Caribbean Centre for Money & Finance

CARIBBEAN ECONOMIC PERFORMANCE REPORT

June 2013

Caribbean Centre for Money and Finance

Established under the joint auspices of the
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The University of the West Indies

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1.0 EXECUTIVE SUMMARY

Global Context: Global economic recovery slowed in 2012. World output increased by 3.2 per cent in 2012 compared to 4 per cent in 2011. Real GDP of advanced economies grew by 1.25 per cent in 2012 compared to 1.6 per cent in 2011. Latin America and the Caribbean grew by three per cent compared to 4.6 per cent. The volume of world trade expanded by 2.4 per cent in 2012 compared to 6.3 per cent in 2011. Imports of goods and services by advanced economies had increased by 4.7 per cent in 2011; the increase was only one per cent in 2012. Employment gains were slow in the US and the UK and unemployment rose sharply in some Euro area countries. There was much uncertainty about sovereign debt and its implications for banking sector stability in Europe.

Economic Growth: Economic growth in the Caribbean countries in 2012 was sluggish overall. Apart from Aruba where real GDP decreased by 1.2 per cent, the economies all grew but within a range of 0.1 per cent to 1.2 per cent in five countries (Barbados, ECCU, Curacao, Jamaica, Sint Maarten and Trinidad and Tobago) and within a range of 2.5 per cent to three per cent in two countries (Bahamas, Haiti). Belize, Guyana and Suriname were the only strongly performing economies with growth rates ranging from 4.5 per cent to 5.3 per cent.

The performance of the main economic sectors varied across the region. Tourism and tourism-related construction led some of the growth in The Bahamas and Belize, but was insufficient to offset a decline in the energy sector in Aruba. Barbados experienced a decline in tourism as well as in manufacturing, agriculture and construction. Agriculture was a source of growth in Belize, the ECCU, Guyana (except sugar), and Jamaica, but declined in Haiti. The mining and energy sectors contributed to economic growth in Suriname and Haiti and, in the case of mining, to Guyana's economic growth as well. In Trinidad and Tobago on the other hand, scheduled maintenance caused production declines which impacted adversely on economic growth. Construction was a positive factor in Belize, the ECCU and Suriname but not in Barbados, Guyana and Jamaica.

Inflation: Inflation gradually slowed in the Caribbean during 2012, except in Curacao where it increased to 3.2 per cent vs. 2.3 per cent in 2011. The inflation rate in Aruba was only 0.2 per cent. In the Bahamas, Belize and Curacao, it ranged between 1.3 per cent and 2.8 per cent. The rate of inflation was much higher in the other countries: 4.5 per cent in Barbados, five per cent in Suriname, the ECCU, Guyana and Haiti, eight per cent in Jamaica, four per cent in Sint Maarten and 9.3 per cent in Trinidad and Tobago. Increased food prices, partly resulting from rising world prices, was a significant contributing factor to inflation in the Caribbean while falling world energy prices moderated the rate of inflation.

Labour Markets: Indications are that Caribbean labour markets were not buoyant in 2012. Unemployment rates increased in Aruba, Barbados, Jamaica and Trinidad and Tobago. More positive outcomes were achieved in Belize where the unemployment rate dropped to 14.4 per cent and in The Bahamas to 15.3 per cent.

Fiscal: Performance on the fiscal accounts was mixed. Current account surpluses were achieved in Belize, Guyana, Haiti, Sint Maarten, Suriname and Trinidad and Tobago but at lower levels than in 2011. The other countries, namely Aruba, The Bahamas, Barbados, ECCU, Jamaica and Curacao had current account deficits. In Guyana and Suriname, expenditure growth greatly exceeded revenue growth. The largest reduction in current account surplus was in Trinidad and Tobago where the surplus decreased by 73 per cent. Current account deficits worsened in Aruba, ECCU and Jamaica. In The Bahamas, the current account balance moved from a $4mn surplus in 2011 to a $188mn deficit in 2012. Increases in labour payments and debt service were prominent elements in current expenditure growth while the tax base for direct taxes on corporate and personal incomes contracted in some countries. Overall fiscal accounts deteriorated in Aruba, The Bahamas, Belize, Guyana and Suriname and improved in ECCU, Curacao, Sint Maarten and Jamaica. Trinidad and Tobago moved from an overall surplus of $171mn in 2011 to a deficit of $746mn in 2012.

Banking and Finance: Domestic credit to the private sector expanded in all countries except The Bahamas and the Netherlands Antilles; however the rate of increase was slower than in 2011. Average loan rates of interest fell as did deposit rates of interest. Interest rate spreads narrowed in Aruba, Barbados, Haiti, Guyana, Suriname and Trinidad and Tobago. Spreads widened in The Bahamas, Belize, ECCU, Jamaica and the Netherlands Antilles. Most countries had higher levels of excess liquidity in their banking systems because of faster deposit growth than growth in loans. The banking sector in those countries for which financial soundness indicators were available maintained stability gauged by their capital adequacy positions, bank profitability and the proportion of non-performing loans in commercial bank portfolios.

Public Debt: Domestic public debt increased by 2.4 per cent in Belize, 5.1 per cent in the ECCU, 10.9 per cent in Guyana and 6.8 per cent in Haiti. Increases in other countries were much larger: 10 per cent in Trinidad and Tobago, 10.2 per cent in Barbados, 11.6 per cent in The Bahamas, 12.7 per cent in Jamaica and 15.7 per cent in Suriname. There were also instances of increases in external debt, namely The Bahamas, the ECCU, Guyana, Haiti and Suriname. The percentage increase of 29.7 per cent in The Bahamas was the largest. External debt decreased in Barbados, Belize and Jamaica. External debt also decreased in Trinidad and Tobago between December 2011 and June 2012. Debt to GDP ratios showed corresponding increases. Total gross public debt as a proportion of GDP remained quite high in several countries: 144.9 per cent in St Kitts and Nevis, 143.3 per cent in Jamaica, 105.4 per cent in Grenada, 97.8 per cent in Antigua and Barbuda, 76.8 per cent in Belize and 78.7 per cent in St Lucia. Barbados, Dominica, St Vincent and the Grenadines, Guyana and The Bahamas were within a range of 70.4 per cent to 52.6

per cent in descending order. Three countries, Curacao, Suriname and Trinidad and Tobago, had low debt to GDP ratios, 33.4 per cent, 31.9 per cent and 35.7 per cent respectively. Debt service ratios were available for only six countries. Of these only the ECCU with a debt service ratio of 32.3 per cent would be considered problematic on this criterion. However, debt service payments made a substantial claim on the public expenditure budget in several countries.

External Current and Capital Accounts: The external current account improved in Barbados, Curacao, the ECCU, Jamaica St. Maarten and possibly Aruba, and deteriorated in The Bahamas, Belize, Guyana, Haiti, Suriname and Trinidad and Tobago. Export performance improved for most countries. Aruba and Trinidad and Tobago had difficulties expanding exports. Increases in tourism and mineral exports were positive contributions to export growth as was also energy exports in Suriname. In Trinidad and Tobago, production of crude oil, liquefied natural gas and methanol declined with a depressing effect on exports. External capital accounts improved in the ECCU, Guyana and Suriname but deteriorated in Belize, the three countries for which data were available. There was a very varied experience with respect to foreign direct investment in 2012. Net inflows increased in Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, possibly Haiti, St Lucia and Trinidad and Tobago. Net inflows decreased in The Bahamas, possibly Haiti, St Kitts and Nevis, St Vincent and the Grenadines and Suriname.

2.0 GLOBAL ECONOMIC DEVELOPMENTS

The global economy in 2012 continued to experience the post-crisis pattern of volatility and weak growth with a propensity for reversals when, in the second quarter, financial markets in high income countries fell into turmoil when sovereign debt, fiscal and banking sector problems in Europe related in part to EMU design flaws assailed investors. 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 systems 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.

Since then action by European sovereigns to improve their fiscal accounts, the ECB's initiatives in defence of the Euro and the avoidance of the "fiscal cliff" in the USA have led to significant improvements in international financial markets. This improvement has in turn helped to ease funding constraints and boosted confidence in developed market economies. It has also helped emerging and developing countries by reversing declines in capital flows, lowering their bond spreads and improving stock markets. In spite of this the response of the real economy has been mixed. Growth improved in the third quarter of 2012 in developing countries including China and Brazil, but some countries in Latin America and the Caribbean continued to experience weak growth.

In developed market economies, industrial activity continues to be relatively weak in spite of improvements in housing and consumer demand. This is related in part to the fact that although the fiscal agreement avoided the "fiscal cliff" this was essentially a temporary fix since, in the absence of a credible medium term fiscal strategy to deal with imbalances, a similar situation could occur again in the near term. Also, on-going fiscal consolidation will serve to restrain growth. In Europe the improvement in financial markets are not feeding through to consumers and households since banks are still constrained by weak profitability and low capital. The on-going fiscal consolidation and issues with competitiveness are also serving to restrain growth. In Japan, on-going geo-political tensions with China have restrained growth but the expected monetary and fiscal stimulus will see growth in Japan rebounding in 2013.

Overall global economic conditions remain fragile. Improvements in international financial markets have increased confidence and eased funding constraints, and risks to the global forecast are less skewed to the downside. Nevertheless, risks such as policy commitments slippage, problems related to structural weaknesses in EMU design, oil supply disruptions and increased geopolitical tensions in Asia could potentially pose problems for the global economy. In this context and assuming that there are no further negative shocks and policymakers push through on their policy commitments, global growth is expected to reach 3.3 per cent in 2013, marginally up from the 3.2 per cent recorded in 2012. Growth is expected to improve further to four per cent in 2014. This is expected to be based on stronger growth in the USA, emerging and developing economies (most notably in Brazil and India) and by a modest improvement in the Euro Area (See Table 1).

Table 1: GLOBAL ECONOMIC GROWTH

	World	Advanced Economies	USA	Euro Area	Japan	Emerging and Developing Economies	LA	Brazil	China	India
2011	4.0	1.6	1.8	1.4	-0.6	6.4	4.6	2.7	9.3	7.7
2012	3.2	1.2	2.2	-0.6	2.0	5.1	3.0	0.9	7.8	4.0
2013	3.3	1.2	1.9	-0.3	1.6	5.3	3.4	3.0	8.0	5.7
2014	4.0	2.2	3.0	1.1	1.4	5.7	3.9	4.0	8.2	6.2

Source: World Economic Outlook: April 2013, 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 although recent policy initiatives have eased uncertainty, credible medium term fiscal sustainability programmes in Europe and the USA are still needed to place growth on a more secure footing. The need for fiscal consolidation is more pressing in advanced economies where unprecedented government intervention has ratcheted up public debt considerably and there still appears to be a lack of political consensus on how to address this problem (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
2011	104.7	102.5	230.2	88.1	83.4	85.4	35.8	49.9	25.4	66.3
2012	109.3	106.5	237.9	92.8	85.6	90.3	34.6	51.4	22.8	66.8
2013	108.4	108.1	245.3	95.0	87.0	93.0	33.9	50.4	21.3	66.3
2014	108.6	109.1	244.6	95.3	84.5	97.1	33.4	49.8	19.9	66.6

Source: World Economic Outlook Dataset April 2013, IMF.

Very importantly, unemployment is expected to remain stable but relatively high in 2013 and 2014 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 2013 but improve moderately in 2014 driven by improvements in the US, UK 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	Korea	Singapore
2011	7.9	8.9	4.6	10.2	7.5	8.0	6.0	3.4	2.0
2012	8.0	8.1	4.4	11.4	7.3	8.0	5.5	3.3	1.9
2013	8.2	7.7	4.1	12.3	7.3	7.8	5.7	3.3	2.0
2014	8.1	7.5	4.1	12.3	7.2	7.8	5.6	3.3	2.1

Source: World Economic Outlook Dataset, April 2013, IMF.

Table 4: CONSUMER EXPENDITURE GROWTH IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany
2011	1.5	2.5	0.5	0.1	2.4	-1.0	1.7
2012	1.0	1.9	2.4	-1.3	1.9	1.0	0.6
2013	1.1	2.0	1.0	-1.0	2.1	0.9	0.5
2014	1.8	2.3	0.7	0.8	2.1	1.4	1.3

Source: World Economic Outlook Dataset, April 2013, IMF.

The recent problems in developed market economies have eased inflationary pressures in those jurisdictions. Inflationary trends are expected to continue to moderate in 2013 and 2014 as supply developments soften commodity prices in spite of the expected improvement in global growth. The exceptions to this trend are Japan, where the Bank of Japan's new quantitative and qualitative monetary easing policies will lead to rising prices and India because of increases in food prices (see Table 5).

Table 5: GLOBAL INFLATION RATES

	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Emerging Economies	LAC	China	India
2011	2.7	3.1	-0.3	2.7	2.9	4.5	7.2	6.6	5.4	8.9
2012	2.2	2.1	0.0	2.5	1.5	2.8	5.9	6.0	2.6	9.3
2013	1.7	1.8	0.1	1.7	1.5	2.7	5.9	6.1	3.0	10.8
2014	2.0	1.7	3.0	1.5	1.8	2.5	5.6	5.7	3.0	10.7

Source: World Economic Outlook Dataset, April 2013, IMF.

The improvements in international financial markets have increased 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 crises in capital and currency markets in some emerging and developing economies.

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

Year	2007	2008	2009	2010	2011	2012	2013	2014
Net Portfolio Inflows	106.7	-70.2	90.4	224.5	96.7	164.9	142.3	148.3
Net FDI Inflows	439.3	479.8	334.5	400.9	473.2	446.3	477.4	506.5

Source: World Economic Outlook Dataset, April 2013, IMF.

International trade contracted in 2012 in the wake of the problems mentioned above in the first half of 2012. 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. The growth in trade is, however, projected to increase moderately by 3.6 per cent in 2013 and by 5.3 per cent in 2014 assuming that the policymakers meet their commitments and new flash points in the global economy do not emerge (see Table 7).

Table 7: WORLD TRADE AND PRICES (% Change)

Year	2009	2010	2011	2012	2013	2014
World Trade Volume	-10.6	12.5	6.0	2.5	3.6	5.3
World Trade in US dollars Price Deflators	-10.6	5.8	11.3	-1.7	1.8	-0.3
Volume of Exports in advanced economies	-11.6	12.1	5.6	1.9	2.8	4.6
Volume of Exports in Emerging and developing economies	-7.9	13.3	6.4	3.7	4.8	6.5

Source: World Economic Outlook: April 2013, IMF.

Commodities softened in the second quarter of 2012 but have increased since then due to supply constraints and some improvement in demand. The net result of these conflicted trends was that oil prices rose moderately overall in 2012. Natural gas prices continued to suffer from the supply dynamics caused by shale gas. Metal prices have generally declined since 2011 with aluminium prices in particular falling off in 2012 due to restocking in China and a sharp increase in stocks. The prices of most agriculture commodities softened on improving supply but markets remain tight because of historical low stock levels. Rice was a notable exception to this trend as the price rose as Thailand, a major player in global supply, moved to increase its reserves. In terms of commodity price prospects as reflected in future prices, there will be broad declines across all commodity groups in keeping with improved supply. The exceptions to this trend include metal prices which are closely tied to the economic cycle and are expected to increase as demand rises, especially in China. Natural gas prices are also expected to increase led by a 34 per cent increase in US gas prices which will sustain robust shale gas development (See Tables 8 and 9).

Table 8: SELECTED COMMODITY PRICES

COMMODITY	ACTUAL				FORECAST	
	J-D 2011	J-D 2012	J-A 2013	Latest April 2013	J-D 2013	J-D 2014
Crude Oil – average $/bbl	104.01	105.01	105.01	102.52	102.00	102.20
Natural Gas US - $/mmbtu	4.00	2.75	3.49	3.82	3.50	4.00
Aluminum - $/mt	2401	2023	2000	1910	2200	2400
Rice Thai 5% - $/mt	543.0	563.0	562.1	559.0	540.0	520.0
Sugar (World) - cent/kg	57.32	47.49	40.90	40.82	45.00	40.00
Bananas (US) - $/mt	968	984	930	937	980	970

Source: Commodity Price Pink Sheet, April 2013 and Commodity Price forecast January 2013, World Bank.

Table 9: COMMODITY PRICE INDICES (2005=100)

Commodity	Actual				Forecast	
	J-D 2011	J-D 2012	J-M 2013	Latest March 2013	J-D 2013	J-D 2014
Energy	188.2	187.4	187.9	183.8	182.6	182.8
Non Energy	209.9	190.0	186.3	182.5	186.2	180.4
Agriculture	209.0	194.0	186.1	184.6	187.8	179.6
Beverages	208.2	166.2	151.8	149.7	158.4	155.3
Food	210.1	211.6	204.8	203.7	204.8	191.7
Metals	205.5	174.0	180.4	172.7	176.3	176.1

Source: Commodity Price Pink Sheet, April 2013 and Commodity Price forecast January 2013, World Bank

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 four per cent during 2012 when compared to 2011, crossing the one billion mark for the first time in history. 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.

In terms of the regional distribution of tourist arrivals advanced economies grew at a slightly slower pace (3.6%) compared to emerging markets (4.1%). Asia and the Pacific was the fastest growing region with growth of 6.8 per cent in 2012 driven by the recovery of Japanese inbound and outbound tourism. Africa was the next best performing region with growth of 6.3 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 3.7 per cent driven by strong growth in South and Central America they improved to 4.0 per cent with countries such as Cuba and the Dominican Republic being the best performers. At the lower end of the growth spectrum, North America still posted decent growth of 3.4 per cent in spite of a sharp drop in arrivals in the second quarter of 2012. In Europe, the epicentre for much of the global economic problems in 2012, arrivals grew at 3.3 per cent in spite of weak growth in Northern Europe as arrivals were boosted by strong growth in Western and East/Central Europe. The Middle East recorded negative growth (-4.9 %) in spite of a strong rebound in Egypt as the conflict in Syria led to a sharp drop in tourist arrivals (See Table 10).

Tourism receipts tended to mirror the trend in arrivals with 83 per cent of destinations reporting increased earnings while 17 per cent recorded declining receipts. Very interestingly, the leading countries in terms of expenditure by source markets included China which recorded a 42 per cent increase in expenditure abroad while India, the Russian Federation and Brazil recorded increases of approximately 30 per cent. Traditional source markets in developed economies also recorded good results in spite of the economic pressures with both the USA and Canada spending seven per cent more while the UK spent 5 per cent more abroad.

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 and four per cent in 2013 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 take advantage of the demand from high growth neighbouring countries.

Table 10: INTERNATIONAL TOURIST ARRIVALS

Country/Region	Total (Millions)		% Change over previous year	
	2011	2012	2010/11	2011/12
Europe	**517.5**	**534.8**	**6.1**	**3.3**
Northern Europe	64.8	65.1	1.6	0.4
Western Europe	161.0	165.8	4.3	3.0
Cent. /East. Europe	105.3	113.7	9.8	8.0
South./Med. Europe	186.4	190.2	7.4	2.0
Asia and the Pacific	218.1	**232.9**	**6.4**	**6.8**
North-East Asia	115.8	122.8	3.8	6.0
South-East Asia	77.3	84.0	10.4	8.7
Oceania	11.7	12.1	0.9	4.0
South Asia	13.4	14.0	12.0	4.4
Americas	**156.3**	**162.1**	**4.0**	**3.7**
North America	102.1	105.6	2.8	3.4
Caribbean	20.1	20.9	3.0	4.0
Central America	8.3	8.8	4.4	6.0
South America	25.8	26.9	9.4	4.2
Africa	**49.2**	**52.3**	**-1.1**	**6.3**
North Africa	17.1	18.5	-9.1	8.7
Sub-Saharan Africa	32.2	33.8	3.7	5.0
Middle East	**55.3**	**52.6**	**-6.7**	**-4.9**
Advanced Economies	**531**	**550**	**4.6**	**3.6**
Emerging Economies	**466**	**485**	**4.8**	**4.1**
World	**996**	**1,035**	**4.7**	**3.8**

Source: World Tourism Organisation, World Tourism Barometer Volume 11, No.1, January 2013.

Tapping into the high demand from these large fast growing emerging markets is likely to be a key strategy to boost inbound tourism in all destinations, given their increasing importance in the global economy. In fact, China has reinforced its importance in the international tourism industry. China is now ranked third in terms of arrivals and fourth in terms of tourism receipts. Very importantly also, China is now ranked third in terms of expenditure on tourism, and its high growth in this regard in the last ten years implies that it has huge potential as a source market for tourists.

Additionally, 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

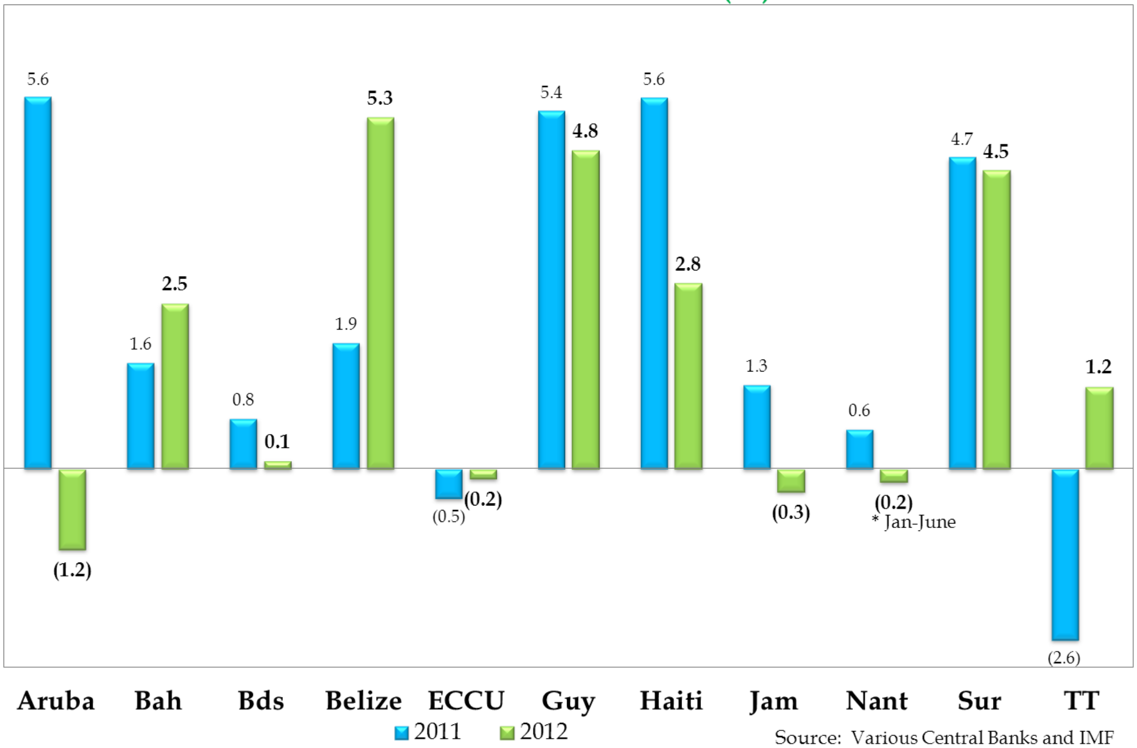
Meeting in June 2012, showed that the G20 countries could boost their international tourist numbers by an additional 122 million, generate an extra US$ 206 billion in tourism exports and create over five million additional jobs by 2015 by improving visa processes and entry formalities. Findings showed 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 activities in the region were sluggish in 2012. The weak global recovery was a primary factor in the low and negative growth rates in economic activities reported by the CARICOM economies. The economies reported growth rates in economic activities in 2012 that ranged from 5.3 per cent (Belize) to -1.2 per cent (Aruba). The estimated average regional growth for 2012 was 4.2 per cent, a marginal increase from the regional rate reported in 2011 (3.1%).

Figure 1: Real GDP Growth Rates of CARICOM Countries (%)



Source: Various Central Banks and IMF

Economic activities in Aruba have been relatively low in recent times (2005-2010). In 2011 the economy received a boost with the re-opening of Valero Energy Corporation

(VEC), but this was short lived as they suspended their activities in March 2012. As a result a significant decrease in economic activities was reported for Aruba for 2012, falling from 5.6 per cent (2011) to -1.2 per cent (2012). The tourism sector experienced an increase in its activities, thereby absorbing some of the negative effects from the oil refinery sector.

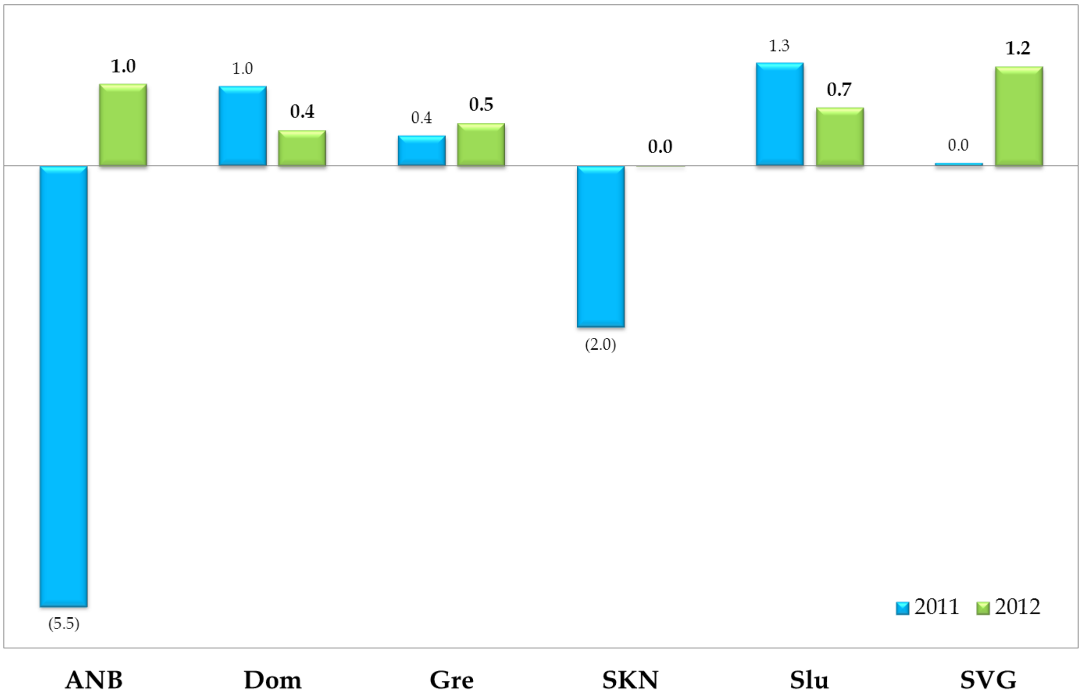
In The Bahamas economic activities remained positive because of notable improvements in the tourism and construction sectors. The tourism sector was affected positively from increased numbers of tourist arrivals from key source markets and joint public/private sector incentives, such as the "Companion Fly Free" programme and airfare credit advertising campaigns. Construction sector activities increased due to projects such as the multi-billion dollar Baha Mar Hotel project, other varied scale foreign investments and annual public sector infrastructure developments.

Barbados has been experiencing a slowdown in its economic activities since 2007. For the year 2012, no real growth was recorded. The Barbadian economy's flat growth performance in 2012 stemmed from an estimated 3.5 per cent contraction in tourism. This was due to reductions in visitors from the US and UK because of the closure of the Almond resorts, an increase in UK's Air Passenger Duty, a decrease in the number of flights from the US to Barbados and the closure of Redjet which affected the number of tourist arrivals in 2012 both internationally and regionally. Activity in the Manufacturing, Agriculture and Construction sectors also contracted in 2012.

The Belizean economy is estimated to have grown by 5.3 per cent in 2012, a significant increase when compared to its growth rate of 1.9 per cent in 2011. An increase in economic activities in sectors such as agriculture, agro-manufacturing, tourism, constructions and telecommunications supported the increase in real GDP. Rehabilitation of storm-damaged acreages from 2011 and favourable agronomic conditions boosted the agriculture sector with increases in production of banana, citrus and sugarcane. Notably, sugar production for the crop year 2011/2012 exceeded the

100,000 long ton mark for the first time since the 2005/2006 crop and the average price paid to farmers was adjusted upward from $68.12 to $72.12 per long ton of sugarcane. There were marked increases of 13.9 per cent and 27 per cent in tourist arrivals from the US and Canada respectively. For 2012, this translated to upswings in the services sector of the Belize economy – Wholesale and Retail, Hotels and Restaurants. Significant decreases in petroleum extraction, domestic electricity generation and cruise-ship disembarkations were outweighed by the positive performance from the other sectors.

Figure 2: Real GDP Growth Rates (%) of The ECCU



Source: IMF Regional Economic Outlook : Western Hemisphere (April 2013)
Note: Anguilla and Montserrat are not IMF members , hence their exclusion from this dataset.

Negative growth rates continued to plague the ECCU in 2012. A negative growth rate of 0.2 per cent represented a minimal improvement of 3 percentage points on the decrease of 0.5 per cent in 2011. The level of economic activities within the ECCU economies for the year 2012 ranged from 1.2 per cent (St. Vincent and the Grenadines) to 0.4 per cent (Dominica). Agriculture and Construction activities were the dominant sectors in most of the ECCU economies in 2012.

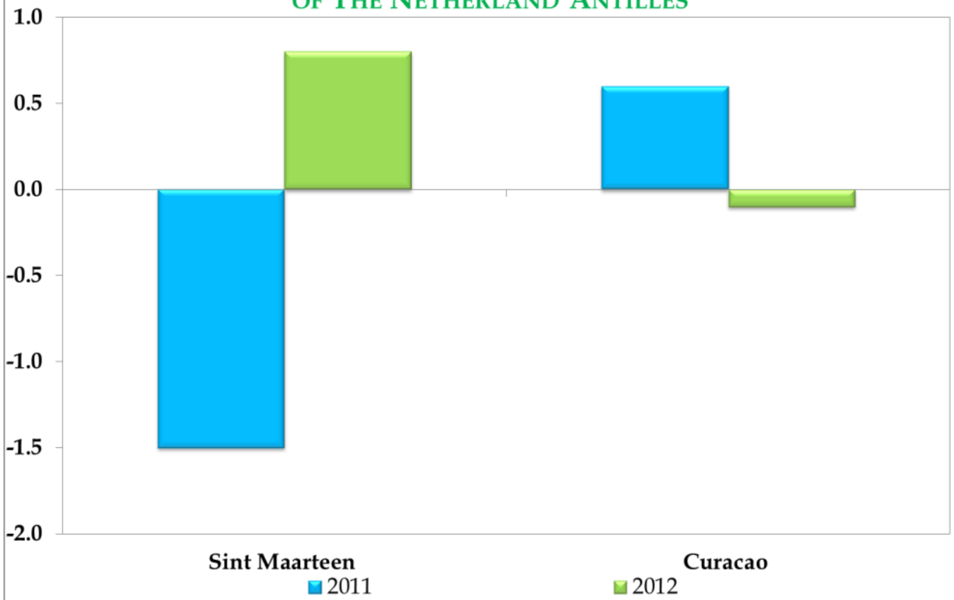
A steady growth path has been maintained since 2009 by Guyana whose economy continues to benefit from high commodity prices. There was a minor reduction of 0.6 index points in the real GDP growth rate for 2012 partially linked to contractions in sugar, forestry, diamond and public sector construction sub-sectors. The 4.8 per cent growth reported for 2012 was due to favourable output in Services, Mining, Agriculture and Manufacturing.

The growth and development of Haiti's economy has been slower than anticipated in 2012, due mainly to tropical storms Isaac (August 2012) and Sandy (October 2012), a drop in external aid and weak administrative and absorptive capacities. Haiti reported a slowdown in economic activities to 2.8 per cent for 2012; this was half the growth in economic activities reported for 2011. During 2012 some sectors remained buoyant – manufacturing, energy and commerce sectors, while the agriculture sector experienced declines in output. Activities in construction and transportation have remained modest due to low execution rate of public investment caused by political stalemate and late approval of the budget.

Jamaica's economy reported a negative growth of 0.3 per cent for 2012, a considerable contraction in it economic activities compared to the 3.1 per cent reported in 2011. With the exception of Agriculture, Forestry & Fishing, Hotel & Restaurants and Financing & Insurance Services, all industries recorded contractions in 2012. The contraction reflected the impact of weak external and domestic demand. Low external demand was associated with a slower pace of improvement in the international economic environment relative to 2011. The weak domestic demand was largely underpinned by uncertainty regarding the signing of an agreement with the IMF on a new borrowing programme as well as higher levels of unemployment and lower real wages.

There were mixed performances reported for the monetary union of Curacao and Sint Maarten in 2012. The economy of Curacao reported a negative 0.1 per cent growth in real GDP for 2012, a slowdown in economic activities when compared to the growth reported of 0.6 per cent for the same period in 2011. Total domestic demand decreased mainly through contractions of private consumption and public consumption and investment which were not fully offset by increases in private investment. Real value added increased in the Restaurant and Hotels sector as well as in Manufacturing, Transport and Storage and Communication. Real activity decreased in the Financial Services and Distributive Trade sectors. Sint Maarten had a 1.2 per cent growth in real GDP in 2012 compared with a deceleration of 1.5 per cent in 2011. Economic growth was attributable to increases in Restaurants and Hotels, Transport, Storage and Communication, Distributive Trade, Constructions and Financial services.

Figure 3: REAL GDP GROWTH RATES (%) OF THE NETHERLAND ANTILLES



Source: Central Bank of Curacao and Sint Maarteen

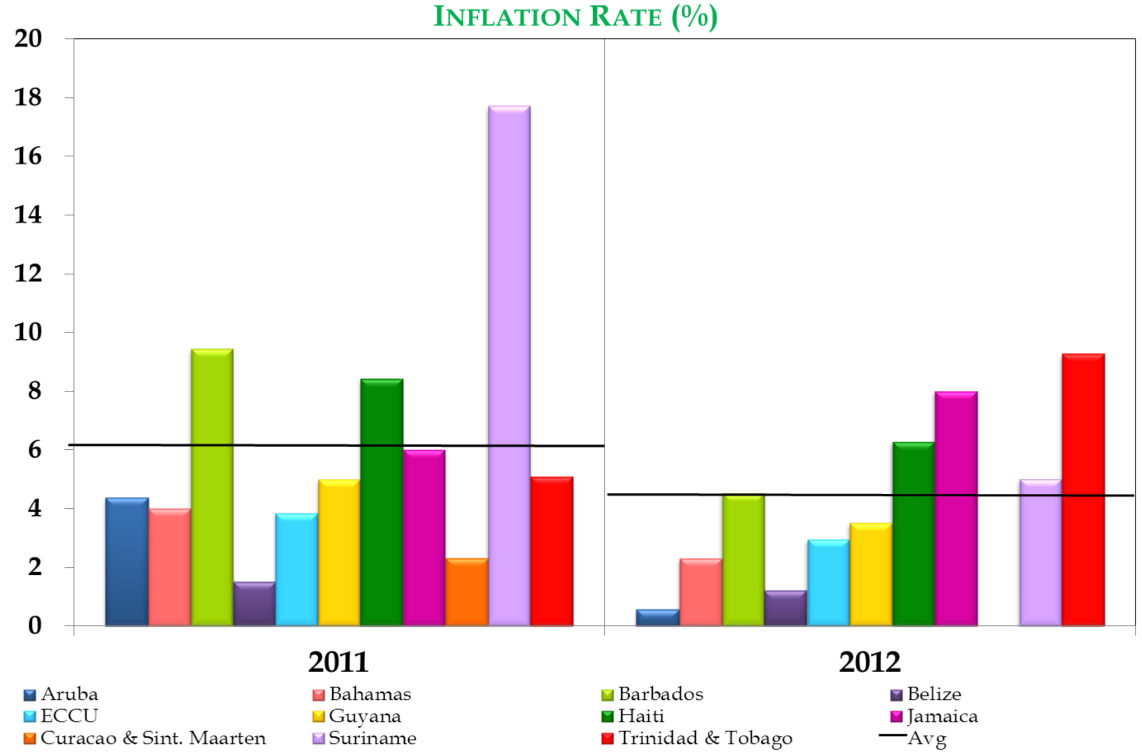
Suriname has continued to maintain a positive growth rate in economic activities for the past ten years, having reported a real GDP growth rate of 4.5 per cent in 2012, down from 4.7 per cent in 2011. The main drivers of Suriname's economy for 2012 were mining exports and increased public investments. Gold recorded the best performance, with export values increasing by 14 per cent, mainly as a result of higher average prices. Oil exports rose modestly despite a slight decline in production. Conversely, the bauxite industry kept performing sluggishly due to low world market prices and relatively high production costs.

A modest growth of 1.2 per cent was reported in 2012 for Trinidad and Tobago compared to the negative growth rate of 2.6 per cent reported in 2011. The increase in economic activities for 2012 was due to increases in the non-energy sector which was driven primarily by activities in the finance and distribution sectors. A slowdown in economic activities in the energy sector in 2012 stemmed from continued scheduled maintenance at Methanol Holdings Company Limited and maintenance activity in PCS Nitrogen and Yara.

3.2 INFLATION

Inflationary pressures in the CARICOM economies eased slightly in the year 2012. There were slower price increases in international oil prices. Trinidad and Tobago and Jamaica were the only economies to report an increase in inflationary pressure for 2012.

Figure 4 : CARICOM COUNTIRES ANNUAL AVERAGE INFLATION RATE (%)



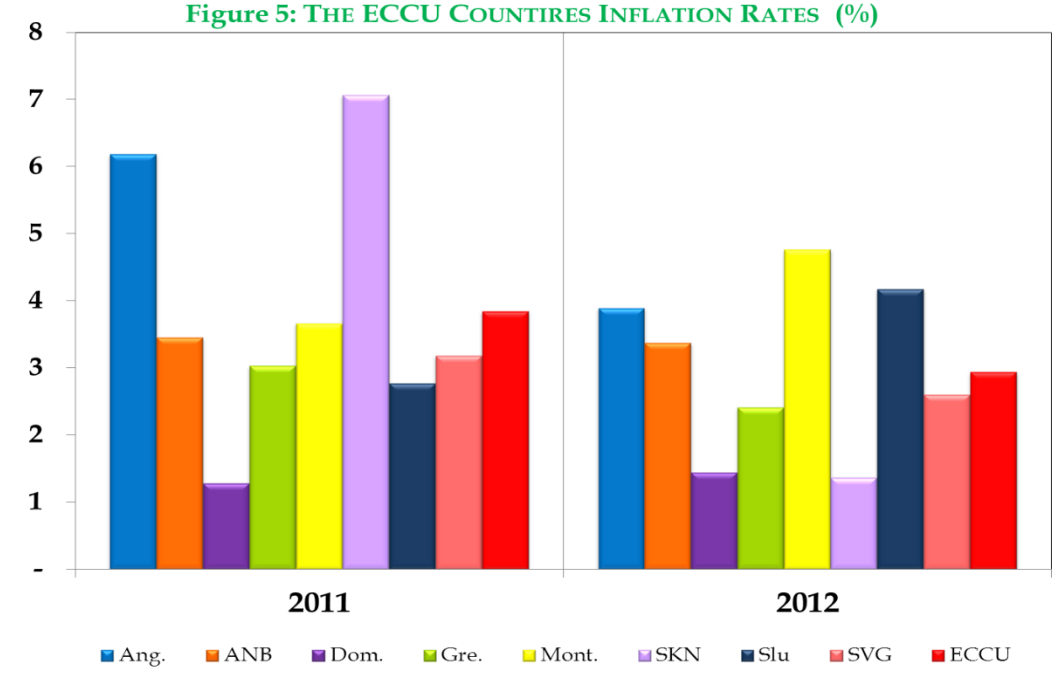
In Aruba the annual average inflation rate registered a significant decrease of 42 percentage points having fallen from 4.4 per cent (2011) to 0.2 per cent (2012). This notable fall in prices was linked to price decreases in Housing, Clothing & Footwear, Household Operation, and Recreation & Culture.

The Bahamas reported an estimated 2.3 per cent increase in price levels for 2012. This represents a slowdown in price increases, having reported an increase in price levels of four per cent for the year 2011. Price levels in The Bahamas for 2012 were influenced by softer world prices.

Price levels in Barbados have fallen substantially. The annual average inflation rate reported for 2012 was 4.5 per cent, a decrease of 4.9 percentage points when compared to the inflation rate reported for 2011. Slower price increases were reported in housing, Fuel and light and Household Operations and Supplies.

Belize experienced a moderate decrease in its inflationary pressures in 2012, with prices falling by five percentage points when compared to the 1.5 per cent reported in 2011. Price declines in Household and Maintenance and Clothing and Footwear were offset by increases in other categories in particular Health and Recreation and Culture.

Figure 5: THE ECCU COUNTIRES INFLATION RATES (%)



The ECCU inflation rate fell by a marginal 0.9 percentage points in 2012 when compared to the 2011 (Figure 5). Its member countries reported rates that ranged from 1.4 per cent (St. Kitts and Nevis) to 4.8 per cent (Montserrat). Inflationary pressures in 2012 were stronger in certain member countries – Montserrat and St. Lucia, while they eased in the others. Increased prices for food items were the primary source of inflation in 2012 for the ECCU members.

Guyana's inflation rate decreased 1.5 percentage points in 2012, compared to the rate reported in 2011 (5%). Inflationary pressures in the Guyanese economy for 2012 stemmed from rising food prices, particularly those in the category of meat, vegetables and pulse products. The rise in food prices resulted from the increase in prices of imported products due to inclement weather and the increasing international demand for food.

The inflation rate was reported to have dropped form 8.4 per cent (2011) to 6.4 per cent in 2012 in Haiti. This ease in inflationary pressures was a result of prudent macroeconomic policies. The reported inflation rate for the year 2012 was reflective of higher international food prices and disruption in the supply of domestic foods caused by recent hurricanes and floods.

Jamaica's annual inflation rate increased to eight per cent in 2012 from six per cent in 2011. The increase in price levels in Jamaica stemmed from the implementation of tax measures announced in the FY2012/13 budget, shortages in supplies of several agricultural items associated with drought conditions in the first three quarters of the year, the passage of Hurricane Sandy in the December quarter, a rise in international grain prices in the first half of 2012 and sustained depreciation throughout the year. The inflationary pressures were dampened by slower price increase in credo oil prices, lower communication cost and weak demand conditions in Jamaica.

Curacao, unlike Sint Maarten, experienced an increase in inflationary pressures in 2012. In Curacao inflation increased to 3.2 per cent, mainly due to increases in domestic energy prices and a rise in sales taxes. Sint Maarten's inflation rate eased to four per cent from 4.6 per cent in 2011.

The inflationary pressures in Suriname decreased considerably in 2012; the average annual inflation rate dropped from 17.7 per cent (2011) to five per cent (2012). This dramatic decrease of 12.7 percentage points was due to the stabilization policy measures implemented by the government of Suriname in 2011; one of its aims was price stability.

Trinidad and Tobago inflationary pressures eased as prices of certain foods decreased in 2012, but the rise in price of premium gasoline outweighed its effects, causing the annual average inflation rate for 2012 to be 9.3 per cent. This represented a 4.2 percentage point increase in inflation for 2012.

3.3 LABOUR MARKET

Figure 6 : UNEMPLOYMENT RATES (%) OF CARICOM COUNTRIES

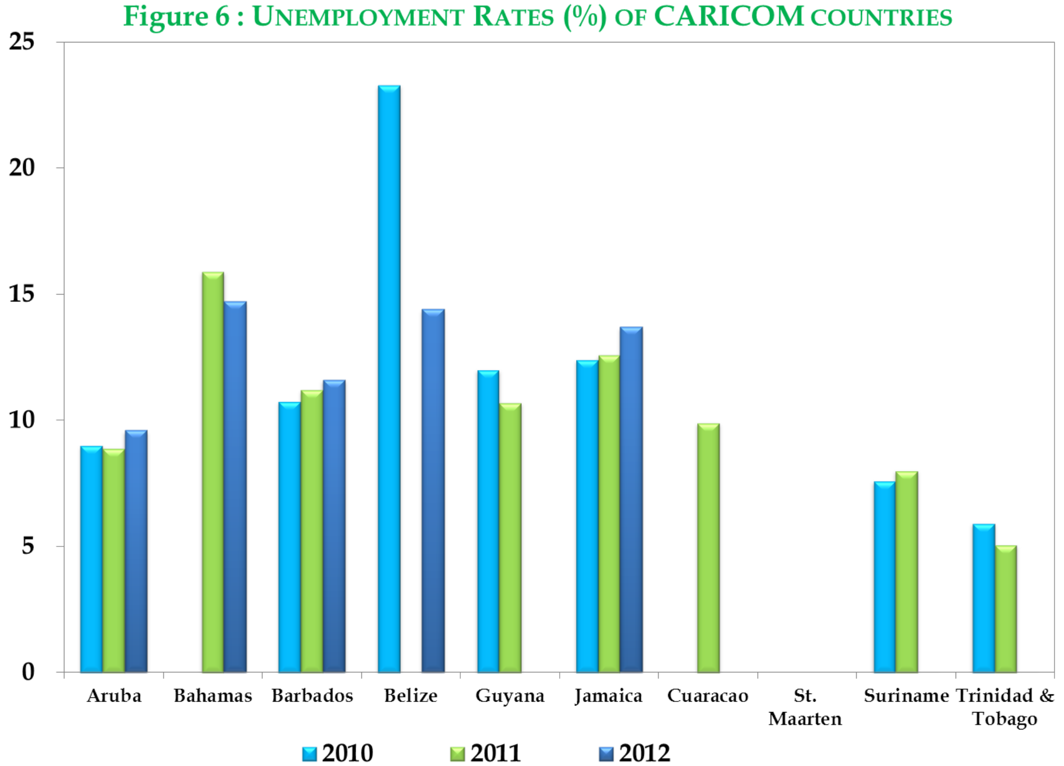
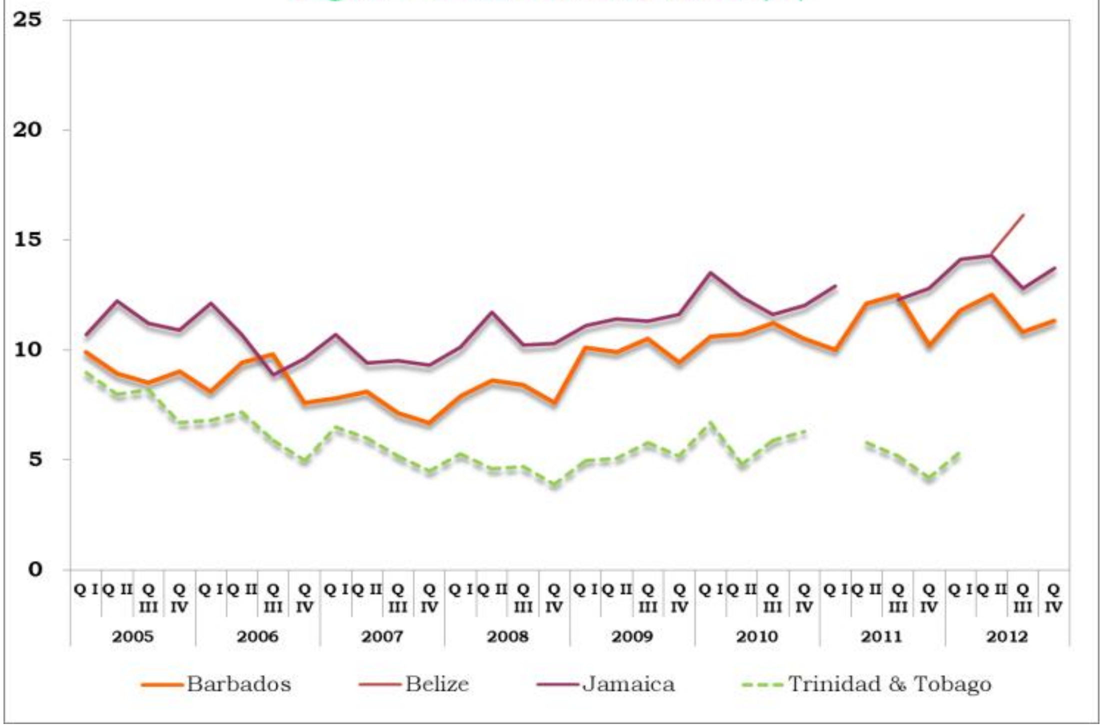


Figure 7: UNEMPLOYMENT RATES (%)



High levels of unemployment continue to be a problem for most CARICOM governments. Preliminary indicators for the CARICOM economies signal that unemployment rates remain elevated in 2012 due to the slow pace of economic growth in both regional and international economies. Unemployment rates for the year 2012 were available for five economies, ranging from 9.6 per cent (Aruba) to 14.4 per cent (Belize).

Aruba's labour market was adversely affected in September 2012 when 495 employees from Valero Energy Corporation were notified that their employment was going to be terminated by mid November 2012. The employees were offered a lay-off package implying a severance liability valued at US$ 41 million. As a result the unemployment level from 2011 (8.9 %) increased in 2012 (9.6%).

A marginal improvement in the unemployment rate in The Bahamas was reported for 2012, this was linked to the improvements in its economic activities. The unemployment rate for 2012 was 14.7 per cent, a contraction of 1.2 percentage points when compared to 2011.

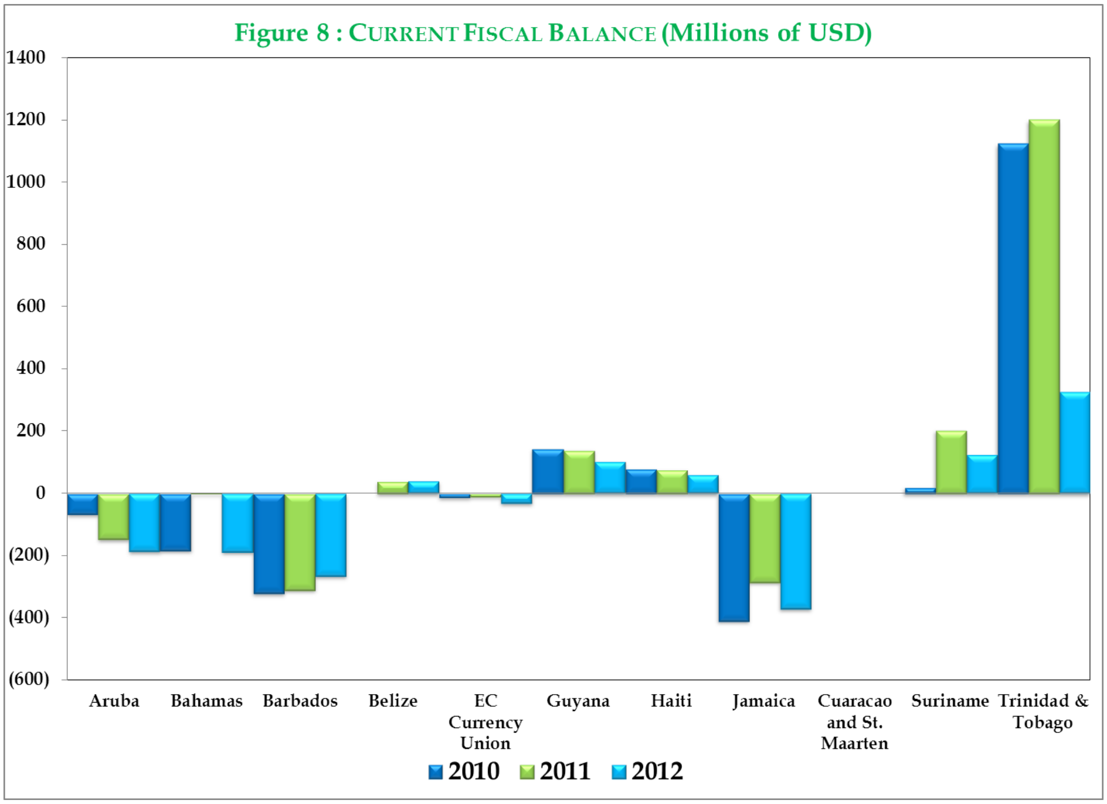
Unemployment levels in Barbados increased slightly from 11.2 per cent (2011) to 11.6 per cent (2012) due to the stagnated state of its economy. However the Belizean economy picked up in 2012 and as a result, its unemployment levels dropped considerably from 23.3 per cent (2010) to 15.27 per cent (2012).

In Jamaica labour market conditions deteriorated in 2012 with the unemployment rate increasing to 13.7 per cent from 12.8 per cent in 2011. This increase reflected a contraction of 0.9 per cent in employment and growth of 0.3 per cent in the labour force. The Construction & Installation, Wholesale & Retail and Hotels & Restaurant sectors were the main industries that recorded contractions in employment in 2012. However, there was increased employment in Electricity & Water Supply and Financial Intermediation. Real wages contracted by 4.4 per cent in 2012, relative to growth of 1.8 per cent in 2011.

Trinidad and Tobago recorded an unemployment rate of 5.4 per cent for the first quarter of 2012. This represented an increase in the number of unemployed persons within the construction sector, as well as the community, social and personal services sector. Preliminary indicators of Trinidad and Tobago's unemployment rate indicate that there may have been a slowdown in the pace of job losses from April to December 2012. A total of 621 retrenchment notices were filed with the Ministry of Labour and Small and Micro Enterprise Development within the period April – December 2012 compared to 1,070 notices files in 2011 for the same period. Most of the notices filed in 2012 were from the Distribution, Petroleum, and Finance and Personal Services sectors.

3.4 FISCAL ACCOUNTS

3.4.1 Current Fiscal Accounts



The performances of Central Government were mixed among the countries covered in this report. Among the reporting countries, Belize, Guyana, Haiti, Suriname, Sint Maarten and Trinidad and Tobago registered surpluses on the fiscal current accounts in 2012. However, despite recording a surplus, the current fiscal positions of all countries, except Belize, worsened. The remaining countries, namely The Bahamas, Barbados, Aruba, the Eastern Caribbean Currency Union (ECCU) and Jamaica recorded current fiscal deficits.

The current account surplus for Belize improved slightly by 1.2 per cent in 2012 to 2.5 per cent of GDP when compared to 2.4 per cent of GDP in 2011. The growth in revenue (3.7%) was outpaced the growth in expenditure (2.7%). The value of revenue was sufficiently high to produce a surplus of US$39.5 million in 2012. While current revenue featured increases in sales tax revenue (12%), non-tax revenue (9.5 %) and international trade tax revenue (4.3 %), the pace of growth was slowed by 4.4 per cent fall in income tax revenue. The increase in current expenditure was primarily attributed to the 15.01 per cent increase in transfers and subsidies. This was the result of a reclassification exercise which moved teachers' salaries from wages and salaries to this category. Belize experienced growth in all other expenditure categories except debt interest payments which declined by 9.8 per cent, due a decision to withhold half of a second interest payment on the government super bond.

Guyana, Haiti, Suriname and Trinidad and Tobago all experienced significant declines in their current account surplus in 2012 when compared to their position at the end of 2011. In Guyana, the current account surplus contracted by 26.7 per cent to US$102.7 million as the growth in expenditure more than doubled the growth in revenue. All revenue aggregates increased in 2012 when compared to 2011 with international trade tax revenue and non-tax revenue growing by 16 per cent and 16.3 per cent respectively. However, year-on-year growth in expenditure on transfers reached 70.8 per cent in 2012. The result was a 14.2 per cent increase in current expenditure. This was due to increased contributions to local and international organizations and an expansion in pensions.

The current account balance for Suriname narrowed by 70.5 per cent, down from US$174.7 million at year end 2011 to US$51.6 million a year later. Similar to the Guyanese experience, current expenditure growth in Suriname outpaced current revenue growth more than two fold. Current expenditure increased by 29 per cent owing primarily to the 72.6 per cent increase in expenditure on goods and services and the 24.9 per cent increase in subsidies and transfers.

In Sint Maarten, a current account surplus of US$5.35 million was achieved because of growth in revenues from turnover taxes. For the year ended December 2012, the current account surplus for Haiti contracted by 17.5 per cent or US$22.77 million, from the previous year. The impact of a 74.9 per cent decline in non-tax revenue was reduced by a 44.3 per cent increase in income tax revenue. The total effect was an 8.7 per cent increase in current revenue. However, increases in all lines of current expenditure, including goods and services (8.5%), wages and salaries (21.8%), transfers and subsidies (21.4%), and interest debt payments (15.9%), caused the growth in current expenditure to be greater than that of current income by 2.4 per cent.

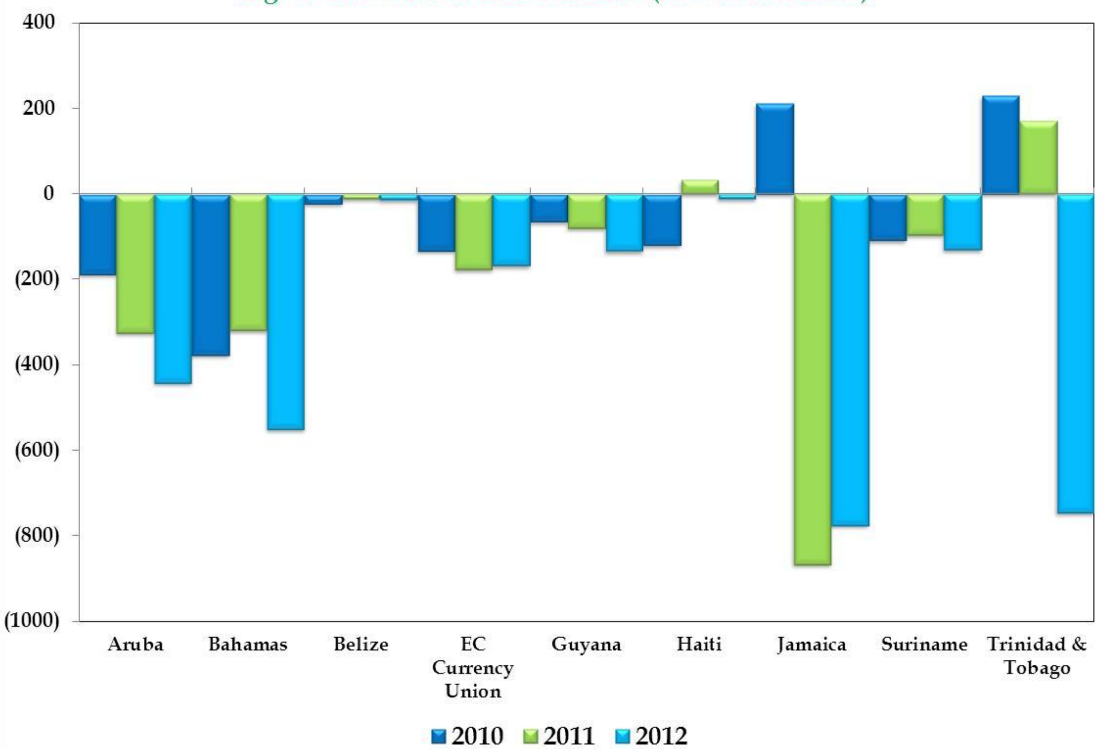
Of the countries with current fiscal surpluses, The Republic of Trinidad and Tobago experienced the largest depression in its fiscal current account position. The current account surplus shrank by 72.7 per cent from US$1201.7 million at year end in 2011 to US$325.2 million at year end in 2012. This is a result of combined revenue and expenditure effects. Total current revenue declined by 6.3 per cent while current expenditure increased by 5.9 per cent. Despite the overall decrease in current revenue, non-tax revenue registered a significant 51.2 per cent uptake as a result of a substantial increase in the remittances from the National Gas Company of Trinidad and Tobago (NGC) together with increased collections from an aggressive collections drive by the Water and Sewage Authority (WASA) and an increase in the water improvement rate from TT$4.50 to TT$8 with effect from January 2012. Expenditure in all major categories increased, with the exception of debt interest payments which fell by 12.6 per cent. Expenditure on goods and services grew fastest having increased by 6.6 per cent in 2012 over 2011. This is due to increased cost of goods and services and the cost to purchase and/or upgrade vehicles and equipment for ministries and government departments.

In Aruba, the ECCU and Jamaica, the deficit worsened while in Barbados the deficit narrowed. In Aruba, the fiscal current account deficit widened by 27.4 per cent to 7.8 per cent of GDP in 2012 when compared to 6.1 per cent of GDP in 2011. The pace of current expenditure growth was more than two times as much as the growth in current revenue. All major categories of current expenditure increased, including goods and services (11.6%), wages and salaries (9.4%), interest debt payments (9.6%) and transfers and subsidies (0.7%), resulting in an overall 8.18 per cent increase in current expenditure. On the revenue side, income tax revenue increased the most (14.7%); however, increases in other categories of revenue were less significant. The current fiscal deficit of the ECCU expanded from US$8.8 million to US$31.1, a 254.7 per cent change in one year. In Jamaica, the deficit expanded from US$284.2 million in 2011 to US$370.8 million in 2012, a 30.5 per cent change.

Perhaps the most glaring change in the current fiscal position was experienced in The Bahamas. A 10.3 per cent decrease in revenue together with a 2.1 per cent increase in expenditure caused the current account balance to plummet from a small surplus of US$3.7 million for 2011 calendar year to a deficit of US$188 million in 2012. The fall in revenue was the result of a 14.4 per cent decrease in international trade tax income. There were increases in all major lines of expenditure; however, these were counteracted by a 13.5 per cent downturn in debt interest payments as average borrowing costs decline.

3.4.2 Overall Fiscal Balance

Figure 9: OVERAL FISCAL BALANCE (Millions of USD)



All countries registered an overall fiscal deficit for the reporting year. Five of the reporting countries for which data was available[1] experienced a depression in their overall fiscal positions in 2012 when compared to the outturn for 2011. These were Suriname, Guyana, Belize, Aruba and The Bahamas. The overall fiscal deficit for Suriname widened from US$82.6 million in 2011 to US$135.2 million in 2012. This was primarily due to the spike in current expenditure. In Guyana, the overall fiscal deficit expanded by 68.7 per cent to US$135 million in 2012 when compared to the previous year. Belize experienced a 31.09 per cent expansion in the overall fiscal deficit to 1.0 per cent of GDP. Capital projects accounted for the largest share in expenditure growth. The overall fiscal deficit in Aruba worsened from 7.5 per cent of GDP in 2011 to 10.2 per cent of GDP in 2012. The overall fiscal deficit for The Bahamas increased by 72.3 per cent to US$551 million in 2012 due to the more than two-fold increase in capital expenditure. Curacao had a decrease in the overall deficit from US$86.8 million to US$45.2 million while in Sint Maarten the overall deficit decreased from US$26.2 million to US$16.9 million.

The overall fiscal balance for Jamaica and the ECCU improved despite worsening current fiscal balances. In Jamaica, the overall deficit declined by 10.6 per cent from US$866.7 million in 2011 to US$744.9 million in 2012. The depression in the deficit was less in the ECCU where the overall fiscal deficit decreased by 4.7 per cent to US$169.3 million in 2012 when compared to year end 2011.

The overall fiscal balance for two countries, Trinidad and Tobago and Haiti, shifted from a surplus in 2011 to a deficit in 2012. After recording an overall fiscal deficit for two consecutive years, the fiscal balance shifted in Trinidad and Tobago from a surplus of US$ 170.65 million to a deficit of US$746.28 million, a whopping change of 537.2 per cent. In Haiti, the shift was not as severe. The overall fiscal balance shifted from a surplus of US$32.83 million in 2011 to a deficit of US$11.90 million in 2012.

[1] Overall fiscal balance data was not available for Barbados.

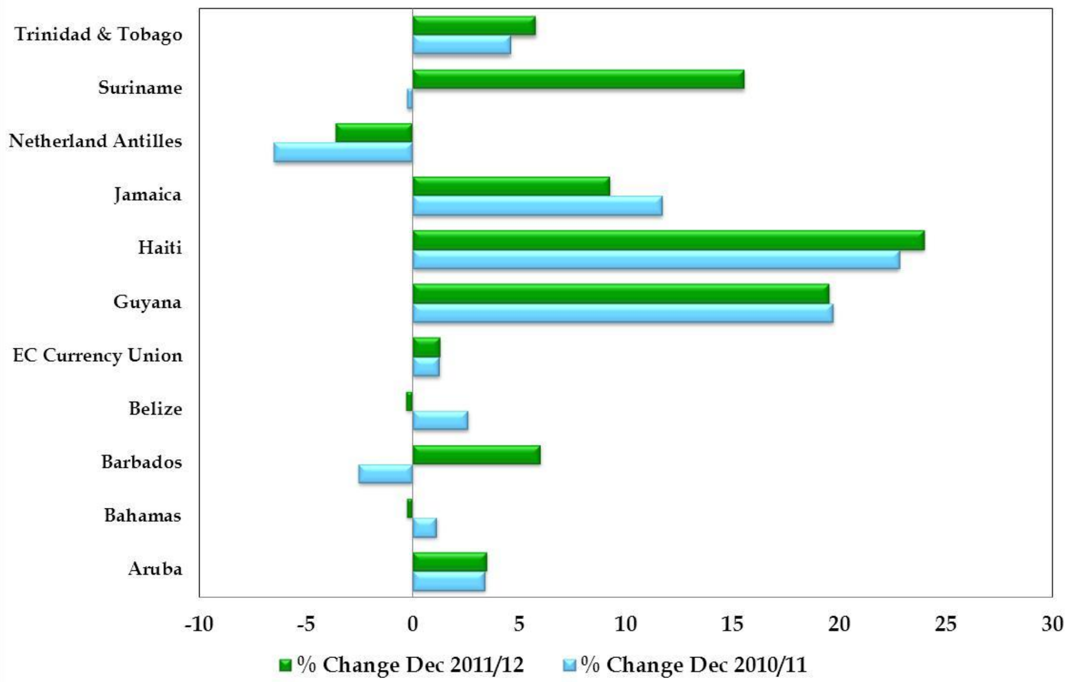
3.5 BANKING AND FINANCE

3.5.1. Banking and Finance

3.5.1.1 Private Domestic Credit

The movement in private domestic growth was mixed among the countries covered in this report. Domestic credit to the private sector increased in all countries, except The Bahamas and the Netherland Antilles. In Belize, Guyana and Jamaica, there was an increase in private domestic credit in 2012 when compared to the outturns recorded in 2011.

Figure 10: CHANGE IN DOMESTIC CREDIT TO PRIVATE SECTOR 2010/11 & 2012/11



The smallest slowdown was experienced in Guyana where private credit increased by 19.5 per cent in December 2012 compared to 19.7 per cent in December 2011. Data for the first half of the year reveal that the expansion of private credit was mostly on account of increases in loans extended to the rice milling, mining, manufacturing, agriculture and other services sectors which grew by 57.1 per cent, 25.6 per cent, 14.9 per cent, 13.9 per cent and 13.2 per cent respectively. However, the slowdown came as the net depositor position of the public sector in the banking system declined by 17.4 per cent. In Jamaica, the year-on-year growth of credit to the private sector in December 2012 was 9.3 per cent. This outturn was below the 11.7 per cent growth experienced a year earlier. For the fourth quarter of 2012, private credit growth lagged behind the corresponding quarter in 2011 by 2.7 percentage points. This rate of increase in loans and advances represents the slowest growth in five consecutive quarters. While there was an expansion in local currency loans, the slowdown was the result of a decline in foreign currency loans which followed from the rapid depreciation in the exchange rate. The deceleration in growth was accompanied by an increased proportion of non-performing loans and a higher average lending rate. Notably, annual growth in domestic credit reached 16.2 per cent at the end of 2012, despite the slowdown in the latter half of the year. In Belize, private sector loans increased primarily due to increased lending in the secondary sector for construction including home improvements as well as increases in residential mortgages, personal loans and financing to purchase real estate.

In the Netherland Antilles the year-on-year decline in domestic credit in December 2012 was 3.6 per cent. There was a freeze on private sector credit resulting in a reduction of the growth of private sector in Sint Maarten and constancy in Curacao. However, this was an improvement over the position a year earlier, when private domestic credit contracted by 6.5 per cent. In The Bahamas, year-on-year change in domestic credit to the private sector increased by 1.1 per cent in December 2011 then decreased by 0.27 per cent in December 2012. The slowdown came as consumers continued to face difficulties to repay amounts owed as low business activity and high unemployment persist. Notwithstanding this, there was a 91 basis point year-on-year improvement in the ratio of non-performing loans to total loans.

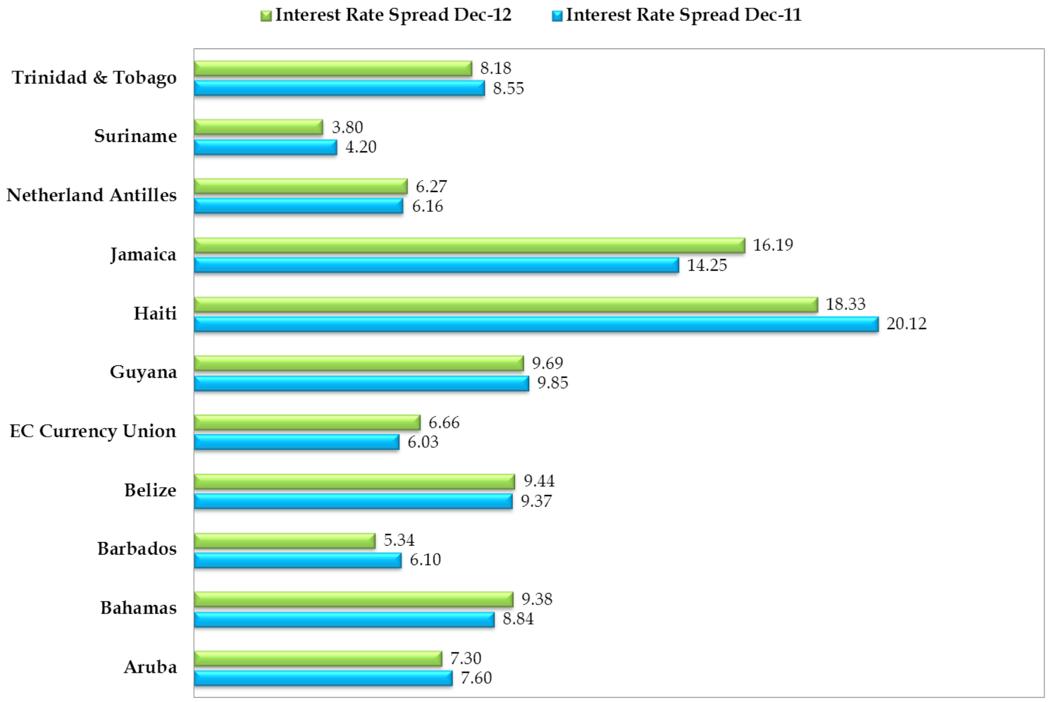
Credit to the private sector rebounded in Suriname in December 2012 when compared to the previous year. Credit declined to 15.5 per cent in December 2012, a growth of 19.9 per cent in December 2011. The increase was attributed to an increase in credit to indirectly productive sectors including trade, transport and storage, communication and housing construction.

In Haiti, the ECCU, Trinidad and Tobago and Aruba the growth in domestic credit remained sluggish despite the low interest rate environment, having increased in December 2012 by 1.18, 0.02, 1.20 and 0.07 percentage points respectively. In Trinidad, although personal lending is recovering, business lending has slowed causing the slowdown in private credit. Real estate lending continues to buoy private sector credit.

3.5.1.2 Interest Rate Spreads

The weighted average loan rate declined in December 2012 vis-à-vis the previous year for all countries except The Bahamas, Jamaica and Suriname, which recorded increases. In a bid to compensate for the declining interest income, commercial banks in Aruba, Guyana and Trinidad and Tobago also decreased the average deposit rates to reduce the cost of deposit liabilities, particularly in the context of a buildup of deposits. In The Bahamas and Jamaica, commercial banks widened spreads by simultaneously raising their weighted average loan rate and lowering their average deposit rate. The Netherland Antilles, Belize and the ECCU achieved the same end by reducing the average deposit rate by a greater number of percentage points than the reduction made to the average loan rate. Conversely, commercial banks in Haiti faced a narrowing of interest spreads as the weighted average loan rate slackened while the average deposit rate firmed. The rates in Barbados were adjusted in a similar way, albeit to a lesser extent. In Suriname the increase in the weighted average loan rate allowed for a more than commensurate increase in the weighted deposit rate causing the spread to narrow.

Figure 11: INTEREST RATE SPREAD 2011, 2012



In Aruba, the weighted average loan rate fell by 60 basis points to 8.4 per cent in December 2012 when compared to a year earlier, continuing the downward trend that began in December 2009. The year-on-year decrease in the average deposit rate was 30 basis points causing the interest rate spread to close by 30 basis points at the end of 2012 relative to 2011. In Guyana, interest rates trended downwards to reflect prevailing excess liquidity. The weighted average loan rate and average deposit rate fell by 60 basis points and 44 basis points respectively in December 2012 relative to December 2011, resulting in a 16 basis point reduction in the interest spread in the same period. In a bid to stimulate economic activity, particularly in the non-energy sector, the Central Bank of Trinidad and Tobago adopted an accommodating monetary stance bringing the Repo rate to an all-time low of 2.8 per cent in September 2012. In response, commercial banks have reduced the weighted average loan rate by 41 basis points and the average 3-month deposit rate by four basis points in December 2012 (year-on-year). The result was a 37 basis point reduction in the interest rate spread.

Amidst persisting high levels of liquidity in Belize, the lending rate on all categories of loans decreased causing a 103 basis point decrease in the average loan rate in 2012 over 2011. In the last quarter of 2012, declines in lending rates seemed to be aimed at encouraging private individual borrowing as the most significant declines were on residential construction loans and personal loans (139 and 129 basis points respectively). A more than commensurate 110 basis point reduction in the average deposit rate brought the rate to 2.6 per cent, the lowest level since 1977. As a result, the weighted average spread closed 2012 at 9.4 per cent, seven basis points higher than it did in 2011. In the first nine months of 2012, the ratio of loans and advances to deposits declined by 1.3 percentage points, prompting commercial banks in the ECCU to decrease the weighted average loan rate by 62 basis points. The deposit buildup also prompted a 125 basis point reduction in the average deposit rate in December 2012 relative to December 2011. As such, the interest spread broadened by 63 basis points. In the Netherland Antilles, the 11 basis point increase in the weighted average spread in 2012, relative to 2011, was the result of a 22 basis point decrease in the weighted average loan rate and a disproportionate 33 basis point decrease in the average deposit rate.

Still aiming to recover from a deposit accumulation as a result of official development assistance receipts geared towards reconstruction, the banking system in Haiti experienced the largest decline in the weighted average loan rate which sank by 167 basis points to 18.76 per cent in December 2012 relative to December 2011. Simultaneously, the average deposit rate increased by 11 basis points in 2012 over 2011, causing the interest spread to dip 179 basis points to 18.3 per cent at the end of 2012. In December 2012, the weighted average loan rate in Barbados was 8.01 per cent, 74 basis points lower than the rate reported in December 2011 while the average deposit rate was 2.7 per cent, a marginal increase of 2 basis points. Consequently, the interest rate spread narrowed to 5.3 per cent in 2012, 76 basis points lower than the 6.1 per cent percent spread the previous year as banks attempted to stimulate borrowing in an environment of excess liquidity.

In Jamaica, where the Bank of Jamaica held policy rates stable in the context of stable inflation, the commercial bank average loan rate increased 42 basis points (year-on-year) to end 2012 at 18.4 per cent while the deposit rate decreased to 2.25 per cent in December 2012, a year-on-year decline of 125 basis points. The movements combined to cause the weighted average interest spread to widen by 194 basis points in December 2012 vis-à-vis December 2011. With no reported policy action by the Central Bank of the Bahamas, commercial banks raised the weighted average loan rate to 10.79 per cent in December 2012, and lowered the average three month deposit rate to 1.41 per cent in December 2012, 7 basis points higher and 47 basis points lower than 2011 respectively.

THE EXCESS LIQUIDITY PROBLEM

The impact of uncertainty in the global economy, primarily in the Euro Area, has spiraled towards the region, which, when combined with sluggish credit demand and domestic uncertainty in some territories, has contributed to the persistence of excess liquidity in all the countries in this report.

The Bank of Guyana reports that by mid-year 2012, liquidity in the banking system had risen by 0.7 per cent over already high levels at the close of 2011. The excess liquid assets of the banking system reached 81.8 per cent of the required. Treasury bills comprised 60 per cent liquid assets, reflecting the Bank of Guyana utilizing treasury bills on the open market to manage systemic liquidity levels.

According to the Central Bank of Belize, high levels of liquidity persist in the banking system. Excess statutory liquidity rose by 40.2 per cent during 2012. Banks were therefore driven to increase their Treasury bill holdings during the year as an alternative to participating in the dormant interbank market.

Notwithstanding a slight decline in excess liquidity, liquidity levels in the financial system of The Bahamas remained high in 2012. The Central Bank of the Bahamas reported that in the last quarter of 2012 surplus liquid assets were in excess of the statutory requirement by 94.5 per cent vis-à-vis 95.7 per cent in the last quarter of 2011. Net cash reserves contracted by 28 per cent in 212 representing 5.3 per cent of deposit liabilities compared to 7.7 per cent a year earlier. Surplus liquid assets declined by 6.3 per cent in 2012 versus 0.8 per cent in 2011 due to significant outflows to meet current obligations.

As the Central Bank of Barbados reports, high levels of liquidity persist in the commercial banking system in Barbados as total cash and securities holdings reached 26 per cent of domestic deposits, 11 per cent above the required minimum. This was attributed to holdings of government securities which increased by 35 per cent in 2012. Surplus liquidity has caused the interbank market to become dormant since 2010.

The Eastern Caribbean Central Bank reported an increase in commercial banks' liquidity in the first nine months of 2012 as evidenced by a two percentage point increase in the ratio of liquid assets to total deposits plus liquid liabilities and a 1.3 percentage point decrease in the ratio of loans to deposits.

According to the Central Bank of Trinidad and Tobago, significant net fiscal injection together with sluggish credit caused a buildup of commercial banks' excess reserves at the Bank, which peaked at US$1.02 billion in March 2012. In response to high liquidity, the Bank requested commercial banks to increase their holding of interest bearing special deposits by US$231 million for one year, which proved effective until June 2012. However, continued fiscal injections seemingly counteracted the Bank's action by September 2012. Thereafter, the auctioning of one - 15 year government bonds to finance the CLICO payout (in September 2012) and an 8-year Urban Development Corporation of Trinidad of Tobago fixed rate bond (in October 2012) as well as the rolling over of the $2 billion Central Bank Bill for another year, eased excess liquidity in the last quarter of 2012. Excess liquidity was also managed with open market operations and foreign exchange sales which absorbed US$41 million and US $1,330 million from the financial system respectively. The interbank market was dormant in early 2012; however, borrowing resumed in the second and third quarters.

The Bank of Jamaica reported an increase in liquid assets due to uncertainty regarding the timing and content of an agreement with the International Monetary Fund. This anxiety also caused the exchange rate to depreciate rapidly as persons increased holdings of foreign currency deposits by 5.3 per cent in the last quarter of 2012. The Bank of Jamaica held its policy rate (6.25%), domestic currency cash reserve (12%), and liquid asset requirement (26%) stable against the backdrop of favourable inflation trends and instead issued three variable rates CDs between October 21 and November 5, 2012 as part of its liquidity management operation. Despite these offers, the monetary base increased in the last quarter of 2012 due to net currency issue and increased deposits of financial institutions and the private sector.

3.5.2 Banking Sector Performance

In keeping with the above discourse on excess liquidity, it is no surprise that all reporting countries, except The Bahamas and Barbados, recorded increases (year-on-year) in the total deposits in the banking sector. In Belize, Trinidad and Tobago and Suriname the banking sector experienced double digit growth in deposit liabilities in December 2012 over December 2011, with Suriname having the highest growth at 21.33 per cent. The increases in Aruba, the ECCU, Jamaica and the Netherland Antilles were smaller at 8.6 per cent, 4.2 per cent, 5 per cent, 4.2 per cent and 0.53 per cent respectively. In The Bahamas, deposits fell marginally by 0.28 per cent in December 2012 when compare to December 2011. The decline was sharper in Barbados at 8.94 per cent for the same comparable period. This decline is partly the result of 38.41 per cent fall in US dollar deposits at the end of 2012. A decline in US denominated deposits also contributed to the smaller increase in the stock of deposits in the Netherlands (5.47 %) and the ECCU (0.05%). Guyana also reported a decrease of 11.1 per cent from 2012 in its level of US denominated deposits. In all other reporting countries, deposits have become more dollarized. The stock of US dollar deposits increased by as much as 147.6 per cent in Belize, 20.74 per cent in Trinidad and Tobago, where the central bank used foreign exchange sales to mop up excess liquidity.

There were minimal to moderate increases in the total outstanding loans in the banking sector for the majority of the reporting countries. Guyana, Haiti and Suriname experienced sharper increases in double digits at 19.97 per cent, 11.9 per cent and 13.3 per cent respectively. In Suriname, in the first half of 2012, local currency loans increased by 13.5 per cent on an annual basis, US denominated loans increased by 18 per cent , notwithstanding a higher reserve requirement and EURO denominated loans increased by 24 per cent. In all three currencies, a large share of loans went to indirectly productive sectors like transport and storage and communication, trade and housing construction. Credit dollarization increased from 39.9 per cent in June 2011 to 40.7 per cent in June 2012. The increases in Guyana and Haiti followed from the increase in private domestic credit. The 6.84 per cent increase recorded in Barbados was primarily the result of an amalgamation of a commercial bank and its associated trust and mortgage finance company.

3.5.3 Financial Soundness Indicators

Data on financial soundness indicators was available for Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago.

Figure 12: BANKING SYSTEM: RETURN ON EQUITY (%)

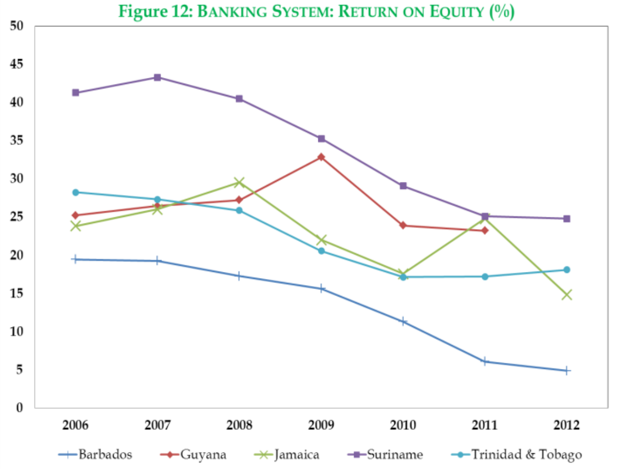
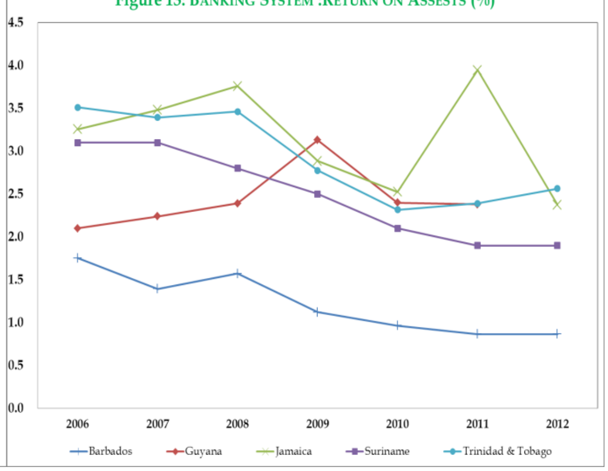


Figure 13: BANKING SYSTEM :RETURN ON ASSESTS (%)



In spite of narrowing interest spreads in Barbados, banks' profitability remained stable in 2012. The return on assets (ROA) remained at the 2011 level in 2012, while the return on equity (ROE) declined by 1.21 percentage point in December 2012 compared to December 2011. The capital adequacy ratio was 20.9 per cent at the end of 2012, 150 basis points above the ratio at the end of 2011. The ratio of non-performing loans increased from 11.1 per cent in 2011 to 12.9 per cent in 2012 primarily on account of continued worsening of the credit quality of the hotel sector. The share of loans classified as 'doubtful' or a 'loss' increased slightly from 1.8 per cent and 0.4 per cent to 1.9 per cent and 0.6 per cent respectively by September 2012.

In Trinidad and Tobago, the ratio of non-performing loans to total loans decreased from 6.3 per cent 2011 to 5.4 per cent in 2012, as commercial banks restricted and wrote off non-performing credit facilities. One commercial bank sold a significant proportion of its non-performing facility to it non-bank subsidiary. The largest share of non-performing loans (39%) was concentrated in the luxury real estate sub-sector. Despite declining interest income, banks maintained profitability by reducing interest and other costs. Commercial banks' ROA and ROE increased, year-on-year, from 2.4 per cent and 17.2 per cent to 2.6 and 18.1 per cent in respectively in 2012. Banks maintained high levels of retained earned and held low risk liquid assets more than twice the required eight per cent minimum. The ratio of capital to risk adjusted assets fell only minimally from 25.1 per cent in 2011 to 24.6 per cent in 2012.

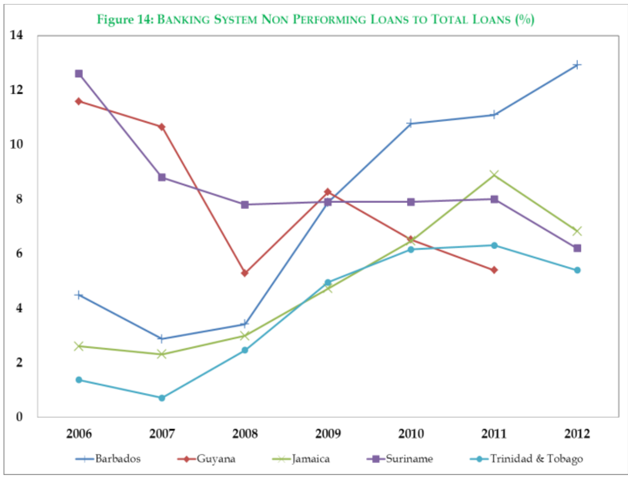


Figure 14: BANKING SYSTEM NON PERFORMING LOANS TO TOTAL LOANS (%)

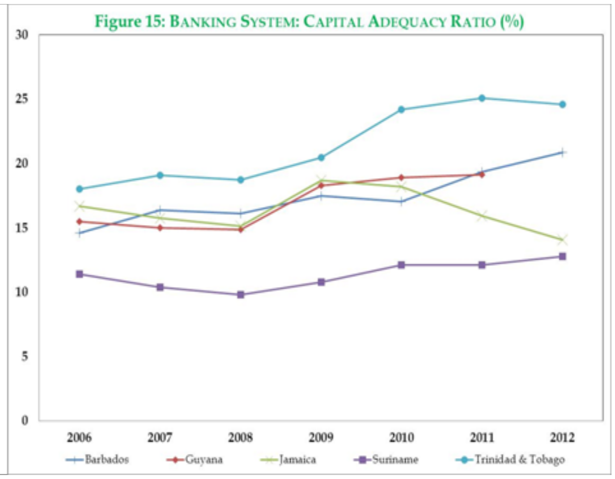


Figure 15: BANKING SYSTEM: CAPITAL ADEQUACY RATIO (%)

In Guyana capital adequacy improved by 90 basis points at the end of June 2012[2] compare the end of December 2011. The increase was the combined result of an eight per cent increase in tier I capital and an 11.7 per cent decrease in tier II capital. The ratio of non-performing loans to total loans was 4.9 per cent at the end of June 2012, 40 basis points less than the proportion in December 2011. This outturn was the result of a concurrent one per cent decline in non-performing loans and 21.7 per cent uptick in total loans in the first half of the year. The distribution subsector accounted for the

[2] Data for the latter half of 2012 was not available for Guyana.

largest share of non-performing loans at 82.4 per cent. Despite a narrowing weighted average interest rate spread, commercial bank profitability firmed. The ROA increased by 11 basis points to 11.3 per cent as at June 2012 compared to the same period in 2011. The ROE was raised by 116 basis points to 12.6 per cent at the end of June 2012 relative end of June 2011.

The banking sector in Suriname seems to be well capitalized with stable profits and improving loan portfolio quality. The capital adequacy ratio was 12.8 per cent in 2012, 4.8 per cent greater than the required minimum. The ROE decreased from 25.10 per cent in 2011 to 24.80 in 2012 while the ROA remained unchanged at 1.9 per cent. The share of non-performing loans declined by 180 basis points in 2012 relative to 2011. The Jamaican banking sector also indicated adequate capital and improved asset quality in 2012 as the capital adequacy ratio remained 6.08 per cent above the minimum requirement in 2012 and the ratio of non-performing loans to total loans fell by 205 basis points in 2012 relative to 2011. However, there was a notable decline in profitability. The ROE declined from 24.8 per cent in 2011 to 14.9 per cent in 2012 and the ROA decreased from 3.9 per cent in 2011 to 2.4 per cent in 2012. This may be the result on the commercial banks' decision to increase loan rates.

3.6 PUBLIC DEBT

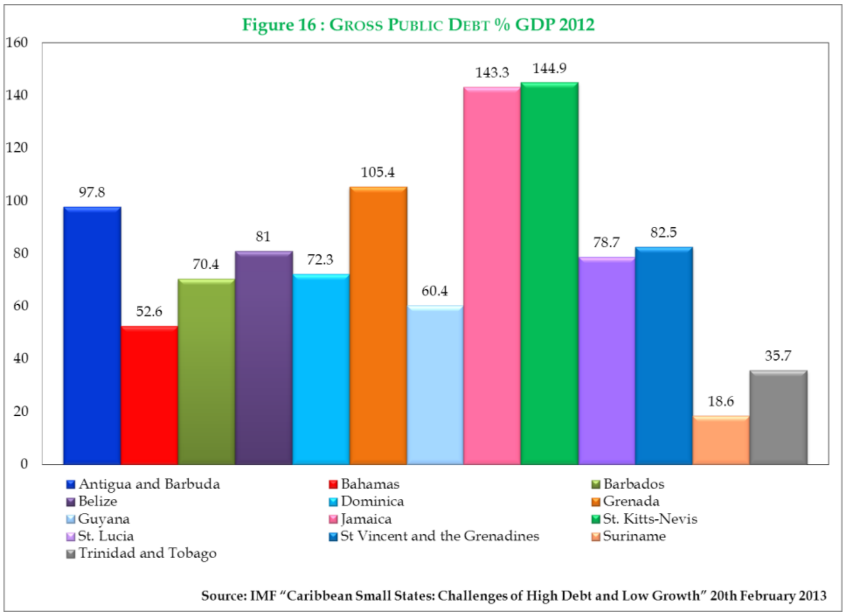
Most of the countries for which data were provided reported increases in public domestic debt and public external debt in 2012. Domestic debt increased by 11.6 per cent in the Bahamas, 10.2 per cent in Barbados, 2.4 per cent in Belize, 5.1 per cent in the ECCU, 6.8 per cent in Haiti, 12.7 per cent in Jamaica, 15.7 per cent in Suriname and 10.0 per cent in Trinidad and Tobago. In Guyana, domestic debt decreased by 10.9 per cent.

There were also instances of increases in external debt: the Bahamas by 29.7 per cent, the ECCU by 0.3 per cent, Guyana by 12.7 per cent, Haiti by 59.6 per cent and Suriname by 15.5 per cent. However, external debt decreased in Barbados by 4.6 per cent, in Belize by 0.4 per cent and in Jamaica by 4.3 per cent. The Trinidad and Tobago data for the first two quarters of 2012 show a 1.6 per cent decrease in external debt between December 2011 and June 2012.

TABLE 11: DOMESTIC AND EXTERNAL DEBT

	DOMESTIC DEBT (US$ BN)			EXTERNAL DEBT US$ BN		
COUNTRY	2011	2012	%CHANGE	2011	2012	%CHANGE
Bahamas	3.00	3.36	11.6	0.80	1.04	29.7
Barbados	2.10	2.32	10.2	1.38	1.31	-4.6
Belize	0.19	0.19	2.4	1.02	1.02	-0.4
ECCU	2.28	2.40	5.1	2.45	2.46	0.3
Guyana	0.52	0.47	-10.9	1.20	1.36	12.7
Haiti	0.02	0.03	6.8	0.66	1.05	59.6
Jamaica	10.27	11.18	12.7	8.63	8.25	-4.3
Suriname	0.47	0.54	15.7	0.70	0.81	15.5
Trinidad and Tobago	3.55	3.91	10.0			

Debt to GDP ratios showed corresponding increases. The ratio of domestic debt to GDP increased from 48.3 per cent to 52.7 per cent in Barbados, from 42.4 per cent to 44.2 per cent in the ECCU, from 71.1 per cent to 75.4 per cent in Jamaica, from 10.9 per cent to 12.6 per cent in Suriname and from 15.50 per cent to 16.0 per cent in Trinidad and Tobago. The domestic debt-GDP ratio decreased from 20 per cent to 16 per cent in Guyana and 15.1 per cent in Haiti but decreased in Belize from 12.8 per cent to 12.4 per cent. Ratios of external debt to GDP rose in three countries. The increase was from 5.3 per cent to 12.6 per cent in The Bahamas, from 9.0 per cent to 13.5 per cent in Haiti, and from 16.7 per cent to 19.3 per cent in Suriname. The external debt-GDP ratio fell from 32.0 per cent to 30.2 per cent in Barbados, from 69.0 per cent to 64.4 per cent in Belize, from 45.5 per cent to 45.3 per cent in the ECCU, from 60.2 per cent to 58.1 per cent in Jamaica and from 8.4 per cent to 7.8 per cent in Trinidad and Tobago. There was hardly any change in Guyana where the external debt ratio increased by one percentage point to 47.8 per cent. It appears that some countries substituted domestic debt for external debt perhaps in response to adverse changes in their credit ratings and ongoing attempts to renegotiate existing external debt.



Total gross public debt as a proportion of GDP remained quite high in several countries. Figure 16 reproduces the estimates in an IMF paper "Caribbean Small States: Challenges of High Debt and Low Growth" released on 20 January 2013. For 2012, it shows debt to GDP ratios of 144.9 per cent in St Kitts-Nevis, 143.3 per cent in Jamaica, 105.4 per cent in Grenada, 97.8 per cent in Antigua and Barbuda, 76.8 per cent in Belize, 78.7 per cent in St Lucia and 81.0 per cent in Belize. Next in line is Barbados with a gross public debt to GDP of 70.4 per cent, Dominica 72.3 per cent, St. Vincent and the Grenadines 68.3 per cent, Guyana 60.4 per cent and The Bahamas 52.6 per cent. Lower gross public debt to GDP ratios of 35.7 per cent and 18.6 per cent obtained in Trinidad and Tobago and Suriname respectively. Data separately obtained from the Central Bank of Curacao and Sint Maarten show a debt to GDP ratio of 33.4 per cent for Curacao in 2012 and 23.8 per cent in Sint Maarten in 2011.

Debt service ratios for 2011 and 2012 are reported for only a few countries. The ECCU situation where the debt service ratio increased from 32.3 per cent to 34.8 per cent is the least favourable. Other countries, namely Barbados, Guyana, Haiti, Suriname and Trinidad and Tobago have low debt service ratios, i.e. between 0.1 per cent and 3.0 per cent. However, the claims that public debt interest payments make on the public expenditure budget can be substantial. Table 12 shows public debt interest payments as a percentage of total central government expenditures in 2012. It is 30 per cent in Jamaica, 18.4 per cent in Barbados, 17.5 per cent in St Kitts-Nevis, 13 per cent in Belize, 11.1 per cent in the Bahamas and 10.6 per cent in St Lucia. The Caribbean average is 11.2 per cent compared to 7.9 per cent for Latin America.

TABLE 12: PUBLIC DEBT INTEREST PAYMENTS % TOTAL CENTRAL GOVERNMENT EXPENDITURES, 2012

COUNTRY	%
Antigua and Barbuda	8.7
Bahamas	11.1
Barbados	18.4
Belize	13.0
Dominica	4.5
Grenada	9.6
Guyana	3.6
Haiti	2.1
Jamaica	30.0
St. Kitts-Nevis	17.5
St. Lucia	10.6
St Vincent and the Grenadines	8.6
Suriname	4.1
Trinidad and Tobago	5.9

3.7 EXTERNAL CURRENT ACCOUNT

The external current account for 2012 improved in Barbados, Curacao, the ECCU, Jamaica and possibly Aruba and weakened in The Bahamas, Belize, Guyana, Haiti, Suriname, Sint Maarten and Trinidad and Tobago. In Barbados, the current account deficit was reduced from US$498.4mn to US$204.6mn or from 11.6 per cent to 4.7 per cent of GDP. In the ECCU, the current account deficit decreased from US$975.2 mn to US$885.3mn or from 18.1 per cent to 16.3 per cent of GDP. In Jamaica, the current account deficit fell from US$2.1billion (14% of GDP) in 2011 to US$1.9billion (12.7% GDP) in 2012. Only data for the first three quarters are available for Aruba, but they provide some indication of smaller current account deficits.

Last quarter data are not available for The Bahamas, but the trend in the first three quarters was for larger current account deficits than in 2011. In Belize, the current account balance widened from a deficit of US$15.9mn (1.1% of GDP) to US$28.6mn (1.8% of GDP). Guyana experienced an increase in its current account deficit from US$372.3mn to US$394.8mn with the ratio to GDP remaining at 14 per cent approximately. The Haitian current account deficit widened from US$338.8mn (3.9% GDP) in 2011 to US$358.9mn (4.6% of GDP) in 2012. For Suriname, it was a case of reduction in the current account surplus from US$251.1mn (5.8% of GDP) in 2011 to US$241.3mn (5% of GDP) in 2012. Available data for the first three quarters for Trinidad and Tobago indicate decreasing current account surpluses.

Import performance varied across the countries. Import demand expanded in Belize (8.1%), ECCU (0.3%), Guyana (11.7%) and Suriname (6.1%). Import demand contracted in Barbados (2.5%), Haiti (11.1%) and Jamaica (2%). Data for the first three quarters of 2012 are indicative of import expansion in The Bahamas but import contraction in Aruba and Trinidad and Tobago. Imports grew in Curacao and in Sint Maarten.

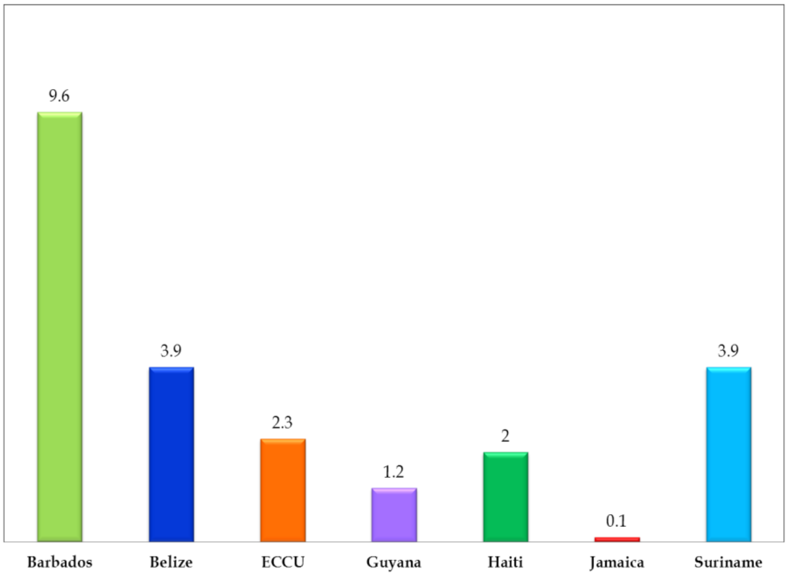
TABLE 13: EXTERNAL CURRENT ACCOUNT AS % GDP

COUNTRY	YEAR	
	2011	2012
Aruba	9.0	n.a
Bahamas	14.0	n.a.
Barbados	11.6	4.7
Belize	1.1	1.8
ECCU	18.1	16.3
Guyana	14.4	14.0
Haiti	3.9	4.6
Jamaica	14.0	12.7
Curacao and St Maarten	28.3	n.a.
Suriname	5.8	5.0
Trinidad and Tobago	12.3	n.a

Export performance improved for most countries (See Figure 17). Data for the first three quarters of 2012 indicate that Bahamian exports were minimally larger in 2012 than

2011. Tourism, the major export, recovered weakly as did food, minerals and fuels.

Figure 17: PERCENTAGE CHANGE IN EXPORTS 2011-2012



Barbadian exports grew by 9.6 per cent, mainly in foods and manufactured goods while tourism declined and "other services" did not recover to the level reached in 2010. Exports from Belize increased by 3.9 per cent. The growth was due to increases in tourism (both stayovers and cruise arrivals) and banana exports which gained from volume and price increases which combined to offset substantial decreases in sugar export revenues and a fall in citrus export revenues. The ECCU increased its exports by 2.3 per cent, most of this being attributable to an increase in tourism demand. Exports from Guyana went up by 23.6 per cent with minerals, i.e. gold, being the largest component followed by food exports. Haitian export growth was two per cent. Jamaica had only minimal growth (0.1 per cent) in exports. An encouraging sign however is the growth in tourism. Suriname's export performance was significant with a 3.9 per cent increase emanating mainly from the minerals sector where alumina, gold and petroleum are the major export commodities.

Aruba seems to have experienced difficulties in boosting its exports. Data for the first three quarters of 2013 reveal an improved performance in the first quarter but much weaker performance in the next two quarters compared with those quarters in the previous year. Trinidad and Tobago also seems to have performed weakly. Production declined in the mineral producing sector during the January to November period: crude oil by 11.5 per cent, liquefied natural gas by five per cent and methanol by 9.2 per cent.

This resulted in reductions in export revenues. Tourism also declined, especially cruise passenger arrivals which dropped by 18.5 per cent in 2012. The monetary authorities for Curacao and Sint Maarten report export growth in both countries in 2012.

3.8 EXTERNAL CAPITAL ACCOUNTS

Not much data is presently available on the external capital accounts for 2012. What is available reveals that the external capital accounts improved slightly in the ECCU from a surplus of US$235.6mn (4.4% of GDP) in 2011 to US$248.2mn (4.6% of GDP) in 2013. In Guyana, the improvement was from US$373.2mn (14.5% of GDP) in 2011 to US$428.5mn (13.8% of GDP) in 2012. Suriname moved from a deficit of US$49.9mn (1.1%of GDP) in 2011 to a surplus of US$314.3mn (6.5% of GDP) in 2012. Belize experienced a reduction in its surplus from US$23.7mn (1.6% of GDP) to US$22.5mn (1.4% of GDP).

Data on foreign direct investment flows provided by the Central Bank of Belize reveal that net positive inflows of US$94.7mn for Belize in 2011 skyrocketed to US$193.3mn in 2012[3]. In the ECCU, inflows increased from US$454.7mn in 2011 to US$475mn in 2012. Guyana recorded increased inflows of US$293.7mn in 2012 compared to US$246.8mn in 2011, while Haiti's inflows increased from US$784.3mn to US$963.1mn. In Jamaica's case, net outflows decreased fromUS$102.5mn to US$22mn. UNECLAC's foreign direct investment in Latin America and the Caribbean 2012 provide different estimates. Net flows are reported to have increased in Antigua and Barbuda, Belize, Dominica, Jamaica, St. Vincent and the Grenadines and Trinidad and Tobago. Net flows have decreased in the Bahamas, Grenada, St. Kitts & Nevis, St. Lucia and Suriname. Portfolio investment flows having been negative in Aruba in the first three quarters of 2011 turned positive in the last quarter and continued to be substantially positive in quarters one and two of 2012. Portfolio investment flows in The Bahamas which were negative in

[3] Note that prior to 2011 for BOP data Belize was using BPM5 and in 2011 and 2012 data a negative (-) signified convergence to the BPM6.

2011 continued on the same course in 2012. Portfolio investment flows were negative in Guyana in the first two quarters of 2012 and then became positive in the last two quarters. Trinidad and Tobago had small outflows of portfolio investment in 2011 but these became quite large in the first and second quarters of 2012.

TABLE 14: NET FOREIGN DIRECT INVESTMENT (US$MN)

COUNTRY	2011	2012
Antigua and Barbuda	65	71
Bahamas	667	349
Belize	96	194
Dominica	14	20
Grenada	42	31
Guyana	247	n.a.
Haiti	181	n.a.
Jamaica	143	291
St. Kitts-Nevis	110	101
St. Lucia	112	110
St Vincent and the Grenadines	86	126
Suriname	70	69
Trinidad and Tobago	1,110	1,688

Source: UNECLAC: Foreign Direct Investment in Latin America and the Caribbean 2012

3.9 INTERNATIONAL RESERVES

Statistics in Table 15 show that gross international reserves held by the monetary authorities increased by 11.1 per cent in Aruba, three per cent in Barbados, 22.4 per cent in Belize, 18.7 per cent in the ECCU, 8 per cent in Guyana, 14 per cent in Haiti and 23.4 per cent in Suriname. The Bahamas and Trinidad and Tobago had decreases of 8.4 per cent and 6.3 per cent respectively. The proportion of gross international reserves held by commercial banks is large in some countries, notably Barbados, the ECCU, Haiti and Trinidad and Tobago. Holdings by commercial banks increased by 39.8 per cent in Barbados, 20.6 per cent in the ECCU and 22.5 per cent in Trinidad and Tobago. Holdings by commercial banks decreased by 12.1 per cent in Haiti. In Belize and Guyana where substantial commercial bank holdings of international reserves are reported, the percentage increases were 32.1 per cent and 19.9 per cent respectively. It is noteworthy that in Jamaica commercial bank holdings more than quadrupled from US$160mn in 2011 to US$700mn in 2012 thereby making commercial bank holdings 7.1 per cent of total holdings compared with 1.3 per cent in 2011.

TABLE 15: GROSS INTERNATIONAL RESERVES (US$ MN)

COUNTRY	MONETARY AUTHORITIES INTERNATIONAL RESERVES			COMMERCIAL BANK INTERNATIONAL RESERVES		
	YEAR			YEAR		
	2011	2012	%CHANGE	2011	2012	% CHANGE
Aruba	596	662	11.1	123	88	28.4
Bahamas	885	810	-8.4	n.a	n.a	
Barbados	736	758	8.0	838	1171	39.8
Belize	236	289	22.4	137	181	32.1
ECCU	920	1093	18.7	1111	1340	20.6
Guyana	798	862	8.0	261	313	19.9
Haiti	2,057	2346	14.0	818	719	-12.1
Jamaica	12,361	9,121	-26.2	161	700	434.8
Suriname	817	1,008	23.4			
Trinidad and Tobago	9,823	9,201	-6.3	2,491	3,051	22.5

The imports coverage ratio measured in number of months of imports December 2011 – December 2012 remained unchanged at 18 months in Barbados and 13.47 months in Trinidad and Tobago. It increased from 3.29 months to 3.75 months in Belize, from 4.29 months to 4.72 months in Haiti and from 4.4 months to 5.1 months in Suriname. The import coverage ratio decreased from 4.2 months to 4 months in Guyana.

TABLE 16: IMPORT COVERAGE RATIO (MONTHS)

COUNTRY	YEAR 2011	YEAR 2012
Bahamas	3.40	n.a.
Belize	3.29	3.75
ECCU	3.95	4.50
Guyana	4.20	4.00
Haiti	4.29	4.72
Jamaica	4.30	n.a.
Suriname	4.40	5.1
Trinidad and Tobago	13.47	10.40

Source: The Central Banks of the reported countries

4.0 CARIBBEAN ECONOMIC PROSPECTS

Faster economic growth in 2013 is forecast in 12 of the 14 Caribbean Community countries as the data in Table 17 show. The exceptions are Belize, where the growth rate of real GDP is expected to decelerate, and Suriname, where no change is expected. In several countries, however, only minimal improvement in the growth rate of real GDP is forecast. The Central Bank of Curacao and Sint Maarten projects a negative 1. 6 per cent growth in Curacao and a positive 1.4 per cent growth in Sint Maarten. Faster economic growth is forecasted for 2014, but yet again the change projected is minimal in a few countries.

World economic growth, especially in major trading partners of CARICOM economies, will be an important influence. The IMF forecasts are for moderate real GDP growth of 1.2 per cent in 2013 in advanced economies, 1.9 per cent in the US, 0.7 per cent in the UK, and 1.5 per cent in Canada. The forecasts for 2014 are 2.2 per cent, 3.0 per cent, 1.5 per cent and 2.4 per cent respectively. The slow recovery in the UK is likely to dampened tourism sector performance in Caribbean countries in which visitors from the UK from a substantial proportion of total visitors.

Economic growth resurgence is projected to be stronger among some leading emerging economies. Brazil's real GDP is forecast to increase by 3.0 per cent in 2013 and 4.0 per cent in 2014; China's by 8.0 per cent and 8.2 per cent in the same two years; and India by 5.7 per cent and 6.2 per cent in those years. These trends are unlikely to provide a major boost to CARICOM economies because there is currently limited export orientation towards those countries and apart from China there is little inward flow of direct foreign investment capital and foreign aid.

The volume of world trade is projected to expand by 3.5 per cent in 2013 and 5.3 per cent in 2014. However, while prices for manufactures are forecast to increase, decreases are expected for oil, food, agricultural raw materials and metals. The downwards price movements are expected to be stronger in 2014 than in 2013.

The global financial market outlook on Caribbean public sector debt has become unfavourable as reflected in recent credit market downgrades on government debt in several countries. This is a consequence of debtor-initiated transactions affecting the coupon values or the yields on the existing stock of domestic or foreign debt. At the same time there is pressure to reduce the call of debt service on current fiscal revenues to provide fiscal space for pro-growth and social welfare expenditures.

Short-term economic growth prospects in the Caribbean are also subject to natural hazard events which can depress economic activity. Insurance within the framework of CCRIF provides a partial hedge.

TABLE 17 : PERCENTAGE REAL GDP GROWTH PROJECTIONS

COUNTRY	2013
Antigua and Barbuda	1.7
Bahamas	2.7
Barbados	0.5
Belize	2.7
Curacao	-1.6
Dominica	1.3
Grenada	0.5
Guyana	5.5
Haiti	6.5
Jamaica	0.5
Sint Maarten	1.4
St. Kitts and Nevis	1.9
St. Lucia	1.1
St. Vincent and the Grenadines	1.0
Suriname	4.5
Trinidad and Tobago	2.0

Source: IMF World Economic Outlook April 2013 and Central Bank of Curacao and Sint Maarten

5.0 Appendix

Country Reports

ARUBA

State of the Economy: Jan-Sept 2012
(*Central Bank of Aruba*)

Overview

During the first three quarters of 2012, the Aruban economy was impacted by the uncertainties related to the future of the oil refinery. An unclear situation at the beginning of the year soon turned into increased optimism due to a possible take-over announcement, which in September faded to a minimum with the publication of contract termination of most of full-time employees by mid-November. Buoyant tourism partly cushioned the output loss related to oil refining activities. However, the effect of the indefinite suspension of these activities was still major. Based on CBA's estimates, the economy contracted by slightly more than 4 percent in the first six months of 2012, while the underlying growth (i.e., excluding the effect of the refinery closure) was on the positive side. Government finances remained on a fragile path requiring continuous prudent fiscal management, while the balance of payments recorded a deficit in the first half of 2012 for the first time since 2005. On a positive note, inflationary pressures abated significantly associated with major structural reduction in water and electricity tariffs. Furthermore, monetary and prudential indicators continued to be at adequate levels.

THE BAHAMAS

Monthly Economic and Financial Developments -January 2013
(*Central Bank of The Bahamas*)

Domestic Economic Developments

Indications are that the domestic economy continued its mild pace of growth during January, as foreign investment and, to a lesser extent public sector projects, supported construction activity, while tourism output appeared to soften, amid a decline in occupancy levels. In the absence of abroad-based recovery, unemployment levels remained elevated, and inflation was relatively benign. The fiscal performance deteriorated for the first half of FY2012/13, as revenues normalized following the year-earlier extraordinary flows, and salary related payments, alongside infrastructure project commitments, boosted spending levels. Monetary developments featured contraction in both liquidity and external reserves, associated with normal demand for imports.

Preliminary hotel performance indicators for January, based on a sample of major hotels in New Providence and Paradise Island, reported a 1.6% year-on-year decline in total room revenues, which remained some 21.0% below 2008 levels. Although the average daily rate improved by3.5% to $240.57, the average occupancy rate fell by 1.5 percentage points to 57.9%. In addition, approximately six (6) of the nine (9) properties surveyed experienced a fall-off in revenue, while the partial closing of a major property contributed to a 2.4% contraction in available room stock.

Based on the latest available data, the rate of increase in consumer price inflation for the twelvemonths to October 2012 softened by 0.6 of a percentage point to 2.35%. The outturn included a deceleration in average price gains for transportation, to 2.64% from 8.70% in the comparative2011 period, alongside notable declines in inflation rates for restaurant & hotels (by 1.0 percentage point to 1.81%), furnishing, household equipment & maintenance (by 0.9 of a percentage point to2.8%) and education (by 0.9 of a percentage point to 2.36%).

Preliminary data on the Government's operations for the first half of FY2012/13 showed a widening in the overall deficit, by $102.7 million (62.9%) to $266.0 million. Total revenue contracted by$51.9 million (7.2%) to $664.8 million, while aggregate expenditure was higher by $50.8 million (5.8%) at $930.8 million. In terms of receipts, tax collections weakened by $37.1 million (6.0%) to$583.1 million, reflecting mainly an $86.3 million (41.6%) contraction in excise tax receipts back to trend levels, following the significant one-time inflow in the prior period. In contrast, gains were recorded for departure taxes ($34.4 million), property taxes ($11.2 million), business &professional fees ($3.9 million) and other "miscellaneous" taxes ($3.3 million). Further, non-tax collections rose marginally by $3.0 million (3.8%) to $81.7 million, owing mainly to a timing-related advance in income from public enterprises and growth in fines, forfeits & administrative fees. The expansion in expenditure was led by a $33.8 million (4.8%) rise in current outlays to $745.7 million, reflecting a$15.8 million gain in consumption spending, related mainly to increased salary payments, while higher subsidies to a public entity boosted transfers by $17.9 million. Capital outlays also grew, by$15.3 million to $115.1 million, with a dominant $18.2 million (23.6%) absorbed by infrastructure works.

The deficit for the six-month period was financed mainly from domestic sources, and comprised the issuance of $325.0 million in Registered Stock, $55.0 million in Treasury bills and $53.0 million in short-term advances. On the external side, $180 million was obtained by way of an international bond in December, with a further $34.7 million derived from project-based loan financing.

BARBADOS

2012 – Economic Review (Press Release)
(*Central Bank of Barbados*)

Summary
Barbados' foreign exchange reserves increased during the year to $1,467 million, and the import cover at end- December stood at 18 weeks, even though there was no real growth in the economy in 2012. Output and foreign exchange from tourism contracted, with a 6.2 percent decline in long-stay arrivals and an increase of only 4.3 per cent in the average length of stay. However, import expenditure was contained, and the gap between import payments and foreign earnings was smaller than for 2011. Foreign exchange inflows on the capital account held up, thanks largely to the receipt of $167 million from the sale of Barbadian shares in the former Barbados National Bank.

The flat growth performance resulted from declines in tourism, other traded services and manufacturing. Output in the non-traded sectors grew by only 1 per cent because of fiscal spending limits and the reduction in the traded sectors. Several tourism related projects were ongoing, but foreign investment in real estate projects was down about 16 percent.

The fiscal deficit for the April-December period is estimated at 6.4 per cent of GDP, compared with 5.2 per cent in the same period of 2011. Revenue from personal taxes was down 10 per cent and VAT receipts fell 2 per cent, but there was a 9 per cent increase in property taxes. Subsidies to government entities rose by 2 per cent, and interest payments were higher by 4 per cent. Capital expenditure fell by 4 percent.

There was no additional foreign market borrowing and external debt service absorbed 6.2 percent of earnings on the external current account. The overall net debt of the public sector, after accounting for the financial assets of government and statutory bodies, was 54 percent. The ratio of gross Government debt to GDP, when NIS is
treated as part of Government, stood at 83 percent, and the ratio of external debt to GDP was 31 percent.

Moderation in the rate of growth in international food prices brought some relief in the rate of inflation in 2012, from 9.5 percent at the end of December 2011 to 6.5 percent at the end of September. However, there was no alleviation of the rate of unemployment, which increased slightly to an average rate of 11.7 percent over the nine month period.

Banks maintained capital positions well above the statutory requirements and remained highly profitable, with adequate levels of liquidity. However, there was further deterioration in credit quality and loans not being fully serviced on time reached 12.7 percent of total loans, compared with 11.1 percent at December 2011. Actual losses on loans were no more than 0.2 percent of total loans and advances.

Economic Prospects
Real economic growth for Barbados in 2013 is forecast at 0.7 percent. This projection is based on the most recent IMF forecast of average growth of 1.7 percent[4] for Barbados' major trading partners (the US, UK &

[4] Source: The International Monetary Fund World Economic Outlook October, 2012.

Canada), as well as an improvement in consumer expenditure in these markets of 1.2 percent. In addition, private capital inflows of $600 million are anticipated for activity in the tourism and construction sectors. No significant gain in employment is expected. Based on current trends in international commodity prices for food, and the IMF's projection[5] for fuel, domestic inflation could fall to the region of 5 percent for 2013.

Barbados ranks 44th in the 2013 Global Competitiveness Index, on the strength of its well-functioning institutions, good infrastructure, high quality educational system, high use of information and communication technologies (ICT), and a fairly sophisticated business community. However, with regard to the speed with which Government and the private sector engage in new projects and in the facilitation of business activities by official institutions, Barbados does poorly, by international comparisons.

With respect to agro-processing, exports of quality rum that is aged, blended and bottled in Barbados, account for 43% of rum exports. This premium segment of the market will be less severely affected by the US subsidisation of commodity rum produced in the US Virgin Islands.

Over the next five years, the potential exists for alternative energy sources to contribute more than 25 per cent of Barbados' power needs, through the implementation of distributed solar and wind power generation and the installation of waste-to-energy and bio-mass cogeneration plants. Together with more efficient energy usage, this could result in a 20 percent reduction in fuel imports by 2017.

Barbados' strategy for the international business and financial services (IBFS) sector is mounted jointly with the Barbados International Business Association (BIBA), and comprises intensified marketing in Canada, together with active penetration of new markets in Latin America and elsewhere. Initiatives are designed to take advantage of Barbados' network of double taxation agreements, to leverage traditional and non-traditional markets in areas such as mining, oil and gas, renewable energy, wealth management, captive insurance, and medical services.

A regulatory system for the financial sector which meets internationally acceptable standards continues to be an essential plank of Barbados' competitiveness in the IBFS sector. The Central Bank and the Financial Services Commission, in collaboration with private financial institutions, are in the process of updating the regulatory framework, in preparation for a Financial Sector Assessment Programme (FSAP), to be conducted by the World Bank and the IMF in 2013. The FSAP provides a comprehensive overview of risk exposures and risk management in the financial sector. The 2013 FSAP will be Barbados' third.

The Real Economy

Tourism

Tourism value-added contracted by an estimated 3.5 per cent. There were reductions of 8.8 percent and 9.0 percent in US and UK visitors, respectively. The closure of the Almond Resorts represented an estimated loss, on average, of about one-fifth of visitors preferring an all-inclusive vacation. This coupled with the UK's Air Passenger Duty, which increased by over 8 per cent and the decrease in the number of flights out of US and UK by two major carriers, were the main contributing factors to this outturn. In addition, the cessation of flights by Redjet earlier in the year contributed to the reduction in regional

[5] The IMF's current forecast is for the average price of fuel to decline by 1 percent to US$105.1 for 2013.

visitors. Persons travelling from Trinidad and Tobago rose by almost 50 per cent between January and April, but subsequently slowed to 1.5 per cent for the year as a whole, while visitors from other regional economies contracted by 8.1 percent.

The decline of 15 percent in cruise passenger arrivals over the January-to-December period, stemmed largely from the shift of some cruise ships to other destinations and a renewed focus on the Mediterranean region by some of the major cruise companies. The downturn in cruise activity was evident particularly during the summer period (April to December), when cruise ship calls fell by 29.5 percent.

Manufacturing and Agriculture

The share of manufacturing in GDP over the past two decades declined from about 9 per cent in the 1990s, to about 5 per cent at the end of 2012. During the last five years, some improvement in the level of production was observed mainly in food processing, electronic components, chemicals and beverages and tobacco. These areas, however, recorded lower output levels during 2012, with the exception of food processing, which improved by 1 per cent.

During 2012, output in the agricultural sector is estimated to have contracted by about 2 per cent, although sugar production increased by 4.4 percent due to higher yields and f favourable weather conditions. Non-sugar agriculture was down 4 percent, the third consecutive year of decline. In spite of the uncertainty surrounding the quota system for farmers, the production of fresh milk rose by about 5 percent for the year. In contrast, chicken and fish production were lower by an average 23.4 percent. Fish landings were significantly affected by the presence of decaying seaweed during the first half of the year.

Other Real Sector Activity

Activity in the construction sector decreased by an estimated 3 percent, a reflection of declines in the import of building materials and employment in the sector of 6 percent and 7.7 percent, respectively. Other major areas of non-traded activity recorded lower growth, subdued by the lackluster tourism performance and reduced spending.

Retail Prices

The 12-month moving average rate of inflation, the main indicator of domestic price inflation, decreased to 6.5 percent at the end of September, from 9.5 percent at the end of last year. The gradual decline in retail prices, since the end of the second quarter, has resulted from slower price increases mainly in the sub-categories of housing (by 0.21 percentage points), fuel and light (0.14 percentage points) and household operations and supplies (0.15 percentage points).

Public Sector

VAT receipts fell by 2 percent for the first nine months of FY2012/13. There was a reduction of 10 percent in personal taxes during the year. Corporate tax receipts remained steady for the FY2012/13 period. Domestic interest payments and grants to individuals were up by 4 per cent and 7 per cent, respectively. There was a 4 per cent reduction in capital outlays. The majority of financing for the deficit was sourced locally from institutional investors, and external financing was reduced.

Balance of Payments

The current account deficit narrowed to 5.7 percent of GDP in 2012, compared to a deficit of 8.5 percent for 2011. This ratio was below the 8 percent average over the preceding ten years (2001- 2011) and the average of 6.5 percent, since the reemergence of systematic current account deficits in 1995.

There was a 7.9 percent reduction in retained imports which resulted in the ratio of retained imports to GDP falling to 34.1 percent (the average for 2001- 2011) compared to 37.4 percent a year ago.

Available data up to November of 2012 indicated that imports of consumer goods fell by $148 million, mainly as a result of reductions in imports of food and beverages, clothing and tobacco products. In addition, machinery imports were down by $89 million. The intermediate goods category rose by $20 million, spurred by a 3.5 percent increase in the imported price of fuel. Intermediate goods imports have risen from 40 to 50 percent of total retained imports as a result of elevated oil prices since 2007.

Foreign earnings from tourism continued to slide in 2012, falling by 4.2 percent as the ratio of travel credits to GDP fell to 20.9 percent in 2012. Sharp declines in the ratio of travel credits to GDP have sometimes been associated with recessionary conditions in the advanced economies as was the case in 1991 and 2001.

Exports of goods grew by 5 percent in 2012, primarily driven by increases in rum ($12 million). However, chemical exports fell by 6.8 percent in 2012, after leading the expansion in exports over the past two years. Merchandise exports to GDP have trended upward from 5.2 percent in 2009 to 6.9 percent in 2012. The performance in 2012 was only slightly above the 6.5 percent average between 1986 and 2011. The capital and financial account balance was estimated at $617 million. Real estate flows, which are associated with villa and hotel development, were estimated at $290 million in 2012 (3.3 per cent of GDP), compared with $347 million in 2011. The average is 6.8 per cent of GDP in the boom period of 2006 to 2008.

Financial Indicators

The NPL ratio continued to be negatively impacted by two large loans extended to the hotel sector, but other sectors have also edged up during the period.

Domestic deposits were boosted during the months of October and November, bringing the year to date deposit growth to 5.8 percent or ($441.3 million)[6]. There were increased deposit holdings by private financial institutions and the National Insurance Scheme in the fourth quarter. Meanwhile, the underlying demand for credit remained weak[7], rising by less than 1.5 percent. Liquidity in the system remained high. The excess cash to deposit ratio more than doubled, moving from 1.6 percent in 2011 to 4.7 per cent in 2012, while holdings of excess Treasury bills also increased by $211.0 million. The excess liquidity ratio rose to 14.7 percent. Interest rates remained largely unchanged throughout the year.

[6]Data to December 26, 2012.

[7] The loan portfolio of commercial banks rose significantly, with credit to the non-financial private sector growing by 10 percent or $512.4 million during the review period. However, this increase reflected the merger of one commercial bank and a trust company. Deducting the impact of the merger, credit to the non-financial private sector grew by less than 1.5 per cent.

BELIZE

2012 Economic Review
(*Central Bank of Belize*)

Turning to the domestic economy, the Central Bank of Belize estimates that GDP grew by 5.3% in 2012, which is notably above the Latin American and Caribbean Region's estimated average growth of 3.0% and more than double the 2.0% recorded in 2011. Brisk activity in agriculture, agro-manufacturing, tourism, construction and telecommunications more than compensated for the sharp downturn in petroleum extraction, domestic electricity generation and cruise-ship disembarkations.

Helped by the rehabilitation of storm-damaged acreages and favourable agronomic conditions, banana production increased by 39.9% and citrus also recovered from weather-related damages to post a 14.3% increase in deliveries. A relatively uneventful season unplagued by the difficulties of the previous year facilitated a 22.6% increase in sugarcane deliveries. The strong outturn of citrus fruit and sugarcane deliveries bolstered agro-manufacturing activity and citrus juices and sugar production consequently rose by 12.8% and 15.4%, respectively. Notably, sugar production for the crop year 2011/2012 exceeded the 100,000 long ton mark for the first time since the 2005/2006 crop and the average price paid to farmers was adjusted upward from $68.12 to $72.12 per long ton of sugarcane.

The services sector was supported by stellar growth of 10.3% in arrivals of overnight tourists with visitors from the US and Canada, Belize's primary markets, up by 13.9% and 27.0% respectively. The performance of the overnight segment contributed to upswings across the "Wholesale and Retail Trade", "Hotels and Restaurants" and "Transport and Communication" subsectors. The latter was also boosted by BTL's investment in 4G technology. Construction activity was buoyant owing largely to public sector infrastructural projects, condominium development and residential housing construction that was fueled by the fall in mortgage loan interest rates.

On the downside, four additional wells at the Spanish Lookout Field could not stabilize oil production and output fell by 26.8% to 1,029,938 barrels, significantly steeper than the 10.0% annual average decline that had been projected. Cruise ship disembarkations fell by 11.9% to 576,661 visitors due to fewer port calls and the use of smaller ships for the Belize route. Underpinning this decline were the expansion of routes by North American cruise ships to long-haul, non-traditional destinations in Asia and Brazil, which are substitutes for the Caribbean and the lack of adequate deep water docking facilities in Belize. Meanwhile, the surge in domestic electricity generation that occurred over the first half of 2012 could not be sustained. A lack of rainfall in the catchment areas of the hydroelectric plants dampened production during the second half of the year and resulted in an overall reduction of 15.8% in domestic electricity generation in 2012.

Prices

Price pressures were moderate in 2012 with the Consumer Price Index (CPI) rising by a monthly average of 1.3% compared to the 1.5% increase in the previous year. Price declines for "Household Goods and Maintenance" and "Clothing and Footwear", were offset by increases for other categories, the most sizeable being 4.1% for "Health" and 3.6% for "Recreation and Culture" .

The External Sector

On the external front, the balance of payments current account deficit widened for the first time in three years to approximately 1.7% of GDP. The merchandise trade deficit rose by 22.2% or $75.9 million as imports grew at a faster pace than exports. Most of the growth in imports was due to a $158.0 million increase in goods for domestic consumption that included higher outlays on diesel fuel, heavy machinery, cement imports and electricity. Total exports were $49.1 million higher, reflecting increases of $55.1 million in commercial free zone sales and $13.4 million in re-exports. Domestic exports, on the other hand, declined by $19.4 million as significantly lower petroleum and papaya revenues more than offset revenue gains from sugar, banana and citrus. Other notable developments on the current account included an increase in net inflows from services due to the stellar performance of the overnight tourist segment, a reduction in net outflows in the form of profit repatriation and lower inflows from transfers such as family remittances.

The surplus on the capital and financial account was notably larger. Foreign direct investments during 2012 stood at an unprecedented $386.7 million, well above the $189.4 million recorded in 2011 and higher than the $360.0 million registered in 2008 and this more than compensated for lower official capital flows and an increase in commercial banks' net foreign asset holdings abroad. The net result was a $105.6 million increase in the gross international reserves to $577.8 million, which was equivalent to 4.6 months of merchandise imports.

Central Government Operations

With expenditures rising faster than revenues, Central Government's fiscal performance for the 2012 calendar year resulted in the primary surplus decreasing from the 2.7% of GDP recorded in 2011 to 2.0% of GDP and the overall deficit widening from 0.8% of GDP in 2011 to 1.00% of GDP. Capital projects accounted for the largest share of the expenditure growth, followed by a notable increase in "Subsidies and Current Transfers" that was mostly attributable to the reclassification of teachers' salaries from "Wages and Salaries" to this category. Meanwhile, revenues rose mainly due to higher inflows from the General Sales Tax (GST), import duties, non-tax revenues, grants and revenue replacement duties (RRD).

Comparing the first nine months of the 2012/2013 fiscal year (April to December) with the same period of the previous fiscal year, government's operations improved with a 3.3% increase in revenues outstripping a 1.4% rise in expenditures. The net result was a relatively stable primary surplus that amounted to $44.8mn (1.4% of GDP) and a $11.3mn reduction in the overall deficit to $5.8mn (0.2% of GDP). The deficit was funded by external sources as domestic financing contracted due to a build-up in government's deposits at the Central Bank.

Debt

In 2012, the public sector was able to reduce its external debt by $8.5 million to $2,035.7 million as amortization payments of $80.1 million exceeded disbursements of $71.5 million. Interest payments for the year totaled $77.9 million, $10.7 million lower than the amount paid during 2011 due to a fall in the lending rates on some external loans tied to LIBOR and the withholding of a portion of the interest payment due on the super bond in August. Holders of the super bond received 72.8% of the scheduled interest due in 2012. Central Government's domestic debt rose by 2.4% to $390.2 million as amortization payments to non-financial entities and commercial banks were more than offset by an $8.2 million increase in overdraft financing from the Central Bank and $3.8 million in loan disbursements.

Monetary & Financial Developments

Reflective of the strong economic performance, the broad money supply expanded by 11.0%, led by higher foreign inflows and supplemented by growth in credit to the private sector, which occurred even after taking into account $37.3 million in loan write-offs during the year. Most of the credit went towards personal financing and the building and construction subsector. The build-up in net foreign assets was largely attributable to elevated inflows from foreign direct investment and tourism even as the external current account deficit widened. The accumulation of foreign assets and credit growth contributed to the continued rise in cash and statutory bank liquidity. At the end of the year, commercial bank holdings of cash and statutory liquid balances were respectively 81.7% and 61.3% above required levels.

This high level of liquidity facilitated a 103 basis points fall in the weighted average lending rate to 11.99% as all loan categories recorded rate cuts, the most notable being 139 basis points for residential construction and 129 basis points for personal loans. The weighted average deposit rate also fell to 2.55% (the lowest level since 1977) chiefly due to a 142 basis points fall in the time deposit rate. As a result, the weighted average spread increased by 7 basis points to 9.44%.

Monetary and Financial Sector Reform

The Central Bank took further steps in 2012 to strengthen the architecture of Belize's financial system with a view to improving its operational efficiency and stability. The Bank's strategic initiatives fell under the three pillars of financial regulation, financial system modernization and macro-prudential surveillance.

Financial Regulation

Given the importance of the domestic banking sector to the wider economy, a high priority was placed on finalizing the revision of the Banks and Financial Institutions Act to close regulatory loopholes and raise prudential standards. The result of these efforts was the draft Domestic Banks and Financial Institutions Act (DBFIA) which was subjected to extensive review and consultations with the domestic commercial banks before being submitted to the legislature. In August 2012, parliament gave its approval to the new legislation which came into effect on 1 January 2013. The DBFIA significantly enhances the Central Bank's regulatory flexibility making it easier for the Bank to fulfill its mission of assuring a safe, sound and efficient financial system. In addition to broadening the Central Bank's resolution powers and introducing administrative penalties to motivate institutional compliance, the new law strengthens corporate governance by adopting international best practices in financial reporting standards, defining the rules of engagement for transactions involving related parties and capital adequacy standards.

Financial System Modernization

Aided by the Canadian International Development Agency (CIDA) and the International Financial Corporation (IFC), the Central Bank continued to make advances in its national payments systems reform and credit bureau projects which are intended to modernize Belize's financial system. Reform of the payments system is considered to be one of the foundational elements for national development since a shift away from manual paper-based payment processes holds the potential to improve security, reliability and efficiency for all economic transactions. The versatility afforded by a modern payments system would also supplement the Central Bank's oversight function and enhance its capacity for effective monetary policy implementation. Progress in this important project included the completion of a National Payments System Strategy and Plan in 2012 and the selection of a Project Manager to guide Project efforts. In addition, a draft National Payments System Bill was submitted to the Solicitor General for review in 2012 and this is now subsequently being reviewed by key stakeholders. Also in 2012, the Central Bank prepared its first draft of a high level request for proposal which outlines the requirements for the national payments system solution and which is slated for further development in 2013.

The requisite groundwork for the credit bureau project, which includes a review of the legal framework, consultations with stakeholders and drafting of credit bureau legislation were completed in 2012. A campaign will shortly be launched to heighten the public's awareness of credit reporting and it is expected that the Credit Report Act will be passed followed by the issuance of a credit bureau license later this year. The legal and regulatory framework will contain safeguards to ensure the efficiency of the credit reporting system especially with respect to data integrity, protection and consumer rights. It is broadly anticipated that the establishment of a credit bureau will result in an improvement in lending and risk assessment practices, which forms the basis for increased credit availability and lower interest rates on loans to domestic borrowers.

Macro-Prudential Surveillance

The world financial crisis has led to a heightening of international concerns about financial system stability not only in the developed nations but also in the Caribbean. Following from this, the IADB has been funding a regional project administered by the Caribbean Centre for Money and Finance to strengthen institutional capacity to analyze and monitor the strengths and vulnerabilities of the financial sector. In this regard, a Regional Financial Stability Coordinating Committee comprised of representatives from all CARICOM central banks has been formed with one of the project goals being the production of a regional financial stability report. This would be underpinned by individual country financial stability reports and to this end, the Central Bank of Belize established a Financial Stability Unit (FSU) in August 2012, which forms part of the governance structure to support policy decisions and which is tasked with the building of a framework for continuous monitoring and reporting of key financial stability indicators on the micro and macro level. Two papers were produced during the year that provided an overview of Belize's financial sector and an assessment of the system's architecture and its risks and vulnerabilities. This research provided the necessary foundation for improvements in existing analytical tools and modalities for data collection aimed at building financial system resiliency and mitigating risks to the system.

Economic Outlook

The Central Bank of Belize is projecting that GDP growth will decelerate to about 2.7% in 2013 due to the lessening impact of the factors that boosted activity in 2012. As in the case of our regional counterparts, the Belizean economy is vulnerable to commodity price shocks and weather-related setbacks and is also dependent on the growth performance of external trading partners. The GDP growth projection therefore assumes that the gradual upturn in global growth to 3.5% (Source: IMF World Economic Outlook) will continue to support the economy's tertiary sector that includes retail trade, hotels and restaurants, and transport and communication through further growth in tourism . While the expansion in the overnight tourism segment is expected to stabilize at 4.5% due to continued fragility and weak employment data in Belize's primary market, the United States, the projection is conservative since the ramping up of marketing efforts by the Belize Tourism Board has the potential to boost the number of visitors to Belize.

Owing largely to a return to normal crop cycles and a forecasted downturn in citrus output, the primary sector is likely to return to low single digit growth . Last year was unusual with the significant double-digit growth in agriculture and agro-processing coming on the heels of the poor banana, citrus and sugarcane crop cycles of 2010/2011. The expectation is that there will be a return to normal crop cycles and growth patterns in 2013. Notably, however, citrus is facing headwinds from lower international prices and a cyclical crop downturn. On the upside, the sugarcane crop should benefit from technological and knowledge-based transfers from American Sugar Refining and a solid banana crop is expected. Notwithstanding the projected 10.0% contraction in petroleum extraction and low reservoir levels at the hydro dams, the secondary sector of the economy should continue to grow in 2013 due to the continuation of several construction projects and increased output of electricity from BELCOGEN and other domestic suppliers.

Price stability is one of the principal benefits of the fixed exchange rate and while increasing international prices for basic food commodities such as grains (used as feed for cattle, chicken etc.) is likely to be a factor in 2013, the projected rise in the CPI remains a moderate 2.0%.

Regulatory reforms coupled with heightened supervisory oversight will continue to steer the financial system along the path of stability in 2013. The system continues to be highly liquid and while non-performing loans remain elevated, these are on a downward trajectory with further write-offs expected to occur.

CURACAO AND SINT MAARTEN

Economic Developments in 2012 and Outlook for 2013
(Central *Bank of Curacao and Sint Maarten*)

1. Introduction

Following the dissolution of the Netherlands on October 10, 2010, Curacao and Sint Maarten became autonomous countries within the Kingdom of the Netherlands and formed a monetary union with a common central bank and currency. Below, an analysis of the economic developments in Curacao and Sint Maarten in 2012 and the outlook for 2013 is presented.

2. Developments in 2012

2.1 General Economic Development s in Curacao

According to the preliminary data, the Curacao economy contracted by 0.1%[8] in 2012. The economic contraction was accompanied by an inflation rate of 3.2%, an acceleration compared to the inflation of 2.3% that was registered in 2011. The increased inflationary pressures were largely the result of the rise in the sales tax rate of 5.0% to 6.0% in January 2012. In addition, changes in international oil prices were passed through into domestic prices with a lag of 2 months.

The economic contraction in 2012 was the result of a decline in domestic demand, mitigated by increased net foreign demand. The latter increase was the result of a rise in exports of goods and services that offset a growth in imports. Domestic demand shrank in 2012 as a result of a decline in both private and public spending. The decline in real private spending was attributable to a contraction in private consumption as the increased inflationary pressures eroded consumers purchasing power. In contrast, real private investment expanded because of, among other things, maintenance work on the Isla refinery. Remodeling at some hotels, construction of commercial properties, and expansion of the water production facilities. Real public spending dropped, as both government consumption and investment contracted in real terms.

An analysis of the sectoral developments[9] reveals that the real value added increased in the sectors restaurants and hotels, manufacturing and transport, storage and communication. In contrast, output contracted in the financial services and wholesale and retail trade sectors

Activities increased in the hotels and restaurants sector reflected by gains in both stay-over and cruise tourism. The transport, storage and 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 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. In the manufacturing sector, real value added rose largely as a result of maintenance work on the cat cracker at the Isla refinery.

[8] Estimate from Central Bank of Curacao and Sint Maarten (CBCS).

[9] Based on date of the first three quarters of 2012.

In contrast the performance of the wholesale and retail trace sector was disappointing, due mainly to the decline in domestic spending. However, increased stay-over tourism mitigated the contraction in the wholesale and retail trade sector.

Real value added in the financial services sector shrank as well, because of a contraction in international financial services as indicated by declines in wages and salaries and other operational expenses. In contrast, domestic financial services increased because of a rise in income eared combined with a drop in expenses.

2.2 Public Sector Developments in Curacao

On July 13, 2012, the government of Curacao received an instruction by the Kingdom council of the Ministries (the Council) to make its 2012 budget and multiannual projections balanced. According to the budgetary norms stipulated in the Kingdom Act of Financial Supervision Curacao and Sint Maarten, the two countries are not allowed to have a deficit on an annual basis. However, the 2010 and 2011 annual accounts of the government of Curacao both revealed a budget deficit, while 2012 and the following years would all be showing progressively increasing deficits unless drastic policy changes were implemented soon. In view of this gloomy forecast, the Council decided to follow the advice of the college FinnacieelToezicht (CFT)[10] to give the Curacao government an instruction.

Nevertheless, the preliminary figures for 2012 released by the government of Curacao reveal a budget deficit of NAf.80.0 million. The operational deficit of Curacao's government in 2012 is partly attributable to lower-than-expected tax revenues. This estimated deficit excludes the operational loss of the social security bank, SVB, which also has to be covered by the government. Therefore, the overall government budget shortfall in 2012 can expected to be even higher.

2.3 General Economic Developments in Sing Maarten

In 2012, Sint Maarten[11] registered a real GDP growth of 1.2%. the GDP expansion was accompanied by an inflation rate of 4.0%.

GDP growth in Sint Maarten was largely driven by an increase in the sector "restaurants and hotels," reflecting a marked growth in stay-over visitors in 2012 compared to 2011 In addition, cruise tourism expanded in 2012.

Activities increased also in the sector "transport, storage and communication", led mainly by more passengers handled at the airport of Sint Maarten. Moreover, activities in the harbor expanded as a result of more ships piloted into the port. Output expanded in the wholesale and retail trade sector." The latter expansion can largely be attributed to the growth in the tourism sector.

Developments in the construction sector were also positive. The growth in the number of construction permits requested and issued, in particular residential permits, indicates some improvement in

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[10] The College FinancieelToezicht (CFT) is the independent board of financial supervision in charge of monitoring the public finances of Curacao en Tint Maarten and providing counsel to the governments whenever this is considered necessary.

[11] Estimate CBCS based on data of the first three quarters of 2012.

construction activities in Sint Maarten. In addition, a public housing project had a positive impact on the construction sector.

Moreover, real value added rose in the sector "financial intermediation", as a result of an increase in the net income of the commercial banks in Sint Maarten. The public sector of Sint Maarten also contributed positively to GDP growth.

2.4 Public Sector Developments in Sint Maarten

According to preliminary figures of the Sint Maarten government for 2012, the current account of the government budget shows a surplus of NAf.9.1 million. The capital account, however, shows a deficit of NAf.27.3 million, bringing the overall budget deficit to NFf.18.2 million. A breakdown of the public finance date for 2012[12] released by the government of Sint Maarten indicated that compared to 2011, total revenues rose by NAf.22.1 million. This growth was largely triggered by higher revenues from turnover tax. By contrast, revenues from property taxes, taxes on income and profits, and nontax revenues declined compared to 2011.

Overall, total income of the government of Sint Maarten turned out to be NAf.17.9 million less than budgeted. This subdued performance is a hindrance to expanding the government's operations and becoming a fully-fledged public administration. Therefore, over the course of 2013, the government of Sint Maarten is planning to implement measures to increase tax compliance and is considering raising excises on alcohol, tobacco and gasoline.

2.5 Developments in the Balance of Payments of the Monetary Union

The current account deficit of the balance of payments of the monetary union[13] narrowed to NAf.1,356.5 million in 2012 from NAf1,511.5 million in 2011. The current account deficit dropped because of improvements of the services and current transfers balances, offset partly by a deterioration in the trade and income balances. As the current account deficit was not fully covered by external financing and net capital transfers, the international reserves dropped by NAf.277.6 million.

Developments in the net export of goods and services in Curacao

In Curacao, net exports of goods and services are estimated to have increased in 2012 compared to 2011, as a result of a rise in exports of goods and services, mitigated by a growth in imports. The export of goods and services rose largely because of increased foreign exchange revenues from tourism and the tourism related transportation sector. In contrast to 2011, bunkering activities dropped as a result of lower average international oil prices as of the second quarter of 2012, in combination with lower bunkering volumes sold. Also, foreign exchange revenues from international financial services shrank, albeit at a slower pace compared to 2011.

Import of goods and services rose mainly as a result of higher imports and freezone companies. Moreover, maintenance activities on the Isla refinery and investments made in the water production capacity contributed to the import growth. Merchandise imports by the wholesale and retail trade sector, on the other hand, dropped because of the decline in the purchasing power in Curacao in 2012, combined

[12] The data covers only the first 11 months of 2012; no December 2012 Figures have been released yet.
[13] Estimate of the CBCS based on the first three quarters of 2012.

by the temporary freeze on private credit extension. The growth in tourism, however, mitigated the drop in merchandise imports and the wholesale and retail trade sector.

Developments in the net exports of goods and services in Sint Maarten
In Sint Maarten, net foreign demand increased in 2012 compared to 2011 due to a rise in the export of goods and services, mitigated by a growth in imports. The increase in exports was related mostly to increased foreign exchange revenues from the tourism sector as a result of from the growth in both cruise and stay-over tourism. I line with the increased activities in the tourism industry, merchandise imports grew in Sint Maarten. In addition, ongoing construction projects in Sint Maarten contributed to the import growth.

The income balance of the monetary union estimated to have deteriorated in 2012, reflecting less interest income earned on foreign assets by resident companies compared to 2011. In contrast, the current transfers balance improved as an increase in current transfers received to offset partly by a rise in current transfers paid to abroad.

In line with the current account deficit, the combined capital and financial account worsened, reflecting an increase in net foreign indebtedness of the private sector in 2012. The external financing of the private sector was due to a deterioration of the direct investment, portfolio investment, and loans and credit balances.

Net direct investments into the monetary union expanded in 2012, due mainly to increased claims of the foreign director investors on their subsidiaries in Curacao and Sint Maarten combined with the purchase of real estate by nonresidents in Curacao and Sint Maarten.

The portfolio investments in the monetary union expanded in 2012, due mainly to increased claims of foreign director investor on their subsidiaries in Curacao and Sint Maarten combined with the purchase of real estate by non residents in Curacao and Sint Maarten.

The portfolio investment balance deteriorated largely as a result of received funds from matured foreign debt securities held by institutional investors that were not reinvested abroad. The bulk of these matured debt securities were issued in the past by the entities of the Netherlands /Antilles and taken over, as part of the debt relief program, by the Dutch Government in October 2012.

The loans and credits balance worsened in 2012, albeit at a slower pace than in 2011, reflecting a withdrawal of funds abroad by domestic companies to finance part of their imports, and the issue of debt securities for new investments in the harbor of Sint Maarten.

Meanwhile, capital transfers declined because of less development aid funds received from the Netherlands. The moderate capital inflow form capital transfers and external financing was insufficient to cover the current account deficit, resulting in a decline in gross reserve assets by NAf.277.6 million.

2.6 Developments in the Monetary Sector of the Monetary Union

The development in bank lending to the private sector during 2012 must be seen against the background of the monetary tightening, initiated in September 2011, due to the persistent high deficit on the current account of the balance of payments and the substantial higher growth in credit extension compared to GDP growth, resulting in a declining trend in reserves.

Firstly, the Bank started to increase the percentage of the reserve requirement to gradually mop up the excess liquidity in the banking sector created by the debt relief provided by the Dutch government. During 2011, the percentage was increased by 275 basis points and reached 10.50 at the end of December 2011. In 2012, the Bank continued with gradually increasing the percentage. As a result, the percentage of the reserve requirement was raised by 375 basis points to reach 14.25% in December 2012. This policy was maintained in 2013 as the reserve requirement percentage reached 15.75 as of April 16, 2013.

Secondly, a freeze on private credit extension was agreed with the commercial banks for a period of six months, based on the outstanding amount at the end of February 2012 to bring private sector credit growth more in line with GDP growth. The credit freeze contributed to a moderation of the decline in reserves. After an evaluation, it was decided to prolong the credit measure for another six months, allowing private credit to grow by no more than 1.0% of the amount outstanding on august 31, 2012. The credit measure was extended again for the period Marcy – august 2013, allowing a maximum growth or private credit of 2.0% over the outstanding amount on august 31, 2012.

Despite the tightening of the Bank's monetary policy, private sector credit growth did not slow much in 2012 compared to 2011. This result was due largely to the exemption of credit commitments agreed before the credit freeze became effective and the exemption of loans for projects that contribute to the strengthening of the foreign exchange reserves of the monetary union. The average monthly credit growth in Curacao remained unchanged at 0.7% in 2012 compared to 2011. The growth in mortgages slowed from 1.3% to 0.8%. the growth in consumer loans changed from 0.1% in 2011 to a 0.1% drop in 2012. In contrast, the growth in business loans accelerated from 0.5% to 1.2%. On an annual basis, private sector credit growth declined from 8.9% in 2011 to 8.6% in 2012.

Private sector credit growth in Sint Maarten dropped from a monthly average of -0.2% during 2011 to -0.4% in 2012. The extension of mortgages contracted by a monthly average of 0.4% in 2012. The growth in consumer loans dropped from -0.2% to -0.7%, while the growth in business loans registered a smaller monthly average drop of 0.1% during 2012, compared to an average monthly contraction of 0.2% in 2011. On an annual basis, private sector credit contracted by 4.7% in 2012 compared to 2.4% in 2011.

3. Outlook for 2013

3.1 Outlook for Curacao

Real GDP in Curacao is projected to contract by 1.6% in 2013 due mainly to a decline in domestic demand. Meanwhile, inflationary pressures will ease somewhat to reach 3.0%. the lower inflation is largely the result of an expected decline in international oil and food prices. However, reforms in the public health care insurance, AOB pension system, and the differentiation in sales tax rates will lead to extra inflationary pressures.

The expected decline in domestic demand is the result of a contraction in private consumption and public spending. Real private consumption will drop, because of the decline in purchasing power. In addition, the measures to reform the public health care and AOV pension systems will reduce private income and, hence, real private consumption.

Government spending is expected to drop because of a decline in public consumption, mitigated by a slight increase in government investment. Public consumption will contract as the reform of the health care and AOV systems will reduce government expenditures on Goods and services. Also, wages and salaries will drop because of a hiring freeze.

Private investment is expected to rise due mainly to investments in the wholesale and retail trade sector (construction of commercial properties) and the remodeling of some hotels.

Net foreign demand will remain fairly stable as the rise in exports of goods and services will be counterbalanced by an increase in imports. Imports will rise moderately, reflecting, among other things, more imports by the freezone companies and the retail trade sector. Merchandise imports by the retail sector will rise due to an expected increase in tourism in Curacao. In addition, merchandise imports by the construction sector will grow, reflecting the execution of some investment projects in Curacao, including the construction of new retail outlets. The import growth will be mitigated by a decline in oil imports reflecting a projected decline in international fuel prices. Exports are expected to rise, due mainly to more foreign exchange earnings from the tourism industry. In contrast, a further decline in the foreign exchange revenues from bunkering activities and from the international financial services industry will put a drag on the export growth.

3.2 Outlook for SintMarteen

Sint Maarten's GDP is estimated to expand by 1.4% in 2013. Inflation will ease somewhat to 3.8%, reflecting mainly lower projected international oil and food prices.

The GDP growth will be driven mainly by increased net foreign demand. The latter increase will largely be the result of an expected growth in stay-over tourism reflecting a slight economic recovery in the main tourism markets.

GUYANA

The Guyana Economy
(*Bank of Guyana*)

1. SUMMARY

World economic growth was slower at 3.2 percent compared with the 3.9 percent in the previous year due to the escalation of the Euro crisis during the year. The adverse trade and finance spillovers from the Euro Area contracted advanced economies growth by 0.3 percent to 1.3 percent. Emerging economies' growth was lower than expectation at 5.3 percent due to a slowdown in domestic demand. Developing economies, continued to benefit from high commodity prices, grew by 4.0 percent. However, the Latin-America and Caribbean Region's growth declined by 1.3 percent to 3.2 percent. Unemployment continued to be high globally because of weaker economic growth while consumer price inflation remained subdued.

The Guyanese economy continued to experience positive economic growth; benefiting from high commodity prices, recorded a 4.8 percent growth following the 5.4 percent in 2011. This propitious performance was due to favourable output in all the major sectors – services, mining, agriculture and manufacturing. There were minor contractions in the sugar, forestry, diamond and public sector construction sub-sectors. The inflation rate increased by 3.5 percent mainly on account of rising food prices.

The overall balance of payments improved to a surplus of US$12.4 million from a deficit of US$15.0 million in 2011. This development is explained by a larger capital account surplus which offset a higher current account deficit. The current account deficit was due to an enlarged services deficit caused by a sharp growth in non-factor services. The capital account surplus was due to higher inflows to the nonfinancial public sector and level of foreign direct investment. The overall surplus contributed to an increase in the Bank of Guyana's gross foreign reserves to US$862.2 million or 4.0 months of import cover.

Transactions on the foreign exchange market increased by 12 percent to US$6,770.5 million on account of high foreign trade, remittances and investment flows. The bank and non-bank cambios accounted for 52.6 percent of total market turnover. Bank of Guyana's share remained unchanged at 17.2 percent. The US dollar constituted 91.7 percent of the market turnover while CARICOM currency transactions continued to

contract. The Guyana dollar vis-à-vis the United States dollar depreciated by 0.37 percent to G$204.50 at end-December 2012.

The overall financial operations of the public sector recorded a larger deficit due to a widening of the Central Government balance since the Non-Financial Public Enterprises (NFPEs) position improved from a deficit to a surplus. Central government overall position was due to a lower current account surplus and a larger capital account deficit from higher current and capital expenditures, respectively. The overall balance of the NFPEs recovered to a surplus due to an increase in current revenue which more than offset high current and capital expenditure. The overall deficit was financed by domestic borrowing.

The stock of government's domestic bonded debt which represented 17 percent of Gross Domestic Product decreased by 10.9 percent during the review period. This resulted mainly from lower issuance of treasury bills due to the intervention by the Central Bank into the foreign exchange market by selling foreign currency to the commercial banks to sterilize excess liquidity. The stock of external debt grew by 12.7 per cent or 48 percent of Gross Domestic Product mainly from disbursement received under the PetroCaribe Initiative and Inter-American Development Bank (IDB).

The monetary aggregates of reserve and broad money grew by 15.1 percent and 12.4 percent respectively. The former was due mainly to an increase in Bank of Guyana's net foreign assets while the latter resulted from increases in both the net domestic credit and foreign assets. Credit to the private sector increased by 20.0 percent. The commercial banks' saving and lending rates declined on account of a high level of liquidity. However, the spread between the lending rate and the small saving rate increased. Non-bank financial institutions continued to actively mobilize financial resources that resulted in increased claims on the private sector and the banking system.

The conduct of monetary policy continued to focus on price stability while ensuring adequate level of liquidity in the system and creating an enabling environment for economic growth. The Bank continued to use treasury bills in the primary open market operations for the effective management of liquidity. The Bank also used purchases and sales of foreign currency to control liquidity. There was a G$10.5 billion net redemption of treasury bills. The Bank continued to facilitate efficient intermediation through the issuance of notes and coins as well as the promotion of enhanced payment system operation.

The Licensed Depository Financial Institutions (LDFIs) recorded higher levels of capital and profits when compared with the previous year. The Capital Adequacy Ratio (CAR) remained above the prudential 8 per cent benchmark by 13.0 percentage points. The loan portfolio grew by 20.4 percent but the quality deteriorated with a rise in the level of non-performing loans. Notwithstanding, the LDFIs held adequate provision against adversely classified loans.

The Guyanese economy is projected to grow by 5.3 percent as it continued to benefit from favourable terms of trade. This growth is expected to be driven by all sectors of the economy. Inflation is targeted at 4.3 per cent. This position is anticipated from rising food and fuel prices. Against this background, the Bank will continue to manage the expansion in base money and seek to maintain low inflation. Additionally, it will also seek to ensure that credit to the private sector is encouraged to facilitate growth in the economy.

HAITI

Recent Economic Developments and Outlook –April 2013
(*Central Bank of Haiti*)

I. Introduction

The Haitian economy has shown a mixed performance during the first semester of fiscal year 2013 starting on October 1, 2012. While key economic indicators revealed that economic activity was dynamic during the first quarter despite the adverse impacts of Hurricane Sandy on the agricultural sector, estimates for the second quarter suggested that it was slack. Headline inflation has continued its upward trend started since July 2012, albeit a slight decline in January 2013, but it has still remained in single digit. The government financial situation deteriorated due to a decrease in fiscal revenue and a rise in central government expenditures explained by an aggressive public investment programme. The gourde has continued to depreciate against the U.S. dollar in spite of several measures taken by the central bank to smoothen the volatility of the external value of the local currency. The amount of net international reserves is still relatively high (1, 143 billion of dollars). Bank credit to the private sector that was expanding at a remarkable rate during fiscal years 2012 and 2013 slowed down during the first five months of the period under review. Against this backdrop, the central bank has decided in January 2013 to tighten monetary policy by raising the required reserve ratios on both gourde and dollar deposits by five percentage points.

II. Recent economic developments

a) Output and Consumer Prices

Following an expansion of 5.6 % in 2011, the Haitian economy grew by 2.8 % in 2012 and is projected to grow by 4 % in 2013, assuming the continuing dynamism of the construction sector and given a good performance of the agricultural sector. Key indicators of real economic activity published by the statistical office for the first quarter of fiscal year 2013 showed that the economy has performed very well despite the adverse impacts of Hurricane Sandy on the agricultural sector. As a matter of fact, in the first quarter, on an annual basis, the Industrial Production Index increased by 5.1 %, the Index of Construction Activity grew by 7.2 %, the Index of Retail Trade expanded by 14.8 % and the Index of Energy Production rose by 6.0 %. But, provisional estimates suggested that the performance of economic activity in the second quarter was mixed. Regarding the agricultural sector, the harvest of the winter season (November-February) contributing to nearly 30% to the annual local food supply has not been satisfactory. As a result, the national food availability and agricultural income derived from crop sales have been reduced. This explains why, despite the slowdown in food prices on the international commodity market, consumer prices in the local market rose in February 2013 after a slight fall in January 2013. Indeed, after reaching 7.6% in December 2012, year on year headline inflation rose to 7.2% in January 2013 and gained 20 basis points in February 2013 to 7.4%. The jump in overall inflation in February 2013 was mainly due to the influence of food inflation that hit 0.8 % in February 2013 against 0.2 % in January 2013. In addition, according to a report published by the Coordination Nationale pour la Sécurité Alimentaire (National Coordination for Food Security) known as "CNSA", the cost of the food basket has increased again during the first two months of 2013 after a slight decline in December 2012. The real price of the food basket increased from 479.7 gourdes in December to nearly 486 gourdes in January, representing an average increase of 1.3% in January. The underlying inflation (core inflation) that excludes foodstuffs and energy prices from the CPI, showed the same upward trend than overall inflation. In February 2013, it stood at 7.25% against 7.09% in January and 7.15% in December 2012.

Regarding the external sector of the economy, the first semester of 2013 was marked by the depreciation of the gourde against the U.S. dollar. The gourde depreciated by 3.2 % against the U.S. dollar during fiscal year 2012 and by 1.9 % from October 2012 through March 28, 2013. On the other hand, while imports of goods and services declined by 11.1 % in 2012, exports of goods and services increased by 2.2 % (year on year). Meanwhile, during the first quarter of fiscal year 2013, on an annual basis, exports of goods and services expanded by 16.7 % while imports of goods and services accelerated by only 1.7 %. Furthermore, for the first five months of this fiscal year, remittances grew by 15.2% (year on year). The amount of gross foreign exchange reserves reached about 2 billion of U.S. dollars in 2012, the equivalent of six months of imports. Net international reserves moved from 1.3 billion in September 2012 to 1.1 billion of U.S. dollars as of April 1st 2013.

b) Fiscal policy

The financial situation of the government, in the second quarter of 2013, is characterized by a decline in tax revenues while government expenditures are drawn up by investment spending. After a seasonal progression in the first quarter of fiscal year 2013, tax revenue declined in the second quarter of 2013 compared to the same quarter of the previous year. Tax revenues collected in the second quarter of 2013 totaled 9, 888 million of gourdes, a decrease of 12.4% compared to the first quarter of 2013 and 3.9% year on year. This decline in revenue in the second quarter of 2013 is attributable not only to a decline in internal tax revenues, but at a lesser extent, to a reduction of revenue generated by customs duties. Indeed, internal revenue showed a decrease of 14.6% under the combined effect of the income taxes (-21.9%), excise taxes (-35.5%) and other taxes (-10.7%). Customs revenue move in the same direction as the internal revenue with a slight decrease of 4.2% compared to the same period of the previous year. The downward movement of tax revenue since the beginning of the year is due, among other things, to a slowdown in economic activity in the second quarter of 2012-2013.

On the other hand, public spending showed remarkable increase by totaling 13, 447 billion of gourdes for the second quarter 2013 (data available until March 20, 2013), against 9,772 billion of gourdes at the same period of last year. The growth of public spending is largely due to higher capital expenditures estimated at 3, 112 million of gourdes. These expenditures are made to finance the implementation of projects in the field of education, health and road infrastructure and reconstruction of public buildings as well. Overall, the financial operations of the government for the second quarter of the year resulted in a deficit of around 3,956 million of gourdes. This situation brought the government, in addition to the issuance of an amount of 3.2 billion of gourdes of treasury bills, to resort to monetary financing in the amount of 2, 085 billion of gourdes in March 2013.

c) Monetary policy

The main goal of monetary policy at the Bank of the Republic of Haiti is to maintain price stability, that is, to keep inflation low, stable and sustainable over time. Early in the fiscal year 2013, an assessment of the accommodative monetary policy stance implemented since 2010 after the earthquake was performed. It has been noted that the outstanding bank loans to the private sector of the economy registered a strong growth in 2011 and 2012. However, it was observed that the growth rate in bank credit slowed down during the first and second quarters of fiscal 2013, despite the continuation of the accommodative monetary policy stance and the existence of favorable banking conditions. In addition, the structure of credit distribution by categories of beneficiaries revealed that there is no change from previous years during which the largest share of outstanding bank credit was given to the commercial sector with little value added, while the percentage of total credit allocated to the productive sectors that drive economic growth and job creation remained very low. Regarding the movements of the exchange rate, it was found that the pressures that have been developed in the foreign exchange market since the beginning of 2012 have persisted through 2013 in a context of moderate inflation, and despite a series of measures implemented by the central bank in its efforts to smoothen the volatility of the exchange rate.

In light of this economic situation and taking into account the risks to price stability, several measures have been recently adopted. One such measure is a slight tightening of monetary policy by raising the reserve requirement ratios of commercial banks by five percentage points. Thus, the coefficients of the reserve requirement on gourde and dollar liabilities increased from 29% to 34% for commercial banks and non-banking subsidiaries, from 17.5% to 22.5% for savings and mortgage banks. Those liabilities denominated in foreign currencies are passed from 34% to 39% for commercial banks and non-banking subsidiaries, from 22.5% to 27.5% for savings and mortgage banks. The decision to increase the reserve requirement ratios, which came into force on February 1, 2013, is mainly justified by the need to temper the increase in bank liquidity in order to limit its likely impact on the exchange and more generally on consumer prices.

Regarding the interest rates on BRH bonds, it was decided to keep them unchanged at their current levels set since January 2011. Thus, the interest rate on the 7-day BRH bond is 1%, that on the 28-day Bond is 2% and that on the 91-day is 3%. In addition, the repo rate remained at 7%. On the other hand, outstanding BRH bonds which reached 7.7 billion of gourdes in November 2012 fell to about 6.06 billion in December 2012 to remain thereafter around 6.6 billion of gourdes between January and March 2013.

Another measure that was approved in December 2012 and which took effect on February 4, 2013 has to do with the exclusive settlement in local currency of all transactions made within the national territory by payment cards issued in Haiti or abroad. Similarly, the billing for such transactions by credit cards in the territory of the Republic of Haiti must necessarily be in gourdes. This measure is put in place to strengthen several others already taken last year in order to reduce the dollarization of the economy.

Although the exchange rate has remained fundamentally market-driven, the central bank intervened actively in the foreign exchange market during the second quarter of this fiscal year to smoothen the persistent volatility of the exchange rates. Indeed, in January 2013, the exchange rate has exceeded the level of 43 gourdes for one U.S. dollar for the first time since late 2005. This situation is caused by a deficit in the supply of foreign currency coupled with a constantly increasing demand. To calm the pressures on the foreign exchange market, the central bank injected 47 million of U.S. dollars during the second quarter of fiscal year 2013 compared to only 18 million in the first quarter and 17 million in the second quarter of the previous fiscal year. This sale of foreign currencies allowed the central bank to mop up more than 2 billion of gourdes of liquidity in the financial system. Meanwhile, foreign currency swap used to supply commercial banks with dollars in order to enable them to meet the demand of their customers without disrupting the foreign exchange market or altering the stock of official reserves has continued.

In addition to the above-mentioned measures taken to mitigate the persistent volatility of the exchange rate, the monetary authorities have also used moral suasion to encourage commercial banks to adopt a desired behavior that is in line with their objectives. It is important to mention that such monetary policy tool is used either to explain or clarify certain information, to encourage some efforts from the commercial banks or to seek their cooperation to solve a problem. It could also be used to exchange views on a given situation or to make suggestions and even use persuasion to change certain behavior and practices.

In terms of results, preliminary data as at March 20, 2013 show a decline of 3.4% of the broad monetary base compared to December 2012, against an increase of 2.92% in the first quarter of this fiscal year. The trend in the monetary base reflects both the decline in net foreign assets of the BRH (-4.3%) affected by sales of foreign currency in the foreign exchange market, and the net claims on the government as well. These have, in fact, decreased from 3.44% in March 20, which is in contrast with the upward trend displayed since the beginning of the fiscal. As a result of the increase in the amount of bank reserves denominated in gourdes due to higher required reserve ratios, the monetary base in the sense of the monetary and financial program has increased by 1.17% after rising by 1.33% in December 2012.

Regarding broad money, after a slight increase between September and December 2012 (1.29%), it rose by 4.02% according to data available as of end January 2013, due to a substantial increase in Net domestic credit (26.05%) attributed to the growth of credit by the central bank to the government. As for the bank credit to the private sector of the economy amounting to 68.8 billion, it posted a quarterly growth of 4.9%, driven by credits in gourdes (+ 7.34%) and those in dollars (1.6 %) approximately.

Key financial indicators showed that the assets of the banking system declined slightly (0.6%), due especially to the contraction of deposits. Similarly, the ratio of nonperforming loans has trended upward (2.71% in February 2013 against 2.42% in December 2012) but the rate remains relatively low compared to previous quarters. The ratios of profitability indicators showed a slight decrease in performance of the banking system during the second quarter of 2013. ROA has lost 40 basis points to reach 0.99% and ROE stood at 15.08%, down 6.51 percentage points compared to December 2012

III. Conclusion and Short Term Outlook

The gradual improvement of the global economy especially the dynamism of the American economy inducing a fall in unemployment in the United States, the decline of global inflation and the stability of commodity prices, the continuation of the accommodative monetary policy by the Fed are some favorable factors that will positively influence the situation of the Haitian economy and the conduct of monetary policy in the short-run. They could, among other things, help maintain the upward trend of Haitian exports and remittances and the moderate behavior of inflation. All these factors combined could have a beneficial effect on the behavior of the exchange rate. In addition, the effective implementation of certain infrastructure projects and the on-going construction of some important public buildings that have begun during this quarter should lead to further increase in public investments that will contribute to revive economic activity. However, all things being equal, an increase in public investments will promote job creation and income generation and thus provide an impetus for private consumption in the economy. This, in turn, will lead to an increase of imports and by the same token could exacerbate the pressures on the foreign exchange market. It is important to notice that the country is getting closer and closer to the hurricane season that usually starts in June, given its implications for the local food supply. The inflation forecasts for the next three months display a mixed trend with a further increase of consumer prices in April and a slowdown in May and June. The monetary authorities will continue to monitor closely all developments in the national and international economic environments to adjust the policies accordingly.

JAMAICA

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

Summary

Jamaica's Gross Domestic Product (GDP) contracted by 0.3 per cent in 2012, following growth of 1.3 per cent in 2011. The decline was largely influenced by weak external and domestic demand. External demand remained sluggish throughout the year amid a slower pace of economic improvement in the international economic environment relative to 2011. Weak domestic demand was underpinned by subdued investment and consumer expenditure, which reflected increased public uncertainty.

Inflation, as measured by the point- to-point change in the All Jamaica Consumer Price Index (CPI), was 8.0 per cent for 2012 relative to 6.0 per cent for 2011. The acceleration in 2012 reflected the impact of the implementation of new tax measures, higher international grains prices in the first half of 2012 and pass-through of depreciation in the exchange rate.

For 2012, the current account deficit was US$1 902.9 million, an improvement of US$206.8 million relative to the previous year. This improvement reflected declines in the deficits on the Goods and Income sub-accounts, the impact of which was partly offset by reductions in the surpluses on the Services and Current Transfers sub-accounts. Like 2011, net private and official investment inflows were insufficient to finance the deficits on the capital and current accounts in 2012. Consequently, the net international reserves (NIR) of the Bank of Jamaica (Bank) declined by US$840.5 million to US$1 125.6 million at end-2012. Gross reserves represented 13.2 weeks of projected goods and services imports at the end of the year.

There was a marginal improvement in the deficit on the Government's fiscal accounts for 2012 relative to 2011. The lower fiscal deficit was mainly associated with higher revenue inflows of 3.7 per cent.

The Bank maintained the interest rate on its 30-day Certificate of Deposit (CD) and overnight instrument at 6.25 per cent and 0.25 per cent, respectively, throughout 2012. This policy stance occurred despite the emergence of heightened uncertainty among the public and excess liquidity in the domestic financial markets, particularly towards the end of the year.

The weighted average selling rate (WASR) of the Jamaica Dollar vis-à-vis the US dollar continued to depreciate in 2012. In particular, the WASR depreciated by 6.9 per cent relative to depreciation of 0.9 per cent for 2011.

Gross Domestic Product

Economic activity contracted by 0.3 per cent in 2012 relative to growth of 1.3 per cent in the previous year. The contraction reflected the impact of weak external and domestic demand. Low external demand was associated with a slower pace of improvement in the international economic environment relative to 2011. The slower pace of recovery in the global economy was reflected in the lower levels of growth in remittance inflows to Jamaica which also negatively affected domestic consumption expenditure. Weak domestic demand was largely underpinned by uncertainty regarding the signing of an agreement with the IMF on a new borrowing programme as well as higher levels of unemployment and lower real wages.

With the exception of Agriculture, Forestry & Fishing, Hotel & Restaurants and Financing & Insurance Services all industries recorded contractions in 2012. In particular, Mining & Quarrying contracted by 9.1 per cent in 2012 relative to growth of 19.4 per cent in 2011. During the review period, the industry was severely constrained by the slower pace of growth in the global demand for aluminium as well as a decline in domestic capacity utilization. Lower capacity utilization throughout the year was largely attributed to the disruption in production due to electrical and mechanical difficulties at two plants and the loss of working hours associated with the passage of Hurricane Sandy. Consequently, the capacity utilization rate in the bauxite and alumina industries deteriorated to 91.2 per cent and 38.3 per cent, respectively, from 99.3 per cent and 42.8 per cent in 2011. Against this background, total bauxite and alumina production declined by 8.8 per cent and 10.3 per cent, respectively.
Electricity & Water Supply contracted by 0.3 per cent, following a 1.6 per cent expansion in the previous year. The decline for the review year partly reflected the impact of Hurricane Sandy on the distribution infrastructure of both the Jamaica Public Service Company Limited and the National Water Commission. In addition, a national effort to conserve on electricity usage as well as low economic output curbed electricity generation during the review year. As a result, electricity generation and water production contracted by 0.2 per cent and 0.6 per cent, respectively, relative to expansions of 0.5 per cent and 6.3 per cent in 2011.

There was a contraction of 3.8 per cent in Construction for 2012, in contrast to growth of 0.8 per cent in 2011. The decline in the industry reflected reductions in public and private sector projects.

Manufacture recorded a contraction of 0.7 per cent in 2012, compared to an expansion of 1.8 per cent in 2011. The outturn for 2012 reflected lower domestic and international demand for Jamaican manufactured products. The performance of the industry mainly reflected a contraction in Other Manufacturing, the impact of which was partially offset by marginal growth in Food, Beverages & Tobacco.

Transport, Storage & Communication declined by 1.6 per cent in 2012 continuing the trend observed since 2008. The contraction in the industry's value-added reflected a decline in Transport as there was an expansion in Communication. The fall in Transport was influenced by the slowdown in world trade and domestic economic activities which resulted in lower activities at the Island's sea ports. This was reflected in a decrease of 9.2 per cent in total domestic cargo movements the impact of which was partially offset by growth of 17.3 per cent in cruise passenger arrivals. Additionally, reduced mining activity fostered a fall in rail services, further contributing to the overall decline in Transport. The expansion in Communication was primarily attributed to growth in telecommunications activities due to the increase in the average revenue per user of mobile customers associated with a significant reduction in call rates.

Growth in Agriculture, Forestry & Fishing moderated to 2.6 per cent in 2012 relative to the expansion of 9.8 per cent in 2011. The industry's performance reflected expansion in domestic agriculture which was partly offset by a decline in traditional export crops. Domestic crop production continued to reflect the impact of various support programmes and projects to enhance productivity and improve the industry's resilience to unfavourable weather conditions. In this regard, the slower growth in the industry was attributed to the impact of drought conditions during the first half of the year and the passage of Hurricane Sandy in October 2012.

An expansion of 1.8 per cent was recorded for Hotels & Restaurants in 2012, following an increase of 2.0 per cent in 2011. The industry's performance reflected growth in Hotels due to an increase in visitor arrivals. The growth in visitor arrivals reflected the impact of the resumption of flights from Dallas and Fort Lauderdale for the summer months as well as new airlifts from Cincinnati, Nashville and Toronto. However, the impact of these factors was partly offset by the effect of lower airlifts due to warmer winter conditions in the main source markets and travel disruptions associated with the passage of Hurricane Sandy in the March and December quarters, respectively. The expansion in tourism was reflected in growth of 1.8 per cent and 1.7 per cent in total stopover arrivals and visitor expenditure, respectively, relative to increases of 1.6 per cent and 1.3 per cent in the preceding year. In addition, cruise passenger arrivals expanded by 17.3 per cent in 2012, following an increase of 23.8 per cent in 2011.

Financing & Insurance Services recorded an expansion of 0.7 per cent in the review year, in contrast to the decline of 2.4 per cent in 2011. The rebound in the industry was attributed to growth in other income as net interest income continued to decline, albeit at a slower pace. This was in the context of lower holdings of investment securities during the review period.

Labour Market

Labour market conditions deteriorated in 2012 with the unemployment rate (UR) increasing to 13.7 per cent from 12.8 per cent in 2011. The increase in UR reflected a contraction of 0.9 per cent in employment and growth of 0.3 per cent in the labour force. In 2012, the job seeking rate increased by 0.6 percentage point to 8.7 per cent. Construction & Installation, Wholesale & Retail and Hotels & Restaurant were the main industries that recorded contractions in employment in 2012. However, there was increased employment in Electricity & Water Supply and Financial Intermediation. Real wages contracted by 4.4 per cent in 2012, relative to growth of 1.8 per cent in 2011.

Inflation

The annual point-to-point inflation increased to 8.0 per cent in 2012 from 6.0 per cent in 2011. The acceleration was primarily influenced by the implementation of tax measures announced in the FY2012/13 budget as well as shortages in supplies of several agriculture items associated with drought conditions in the first three quarters of the year and the passage of Hurricane Sandy in the December quarter. Inflationary pressures also emanated from a rise in international grains prices in the first half of 2012 and sustained depreciation throughout the year. The impact of these inflationary impulses was, however, moderated by a reduction in crude oil prices, lower communication cost and generally weak demand conditions.

Public Finance

For 2012, Central Government operations resulted in a fiscal deficit of $71.8 billion or 5.4 per cent of GDP. This represented an improvement relative to the deficit of $74.6 billion or 6.0 per cent of GDP for 2011.

The lower fiscal deficit for 2012 was mainly associated with higher revenue inflows as expenditure increased marginally by 1.6 per cent. Revenue was 3.7 per cent above that of 2011, largely reflecting growth of 6.5 per cent and 5.1 per cent in tax and non-tax revenue, respectively. However, the impact of these increased flows was partially offset by a decline of 73.3 per cent in capital revenue. The growth in expenditure was attributed primarily to increases of 6.9 per cent and 0.8 per cent in wages & salaries and interest payments, respectively.

External & Domestic Debt

For 2012, the total debt to GDP ratio increased by 2.2 percentage points to 133.5 per cent of GDP relative to end-2011. The increase for the review year reflected expansions of 2.8 per cent and 12.7 per cent to $767.6 billion (US$8.3 billion) and $995.2 billion in the stock of external and domestic debt, respectively. Growth in the external debt stock in Jamaica Dollar terms was primarily reflective of the depreciation in the exchange rate as the stock fell in US dollar terms. With regard to domestic debt, growth was driven predominantly by an expansion in the value of variable rate instruments offered by the Government.

External Sector: Balance of Payments

The current account deficit of Jamaica's BOP improved in 2012, largely reflecting a reduction in the value of imports amid weak global and domestic demand conditions. The weakness in the global economy contributed to a decline in select commodity prices.

The current account deficit for 2012 is estimated to have narrowed, relative to 2011, by US$206.8 million to US$1 902.9 million (12.7 per cent of GDP). This improvement reflected declines in the deficits on the merchandise trade and the income sub-accounts, the impact of which was partly offset by reductions in the surpluses on the services and current transfers sub-accounts. For 2012, net private and official investment inflows were insufficient to finance the deficits on the capital and current accounts. Consequently, the NIR of the Bank fell by US$840.5 million to US$1 125.6 million at end-2012, with gross reserves representing 13.2 weeks of projected goods and services imports.

For the review period, the merchandise trade deficit narrowed by US$118.9 million relative to the deficit in 2011. This improvement was mainly driven by a decline of US$116.4 million or 2.0 per cent in the value of imports (f.o.b.) and an increase of US$2.5 million or 0.2 per cent in earnings from exports. The estimated decline in imports resulted mainly from reductions of US$113.3 million or 4.6 per cent and US$153.1 million or 8.6 per cent in spending on Mineral Fuels and raw materials, respectively. There were declines in all other categories of imports, with the exception of Miscellaneous Manufactured Goods, Miscellaneous Commodities, Beverages & Tobacco, Crude Materials and Manufactured Goods. Weakness in the global economy contributed to a reduction in select commodity prices, in particular, the average price of crude oil declined by 1.0 per cent for the review year.

The marginal growth in General Merchandise Exports largely reflected an increase of US$116.0 million or 23.5 per cent in Non-Traditional Exports. However, the impact of this increase was partially offset by a decline in alumina exports. The increase in Non-Traditional Exports was associated with higher receipts from chemicals, primarily ethanol.

For 2012, net earnings from services declined by 3.9 per cent to US$643.5 million. This reduction reflected a widening of the deficits on Transportation and Other Services by 6.6 per cent and 1.9 per cent, respectively.

The deficit on the Capital Account widened by US$14.9 million to US$24.0 million for 2012, while the surplus on the Financial Account narrowed by US$192 million to US$1 926.9 million. This deterioration in the Financial Account largely reflected respective declines of US$576.6 million and US$250.6 million in net Private and Official Investment inflows.

Foreign Exchange Market

During 2012, the foreign exchange market was characterized by periods of excess demand, reflecting the impact of reduced private and official capital inflows relative to 2011. The fall in official inflows resulted from the non-disbursement of foreign currency flows from multilaterals, in the context of the delay in finalizing an agreement between the Government of Jamaica (GOJ) and the IMF on a medium term macroeconomic programme. Consequently, daily purchases of foreign exchange from earners averaged US$27.9 million during 2012, relative to the average daily purchases of US$29.1 million in 2011. In the context of these developments, the Jamaica Dollar reflected point-to-point depreciations of 6.9 per cent, 11.9 per cent and 9.8 per cent vis-à-vis the US Dollar, the Great Britain Pound and the Canadian dollar, respectively. This compares to depreciations of 0.9 per cent and 0.5 per cent against the US Dollar and the Great Britain Pound, respectively, and an appreciation of 1.4 per cent against the Canadian dollar in 2011.

Increased instability in the foreign exchange market prompted the Bank to intervene in the foreign exchange market to augment supplies. This resulted in net foreign currency sale of US$524.6 million, in contrast to net foreign currency purchase of US$331.3 million for 2011. The Bank also continued its intermediation through the Public Sector Entities (PSE) facility.

During the review year, the distribution of market activity between the main intermediaries, authorized dealers and cambios, shifted marginally although authorised dealers remained the dominant intermediary. In this regard, the authorized dealers' market share as a percentage of total foreign exchange sales declined to 54.3 per cent from 62.6 per cent for 2011. At the same time, there was an increase in cambios' market share to 45.7 per cent from 37.4 per cent in 2011.

Monetary Policy & Interest Rates

The Bank maintained the interest rate on its 30-day CD and overnight instrument at 6.25 per cent and 0.25 per cent, respectively, throughout 2012. Additionally, the domestic cash reserve and liquid assets requirements were maintained at 12.0 per cent and 26.0 per cent, respectively. This policy stance occurred despite the emergence of heightened uncertainty among the public and excess liquidity in the domestic financial markets, particularly towards the end of the year. The uncertainty was mainly in regards to the timing and content of an agreement with the IMF. This uncertainty resulted in an accelerated pace of depreciation in the exchange rate relative to the previous year.

The increased instability in the foreign exchange market towards the end of the year prompted the Bank to focus on removing the excess Jamaica Dollar liquidity from the system. In this regard, the Bank introduced three special variable rate instruments which were offered to Primary Dealers and commercial banks between 31 October and 05 November 2012.

Outlook

The domestic economy is expected to record moderate growth in 2013 in the context of reduced uncertainties following the signing of an agreement with IMF as well as continued global growth. In addition, the economy is expected to record improved foreign currency inflows which should contribute to the gradual rebuilding of the NIR.

SURINAME

Suriname: Brief Review of Macro Developments in 2012
(*Central Bank of Suriname*)

Summary

The Surinamese economy has continued to fare well, growing at an estimated 4.5% in 2012(in 2011: 4.7%). Mining exports and increased public investments were the main drivers. Inflation has fallen sharply from the 2011 level, whereas conditions in the foreign exchange markets have remained stable. At year-end, the international reserves reached a historical peak of over US$ 1 billion.

As the macroeconomic policy framework continued to be strong and the external indicators outlook improved, Suriname's credit rating was upgraded twice. Within barely a year after two upgrades in the summer of 2011, Fitch allotted the country a BB-/stable outlook rating in July 2012(similar to that of Standard & Poor's). In August 2012, Suriname was also upgraded by Moody's to Ba3/positive.

Real Sector

World market conditions for both gold and oil remained buoyant in 2012, providing the backbone for mining production and exports. Gold recorded the best performance, with export values increasing by 14%, mainly as a result of higher average prices. Oil exports rose modestly despite a slight decline in production. Conversely, the bauxite industry kept performing sluggishly due to low world market prices and relatively high production costs.

Year-over-year inflation declined consistently during 2012, from 15.3% at the beginning of the year to 4.4% at end-December. Most notable price increases were in the categories of foodstuffs and housing and utilities.

Public sector

The fiscal deficit widened from 1.9% of GDP in 2011 to an estimated 2.8% in 2012, mainly on account of a strong increase in government expenditure, driven by a pent-up demand for goods and services after two years of frugal budgets, and a strong increase in capital expenditure. In December, wages of civil servants were raised by 10%, retroactive to January 2012. Wage increases for the first two months were paid out in December; the remainder of the retroactive increase will be paid in the current year.

External sources covered about 80% of total central government financing, entirely from disbursements of long-term bilateral and multilateral loans. Most of the domestic financing was provided by the issuance of domestic Treasury bills. Total government debt increased to 31.9% of GDP at end-2012, with domestic debt amounting to 12.6% of GDP. About two thirds of this amount is debt owed to the Central Bank of Suriname.

Monetary sector

Reflecting the strength of the domestic demand, broad money widened by 21%. The Central Bank of Suriname decided to keep the current reserve requirement ratios unchanged at 25% for domestic currency deposits and at 40% for foreign currency deposits.

Credit to the private sector increased by about 16% in nominal terms. Whereas foreign currency credit growth was strong, domestic credit growth was marginal. The credit dollarization ratio rose by one percentage points to 42%.

The deposit dollarization ratio fell by 4 percentage points to 52% at end-2012.

The average lending rate rose by about 10 basis points, while the average deposit rate increased by 40 basis points.

External sector

Favorable developments of the balance of payments resulted in an increase of USS180 million in international reserves, which reached a historical peak of one billion U.S. dollars at end-2012. This is equivalent to about 5 months of imports. If imports of the mining sectors are excluded, as they are being financed by the mining companies themselves, coverage amounted to almost 8 months of imports.

The external current account remained positive for the seventh consecutive year with a surplus of US$ 240 million. This was mainly driven by exports of the mining sector. Sustained increases of international gold prices hereby positioned gold as the dominant export commodity.

TRINIDAD AND TOBAGO

Review of Economic and Financial Developments - January 2013
(*Central Bank of Trinidad and Tobago*)

In the face of continued uncertainty resulting from the ongoing sovereign debt crisis in Europe, growth prospects in the global economy remain tepid. In January 2013, the International Monetary Fund (IMF) slightly lowered its forecasts for world economic growth for this year from 3.6 to 3.5 per cent and for 2014 from 4.2 to 4.1 per cent. Indeed, the Euro Area debt crisis continues to cast a shadow on global short term prospects despite a series of policy steps taken over the course of 2012. These included a new financing programme for Greece in November 2012 involving measures to buy back the country's sovereign debt and the establishment of a single supervisory mechanism for the Euro Area. All in all, economic activity in continental Europe remained sluggish. The situation was similar in the United Kingdom (UK) despite a boost from the hosting of the Summer Olympics.

There were encouraging signs of a gradual pickup in the United States (US) in 2012. Financial markets became jittery in the final quarter in the run up to the Presidential elections and the potential "fiscal -cliff" related to a combination of steep spending cuts and tax increases that could have occurred at the start of 2013. The sense of policy continuity following the re-election of President Obama, last ditch political compromise to stave off the "fiscal -cliff, and some encouraging housing and labour indicators helped to calm the markets in the first few weeks of 2013.

Even as emerging markets outperformed their industrialized counterparts, they have not been impervious to contagion from the sovereign debt crisis. As a result of this as well as some policy tightening to avoid overheating, growth in China and India experienced a mild slowdown. For the year 2012, China's economy expanded by 7.8 per cent, its slowest rate of growth in thirteen years. India's expansion moderated from 5.5 per cent (year-on-year) in the second quarter of 2012 to 5.3 per cent (year-on-year) in the third quarter of 2012. Russia was also deeply affected by the Euro Area crisis and in the third quarter of 2012, recorded its slowest rate of growth in three years. Within Latin America, the Brazilian economy expanded by 0.9 per cent (year-on-year) in the third quarter of 2012 boosted by government stimulus programmes. Meanwhile, on the African continent, plagued by widespread industrial action, the economy of South Africa expanded by 1.2 per cent (year-on-year) in the third quarter of 2012, which was the country's slowest rate of growth in three years.

The economic climate in the Caribbean remained subdued in light of global fragilities, the associated weakening of external demand and underlying debt problems in several nations. The Economic Commission for Latin America and the Caribbean (ECLAC) estimated that the Caribbean would grow by 1.1 per cent in 2012 and will expand by 2.0 per cent in 2013, down from their previous forecasts of 1.6 per cent and 2.2 per cent, respectively. Unlike their peers in the region, both Guyana and Suriname performed creditably as their real output grew and inflationary pressures remained contained during 2011 and early 2012. In contrast, activity in Barbados remained stagnant, mostly due to the lacklustre performance of the tourism sector, while Jamaica's economy slipped back into recession in 2012.

The Trinidad and Tobago economy displayed signs of modest growth in the third quarter of 2012. Provisional estimates from the Central Bank's Quarterly GDP Index indicate that the economy grew by 1.5 per cent (year-on-year) in the third quarter. After four successive quarters of contraction, the energy sector expanded by 0.5 per cent as higher production of natural gas and liquefied natural gas (LNG) offset a decline in petroleum and petrochemical output. Meanwhile, following several months in which construction was severely affected by a strike in the cement industry, the non-energy sector strengthened in the third quarter with growth of 2.2 per cent. Growth in the non-energy sector was driven mainly by activity in the finance sector (2.4 per cent) and the distribution sector which expanded by 4.0 per cent. For the first nine months of 2012 as a whole, economic activity is estimated to have slipped by 0.5 per cent relative to the same period a year earlier.

Inflation eased during the second half of 2012 as a result of a deceleration in food prices. Headline inflation declined from 12.6 per cent (year-on-year) in May 2012 to 7.2 per cent in December, as the food inflation rate fell steadily from 28.3 per cent to 12.7 per cent over this period . Contributing to the trajectory of food prices were greater availability of vegetables and fruit, and a removal of Value Added Tax in mid-November on some food items. Moreover, by year end international grain and cereal prices had softened, reducing the inflationary impetus from abroad. A relatively stable core inflation rate during the second half of 2012 was indicative of a lack of underlying demand pressures. However, a rise in the price of premium gasoline in October helped to nudge the core inflation rate to just over 3 per cent.
Official statistics showed some tightening of labour market conditions in the first quarter of 2012. The unemployment rate increased to 5.4 per cent in the first quarter of 2012 from 4.2 per cent at the end of 2011. This primarily resulted from large increases in the number of unemployed persons in the construction sector as well as in community, social and personal services. The construction sector was affected early in 2012 by the 90-day strike at Trinidad Cement Limited (TCL). Subsequent data for April through December 2012 showed a lowering of retrenchment notices filed with the Ministry of Labour and Small and Micro Enterprise Development when compared to the same period a year before—a tentative indicator that employment conditions may not have worsened.

Monetary policy remained accommodative throughout 2012. The Central Bank reduced the repo rate by 25 basis points to 2.75 per cent in September 2012, after holding it at 3.00 per cent for fourteen consecutive months. The latest repo rate reduction prompted commercial banks to shave their loan rates - the median prime lending rate declined by 25 basis points to 7.50 per cent at year end.

The relatively low interest rate environment has not coincided with a significant boost to private sector credit. The 12-month increase in private sector credit by the consolidated financial system was 3.8 per cent in November 2012. The most consistently vibrant category of credit growth over the course of 2012 remained real estate mortgage lending, while business credit lost some momentum.

Modest private sector credit demand and large fiscal injections led to a buildup of liquidity in the financial system toward year end. The Central Bank used its range of instruments to contain the increase in excess liquidity. The measures included requesting commercial banks to roll over maturing special deposits held at the Bank, and to increase the amount of such deposits by $1.5 billion. In the highly liquid financial environment, interest rates, including those on government securities, slipped further.

Central Government operations resulted in a deficit of $1.8 billion in fiscal year 2011/12. The deficit outcome reflected a continuation of the government's expansionary fiscal stance, but was significantly lower than the budgeted and initial estimates provided in October 2012 ($7.6 billion and $6.1 billion, respectively). The 2011/12 deficit exceeded the $1.1 billion recorded in the previous year, due to a combination of lower energy revenues and higher spending. Meanwhile, preliminary data suggest that during the first two months of fiscal year 2012/13 the fiscal accounts recorded a deficit of $2.3 billion. Energy revenue declined by over 50 per cent in the October to November period of 2012, in comparison to the same period one year earlier, largely as a result of lower crude oil prices and production levels, while expenditure rose by 13.8 per cent.

In 2012 the movement in gross official reserves suggested that the external accounts registered an overall deficit of $622.1 million. This compares to a surplus of $752.6 million in 2011. At the end of 2012, the level of gross official reserves amounted to $9.2 billion or 10.4 months of prospective imports of goods and non-factor services .

The general consensus among analysts is that a modest global recovery could continue, but there remain huge downside risks. The IMF has forecasted global growth at 3.5 per cent in 2013. Growth in advanced economies is estimated at 1.4 per cent, and emerging and developing economies could lead the way, expanding by about 5.5 per cent. While the US economy continues to show signs that the recovery could be solidifying, concerted political action is necessary to shore up the country's long-term fiscal position. Over in Europe, the ongoing debt crisis still occupies the minds of sovereign authorities and financial market participants. Latest Fund projections put Euro area growth in 2013 at -0.2 per cent. Closer to home, the IMF expects the Caribbean region to grow by 3.5 per cent in 2013, with risks broadly aligned with the global recovery.

Partial end of year data point to further strengthening of non-energy activity, while energy statistics paint a mixed picture. Construction activity seemed buoyant as local sales of cement grew by 4.1 per cent year-on-year. New motor vehicle sales in October were 24.3 per cent higher (year-on-year) and private sector credit continued its steady rise. While local retailers have given differing reviews on the strength of Christmas sales, the trend towards online shopping appears to have strengthened. In October and November, production of crude oil, natural gas and petrochemicals declined. LNG production has remained resilient however, registering year-on-year growth of 10.1 per cent in the final quarter.

Growth in the Trinidad and Tobago economy is estimated at 2.5 per cent in 2013. The expansion is anticipated to be fairly broad-based with both the energy and non-energy sectors carded to increase, supported by continued fiscal stimulus. Inflation is projected to average 5.8 per cent for the year, but this projection will be particularly sensitive to developments in global food prices as well as to domestic weather patterns which would impact the availability of local produce. Monetary policy is likely to remain accommodative barring large inflationary surprises.

There are good signs that the energy sector will grow in 2013 after two consecutive years of contraction. Company officials indicate that the large downtime in the energy sector in 2011 and 2012 because of significant maintenance activity is not likely to reoccur in 2013. Most of the maintenance programmes this year could bunch around the third quarter. Ministry of Energy personnel noted that they are in discussion with energy companies to coordinate their plans in order to smooth out the timing of disruptions. All in all, natural gas output is projected to rise by around 5 per cent in 2013, with positive spillovers to the petrochemicals industry. The pace of the secular decline in oil output due to aging oil fields is likely to be tempered by production from Petrotrin's Jubilee field coupled with expected activity from the company's newly signed licenses for Trinmar and North Marine acreages. Exploration activity should also receive an impetus from the signing of new Production Sharing Contracts from the 2010 and 2012 bid rounds.

A rise in non-energy activity is also expected in 2013. The construction sector could receive a boost from large Government infrastructure and road work projects including the Point Fortin Highway and the Accelerated Housing Programme. If many of these projects are implemented simultaneously however there is a danger of bottlenecks occurring, resulting in temporary shortages and escalation of costs for construction workers and building materials. Strength in the banking industry will continue to drive the finance sector in 2013; relatively ample liquidity should facilitate business and indeed, household finance. In this context, a step up in business and consumer confidence could translate into a notable increase in private investment and consumer spending.

The cautiously optimistic outlook needs nonetheless to be tempered by an appreciation of the associated risks. Clearly the external setting is an overarching concern (including the fortunes of Caribbean neighbours) given the implications for demand and prices for Trinidad and Tobago's energy exports as well as imports of food, intermediate products and capital equipment. External financial market volatility could also ultimately impact on inward as well as outward capital flows, although the short term impact on Trinidad and Tobago is likely to be low. Domestically, if there is heightened tension in the industrial relations climate, productivity could suffer a major setback. Slow implementation of the public sector investment program could stymie growth in the non-energy sector. At the same time, the fiscal situation needs to be carefully guarded in order to ensure that capital spending is devoted to high quality projects with strong social returns and that the public debt remains at manageable levels.