payment pressures along with further debt overhang.

2.0 GLOBAL ECONOMIC DEVELOPMENTS

The global economy continued to experience the post-crisis pattern of weak growth with a propensity for reversals in 2012. Global economic growth weakened in the second quarter after an unexpected increase in the first quarter of 2012 based on easing financial conditions and increased investor confidence after the European Central Bank longer term refinancing operations. The reversal in the second quarter of 2012 reflects the fact that the recovery has so far been relatively weak and volatile, but not widespread. The reversals over the last four years are manifestations of the high degree of uncertainty and the related fragile consumer and business confidence which is driven by inadequate and incomplete policy responses, lingering vulnerabilities in the international financial system from the recent crisis, structural problems in many developed economies and regions and global imbalances. In particular, economic agents seem to have doubts about the political will and ability of governments to effectively confront problems, especially in the US and Europe.

Risks to global growth are therefore now concentrated on the downside with the most serious threats to the global economy being the fallout from the crisis in the Euro Area and the possibility of the US not being able to traverse the so called "fiscal cliff" and failing to raise its debt ceiling which would trigger automatic consolidation in the order of three per cent of GDP which would push the US into recession. Indeed, the forecast of global growth was recently marked down by the IMF driven by downward revisions for the Euro Area, China, India and Brazil. Additionally, uncertainty seems to have increased as the Fund has also estimated that the possibility of global growth falling below two per cent in 2013 has increased from four per cent in April to 17 per cent in October, which would be consistent with a recession in developed economies.

The main factors restraining global growth in 2012 therefore include sovereign debt, fiscal and banking sector problems in Europe related in part to EMU design flaws, an acrimonious debate on fiscal consolidation in the US which has served to increase uncertainty and increased volatility in financial markets and slowing growth in important emerging markets such as China, India and Brazil because of decreased demand from developed economies and capacity constraints. These problems have led to industrial production and trade falling off in the first half of 2012. These problems have been mitigated to some extent, if somewhat fleetingly, by the establishment of the European Stability Mechanism (ESM) and the announcement by the European Central Bank that it would consider Outright Monetary Transactions (OMT) without limit for countries under a macroeconomic adjustment to ease funding restrictions and the sharp increase in sovereign spreads for countries such as Spain and Italy. Worries about the ability of governments to push though needed reforms have continued to push up spreads for countries on the periphery of the Euro Area and led to capital flows from the periphery to core countries. There have also been some tenuous signs of improvement in the US as the housing market appears to be stabilising, the labour market has improved marginally and private credit has continued to expand. The continued high levels of unemployment in many industrialised countries, muted consumer demand and high levels of uncertainty driven by doubts about the ability of governments to make needed policy adjustments have continued to restrain growth.

Global growth is therefore now expected to slow to 3.3 per centin 2012 down from a rate of 3.8 per cent in the previous year. This is driven by slower growth in emerging and developing economies, most notably in China and India, and by a significant deterioration in growth in the Euro Area, this in spite of minor improvements in the US and Japan (See Table 1). The recovery therefore remains fragile with the possibility of reversals with risks to global growth prospects continuing to be weighted on the downside including the possible escalation of the Euro Area crisis, a fiscal crisis in the US and geopolitical problems in the Middle East which could lead to a supply shock based spike in oil prices.

Table 1: GLOBAL ECONOMIC GROWTH

	World	Advanced Economies	USA	Euro Area	Japan	Emerging and Developing Economies	LA	Brazil	China	India
2010	5.1	3.0	2.4	2.0	4.5	7.4	6.2	7.5	10.4	10.1
2011	3.8	1.6	1.8	1.4	-0.8	6.2	4.5	2.7	9.2	6.8
2012	3.3	1.3	2.2	-0.4	2.2	5.3	3.2	1.5	7.8	4.9
2013	3.6	1.5	2.1	0.2	2.1	5.6	3.9	4.0	8.2	6.0

Source: World Economic Outlook: October 2012, IMF.

The policy tension between the promotion of growth and the need for medium term fiscal consolidation is still very strong, especially in the Euro Area and the US and very worryingly there seems to be little political consensus on this issue in affected countries. 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
2010	100.6	98.6	215.3	85.4	85.1	74.9	39.5	50.0	33.5	68.0
2011	104.7	102.9	229.6	87.9	85.4	81.8	36.3	50.2	25.8	67.0
2012	109.9	107.2	236.6	93.6	87.5	88.7	34.4	49.1	22.2	67.6
2013	112.7	111.7	244.9	94.9	87.8	93.3	32.7	47.7	19.6	66.7

Source: World Economic Outlook Dataset October 2011, IMF.

Very importantly, unemployment is expected to remain stable but relatively high in 2012 and 2013 in advanced economies with a significant deterioration expected in the Euro Area. 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. Consumer expenditure in developed markets is expected to remain weak in 2012 but improve moderately in 2013 driven by improvements in the US and Canada but with significant declines in Japan and the Euro Area (see Tables 3 and 4).

Table 3: UNEMPLOYMENT RATES IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany	NICs
2010	8.3	9.6	5.0	10.1	7.9	7.9	7.1	4.1
2011	7.9	8.9	4.6	10.2	7.5	8.0	5.9	3.6
2012	8.0	8.2	4.5	11.2	7.3	8.1	5.2	3.5
2013	8.1	8.1	4.4	11.5	7.3	8.2	5.3	3.5

Source: World Economic Outlook Dataset, October 2012, IMF.

Table 4: CONSUMER EXPENDITURE GROWTH IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany	NICs
2010	2.0	1.8	2.6	1.0	3.3	1.3	0.9	4.7
2011	1.4	2.5	0.1	0.1	2.4	-1.0	1.7	3.4
2012	1.1	1.9	2.5	-1.1	1.7	-0.2	0.7	2.4
2013	1.4	2.2	1.0	-0.3	2.0	0.9	1.0	3.2

Source: World Economic Outlook Dataset, October 2012, IMF.

The recent problems in developed market economies have eased inflationary pressures in those jurisdictions. Inflation was higher in 2011 relative to 2010 in most countries because of commodity price trends. Inflationary trends are expected to moderate in 2012 and 2013 as commodity prices soften. This levelling off of prices in 2012 and 2013 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 (see Table 5).

Table 5: GLOBAL INFLATION RATES

	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Emerging Economies	LAC	China	India
2010	1.5	1.6	-0.7	1.6	1.8	3.3	6.1	6.0	3.3	11.0
2011	2.7	3.1	-0.3	2.7	2.9	4.5	7.2	6.6	5.4	8.9
2012	1.8	2.0	0.0	2.3	1.8	2.7	6.1	6.0	3.0	10.2
2013	1.6	1.8	-0.2	1.6	2.0	1.9	5.8	5.9	3.0	9.6

Source: World Economic Outlook Dataset, October 2012, IMF.

In advanced economies, although progress has been made in terms of improved capital adequacy ratios and in recognising losses, significant sovereign and banking sector vulnerabilities remain. 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. The European Central Bank's recent announcement that it will purchase government securities from countries under the framework of the ESM has helped to mitigate the worst speculative pressures and the negative feedback between sovereign risks and banking sector stress but credible moves to deal with more fundamental EMU design flaws such as working to establish a banking union with a unified financial stability framework, as well as longer term moves towards fiscal integration are key to forging stable expectations and improving confidence. The recent turbulence in some European markets attests to this reality. 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 encouraged capital flows to emerging and developing countries. These flows have in some cases been attracted by unsustainable trends such as currency appreciation and search for yield which could motivate investment in high risk projects (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 in some emerging and developing economies.

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

Year	2006	2007	2008	2009	2010	2011	2012	2013
Net Portfolio Inflows	-28.5	108.6	-61.9	124.8	240.8	129.7	133.0	150.9
Net FDI Inflows	303.7	440.8	484.8	317.0	392.0	462.4	393.8	409.0

Source: World Economic Outlook Dataset, October 2012, 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 were covered imperfectly, by any regulatory regime into some regulatory domain.

International trade contracted in the wake of the problems mentioned above in the first half of 2012 after rebounding in 2010. Merchandise export volume which had rebounded strongly to pre-crisis levels in 2010 had softened in 2011 and, given the trend in the first half of 2012, is expected to register a further easing for the full year. This situation is driven in large part by the headwinds emanating from the escalation of the problems in Europe and the fiscal challenges in the US, which are unlikely to be resolved in the short term. The growth in trade is, however, projected to increase moderately by 4.5 % in 2013 assuming that the most significant risks of a full scale crisis in Europe and the "fiscal cliff" in the US are avoided (see Table 7).

Table 7: WORLD TRADE AND PRICES (% Change)

Year	2009	2010	2011	2012	2013
World Trade Volume	-10.4	12.6	5.8	3.2	4.5
World Trade in US dollars Price Deflators	10.8	5.6	11.2	-1.9	-0.5
Volume of Exports in advanced economies	-11.3	12.0	5.3	2.2	3.6
Volume of Exports in Emerging and developing economies	-7.6	13.7	6.5	4.0	5.7

Source: World Economic Outlook: October 2012, IMF.

Commodity prices have in the main been driven by demand, but supply factors had an important ancillary role to play in commodity price developments especially in the energy and food sectors. Energy and metal prices in particular are closely linked to the demand cycle and increased inthe first quarter of 2012 as economic growth rose, driven by increased confidence in the wake of the ECB's longer term refinancing operations, and fell in the second quarter as growth slowed in developed economies as well as in China and India (See Tables 8 and 9). The prices of most agricultural commodities also followed this pattern, but the fall was more moderate due to weather related concerns. Rice was a notable exception to this trend as the price rose in the second quarter as Thailand, a major player in global supply, moved to increase its reserves.

In terms of the prospects for commodity prices, global growth dynamics will continue to be the major factor driving commodity market price developments, but commodity-specific factors will also play a role. In this context, commodity prices are likely to increase moderately based on the expected modest pick-up in growth in developed market economies and important emerging and developing economies. In terms of commodity specific factors, supply constraints are likely to keep the price of many foods and agricultural raw materials elevated, with some softening by the end of 2013 as stocks improve. Natural gas prices are expected to improve in the next two years but to continue to be low by historical standards driven by new supplies coming to market and the development of shale gas in North America. Base metals are also expected to increase in the next two years based on the expected modest increase in global growth. In the oil industry, price spikes are a distinct possibility given the geopolitical risks faced by this industry and remain one of the most important risks to global growth; nevertheless, oil prices are expected to moderate as countries increase their buffer stocks and a robust supply from OPEC. Energy prices are therefore likely to post very modest increases on current price levels while metals are likely to post more significant gains, but agricultural commodities are likely to see some softening in prices towards the end of 2013 (see Tables 8 and 9).

Table 8: SELECTED COMMODITY PRICES

Commodity	Actual						Forecast	
	J-D 2010	J-M 2011	A-J 2011	J-M 2012	A-J 2012	Latest September 2012	J-D 2012	J-D 2013
Crude Oil – average $/bbl	79.04	99.75	110.05	112.52	102.83	106.28	105.70	105.80
Natural Gas US - $/mmbtu	4.39	4.18	4.37	2.46	2.28	2.84	2.60	3.50
Al1uminum - $/mt	2173.00	2501.00	2611.00	2179.00	1982.00	2064.00	2000.00	2350.00
Rice Thai 5% - $/mt	488.90	511.18	493.10	542.50	582.80	563.80	550.00	520.00
Sugar (World) - cent/kg	46.93	62.70	52.56	52.75	47.05	44.07	48.00	45.00
Bananas (US) - $/mt	868.00	963.60	1004.00	1052.00	979.00	965.00	1050.00	1000.00

Source: Commodity Price Pink Sheet, April and October 2012 and Commodity Price forecast September 2012, World Bank

Table 9: COMMODITY PRICE INDICES (2005=100)

Commodity	Actual						Forecast	
	J-D 2010	J-M 2011	A-J 2011	J-M 2012	A-J 2012	Latest September 2012	J-D 2012	J-D 2013
Energy	144.7	181.23	197.60	200.60	183.50	188.80	188.20	189.30
Non Energy	173.9	221.50	217.20	192.90	189.30	192.10	190.30	188.50
Agriculture	170.40	220.42	215.10	192.60	191.70	200.30	195.40	184.90
Beverages	182.10	219.83	218.70	171.70	162.70	172.30	167.10	162.00
Food	169.60	217.76	212.40	203.60	206.90	223.80	213.80	197.90
Metals	179.60	222.72	216.40	185.70	175.40	167.60	172.10	189.20

Source: Commodity Price Pink Sheet, April and October 2012 and Commodity Price forecast September 2012, World Bank

The tourism industry has historically been one of the most resilient sectors and recent data have again given credence to this view. Despite serious concerns about the global economy, international tourism demand continues to show resilience and is one of the few sectors growing strongly. Tourist arrivals increased by approximately five per cent during the first six months of 2012 when compared to the same period in 2011 (See Table 10) and at this pace tourist arrivals are expected to cross the one billion mark by the end of the year. This is even more remarkable in a year characterised by major political convulsions in North Africa and the Middle East in addition to the global economic challenges. The growth in tourism is expected to continue for the rest of the year but at a more modest pace with international tourist arrivals expected to average growth for 2012 of just below the long term average of 4% relative to 2011.

In terms of the regional distribution of tourist arrivals, advanced and emerging economies grew at about the same pace. Asia and the Pacific was the fastest growing region with growth of eight per cent in the first half of 2012 driven by the recovery of Japanese inbound and outbound tourism. Africa was the next best performing region with growth of 7.2 per cent based in large part by the return of tourists to North Africa and Tunisia in particular, as political tensions subsided. The Americas recorded growth of 4.7 per cent driven by strong growth in South (6.2%) and Central America (6.8%) and the Caribbean (5.3%). The Caribbean consolidated its strong performance in 2011 with countries such as Cuba and the Dominican Republic being the best performers with growth of five per cent and seven per cent respectively. At the lower end of the growth spectrum, North America still posted decent growth of 3.9 per cent in spite of a sharp drop in arrivals in the second quarter of 2012. In Europe, the epicenter for much of the global economic problems in 2012, arrivals grew at 3.8 per cent in spite of weak growth in Southern Europe as arrivals were boosted by strong growth in Western and East/Central Europe. The Middle East recorded weak growth (0.9%) in spite of a strong rebound in Egypt as the conflict in Syria led to a sharp drop in tourist arrivals (See Table 10).

Very interestingly, the leading countries in terms of expenditure by source markets were emerging markets led by China (30%) and Russia (15%), with traditional source market such as the USA (9%) and Germany (6%) registering lower growth by comparison with emerging markets but nevertheless representing improvements over 2011. Very importantly, Japan recorded growth of 8% which confirms the recovery of this very important market. In contrast, growth was low or negative in the UK, France and Italy.

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. Global growth in tourist arrivals is expected to range between three to four percent in 2012 barring no major negative event. Emerging market destinations are likely to continue leading growth in the international tourism industry as tourism arrivals rebound in Africa and as the Asia and Pacific region takes advantage of the demand from high growth neighbouring countries.

Table 10: INTERNATIONAL TOURIST ARRIVALS

Country/Region	Total (Millions)		% Change over previous year				
	2010	2011	2011Q1	2011Q2	2012Q1	2012Q2	2012H1
Europe	477.3	509.4	5.2	8.8	4.7	3.2	3.8
Northern Europe	58.2	61.4	5.5	10.6	4.4	2.3	3.1
Western Europe	154.3	161.0	3.9	5.4	5.9	4.4	5.0
Cent./East. Europe	95.7	105.0	7.7	10.1	8.5	5.8	6.9
South./Med. Europe	169.1	182.0	4.9	10.4	0.9	1.1	1.1
Asia and the Pacific	205.0	218.1	4.8	6.0	8.5	7.5	8.0
North-East Asia	111.5	115.8	2.1	0.7	7.7	7.9	7.8
South-East Asia	69.9	77.3	8.0	14.3	9.7	7.4	8.6
Oceania	11.6	11.7	-0.5	0.5	4.6	6.4	5.4
South Asia	12.0	13.4	16.9	16.5	11.1	6.0	8.9
Americas	150.7	157.1	3.2	6.5	7.2	2.2	4.7
North America	99.2	102.1	0.8	5.2	8.1	0.5	3.9
Caribbean	20.0	20.9	4.1	5.3	5.2	5.5	5.3
Central America	7.9	8.3	2.7	4.2	7.0	6.5	6.8
South America	23.6	25.8	9.6	15.1	6.6	5.6	6.2
Africa	49.7	49.9	4.4	-1.8	6.3	8.1	7.2
North Africa	18.8	17.1	4.4	-9.7	8.9	11.7	10.5
Sub-Saharan Africa	31.0	32.8	-9.1	3.1	5.3	6.1	5.7
Middle East	59.9	55.7	10.6	0.4	-0.4	2.0	0.9
Advanced Economies	501.0	527.0	-6.9	6.7	6.6	3.9	5.0
Emerging Economies	441.0	463.0	3.1	6.9	5.4	4.3	4.8
World	943.0	990.0	4.6	6.8	6.0	4.1	4.9

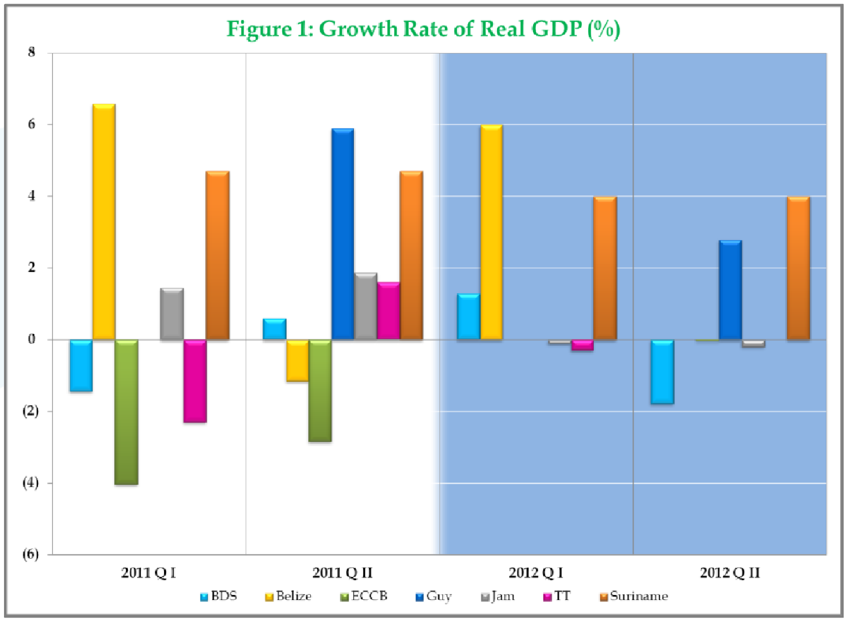
Source: World Tourism Organisation, World T3.8ourism Barometer, Volume 10, No.2, September 2012.

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, and is now ranked third in terms of arrivals and fourth in terms of tourism receipts. Very importantly also, China is now ranked 3rd 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.

Complicated visa procedures, direct taxation of tourism activity and limited connectivity has been identified as some of the major impediments to growth in tourism. Indeed, research by the World Tourism Organisation (UNWTO) and World Travel and Tourism Council (WTTC) on G20 countries, released at the G20 Ministers Meeting in June 2012, showed that the G20 could boost their international tourist numbers by an additional 122 million, generate an extra US$ 206 billion in tourism exports and create over five million additional jobs by 2015 by improving visa processes and entry formalities. Findings showed that of the 656 million international tourists who visited G20 countries in 2011, an estimated 110 million needed a visa, while millions more were deterred from travelling by the cost, waiting time and difficulty of obtaining a visa. Facilitating visas for these tourists, many from some of the world's fastest growing source markets, could stimulate demand, spending and ultimately create millions of new jobs in these countries. Efforts should be intensified to facilitate the further development of the tourist industry by addressing these challenges as a matter of priority.

3.0 REGIONAL ECONOMIC PERFORMANCE

3.1 Economic Growth



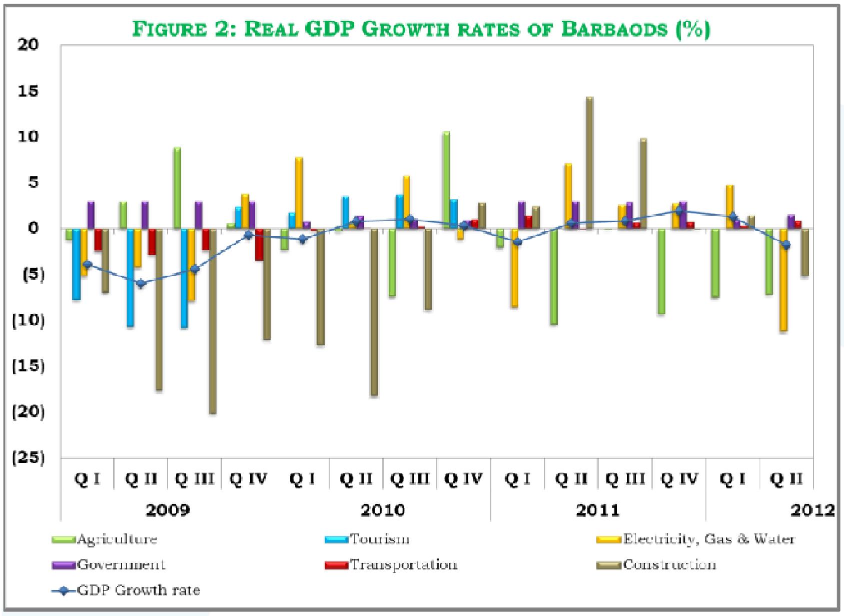
Economic activity in the CARICOM region continues to be clouded by uncertainties linked to the global economic slump that has existed for the past four years. The average regional growth rate for the CARICOM region for the second quarter of 2012 is 0.96 per cent[1], a significantly lower rate when compared to the 2.05 per cent[2] reported in 2011 for that same period. Five countries of the eleven to be reviewed reported their growth rates in Real GDP for the period Jan-June 2012. At the end of June 2012 their growth rates ranged from -1.78 per cent (Barbados) to 4 per cent (Suriname). Most of the countries linked their low levels of economic activities to the weak economic performance of the advanced and developed economies of the world.

Preliminary indicators of economic activity for Aruba suggest a slowdown in its economic activities for the period Jan-June 2012. It is reported that the level of construction activity for the first half of 2012 was considerably lower than the past two years for the same period. Another contributor to Aruba's lower level of economic activity is the decline in its tourism sector. In May 2012 tourist stop over arrivals increased but this was offset by significant declines in cruise ship arrivals for the same period. The Bahamas has projected an increase of 2.5 per cent in its economic activities

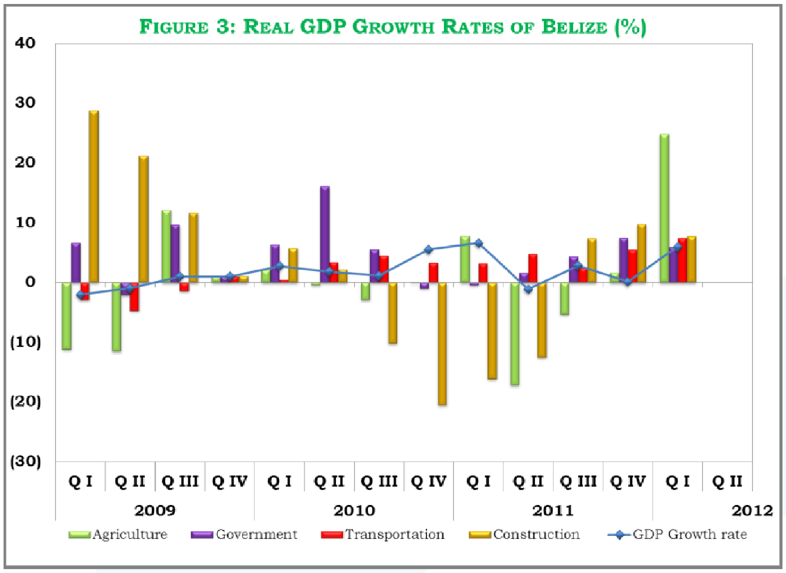
[1] This average of 0.96 percent is based on the available country data we have – Barbados, Guyana, ECCU, Jamaica and Suriname.

[2] This average of 2.05 per cent is based on the same five countries data was available for in the second quarter of 2012. This was done for comparability purposes.

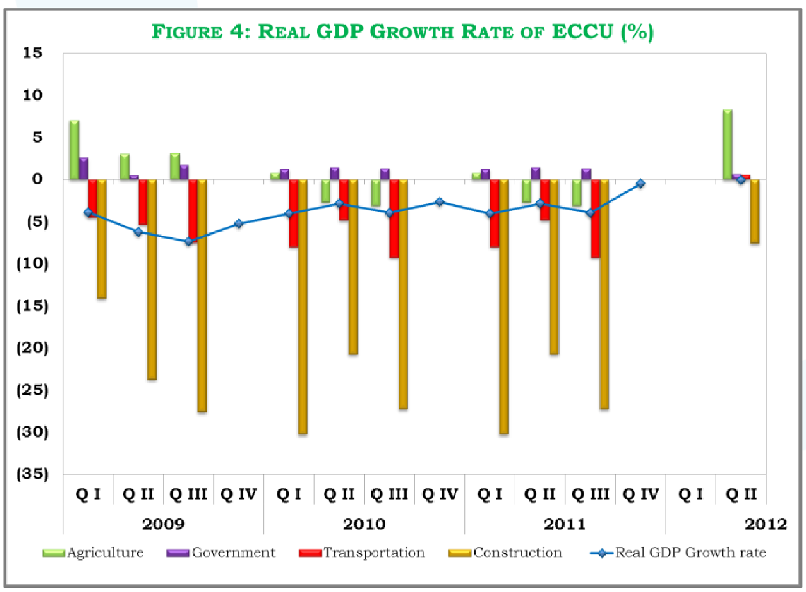
for the year 2012. This projected growth rate is based on steady gains experienced in the tourism sector on account of an improvement in key segment markets and implementation of foreign and public sector construction activities in Jan-June 2012.



Barbados reported a positive increase of 1.29 per cent in its economic activities during the first quarter of 2012 a considerable improvement when compared to the negative rate of 1.44 per cent reported in 2011 for the same period. However, in the second quarter of 2012 economic activity decreased. The reported growth in real GDP for the second quarter was -1.78 per cent, a decrease of 1.18 percentage points when compared to the rate reported in 2011 for the same quarter. The average growth rates of Barbados for the period Jan-June 2012 show an average growth rate of Real GDP of 0.6 per cent, a small improvement from the -0.2 per cent reported in 2011 for the same period. The tourism industry is slowly recovering having reported an increase in activity of 1.8 per cent for the review period. The Construction sector also reported a 1.3 per cent improvement mainly as a result of private commercial building activity, the continuation of tourist-related projects and public sector capital projects. Also, the number of active companies in the International Business and Financial Services sector of Barbados increased by three per cent in the first six months of 2012. A most notable decline of seven per cent in the hotel room capacity was experienced in this review period because of the closure of Almond Beach Village and the restructuring of some smaller hotels.



Increased economic activities in Agriculture and the buoyancy in the Tourism industry coupled with an increase in domestic output of electricity propelled the Belizean economy in the first quarter of 2012 to register an economic growth rate of six per cent. A considerable increase when compared to the 2.8 per cent reported in 2011 for that same period. The agriculture sector expanded by 24.9 per cent in the first quarter of 2012 , with significant increases in banana and sugarcane production offsettingthe fall in production of citrus and papaya. Mixed outcomes were reported for the secondary sectors, but a notable increase of 58.7 per cent in electricity output from the congregation plant boosted its output for Jan-Mar 2012.

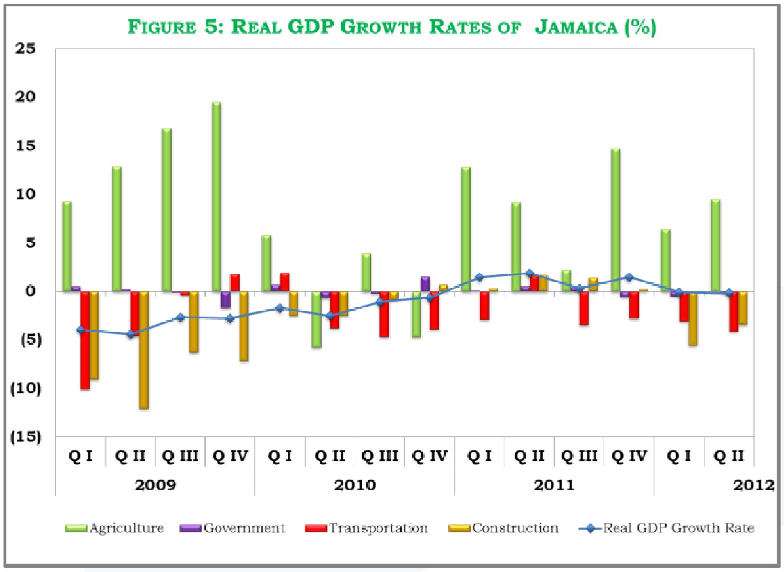


The ECCU member countries continue to be subdued in 2012 as they struggle to cope with the global slowdown of economic activities. It is reported that all its member countries experienced a contraction in their construction activity for the first quarter of 2012, with the exception of Montserrat and Anguilla. The ECCU Manufacturing sector contraction was partially offset by the increased manufacturing output in St. Kitts and Nevis and St.

Vincent and the Grenadines. The Agriculture sector of the ECCU member countries is still struggling to recover from the damages caused by hurricane Tomas in late 2010 and disease infestation in St. Lucia and St. Vincent and the Grenadines. However in Dominica and Grenada increased output of bananas was recorded for the first quarter of 2012.Other key sectors within the ECCU, such as financial intermediation and real estate renting and business activities, also experienced contractions in their economic activities for the period Jan-Mar 2012. Positive improvements were reported in the Hotels and Restaurants sector and Wholesale and Retail Sectors for the same review period which helped offset the reduced output in other sectors within the ECCU.

Guyana reported a slowdown in its economic activities of 2.8 per cent for Jan-June 2012, a 3.1 percentage point decrease when compared to its reported rate of 5.9 per cent for the same period in 2011. Higher levels of output were reported for the Agriculture, Manufacturing, Mining and Services sectors for this period but significant declines in the Forestry sector and subsectors such as Paints and Diamond mining weighed down the total output of Guyana in the first six month of 2012. Diamond output declinedin the first quarter of 2012 by 22.5 percentdue to the switch by miners from diamond togold in order to benefit from high worldmarket prices.

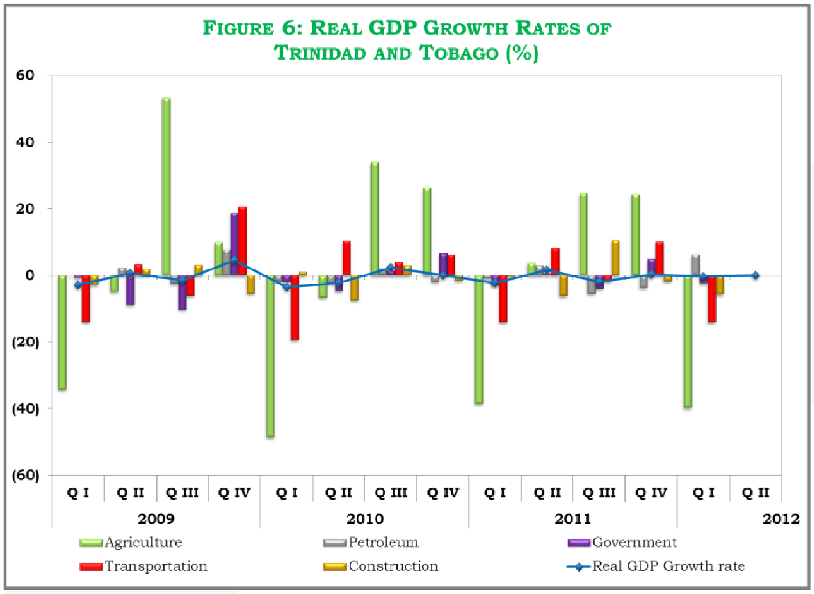
Economic activity in Haiti for the period Jan-June 2012 has been relatively low in spite of reported improvements in its economic activities in Manufacturing, Services, Commerce and Agriculture sectors. The political crisis which occurred in the first quarter of 2012 has imposed a high level of uncertainty on Haiti's economy which resulted in a marked slowdown in public investments and delays in public investment spending since its budget approval was delayed.



The Jamaican economy contracted by 0.1 per cent in the period Jan-June 2012 relative to the similar period in 2011. Expansions were mainly reflected in Agriculture, Forestry and Fishing (7.9%) and Hotels and Restaurants (2.2%) for the review period while contractions were registered in Mining & Quarrying, Construction and Transportation and Storage & Communications. Disruptions in the production of the mining activities because of electrical and maintenance problems resulted in 7.5 per cent decrease in the Mining & Quarrying sector, while construction sector activities were impaired because of lower levels of government spending on road improvement works and a decline in residential construction.

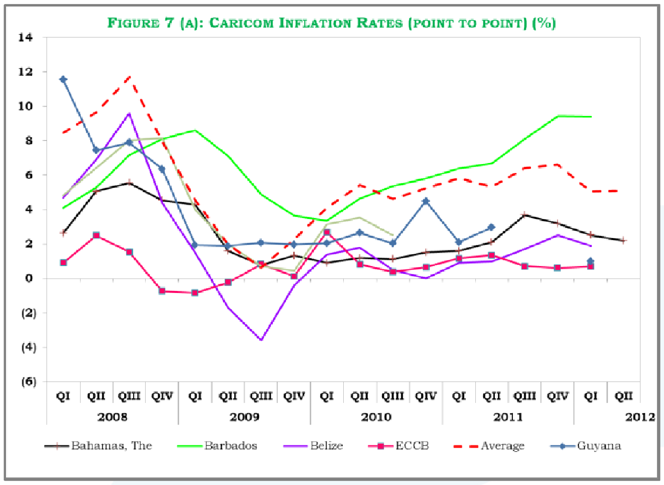
Curacao's real GDP reportedly contracted by 0.9 per cent in the first quarter of 2012, compared to a decline of 0.4 per cent in the same period of 2011. This slowdown in economic activities in this review period was attributable to lower domestic demand stemming from a decline in public investment. Economic activities in the private sector remained flat because real value added in the Financial Services sector, which accounts for most of private sector activities, dropped even though other sectors registered increases, namely Transport, Storage & Communications, Hotel & Restaurants, Tourism and Construction. Indicators of economic activity in Sint Maarten suggest there is an improvement in its economic performance for the first quarter in 2012. The Tourism sector reported an increase in visitors' arrivals and cruise ships, accompanied by an upswing in the Hotel and Restaurant sector. The reopening of the Simpson Bay Resort also helped boost those two sectors. Improvements were also recorded in the

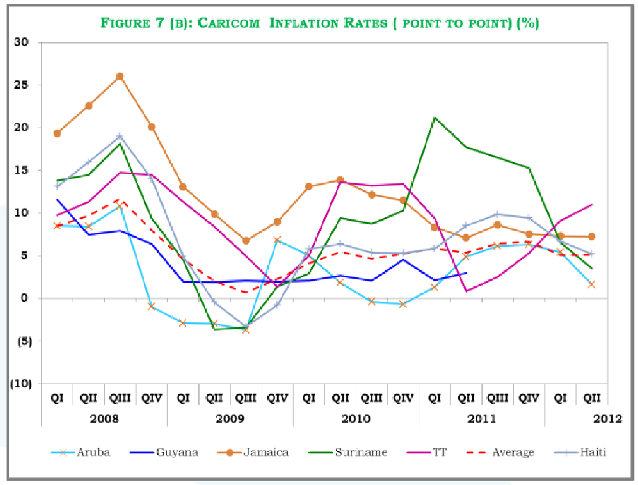
Construction sector for the period Jan-Mar 2012 as the number of mortgages extended and the number of application for residential permits requested increased in the period.



Suriname continues to benefit from favourable commodity prices, in particular gold prices, resulting in its consistently positive increases in economic activities.For the year 2012 it's real GDP increased by four per cent. The Trinidad and Tobago economy is estimated to have leveled off in the first quarter of 2012 with a flat growth rate of zero percent. The increase in economic activities of 0.3 per cent reported for the non-energy sector was offset by the contraction in the energy sector for the review period. The energy sector recorded its third successive quarter of contraction in the first quarter of 2012 resulting from plant shut-downs for maintenance and a decline in refining of four per cent. The slowdown in refining output resulted from government's effort to deter illegal local and foreign sales of diesel fuel which inadvertently reduced the levels of crude oil imports, natural gas liquids and LNG production. Preliminary estimates for the non-energy sectors reveal that Distribution and Finance performed well, but declines in Construction and Manufacturing curbed the overall growth of the sector in the first quarter of 2012. Industrial action taken by Trinidad Cement Limited workers had extremely negative effects on the construction sector and indicators of the second quarter indicate a slowdown in Construction in that quarter as well.

3.2 Inflation





The CARICOM countries have experienced a marginal decrease in their price levels, having reported an average inflation rate of 5.05 per cent for the first quarter of 2012, a 0.77 percentage point fall from 5.82 per cent reported for the same period in 2011. The inflation rate reported for six territories for the period Jan-June 2012 ranged from 2.2 per cent (The Bahamas) to 11 per cent (Trinidad and Tobago). The high costs of international commodity prices continue to be the main source of inflation for most of the CARICOM territories.

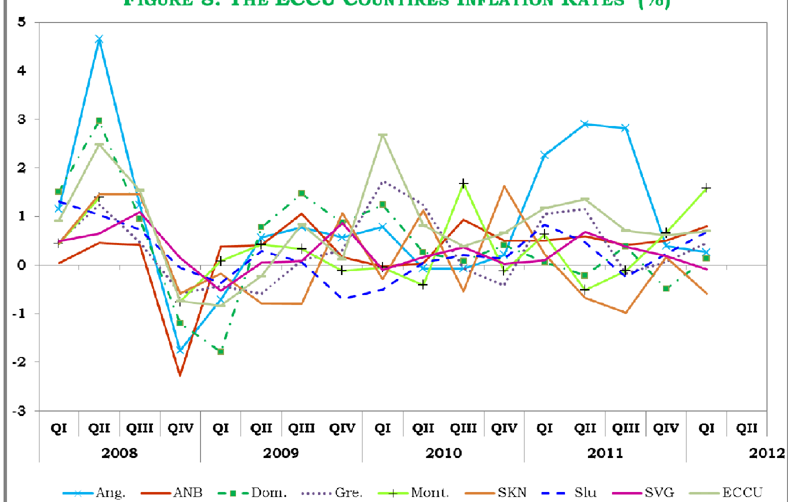
Aruba's inflation rate at the end July 2012 was low at 1.6 per cent compared to its reported rate of 4.9 per cent for July 2011. Rising house, food and energy prices have influenced the price level, resulting in a reported averageinflation rate of 4.9 per cent for the first quarter 2012.

Inflationary pressure in The Bahamas eased slightly due to lower crude oil prices in the first half of 2012. There was a notable decrease in the cost of transportation (10.54 percentage points) while other sector such as Education, Furnishing, Household equipment and routine maintenance, miscellaneous goods and services and Restaurants and Hotels all experienced smaller decreases in their price level. However the food inflation persisted, with price increases of 2.5 percentage points being registered for Food and Non-Alcoholic beveragesfor the period of Jan-June 2012.

The inflation rate at March 2012 for Barbados was 9.4 per cent, suggesting that the aggregate price level in Barbados continues to be high, reflecting increases in prices in Food, Housing, Fuel and Light and Transportation. It is expected that the inflation rate would decline to approximately 8.6 per cent by June 2012 due to reduced international fuel prices between March and June 2012.

Belize's overall inflation rate increased by 0.5 per cent for the first quarter of 2012 in response to increased price levels in all categories of goods and services except for Clothing and Footwear and Household goods and Maintenance. The increase in the inflation rate was led bythe increased cost of acquisition for petroleum and petroleum products and higher food prices that exerted a domino effect on overall prices in the Belizean economy.

Figure 8: The ECCU Countires Inflation Rates (%)



The ECCU reported moderate increases in it its regional average price level with a reported inflation rate of 0.7 per cent for the first quarter of 2012. The inflation rate of the individual ECCU countries ranged from -0.59 per cent (St. Kitts and Nevis) to 1.58 per cent (Montserrat). All members with the exception of St. Kitts and Nevis, St. Vincent and Grenadines, reported increases in their price levels because of increased international oil prices.

Price levels in Guyana subsided by one percentage point in the first quarter of 2012 when compared to the same period in 2011. However inflationary pressures were still exerted from the international fuel prices and food. Haiti also reported decreases in its price levels in the first half of 2012. At the end of the second quarter of 2012 Haiti's inflation rate stood at 5.17 per cent, which is a 3.4 percentage point decrease compared to the rate reported in 2011 for the same period.

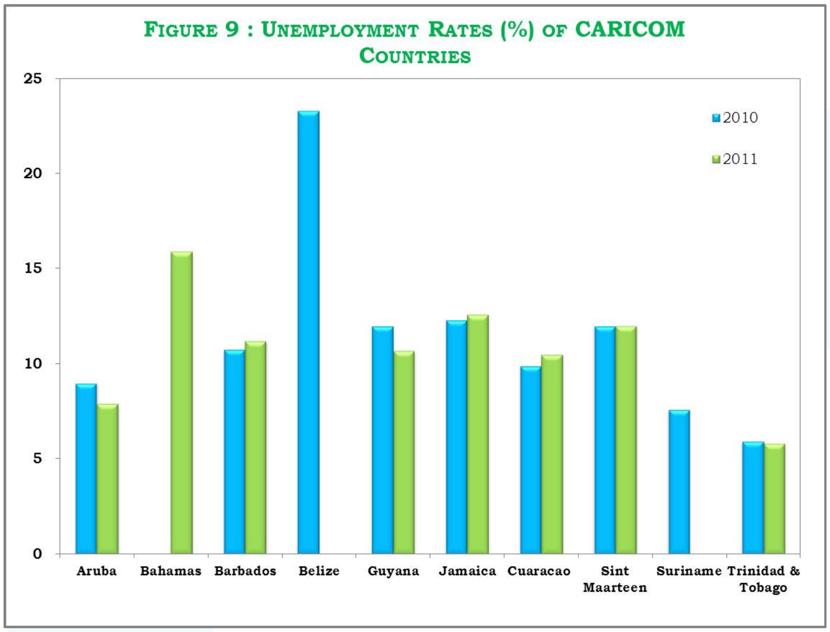
Annual average inflation in Jamaica for the review period of Jan- June 2012 was 7.2 per cent, relative to 9.7 per cent at the end-June 2011. The 12-month point-to-point rate at June 2012 was 6.7 per cent relative to 7.2 per cent at June 2011. The increase in prices for the review period emanated primarily from seasonal shortages for several agricultural items as well as rising international oil prices which impacted the cost of electricity and the price of automotive fuel. Also, the Government's tax measures announced in the FY2012/13 budget presentation contributed to the increased inflation rate.

Curacao registered an inflation rate of 3.8 per cent for the first quarter of 2012, an increase in its price level when compared to the 2.18 per cent inflation rate recorded in 2011 for the same period. The higher inflation rate was caused mainly by the higher oil prices and the increase of the turnover tax rate from five per cent to six per cent. In Sint Maarten the inflationary pressures stemmed from the same source as Curacao, with a reported inflation rate at the end of the first quarter of 2012 of 5.8 per cent, a more than doubled inflation rate when compared to 2.5 per cent in 2011 for the same period.

Inflation in Suriname has begun to decelerate in April 2011, and has ranged from three percent to five percent from then to June 2012. The average inflation rate was two per cent for the review period of January to June 2012,while the 12-month rate stood at 3.5 per cent at end-June. Price levels in 2012 have been low mainly because of tight financial conditions, credible demand policies and very limited international inflationary pressures. The year-end inflation for 2012 is projected to stay below five per cent.

Headline inflation in Trinidad and Tobago reached double digits during the second quarter of 2012, with headline inflation rate as measured bythe 12-month increase in the index of the RPI rising to 11 per cent in June 2012 mainly as a result if foodinflation (24.1%) as core inflation remained stable at 2.31 per cent. In October 2012, it was announced that VAT will be removed from an additional number of food items, effective November 15th, 2012. This measure might moderate the spiraling food inflation problem that exists in Trinidad and Tobago.

3.3 Labour Markets



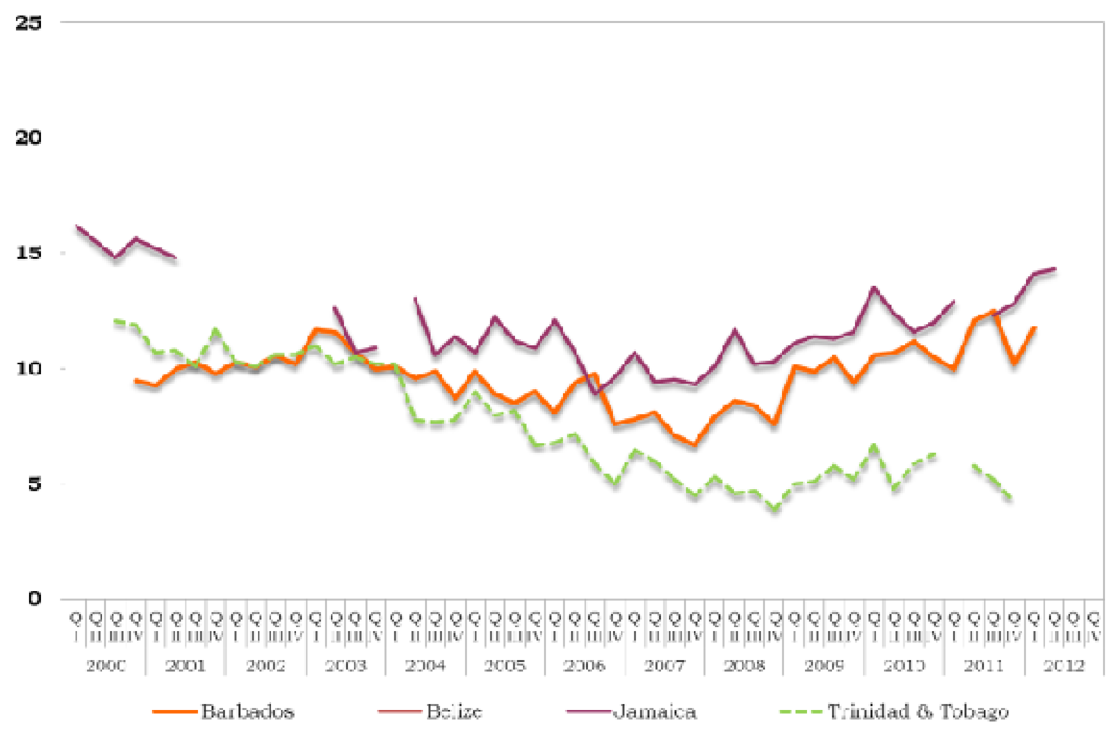
Labour markets in the CARICOM region continue to be plagued by high levels of unemployment. Data on unemployment is only available for the nine countries shown in Figure 9. Aruba and Trinidad and Tobago appear to be the only countries with reported unemployment rate for 2011 that is below 10 per cent.

Unemployment levels are reportedly at 11.8 per cent at the end of March 2012 in Barbados, compared to 11.2 per cent reported for the year 2011. Job losses were experienced in Tourism, Manufacturing and Non-Agriculture sectors for the first quarter of 2012.

In Jamaica the unemployment rate for the first half of 2012 increased to 14.2 per cent from the 12.9 per cent recorded for the similar period of 2011. The increase in unemployment was primarily in Construction, Wholesale & Retail Trade and Hotels & Restaurants. The job seeking rate in Jamaica also increased to 8.8 per cent from 8.4 per cent for the corresponding period of 2011.

Trinidad and Tobago's labour statistics suggest that unemployment levels for the first half of 2012 are relatively mixed. The number of retrenchment notices filed at the Ministry of Labour and Small and Micro Enterprises Development for the review period of Jan-June 2012 was 13.3 per cent lower than in the number filed in the same period in 2011. However it was reported that in this same period of 2012 some manufacturing companies with the chemicals and iron and steel industries restructured their operations which resulted in job losses.

FIGURE 10: UNEMPLOYMENT RATES (%)



3.4 Fiscal Accounts

3.4.1 Current Fiscal Account

Available data for the first half of 2012 indicate mixed performances on the current fiscal account among reporting countries. Five out of eight countries for which data were available experienced worsening on the current fiscal accounts, while the other three countries, Aruba, Barbados and Haiti, reported improvements.

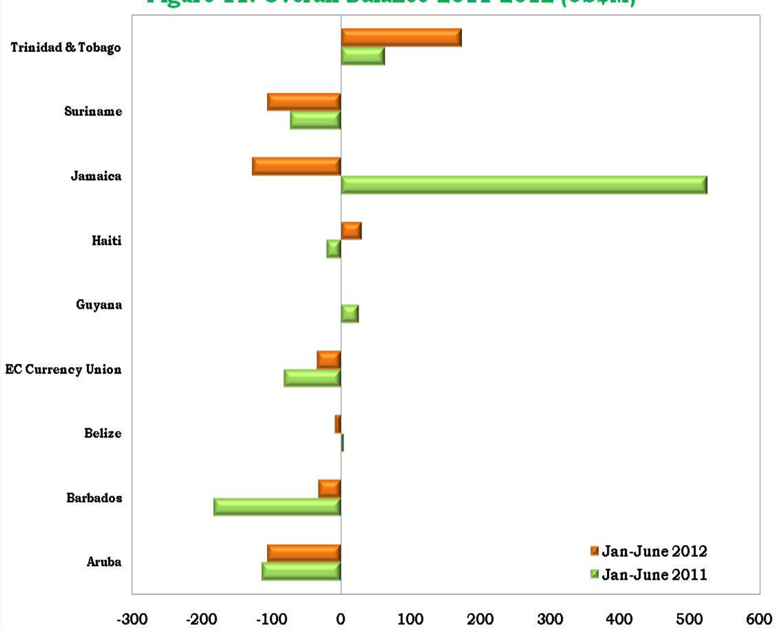
The current fiscal deficit narrowed in Aruba by 19.0 percent to US$80.9 million for the first half of 2012. This performance was due mainly to a 25.5 per cent increase in taxes on income and profits, as total current expenditure decreased by 5.9 percent. Similarly, in Barbados, the current deficit was reduced from US$186.8 million for the first half of 2011 to US$101.9 million for the same period in 2012. This outturn can be attributed to a combination of revenue and expenditure effects. Current revenue grew by 5.4 percent mainly as a result of a 10.1 percent growth in intake from the value added tax. On the expenditure side, transfers and subsidies dropped by US$58.9 million or 18.6 percent resulting in an overall 5.8 per cent decline in total current expenditure. Haiti witnessed significant improvement on the current account, with the surplus almost doubling to US$94.05 for the period January to June 2012 mainly due to increases in taxes on international trade (9.8%) and income tax (52.2%). Over the review period, current expenditure for Haiti increased by 4.4 percent.

The current fiscal deficit for Suriname widened to US$17.8 million during the first half of 2012 compared to an outturn of US$8.7 million obtained for the same period in 2011. Strong performances (48.9% aggregate) for all revenue lines were more than outweighed by a 53.6 percent increase in current expenditure. Jamaica moved from a current surplus position of US$17.1 million for the first six months in 2011 to a current deficit position of US$162.5 million for the comparable period in 2012. One notable contributing factor in this performance is the more than doubling (165.9%) of outlays on goods and services for the first half of 2012 compared to the same period in 2011 resulting in a 7.6 per cent hike in current expenditure. Current revenue declined by a marginal 1.9 percent featuring growth of 17.3 percent in value added tax offset by small declines in the intake for taxes on international trade (1.7%) and taxes on income and profit (0.40%).

The current fiscal surplus the ECCU and Trinidad and Tobago it was narrowed during the period January to June 2012 when compared to the outturn for the same period in 2011. In Trinidad and Tobago the current account surplus was reduced by 18.1 percent to US$599.1 million, as growth in revenue (1.1%) was below the increase in expenditure of 5.8 per cent. The most notable contributors to revenue performance were taxes on international trade which registered an increase of 20.2 per cent and non-tax revenue which grew by 32.9 per cent. Increases in wages and salaries can be linked to the conclusion of some salary negotiations and payment of increments to public servants. The current account surplus for Belize dropped by almost half (46.8%) to US$13.8 million. Although, current revenue in Belize increased by 6.1 per cent due to increases in import duties, grants and revenues from petroleum; the current expenditure also increased largely on account of 11.9 per cent higher transfers and subsidies during the first half of 2012. The combined current fiscal surplus for the member countries of the ECCU deteriorated sharply, moving from US$18.4 million for the first half of 2011 to US$3.6 million for the same period in 2012 reflecting a decline in current revenue and an increase in current expenditure of similar magnitude. Current expenditure rose by 1.1 per cent (US$ 7.0million), while all major current revenue lines decreased by an aggregate 1.2 per cent (US$7.8 million).

3.4.2 Overall Fiscal Balance

Figure 11: Overall Balance 2011-2012 (US$M)



The fiscal data show that all but three reporting countries registered improvements on the overall fiscal accounts for the first half of 2012 when compared to the performance for the same period in 2011. Trinidad and Tobago and Haiti were the only two countries which posted surpluses on the overall fiscal accounts for the reporting period.

The overall fiscal surplus for Trinidad and Tobago increased almost threefold to US$$176.0 million. This can be attributed to delays in the implementation of the capital projects, as the current account surplus narrowed over the review period. In contrast, Haiti reversed overall deficit position of US$21.2 million for the first half of 2011, to an overall surplus of US$29.6 million for the comparable period in 2012. Implementation of the Government's post-earthquake recovery programme has been slow due to a number of factors including limited capacity and political uncertainty. The overall deficit for Aruba for the first half of 2012 narrowed by 6.4 per cent to U$105.9 million relative to the performance for the same period in 2011. The overall deficit for Barbados narrowed to US$32.4 million down significantly from US$182.7 million recorded for the period January to June 2011 due to a combination of higher revenue intake especially from the value added tax and lower current expenditure.

Belize and Jamaica both moved from an overall surplus position obtained for the first half of 2011 to an overall deficit in 2012. For the period January to June 2012, the overall deficit for Belize was stood at US$5.4 million which when compare to June 2012 was more-or-less stable at a deficit of US$$.7million. Increased capital outlays on infrastructure, security and defense contributed to this performance. Similarly, the overall deficit of US$127.7 million posted by Jamaica for the first half of 2012 compares unfavourably to an overall surplus of US$525.1 million recorded for the similar period in 2011. Factors contributing to the wider overall deficit include growth in current expenditure of7.6 per cent and a 77.0 per cent reduction in grants due to delays in negotiating the IMF Programme.

Available data suggest that Suriname experienced widening of the overall fiscal deficit. The current deficit for the first half of 2012 increased by US$33.1 million to reach US$105.9 million.Delays were experienced with revenue flows from the mining sectors during the first half of the year, while implementation of the capital programme continued, causing a wider than anticipated overall deficit.

3.5 Banking and Finance

3.5.1 Domestic Credit

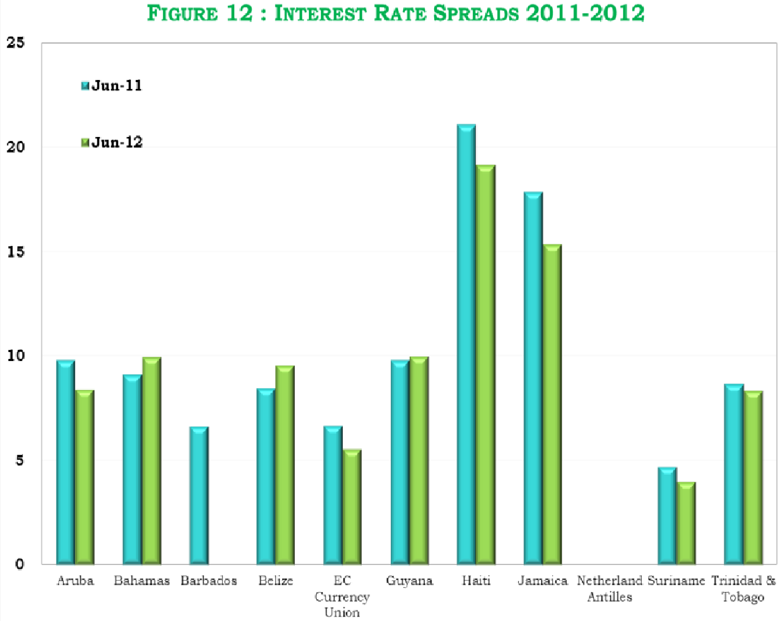
Within the context of weaker economic outturns for the first half of 2012 relative to 2011, most countries covered by this report reported marginal improvements in the pace of domestic credit for the period January to June 2012. This occurred in an environment characterized by generally lower lending rates and high liquidity as commercial banks sought to improve their credit activity. Bahamas, Barbados, Belize, Haiti, Guyana, and Trinidad and Tobago all reported high levels of liquidity within their banking system. The Bank of Guyana continued to focus on open market operations to reduce the level of excess liquidity within the system while the Central Bank of Trinidad and Tobago maintained its accommodative monetary policy stance by holding the repo rate at the historically low rate of three per cent. The Bank of Jamaica also maintained its monetary policy stance in the context of weak domestic conditions and uncertainty in both the local and international economy.

Haiti posted growth of 10.6 per cent in domestic credit to the private sector compared to a modest increase of 3.8 percent witnessed during the first half of 2011. This expansion in domestic credit was due mainly to increased demand for short term credit. Domestic credit to the private sector of Suriname increased by 6.0 per cent during the first six months of 2012. The banking sectors of Guyana and Jamaica boosted their extension of domestic credit to the private sector moving from growth of 6.4 percent in 2011 to 7.7 percent in 2012, and 2.4 percent in 2011 to 6.4 percent in 2012 respectively. In Guyana, credit to the manufacturing, agriculture and mining sectors contributed significantly to growth in private sector credit. Trinidad and Tobago moved from a reduction of 0.7 per cent in domestic credit extended to the three private sector for the first six months in 2011 to a marginal increase of just under one per cent (0.9%) for the comparable period in 2012. The Central Bank reports that while the low interest rate environment has created significant momentum in the pace of economic activity, individuals have taken the opportunity to refinance and consolidate their debt portfolios. Reports for the second quarter of 2012 for The Bahamas, suggest that domestic credit to the private sector declined consistent with soft private sector demand.

For the first half of 2012, the banking sector of Belize recorded a meager increase of 0.7 percent in domestic credit to the private sector relative to strong growth of 18.3 per cent posted for the same period in 2011. During the first quarter of 2012, against the backdrop of excess liquidity and falling lending rates within the banking system of Belize, credit to the private sector grew only minimally, with the net activities of Government contributing mostly to credit growth. Underscoring this performance was contraction in credit to the manufacturing, agriculture and entertainment sectors during the first quarter of 2011. Aruba and the ECCU posted increases in total domestic credit to the banking sector of 2.8 percent and 1.6 percent respectively, relative to minimal growth of 0.4 percent and 0.6 percent respectively. In the ECCU, credit activity may have strengthened a little during the second quarter of 2012, as reports from the first quarter suggest a decline in credit activity for both central government and the private sector.

3.5.2 Interest Rates and Spreads

FIGURE 12 : INTEREST RATE SPREADS 2011-2012



The weighted average lending rate declined for all reporting countries except Suriname and The Bahamas where the rate increased by 20 basis points. In Belize the weighted average lending rate continued on a downward trend, falling 80 basis points below the rate posted in June 2011. Despite the maintenance of the Central Bank monetary policy stance during the first half of 2012 in Jamaica, the weighted average lending rate dropped 270 basis points to 17.36 per cent in June 2012 when compared to the performance in June 2011. Consistent with the slower pace in economic activity and improved liquidity, the weighted average lending rates in the ECCU and Haiti dropped by 100 and 140 basis points respectively. In Guyana, the weighted average lending rate eased slightly by 20 basis points to 11.46 percent, while that for Trinidad and Tobago was reduced by 40 basis points to 8.92 percent. The weighted average lending rate for Aruba dropped by 130 basis points to 9.3 percent.

On the deposit side, changes in the average 3-month deposit rate were much smaller than what obtained on the lending side. Belize posted the largest drop in the average 3 month deposit rate of 190 basis points to reach 2.98 percent in June 2012. Consequently, the average interest rate spread for Belize widened by 110 basis points to 9.6 percent. The average interest rate spread for The Bahamas increased by 80 basis points to 10 percent reflecting the combined impact of 80 basis point drop in the average 3-month deposit rate and 20 basis point increases in the average lending rate. Suriname recorded an increase in the average 3-month deposit rate of 40 basis points; however, the average interest rate spread narrowed by 20 basis points. Guyana, Jamaica and Trinidad and Tobago recorded reductions in the average 3-month deposit rate of 40, 30, and 10 basis points respectively. As a result of the significant decline in the weighted average loan rate and the small change in the average 3-month deposit rate, the average interest rate spread for Jamaica and Haiti dropped by 250 and 190 basis points respectively. Year-on-year comparisons reveal that the average interest rate spread for Trinidad and Tobago fell slightly by 30 basis points to 8.3 percent, and that for Guyana advanced marginally by 20 basis points to 10 percent in June 2012.

3.5.3 Banking Sector Deposits and Loans

During the first half of 2012, growth in banking sector deposits for most reporting countries was generally comparable to the performance during the comparable period in 2011. All reporting countries registered growth in banking sector deposits, albeit some at a faster rate than others. Guyana, Bahamas, and The ECCU all posted increases in total banking sector deposits for the first half of 2012 of similar magnitude to the outturn for the comparable period in 2011.

In Suriname, total deposits of the banking system increased by 12.4 percent compared to a marginal decline registered for the first half of 2011. Aruba reversed a reduction of total banking sector deposits of 1.9 percent for the first six months of 2011 to obtain marginal growth in total banking sector deposits of 0.3 percent for the first half of 2012. Similarly, In Belize growth (5.3%) in banking sector deposits intensified during the first half of 2012, building on an increase of 4.2 per cent posted for the first half of 2011. This is consistent with the reported high levels of liquidity which exists in the banking system of Belize. In Jamaica total banking sector deposits advanced by 2.7 per cent for the first half of 2012 relative to an increase of 1.4 per cent posted for the same period in 2011. Trinidad and Tobago and Haiti both reported a deceleration in rate of growth of banking sector deposits during the first half of 2012. In Trinidad and Tobago banking sector deposits grew by 1.5 percent compared to 1.9 percent recorded for the first half of 2011. In like manner, total banking sector deposits for Haiti increased by 2.4 per cent for the first half of 2012 compared to growth of 4.0 per cent posted for the same period in 2011.

Total US dollar deposits within the banking sectors for all reporting countries except Guyana increased during the first half of 2012. Jamaica and Guyana recorded double digit growth of 11.1 per cent and 20.2 percent respectively. Suriname and Belize posted modest increases in US dollar deposits of 7.0 per cent and 5.9 per cent respectively, while increases of 4.6 per cent and 4.2 per cent were recorded for Aruba and the ECCU. Smaller increases were registered for Haiti (2.7%) and Trinidad and Tobago (3.1%). In contrast, during the first half of 2012 total US dollar deposits within the banking system decreased by 9.0 per cent following a 48 per cent decline registered during the first six months of 2011.

On the credit side, growth of total loans outstanding to the banking sector of reporting countries for the first half of the year was measured, with only Haiti experiencing a decline in total loans outstanding. Aruba, The Bahamas and the ECCU all moved from a reduction in total loans outstanding to the banking sector during the first half of 2011 to growth for the comparable period in 2012. Thus for first half of 2012 Aruba, The Bahamas and the ECCU recorded growth of 2.6 per cent, 1.2 per cent and 1.9 percent respectively compared to declines of 0.5 percent, 1.0 per cent and 0.1 per cent respectively posted for the same period in 2011. During the first half of the year, total outstanding banking sector loans in Guyana rose by 7.5 per cent slightly higher than the increase of 6.8 percent experienced for the comparable period in 2011. Smaller increases in total outstanding banking sector loans were registered in Belize (1.2%), Jamaica (1.7%) and Trinidad and Tobago (3.9%) for the first half of 2012. In Suriname, total banking sector loans outstanding for the first six months of 2012 grew by 3.9 percent in contrast to a decline of 4.8 per cent experienced for the comparable period in 2011. Following a decline of 13.4 per cent in total outstanding banking sector loans experienced for the first half of 2011, Haiti posted a further decline of 14.9 per cent in total outstanding banking sector loans for the period January to June 2012.

3.6 Debt

The countries which consistently recorded net increases in external debt between the first half of 2011 and 2012 were The Bahamas and Guyana, see Table 11. The largest increases in debt for the first half of 2012 were recorded by Haiti (30%) and Guyana (8%). At the same time, Barbados, Suriname and Trinidad and Tobago recordednet debt servicing for 2012.

Table 11: CHANGES IN EXTERNAL DEBT FOR THE FIRST HALF OF 2011 AND 2012 (%)

	The Bahamas	Barbados	Belize	ECCU	Guyana	Haiti	Jamaica	Curacao	St. Maarten	Suriname	Trinidad & Tobago
1st Half of 2011	3.93	-2.24	2.27	0.75	6.52	-42.91	2.36	0.00	0.00	2.11	-0.52
1st Half of 2012	2.96	-2.72	-0.32	-0.37	7.65	30.30	na	0.00	0.00	-4.28	-1.67

Notes: Percentage change in debt is between December of last year to June of the following year.

There was increased reliance by most member countries on domestic debt for the first half of 2012. Domestic debt rose for The Bahamas (10%), Barbados (13%), Belize (3.7%), ECCU (3.9%) and Trinidad and Tobago (5.8%) and Suriname (9%) but declined for Guyana (9.3%), Haiti (8.1%). The two territories which exhibited the greatest reliance on domestic debt were Barbados and The Bahamas.

Table 12: CHANGES IN DOMESTIC DEBT FOR THE FIRST HALF OF 2011 AND 2012 (%)

	The Bahamas	Barbados	Belize	ECCU	Guyana	Haiti	Jamaica	Suriname	Trinidad & Tobago
1st Half of 2011	-0.07	0.06	0.04	0.03	0.03	-0.018	0.05	14.1	-0.01
1st Half of 2012	10.01	13.74	2.93	3.85	-9.27	-8.12		9.0	5.76

Notes: Percentage change in debt is between December of last year to June of the following year.

3.6 External Current Account

There were mixed performances in the external current account balances of the Caribbean territories, see Table 11. Positive balances were recorded for the first quarter by Belize (9.6%), St. Maarten (47.6%) and Suriname (3.4%). Belize could not maintain the positive inflows into the second quarter of 2012 as the balance reached negative US$37.3 million, widening from US$3.7 million in the corresponding quarter of the previous year. Suriname reported positive balances in both quarters, but the surplus in the first quarter was reduced by 13.2 per cent, while it more than doubled in the second quarter by 238 per cent. St. Maarten recorded a positive balance for the first quarter of 2012, following a negative balance of US$12.1 million in the quarter of the previous year.

Performances continued to be negative for the other territories. The gap widened in both quarters for The Bahamas, Guyana and Curacao over the previous year. By the second quarter the extent over which the gap widened was 147 per cent for the Bahamas, just under 108 per cent for Guyana and 214.5 per cent for Curacao. The gap narrowed for the first quarter in Jamaica by 1.9 percent to reach a deficit of US$322.1.

Table 13: External Current Account to GDP

	2011		2012	
	Q I	**Q II**	**Q I**	**Q II**
Aruba	(10.00)	3.00	n.a.	n.a.
Belize	9.0	(1.2)	9.6	(11.4)
Guyana	(4.3)	(2.9)	(4.4)	(3.8)
Jamaica	(9.3)	(13.8)	(8.6)	n.a.
Curacao	(26.4)	(32.6)	(28.0)	n.a.
St. Maartin	16.0	(9.7)	47.6	n.a.
Suriname	3.9	0.6	3.4	2.0.

A positive sign is that for the first quarter of 2012, exports exceeded the growth of imports in most member countries – Barbados, Belize, ECCB, Guyana, Haiti, Jamaica, Curacao and St. Maarten. However, this trend is not yet stable as from the limited data available, this pattern was not maintained in the second quarter for Belize and Guyana.

Table 14: GROWTH IN TRADE IN GOODS AND SERVICES TO CORRESPONDING QUARTER OF PREVIOUS YEAR

		2011		2012	
		Q1	Q2	Q1	Q2
Aruba	Exports	150.3	366.5	n.a.	n.a.
	Imports	275.7	319.5	n.a.	n.a.
The Bahamas	Exports	2.2	7.9	8.3	2.5
	Imports	21.4	11.4	18.4	3.6
Barbados	Exports	22.7	7.5	4.9	n.a.
	Imports	16.02	17.18	3.9	n.a.
Belize	Exports	35.7	36.5	15.0	-3.5
	Imports	27.9	21.0	7.8	14.0
ECCB	Exports	-48.8	10.0	1.2	0.4
	Imports	6.4	-1.2	-0.3	-2.0
Guyana	Exports	24.3	42.7	39.9	-12.2
	Imports	16.6	33.7	27.7	-2.7
Haiti	Exports	11.2	96.5	9.1	-8.4
	Imports	41.3	21.8	8.00	-11.3
Jamaica	Exports	35.8	44.4	8.7	n.a.
	Imports	13.2	26.9	0.6	n.a.
Curacao	Exports	14.1	31.5	15.8	n.a.
	Imports	16.4	12.6	-20.2	n.a.
St. Maarten	Exports	15.8	7.2	16.8	n.a.
	Imports	6.7	9.3	2.1	n.a.
Suriname	Exports	3.7	23.8	9.5	-0.7
	Imports	6.1	37.7	14.5	(13.9)
Trinidad and Tobago	Exports	1.9	21.9	n.a.	n.a.
	Imports	5.32	57.25	n.a.	n.a.

3.7.1 Sectoral Performance

3.7.1.1 Tourism Performance

There were positive signs for the Tourism sectors in most of the regional economies as tourism revenues grew in 2012 for most territories over the corresponding quarters of the previous year. The strongest growth was for Guyana in both first and second quarters of 2012 by 11 and 83 per cent respectively. However, growth contracted for Belize by just under four per cent in the first quarter and 12 per cent in the second quarter.

Table15: GROWTH IN TOURISM REVENUE COMPARED TO CORRESPONDING QUARTER OF PREVIOUS YEAR (%)

	2011				2012	
	Q I	Q II	Q III	Q IV	Q I	Q II
Aruba	7.19	12.92	1023.36	3.56	n.a.	n.a.
Bahamas	-4.10	5.60	7.20	12.46	9.07	4.75
Barbados	-13.63	-7.58	1.38	0.89	0.82	n.a.
Belize	-4.81	7.45	-1.12	5.77	-3.63	-12.05
Guyana	149.87	-41.57	-61.43	104.24	11.25	83.12
TT	-78.93	-35.71	44.95	n.a.	n.a.	n.a.

3.7.1.2 Mineral and Fuel Sector

Preliminary data show that revenues for the Minerals and Fuels sector grew in the first quarter of 2012 for the countries for which data were available, Guyana (54.8%), Jamaica (12.4%) and Suriname (12%). However, growth in the sector contracted for Guyana in the second quarter (14.3%) while it marginally expanded for Suriname (1.1%).

Table 16: Growth in Minerals and Fuels Compared to the Corresponding Quarter of the Previous Year (%)

	2011				2012	
	Q I	Q II	Q III	Q IV	Q I	Q II
The Bahamas	33.43	61.87	37.52	11.56	n.a.	n.a.
Guyana	48.60	41.10	59.47	19.37	54.79	(14.26)
Jamaica	134.95	41.83	23.55	59.33	12.40	n.a.
Suriname	41.14	42.99	30.61	20.23	12.00	1.06
Trinidad and Tobago	(18.98)	21.26	158.03	n.a.	n.a.	n.a.

3.7.1.3 Manufacturing Sector

Early data show that the manufacturing sector contracted in the second quarter of 2012 compared to the same period for the previous year. As a result, the sector declined for Guyana (3.9%) and for Haiti (5.3%). This is in contrast to the first quarter of 2012 when the sector expanded by about 9.0 per cent for Guyana and 11.2 per cent for Haiti. For Jamaica, growth for the sector remained even compared to the same quarter of the previous year.

Table 17: MANUFACTURING GROWTH (%)

	2011				2012	
	Q I	Q II	Q III	Q IV	Q I	Q II
Guyana	4.99	5.35	-12.42	-3.19	8.97	-3.87
Haiti	11.65	96.44	28.70	32.06	11.18	-5.33
Jamaica	-8.70	-74.07	-72.34	-80.36	0.00	n.a.
Trinidad and Tobago	50.64	28.97	88.56	n.a.	n.a.	n.a.

3.7.1.4 Food Imports

The growth of food imports continued to increase in the first two quarters of 2012, after reflecting strong positive growth in most quarters of the previous year. Food prices were elevated beyond the start of 2012. Given the increase in the value of food imports and the increase in food prices, this would have led to increased pressures on the food import bill. Figure 12 shows that world food prices were elevated.

FIGURE 13: WORLD COMMODITY FOOD AND BEVERGAE PRICE INDEX

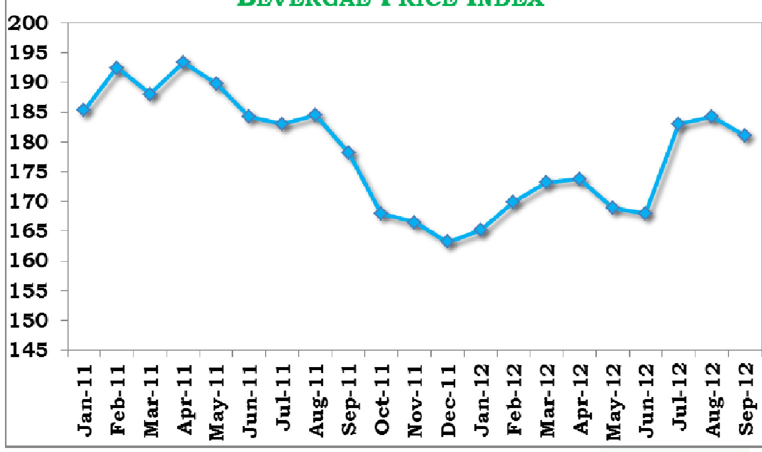


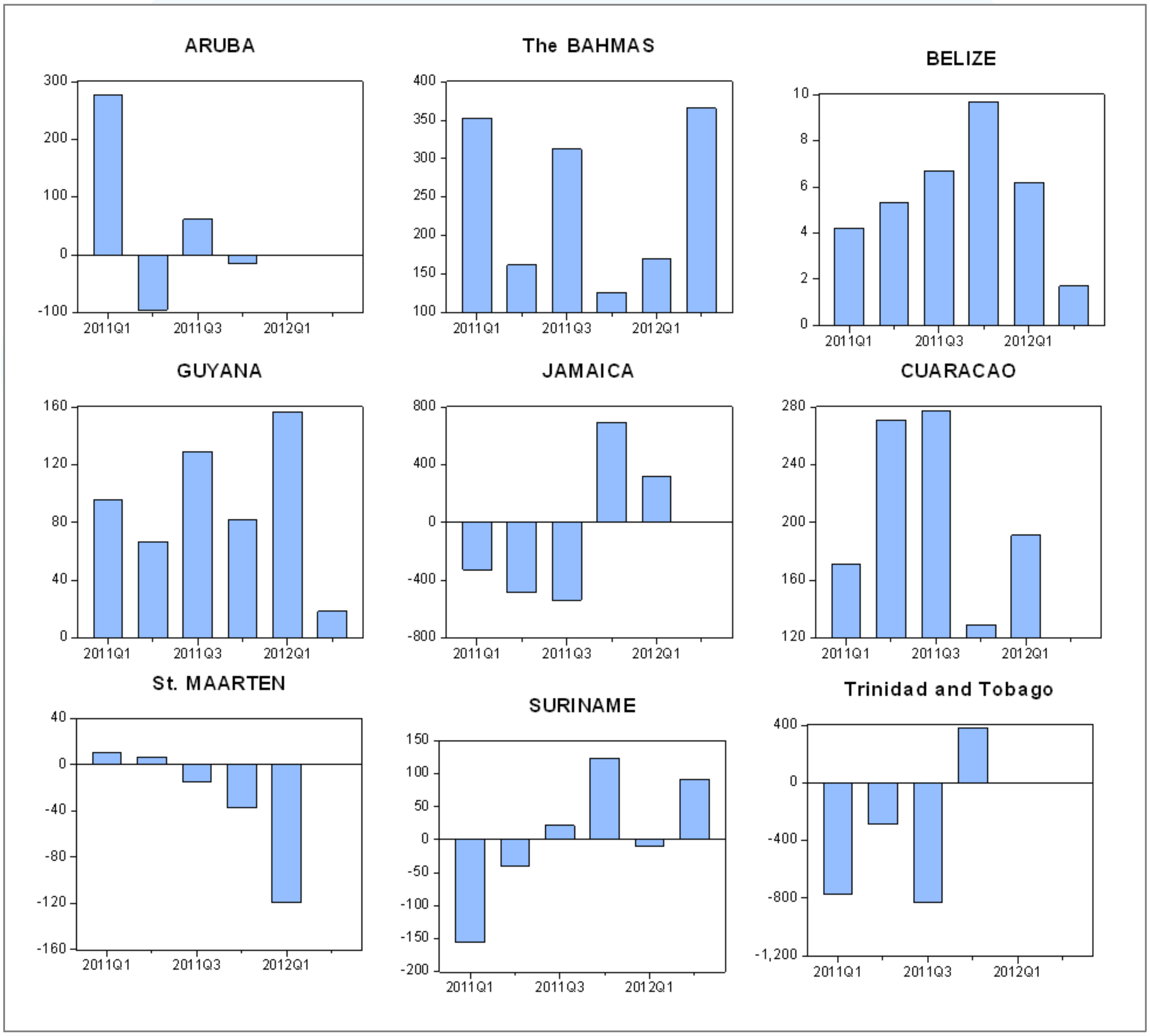
Table 18: GROWTH OF THE VALUE OF FOOD IMPORTS (%)

	2011				2012	
	Q I	Q II	Q III	Q IV	Q I	Q II
Bahamas	-2.96	27.50	3.64	6.64	n.a.	n.a.
Barbados	6.44	18.08	7.24	12.75	n.a.	n.a.
Belize	10.81	10.75	14.76	-5.03	13.37	12.74
Guyana	30.64	11.74	19.02	8.83	17.53	12.01
Haiti	-7.91	3.41	-11.00	26.41	-3.63	8.94
Jamaica	15.52	-1.15	18.98	22.53	3.41	n.a.
TT	-1.93	18.46	27.10	n.a.	n.a.	n.a.

3.7 Net Capital Flows

The regional economies recorded predominantly capital inflows for 2012. However, the regional economies differed in terms of the trend of capital inflows. Capital inflows exhibited an upward trend for The Bahamas, Curacao and Suriname, but a decline was registered for Belize and Guyana. An exception was St. Maarten where a net outflow was recorded for the first quarter of 2012.

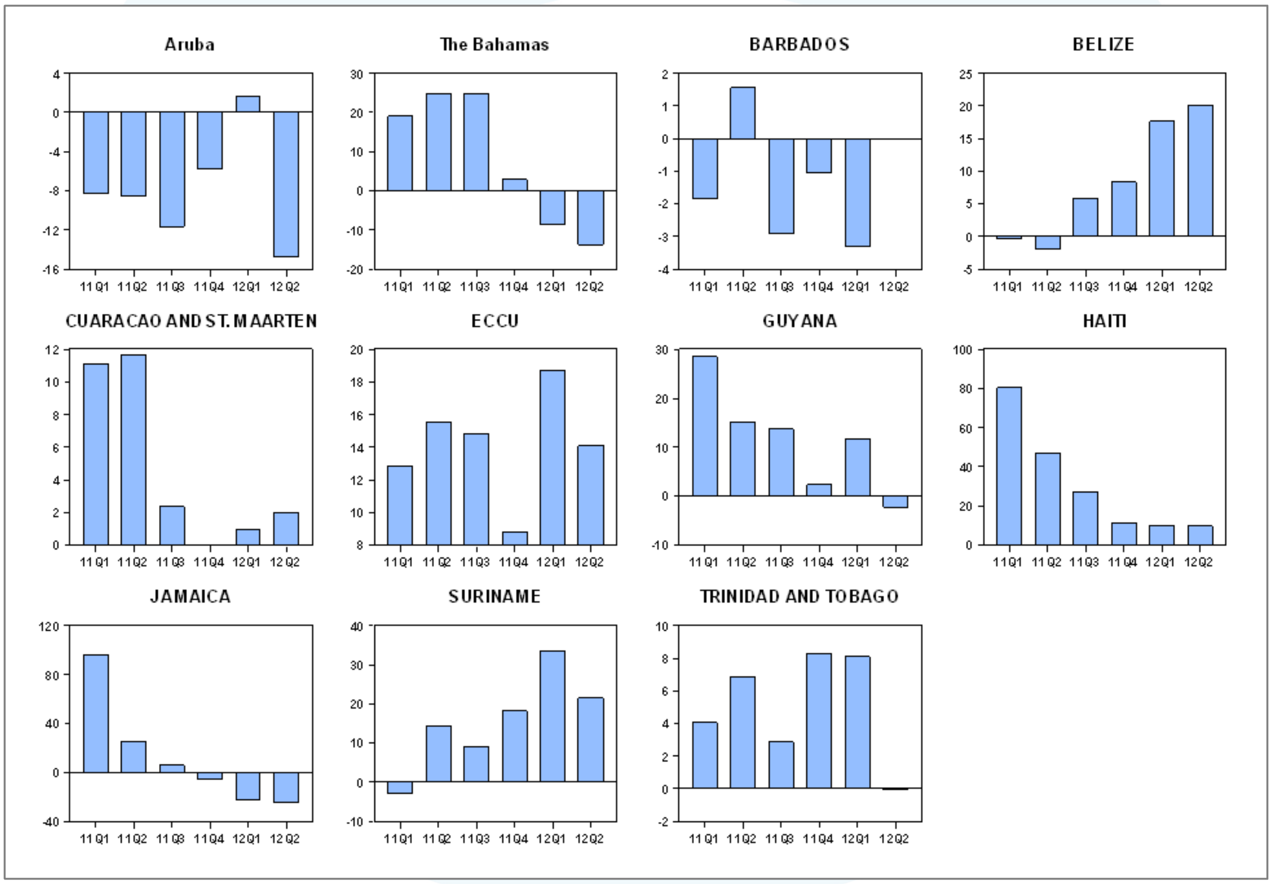
Figure 14: CAPITAL FLOWS (US$MILLION)



3.9 Foreign Exchange Reserves

There was negative growth in foreign exchange inflows in most member countries, see Figure 14 . The downward pressure was more pronounced in the second quarter of 2012. At the most extreme, net outflows were recorded for Aruba (-14.8%), The Bahamas(-13.8%) and Jamaica (- 24.4%), causing growth to fall for the second quarter. Negative growth in foreign exchange was also recorded for Guyana (-2.2%) and Trinidad and Tobago (0.03%).

Figure 14: GROWTH IN OFFICIAL FOREIGN EXCHANGE INFLOWS (QUARTERLY)



There was also a slow down in growth in foreign exchange for Suriname by 12.0 percentage points, the ECCU by 4.6 percentage points and Haiti by 0.43 percentage points. The only member countries showing improved foreign exchange reserves were Belize and St. Maarten and Curacao (2%).

4.0 CARIBBEAN ECONOMIC PROSPECTS

The prospects for growth in the Caribbean hinge largely on developments in the global economy, especially developments in commodity markets and consumer demand in developed market economies, but also on structural vulnerabilities of these countries. Given that global growth is expected to remain muted for the rest of 2012 and increase slightly in 2013, due in large part to sovereign debt and banking sector weaknesses in many European countries and other developed economies, growth in many Caribbean jurisdictions will tend to be on the low side,especially inthose dependent on tourism. Additionally, although oil prices 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 over the next two years with the possibility of spikes above this level driven by events affecting the supply side. This implies further pressure on the external accounts for many countries in the region which are already vulnerable in this area. Drags from fiscal consolidation and unresolved financial problems in some jurisdictions have also constrained business and consumer confidence and hampered private demand and growth.

Tourists arrivals have started to improve but the growth in tourism receipts has been weak as spending per tourist has receded to 2004 levels. Efforts to diversify the tourism base to target faster-growing countries seem also to have had no significant effect thus far.

In this environment the outlook for most countries is that their growth performance would improve in most jurisdictions in 2012 and 2013 but the pace of the recovery would be more muted than previously expected. Based on the latest IMF estimates the average growth for the region is expected to improve from approximately one per cent in 2011 to 1.7 per cent in 2012 with further strengthening to 2.4 per cent in 2013. The commodity based economies of Guyana and Suriname are expected to record growth in

Table 19: Caribbean Growth Prospects

Country	Actual		Projections	
	2010	2011	2012	2013
Antigua and Barbuda	-8.5	-5.5	1.0	1.5
The Bahamas	0.2	1.6	2.5	2.7
Barbados	0.2	0.6	0.7	1.0
Belize	2.7	2.0	2.3	2.5
Dominica	1.2	1.0	0.5	1.3
Grenada	-1.3	0.4	0.5	0.5
Guyana	4.4	5.4	3.7	5.5
Haiti	-5.4	5.6	4.5	6.5
Jamaica	-1.5	1.3	0.9	1.1
St. Kitts and Nevis	-2.7	-2.0	0.0	1.8
St Lucia	0.4	1.3	0.7	1.3
St Vincent and the Grenadines	-1.8	0.0	1.2	1.5
Suriname	4.1	4.2	4.0	4.5
Trinidad and Tobago	-0.0	-1.5	0.7	2.2
Regional Average	-0.6	1.0	1.7	2.4

Source: IMF, Global Economic Prospects, October 2012.

excess of three per cent in 2012 and 2013 with Trinidad and Tobagocontinuing to experience slower growth over this period due to continuing challenges to business and consumer confidence (see Table 18). Growth in Haiti is also forecast to be robust driven by reconstruction efforts, but this forecast has been lowered as implementation challenges and the related slow disbursement from aid agencies plague the reconstruction efforts.

The tourism dependent countries such as The Bahamas, Barbados, ECCU countries and Jamaica, are expected to record weaker growth as fiscal challenges and the still difficult global economic environment restrain more robust growth in the tourism sector. The lack of fiscal space and the need for fiscal consolidation will continue to present downside risks to the growth forecasts in many countries given their pre-existing vulnerabilities in this area.

5.0 APPENDIX

Country Reports

Aruba- Monthly Bulletin May 2012
(Central Bank of Aruba)

Monetary Developments

During the month of May 2012, board money expanded by Alf.63.6 million to Afl. 3,216.0 million, resulting from an Afl. 76.3 million rise in net domestic assets, which was partially offset by an Afl. 12.6 million decline in net foreign assets (excluding revaluation differences of gold and foreign exchange holdings) to Afl. 1,194.7 million at the end of May 2012.

The rise in the domestic component of the money supply was associated with increase in both domestic credit and non-credit related balance sheet items of, respectively, Alf. 68.4 million andAfl. 7.9 million. The surge in domestic credit was caused by an Afl. 70.0 million rise in the net liability of the public sector to the banking sector, resulting form and Afl. 45.0 million issue of treasury bills, and the drawing down of government's bank balances by Afl.24.9 million. In contrast, claims of the banking sector on the private sector dropped by Afl. 1.6 million (-0.1 per cent), following a decrease in commercial loans of Afl. 4.8 million (-0.4 per cent), while housing mortgages and consumer credit rose by,respectively,Afl. 2.1 million (+0.2 per cent) and Afl. 1.6 million (+0.3 per cent).

Inflation

The consumer prices index (CPI) for May 2012 registered a 1.4 per cent increase, compared to the same month of 2011. The main contributors to this rise were housing, food items, and transport. Excluding the effect of food and energy (which partly affects the housing and transport components), the core CPI showed a 0.1 per cent decrease compared to May 2011, brought about by declines in the index categories of clothing, household operation (i.e., glassware, textiles, and furniture) and recreation and culture (i.e., personal computers and television costs) .

The 12-month average inflation rate reached 5.2 per cent in May 2012. Excluding the energy and food components, the core CPI picked up by 1.3 per cent, associated with higher prices of transport components (excluding gasoline and diesel), communication, as well as recreation and culture.

Tourism

The number of stay-over visitors totaled 66,057 in May 2012, 1.2 per cent higher than in May 2011. This rise was caused by an increase of 1,024 or 10.2 per cent in the number of visitors from Latin American market. In contrast, the number of visitors from North American and European markets fell by, respectively, 890 or 1.9 per cent to 45,625 and 462 or 7.2 per cent to 5,994.

In the Latin American market the pattern of growth was mainly sustained by an expansion of 1,503 or 29.3 per cent to 6,6630 visitors from Venezuela. It should be noted that 31 per cent (462 visitors) of this growth was associated with travelers who made use of charters. The only other Latin American market segments that experienced growth were Suriname and Argentina. In addition, a notable surge was registered in tourist arrivalsfrom Curacao and other Dutch Caribbean markets, where an upturn of 1,107 or 63 per cent to 2,865 visitors was witnessed during May 2012, compared to the same month of 2011. This growth could be ascribed to the Soul Beach festival event.

The fall in the North American market resulted from declines in travel from both the United Sates and Canada. These markets dropped by, respectively, 470 or 1.1 per cent to 43,400 visitors and 420 or 15.9 per cent to 2,225 visitors in May 2012, compared to a year earlier.

The decline in the European market was attributed to drops in travel from most of its markets. Germany was the only market with a mentionable increase of 101 or 45.3 per cent in visitors, compared to May 2011. In May 2012, cruise tourism noted a sharp drop as 7,251 (-47 per cent) fewer cruise visitors disembarked on Aruba's port, mainly due to a change in ship itineraries in that month, compared to May 2011. The number of ship calls fell to 3 in May 2012 compared to 14 a year earlier.

Government Revenue

In May 2012 tax revenue registered a decline of Afl. 10.1 million or 12 per cent to Afl. 76.7 millioncompared to the same month of the previous year, due to decreases in income from taxes on profit and on commodities,where revenue from both profit tax and excises on gasoline fell by, respectively, Afl. 9.6 million (-55.8 per cent) and Afl. 5.1 million (52.6 per cent). Turnover tax (BBO) remained unchanged, while foreign exchange tax fell slightly by Afl. 0.3 million to Afl. 3.4 million.In contrast, non-tax revenue went up by Afl. 2.8 million in May 2012 compared to the same month of last year.

THE BAHAMAS: DOMES TIC ECONOMICDEVE LOPMENT S APR- JUNE 2012

(Central Bank of The Bahamas)

Indications are that the modest recovery in the Bahamian economy was sustained during thesecond quarter, benefiting from steady gains in the tourism sector on account of animprovement in the keygroup segment of the market, alongside foreign and public sector led construction activity. Pricedevelopments were more favourable, as the rate of increase in consumer prices slowed in line with thegeneral decline in crude oil prices over the year—although food costs continued to increase at a relativelyfaster rate.

On the fiscal side, the Government's overall deficit worsened over the eleven months ofFY2011/12, as broad-based increases in spending outpaced modest gains in revenue. The deficit was financed mainly from the domestic sector and comprised a combination of bonds, loans & advances and Treasury bills.

Money and credit developments during the review quarter featured modest gains in both liquidity and external reserves, primarily associated with receipts from one-off public sector foreign currencytransactions and real sector activities. However, accretions to external reserves slowed significantly fromthe prior year's position, which was boosted by privatization proceeds. In line with the subdued domesticdemand environment, private sector credit contracted, while bank profitability declined, due to reducedrevenues and increased provisions against loan losses.

In the external sector, the current account deficit widened modestly, as the deterioration in themerchandise trade deficit linked primarily to non-oil imports, eclipsed the tourism-led gain in the servicesaccount surplus. By contrast, the positive balance on the capital account strengthened, buoyed in part bynet public sector inflows related principally to a bond issue, while net foreign investment inflows contracted.

Barbados Economic Review June 2012
(Central Bank of Barbados)

Overview

Barbados' foreign exchange reserves at the end of June stood at $1,357 million, a decline of $63 million since December 2011. This level of reserves is no lower than the amount recorded at the end of 2008, the year the industrial economies fell into the worst recession in recorded memory. As expected, the international recession has slowed the inflows of foreign exchange to Barbados, and has therefore limited the prospects for growth in an economy which needs foreign exchange in order to register sustainable growth. The recession in the industrial world has been compounded by the European economic and financial crisis, further containing foreign investment in emerging economies like Barbados. As a result, real growth in the first half of the year was estimated at 0.6 percent.

Output in the tourism sector is estimated to have risen 1.8 percent in the first half of the year. The largest increase came from the CARICOM area, particularly Trinidad and Tobago, where arrivals grew by 35 percent. Arrivals fell 1.5 percent over the five-month period ending May, but there was a 6.4 percent increase in the average length-of-stay. Visitor numbers from Canada were up 3 percent but arrivals from the UK and the US markets fell by 10 percent and 4 percent, respectively. Cruise arrivals increased by 2.5 percent, even though 21 fewer cruise calls were made.

There was stability in the length-of-stay of visitors from the US, UK and Canadian markets, with slight growth in the length-of-stay of tourists from Trinidadand Tobago and other CARICOM countries. Hotel room capacity contracted by about 7 percent, with the closure of Almond Beach Village and the restructuring of some smaller hotels. However, construction grew by 1.3 percent due to private commercial building activity, the continuation of tourism-related projects, and public sector capital projects. The number of active companies in the international business and financial services sector increased by 3 percent.

Inflation appears to have deceleratedslightly, with the projected 12-month average rate to June at about 8.6 percent, compared to 9.5 percent in December. Inflation in the prices of food and fuel appears to have abated, since the last quarter of 2011. In addition to the job loss in tourism, there was also some retrenchment in the manufacturing sector and non-sugar agriculture, resulting in an unemployment rate estimated at 11.8 percent at the end of March 2012, compared with an average of 11.2 percent for all of 2011.

The fiscal deficit was estimated at 5.1 percent of GDP for the first three months of the 2012/13 fiscal year. Government's total revenue is projected to have improved by 3.4 percent, compared to the same period last year, primarily owing to a 7 percent increase in VAT receipts. On the other hand, personal tax collections were down by 5 percent, while corporate tax receipts fell by 4 percent. Expenditure on interest payments grew by 5 percent and pensions and other transfers to individuals and to public corporations rose by 20 percent and 12 percent, respectively.

All of Government's deficit financing was sourced from the domestic market. The deficit was financed to the extent of 75 percent by commercial banks, 48 percent by the National Insurance Scheme (NIS) and 54 percent by private non-bank entities. There were no foreign public inflows during the review period and payments on external loans reduced government indebtedness by $33 million. Gross government debt as a percentage of GDP was 77 percent, down from 79 percent at the end of 2011, while net government debt was 57 percent of GDP. External debt service accounted for less than 7 percent of current account earnings.

The current account deficit of the balance of payments was estimated at 5.2 percent of GDP for the first six months of 2012, compared to 5.7 percent for the corresponding period of 2011. Data to April revealed that the export of rum increased by $13 million and chemical exports were higher by $8 million. Retained imports grew by $22 million, a direct result of the 21% rise in the cost of fuel imports. Capital inflows for the first half of the year are estimated to be slightly below those of 2011, and consisted mostly of funds for the purchase and development of real estate.

Belize Quarterly Review March 2012
(Central Bank of Belize)

Domestic Overview

The Statistical Institute of Belize (SIB) estimatesthat GDP grew by 6.0% in the first quarter ascompared to 7.8% in the comparable period of2011. The outturn reflected seasonal gains intourism, a rebound in banana and sugarcaneproduction as well as a surge in domesticoutput of electricity from the hydroelectric andco-generation plants. "Agriculture, Huntingand Forestry" and "Electricity and Water"registered robust growth of 24.9% and 58.7%, respectively. Tourism maintained its upwardmomentum with increases in stay-over visitor arrivals and cruise ship disembarkations factoring into respective increases of 10.4% and 7.4% in "Hotels and Restaurants" and "Transport and Communications". On the downside, "Manufacturing" and "Fishing "contracted by 2.9% and 23.6%, respectively, with the former reflecting a steeper-thanexpectedcontraction in petroleum output.

Rising international oil and food pricesunderpinned a 0.5% increase in the domesticprice level over the quarter (November 2011to February 2012) with prices for "Transport& Communication" and "Food, Beverages &Tobacco", rising by 4.9% and 3.6%, respectively.On the external front, the first quarter currentaccount surplus edged up from $56.9mn in2011 to $65.0mn. A substantial contraction in the merchandise trade deficit and higher tourism earnings outpaced a sizeable increase in profit repatriation and a marginal decline in family remittance inflows. The deficit on the capital and financial account narrowed in the meanwhile from $67.6mn to $45.0mn as an increase in foreign direct investment, higher official grant receipts and a smaller buildup in commercial banks' foreign balances outweighed a 21.9% growth in net loan repayments. Gross international reserves consequently grew by 2.7% to $485.1mn, sufficient to cover 4.3 months of merchandise imports.

While government's receipts of taxes and grants rose by 6.4% during the last quarter of its 2011/2012 fiscal year, this was outpaced by an 11.8% rise in expenditure that included increases in current and capital spending of $9.8mn and $16.2mn, respectively. Theater included outlays for infrastructural works on the south-side of Belize City and the Kendall Bridge as well as increased spending on 'Security and Defense'. The quarter on quarter primary surplus shrank from $38.2mnto $24.5mn, while the overall deficit widened from $5.8mn in 2011 to $18.1mn with financing being largely comprised of deposit withdrawals from the Central Bank.

During the January-March period, Central Government's domestic debt dipped by 0.1%to $380.7mn (% of GDP). The public sector external debt also fell by 0.5% to $2,035.9mn (% of GDP), as amortization payments of$16.7mn exceeded disbursements from multilateral sources of $6.3mn and upward valuation adjustments of $1.2mn.

Monetary growth accelerated to 4.1% during the period driven mainly by a 9.2% expansion in net foreign assets. Commercial banks received the bulk of the foreign exchange inflows while the net holdings of the Central Bank increased marginally. With private sector credit demand remaining subdued, Central Government, and to a lesser extent the statutory bodies accounted for the lion’s share of the 1.5% increase in net domestic credit that was recorded.

The combination of buoyant foreign exchange inflows and sluggish credit demand contributed to a further increase in the banking system’s liquidity. Interest rates consequently continued to decline. The weighted average lending rate fell to an all-time low of 12.72%, driven by rate cuts of 41 basis points for personal loans and 40 basis points for residential construction. Simultaneously, steep declines in time deposit rates underpinned the drop in the weighted average deposit rate to3.19%.

In other developments, commercial banks continued the process of writing off nonperforming loans although the amounts written off were significantly smaller than in the previous quarter. Current expectations are that these measures will be continuing during the rest of the year in fulfillment of the programmed strengthening of their balance sheet positions.

ECCU Economic and Financial Review March 2012
(Eastern Caribbean Central Bank)

D O M E S T I C E C O N O M I C D E V E L O P M E N T S

Overview

Economic activity in the Eastern Caribbean Currency Union (ECCU) is estimated to have declined during the first three months of 2012relative to performance in the corresponding period of 2011, negatively impacted by the lacklusterglobal economic recovery. The overall weak performance reflected low economic activity in most of the member countries, as there was a contraction in value added by key services sectors such as construction, financial intermediation and real estate renting and business activities. Other sectors estimated to have recorded lower value added include manufacturing, agriculture and mining and quarrying. The declines were partly offset by higher value added for the hotels and restaurants, and wholesale and retail sectors. Consumer price inflation, on average, rose at a slower rate of 0.7 percent, during the period under review, influenced mainly by moderate increases in international oil prices. The deficit balance on the merchandise trade account of the ECCU widened, attributable to faster growth in imports relative to that of exports.The consolidated fiscal operation of the central governments recorded a lower overall fiscal deficit in the first three months of 2012 relative to the outturn in the corresponding period of 2011. This fiscal outturn was as a result of declines in both capital and current expenditure. The total outstanding public sector debt rose. In the banking system, monetary liabilities and net foreign assets expanded in contrast to a reduction in domestic credit during the period under review. Liquidity in the commercial banking system increased, while the weighted average interest rate spread between loans and deposits narrowed.

The ECCU economy is estimated to expand in 2012, representing a recovery from the 1.8 per cent contraction in GDP in 2011. Some improvement is estimated in the construction sector, fuelled by intensified activity on a number of major public-sector projects in some member countries along withon-going projects in the private sector. Theperformance of the hotels and restaurants sector isexpected to surpass that of 2011, reflecting anincrease in the number of stay-over visitors based oncontinued marketing initiatives in the major marketsas well as increased airlift in some of the memberterritories. However, major down side risks remain,including a slowing global recovery, high energyprices, higher travel costs for UK travellers to theECCU and the threat of hurricane damage to thetourism plant and the agricultural sector.

Output

Construction activity is estimated to have contractedin the first quarter of 2012, associated with loweractivity in the public and private sectors. Publicsector activity was subdued, as all of the territoriesin the ECCU recorded declines with the exception ofMontserrat where there was an increase in buildingstarts for commercial properties and Anguilla,associated with intensified work at the ZemiBeachResort. Lower public sector construction wasevident by the reduction in capital expenditure (37.7per cent) as regional governments scaled back on spending, consistent with their fiscal stabilization thrust. Construction activity during the review period was supported mainly by developments in the private sector, including continued work on resorts and hotel accommodations in St Kitts and Nevis, Saint Lucia, Dominica and St Vincent and the Grenadines. Additionally, concluding work on two major hospitals in Saint Lucia, as well as on-going construction of the international airport in St Vincent and the Grenadines helped to moderate the overall decline in construction. Value added in the mining and quarrying sector, which is closely related to construction activity, is estimated to have fallen based on the decline in construction activity.

Value added in the manufacturing sector in theECCU is estimated to have contracted based on theperformances of the majority of the ECCUterritories. A reduction in value added in themanufacturing sector reflected lower output in SaintLucia, associated with a 21.9 per cent reduction inthe export of beverages and the production ofcorrugated paper. Lower banana productioncontributed to the fall in the output of corrugatedpaper, which is used as an input in the production ofbanana boxes. In Grenada most industrialproduction data showed declines on account of weakregional and domestic demand. Beer production fellby 12.0 per cent and the output of flour, paint andpoultry feed fell by 10.9 per cent, 6.0 per cent and4.0 per cent respectively. Manufacturing output alsofell in Dominica based on declines in the productionvolume of paints and varnishes and beverages of27.7 per cent and 7.2 per cent respectively. Thedeclines were partly offset by higher output inSt Kitts and Nevis, reflected in expanded productionof high valued electrical components and in StVincent and the Grenadines due to higher productionof rice (40.3 per cent), beer (11.1 per cent), feeds(8.1 per cent) and flour (7.1 per cent).

Agricultural output was estimated to have contractedin the period under review when compared with theperformance in the corresponding period of 2011.This assessment is based on an estimated reductionin the output of bananas. The protracted effects ofdamage caused by hurricane Tomas in late 2010, coupled with disease infestation in Saint Lucia andSt Vincent and the Grenadines would havenegatively impacted production. The decline waspartly offset by increases in the output of banana inDominica and Grenada. In Grenada increases werealso recorded in the output of cocoa, while theproduction of nutmeg declined by 43.9 per cent (72.5 tonnes).

Lower value added is estimated for financialintermediation based on an estimated fall in theprofitability of banks in the ECCU, consistent withthe on-going economic challenges in the real sector.

The contraction in those sectors in the first three months of 2012 was moderated by an improved performance of the hotels and restaurants sector, proxy measure for activity in the tourism industry.

Total visitors rose by 1.6 per cent to 1, 590,462 in the first quarter of 2012, in contrast to a 2.0 per cent decline in the corresponding period of 2011. The performance was largely attributable to a 9.4 percent increase in stay-over arrivals to 295,760 in contrast to a 0.2 per cent contraction in the first quarter of 2011. These developments were associated with improved performances from theUSA (10.7 per cent), UK (13.4 per cent) and Canadian (16.9 per cent) markets. The increase in stay-over arrivals was moderated somewhat by a 0.6per cent decline in the Caribbean market. On an individual country basis the increase in stay-over arrivals was led by the performances for Saint Lucia (15.1 per cent), St Kitts and Nevis (15.0 per cent), Anguilla (5.7 per cent), Antigua and Barbuda (6.9per cent) and Grenada (3.7 per cent). The number of stay-over visitors fell in Dominica and Montserrat by 3.5 per cent and 5.6 per cent respectively. TheUSA accounted for 40.1 per cent of stay-over visitors to the ECCU region representing the region's largest market, followed by the UK and the Caribbean with shares of 21.0 per cent and 13.9 percent respectively. The number of cruise ship passengers fell by 0.5 per cent to 1,211,838compared with a 2.6 per cent decline in the first quarter of 2011. The reduction in the number of cruise ship passengers, notwithstanding the increase in the number of calls, was attributable to developments in Dominica where an increase in the number of calls was done using smaller vessels. Excursionists and yacht passenger arrivals increased by 8.5 per cent and 6.4 per cent respectively.

Prices

Consumer prices in the ECCU rose by 0.7 per cent during the first quarter of 2012, below the 1.6 percent rate of increase in the corresponding three months of 2011. The consumer price index (CPI) rose in all of the member territories with the exception of St Kitts and Nevis and St Vincent and the Grenadines which recorded declines of 0.6 percent and 0.1 per cent respectively. In the countries where the CPI rose, increases ranged from 0.1 percent in Dominica to 1.6 per cent in Montserrat. Overall the upward movement in the index was constrained by a slower increase in the subcategories of food, fuel and light, and housing and utilities. The increase in the index was further moderated by declines in prices for the sub-indices of transportation and communication and education.

Trade and Payments

The merchandise trade deficit is estimated to have widened, influenced by higher import volumes for fuel, motor vehicles and crude materials. The merchandise trade deficit expanded in all of the territories with the exception of St Kitts and Nevis, Dominica and Grenada. The value of imports rose by 2.2 per cent to $1,697.6m compared with a 4.7per cent increase in the corresponding period of2011.

Export earnings rose by 2.3 per cent to $209.7mlargely influenced by a 7.4 per cent increase in domestic exports. The performance of domestic export earnings largely reflected higher earnings from nutmeg and cocoa exports. The increased in exports earnings was tempered by an estimated decline in earnings from bananas in Saint Lucia and St Vincent and the Grenadines. Gross travel receipts increased by 9.1 per cent to $1,024.6m, attributable to higher stay-overs arrivals. Gross external disbursements to the central governments fell by26.1 per cent to $95.3m, while debt repayments contracted by 10.9 per cent ($17.8m). Commercial bank transactions resulted in a net outflow of$201.9m in short-term capital compared with an outflow of $30.3m in the corresponding period of2012, as the net liability position of banks fell.

Central Government Fiscal Operations

The consolidated fiscal operations of the central governments resulted in a smaller overall deficit of$90.3m in the first three months of 2012 compared with one of $135.3m in the corresponding period of2011. This outturn was associated with a decline in capital expenditure coupled with a current account surplus, in contrast to a current account deficit in the corresponding period of 2011. The primary balance shifted to a surplus of $27.9m from a deficit of$7.3m in the first three months of 2011. Of the member countries, larger current account surpluses were recorded for Antigua and Barbuda, Saint Lucia and Anguilla, while the increase in the overall fiscal surplus for the currency union was constrained by widening of the overall deficit in Grenada. A lower fiscal deficit was recorded for St Vincent and theGrenadines.The operations of central governments resulted in current account surplus of $9.6m, in contrast to deficit of $0.3m in the corresponding quarter of2011, fuelled by a contraction in current expenditure.

Current expenditure declined by 2.0 per cent($17.5m) to $871.8m, in contrast to a 6.6 per cent increase in the comparable period in 2011, reflecting reductions in most of the sub-categories. Outlays on goods and services declined by 8.9 per cent largely associated with developments in St Kitts and Nevis. Lower interest payments (7.7 per cent) were alsorecorded, particularly external interest payments (21.2 per cent) associated with lower obligations inall of the member territories with the exception of Grenada and St Vincent and the Grenadines. Domestic debt obligations were 5.3 per cent higher consistent with an increase in outstanding domestic debt. Outlays on personal emoluments rose by 0.1per cent ($0.5m) influenced by increases in the number of public servants in Saint Lucia and Antigua and Barbuda. Expenditure on transfer and subsidies increased by 3.2 per cent ($6.7m) during the period under review.

Current revenue fell by 0.9 per cent ($7.6m) to$881.4m, constrained by a reduction in non-tax revenue receipts, especially in St Kitts and Nevis where revenue collections from the previously government run electricity department were diverted to the newly corporatized department. The other component of current revenue, tax revenues, rose bay 1.0 per cent ($8.1m) to $780.5. Higher tax revenues were associated with increases in the collection of property taxes (56.2 per cent) and taxes on domestic goods and services (4.0 per cent).Yields from property tax rose in St

Kitts and Nevis, Saint Lucia, Anguilla and Antigua and Barbuda. Receipts of taxes on domestic goods and services were higher on account of increased collections of stamp duties, partially offset by declines in the collection of Value Added Tax ($6.9m). Declines in Value Added Tax receipts were attributabletoast Kitts and Nevis and St Vincent and the Grenadines. Receipts from taxes on international trade and transactions were lower by 3.8 per cent, influenced by declines across the main categories including, consumption tax (12.6 per cent), customs service charge (8.6 per cent) and import duties (3.4per cent).

Outlays on capital expenditure fell by 37.7 per cent to $133.2m, in contrast to a 50.2 per cent increase in the corresponding period of 2011. The reduction was consistent with measures to contain expenditure in a number of the member territories coupled with completion work on some major projects. Capital outlays fell in Dominica, Antigua and Barbuda, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines. Increase capital outlays were recorded for the British overseas territories of Montserrat and Anguilla. Grant receipts amounted to $30.1m, representing a 59.6 per cent reduction compared with the total in the first quarter of 2011.Reductions in grant receipts were recorded in the majority of the member territories with the exception of St Vincent and the Grenadines, Montserrat and St Kitts and Nevis. Anguilla received no grant funding in the current quarter or the corresponding quarter of 2011.

Public Sector Debt

At the end of March 2012 the total disbursed outstanding debt of the ECCU's public sector stood at $12,624.6m, approximately 0.9 per cent above the outstanding amount at the end of 2011. On an individual country basis, increases in public sector debt were recorded in all of the ECCU territories, except in Anguilla, Antigua and Barbuda and Montserrat where the outstanding debt declined. The largest increase in the debt stock was for the government of Dominica (6.4 per cent, $59.5m), largely reflecting increases in the obligations of the central government associated with an issue of a$15.0m 91-day Treasury bill on the Regional Government Securities Market and an $8.5mdisbursement under the IMF's Rapid Credit Facility. The Government of Saint Lucia accounted for the second largest increase in the debt stock (1.6 percent, $38.9m), attributable to an increase in central government domestic borrowings. The outstanding debt of the ECCU's public sector expanded on account of a 1.1 per cent increase in central government debt to $10,701.9m. The outstanding debt of public corporations contracted by 0.2 percent to $1,922.8m.

Debt service payment for the first three months of2012 amounted to $303.5m, an increase of 11.2 percent above the total recorded during the corresponding period of 2011. Of total debt service payments, principal repayments comprised 61.1 percent and interest payments accounted for 38.9 percent of total debt servicing. Debt service payments rose for Grenada, St Kitts and Nevis, Saint Lucia and Dominica while declines were registered for the other territories.

Monetary and Financial Developments

Money and Credit Monetary liabilities (M2) expanded by 1.9 per centto $13,322.4m, attributable to an expansion in quasimoney as narrow money declined. Quasi moneyrose by 2.9 per cent reflecting increases in savingsdeposits (3.8 per cent) and foreign currency deposits (7.7 per cent). All of the components of narrowmoney recorded declines – currency with the public(1.8 per cent) and private sector demand deposits of(0.9 per cent).Domestic credit contracted by 1.6 per cent, reversing a 0.4 per cent increase in the corresponding period of2011, attributable a reduction in lending to the private sector and central government. Outstanding credit to the private sector declined by 0.3 per cent, in contrast to a 0.4 per cent expansion during the corresponding period of 2011. Lower private sector borrowing was influenced by a fall in outstanding credit to businesses (1.0 per cent) as lending to households increased. Net credit to the central government decreased by 8.3 per cent in contrast to 3.0 per cent increase in the first quarter of 2011.This development was associated with a 9.0 per cent increase in central governments' deposits coupled with a 0.3 per cent reduction in credit to central governments. Of the member countries, the reduction in credit to central governments' was the highest in St Kitts and Nevis. Credit to non-bank financial institutions grew by 11.2 per cent, as the increase in investments exceed that of credit. The net deposits of non-financial public enterprises rose by 4.5 per cent buoyed by a 4.5 per cent increase in deposits.

The distribution of commercial bank credit by economic activity shows that reduction in outstanding credit was largely attributable to declines in credit extended to tourism (3.8 per cent)and manufacturing and mining and quarrying (0.8per cent). These declines were moderated by increases in credit largely for personal use and construction of 0.3 per cent and 1.1 per cent respectively. Additionally, increases in outstanding credit were observed for distributive trades and agriculture and fisheries.

The net foreign assets of the banking system increased by 20.8 per cent to $2,488.7m, fuelled by developments associated with the Central Bank and in the commercial banking system. The net foreign assets of the Central Bank rose by 8.3 per cent to$2,944.5m, largely attributable to an 8.5 per cent ($229.8m) increase in foreign external assets. Commercial banks' net foreign liabilities position fell by 30.7 per cent to $455.8m reflecting a 2.4 percent increase in liabilities and a 2.5 per cent rise in foreign assets.

The liquidity position of commercial banks strengthened during the period under review. The ratio of liquid assets to total deposits plus liquid liabilities grew by 1.2 percentage points to 31.7 percent and the ratio of loans and advances to total deposits decreased by 2.6 percentage points to 83.8per cent.

The spread between the average weighted interest rate on deposits and loans narrowed to 6.46 per cent from 6.47 at the end of December 2011. The average weighted deposit interest rate stood at 3.00per cent and the average weighted lending rate was9.46 per cent at the end of the period under review.

Developments on the RGSM

The pace of activity on the Regional Government Securities Market (RGSM) accelerated during the first three months of 2012, when compared to the corresponding period of 2010. Gross issuance more than doubled to $252.0m, largely attributable to increased issuances in all issuing countries, including Saint Lucia, St Vincent and the Grenadines, Grenada and Dominica. The Governments of Grenada and Dominica issued instruments in the first quarter of 2012 after having not done so in the corresponding period of 2011.

The market was dominated by short-term offerings reflecting the demand on the part of governments for funds for cash flow management purposes, coupled with a fall in the demand by the individual investor for longer dated securities. Of the eleven issues during the period under review, seven were 91-dayTreasury bills. The Government of Saint Lucia was the largest issuer of Treasury bills ($122.0m, or 33.1per cent of total Treasury bill issues) followed by the Government of St Vincent and the Grenadines ($75.0m). The Governments of Grenada and Dominica each issued Treasury bills in the amounts of $40.0 and $15.0 respectively. Treasury bills accounted for the largest proportion of instruments issued during the quarter accounting for 62.3 percent of the securities issued during the quarter. The outturn compares with the first quarter of 2011, when the Government of Saint Lucia was the dominant issuer and accounted for 37.5 per cent of gross issuance. Although gross issuance was higher during the quarter there was a relative decline in investor demand for Treasury bills as indicated by decline in the bid to cover ratio. The value of bids increased to $308.6m, representing a bid-to-cover ratio of 1.22, however this compares with one of1.86 in the first quarter of 2011.

The weighted average interest rate on 91-dayTreasury bills declined by 9 basis points to 4.77 percent at the end of March 2012, compared with the weighted average interest rate at the end of March2010. Depressed yields reflect higher demand for short-term securities.

Activity in the secondary market increased during the first three months of the 2012, as the value of trading rose to $0.4m from $0.1m during the first quarter of 2011.

Prospects

The global recovery continues to decelerate, with number of factors representing impediments to sustained recovery, including the sovereign debt crisis in the Eurozone, coupled with declining prospects for emerging economies. The economy of the USA, though growing continues to be constrained by structural challenges; high unemployment, large deficits and a weak housing market. Notwithstanding the uncertain global outlook, economic activity in the ECCU is projected to expand in 2012 reflecting an uptick in construction activity, coupled with continued improvement in the hotels and restaurants sector. Recovery is projected for the construction sector based on planned intensified public sector activity in Saint Lucia, Antigua and Barbuda and St Vincent and the Grenadines. In the private sector work will continue on hotel construction in Saint Lucia, and St Kitts and Nevis as well as private residential construction. Activity in the hotels and restaurants sector a major indicator of tourism activity is expected to remain robust sustained primarily by higher stay-overs arrivals. Consequently, developments in this sector will favorablyimpact developments in the transport, storage and communications and wholesale and retail trade sectors.

The merchandise trade deficit is estimated to widen a result of higher import payments associated with developments in the tourism sector and the estimated recovery in economic activity during 2012. The value of merchandise exports is estimated to remain subdued based on a lower performance of agriculture and manufacturing.

A narrowing of the overall fiscal deficit is projected, based on continued expenditure restrain in response to sluggish growth. However the improvement in the overall fiscal outturn will be constrained by higher overall expenditure in Grenada and Montserrat.

Economic prospects for the ECCU appear to befavourable; however, looming downside risks include, slowing global growth, challenging tourism prospects associated with the London Olympics and the Air Passenger Duty imposed on UK travellers.Other economic headwinds include high international energy and commodity prices and the onset of the Atlantic hurricane season.

Guyana Quarterly Report and Bulletin 2012 Q1
(Bank of Guyana)

Overview

Performance of the major economic sectors was mixed during the first quarter. Agricultural production was lower on account of a decrease in output from the sugar, forestry and livestock sectors mainly as a result of the adverse weather conditions caused by the La Nina phenomenon. The manufacturing sector experienced an increase in beverages output and a decrease in paint and pharmaceuticals output. The mining &quarrying sector recorded higher bauxite and gold output but lower diamond output. The services sector continued to benefit from improved performance in the financial and insurance activities, construction and electricity generated industries. Inflation was subdued at 1.0 percent on account of moderate increase in fuel and food prices.

The overall balance of payments recorded a surplus of US$11.0 million from a deficit ofUS$3.9 million one year ago due to a larger surplus on the capital account. The latter reflected increased inflows in the form of foreign direct investment and disbursements to the public sector. The current account deficit widened from a higher import bill and payments for services.

The total value of foreign exchange transactions was US$1,603 million. This represents an increase of US$400.7 million or 33.2 percent over last year's performance. Inflows to the market continued to be driven by the current booming the gold industry, while sales were mostly for the importation of goods. Sales exceeded purchases by US$7.9 million; which is attributed to net sales at the bank cambia's. The Guyana dollar maintained its stability against the United States dollar, depreciating to 204.00 or 0.12 percent attend March 2012.

The overall financial operation of the public-sector improved on account of better outturn of both the central government and the Non-Financial Public Enterprises. Central government recorded a higher surplus due to increased current revenue and lower capital expenditure while the Non-Financial Public Enterprises overall deficit decreased due to higher current revenue and lower capital expenditure.

The stock of domestic debt declined as the issuance of treasury bills to mop up excess liquidity was lower. The stock of external debt rose on account of higher disbursements of US$4.1 million by theater-American Development Bank for project financing and the delivery ofUS$46.9 million credit under the Venezuelan Petro Caribe Agreement.

The financial system remained sound during the first quarter of 2012, with the Licensed Depository Financial Institutions (LDFIs) being adequately capitalized, highly liquid and profitable. Capital Adequacy Ratio(CAR) remained in excess of the prudential8.0 percent benchmark for all the LDFIs.Asset quality deteriorated during the first quarter of 2012, registering a 25.1 percent rise in non-performing loans when compared with the first quarter of 2011.

The monetary aggregates of reserve and broad money declined by 3.8 percent and0.2 percent, respectively, the former was due to an increase in net domestic assets reflecting higher central government deposits while the latter was explained by decline in currency in circulation. Private sector credit grew moderately by 2.9percent while the commercial banks 'interest rates trended downwards. Treasury bill rates and the prime lending rate were lower.

The recovery of the global economy was boosted by a multilateral initiative to prevent full blown crisis in Europe after a period of mild recession. The advanced economies continued to rely on the past fiscal and monetary initiative to sustain growth. In retrospect the emerging and developing countries continued to facilitate global growth in the first quarter of 2012. Emerging economies China, India, Mexico, Russia and the South East Asian countries experienced growth albeit at a slower pace. However, inflationary pressures continue to threaten demand with slow improvements tithe level of unemployment. Latin America and Caribbean Region performance was mixed with commodity dependent economies doing better than the tourist dependent Caribbean economies.

In 2012, the Guyanese economy is expected to continue on its growth path with contribution from all the major sectors. Inflation is projected at 4.6 percent. However, downside risks are expected from higher fuel and commodity prices. The Central Government's overall balance is expected to expand on account of higher current and capital expenditure while then on-Financial Public Enterprises overall balance is expected to shift from a deficit to surplus on account of higher current revenue and lower capital expenditure.

Bank of Guyana's monetary policy will continue to focus on regulating liquidity for maintaining price stability and provide an environment for credit growth to enhance economic activity.

Haiti: Fourth Review under the Extended Credit Facility—Staff Report and PressRelease
August 2012
(International Monetary Fund)

Economic Context

1. Prime Minister Lamothe, who also remains Minister of Foreign Affairs, was formed on May 15. In the policy statement delivered at the time of his inauguration, the new Prime Minister highlighted continuity and commitment to the program and the associated reform agenda. He underscored the high priority that the new government attaches to accelerating the reconstruction and establishing a business environment conducive to investment and private sector-led growth. Passage of key legislation in support of reforms can, however, is expected to remain protracted, given the President's lack of a majority in Parliament and the busy upcoming electoral cycle[3]. The overall security situation remains fragile.

2. Haiti's post-earthquake reconstruction is continuing, albeit slowly on account primarily of weak capacity and political uncertainty. Tangible progress include the reduction by more than half of the 1.3 million of people leaving in camps, the removal of more than 50 percent of earthquake-related debris, and the reconstruction of several schools. However, donors' disbursements, particularly with respect to pledges made at the March2010 New York conference, remain slow, reflecting the political transition and Haiti's limited administrative and absorptive capacity.

3. Program performance has been sound. All end-December 2011 indicative targets were met, with the exception of the floor on poverty-related spending, which was impacted by the overall under-execution of public spending. End-March 2012 quantitative performance criteria were observed, but the floor on poverty-related spending still was not met. All structural benchmarks from the previous reviews were met, except two. For the structural benchmarks related to the fourth review, two out of three were not met. However, implementation of the four remaining structural benchmarks is well advanced. The final version of the public debt law is ready and is expected to be sent to parliament at the latest by mid-August, after the submission of the draft FY2013 budget. The structural benchmark related to the creation of a debt unit was not observed because its completion is predicated on the reorganization of the Ministry of Economy and Finance, which has been delayed by the political transition. The new government has indicated that steps will be taken to accelerate submission to parliament of thelegislation needed for the reorganization of the Ministry of Economy and Finance bid-summer.

[3] Originally scheduled to begin in November 2011, the new electoral cycle is now expected to start in November 2012, It will cover the elections of 1/3 of the Senate (10 new senators), and the renewal of 142 municipality councils, 565 sector officers, and several city delegates.

4. The economic recovery has been uneven, in the context of a tighter-thanprojectedfiscal stance and strong bank credit growth:
   - Growth. Despite the rebound in agriculture (accounting for about 25 percent of GDP)from last year's contraction and buoyancy in manufacturing, commerce and services, economic activity has been weaker than anticipated notably in construction as the recent political crisis has slowed the pace of execution of public investment spending significantly.
   - Inflation. Reflecting a deceleration in international food prices and the recovery in agriculture, consumer price inflation receded to 5.2 percent in May 2012 (down from peak of 10.4 percent in September 2011).
   - Fiscal position. The fiscal outcome was better than programmed. This reflects continued strong revenue mobilization and under-execution of domestically-financed investment spending owing to a range of factors, including weak capacity and institutions, and political uncertainty. In contrast, current spending was in line with program targets.
   - External position. The balance of payments outcome for the first semester of 2012was broadly in line with expectations. A small overall balance of payment surplus allowed for a US$0.1 billion increase in gross international reserves, toUS$2.1 billion (5.5 months of imports) by end-March 2012.
   - Credit and banking sector. Year-on-year credit to the private sector grew by close to30 percent through end-March. This expansion was mainly fueled by a rising demand for short-term trade credits, as political uncertainty continue to adversely affect long-termprivate sector investment. Deposit and credit dollarization remain high. At thesame time, nonperforming loans are low, and key stability indicators suggest that thefinancial sector is relatively liquid and profitable. On a 12-month basis, the Gourdeappreciated slightly against the dollar (4.1 percent through end-May 2012).

Outlook and Risks

5. The recent political stalemate has impacted economic growth but the outlook for the rest of 2012 remains relatively favorable. Domestic demand is expected to continue driving activity in manufacturing, commerce, and services. However, the envisaged acceleration in public investment during the last quarter of FY2012 is unlikely to offset the loss of value added recorded in construction and other associated sectors during the first half of the year. On balance, staff and the authorities agreed to revise the growth target to4.5 percent in 2012, down from 7.8 percent. On the inflation side, the downward trend in international food and energy prices and the recovery in agriculture have eased pressures on domestic food prices. Barring any trend reversal, staff and the authorities concurred on the need to adjust the twelve-month inflation objective for end-FY 2012 (September 2012) to6 percent. The external current account deficit will likely be somewhat larger than programmed on account of a slump in exports observed at the

beginning of this year because of the loss of a textile order from a U.S. retailer. However, given over-compliance at end-March, the gross international reserves target for FY 2012 remains well within reach.

6. The outlook for 2013 remains generally positive and broadly unchanged from the last ECF review. An expected pickup in the reconstruction efforts and the planned acceleration in the implementation of several major projects, particularly in transportation and services, would boost real GDP growth to 6.5 percent. Inflation would remain in the low single digits. Exports, particularly textiles, are projected to rebound but higher reconstruction-related imports would widen the external account deficit by about one percentage point of GDP to about 5.3 percent. Gross official reserves would decline slightly, to about 5 months of imports. The authorities broadly agreed with staff's outlook but were somewhat more optimistic about real GDP growth and the investment forecast.

7. Risks facing Haiti are diverse. Persistent weaknesses in administrative and absorptive capacities, continued political instability with a new round of elections, and delays in implementing critical reforms to enhance transparency, governance, and public financial management could reduce international support, complicate program execution, and put the reconstruction and economic recovery at risk. Additionally, Haiti continues to be vulnerable to natural disasters and to global downside risks which could reduce grants from donors, exports, and remittances. Finally, debt vulnerabilities remain a risk, as the last DSA (IMF Country Repot 12/74) concluded that Haiti's debt continues to be assessed as high risk. However, the current level of official reserves which is relatively high, covering more than five months of imports, could provide a reasonable buffer. Moreover, a further pick up in the reconstruction effort, together with a steady implementation of the public investment program and ongoing structural reforms, could pave the way for higher growth.

Convergence Indicator Report- An Overview of Macroeconomic Developments in Jamaica
January– June 2012
(Bank of Jamaica)

Summary

Jamaica's Gross Domestic Product (GDP) is estimated to have contracted by 0.1 per cent in the first half of 2012, relative to expansion of 1.7 per cent recorded for the similar period of 2011. The decline in economic growth was largely reflected in the tradable industries as marginal growth was recorded in the non-tradable industries. The main industries which contracted were Mining & Quarrying, Construction and Transport, Storage & Communication.

The current account deficit of Jamaica's balance of payments (BOP) is estimated to have improved for the review period by US$115.9 million to US$698.5 million, relative to the similar period of 2011. This improvement reflected a narrowing in the deficit on the income sub-account by US$97.4 million and an increase of US$32.2 million in the surplus on the current transfers sub-account.

Net official and private investments were insufficient to finance the current account deficit. Accordingly, the net international reserves (NIR) declined by US$425.7 million to US$1 540.4 million at end-June 2012. Gross reserves represented 15.5 weeks of imported goods and services.

For the review period, Central Government's fiscal deficit worsened by $9.8 billion relative to that recorded in the corresponding period of 2011. The deterioration in the fiscal position was largely attributed to higher Government spending, the impact of which was partly offset by a marginal improvement in revenue.

Against the background of general uncertainty in the domestic market, the Bank maintained its monetary policy stance in the review period. This uncertainty was partly attributed to the delay in negotiating a new agreement with the International Monetary Fund (IMF). Concurrently, the foreign exchange market was characterized by sporadic bouts of instability which was reflected in the weighted average selling exchange rate depreciating by 2.4 per cent relative to a slight depreciation of 0.1 per cent in the corresponding period of 2011.

Gross Domestic Product (GDP)

The Jamaican economy contracted by 0.1 per cent in the first half of 2012 relative to the similar period of 2011. The economy's performance was largely reflected in contractions in Mining & Quarrying, Construction and Transport, Storage & Communication. However, there were estimated expansions in Agriculture, Forestry & Fishing, Hotels & Restaurants, Wholesale & Retail Trade and Electricity & Water Supply.

Mining & Quarrying contracted by 7.5 per cent in the review period relative to robust expansion of 34.9 per cent for the first half of 2011. The decline in the review period was attributed to lower capacity utilization in the alumina and bauxite industries to 39.6 per cent and 90.1 per cent, respectively, from 43.4 per cent and 98.4 per cent for the similar period of 2011. Lower capacity utilization in both industries was attributed to disruptions in production due to electrical and mechanical difficulties. In this context, total bauxite and alumina production decreased by 7.5 per cent and 8.4 per cent, respectively, relative to growth of 27.7 per cent and 44.5 per cent recorded for the comparable period of 2011.

Construction declined by 4.6 per cent relative to growth of 0.9 per cent in the corresponding period of 2011. The industry's performance was largely influenced by lower spending on road improvement works under the Jamaica Development Infrastructure Programmed (JDIP) as well as a decline in residential construction. The decline in residential construction reflected the lower number of completions for housing solutions by the National Housing Trust over the review period.

For the review period, Transport, Storage & Communication declined by 3.6 per cent, relative to contraction of 0.7 per cent recorded for the similar period last year. The industry's performance primarily reflected contraction in Transport, due to declines in water and air transportation, the impact of which was partly offset by marginal growth in Post & Telecommunication.

Agriculture, Forestry & Fishing grew by 7.9 per cent in the review period, a slower pace relative to expansion of 11.1 per cent in the corresponding period of 2011. The industry's performance reflected growth in domestic agriculture, as export agriculture is estimated to have contracted. The expansion in domestic crop production was partly influenced by marginal improvement in productivity, measured as tonnes per hectare, to 14.0 in the review period from 13.8 in the corresponding period of 2011. Decreased export agriculture reflected declines in citrus, coffee, sugar cane milled and cocoa. In particular, the contraction in coffee exports was attributed to a fall in demand from the Japan market as well as the negative impact of the berry bora disease. The decline in sugar cane milled reflected the earlier conclusion of the sugar crop relative to the comparable period of 2011.

In the context of continued improvement in airlifts to the island, Hotels & Restaurants expanded by 2.2 per cent relative to 3.3 per cent for the comparable period of 2011. In particular, the performance of the industry reflected moderate growth of 2.5 per cent in total stop-over visitor arrivals. The increase in airlifts primarily reflected the resumption of flights from Dallas and Fort Lauderdale for the summer months as well as new airlifts from Cincinnati, Nashville and Toronto. Further, there was an increase of 2.5 per cent in visitor expenditure relative to 2.7 per cent recorded for the similar period of 2011.

Labour Market

Information from the Statistical Institute of Jamaica (STATIN) indicated that the unemployment rate for the first half of 2012 increased to 14.2 per cent from the 12.9 per cent recorded for the similar period of 2011. The increase in unemployment was reflected primarily in Construction, Wholesale & Retail Trade and Hotels & Restaurants. Concurrently, the job seeking rate increased to 8.8 per cent from 8.4 per cent for the corresponding period of 2011.

Inflation

At June 2012, annual average inflation for the review period was 7.2 per cent, relative to 9.7 per cent at the end-June 2011. The 12-month point-to-point rate at June 2012 was 6.7 per cent relative to 7.2 per cent at June 2011. Inflation for the first half of the year was 3.2 per cent compared to 2.5 per cent for the similar period of 2011.

Price increase for the review period emanated primarily from seasonal shortages for several agriculture items as well as rising international oil prices which impacted the cost of electricity and the price of automotive fuel. Further, the Government's tax measures announced in the FY2012/13 budget presentation also contributed to inflation in the review period.

Public Finance

For the first half of the year, Central Government operations recorded a fiscal deficit of $33.1 billion, $9.8 billion higher than the deficit recorded for the corresponding period of 2011. The deterioration in the fiscal position largely reflected an increase of 7.0 per cent in expenditure, the impact of which was partially offset by a marginal growth of 2.0 per cent in revenue & grant flows. Expenditure on programmes and wages & salaries were both higher by 13.0 per cent. The improvement in revenue was primarily observed in tax inflows. Notably, grant receipts declined by 77.0 per cent, attributed to the delay in negotiating a new programme with the IMF.

The stock of domestic and external debt increased to $940.4 billion and $755.5 billion, respectively, at end-June 2012. These stocks were relative to $839.1 billion and $737.8 billion, respectively, at end-June 2011. The growth in the domestic debt was attributed largely to financing raised via Benchmark Investment Notes while the increase in external debt was largely attributed to exchange rate movement.

Balance of Payments

For the first half of 2012, the deficit on the current account of the balance of payments is estimated to have improved by US$115.9 million to US$698.5 million relative to the similar period of 2011. The improvement in the current account balance reflected a narrowing of the deficit on the income sub-account by US$97.4 million and an increase of US$32.2 million in the surplus on current transfers sub-account.

The improvement in the income account sub-account resulted from lower net investment outflow of US$86.1 million, largely reflecting lower profit remittance by direct investment companies and reduced debt payments by Central Government of US$54.9 million and US$37.3 million, respectively. In addition, there was a net increase of US$11.3 million in employees' compensations. The expansion in the surplus of the current transfers sub-account primarily reflected higher remittance inflows.

For the review period, net official and private investment flows were not sufficient to finance the current account deficit. In this context, there was a drawdown of US$425.7 million in the NIR to US$1 540.4 million as at end-June 2012. Gross reserves at end June 2012 amounted to US$2 385.1 million, which represented approximately 15.5 weeks of projected goods and service imports.

Foreign Exchange Market

During the first half of the year, there were sporadic bouts of instability in the foreign exchange market. This was reflected in an increased pace of depreciation of 2.4 per cent in the weighted average selling rate (WASR) of the US dollar vis-à-vis the Jamaica Dollar relative to 0.1 per cent in the corresponding period of 2011. Accordingly, the WASR ended June 2012 at J$88.70 = US$1.00. The increased pace of depreciation was principally influenced by an insufficiency of net private capital inflows to cover higher net demand for current account transactions. In addition, there was uncertainty in the financial market surrounding the pace of negotiations with the IMF for a new programme as well as concerns about the possible impact of the European debt crisis.

Monetary Policy and Interest Rate

The Bank maintained its monetary policy stance for the first half of the year. This unchanged posture was in the context of uncertainty in the financial markets regarding the status of negotiations with the IMF, the debt crisis in the Eurozone, weak domestic conditions as well as the direction of international commodity prices. Against this background, interest rates on the Bank's 30-day certificates of deposit and overnight instrument were maintained at 6.25 per cent and 0.25 per cent, respectively. In addition, the cash reserve and liquid assets requirements were maintained at 12.0 per cent and 26.0 per cent, respectively.

Outlook

The domestic economy is expected to remain flat for the remainder of the calendar year. This outlook reflects the expectation of continued weak domestic demand and slower growth in the global economy. The local financial market has also continued to reflect relatively low investor confidence in the context of the prevailing uncertainty surrounding the signing of a new agreement with IMF. In addition, the international economy remains fragile, as fiscal challenges in Greece and Spain are expected to limit the overall global growth. Further weakening of the global demand will be a constraint to any increase in external demand for Jamaican goods and services. However, despite the weak global environment, remittance inflows to Jamaica are expected to remain favourable.

Headline inflation for 2012 is expected to be adversely affected by the fiscal measures announced in May 2012 as well as upward movement in international commodity prices, particularly grains. The downside risk to the inflation outlook relates to weaker than expected domestic demand. In this regard, the Bank will continue to monitor economic development and undertake policy adjustments when necessary in order to maintain stability in the domestic market.

Curacao and Sint Maarten Quarterly Bulletin 2012-I
(Central Bank of Curacao and Sint Maarten)

REPORT OF THE PRESIDENT

During the first quarter of 2012, economic developments in the advanced economies were mixed. Compared to the first quarter of 2011, output expanded at a faster pace in the United States, while the Euro area posted zero growth. Meanwhile, economic activities in the major emerging economies slowed down. Amid these developments, real GDP in Curaçao contracted by 0.9% in the first quarter of 2012, compared to a decline of 0.4% in the first quarter of 2011. The economic contraction was accompanied by a quarterly inflation rate of 3.3%, an acceleration compared to the 2.1% inflation rate recorded in the March quarter of 2011. Furthermore, the annualized inflation rate climbed to 2.6%. The higher inflation rate was caused mainly by thehigher oil prices and the increase of the turnover tax rate from 5% to 6% in January 2012.

In Sint Maarten, indicators of private sector activity indicate improved economic performance for the first quarter of 2012, backed primarily by increased activities in the tourism and transportation sectors. Sint Maarten's quarterly inflation rate peaked at 5.8% during the March quarter of 2012, compared to 2.5% in the March quarter of 2011. Moreover, the annualized inflation rate accelerated to 5.4%. The increased inflationary pressures were the result of rising international oil prices and the higher turnover tax rate in Sint Maarten.

The economic contraction in Curaçao during the March quarter of 2012 was attributable to lower domestic demand. In contrast, net foreign demand expanded, albeit at a slower pace than in the first quarter of 2011. Domestic demand dropped because of a decline in public expenditures. The latter decrease was the result of a decline in public investment, mitigated by a growth in public consumption. Meanwhile, private demand remained stable as the rise in private investment was offset by lower consumer spending.

Sectoral data reveal that the decline in real GDP in Curaçao was due to a contraction in the public sector. Meanwhile, economic activities in the private sector remained flat as real valueadded in the financial services sector dropped, while the other sectors registered growth. Activities in the financial services sector shrank because of declines in both the domestic banking sector and the international financial services industry.

In contrast, the transport, storage & communication sector performed well, owing to, among other things, increased air transportation and airport-related activities. Air transportation activities rose as the domestic airlines transported more passengers. Meanwhile, airport-related activities expanded reflecting increased stay-over arrivals. The harbor in Curacao also recorded positive results because of a growth in the number of ships piloted into the port, more cargo movements, and increased oil storage activities. Moreover, investment spending in the telecommunication sector increased during the first quarter of 2012.

Activities increased in the hotels & restaurants sector reflecting gains in both stay-over and cruise tourism. Stay-over tourism recorded growth in all markets, but in particular in the European and South American market segments. The latter growth was the result of increased airlift from Europe and more marketing efforts in South America. Meanwhile, the utility sector registered positive results because of increased investment activities. In addition, real value added in the construction sector increased, reflecting increased mortgages extended.

Output growth in the wholesale and retail trade sector slowed down during the first quarter of 2012 because of weaker consumer spending. However, this slowdown was mitigated by increased tourism activities and more re-export by the free-zone companies in Curaçao. In themanufacturing sector, output growth also decelerated because activities in the refinery rose at aslower pace than in the first quarter of 2011. Moreover ship repair activities dropped, as indicated by the number of man-hours sold.

In Sint Maarten, the hotels and restaurants sector performed well during the first quarter of 2012 driven mainly by a growth in stay-over arrivals. In particular, the number of stay-over tourists from the United States increased as the time-share capacity was back to normal after the reopening of the Simpson Bay Resort. Cruise tourism recorded growth as well.

Meanwhile, the utility sector posted some mixed results as electricity and water production rose, and electricity consumption dropped. The transport, storage and communication sector also showed mixed results. On the one hand, airport-related activities rose in line with the growth in stay-over tourism. Also, the harbor performed well reflecting increases in the number of ships piloted into the port and container movements. However, air transportation activities contracted because of a drop in the number of passengers transported by the domestic airlines. Activities in the construction sector rose, reflecting slight increases in the number of mortgages extended and the number of residential permits requested.

Similar to the previous quarters, the need for the provision of complete, accurate and timely statistics for the public finances remains an issue for both Curaçao and Sint Maarten. According to the available data, the government of Curaçao recorded a budget surplus of NAf.33.0 million on an accrual basis during the first quarter of 2012. Government revenues rose compared to the March quarter of 2011, reflecting an increase in most tax categories. However, revenues from tax on goods and services dropped due to a 25% cut in the excise levied on gasoline. Moreover, only a small fraction of these excises was transferred to the government by the public enterprise that collects them. Total expenditures also rose, due mainly to increased subsidies and transfers reflecting higher health care-related outlays and more transfers to private households.

An analysis of the available government data of Sint Maarten reveals a budget surplus of NAf.32.6 million in the first quarter of 2012. The growth in government revenues was due mainly to higher proceeds from the turnover tax because of the increase of the tax rate from 3% to 5% in February 2011. Government expenditures also grew but at a slower pace than revenues. Unfortunately, a breakdown of expenditures was not yet available.

The balance of payments recorded a surplus in the first quarter of 2012, albeit smaller than in the first quarter of 2011, resulting in an increase in our international reserves. The current account deficit declined as a result of an increase in net exports of goods and services combined with an improvement in the current transfers balance. The latter improvement was the result of a decline in current transfers paid to abroad. Net exports of goods and services increased as the rise in exports exceeded the increase in imports. Exports rose because of increased re-exports by the free-zone companies in Curaçao, more tourism activities in both Curaçao and Sint Maarten, and more foreign exchange earnings from transportation activities. Also, payments received for refining operations in Curaçao expanded. Meanwhile, merchandise imports increased because of, among other things, investments in the utility sector. Higher international oil prices also fueled the import bill.

As a result of the current account deficit, net foreign wealth of the private sector dropped during the first quarter of 2012. The change in external financing resulted from, among other things, a growth in net direct investments received from abroad, which reflected mainly increased liabilities of domestic companies with their foreign affiliates. Also, net trade credits received on imports rose. Furthermore, institutional investors did not reinvest all of the matured foreign debt securities, while foreign investors invested more in local equity.

The money supply grew in the first quarter of 2012, driven by increases in both net foreign assets and net domestic assets. Net foreign assets expanded as a result of the surplus on the balance of payments. Meanwhile, the growth in net domestic assets stemmed from increased net credit extended to the private sector reflecting more mortgages and business loans extended in Curaçao and more consumer loans extended in Sint Maarten. In contrast, net credit extended to the governments dropped.

The monetary policy stance of the Bank during the first quarter of 2012 was aimed at tightening the surplus in the money market. Consequently, the percentage of the reserve requirement was raised by 0.25 percentage point in January reaching 10.75%. However, given the amount of excess liquidity in the money market, raising the reserve requirement percentage alone was not effective in containing credit growth. Therefore, given the situation on the current account of the balance of payments and the fact that the growth in private credit extension was exceedingeconomic growth, the Bank introduced a temporary freeze on private credit extension in February 2012. The other monetary policy instrument of the Bank, the auctioning of Certificates of Deposit (CDs), was not actively deployed. During the biweekly auctions of CDs, the Bank aimed only at the refinancing of maturing CDs. Moreover, the Bank's official lending rate remained at 1.00%.

The credit freeze is a measure that can alleviate the situation on the balance of payments only in the short term. Therefore, government measures, in particular structural reforms, are necessary to improve the balance of payments in a sustainable way. On several occasions, the Bank has indicated that in this context, the governments should strengthen the current economic pillars and promote new foreign exchange-generating activities. Also, our investment climate must be improved to attract more foreign direct investments into our economy. The improvement of our balance of payments should be prominent on the governments' policy agendas. Without the appropriate measures, the balance of payments will be subject to considerable pressures by 2019 stemming from three developments. First, the Dutch government is currently repaying maturing debt securities taken over from the former entities of the Netherlands Antilles as part of the debt relief program, resulting in an inflow of foreign exchange. However, by 2019, all debt securities of the former Netherlands Antilles will have matured, while the bonds that Curaçao and Sint Maarten issued in October 2010 to conclude the debt relief, and that were bought mostly by the Dutch State, will start maturing. This turnaround will result in a considerable outflow of foreign exchange, thereby reducing our foreign exchange position.

Without the proper measures, a second important development in 2019 will negatively impact the current account of our balance of payments. That development is the expiration of the lease agreement between PDVSA and the Refineria di Korsou. The refinery operations in Curaçao are an important contributor to our monetary union's foreign reserves. Without viable alternatives, an eventual closing will also bring its pressure to bear on the balance of payments.

And third, the grandfather clause that currently is applicable for the international financial services sector will expire in 2019, putting an end to the low tax advantages offered to foreign clients. Therefore, new strategies must be developed to maintain and expand this important foreign exchange-generating sector.

Most of these decisions concern the country of Curaçao. Sint Maarten, on the other hand, shouldfocus its economic strategy on diversifying the economy. Currently, the country depends almost solely on the tourism industry. Economic developments in past years clearly indicate how vulnerable this sector is to international developments affecting economic performance. If we want to maintain our exchange rate peg and at the same time stimulate sustainable economic growth, crucial decisions must be taken soon to underpin both countries' decisiveness to address these primary challenges effectively for a better future for us all.

To bring the economy on a higher sustainable growth path, fiscal consolidation and structural measures are indispensable. In addition, the social security and health care system needs to be overhauled to enable those Funds to meet their long term commitments to their participants. However, current political developments in Curaçao has brought the functioning of the government virtually to a halt and cast a dark cloud on the investment climate. The uncertainty created by these developments will make investors reticent, hampering economic recovery. It is therefore of utmost importance that a lasting solution be reached soon to create the necessary environment conducive to growth.

Suriname: Brief Review of Macro Developments in 1st half 2012

(Central Bank of Suriname)

Real sector

The Surinamese economy is expected to grow by about 4½% in 2012, based on still favorable commodity price levels, particularly for gold and planned capital investments boosting mining production even further. Economic activity is also expected to pick up on account of public investment.

Oil export prices increased on average by 5% in the first half of 2012 compared with the first half of the previous year. The oil price averaged US$ 105 per barrel[4]. The oil export volume increased by around 6½%. Over the same period, the export price of gold increased by 14%, averaging almost US$ 1,590 per troy oz. Gold export volumes grew by 1%. The bauxite industry continues to perform poorly due to a contraction in world demand, and higher input costs.

Inflation has continued to decelerate in the first half of 2012, from the high in April 2011 following the impact of the 20%-devaluation and other government revenue increasing measures in January 2011. From January to June 2012 the accumulated inflation reached 2%, while the 12-month rate stood at 3.5% at end-June. This implies that second round effects on inflation in 2012 have stayed away, mainly supported by tight financial conditions. In addition, in April 2012, the government took measures to reduce the prices of 26 basic foodstuff items. The year-end inflation for 2012 is projected to stay below 5%.

Public sector

The government continued to adhere firmly to a tight current fiscal expenditure stance in the first half of 2012.The overall fiscal balance, however, deteriorated, resulting in a deficit of 2.3% of GDP during the first half of the current year. Government revenue flows from the mining sectors faced some delays in this period, while committed capital spending had to be carried out.

Total government debt declined marginally from US$ 1,173 million at end-June 2011 to US$ 1,167 million at end June-2102. This was mainly driven by a reduction in domestic debt, falling from 12.2% of GDP at end-June 2011 to 11.8% at end-June 2012. On the other hand, external debt rose slightly from 15.8% of GDP to 16%, on account of increased foreign development borrowing.

Monetary Sector

[4] The price refers to the realized export price.

The Central Bank of Suriname maintained the system of reserve requirements as its main policy instrument in influencing domestic credit. The reserve ratio was held at 25% and 40% for domestic and foreign currency denominated deposits, respectively.

Broad money growth moderated, from 16% in the first half of 2011 to 11% in the first half of 2012. The high money growth in 2011 was partially driven by the devaluation in January 2011. The expansion in net foreign assets is an important driver of money growth.

Growth in private sector credit decelerated, from 13% in the first half of 2011 to 6% in the first half of 2012. However, adjusted for the exchange rate adjustment, credit growth appears to be stable in the period under review.

The average interest rates on lending and deposits in domestic currency went up by 20 basis points, respectively.

External sector

The balance of payments improved, reaching a surplus of US$ 96 million in the first half of 2012 against US$ 27 million a year earlier. International reserves accordingly reached to US$ 905 million at end-June 2012, equivalent to 5.2 months imports of goods and services.

The current account surplus rose by 20%, following the improvement in the trade balance. The rise in the exports of goods, accompanied by a slight fall in imports of goods led to the increase of the trade surplus by 18%. Prolonged increases of international gold prices hereby positioned gold as the dominant export commodity, followed by alumina and oil.
The deficit on the services account, however, widened further in the second half of 2012 by 17%, due to payments for construction by the mining sector. Furthermore, a decline in receipts from business services also added to the deficit on the services account.

Flows in both income and transfers remained fairly the same as compared with the previous period. Dividend payments to shareholders abroad and interest payments on outstanding loans by both the government and private sectors are the main contributors of the income and transfers balance. Total inbound remittances appear not to have been affected by lower real growth in the Netherlands, a main source for inbound remittances. Remittances amounted to US$ 78 million in the first half of 2012 up from US$ 75 million in the same period in 2011.

The direct investments recorded positive flows as reinvestments and other liability creating transactions occurred between resident mining companies and its direct investors totaling US$ 39 million for the first half of 2012 compared with an outflow of US$ 16 million a year earlier. Other financial investments depicted on aggregated basis a net inflow of capital of US$ 49 million mainly due to financial transactions of the monetary authorities and to a lesser extent the private sector.

The net inflow of capital occurred, despite a net increase of external assets for the banks and debt repayments by the private sector. This was contrary to the first half of 2011 where the private sector increased its liabilities by US$ 25 million on a net basis.

The above mentioned developments in the financial account resulted ultimately in an inflow of capital of US$ 89 million, thereby contributing to a surplus in the overall balance of US$ 96 million.

Trinidad and Tobago Economic Bulletin July 2012
(Central Bank of Trinidad and Tobago)

REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS - JULY 2012

Grave anxiety persists regarding the economic crisis in Europe. Financial support extended by the European Central Bank to the European banking system through its Longer-Term Refinancing Operations (LTRO) temporarily eased critical funding challenges. In the second quarter of 2012 Spain and Cyprus formally requested financial support from the European Union to contain risks threatening their banking sectors. These requests coincided with bouts of renewed financial turbulence and weakened investor confidence.

Meanwhile, slowing growth continued to be a challenge in other developed countries. Available data show that growth in the US economy eased during the first half of 2012 and was associated with sluggish employment gains, reduced manufacturing activity and modest improvements in the housing market. Emerging markets continued to outperform their industrialized counterparts although the pace of growth in these economies has also begun to decelerate, especially in Brazil, India and China.

The CARICOM region expanded by 2.8 per cent in 2011[5], though individual country performances varied. Growth was highest in Guyana and Suriname, while Barbados and Jamaica had modest outturns. Prospects for growth in the region in 2012 would be heavily influenced by developments in the global economy, given the region's strong economic links to developed nations such as the USA and the UK.

In Trinidad and Tobago, the economic picture in the first quarter of 2012 was mixed. In the first quarter, there was evidence of growth in the non-energy sector particularly, in finance and distribution. However, this was offset by declines in energy sector output, leading to flat growth overall on the heels of a decline of 2.2 per cent in the fourth quarter of 2011.

Encouragingly, the non-energy sector expanded, albeit marginally, during the first quarter of 2012. Non-energy activity was estimated to have risen by 0.3 per cent, supported by the distribution and finance sectors. These sectors grew by 1.4 per cent and 1.7 per cent, respectively, in the first quarter of 2012 when compared to a year earlier.

Declines were however recorded in construction and manufacturing (Chart III). Construction activity, which had shown some signs of recovery in the second half of 2011, received a setback in early 2012 due to the direct and spillover effects of industrial action at Trinidad Cement

[5] International Monetary Fund (IMF), World Economic Outlook, April 2012. The IMF used the following countries in its growth calculation: Antigua & Barbuda, the Bahamas, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, St. Kitts- Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

Limited. Disruptions in the manufacturing of cement products and a drop in some food processing activity, notably of fruits and vegetables, accounted for the decline in manufacturing.

Available statistics point to a 0.4 per cent decline in the energy sector largely influenced by maintenance operations at BPTT and some petrochemical companies. As such the sector saw production declines in crude oil, while natural gas output remained relatively low. Nevertheless, increased exploration activity gave hope for a revival of energy sector production later in the year and beyond, despite the dampening impact of natural gas shortages on downstream activity.

More recent statistics signal that the weakness in the energy sector persisted into the second quarter of 2012. Despite more intense exploration, maintenance operations by BPTT continued to hinder crude oil and natural gas production. For the first five months of 2012, crude oil and natural gas production declined by 12.4 and 3.3 per cent respectively when compared to the same period in 2011. On the non-energy front, the strike at Trinidad Cement Limited2 (TCL)[6] led to lower levels of cement production (44.4 per cent decline year-on-year for the second quarter of 2012). However, increased motor vehicle sales (13.1 per cent increase year-on-year for the second quarter of 2012) and slow but steady growth in private sector credit (2.8 per cent year-on-year to May 2012) suggest that the expansion of the distribution and finance sectors may have continued to mid-year.

Latest data from the Central Statistical Office show a fall in the unemployment rate for the third quarter of 2011. The rate of 5.2 per cent represented a decline from the 5.8 per cent recorded in the previous quarter. In the absence of official labour statistics beyond Q3 2011, more recent information paints a somewhat mixed picture. The number of retrenchment notices filed at the Ministry of Labour and Small and Micro Enterprise Development for the first half of 2012 was 13.3 per cent lower than in the same period of 2011. At the same time, there are reports of restructuring of some manufacturing companies within the chemicals and iron and steel industries in the first half of 2012 leading to a net loss of jobs in these firms.

Headline inflation continued to accelerate, pushed up by food prices. After falling to a historic low of 0.6 per cent (year-on-year) in August 2011, the headline inflation rate surged to double digits (11.8 per cent) by April 2012. In June 2012, the rate measured 11 per cent. This jump was related principally to rising food prices. Core inflation, on the other hand, averaged 2 per cent over the first half of 2012, suggesting that underlying inflation remained subdued. Nonetheless, the escalation in cement costs (45.1 per cent in the second quarter) impacted on producer andbuilding material prices, which recorded year-on-year increases of 5.1 per cent and 7.5 per cent respectively in the second quarter of 2012.

[6]The TCL strike ended on May 26, 2012.

The Central Government's accounts recorded an estimated overall surplus of $1,329.2 million between October 2011 and May 2012, almost double the surplus for the comparable period of the previous fiscal year. This was largely due to elevated energy prices and a significant increase in collections of Value Added Taxes (VAT). The high energy prices relative to budgeted levels facilitated a transfer of $168.0 million into the Heritage and Stabilization Fund (HSF). Overall spending increased by 2.8 per cent to reach $29,046.9 million despite a slowdown in capital expenditure. With more than half of the fiscal year completed it is very unlikely that the deficit of $7.6 billion initially budgeted for the fiscal year 2011/2012 will be realised.

New funding from the Inter-American Development Bank (IDB) and additional financing in respect of CLICO payments to policy holders led to an increase in the stock of public debt. At end-March 2012, public debt exclusive of treasury bills and treasury notes issued for Open Market Operations (OMOs) stood at 38.7 per cent of GDP from 37.5 per cent of GDP in September 2011.

The Central Bank maintained an accommodative monetary policy stance to help spur growth and the expansion of private sector credit. As such, up to mid-2012 the repo rate was maintained at its historically lowest level of 3.00 per cent set in July 2011. While expressing concern about the trajectory of headline inflation, the Bank indicated in its policy statements that the stability of core inflation provided some room for the continuation of the accommodative stance.

At the same time, the Central Bank had to address a surge in banking system liquidity, which had the potential to fuel domestic demand. At the beginning of 2012, excess reserves of the commercial banks at the Central Bank soared to over $6 billion. As one way of dealing with this, the Central Bank requested commercial banks to make voluntary 'special deposits' totaling approximately $1.5 billion at the Central Bank. This enabled the level of excess reserves to retreat sharply thereafter, to a daily average of $2.2 billion in June 2012.

In a very liquid financial environment, interest rates have remained low. After reaching 0.04 per cent in March 2012, 3-month Treasury bill rates increased marginally in the second quarter of 2012, prompted by tighter liquidity conditions. This led to a widening of the TT/US 91 day Treasury bill rate spread, which nonetheless remained very narrow at 40 basis points. The low interest rate setting has discouraged the holding of time deposits and influenced a shift towards more liquid demand and savings deposits.

Credit to the private sector continued to grow into 2012 although, there are signs that the pace has decelerated in some loan categories. Lending to the business sector recorded year-on-year growth of 4.6 per cent in May 2012, while consumer lending grew only marginally (1.1 per cent). Commercial banks' aggressive marketing, together with what appears to be higher demand for real estate given the low levels of interest rates, resulted in strong growth of real estate mortgages of just under 10 per cent year-on-year to May 2012.

Despite the sluggish domestic economy, the commercial banks reported strong profits and maintained capital well in excess of the statutory requirement. Notwithstanding growing loan portfolios, banks faced declining interest income given the soft interest rate environment and the scarcity of new viable investment alternatives. They nevertheless, successfully managed their interest expenses and other operating expenses and recorded commendable profits. Credit quality declined slightly as the ratio of nonperforming loans to gross loans inched up to 6.8 per cent in March 2012 from 6.3 per cent in December 2011. The banking system maintained its capital strength: the ratio of regulatory capital to risk-weighted assets increased to 26.1 per cent in March 2012 from 25.1 per cent in December 2011.

After posting a strong performance in 2011, the domestic stock market was relatively lethargic in the first half of 2012. The Composite Price Index (CPI) fluctuated during the period, in part due to weak performance of companies within the Cross Listed Index, while the All Trinidad and Tobago Index recorded growth of 5 per cent. Companies in the Manufacturing I and Conglomerate sectors made gains while there were poor performances in the Non-Banking and Banking sectors partly related to movements in cross-listed shares.

For 2011 the balance of payments accounts recorded a surplus of $752.6 million. While the positive balance was mainly driven by the current account, imports of energy products, food and transportation equipment grew faster than the rise in exports in 2011. This resulted in a narrowing of the merchandise trade balance. The current account recorded a surplus of $2.3 billion, which was lower than the $4.1 billion in 2010. The current account surplus was partly offset by a deficit on the capital and financial account of $1.5 billion in 2011.

Trinidad and Tobago's gross official reserves increased to $9,822.7 million at the end of 2011. At the end of June 2012, gross official reserves stood at $9,734.8 million. This suggests that in the first half of 2012, Trinidad and Tobago's external accounts registered a deficit of $87.9 million.

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