CARIBBEAN CENTRE FOR MONEY & FINANCE

CARIBBEAN ECONOMIC PERFORMANCE REPORT

December 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 Economic Developments

World economic growth in 2013 thus far has been slow and fragile. Global growth has been estimated at 2.5% with a projection of 2.9% for the entire year compared with 3.2% in 2012. The Euro area is projected to decline slightly while the US is expected to grow by 1.6%. Emerging and developing economies are projected to grow by 4.5%, China achieving a 7.6% growth rate, India 3.8% and Brazil 2.5%. World trade is expected to grow by 2.9% while commodity prices in 2013 are below levels reached in 2012. Unemployment rates remained high in the major developed economies such as the US (7.6%), UK (7.7%), and Canada (7.1%). Net flows of financial capital to emerging and developing economies continued to decline in 2013. Portfolio capital decreased from US$229.9 billion in 2012 to US$154.3 billion in 2013, while net foreign direct investment declined from US$465.5 billion to US$423 billion. One bright spot in the global trade and finance situation is a 5.3% growth in tourist arrivals, although it is to be noted that arrivals in the Caribbean grew by only 0.1%.

Economic Growth

Economic growth in the Caribbean has not been impressive thus far in 2013. While Guyana and Suriname performed strongly between January and June with GDP growth rates of 3.9% and 4.5% respectively, Trinidad and Tobago modesty grew by 2.1% while the other countries namely Belize, the ECCU, Curacao and Sint Maarten, reported positive growth rates which did not grow faster than 1%. Some countries actually contracted, namely Barbados by 0.6%, Jamaica by 0.7%. The strong performers did so because of the buoyancy of their mineral commodity exports. Some of the poorly performing economies reflected continuing weakness in tourism and related economic industries, while others had depressed or sluggish activity in other sectors including agriculture, construction, manufacturing and energy.

Inflation

Inflation rates subsided almost everywhere in the Caribbean. There was a slight increase from 7.2% in June 2012 to 7.8% in June 2013 in Jamaica, from 0.2% to 0.1% in Belize and from 1.8% to 0.2 % in Guyana, but in the other countries the rate of inflation slowed, substantially in Aruba, The Bahamas, Curacao and Sint Maarten.

Labour Markets

Labour market conditions remained depressed in the first half of 2013. This is not surprising in view of weaknesses in leading economic sectors and diminished fiscal capacity of governments to raise employment levels in the public sector.

Fiscal Balance

Surpluses on current fiscal accounts were achieved in the first two quarters of 2013 by six of the nine countries reporting. Large fiscal surpluses were achieved in Trinidad and Tobago (US$385mn), Guyana (US$144mn), and Jamaica (US$81mn). Belize, ECCU and Suriname had smaller surpluses of US$37mn, US$37.1mn and US$7.2mn respectively. In Trinidad and Tobago, the fiscal surplus decreased by 35% in comparison with the surplus for the corresponding period in 2012. Current account fiscal deficits prevailed in Aruba, The Bahamas, Barbados and Curacao. In Aruba, the deficit fell from US$82.2mn to US$52.5mn. In The Bahamas, the change was from US$10.6mn to US$43.6mn, while in Barbados the deterioration was much larger from US$94.5mn to US$185mn. Curacao's deficit increased from US$6.2mn to US$24.1mn. Overall fiscal surpluses were achieved in the January-June 2013 period in Belize, Guyana, Jamaica and Trinidad and Tobago. While the overall fiscal surplus was a minor US$2.6mn in Belize, it was more sizeable in Guyana (US$83.3mn), Jamaica (US$115.8mn), ECCU (US$48.5mn), Aruba (US$67.9mn) and Trinidad and Tobago (US$59.1mn). Suriname and Curacao were in overall fiscal deficits of US$156.4mn and US$38.9mn respectively. Information was unavailable for Barbados, The Bahamas, Haiti and Sint Maarten. A few factors seem to explain much of the fiscal experience of the countries. In many cases, increases in wage and salary payments were a significant influence on public expenditures, reinforced in some cases by substantial increases in transfers and subsidy payments and offset in other cases by no less substantial reductions in transfers and subsidy payments. Interest payments on the public debt were also important. Where they fell considerably as a consequence of debt renegotiations or contraction of foreign debt, the pressure on expenditure was alleviated; where they rose, the pressure on expenditures was intensified. Finally, most countries succeeded in boosting revenues, Barbados being the exception. In Barbados, all major revenue categories underperformed in 2013 compared with 2012.

Banking and Finance

The countries are characterised during the first half of 2013 by persistent excess liquidity and low interest rates, reflecting depressed loan demands from the business sector in a general situation of weak economic growth. This was very much a continuation of earlier trends. In comparison with the corresponding period in 2012, private domestic credit grew minimally in Belize (1.7%), somewhat more in Jamaica (2.3%), Netherland Antilles (3.7%), Aruba (4.3%), Guyana (4.8%) and Trinidad and Tobago (5.6%) but declined by 1.9% in Barbados and by 1.5% in the ECCU. Haiti and Suriname were the countries with large credit expansions, 17.3% in Haiti and 16.1% in Suriname, an experience reflective of the comparatively stronger economic growth in Guyana and Suriname and international trade growth in Haiti. Commercial banks in Aruba, ECCU, Guyana, Jamaica and Netherland Antilles sought to preserve profit margins by increasing interest spreads. In The Bahamas, Barbados, Belize, Haiti and loan rates of interest decreased more than deposit rates of interest, resulting in falls in interest spreads. Bank deposits increased substantially in six of the nine countries reporting, with decreases only in The Bahamas, Jamaica and the Netherland Antilles. It is worth noting that in Jamaica the share of dollar-denominated deposits in total deposits rose from 29% in June 2012 to 41% in June 2013. There was minimal to moderate growth (0.5% - 5%) of total bank loans outstanding in Barbados, Belize, Jamaica, Netherland Antilles and Trinidad and Tobago. In marked contrast, there was a 5.8% expansion in Guyana, 22% in Suriname and 75% in Haiti. Only in The Bahamas (-2%) and the ECCU (-1%) did total loans outstanding decrease. Credit to the private sector also expanded moderately in Jamaica, Netherland Antilles, Belize, Aruba and Trinidad and Tobago, more substantially in Guyana, Suriname and Haiti, but declined in The Bahamas and the ECCU. There were pressures on bank profitability resulting in lower rates of return on assets in most cases. Credit quality also came under pressure with a significant rise in the ratio of non-performing loans to total loans in Barbados. However, capital adequacy indicators of bank soundness remained strong.

Public Debt

Total public debt, already at elevated levels in relation to GDP in many countries at the end of 2012, increased in a few countries (The Bahamas, Barbados and Suriname) during the first six months of 2013. Total public debt decreased minimally in Belize and the ECCU and substantially in Jamaica and Curacao. Some countries, namely The Bahamas, Barbados, ECCU, Guyana and Suriname increased the proportion of domestic debt in their total public debt stock thereby appearing to substitute domestic debt for foreign debt. External debt did not increase much in any country and there were sizeable percentage reductions in Guyana and Barbados.

External Current Account

Current account deficits seem to have come under pressure during the early period of 2013 compared with 2012.

There are instances of widening deficits and reducing surpluses, although on the favourable side Jamaica substantially reduced its current account deficit. The trade balance was dominated by weakly performing tourism industries in the service-dominated economies and by short-term production problems in the commodity-producing economies.

External Capital Account

There was a stronger performance on the external capital accounts. Net inflows in January-June 2013 were much larger than in the corresponding period in 2012 in Jamaica, Suriname, Aruba, and Belize. However, The Bahamas, Barbados and Guyana performed less well. In each of these latter countries, the two-quarter surplus in 2013 was less than its counterpart in 2012. Not much data were available on foreign direct investment but what is available shows foreign direct investment decreasing in The Bahamas, Guyana, Jamaica, and Belize. In contrast, Aruba experienced a change from large net outflows to a modest net inflow. The position with portfolio investment does not appear to be any better than the situation with respect to foreign direct investment.

International Reserves

The international reserves experience thus far in 2013 is quite varied. In the first quarter, the monetary authorities' stock of international reserves increased in Aruba, Belize and ECCU but decreased in The Bahamas, Barbados, Guyana, Jamaica, Curacao and Sint Maarten, Suriname and Trinidad and Tobago. Things turned around in the second quarter. International reserves decreased in Aruba and the ECCU but increased in The Bahamas, Jamaica, and Trinidad and Tobago. Decreases continued in Barbados, Guyana, Curacao and Sint Maarten and in Suriname. The import coverage of international reserves was not substantially affected by the changes in reserve stocks except in Barbados where import cover was reduced from five months to four months and in Suriname where it was reduced from five months to three months.

Economic Prospects

The economic growth prospects for Caribbean economies in 2013 are more favourable than the experience of 2012 when many ECCU member countries and Jamaica regressed. The International Monetary Fund projections are that in 2013 The Bahamas, Belize, the ECCU and Jamaica will grow within a range of 0%- 2%, with ECCU members Grenada and St Lucia together with Jamaica being at the lower end of the range. Haiti will grow at 2.8% respectively. Growth in Guyana and Suriname will be faster at 5.3% and 4.7% respectively. Barbados is the only country projected to decline in 2013 with a 0.8% fall in GDP. The International Monetary Fund expects even stronger economic growth performance in 2014 in The Bahamas, Guyana, Haiti, Jamaica and Trinidad and Tobago. The economic growth rate is forecast to become slower in Suriname and be a larger negative in Barbados.

2.0 GLOBAL ECONOMIC DEVELOPMENTS

The global economy in the first half of 2013 continued to experience relatively low growth with a propensity for reversals reflecting underlying structural weaknesses in many large developed economies and vulnerability to major downside risks. The regional dynamics in the first half of 2013 have begun to shift with stronger growth in developed countries now counter-balanced by slower more sustainable growth in emerging economies; nevertheless emerging economies still account for the bulk of global growth. The main risks to the global economy, however, remain firmly on the downside and continue to frustrate a robust and widespread recovery in the global economy.

The performance of the global economy reflects the continuing high degree of uncertainty and the related fragile consumer and business confidence which is driven by factors such as inadequate and incomplete policy responses, lingering vulnerabilities in the international financial system from the recent crisis, structural problems and high unemployment in many developed economies, geopolitical risks and global economic 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. This problem of adjustment fatigue is evident in many emerging economies as well and is potentially the major risk to a full recovery given the apparent lack of political consensus in major economies as to the best strategy to solve the problem.

The recent partial shut-down of the US government because of the failure to reach consensus on how to deal with the underlying fiscal imbalance represents an extreme manifestation of this problem. The fact that no agreement was reached on a credible medium- term fiscal strategy means that this is likely to occur again in the near term. The fragility is also reflected in the response of the markets to a hint by the Federal Reserve after its mid-year meeting that the programme of quantitative easing could be reduced. The immediate increase in long-term yields led to asset price losses in Europe and tightening of funding conditions, as well as losses on equity markets and depreciating currencies in emerging markets. Not surprisingly, the Federal Reserve did not begin tapering of asset purchases in September and with the ECB subsequently stating unambiguously that interest rates will remain low in the medium term some calm returned to markets and funding costs eased. Very importantly, however, long-term bond yields are still up since the end of May 2013, implying that the markets have already priced in a tightening in US monetary policy. This implies that financing for emerging markets may be tighter in the future which can lead to significant problems for countries with large external funding requirements.

Overall global economic growth remains relatively weak and comparable to the performance in the second half of 2012. Stronger growth in the US is helped by easing fiscal consolidation, accommodative monetary policy, the recovering real estate sector and easier bank lending conditions. In Japan quantitative easing and fiscal stimulus has helped to boost growth in the first half of 2013. In the Euro Area business confidence indicators suggest that economic activity is stabilising in the periphery and recovering in the core, but funding costs remains a challenge. In emerging economies, a combination of stronger exports driven by recovering developed economies, strong domestic consumption and tighter funding conditions will mean growth slows somewhat but remains relatively strong especially in China. In this environment global growth averaged 2.5% in the first half of 2013, roughly the same pace as the second half of 2012 and is expected to average 2.9% for the whole year but it is lower than the 3.2% achieved in 2012. Global growth is expected to improve further to 3.6% in 2014 (See Table 1).

Table 1: GLOBAL ECONOMIC GROWTH

	World	Advanced Economies	USA	Euro Area	Japan	Emerging and Developing Economies	LA	Brazil	China	India
2011	3.9	1.7	1.8	1.5	-0.6	6.2	4.6	2.7	9.3	6.3
2012	3.2	1.5	2.8	-0.6	2.0	4.9	2.9	.09	7.7	3.2
2013	2.9	1.2	1.6	-0.4	2.0	4.5	2.7	2.5	7.6	3.8
2014	3.6	2.0	2.6	1.0	1.2	5.1	3.1	2.5	7.3	5.1

Source: World Economic Outlook: November 2013, IMF.

The policy tension between the promotion of growth and the need for medium term fiscal consolidation is still very strong in the Euro Area and the US. Recent policy initiatives may have eased uncertainty, but there is a need for credible medium term fiscal sustainability programmes for these developed economies which are based on entitlement benefits and tax reforms, as well as better targeted expenditure programmes. All of which is needed to place growth on a more secure footing. In the near term, however, private demand does not appear to be strong enough to allow governments to consolidate since recent events demonstrate that the recovery is still dependent on policy stimulus. In Europe generally, but particular in the periphery countries, private demand is held back by high private debt, depressed household incomes and high unemployment. Critically, unemployment is expected to increase significantly in 2013 to 12.3 % in the Euro Area and remain relatively stable in 2014 in all the other advanced economies (See Table 2).

Table 2: 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	3.2	1.9
2013	8.1	7.6	4.2	12.3	7.1	7.7	5.6	3.2	2.1
2014	8.0	7.4	4.3	12.2	7.1	7.4	5.5	3.2	2.3

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

In these conditions the recovery of private consumption is likely to be very slow. Consumer expenditure, which is central to growth dynamics 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 Table 3).

Table 3: CONSUMER EXPENDITURE GROWTH IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany
2011	1.6	2.5	0.4	0.3	2.3	-0.4	2.3
2012	1.2	2.2	2.3	-1.4	1.9	1.1	0.8
2013	1.3	2.0	2.0	-0.7	2.2	1.7	0.8
2014	1.8	2.4	0.9	0.5	2.0	1.9	1.1

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

Inflationary trends are expected to continue to be muted in 2013 and 2014. This is based on relatively large output gaps in many countries (since the pick-up in economic activity in developed economies is not large enough to cause significant reductions in the output gap), slowing demand from important emerging economies and improved supply conditions in commodity markets which have softened prices. Notwithstanding the low inflation environment, idiosyncratic domestic factors have increased inflationary pressures in some countries such as supply side bottlenecks and currency depreciation in South Asia and Latin America respectively (see Table 4).

Table 4: 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	7.1	6.6	5.4	8.4
2012	2.0	2.1	0.0	2.5	1.5	2.8	6.1	5.9	2.6	10.4
2013	1.4	1.4	0.0	1.5	1.1	2.7	6.2	6.7	2.7	10.9
2014	1.8	1.5	2.9	1.5	1.6	2.3	5.7	6.5	3.0	8.9

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

The expectation of reductions in quantitative easing in the US has led to increase in long term bond yields and tighter funding conditions in emerging markets in particular. Bond markets in emerging economies are now more sensitive to monetary policy developments in developed market economies since foreign investors have been crowding into emerging markets and may now withdraw funds as interest rate expectations in developed economies change. These flows have in some cases been attracted by unsustainable trends such as currency appreciation and search for yield which makes them highly susceptible to reversals. The potential for liquidity problems to occur especially in countries with high external funding requirements in this tighter funding environment is now a major risk for some emerging market economies. This could set the stage for sudden reversals in capital flows and the attendant crisis in capital and currency markets in some emerging and developing economies. The expectation of lower capital flows to emerging markets in the near future is predicated on these changing interest rate expectations (See Table 6).

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

Year	2007	2008	2009	2010	2011	2012	2013	2014
Net Portfolio Inflows	98.3	-78.4	57.3	184.5	79.0	229.9	154.3	130.4
Net FDI Inflows	444.6	471.8	329.8	409.1	526.7	465.5	423.0	435.5

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

The trend in international trade reflects the weak growth in the first half of 2013. 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 2.9% in 2013 and to 4.9% 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	12.8	6.1	2.7	2.9	4.9
World Trade in US dollars Price Deflators	-10.4	5.6	11.1	-1.8	-0.1	0.2
Volume of Exports in advanced economies	-11.6	12.4	5.7	2.0	2.7	4.7
Volume of Exports in Emerging and developing economies	-8.0	14.0	6.8	4.2	3.5	5.8

Source: World Economic Outlook: November 2013, IMF

Commodity prices have broadly tracked the trajectory in the global economy with prices softening due to decreased demand from important emerging markets, most notably China. Improvement in supply has also helped to drive prices lower in the first half of 2013. The main commodity groups all declined in the first half of 2013 relative to the same period in 2012, with energy, metals, agriculture and beverages all registering significant falloff between the first halves of 2012 and 2013. The sharp drop in metals to date is due in large part to improved supplies and growing signs of a slowdown of the construction sector in China. Energy prices fell in the first half of 2013 mainly because of lower demand in India, China and the Middle East. The latest data for 2013, however, indicate that energy prices have since risen, reflecting various supply interruptions and the renewed geopolitical concerns in the Middle East and North Africa.

In terms of commodity price prospects as reflected in future prices there is a general weakness in non-energy commodities. This is in keeping with improved supply and weak growth in 2013 relative to 2012. Non-energy commodity prices are expected to remain muted in 2014 while energy prices are expected to firm moderately because of risks related to geopolitical tensions in the Middle East and North Africa (See Tables 8 and 9).

Table 8: SELECTED COMMODITY PRICES

Commodity	Actual				Forecast	
	Jan-Dec 2012	Jan-June 2012	Jan-June 2013	Latest Sept. 2013	Jan-Dec 2013	Jan-Dec 2014
Crude Oil – average $/bbl	105.0	107.7	102.2	108.8	105.0	105.7
Natural Gas US - $/mmbtu	2.8	2.4	3.8	3.6	3.7	4.0
Al1uminum - $/mt	2023.3	2080.5	1918.2	1761.3	1800.0	1850.0
Rice Thai 5% - $/mt	563.0	562.7	551.9	444.0	500.0	490.0
Sugar (World) - cent/kg	47.5	49.9	39.8	38.4	39.0	38.5
Bananas (US) - $/mt	984.0	1015.85	918.4	937.0	930.0	945.0

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

Table 9: COMMODITY PRICE INDICES (2005=100)

Commodity	Actual				Forecast	
	Jan-Dec 2012	Jan-June 2012	Jan-June 2013	Latest Sept. 2013	Jan-Dec 2013	Jan-Dec 2014
Energy	187.4	192.3	183.4	192.1	180.8	179.0
Non Energy	190.0	191.1	180.8	169.9	176.9	176.4
Agriculture	194.0	192.2	182.9	172.5	182.3	178.7
Beverages	166.2	167.2	150.9	150.2	146.7	150.5
Food	211.6	205.3	200.7	186.5	201.6	192.2
Metals	174.0	180.6	170.4	161.8	159.3	165.9

Source: Commodity Price Pink Sheet, October 2013 and Commodity Price forecast July 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 6.1% in the first half of 2013 when compared to a 4.9% increase in the same period in 2012. On a year to date (YTD) basis tourist arrivals grew by 5.3%, significantly above the long term growth of 4.0%. 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 (See Table 10).

In terms of the regional distribution of tourist arrivals on a YTD basis, advanced economies (5.0%) grew at a slightly slower pace than emerging economies (5.6%) in the first eight months of 2013 compared to the same period in 2012. This robust performance was driven by strong growth in arrivals in all major regions except perhaps the Americas (3.2%) with the Middle East (6.8%) and Asia and the Pacific (6.3%) being the best performers. The relatively slow growth in the Americas was due largely to the Caribbean which saw visitor arrivals grow by only 0.1% in the first eight months of 2013. The growth in arrivals is reflected in tourism receipts, with Asia and the Pacific again leading the way with growth in destinations such as Thailand (27%), Hong Kong (25%), Japan (19%), India (14%) and Malaysia (12%) recording double digit growth in tourism receipts.

Very interestingly, the leading countries in terms of expenditure by source markets are emerging economies including China which recorded a 31% increase in expenditure abroad with India, the Russian Federation and Brazil recording significant increases in tourism expenditure. Traditional source markets in developed economies such as the US, Canada and the Europe recorded much lower growth (1% - 5%).

The outlook for the tourism industry is for growth to exceed 4% this year on the back of the 5% recorded up to August 2013. Growth in the international tourism industry is expected to keep growing at just under the long term average of 4% over the medium term. Emerging market destinations are likely to continue leading growth in the international tourism industry as tourist 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		Percentage change over previous year				
	2011	2012	2012Q1	2012Q2	2013Q1	2013Q2	2013YTD
Europe	**516.8**	**534.7**	**4.2**	**3.2**	**6.8**	**5.7**	**5.4**
Northern Europe	64.5	65.7	4.6	2.6	4.1	3.2	3.4
Western Europe	161.5	166.7	5.0	3.3	4.9	4.4	4.0
Cent./East. Europe	103.9	111.6	8.0	8.0	2.1	7.7	7.4
South./Med. Europe	186.9	190.7	0.6	0.7	6.2	6.5	6.1
Asia and the Pacific	**218.5**	**233.6**	**8.7**	**8.0**	**7.2**	**4.9**	**6.3**
North-East Asia	115.8	122.8	8.4	8.6	3.7	1.6	2.9
South-East Asia	77.5	84.6	10.0	7.7	2.8	10.2	11.8
Oceania	11.7	12.1	4.5	5.2	5.0	3.0	4.3
South Asia	13.5	14.1	7.8	6.2	5.2	5.7	6.1
Americas	**156.0**	**163.2**	**7.3**	**3.1**	**2.9**	**2.7**	**3.2**
North America	102.1	106.7	8.1	2.2	4.2	3.8	4.3
Caribbean	20.1	20.9	3.9	4.4	0.4	-0.9	0.1
Central America	8.3	8.9	8.2	7.9	4.0	2.2	3.0
South America	25.5	26.7	7.5	4.4	1.0	1.1	1.6
Africa	**49.6**	**52.8**	**4.2**	**7.6**	**4.1**	**3.5**	**5.0**
North Africa	17.1	18.5	9.5	11.8	1.7	3.3	6.1
Sub-Saharan Africa	32.6	34.4	2.3	5.2	5.0	3.7	4.4
Middle East	**54.4**	**51.1**	**5.7**	**-8.9**	**27.6**	**4.3**	**6.8**
Advanced Economies	**531.0**	**552.0**	**6.1**	**3.6**	**5.3**	**5.0**	**5.0**
Emerging Economies	**464.0**	**484.0**	**6.2**	**3.7**	**8.5**	**4.9**	**5.6**
World	**995.0**	**1035.0**	**6.1**	**3.7**	**7.3**	**4.9**	**5.3**

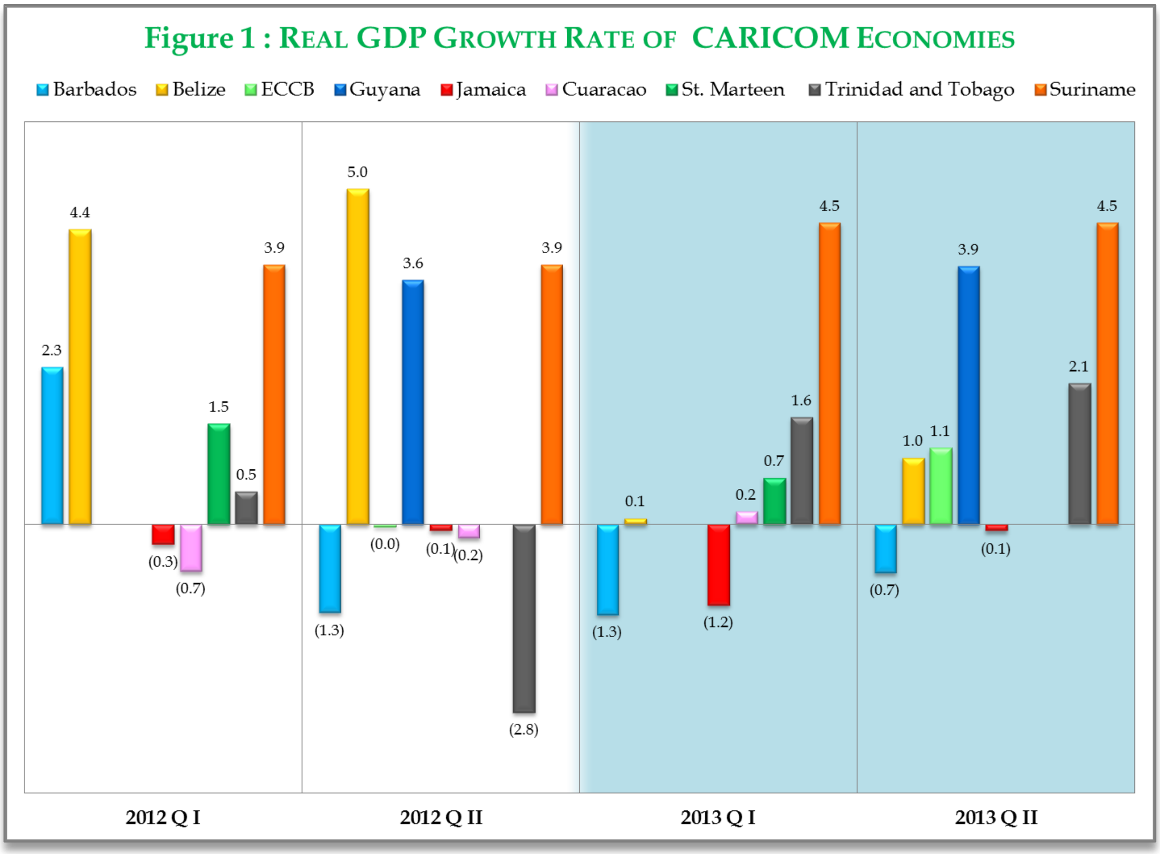
Source: UNWTO World Tourism Barometer Volume 11, October 2013

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 the expenditure on tourism and its high growth in this regard in the last ten years implies that it has huge potential as a source market for tourists.

The increasing competition from new destinations implies that mature destinations have to improve their competitiveness if they want to increase market share. Factors such as complicated visa procedures, direct taxation of tourism activities and limited connectivity with the travel markets via travel sites and social media has been identified as some of the major impediments to growth in tourism. Indeed, research by the World Tourism Organisation (UNWTO) and 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



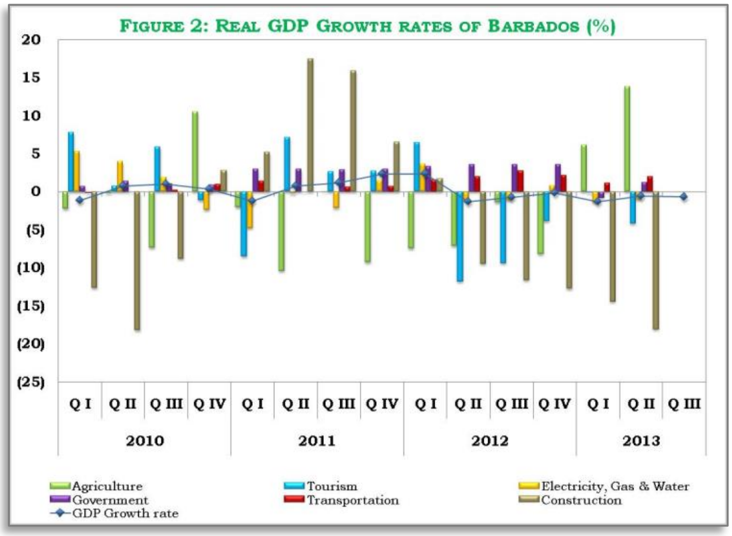
A very slow and sluggish increase in economic activities seems to be occurring within the CARICOM region for Jan-June 2013. The CARICOM countries continue to struggle with the uncontrolled externalities of the global economic slowdown that has almost crippled some of their economies. Real GDP growth rates for the economies were mixed for the period January to June 2013 (Figure 1). There were economies such as Guyana and Suriname that continued to report strong positive growth rates for Jan-June 2013. Then there were the economies that registered very low but still positive growth rates for the same period, namely Belize, ECCU, Curacao and Sint Maarten and Trinidad and

Tobago. The remaining economies Barbados and Jamaica reported negative growth rates for real GDP in January to June 2013.

Aruba's real GDP growth has contracted significantly in the past eight years moving from 7.9 %(2004) to -1.2 %(2012) (See Box 1) . However, preliminary indicators of economic activity for 2013 have suggested that there is a gradual improvement in economic activities. Tourist arrivals for the first half of the year 2013 have increased, a 1.6 %increase was reported. The IMF has estimated minimal growth for Aruba for the year 2013, which they say is because of (1) Aruba's vulnerability to business cycles in source countries that drive tourism and FDI into Aruba and (2) the fluctuation in international oil prices that affected the profitability of oil refining.

Economic conditions in The Bahamas were also relatively subdued for the period Jan-June 2013. The Tourism sector continued to weaken, with declining tourist arrivals, for the first six months of 2013 from the advanced economies via air and sea. The uptick in construction activity which was due to foreign investment-led projects however was able to offset the overall economic slowdown.

FIGURE 2: REAL GDP GROWTH RATES OF BARBADOS (%)



The first half of 2013 saw an estimated contraction of 0.6 %in economic activities for Barbados. The main foreign exchange currency earning sectors that is Tourism and International Business and Financial Services contracted for this period. Tourism in Barbados continues to underperform; its output was reported to have declined by 1.4 %for the first half of 2013. Manufacturing output was virtually flat, following a seven per cent contraction recorded between 2011 and 2012. No improvements were recorded in any of the sub categories in Manufacturing for the period Jan-June 2013. This sector continues to be affected by persistent weak demand in both the domestic and external markets. The Construction and Agriculture sectors also remained depressed in the first half of 2013. This slowdown in economic activities seems to be prevailing throughout 2013 as indicators of economic activities as at September 2013 suggest this, see Figure2.

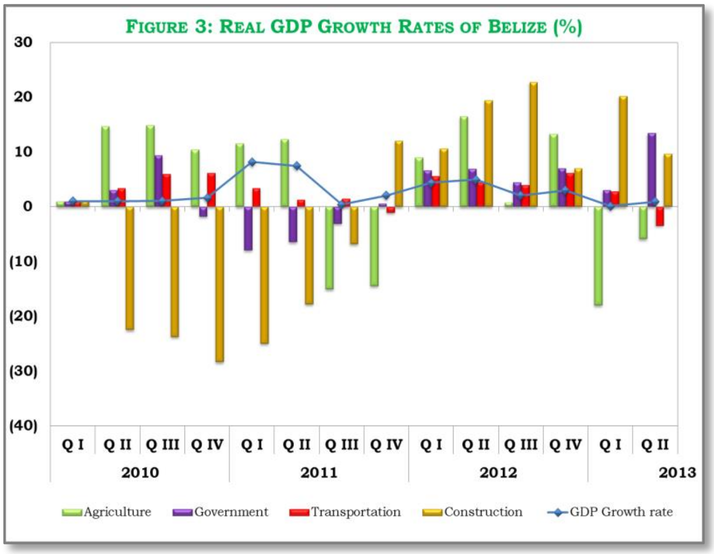
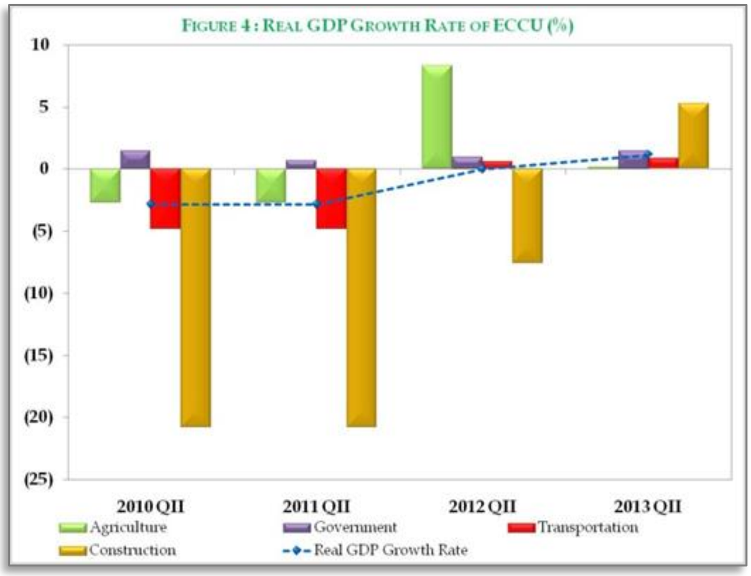


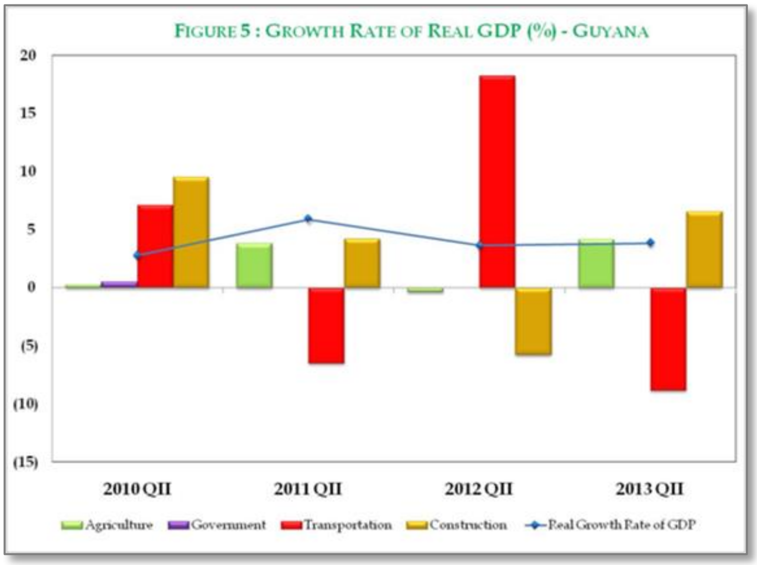
FIGURE 3: REAL GDP GROWTH RATES OF BELIZE (%)

A noteworthy decrease in economic activities in Belize for the period January to June 2013 was registered. There was a contraction from 4.7% (January – June 2012) to 0.5% (January – June 2013). There were declines in the Agriculture sector (citrus output) and domestic hydro-electricity generation and petroleum extraction that led to the overall decline in the Belizean economy. Sectors that did register growth for the first six months of 2013 were those that benefitted from an increase in cruise and overnight visitor arrivals – Hotels & Restaurants, Transport & Communication and Wholesale & Retail Trade. Also the Fishing Industry reported growth for the period January to June 2013 because of an increase in the activities of farmed shrimp production.

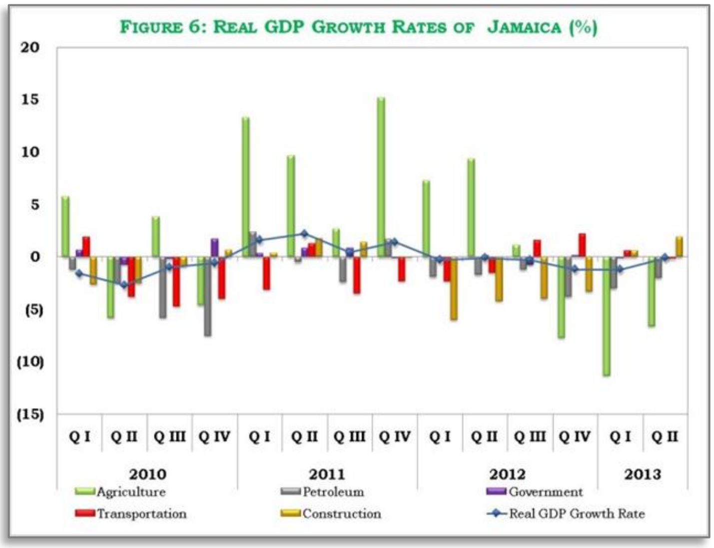


Economic activities within the ECCU for the period Jan-June 2013 remained relatively low, but appear to be slowly on the rise. The real GDP growth rate reported for the period was 1.1 per cent, an increase when compared to the negative rate of 0.03 %reported for 2012 for the same time period. The improvement in output was reflective of the general improved performance across the ECCU member countries, except for Anguilla which recorded negative economic growth. Sectors registered output increases for the first six months of 2013 were Construction, Hotels and Restaurants, Agriculture, Livestock and Forestry. The construction sector was the major driver of the ECCU economies in the first half of 2013, particularly in the public sector construction projects. Value added in the Agricultural, Livestock and Forestry sector is estimated to have increased in the first half of 2013 relative to that of the corresponding period of 2012, as banana output increased, having recovered from the effects of the black sigatoka disease in St. Lucia, Grenada and St. Vincent and the Grenadines. There were sectors within the ECCU such as Wholesale and Retail Trade and Financial Intermediation that contracted during the period Jan-June 2013. Preliminary indicators suggest that the overall performance of the Manufacturing sector within the ECCU declined, with a partial offset because of increased production of beverages in Dominica, Grenada and St. Vincent and the Grenadines. The Tourism sector in the ECCU member countries was also reported to have contracted, due mainly to a decline in cruise ship arrivals, a contraction of 6.9 %was reported for January – June 2013 compared to a four per cent decline in the previous year for the same time period.

The Guyanese economy maintained its positive and increasing growth in real GDP into 2013 with a reported 3.9 %increase in economic activities for the period January - June 2013; a three percentage point increase when compared to rate for January - June 2012 (3.6 %) . All major sectors of the economy reported increases in their output for the first half of 2013, with the Services sector contributing more than 60 %to the growth in GDP.



Haiti continues to slowly build back its economy since the earthquake in 2010 and Hurricane Sandy in October 2012. Preliminary indicators of economic activity show that growth is very modest because of the rebound of agriculture; the main sector which accounts for 20 %of GDP is slower than expected because of ongoing drought conditions. Also reconstruction and growth in non-agricultural output continues to be constrained by persistently low execution rates of capital spending, rooted in long-standing weak capacity of the economy to rebuild and structural impediments, as well as private sector participation.

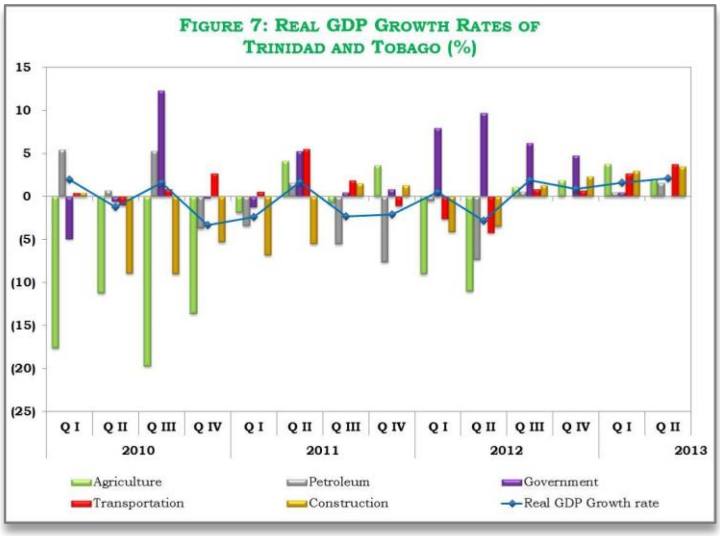


A contraction of 0.7 %is estimated to have occurred in the Jamaican economy during Jan-June 2013, continuing the trend of low or no economic growth for the country since 2008. For the first six months of 2013 most of the industries reported declines in their output. Only three sectors registered any improvements in economic activity, namely Construction & Installation, Transport, Storage & Communication, Finance & Insurance Services and Real Estate, Renting & Business Activity.

In the monetary union of Curacao and Sint Maarten, economic activity remained weak for the first three months of 2013, as was reflected by a real GDP growth of 0.2 %in Curacao and 0.7 %in Sint Maarten. Economic activity in Curacao for the first quarter of 2013 was a result partly because of growth in the public sector and private sector. In the public sector the main source was an increase in net taxation, while in the private sector it was from the Restaurants & Hotels, Transport, Storage and Communication and Financial Intermediation. In Sint Maarten the 0.7 %growth in economic activity for the first quarter of 2013 was considered a slowdown in the economy when compared to the 1.5 %reported for the same period in 2012. The sectors that registered output increases for the period were Manufacturing, Construction, Restaurants & Hotels, and Wholesale & Retail Trade.

Suriname reported an estimated 4.5 %growth in Real GDP for the first half of 2013, representing a notable increase in the economy when compared to the 3.9 %reported in 2012 for the corresponding time period. The main drivers for Suriname's sustained positive growth rate for the first half of 2013 were the increase in output from public investments in infrastructure, health and education, private investment in the mining industry and buoyant private construction activity. Suriname's positive economic growth rate for the past four years has been linked to the mining of bauxite, alumina and oil; however a decline in their production was reported for the first half of 2013.

Economic activities in Trinidad and Tobago appear to be increasing but at a cautiously slow pace. Comparing the estimated growth rate of Real GDP for January to June 2012 and 2013 we see that there is an increase in economic activities. The reported growth



rates of real GDP increased from a negative growth rate of 2.8 % for the second quarter of 2012 to a positive rate of 2.1% for the second quarter of 2013. The increase in output was linked to the non-energy sectors such as Construction (1.9%), Distribution (1.2%) and Finance (5.3%) are what has been sustaining the economy for the first quarter of 2013. The traditional mainstay sectors of the economy – energy and agriculture, have not been as productive for the past six quarters resulting in a relatively stagnant economy.

SUSTAINING POTENTIAL GROWTH – ARUBA[1]

Aruba's real GDP growth has been on a downward slide since 1990. There was a temporary turnaround in output in 2011 however in 2012 real GDP contracted again. The IMF's estimates of Aruba's potential output using two method[2] show that potential output has been on a declining trend over the years. The low and declining growth performance of the Aruban economy is linked more to its lack of structural competiveness rather than its competiveness in the tourism sector. There are certain impediments to doing business in Aruba that have either directly or indirectly affected its ability to be competitive, namely, the rigidities that exist within the labour laws with regards to hiring and firing procedures; high cost of borrowing for new entrepreneurs and unclear and complex licensing requirements for starting a business.

The IMF's use of the Cobb-Douglas production function with constant returns to scale suggests that the slowdown in growth during the past decade can largely be attributed to falling total factor productivity. Aruba's 2010 population census shows that the share of population above 65 years has increased from 7.4 per cent in 2000 to 10.4 per cent in 2010, and is expected to more than double in 2030. The projected decline in labour force poses a challenge for sustaining the current potential growth rate. The Central Bureau of Statistics projected three growth scenarios for 2010 – 2030, in all three scenarios the high level of immigrant workers required will add increased pressure on housing and other basic infrastructure such as health and educational services.

ARUBA: CBS'S THREE SCENARIO PROJECTION 2010-2030

					2030	
	2010-2015	2015-2020	2020-2025	2025-2030	Required Immigration (person)	Immigrants (% of total population)
				LOW SCENARIO		
Growth real GDP (%)	1.26	1.19	1.12	1.06	45025	37.4
Growth labour productivity (%)	0.5	1	1	1		
Unemployment	7	5	5	5		
				MID SCENARIO		
Growth real GDP (%)	2.13	1.93	1.76	1.61	74121	48.3
Growth labour productivity (%)	0	0	0	0		
Unemployment	7	6	5	5		
				HIGH SCENARIO		
Growth real GDP (%)	3.01	2.62	2.31	2.07	88741	52.1
Growth labour productivity (%)	0	0	0	0		
Unemployment	7	6	5	5		

Source: IMF's Kingdom of the Netherlands- Aruba: Selected Issues and Statistical Appendix (August 2013)

The current rate of 64.7 per cent labour force participation rate in Aruba is considered low when compared to the members of the European Union (72.2%), where low participation is recognized as a key obstacle to growth performance. This simulation has highlighted the need for government to determine ways they can increase productivity.

It was suggested by the IMF that Aruba needs to maintain its current price competitiveness in tourism while trying to diversify its source markets[3]. The main recommendation was the need to improve the structural competitiveness of Aruba and they suggested that efforts be made to focus on:

(1) *Improving the ease of doing business by making the recently established one-top-shop for investors operational.*
(2) *Improving labour market flexibility, pursing domestic reforms (such as social benefits and the pension scheme) to increase the labour force participation rate and adopting a comprehensive immigration plan coordination with social partners.*
(3) *Working with new entrepreneurs to foster an understanding of financial management and create incentives for reducing borrowing costs, including greater competition in the banking systems.*
(4) *Aim to finance its renewable energy sector and other future growth initiatives sustainably. That is, secure financing without jeopardizing external sustainability; they may need to think of ways to attract FDI flows.*

1 This is a summary of the IMF's Kingdom of the Netherlands- Aruba: Selected Issues and Statistical Appendix (August 2013) – Sustaining Potential Growth by Haiyan Shi.
2 A time-trend polynomial function and the Hodrick – Prescott filter.

3.2 INFLATION

FIGURE 8 (A): CARICOM INFLATION RATES (POINT TO POINT) (%)

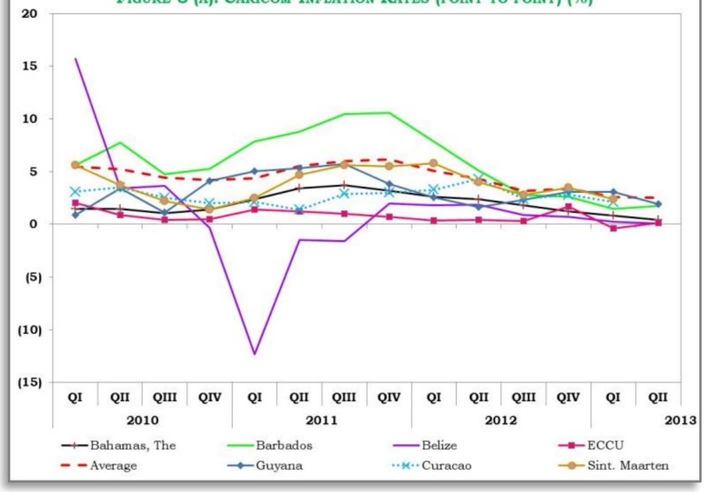
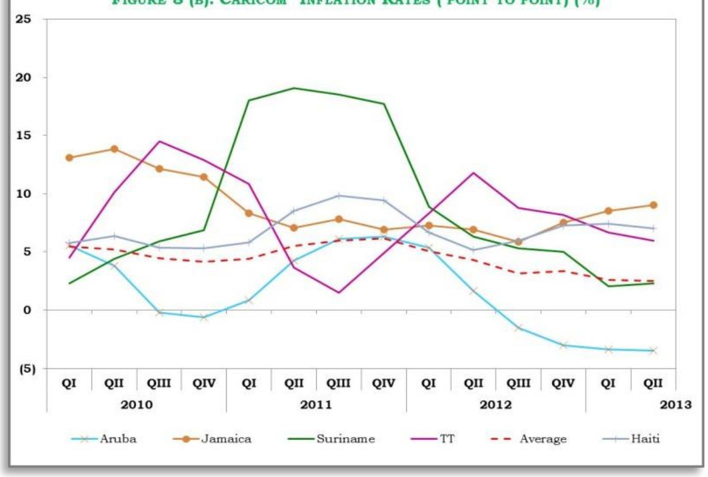


FIGURE 8 (B): CARICOM INFLATION RATES (POINT TO POINT) (%)



The CARICOM economies are all reporting lower levels of inflation for the period Jan-June 2013, suggesting a deflationary trend occurring. For the period January to June 2013, the Caribbean economies reported inflation rates that ranged from -3.47 %(Aruba) to 9.02 %(Jamaica). Of the eleven countries, only three of them – Haiti, Jamaica and Trinidad and Tobago experienced higher levels of inflation during January-June 2013. The main source of inflationary pressures was adverse weather conditions which affected food prices locally and internationally in some of the economies.

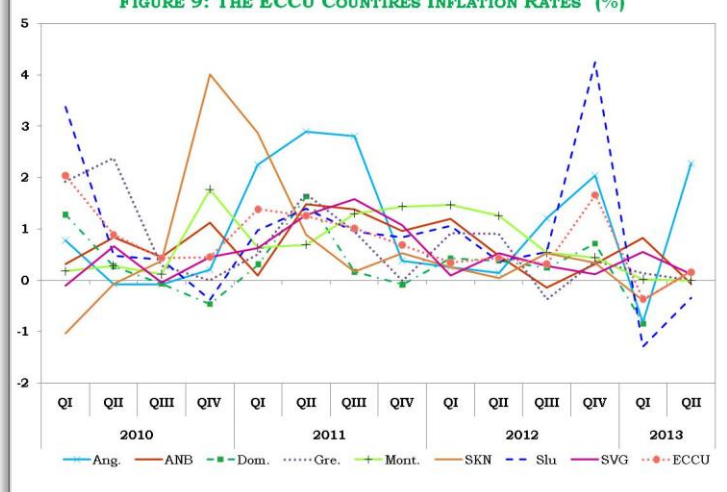
Aruba's inflation rate has been subsiding since the second quarter of 2012 when the inflation rate of 1.6 %to a negative rate of 3.5 %at the end of the second quarter of 2013. This deflation in prices stemmed mainly from falling prices in the Housing, Clothing and Footwear and Household Operations. The average inflation rate for Aruba at August 2013 was minus three per cent.

The average inflation rate in The Bahamas for the period January to June 2013 was 0.4%, a considerable decrease when compared to 2.4% reported for the corresponding period in 2012. A fall in prices was registered in the category of Food and Non-alcoholic beverages by 2.86 percentage points to 0.55 %. For the first six months of 2013 in The Bahamas, average cost easing was also reported for Furnishings (by 2.29 percentage points to 0.65 per cent), Household equipment and routine maintenance (by 1.36 percentage points to 0.73 per cent), clothing and footwear (0.87 percentage points to 0.66 per cent) and health and education (0.83 percentage points to 1.66 per cent).

Barbados reported a decline in prices for food, housing, fuel and light, household operation and supplies and transportation for the first six months of 2013. The estimated 12-month average rate of inflation slowed significantly from 8.4 %(January - June 2012) to 2.7 %(January – June 2013).

There was a slight increase in inflationary pressures in Belize for the first half of 2013. The average price level was 0.1 %higher than its reported rate for the same period in 2012. The source of this increase in prices was higher cost of rice, beef and poultry which contributed to a one per cent increase for Food and Non-Alcoholic Beverages. Also increase in prices in Health (4.9%), Recreation and Culture (1.9%) and Restaurant and Hotels (0.8%). Ameliorating the inflationary pressures were a decrease in prices for Miscellaneous Goods and Services (-2.6%), Clothing and Footwear (-2.1%) and Communication (-1.9%).

FIGURE 9: THE ECCU COUNTIRES INFLATION RATES (%)



Inflationary pressures within the ECUU were almost non-existent in the first six months of 2013. The average inflation rate for the ECCU declined by less than 0.1 %in contrast to a one percent increase reported for the corresponding period in 2012. Inflation rates within the ECCU for January to June 2013 ranged from -

0.34 %(St. Lucia) to 2.3 %(Anguilla). The lower rate of inflation was influenced by reductions in clothing and footwear (St. Lucia), education (St. Kitts and Nevis) and medical services (ECCU).

Guyana's consumer prices rose marginally by 0.15 %at the end of June 2013. The price index for clothing, footwear and repairs and furniture decreased by two per cent, 9.6 %and 1.6 %respectively during the period January to June 2013. Also the overall prices of food decreased by 0.51 %as a result of the general decline in food prices worldwide and increased production of basic food products domestically. Notably though there were price increases in the sub-category of meat, fish and eggs, milk products and fruits.

In the first half of 2013, the inflation rate for Haiti increased from 5.17 %(January to June 2012) to 7.8 per cent. This increase of 2.63 percentage points stemmed largely from pressures on domestic food supplies and prices and from currency depreciation. Inflation in Jamaica for the first six months of 2013 has been predominantly reflective of the impact of adverse weather conditions on domestic agricultural products and the pass-through effects of the depreciation of the exchange rate. At the end of June 2013 the annual average inflation rate for Jamaica was 7.8 per cent, a minor increase when compared to the 7.2 %reported for the same period in 2012. Weak domestic conditions had a moderating impact on inflation for January to June 2013.

There was an ease in inflationary pressures for both Curacao and Sint Maarten for the first quarter of 2013. In Curacao the inflation rate declined from 3.3 %(first quarter of 2012) to 2.1 %(first quarter of 2013). The reported decline was linked to prices decreases in Transport and Communication (-0.9%), Health (-0.6 %), Food (4%), Beverages and Tobacco (2.1%) and Recreation and education (0.55%). Sint Maarten's inflation rate for the first quarter of 2013 was 2.1 per cent, a decrease of 3.4 percentage points. This ease in inflationary pressures in Sint Maarten was a result of a slowdown in food price increases combined with a decline in electricity prices.

Suriname's inflation rate was 1.2 %at the end of the second quarter of 2013, signaling falling prices when compared to the inflation rate of two per cent reported for the same period in 2012. The inflationary pressure that did exist was driven by price increase in food items and non-alcoholic beverages as unfavourable weather conditions affected the prices of fruits and vegetables by almost 30 %during the first quarter of 2013.

Inflationary pressures eased in Trinidad and Tobago because of lower global food prices, the removal of Value Added Tax on domestic food items and stable weather conditions. This was reflected in the fall in the average inflation rate from 10.1 %(January – June 2012) to 6.3% (January –June 2013).

3.3 LABOUR MARKET

The CARICOM region is currently experiencing a period of protracted low economic growth and by extension the labour market conditions are depressed. In 2012, The Bahamas, Barbados, Belize and Jamaica all reported unemployment rates that were above ten percent (Figure 10). The availability of data of the performance on the CARICOM economies' labour market has always been very sparse and continues to be for the first half of 2013 (Figure 11).

Figure 10 : UNEMPLOYMENT RATES (%) OF CARICOM COUNTRIES

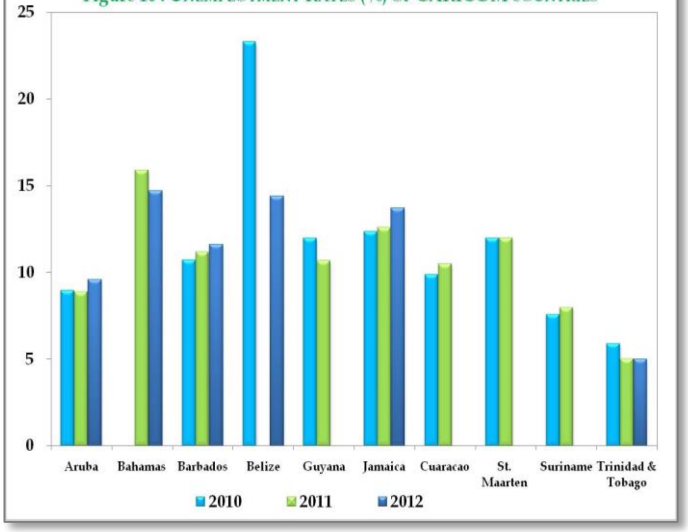
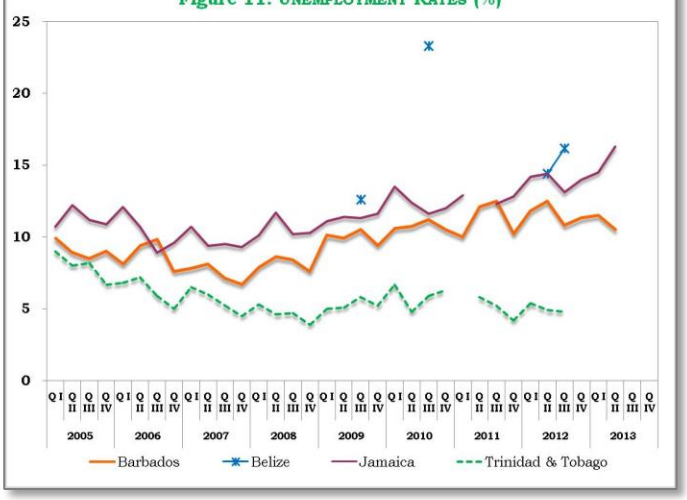


Figure 11: UNEMPLOYMENT RATES (%)



In Barbados the pressures on the labour market appeared to have eased slightly, with an estimated unemployment rate of 11.1 %for Jan-June 2013, compared to the 12.2 %reported for the same period in 2012.

Guyana's total public sector unemployment rate increased by 1.1 %from December 2012 to June 2013. This position reflected an expansion of labour within core civil services by 2.8%. However, employment in public corporations declined by 0.1 %on account of 0.4 %reduction in Guyana Sugar Corporation (GUYSUCO) recruitment, the greater share of public sector employment. Labour unrest was confined to GUYSUCO during the first half of 2013. The number of work stoppages increased by 10.3 %to 96 from 87; while man-days lost was lower at 12038 from 27,435 at end of June 2012.

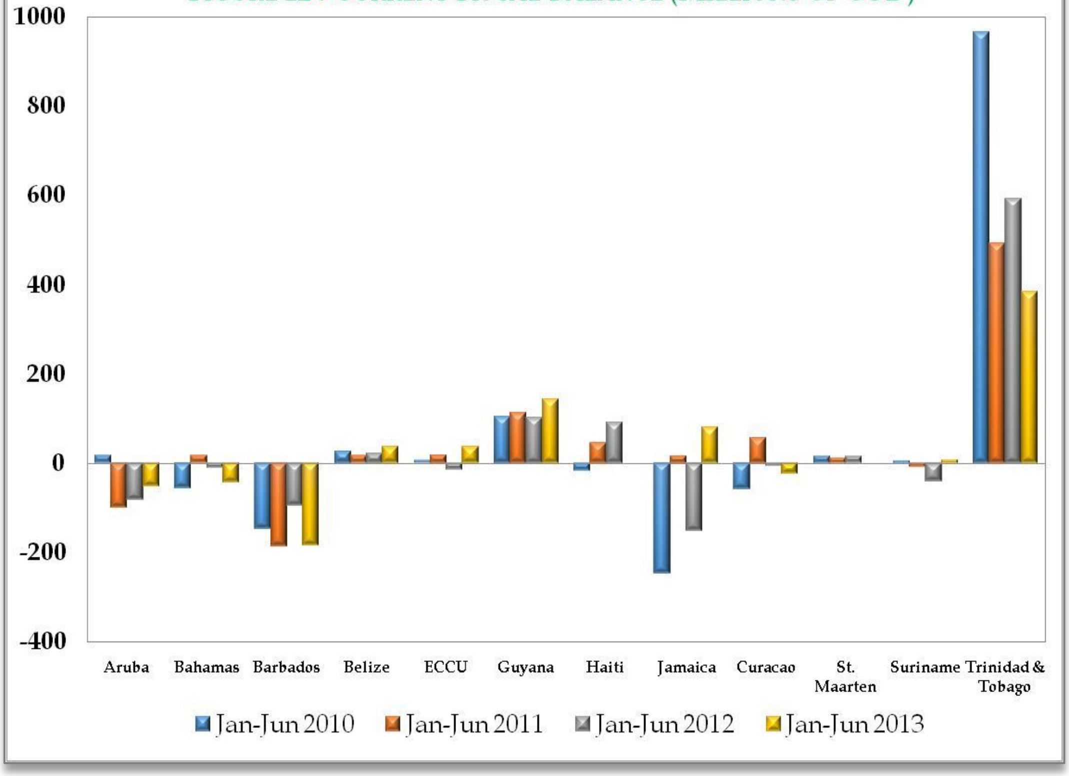
The unemployment rate for Jamaica as at April 2013 was 16.3 per cent. This represented an increase of 1.9 percentage points when compared to the 14.4 %reported for April 2012. Jamaica's high level of unemployment was reflective of an increase of three per cent growth in labour force which outweighed the marginal growth of 0.8 %in employment. Concurrently, the job seeking rate increased to 10 %from 8.8 %(April 2012). Unemployment levels were higher in the following sectors – Manufacturing, Financial Intermediation, Transport, Storage and Communication, Wholesale and Retail Trade and Hotels and Restaurants.

Preliminary indicators of the labour market in Trinidad and Tobago suggest that unemployment rose in the first six months of 2013. The number of retrenchment notices filed with the Ministry of Labour and Small and Micro Enterprise Development increased by 20.1 %when compared to the same period in 2012. Sectors that experienced an increase in the number retrenched for the period January to June 2013 were Petroleum and Other Mining Industries; Assembly Type and Related Industries; Printing, Publishing and Paper Convertors; Finance, Insurance, Real Estate and Business Services and Educational and Cultural Community Services.

3.4 FISCAL ACCOUNTS

3.4.1 Current Fiscal Accounts

FIGURE 12 : CURRENT FISCAL BALANCE (MILLIONS OF USD)



The performances of the Central Governments were mixed among the countries for which data were available. Among the reporting countries, Belize, the Eastern Caribbean Currency Union (ECCU), Guyana, Jamaica, Suriname and Trinidad and Tobago recorded surpluses on the fiscal current account in the first half of 2013. For all such countries, except Trinidad and Tobago, the surplus was an improvement on the half-year current fiscal balance in 2012. The remaining countries, namely, Aruba, Barbados and Curacao, closed the first half of 2013 in a current fiscal deficit position. Despite registering a deficit, the current fiscal position of Aruba improved.

In Barbados and Curacao, the current account deficit for the first half of 2013 widened relative to the comparable period in 2012 while in Aruba, the deficit narrowed. For the first two quarters of 2013, the current account deficit in Aruba contracted by 36.2% or US$29.7 million vis-à-vis the corresponding period in 2012. The improvement is the result of a 6.6% increase in current revenue and a simultaneous 3.1% decrease in current expenditure. The most notable contributors to the enhanced revenue performance were non-tax revenue, international tax revenue and income tax revenue with increases of 18.5%, 8.2% and 2.1% respectively. On the expenditure side, the impact of a significant 29.2% narrowing of transfers and subsidies was lessened by spikes in wages and salaries (8.1%) and interest debt payments (8.2%).

In Barbados, the current deficit widened by a significant 95.7% to end the second quarter of 2013 at US$185 million, up from US$94.5 million at the end of the second quarter of 2012. All major categories of current revenue decreased, including income tax (23.6%), international trade tax (3.7%), sales tax (11.8%) and non-tax revenue (26.7%), resulting in an overall 14.8% decline in current revenue. On the expenditure side, the impact of a 9.5% increase in transfers and subsidies was partially countered by a 4.7% decrease in interest debt payments, owing to an US$11 million fall in external indebtedness. The net effect was a 2.3% increase in current expenditure. The most significant deficit expansion was experienced in Curacao where the current account deficit increased by a whopping 292% in the first half of 2013 relative to the first half of 2012. At the end of the second quarter the current account deficit stood at US$24.1 million, an almost four-fold increase over the comparable period the previous year. It is also noteworthy that the current account balance plummeted from a surplus in the first quarter of 2013 to a deficit in the second. The Central Bank of Curacao and Sint Maarten reported the most notable increase in government expenditure to be transfers and subsidies to households, primarily due to the introduction of a general health insurance scheme. Notably, outlay on goods and services and public service remuneration also increased. The concomitant decline in government revenues owed to lower tax revenues, a lingering impact of the reduction in profit and income tax rates in 2012. The decline was moderated by increased sales tax revenue.

The Republic of Trinidad and Tobago suffered a significant decline in its current account surplus when compared to its position at the end of the first half of 2012. The current account surplus shrank from US$593.5 million for the first six months of 2012 to US$384.8 million for the first six months of 2013, a 35.2% decline. The depressed position came as the pace of the growth of current expenditure outstripped that of current revenue for the first half of this year relative to the first half of last year. Increases in all revenue aggregates, including income tax (10.9%), international trade tax (10.7%), sales tax (11%) and, most of all, non- tax revenue (44.3%), yielded a 20.5% increase in total current revenue. The Central Bank of Trinidad and Tobago (CBTT) attributed the increase in non-tax revenue to higher profits from state enterprises and increased collections from the Water and Sewage Authority (WASA) as a result of water improvement rates. Increases in all lines of current expenditure, including goods and services (4.5%), wages and salaries (36.6%), transfers and subsidies (39.5%) and interest debt payments (6.6%), caused the growth of current expenditure to outpace that of current income by 10.4% for the first two quarters of 2013 relative to the comparable period in 2012. According to reports from the CBTT, the climb in transfers and subsidies was on account of increased petroleum subsidy payments and higher transfers to local government bodies, WASA and the Public Transport Service Corporation (PTSC). The increase in wages and salaries accompanied the completion of salary negotiations.

In contrast to the Trinidadian experience, Belize and Guyana enjoyed higher surpluses in their current account for the period under review. In Belize, the current account surplus widened to US$37 million in the first half of 2013, a steep 61.4% jump from US$23 million in the first half of 2012. All current expenditure aggregates increased except interest debt payments which experienced a 69.7% decline that was sufficiently large to net a 5% (US$9.4 million) decline in current expenditure in the first two quarters of 2013 compared to the first two quarters in 2012. According to the Central

Bank of Belize, the sharp reduction in interest payments was on account of the external debt exchange and the capitalization of interest that fell due in the first quarter of 2013. Despite a 30% fall in non-tax revenue and a 7.3% fall in international trade tax revenue, total current revenue still recorded an aggregate increase, though marginal.

In Guyana, the current account surplus at end-June 2013 stood at US$83.3 million or 5% of GDP, a 1.1% improvement over the end-June 2012 position (3.9% of GDP). This performance reflected growth in current revenue and complimentary shrinkage in current expenditure. An 11.5% increase in outlay on personal emoluments was insufficient to counteract the combined impact of decreases in transfers and subsidies (16.1%), interest payments (13.5%) and goods and services (8.6%) resulting in an aggregate decline of 4.9% in current expenditure as at end-June 2013 compared to end-June 2012. The Central Bank of Guyana reports that the decrease in transfers and subsidies was mainly on account of reduced contributions to local and international organizations, while the decrease in the purchase of goods and services reflected a decline in material equipment and supplies and the maintenance of infrastructure. Conversely, current income experienced an aggregate increase (10.5%) twice that of the decrease in current spending due to increases in all revenue lines. The Central Bank also reports that increased collections from business income tax, property tax and estate tax bolstered tax receipts while a US$3.5 million dividend from financial institutions increased non-tax receipts.

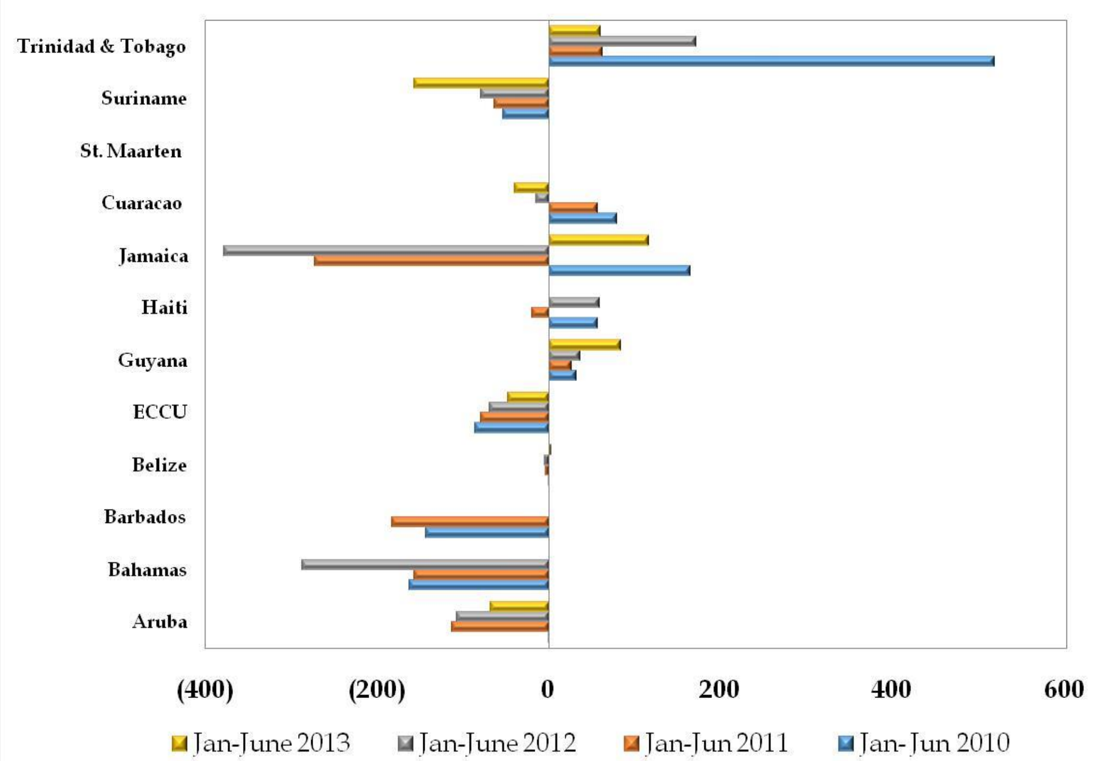
Central Government performance in Suriname, Jamaica and the ECCU shifted from current deficit positions at the end of the first half of 2012 to current surplus position at the end of the first half of 2013. Of the three, Suriname experienced the smallest, though significant, change between the comparable periods. The current account balance recovered from a deficit of US$41.8 million at end- June 2012 to a surplus of US$7.2 million at end-June 2013 (a 117.2% improvement). There were increases in both current expenditure and current revenue, however the pace of the latter was more than three times that of the former. The enhanced revenue performance was the aggregate of increases in all lines of current revenue, namely income tax (10.2%), international trade tax (18.9%), sales tax (16.7%) and non-tax revenue (19.3%). On the expenditure side, outlay on wages and salaries increased by 29.6%, as retroactive salaries continued to be payable up to end-June 2013, transfers and subsidies were up 8.5% and interest payment climbed by 43.6% as government debt reach 30% of GDP by end of the first half of 2013. These increases were lessened by a 20.9% decrease in the purchase of goods and services. In Jamaica, the deficit to surplus shift was even greater. The current account balance improved by 153.5% from a deficit of US$151.13 million at end-June 2012 to a surplus of US$80.92 million at end-June 2013. A 16.1% increase in current revenue was only partially counterbalanced by minimal growth in government expenditure (2.8%). On the revenue side, all revenue aggregates increased, with non-tax revenue recording the highest increase at 21.8%. On the expenditure side, a 5.5% decrease in outlay on goods and services was offset by increases in outlay on wages and salaries (3.2%) and interest payments (8.7%).

The most significant improvement in the current fiscal position was experienced in the ECCU. The combined current account balance for the member countries of the ECCU rebounded from a deficit of US$14.4 million in the first two quarters in 2012 to a surplus of US$37.1 million for the comparable period in 2013; an enormous 357% improvement. This is the result of combined revenue and expenditure effects. Total current revenue increased by 6.1% while current expenditure decreased by 1.8%. Despite a 16.1% decrease in international trade tax receipts and a marginal 1% dip in income tax receipts (which together account for 55.3% of tax revenue), revenue performance was buoyed by a 52.7% rise in sales tax receipts and a 52% rise in non-tax receipts. As the Eastern Caribbean Central Bank (ECCB) reports, the introduction of value added tax (VAT) in St. Lucia is solely responsible for the increase in sales tax collection in the Union. Net of VAT receipts from St. Lucia, sales tax receipts for the Currency Union fell by 0.4% for the first six months of 2013 relative to the same period in 2012. The Bank further reports that the growth in non-tax revenue was influenced by the collection of citizenship by investment fees in St. Kitts and Nevis. On the expenditure side, the granting of increased and retroactive salary payments in Dominica (where personal emoluments rose by 17.4%) together with increased outlay on goods and services in all member countries, except Grenada and St. Vincent and the Grenadines, resulted in aggregate increases in expenditure on wages and salaries and goods and services (2% and 6% respectively). However, these were mitigated by an 8.7% decrease in transfers and subsidies and a 12.5% decrease in interest payments, as St. Kitts and Nevis wrapped negotiations with some external creditors.

Available data for The Bahamas for the first of quarter of 2013 only showed a $33 million widening of its current fiscal deficit as current expenditure increased by 2.9% and current revenue decreased by 6% at the end of first quarter of 2013 relative to the first quarter of 2012.

3.4.2 Overall Fiscal Balance

FIGURE 13 : OVERALL FISCAL BALANCE



Half of the reporting countries for which data was available recorded overall fiscal surpluses for the first half of 2013. These were Belize, Guyana, Jamaica and Trinidad and Tobago. For all named countries, except the latter, the surplus was an improvement on the overall fiscal balance recorded for the first half of 2012. The other half of the countries covered in this report, namely Aruba, ECCU, Curacao and Suriname, closed the first half of the year with deficits on the overall fiscal accounts. Despite recording a deficit, the overall fiscal position of Aruba and the ECCU improved over the comparable period in 2012. The opposite is true for Curacao and Suriname.

Belize, Guyana and Jamaica enjoyed an improved overall fiscal stance in the first two quarters of 2013 when compared to the first two quarters of 2012. The improvement was largest in Belize where the overall fiscal balance increased by 149.1% from a deficit of US$5.4 million at end-June 2012 to a small surplus of US$2.6 million by end-June 2013. After two consecutive quarters of fiscal surpluses, the overall surplus of the Central Government of Guyana stood at US$83.3 million at the end of the second quarter of 2013, a 131% increase over the surplus recorded a year earlier. As reported by the Central Bank of Guyana, the surplus expansion resulted in an increase in net domestic savings and decreases in net external borrowing, disbursements and external principal payments and net outflows relative to a year earlier. The improvement in Jamaica was of similar magnitude (130.7%) as the overall fiscal balance shifted from a deficit of US$377.5 million at end-June 2012 to a surplus of US$115.8 million a year later.

In the ECCU, despite a remarkable rebound of the current fiscal position, the overall fiscal account registered a deficit of US$48.5 million at the end of the first half of 2013; albeit a 30.2% contraction from the deficit recorded at the end of the first half of 2012. Similarly, in Aruba, the overall fiscal deficit tightened to end the first half of 2013 at US$67.9 million, down from US$107.2 million one year earlier.

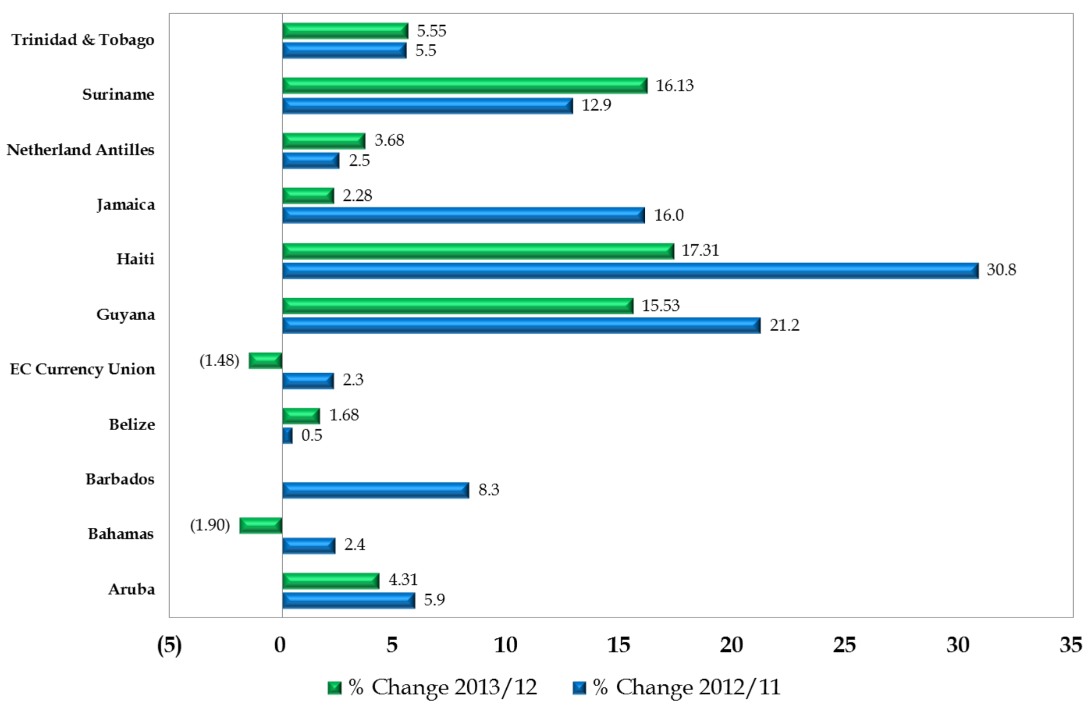
Trinidad and Tobago, Suriname and Curacao experienced a depression in their overall fiscal positions for the first two quarters of 2013 when compared to the outturn in the first two quarters of 2012. For Suriname and Curacao, existing deficits widened by 97.7% and 158.35% to US$156.4 million and US$39.8 million respectively between the comparable periods. According the Central Bank of Suriname, the widening deficit is attributable to increased government expenditure in the first six months of the year coupled with depressed mining-related receipts. In Trinidad and Tobago, the surplus on the overall fiscal account narrowed to US$59.1 million at end-June 2013, a 65.3% reduction from the surplus at end-June 2012.

3.5 BANKING AND FINANCE

3.5.1. Banking and Finance

3.5.1.1 Private Domestic Credit

FIGURE 14: CHANGE IN DOMESTIC CREDIT TO PRIVATE SECTOR 2013/12 AND 2012/11



At the end of the first half of 2013, the movement in private domestic credit varied among countries covered in this report for which data were available. Against the backdrop of persistent excess liquidity and favourable, and in some instances historically low, interest rates in the banking system, the growth of private domestic credit remained subdued in five of the reporting countries at end-June 2013 relative to end-June 2012. These were Aruba, Belize, the Netherland Antilles (Curacao and St. Maarten), Jamaica and Trinidad and Tobago. For another two territories, namely The Bahamas and the ECCU, the situation was more dismal as lower credit demand caused private domestic credit to contract between the comparable periods. Conversely, Guyana, Haiti and Suriname experienced double digit growth in domestic credit to the private sector in the first half of 2013.

Despite recording significant growth in private domestic credit for the first half of 2013, relative to their regional counterparts, the pace of growth slowed from that recorded in the first half of 2012 in Guyana and Haiti. In Guyana, the expansion of domestic credit slowed from 21.2% at end-June 2012 to 15.5% at end-June 2013. The Central Bank of Guyana credits the expansion of private domestic loans to increased lending to the manufacturing, construction and engineering, mining and real estate sectors, which grew by 15.2%, 15.0% 7.5% and 7.4% respectively relative to their year-end 2012 positions. However, the slowdown came as outstanding loans to the rice milling, agriculture and other sectors declined by 14.1%, 2.3% and 0.2% respectively. In Haiti, outstanding private loans increased by 17.3% in the first half of 2013 relative to the first half of 2012; 13.5% slower than the increase recorded in the first half of 2012 relative to the first half of 2011. As the International Monetary Fund (IMF) observed, private lending is concentrated in a few well-established businesses engaged in international trade. The slowdown may be the result of increased reserve requirements implemented in the first quarter of 2013 aimed at mopping up excess liquidity, which decreased the pool of loanable funds.

Aruba and Jamaica also experienced decelerated growth in private credit at end-June 2013 (year-on-year). In Aruba, claims on the private sector increased by 4.3% year-on year at the end of the second quarter of 2013. The Central Bank of Aruba attributes the increased lending to higher business loans, housing mortgages and consumer credit. Despite overall year-on-year growth, there was a marginal slowdown of 1.6% from the outturn at the end of the second quarter of 2012. In Jamaica, the growth was more sluggish, slowing by as much as 13.7% from 16% at end-June 2012 to 2.3% at end-June 2013. This decelerated growth was also below the average growth rate (3.3%) of the last five consecutive June quarters. The Bank of Jamaica reported that the increase in private sector lending was primarily attributable to increased personal loans and business loans to the distribution (specifically food and drink), tourism and professional and other services sectors as interest rates continue on a downward trajectory since December 2012. However, the observed slowdown in private credit is very likely the result of net repayment of 1.5% of foreign currency loans as persons attempt to shed increasingly expensive debt due to sharper depreciation of the Jamaican dollar in the second quarter of 2013. The most significant net repayments were observed in the manufacturing and electricity, gas and water sectors.

In The Bahamas and the ECCU, the value of domestic credit to the private sector at end-June 2013 fell below end-June 2012 levels. In the ECCU, private credit contracted in all member countries, except Dominica and St. Vincent and the Grenadines, resulting in an aggregate decline of 1.5% (US$71 million) in private domestic credit in the Union at the end of the second quarter of 2013 (year-on year). The ECCB reported that credit for all purposes except distributive trade decreased, with the most significant decline seen in the tourism sector. A significant decline was also experienced in personal credit for the purpose of securing consumer goods. In The Bahamas, where excess liquidity, weak private sector demand and challenging business conditions persist, credit to the local private sector contracted by 1.9% (US$126.7 million) for the first half of 2013 compared to the first half of 2012. This outturn reversed the 2.3% year-on-year growth recorded for the first half of 2012. As reported by the Central Bank of The Bahamas, a decline in personal loans (specifically overdrafts and consumer loans), which comprised 73.8% of private credit, overshadowed modest growth in residential mortgages. Additionally, significant net repayments were posted for the professional and other services, miscellaneous, tourism, and entertainment and catering sectors.

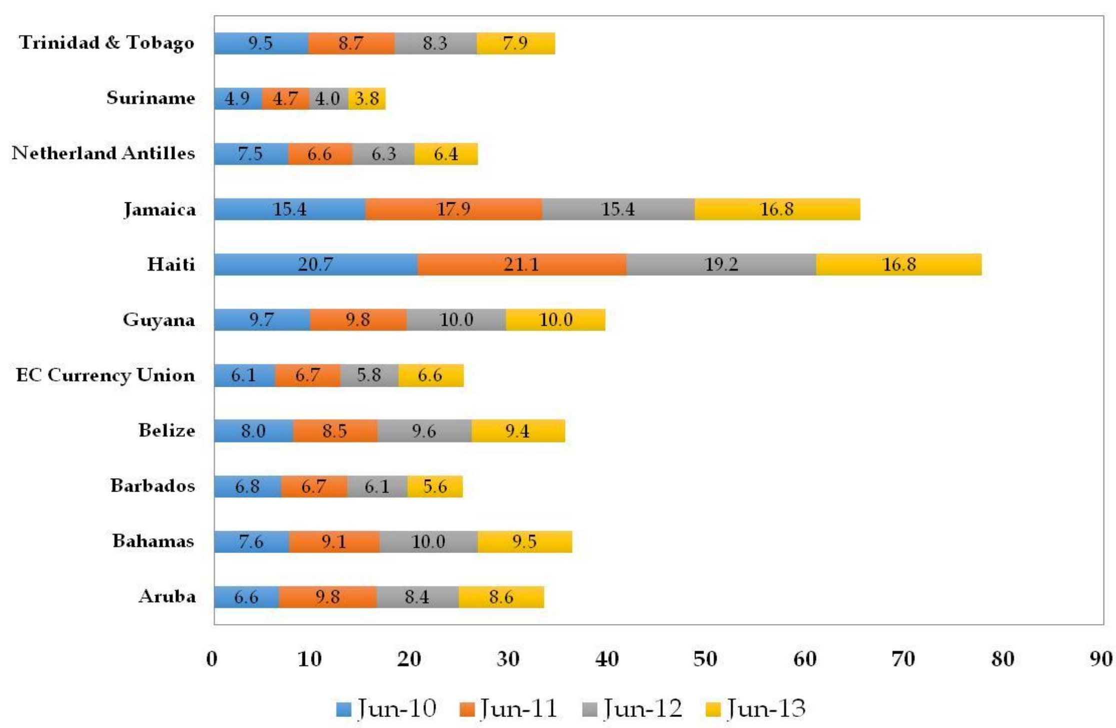
In the Netherlands Antilles, Belize, Suriname and Trinidad Tobago, the growth of domestic private sector credit for the first half of 2013 marginally outpaced the growth experienced one year earlier. In Trinidad and Tobago the year-on-year percentage change in private domestic credit at end-June 2013 (5.6%) almost equaled that at end-June 2012 (5.5%). In the former case, the value of outstanding private loans rose by US$366.8 million to close the first half of 2013 at US$6972.7 million. Performance in the lending categories were mixed. The CBTT reported a 4.1% rise in consumer lending (year-on-year) at end-March 2013— primarily for the purposes of acquiring motor vehicles and financial assets, education and travel. On the contrary, amid tepid economic growth, business lending fell by 3.1% (year-on-year) at end-March 2013— the sixth consecutive month of decline. This decline came as the aggregate impact of reductions in commercial lending to the manufacturing, real estate, and hotel and guest houses sectors overshadowed gains in lending to the distribution, construction and water and electricity sectors. In Belize, the expansion in domestic private credit for the first half of 2013 was 0.5% or US$4.0715 million—The Central Bank of Belize identified the most significant credit disbursements to be in aid of real estate and construction activities. Lending for all other activities decreased, most notable among which were distribution, manufacturing, transport and personal loans.

Credit to the private sector in Suriname increased by 16.1% (US$192.7 million) at end-June 2013 (year-on-year) to end the first half of at the year at US$1387 million. This was 3.3% more than the growth in credit for the corresponding period in 2012. Foreign currency loans increased by 7.4% in the first half of 2013, 0.7% more than the comparable period the previous year. As such, in September 2013 the Central Bank of

Suriname raised the reserve requirement for foreign currency deposit liabilities by five percentage points to curtail dollarization of credit. Locally denominated private loans also increased by 6.1% in the first half of 2013, 0.4% higher than the comparable period in 2012. In the Netherland Antilles, domestic credit expansion reached 3.7% in the first six months of 2013, up from an expansion of 2.5% in the corresponding period in 2012. With prevailing excess liquidity the Central Bank of Curacao and Sint Maarten implemented measures aimed at stemming credit expansion. The reserve requirement was increased by 1.25 percentage points in March 201 and was complemented with a constraint of credit growth of 2% for the period March to August 2013 compared to the end of August 2012. Moreover, a penalty on excess credit was introduced.

3.5.1.2 Interest Rate Spreads

FIGURE 15: COMMERCIAL BANK INTEREST RATE SPREAD JUNE 2010-2013



The weighted average loan rate declined in June 2013 vis-à-vis June 2012 for all countries except Aruba, Jamaica, the Netherlands Antilles and Suriname, where the rate increased between the comparable periods. In a bid to preserve interest spreads, commercial banks in Barbados, Belize, the ECCU, Guyana and Trinidad and Tobago, also decreased the average three- month deposit rate to reduce the interest cost of deposit liabilities especially against the backdrop of an accumulation of deposits. However, this end was not achieved in Barbados, Belize and Trinidad and Tobago where interest spreads narrowed as the downward adjustment in the loan rate exceeded that of the deposit rate. The opposite is true in Guyana and the ECCU where the decrease in the average deposit rate was sufficient to allow interest spreads to widen.

In Belize, against the backdrop of a persistent upswing in commercial bank liquidity and lukewarm private credit growth (1.7%), the weighted average loan rate declined by 84 basis points to 11.7% at end-June 2013 relative to end-June 2012. The Central Bank of Belize noted that this movement reflected a 110 basis point reduction in lending rates for residential construction June 2012 to June 2013) and a 88 basis point reduction in lending rates for personal loans(June 2012 to June 2013) . There was a simultaneous 68 basis point decline in the average deposit rate— underpinned by a decrease in time deposit rates— bringing it to 2.3% at end-June 2013. The combined result was a 16 basis point reduction in the interest spread between June 2012 and June 2013. The Central Bank of Barbados acknowledged that commercial banks remain well capitalized, however, profit margins are lower as excess liquidity conditions prevail. In response to lower profits and poorer credit quality, banks reduced the weighted average loan rate by 51 basis points to make loans more affordable thereby stimulating well-performing lending. The negligible two basis point decrease in the average deposit rate did nothing to offset the decrease in interest earnings and as such the interest rate spread declined by the same magnitude as the loan rate. The Central Bank of Trinidad and Tobago maintained its accommodating policy stance in the first half of 2013, holding the repo rate at its September 2012 level of 2.75%. As a result commercial banks decreased the weighted average lending rate by 42 basis points (year-on-year) to reach 7.94% at the end of the first half of 2013. The average three month deposit rate was cut by a mere two basis points by end-June 2013 resulting in 40 basis point reduction in the interest rate spread.

For the quarter ending June 2013, Guyanese commercial bank interest rates continued the downward trend of the last four consecutive June quarters on both the loan side and the deposit side. The average lending rate was reduced from 11.46% at end-June 2012 to 11.13% at end-June 2013 and the average three month deposit rate was reduced from 1.47% to 1.09% for the same period. The result was a five basis point widening of interest spreads. The Bank of Guyana identified this movement as an attempt, on the part of commercial banks, to preserve profit margins while reducing costs. The weighted average interest rate spread in the ECCU increased by 78 basis points (year-on-year) to 6.61% at the end of the first half of 2013. This result obtained as the average lending and deposit rates dipped by 17 and 95 basis points to close the June quarter at 8.66% and 2.05% respectively.

In Haiti and The Bahamas commercial banks also experienced a reduction in their interest rate spreads as the weighted average loan rate slackened while the average deposit rate firmed. In The Bahamas, the weighted average loan rate fell by 43 basis points at end-June 2013 when compared to a year earlier to end the first half of the year at 11.01%. The year-on-year increase in the average deposit rate was a single basis point, causing the interest spread to close by 44 basis points for the first half of 2013 relative to the first half of 2012. In an attempt to relieve inflationary pressures, The Bank of the Republic of Haiti increased the reserve requirements on local and foreign currency liabilities to 35% and 39% respectively in the first quarter of 2013; increases of six and five percentage points respectively. As such, to attract deposits, banks raised the weighted average three month deposit rate by 201 basis points at end-June 2013 relative to end-June 2012. This, together with a 34 basis point reduction in the average loan rate for the same period caused the weighted average interest spread to narrow by 236 basis points, ending the first half of 2013 at 16.79%, the lowest in the last four consecutive June quarters.

In the remaining four countries— Jamaica, Suriname, Aruba and Netherlands Antilles — the weighted average loan rate was increased. However the movements in the weighted average three month deposit rates and interest rate spreads were mixed. In Jamaica, where the loan rate rose by 30 basis points (year-on-year) at end-June 2013, despite an 85 basis point reduction in the lending rate on personal loans earlier in the year. The deposit rate decreased by 110 basis points. The result was a 140 basis point widening of the interest rate spread. In Suriname, the weighted average loan rate ended the first half of 2013 10 basis points higher than it closed the first half of 2012. The weighted average deposit rate increased by three times as much over the same period ending the first half of 2013 at 8.2%. Consequently the spread between the two contracted by 20 basis points to 3.80% at end-June 2013. In Aruba, the sum of an upward 20 basis point movement in the weighted average lending rate and no movement in the weighted average deposit rate at end-June 2013, caused the interest margin to increase by 20 basis points also. Commercial banks in the Netherlands Antilles yielded the same result in the interest spread, albeit to a lesser extent. The weighted average interest margin in the Netherlands Antilles expanded by six basis points as at end-June 2013 relative to end-June 2012 as a result of a four basis point increase in the average lending rate and a complementary two basis point decrease in the average deposit rate.

3.5.2 Banking Sector Performance

In the context of prevailing excess liquidity in all reporting countries, it follows that in six of the nine countries for which data were available[1] commercial banks recorded year-on-year increases in total deposits at the end of the first half of 2013. Commercial banks in Trinidad and Tobago and Guyana experienced double digit growth in deposit liabilities at end-June 2013 over end-June 2012 with Trinidad and Tobago posting the higher growth rate of 13.5%. The increases in Aruba, Belize, the ECCU and Haiti were smaller at 6.8%, 6.5%, 4.3% and 5.3% respectively.

In The Bahamas, deposits fell by a mere 0.8% to US$ 6351.7 million at end-June 2013 when compared to end-June 2012. The decision by banks to maintain deposit holdings may be influenced by lower lending rates and increasingly poor credit quality as arrears forced augmented provisioning against loan losses in the first six months of the year.

The decline in deposit liabilities was sharper in the Netherlands Antilles and Jamaica by the end of the second quarter of 2013 at 2.3% and 3.7% respectively. The reduction in the Netherlands Antilles came as the Central Bank increased the reserve requirement by 1.25 percentage points, among other measures, aimed at absorbing liquidity and curtailing inflation. Commercial banks, in an attempt to preserve interest margins, decreased holdings of interest bearing (time and savings) deposits. There was also a notable 6.6% decline (year-on-year) in US dollar deposits in the banking system at end-June 2013. The decrease in total deposits in the banking sector in Jamaica followed overall liquidity absorption as a result of non-discretionary operations of the government and the Bank of Jamaica for the period January to June 2013. Commercial banks were also incentivized to lend from their stock of deposits to take advantage of higher interest margins. It is worth mentioning that US dollar-denominated deposits increased from 28.9% of total deposits (US$2189.1 million) at end-June 2012 to 41.5%

[1] Data was not available for Suriname and Barbados for June 2013.

(US$2502.1 million) reflecting an attempt on the part of the banking public to hold assets in US dollars as the Jamaican dollar depreciated to unprecedented levels up to June 2013.

Generally, deposits have become more dollarized as the share of USD deposits in total deposits increased in all countries except the Netherlands Antilles and Guyana where the share declined from 3.8% at end-June 2012 to 3.2% at end-June 2013 representing a 5.6% decrease in the value of US dollar deposits (See Table 11).

TABLE 11 : TOTAL DEPOSITS AND TOTAL USD DEPOSITS IN THE BANKING SECTOR (US$M)

	Total Deposits- Banking Sector (US$M)			Total USD Deposits- Banking Sector (US$M)			USD Deposits as a % of Total Deposits		
	End-June 2012	End-June 2013	% change 2013/12	End-June 2012	End-June 2013	% change 2013/12	End-June 2012	End-June 2013	change 2013/12
Aruba	1,972.2	2,106.2	6.8	282.9	292.1	3.2	14.3	13.9	(0.5)
Bahamas	6,404.6	6,351.7	(0.8)	245.3	246.1	0.3	3.4	3.5	0.0
Barbados	491.9	n.a	n.a	204.0	n.a	n.a	41.5	n.a	n.a
Belize	1087,241.5	1167,832.0	7.4	45,546.5	60,121.5	32.0	4.2	5.1	1.0
ECCU	6,611.6	6,896.7	4.3	647.7	683.7	5.6	9.8	9.9	0.1
Guyana	1,429.5	1,611.3	12.7	55.0	51.2	(6.9)	3.8	3.2	(0.7)
Haiti	2,961.9	3,118.4	5.3	1,695.8	1,776.9	4.8	57.3	57.0	(0.3)
Jamaica	6,251.7	6,017.9	(3.7)	2,489.1	2,502.1	0.5	39.8	41.6	1.8
Netherland Antilles	5,187.0	5,069.0	(2.3)	1,497.0	1,398.0	(6.6)	28.9	27.6	(1.3)
Suriname	2,076.6	2310.3	11.3	1,084.0	1,171.7	8.1	52.2	50.7	(1.5)
Trinidad & Tobago	12,832.4	14,568.7	13.5	3,286.5	3,863.7	17.6	25.6	26.5	0.9

Movement in the total outstanding loans in the banking sector followed the direction of movement in the private sector credit in all countries for which data was available. [2] The growth rates of outstanding loans were minimally to moderately higher that the growth of private credit in Aruba, Guyana, Jamaica, Suriname and Trinidad and Tobago. The difference owed to the share of commercial bank loans to the public sector. In the case of Haiti, the percentage increase in total loans was more than four times the percentage increase in private loans. In the Netherland Antilles total outstanding loans grew marginally slower than private loans. See Table 12.

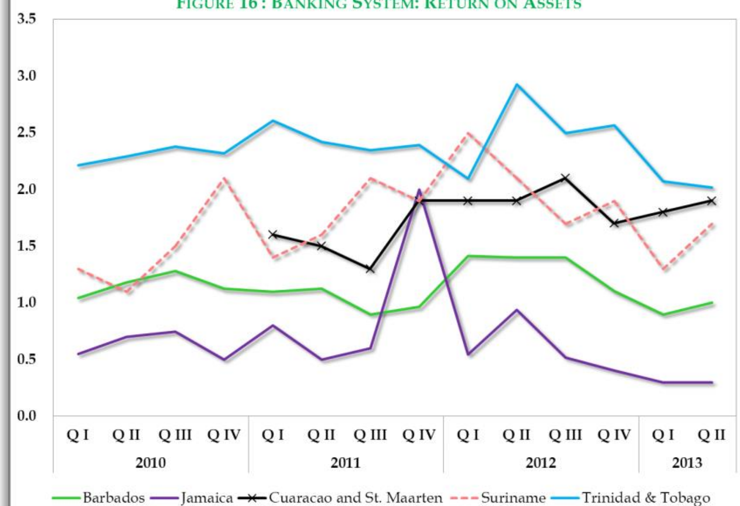
[2] Data was not available for end-June 2013 for Barbados.

TABLE 12 : TOTAL OUTSTANDING LOANS-BANKING SECTOR (US$M)

	Total Outstanding Loans- Banking Sector (US$M)			Domestic Private Credit % Change 2013/12
	End-June 2012	End-June 2013	% change 2013/12	
Aruba	1,562.8	1,643.3	5.2	4.31
Bahamas	7,188.2	7,021.3	(2.3)	(1.90)
Barbados	3,107.1	n.a	n.a	
Belize	888.9	905.7	1.9	1.15
ECCU	5,633.0	5,552.4	(1.4)	(1.48)
Guyana	703.6	825.1	17.3	15.53
Haiti	723.6	1,264.1	74.7	17.31
Jamaica	4,253.4	4,354.7	2.4	2.28
Netherland Antilles	3,293.0	3,401.0	3.3	3.68
Suriname	1,377.0	1,679.9	22.0	16.13
Trinidad & Tobago	7,554.9	8,005.6	6.0	5.55

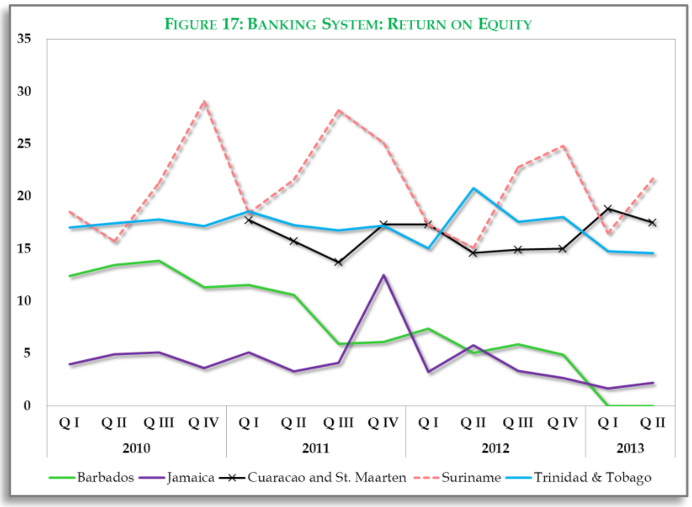
3.5.3 Financial Soundness Indicators

FIGURE 16 : BANKING SYSTEM: RETURN ON ASSETS

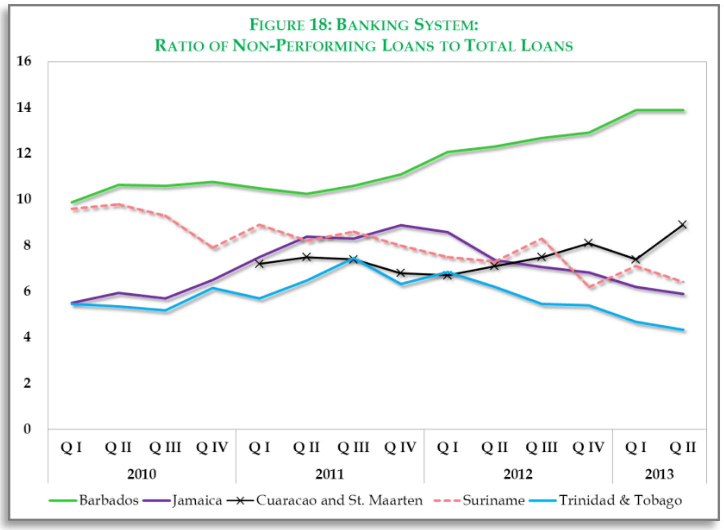


Data on financial soundness indicators were available for Barbados, Jamaica, the Netherlands Antilles (Curacao and Sint Maarten), Suriname and Trinidad and Tobago.

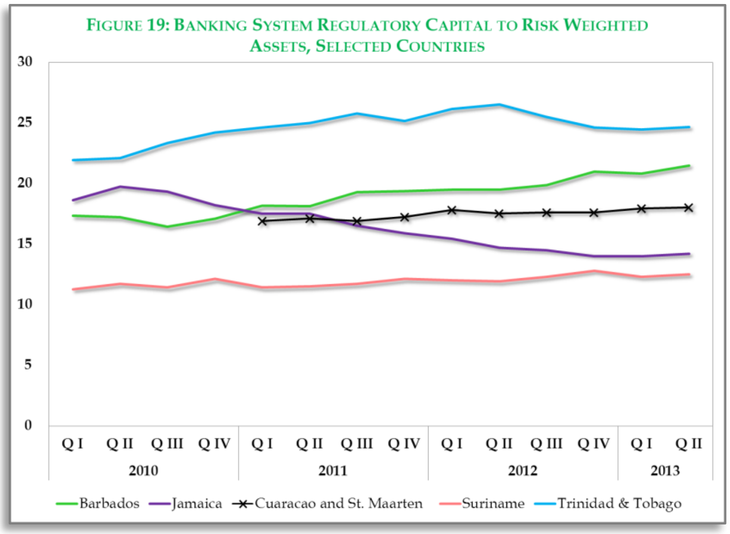
Following narrowing interest spreads in Barbados, banks' profitability declined in the first half of 2013. The return on assets (ROA) declined by 0.40 to 1.0 at the end of the second quarter of 2013 compared to 1.40 at the end of the second quarter of 2012. Credit quality continued to decline as indicated by an increase in the ratio of non-performing loans to total loans from 12.31% in end-June 2012 to 13.9% in end-June 2013. This also compromised bank profitability. The Central Bank of Barbados noted that the weakening was mainly in the personal mortgage and real estate portfolios. Notwithstanding declining profits and loan quality, banks remained well capitalized for the first six months of the year. The capital adequacy ratio was 21.47% at end-June 2013, 200 basis points above the ratio at end-June 2012.



In the Netherlands Antilles, capital adequacy improved by 50 basis points at end-June 2013 compared to end-June 2012 to reach 18%; 4.5 times the 4% benchmark for tier I capital. Invested capital yielded a return on equity (ROE) of 17.5 the end of the first half of 2013, 290 basis points greater that the return one year earlier. The ROA remained unchanged between the comparable periods reflecting stable profitability as banks adjusted interest rates to preserve margins. This was achieved in spite of poorer credit quality. The quality of commercial banks' loan portfolio deteriorated as non-performing loans to total loans at the end of the first half of 2013 was 180 basis higher than corresponding period the previous year.



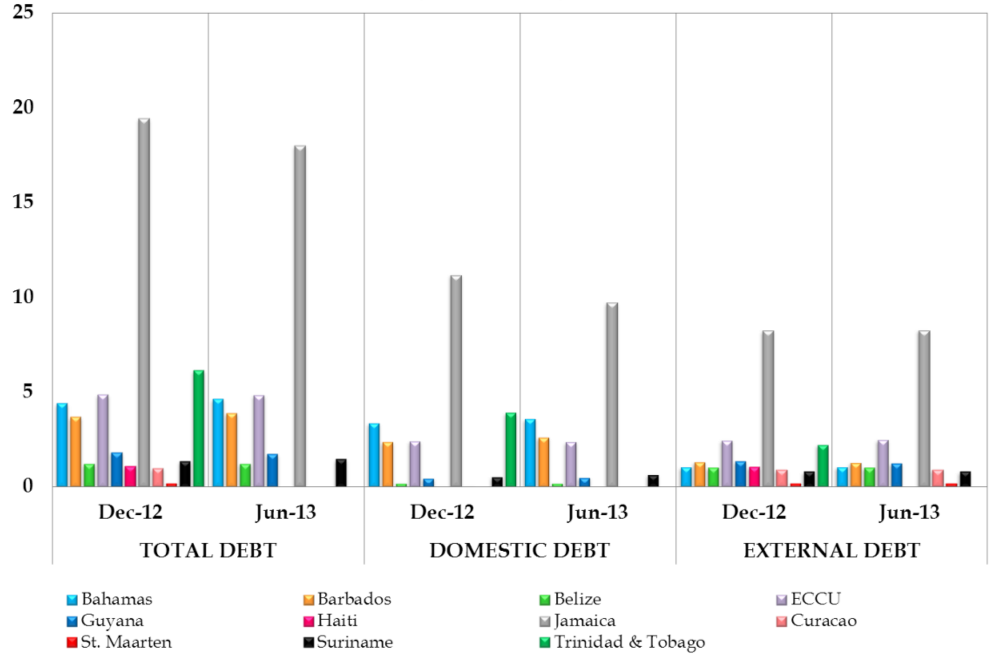
Commercial bank profitability in Suriname waned in the first half of 2013. The ROA fell from 2.10 at the end-June 2012 to 1.7 at end-June 2013 as interest spreads narrowed. Conversely, the ROE increased by an even greater margin of 6.6 year-on-year at the end of the first half of 2013. This obtained despite capital holdings increasing by 60 basis points bringing capital adequacy from 11.9 at end-June 2012 to 12.5 at end-June 2013. Non-performing loans to total loans declined by 90 basis points year-on-year at the end of the second quarter of 2013, however this was not necessarily a reflection of improved loan performance but was more likely the result of a 22% increase in total loans.



The Jamaican banking sector indicated adequate capital and improved asset quality in the first half of 2013. The capital adequacy ratio was 6.20% above the minimum requirement at end-June 2013. The ratio of non-performing loans to total loans declined by 147 basis points at end-June 2013 (year-on-year). The improved quality in the June 2013 quarter was the result of a slowdown in the non-performing business loans in all sectors except professional and other services. However, there was a notable decline in profitability. The ROE declined from 5.78 in the June quarter 2012 to 2.20 in June quarter 2013 and the ROA decreased from 7.37 in the June quarter 2012 to 5.90 in the June quarter 2013. Outturns were similar in the commercial banking sector in Trinidad and Tobago. Though the ratio of capital to risk-weighted assets declined by 1.86%, banks remained well capitalized as the ratio was well above regulatory thresholds. The ratio of non-performing loans to total loans declined by 185 basis year-on-year at the close of the first half of 2013. However, bank profitability weakened as the ROA and ROE declined by 0.91 to 2.02 and 6.22 to 14.66 respectively at end-June 2013.

3.6 PUBLIC DEBT

FIGURE 20: PUBLIC DEBT OF THE CARICOM ECONOMIES
(% OF GDP)



Information on debt outstanding at the end of June 2013 was available for seven of the 11 countries (See Figure 20). Three of them increased the level of their total debt, i.e. domestic and external debt, while total debt remained constant or decreased in the other four countries. Total debt increased by 5.2% between 31 December 2012 and 30 June 2013 in the Bahamas, by 5.7% in Barbados and by 8.5% in Suriname. Over the same period, the change in total debt was 0.7% in Belize, minus 0.06% in the ECCU, minus 7.3% in Jamaica, minus 11% in Curacao and 0% in St Maarten.

Domestic debt was substantially expanded in Suriname (20.9%), Barbados (10.6%), The Bahamas (6.5%) and Guyana (4.3%). In contrast, there was a sharp reduction in Jamaica (13%) and a smaller decrease in Belize (3.3%) and the ECCU (2.1). External debt did not increase much in any of the countries. Increases were 1.1% in Curacao, 1% in the Bahamas and Belize, 0.8% in the ECCU and 0.2% in Jamaica. The decreases in external debt were more sizeable: 8.1% in Guyana and 3% in Barbados. There was no change in external debt levels in Sint Maarten. However, Suriname's external debt increased by 0.4%.

As would be expected, the composition of debt reflected the changes in relative recourse to domestic and external finance. Domestic debt as a proportion of total debt increased in The Bahamas, Barbados, Guyana, the ECCU and Suriname but decreased in Jamaica and Belize (Table 13).

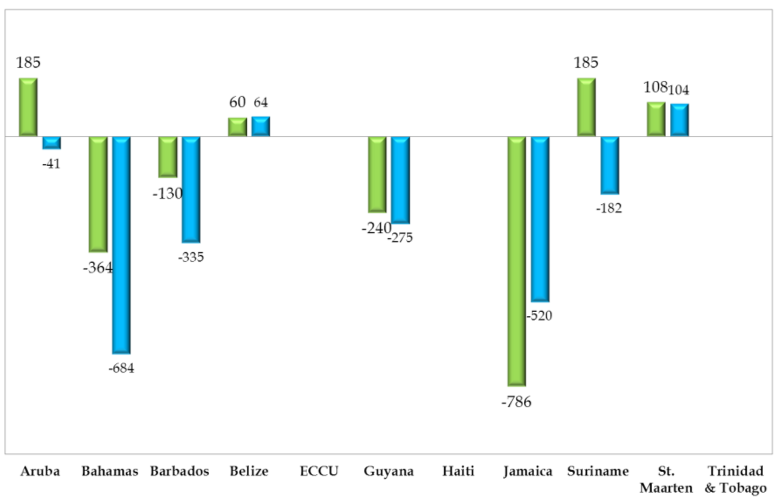
TABLE 13: DEBT RATIOS (%)

	DOMESTIC DEBT % TOTAL DEBT		GROSS PUBLIC SECTOR DEBT % GDP		
	DEC 2012	JUNE 2013	ACTUAL 2012	PROJECTED 2013	PROJECTED 2014
Bahamas	76.4	77.3	51.2	56.1	60.1
Barbados	64.1	67.1	85.9	92.0	97.3
Belize	16.1	15.5	77.7	74.7	77.6
Curacao	6.2	na	na	na	na
ECCU	49.5	48.8	86.9	87.0	85.1
Guyana	25.3	27.7	65.3	58.2	61.6
Haiti	2.8	na	15.4	20.4	24.5
Jamaica	57.5	54.1	146.1	142.7	134.5
Suriname	40.0	44.5	22.0	37.1	39.6
Trinidad and Tobago	63.7	na	38.7	33.4	34.7

Gross public sector debt relative to gross domestic product was quite large in many countries in 2012 as the CEPR for May 2013 detailed. The IMF projections are that debt ratios will exceed 100% in 2013 and 2014 in Grenada and Jamaica. Debt ratios will lie between 73% and 97% in the ECCU, Barbados and Belize, and will lie between 24% and 62% in The Bahamas, Guyana, Haiti, Trinidad and Tobago and Suriname.

3.7 EXTERNAL CURRENT ACCOUNT

FIGURE 21: CURRENT ACCOUNT CUMULATIVE BALANCE (US$M)

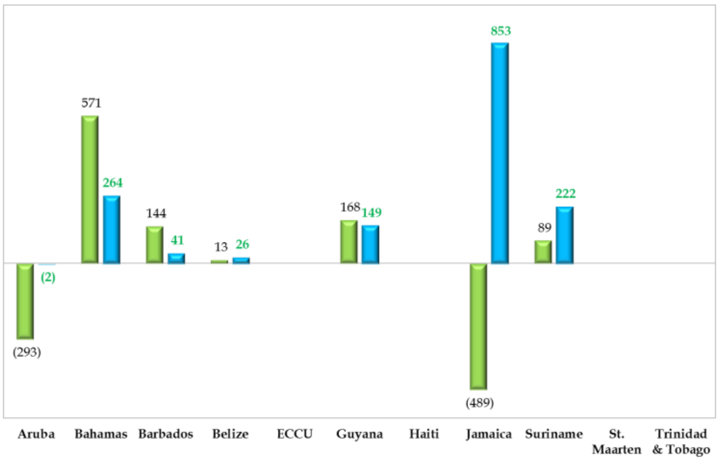


Data available on the external current accounts for first and second quarters 2013 show a widening of the deficits in comparison with the corresponding period in 2012 in three countries, namely The Bahamas, Barbados and Guyana (Figure 21). Aruba and Suriname moved from a two quarter cumulative surplus in 2012 to a two-quarter cumulative deficit in 2013. In Belize and Sint Maarten, a smaller surplus was achieved than previously. Jamaica remained with a large deficit but its magnitude was substantially reduced.

The external trade balance was dominated by weakly performing tourism industries in the service-dominated economies other than Curacao and short-term production problems in the commodity-producing economies. Long-stay tourism visitors were fewer in the first two quarters of 2013 than in the first two quarters of 2012 in The Bahamas, Barbados, Jamaica and ECCU from preliminary indications. Belize and Curacao had more stayover visitors in 2013 than in 2012. Their more diversified production base was favourable to export performance in Belize and Guyana. Increased exports of some agricultural and marine products were able to offset decreases in petroleum and citrus. In Guyana, relative output stability in rice production and exports and substantial increases in production and export of gold helped to offset substantial contractions in output and exports of sugar, bananas and timber.

3.8 EXTERNAL CAPITAL ACCOUNTS

FIGURE 22: CAPITAL ACCOUNT CUMULATIVE BALANCE (US$M)



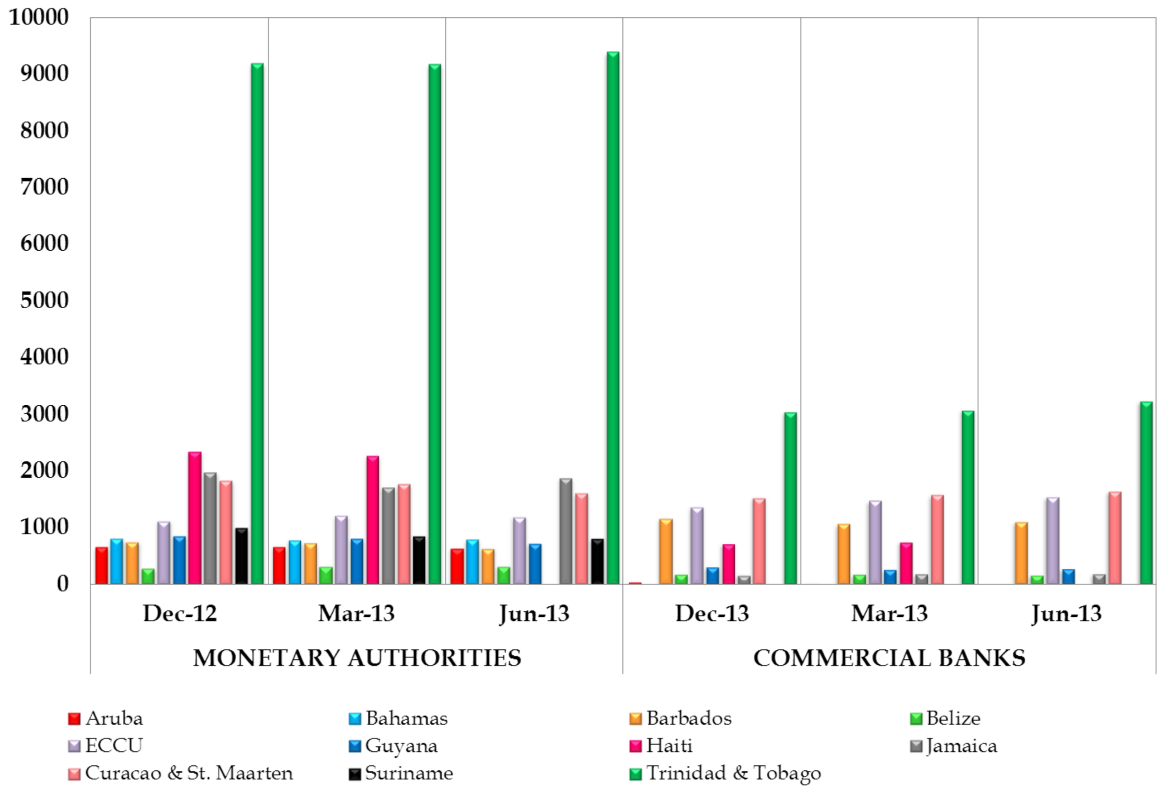
With respect to the external capital accounts, there was a stronger performance measured by net inflows in the first two quarters of 2013 versus 2012 in Jamaica where net inflows were US$853million in 2013 compared with net outflows of US$489 million in 2012 (Figure 22). Suriname also had a stronger performance with net inflows increasing from US$89 million in 2012 to US$222 million in 2013. Aruba turned around a net outflow of US$293 million into a minor outflow of US$2 million and Belize moved from a US$13.2 million balance to a positive balance of US$21.2 million. In contrast The Bahamas, Barbados, and Guyana all performed less well in 2013 than in 2012. In The Bahamas the two-quarter accumulated surplus decreased from US$571 million to US$265 million. In Barbados, the surplus decreased from US$144 million to US$41 million and in Guyana it decreased from US$168 million to US$149 million.

Foreign direct investment data for 2013 was made available for only five countries. FDI flows which were negative US$400 million in the first two quarters of 2012 in Aruba became US$64 million in the corresponding period in 2013. Three countries experienced diminishing inflows: The Bahamas from US$504 million to US$347 million, Guyana from US$168 million to US$109 million and Jamaica from US$130 million to US$83 million. In the case of Belize, FDI flows decreased from US$35.8 million to US$30.1 million.

The behaviour of portfolio investment was not favourable, with only Belize and Guyana experiencing increases in the first two quarters of 2013 compared with the first two quarters of 2012, while inflows to Jamaica decreased substantially from US$326 million to US$195 million and in Aruba from US$180 million to negative US$4 million. Net outflows from The Bahamas remained at US$17 million.

3.9 INTERNATIONAL RESERVES

FIGURE 23: GROSS INTERNATIONAL RESERVES (US$M)



During the first quarter of 2013, the monetary authorities' stocks of international reserves increased slightly in Aruba and somewhat more in Belize and the ECCU (Figure 23). There were decreases in The Bahamas (US$27mn), Barbados (US$17mn), Guyana (US$50mn) and Haiti (US$74mn). The stock of international reserves also decreased in Jamaica (US$263mn), Curacao and Sint Maarten (US$59mn), Suriname (US$147mn) and Trinidad and Tobago (US$15mn).

While there was growth in monetary authorities stocks of international reserves in the second quarter of 2013 in The Bahamas (US$14 mn), Belize (US$61.2 mn), Jamaica (US$163 mn) and Trinidad and Tobago (US$210 mn), stocks decreased in Aruba (US$26 mn) and continued their downward trend in Barbados (US$97 mn), the ECCU (US$24 mn), Guyana (US$80 mn), Curacao and Sint Maarten (US$163 mn) and Suriname (US$49 mn).

In several countries, international reserves are held by commercial banks. The countries are the ECCU where reserves increased from US$1371mn in December2012 to US$1552mn in June 2013, Jamaica from US$173mn to US$198mn, Curacao and Sint Maarten from US$1535mn to US$1650mn and Trinidad and Tobago from US$3051 mn to US$3243 mn. In Barbados, commercial bank holdings of international reserves were reduced by US$97mn in the first quarter and then increased by US$32mn in the second quarter. A similar pattern prevailed in Guyana where the reduction in the first quarter was US$44mn and the second quarter increase was US$11mn. In Belize, commercial bank international reserves increased very slightly in the first quarter (US$1.1 mn) and decreased also by a small amount (US$12mn) in the second quarter.

The import coverage of international reserves was not substantially affected by the changes in reserve stocks between December 2012 and June 2013 except in Barbados and Suriname. Measured in terms of months of coverage, the situation improved slightly in Belize, the ECCU and Trinidad and Tobago. There were small reductions in Guyana and Jamaica. In contrast, import cover seems to have decreased from five months to four months in Barbados and from five months to three months in Suriname.

4.0 CARIBBEAN ECONOMIC PROSPECTS

The economic growth prospects for Caribbean economies in 2013 are more favourable than the experience of 2012 when many ECCU member countries and Jamaica regressed. The International Monetary Fund projections are that in 2013 The Bahamas, the ECCU and Jamaica will grow within a range of zero per cent to two per cent, with ECCU members Grenada and St Lucia together with Jamaica being at the lower end of the range. Belize and Haiti will grow at 1.6% and 2.8% respectively. Growth in Guyana and Suriname will be faster at 5.3% and 4.7% respectively. Barbados is the only country projected to decline in 2013 with a 0.8% fall in GDP. The International Monetary Fund expects even stronger economic growth performance in 2014 in The Bahamas, Belize, Guyana, Haiti, Jamaica and Trinidad and Tobago. The economic growth rate is forecast to become slower in Suriname and be a larger negative in Barbados.

5.0 Appendix

Country Reports

THE BAHAMAS

Bahamas: Domestic Economic Developments

(*Central Bank of The Bahamas*)

Preliminary indications are that domestic economic conditions were relatively subdued during the second quarter of 2013, reflecting ongoing weakness in the key tourism sector, amid a decline in the high value-added air segment and slackened growth in sea arrivals. However, construction activity continued to be supported by foreign investment-led resort developments in both New Providence and several Family Islands—although domestic housing and other private sector real estate projects were restrained. Consumer price domestic inflation was relatively benign over the review period, due to generally lower international commodity prices.

The overall fiscal deficit deteriorated over the eleven months of FY2012/13, reflecting a combination of a tax-led reduction in revenue collections and higher spending. Deficit financing was obtained primarily from domestic sources, mainly in the form of Treasury bills and Government bonds.

Monetary developments continued to feature elevated levels of bank liquidity, reflecting the sustained weakness in private sector demand and modest net foreign inflows from real sector activities. With the persistence of high unemployment and challenging business conditions, there was no improvement in banks' loan arrears, and as banks responded by augmenting provisioning against loan losses, their overall profitability levels were adversely impacted.

Preliminary external sector data for the second quarter showed a more than two-fold deterioration in the current account deficit vis-à-vis the same period last year, as a surge in payments for foreign investment-related construction services narrowed the surplus on the services account. The capital and financial account surplus also contracted, as direct investment inflows fell below the prior year's level, which were boosted by the sale of a major resort to a foreign investor.

JAMAICA

Convergence Indicator Report - An Overview of Macroeconomic Developments in Jamaica (January– June 2013)

(*Bank of Jamaica*)

Summary

Jamaica's Gross Domestic Product (GDP) is estimated to have contracted by 0.7 per cent in the first half of 2013, relative to a decline of 0.2 per cent for the similar period of 2012. The decline in economic activity was reflected in both the tradable and non-tradable industries. In particular, Agriculture, Forestry & Fishing, Mining & Quarrying Manufacture, Hotels & Restaurants and Electricity & Water Supply were the main industries that contracted.

The current account deficit of Jamaica's balance of payments (BOP) is estimated to have improved for the review period by US$267.5 million to US$519.4 million, relative to the corresponding period of 2012. This outturn reflected improvements on all sub-accounts.

For the first half of 2013, net official and private investments were insufficient to finance the current account deficit. As a result, the net international reserves (NIR) declined by US$537.2 million to US$1 003.2 million at end-June 2013. At end-June 2013, gross reserves represented 12.9 weeks of imported goods and services.

For January to June 2013, Central Government's fiscal balance improved to reflect a deficit of $13.2 billion relative to a deficit of $33.1 billion recorded in the corresponding period of 2012. The improvement in the fiscal position largely reflected an increase in Revenue & Grants, the impact of which was partially offset by a marginal growth in Government spending.

The Bank reduced the interest rate on its 30-day Certificate of Deposit (CD) on 25 February 2013. This action was against the background of weak domestic demand conditions and a national debt exchange (NDX) by the Government aimed at strengthening fiscal consolidation.

During the review period, the foreign exchange market was characterized by sporadic bouts of instability. This instability was reflected in the weighted average selling exchange rate depreciating by 8.3 per cent relative to depreciation of 2.4 per cent in the similar period of 2012.

Gross Domestic Product (GDP)

The Jamaican economy is estimated to have contracted by 0.7 per cent in the first half of 2013. Contraction in economic activity has been evident since the March 2012 quarter. The economy's performance, in the review period, reflected declines in all industries with the exception of Construction & Installation, Transport, Storage & Communication, Finance & Insurance Services and Real Estate, Renting & Business Activity.

Agriculture, Forestry & Fishing contracted by 9.1 per cent in the review period relative to growth of 8.3 per cent in the corresponding period of 2012. The industry's performance was influenced by Hurricane Sandy in late-2012 followed by drought conditions in early-2013 which had a negative impact on both domestic and export crop production. In this regard, domestic crop production fell by 8.8 per cent in the review period relative to growth of 10.3 per cent in the first half of 2012. Export crop production fell by 19.6 per cent relative to a contraction of 6.5 per cent for the corresponding period of 2012. The larger decline in 2013 was primarily reflective of a contraction of 19.9 per cent in sugar cane milled, relative to a decline of 6.4 per cent in first half of 2012. In addition, the poor performance of export agriculture reflected declines of 61.1 per cent and 35.8 per cent in cocoa and pimento, respectively. These commodities recorded respective growth of 67.8 per cent and 51.0 per cent in the corresponding period of 2012.

Electricity & Water Supply contracted by 2.5 per cent in the first half of 2013 compared with a decline of 1.8 per cent in the corresponding period of 2012. Notably, the industry has recorded consecutive quarterly declines since March 2012. Specifically, the performance of the industry for the first half to 2013 mainly reflected contraction of 2.8 per cent in electricity consumption relative to a fall of 1.9 per cent in 2012. Lower electricity consumption was largely influenced by a decline of 0.6 per cent in electricity generation. The prolonged period of decline in electricity production was partly attributed to disturbances in transmission due to theft. The performance of the industry was also attributed to a decline of 1.1 per cent in water production for the review period relative to a decline of 1.1 per cent in the comparable period of 2012.

For the review period, Hotels & Restaurants contracted by 0.8 per cent relative to growth of 2.8 per cent in the first half of 2012. Of note, the industry's performance was largely reflective of a fall in Hotels as Restaurants increased marginally. The fall in Hotels was inferred from a decline of 1.1 per cent in stop-over visitor arrivals relative to growth of 2.7 per cent in 2012. The performance of Hotels reflected the negative impact of flight rationalization by Caribbean Airlines, adverse winter conditions in the USA and Canada which resulted in flight cancelations and the Easter holidays occurring at a later date in 2013 relative to 2012. Increased marketing activities by the Jamaica Tourist Board and an influx of visitors for the Jamaica Diaspora Conference partially offset the impact of the above factors.

Mining & Quarrying contracted by 0.2 per cent for the review period, relative to a decline of 7.1 per cent in the corresponding period of 2012. The industry's performance reflected lower capacity utilization of 39.0 per cent in the alumina industry relative to 39.6 per cent in the first half of 2012. This fall in capacity utilization was largely attributed to power generation and machinery problems at the respective plants during the review period. Notably, for the first half of the year capacity utilization at the bauxite plant increased to 91.2 per cent from 90.1 per cent for the same period in 2012.

Construction & Installation expanded by 1.2 per cent for the review quarter compared to a contraction of 5.2 per cent in the corresponding period of 2012. The performance of the industry mainly reflected the impact of infrastructural development and hotel projects. In particular, there was the commencement of an additional leg of Highway 2000 and the start of the Riu Palace Jamaica and Blue Diamonds Hotel & Resorts (The Royalton).

Labour Market

Information from the Statistical Institute of Jamaica (STATIN) indicated that the unemployment rate increased to 16.3 per cent as at April 2013 from the 14.4 per cent as at April 2012. The rise in unemployment was reflective of an increase of 3.0 per cent in the labour force which outweighed the marginal growth of 0.8 per cent in employment. Concurrently, the job seeking rate increased to 10.0 per cent from 8.8 per cent at April 2012. Higher unemployment was reflected primarily in Manufacturing, Financial Intermediation, Transport, Storage & Communication, Wholesale & Retail Trade and Hotels & Restaurants.

Inflation

At June 2013, annual average inflation was 7.8 per cent relative to 7.2 per cent at end-June 2012. The 12-month point-to-point rate at June 2013 was 8.8 per cent relative to 6.7 per cent at June 2012. Inflation for the first half of 2013 predominantly reflected the impact of adverse weather conditions on domestic agricultural products as well as the pass-through of depreciation in the exchange rate. Weak domestic demand conditions had a moderating impact on inflation over the review period.

Public Finance

For the first half of the year, Central Government operations recorded a fiscal deficit of $13.2 billion, relative to the deficit of $33.1 billion for the corresponding period of 2012. The lower deficit largely reflected an increase of 14.1 per cent in Revenue & Grants, the impact of which was partially offset by a marginal growth of 1.9 per cent in Expenditure. Higher Revenue & Grants was primarily associated with increased grant inflows of $2.7 billion relative to $1.3 billion for the first half of 2012. Expenditure on wages & salaries and interest payments were higher by 2.0 per cent and 6.9 per cent, respectively. The fiscal deficit was primarily financed through domestic financing for the review period.

The stocks of domestic and external debt were $1 012.9 billion and US$8.3 billion, respectively, at end-June 2013. These stocks were relative to $940.4 billion and US$8.5 billion, respectively, at end-June 2012.

Balance of Payments

For the first half of 2013, the deficit on the current account of the balance of payments is estimated to have improved by US$267.5 million to US$519.4 million relative to the similar period of 2012. The performance on the current account reflected improvements on all sub-accounts. In particular, the deficits on the goods and primary income sub-accounts narrowed by US$140.8 million and US$50.2 million, respectively. There were also increases of US$49.9 million and US$26.6 million in the surpluses on the services and secondary income sub-accounts, respectively.

Notably, the lower deficit on the goods sub-account was attributed to an increase of US$7.5 million (0.9 per cent) in exports and a sharp decline of US$133.3 million (4.6 per cent) in imports relative to the first half of 2012. Growth in exports was mainly driven by an increase of US$69.9 million in ethanol. The fall in imports mainly reflected a decline of US$51.7 million in consumer goods. Improvement in the primary income sub-account largely resulted from lower net investment income outflow of US$82.5 million, related to lower imputed profit remittance by direct investment companies as well as reduced debt payments by Central Government. With respect to the expansion in the surplus on the secondary income sub-account, this primarily reflected higher remittance inflows.

For the review period, net official and private investment flows were not sufficient to finance the current account deficit. In this context, there was a drawdown of US$537.2 million in the NIR to US$1 003.2 million as at end-June 2013 when compared with the first half of 2012. Gross reserves at end-June 2013 amounted to US$1 881.1 million, which represented 12.9 weeks of projected goods and service imports.

Foreign Exchange Market

During the first half of the year, there were periodic episodes of volatility in the foreign exchange market. This volatility was reflected in depreciation of 8.3 per cent in the weighted average selling rate (WASR) of the US dollar vis-à-vis the Jamaica Dollar relative to 2.4 per cent for the corresponding period of 2012. Accordingly, at end-June 2013 the WASR was J$101.38 = US$1.00. The increased pace of depreciation was largely due to weak net private capital (NPC) flows in spite of reduced uncertainty regarding the country's macroeconomic programme given the approval of an EFF for Jamaica by the Executive Board of the IMF.

Monetary Policy and Interest Rate

The Bank reduced the interest rate on its 30-day CD by 50 bps to 5.75 per cent on 25 February 2013. This adjustment was in the context of generally weak domestic demand conditions and a favorable outlook for inflation. The lowering of the Bank's policy rate followed the reduction in interest rates on selected domestic Government of Jamaica (GOJ) instruments consequent of Government's successful implementation of the NDX earlier in the month. Specifically, interest rates on these GOJ securities declined by between 1.0 percentage point (pp) and 5.0 pps as a result of the NDX.

The cash reserve and liquid assets requirements were maintained at 12.0 per cent and 26.0 per cent, respectively.

During the first half of 2013, the BOJ offered nine variable rate (VR) CDs and two USD indexed notes, to augment its liquidity management operations. The VR CDs had tenors ranging from 180 days to 18 months and were priced marginally above the equivalent rate on the Bank's 30-day CD. Nominal subscriptions to these instruments amounted to $11.0 billion. The interest rates on the two 365-day USD Indexed Notes were 4.75 per cent per annum and 4.0 per cent per annum, respectively. These notes were aimed at providing an alternate hedge for investors against further devaluation of the domestic currency. Nominal subscriptions to these instruments amounted to $10.8 billion.

Outlook

For the remainder of the calendar year the domestic economy is expected to improve, albeit marginally. This outlook largely reflects the expectation for marginal expansion in real GDP as well as improvement in external demand, predicated on continued growth in the global economy. Additionally, remittance inflows to Jamaica are expected to remain favourable consequent on continued economic growth in the main source countries and the on-going improvements in the US labour market.

With regard to inflation, for the second half of the calendar year, domestic prices could increase at a faster pace than in the first half of the year. This outlook is based on the recent increase in transportation cost, the announced adjustment in water rate, the possibility of higher than anticipated pass-through of depreciation in the domestic currency and the impact of adverse weather conditions in the context of the forecast for the 2013 hurricane season. Weak domestic demand is, however, expected to moderate inflationary pressures. Against this background, the Bank will continue to monitor economic developments and undertake policy adjustments when necessary in order to maintain stability in the domestic market.

SURINAME

Brief Review of Macro Developments in the first half of 2013

(*Central Bank of Suriname*)

Summary

The Surinamese economy continues to expand at a solid pace. Growth is estimated at 4.5% in 2013, compared to 3.9% in 2012. The main drivers are public investment in infrastructure, health, and education, private investment in the mining industry, and buoyant private construction activity. Inflation has continued to recede, recording an average of 0.2% a month during the first six months. The fiscal deficit widened considerably, as increased government spending coincided with a decline in mining-related revenue as export prices declined. Simultaneously, private sector credit growth accelerated to a pace well above the economic growth rate. The ensuing increase in domestic demand affected the external current account and pressure on the exchange rate started to emerge. In the second quarter of 2013, the Central Bank intervened in the foreign exchange market in support of the exchange rate. While this has contributed to a decline in international reserves, they still comfortably exceed the accepted international minimum standard of 3 months of import coverage.
In the second half of 2013, measures were taken to curb domestic demand pressures, including an increase in required bank reserves. The government has also started to curtail unnecessary spending on goods and services and prioritize project implementation, while revenue measures are designed. While internal and external borrowing by the government increased, public debt remains low relative to the national legal debt ceilings as well as to levels prevailing in the region.

In April 2013, Standard & Poor's affirmed its BB- sovereign credit ratings, revising the outlook from stable to positive. The outlook revision was motivated by expectations that large investments in the mining and oil sectors could lead to higher growth and higher levels of exports and government revenue. Additionally, proposed tax reforms and the establishment of a sovereign wealth fund are seen to provide an improved fiscal outlook.

Real sector

<u>Inflation</u>
In the first half of 2013 inflation stood at 1.2%, compared to 2% in the corresponding period of 2012. Twelve-month inflation recorded 3.6% at end-June 2013, of which about two thirds was caused by price increases in foodstuffs and non-alcoholic beverages. Due to unfavorable weather conditions, prices of fruits and vegetables increased by almost 30% during the same period.

<u>Production</u>
All three major mining products recorded declines in production during the first half of 2013. Bauxite production volumes dropped by 9% on an annualized basis, following the depletion of the bauxite reserves in the successor mines. Alumina production fell by 8%, albeit much less than the 19% drop in the same period in 2012. The short term outlook for the alumina market remains sluggish as excess refining capacity globally is brought down. Rising costs are also affecting the profitability of the industry.

The gold industry recorded a slight increase of 1% in the production volume, albeit lower than the 4% increase in the first half of 2012. The marginal growth can be attributed to increased hard rock processing and the increased haulage distances between the pits and the mill.
The production of crude oil declined by 2%, but the oil refinery production grew by 3%. The expansion of the oil refinery is progressing and is targeted to be completed by the end of 2014.

Exports
Export volumes of alumina, gold, and oil contracted at a higher rate than the decline in production output as falling export prices also contributed to a drop in export values. In total, alumina export value decreased by 16%, gold exports by 9%, and oil exports by 11%.

Public sector

The fiscal deficit widened to 3% of GDP in the first half of 2013 compared to a 1.6% deficit in the first half of 2012. The government expended significantly more on its development program and on public sector wages. A 10% wage increase had been agreed upon in December 2012 and was made retroactive to the beginning of 2012. The back payments lasted till June 2013. While government revenue increased by 14%, mining revenue fell by 12%, mostly due to the continued fall in gold prices. However, the decline was compensated by higher international trade and sales taxes on account of rising imports. The deficit was 76% financed through increased Central Bank borrowing, while issuance of treasury bills and external loans accounted for the remainder of the financing.

Total government debt increased by 23%, reaching 30% of GDP as of end-June 2013. The external debt-to-GDP-ratio stood at 17%. In the first half of 2013, Suriname's debt service ratio of 1.2% remained far below international thresholds.

Monetary sector

On January 2, 2013 the Central Bank raised the reserve requirement for foreign currency deposit liabilities from 40% to 45% to stem credit growth in foreign currency and to discourage dollarization. The ratio for domestic currency deposits was kept at 25%. In the second half of 2013, additional monetary measures were taken to curb domestic demand pressures. The reserve ratio for both local and foreign currency deposit liabilities was raised by 5 percentage points, effective mid-September.

In the first half of 2013 broad money growth decelerated to 2% from 11% in the first half of 2012, following the outflow of liquidity for import financing. Therefore, the increase in domestic liquidity due to higher private sector credit and government spending was to a large extent offset by a drop in Suriname's international reserves.

Growth in credit to the private sector in local currency rose from 5.7% in the first half of 2012 to 6.1% in the first half of 2013. Growth in foreign currency credit increased from 6.7% to 7.4% over the same time. As a result, the credit dollarization ratio increased from 41% at end-June 2012 to 42% at end-June 2013. Deposit dollarization fell from 54% at end-June 2012 to 52% at end-June 2013.

External sector

After seven consecutive years of surpluses, the external current account registered a deficit in the first half of 2013. A surge in the imports of goods and services resulted in a current account deficit of US$ 185 million. This deficit was partly offset by an inflow of capital totaling US$ 170 million, while international reserves declined to US$ 812 million at end-June 2013. Valuation changes accounted for almost one-fifth of the decline. The reserves are sufficient to finance 3.4 months of imports of goods and services. If imports of the mining sectors are excluded, as they are being financed by the mining companies themselves, the import coverage amounted to 4.9 months.

The deterioration in the trade balance resulted predominantly from higher imports as exports remained at a level comparable to the first half year of 2012. Import growth was mainly driven by higher imports of oil and heavy transport equipment for the mining sectors. While mining exports declined as a result of falling export prices and volumes, an increase in the exports of non-mining products and gold sales by the Central Bank compensated for the fall in mining exports. Non-mining exports include exports of fish and crustaceans, banana, rice, and wood products.

The deficit in the services account increased as a result of a decline in receipts, compounded by increased payments abroad, primarily for the construction activities of the mining industries.

The capital inflow of US$ 170 million consisted mainly of US$ 50 million direct investment and other financial transactions. Direct investment inflows consisted largely of reinvestments in the mining sector, while other financial transaction inflows reflected withdrawals of short-term deposits held abroad and external borrowing. The deposits were used to finance the imports of goods and construction equipment.

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