CARIBBEAN ECONOMIC PERFORMANCE REPORT

June 2014

Caribbean Centre for Money and Finance

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1.0 EXECUTIVE SUMMARY

GLOBAL ECONOMY

Global economic growth slowed in 2013 to three per cent compared to 3.2 per cent in 2012. The growth rate in advanced economies slipped to 1.3 per cent and that in emerging and developing economies to 4.7 per cent. Within the advanced economies group, recession continued in the Euro area and the USA growth rate decreased from 2.8 per cent to 1.9 per cent. In the emerging and developing economies group, China's growth rate remained constant at 7.7 per cent, Brazil's increased from one per cent to 2.3 per cent, while India and Latin America decreased slightly to 4.4 per cent and 2.7 per cent respectively. Among the encouraging signs are the fall in unemployment in advanced economies, a faster rate of expansion of global trade, including exports from emerging and developing economies, and resilient growth in world tourism.

ECONOMIC GROWTH, INFLATION AND EMPLOYMENT

Most countries experienced upswings in the level of economic activity in 2013. The weighted average economic growth rate for the region increased from 1.7 per cent in 2012 to 2.4 per cent in 2013. There was robust economic growth in Guyana, Suriname and Haiti, but economic decline in Aruba, Jamaica and St Lucia.

Inflation subsided in all countries in 2013. This was due primarily to falling world prices for food and energy. Based on unemployment data for the five countries which reported this data, labour market conditions might have improved in some countries and deteriorated in others during 2013. Unemployment rates decreased from 14.4 per cent to 11.7 per cent in Belize and from five per cent to 3.7[1] per cent in Trinidad and Tobago but

[1] This is at QI – 2013.

rose from 14.4 per cent to 15.4 per cent in the Bahamas and from 13.9 per cent to 15.3 per cent in Jamaica.

Fiscal and Banking Performance

Fiscal performance in 2013 was mixed. Current account surpluses were achieved in Belize, ECCU, Guyana, Trinidad and Tobago, Curacao and Sint Maarten. Current account deficits were registered in the Bahamas, Barbados, Haiti, and Jamaica.

Within the banking sector, the general situation was one of excess liquidity and low interest rates. Private domestic credit grew sluggishly in Belize, ECCU, Jamaica and Trinidad and Tobago, contracted in Bahamas, Barbados, Sint Maarten and Curacao. In Guyana, Haiti and Suriname, there was double digit growth of private domestic credit. Loans outstanding had the same pattern as private domestic credit. Weighted average loan rates of interest declined in several countries. In Aruba, Barbados, Guyana, ECCU and Suriname, weighted average loan rates increased. In all countries, bank deposits grew, with the share of US dollar deposits increasing. Credit quality, indicated by the ratio of nonperforming loans to outstanding loans, improved in all reporting countries. In a few countries (Barbados, Jamaica, Suriname and Trinidad and Tobago), bank profitability fell.

Debt, External Accounts and International Reserves

Many countries remained highly indebted in 2013. The ratio of total debt to GDP exceeded 70 per cent in Barbados, Belize, the ECCU and Jamaica where it was as high as 136.4 per cent. Moreover, in most cases debt ratios were more elevated in 2013 than they were in 2012. Expansion of external debt was the main source of the overall expansion.

The external sector underperformed. While total exports expanded in Haiti and the ECCU, they decreased in Aruba, the Bahamas, Barbados, Belize, Guyana and Jamaica.

Imports also decreased in many countries. External current accounts deficits widened in four countries, while in two other countries it moved from surpluses to deficits. External capital accounts balances remained positive except in Trinidad and Tobago but the ratio to GDP decreased in only three countries. Foreign direct inflows were positive in 2013 for the seven countries which reported, with the outturn for 2013 exceeding that for 2012 in Aruba, the ECCU, Jamaica and Trinidad and Tobago but being smaller in the Bahamas, Belize and Guyana.

Gross international reserves held by the monetary authorities increased in Belize, the ECCU, Haiti and Trinidad and Tobago but decreased in Barbados, Guyana, Jamaica and Suriname. International reserves held by commercial banks increased in Jamaica, the ECCU and Trinidad and Tobago. There were decreases in the other countries. The import cover ratio declined in several countries. However, only in the Bahamas and Jamaica did it fall below the three - month target.

PROSPECTS FOR 2014

The outlook for 2014 is slow growth in most of the individual economies. IMF projections show eight countries growing faster in 2014 than in 2013 but no faster than 2.7 per cent. In the countries projected to grow less rapidly in 2014, namely Guyana, Haiti and Suriname, the growth rate is expected to be in the region of four per cent.

Inflation rates are projected to increase in ten of the 14 countries, with inflation abating in only Barbados, Jamaica and Trinidad and Tobago.

The external balance is expected to improve in eight countries and to deteriorate in five others.

Government finances are projected to remain problematic with the primary balance expected to deteriorate in five countries and with the gross debt ratio increasing in 12 countries, including countries which are already highly indebted.

2.0 GLOBAL ECONOMIC DEVELOPMENTS

The global economy strengthened in the second half of 2013 recovering from the relatively weak performance in the first half of the year to post average growth of three per cent for 2013. This was slightly lower than the growth performance of 3.2 per cent in 2012 (See Table 1). The impetus for this improvement in the second half of 2013 has come largely from advanced economies and more moderate improvements amongst emerging and developing countries. In advanced economies, the easing pace of fiscal consolidation, supportive monetary policy, improvements in labour markets and the abatement of uncertainties linked to the US debt ceiling and problems in core European economies have all helped to strengthen economic growth. The improvement is more pronounced in the US where economic activity has expanded for ten consecutive quarters. In the Euro Area growth rebounded in the second quarter of 2013 but faltered a bit in subsequent quarters reflecting the significant fiscal and structural problems still faced by many non-core countries in this region. Growth in Japan has also improved, driven by fiscal and monetary stimulus. In emerging and developing economies, growth has been more muted than previous years as they face a more difficult external financing environment.

Global growth prospects are expected to improve to 3.6 per cent in 2014 and to 3.9 per cent in 2015. These forecasts are based on improvements in advanced economies particularly the US and relatively robust performance from emerging and developing economies which are expected to post more sustainable but still relatively robust growth rates of 4.9 per cent and 5.3 per cent respectively in 2014 and 2015 (See Table 1). Much of this improved performance is based on rising confidence, with business sentiment for advanced economies reaching a 36 - month high of 54.1 per cent while industrial production increased to 3.9 per cent in March 2014 which is well above their long term averages. The relatively high degree of uncertainty and the related fragile consumer and business confidence which have characterised the global economy since the international financial and economic crisis of 2007/2008 and which was a major drag on global growth seems to be abating. There is still grounds for concern, however, since many of the factors driving uncertainty 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 and global economic imbalances have not been eliminated.

Table 1: GLOBAL ECONOMIC GROWTH

	World	Advanced Economies	USA	Euro Area	Japan	Emerging and Developing Economies	LA	Brazil	China	India
2012	3.2	1.4	2.8	-0.7	1.4	5.0	3.1	1.0	7.7	4.7
2013	3.0	1.3	1.9	-0.5	1.5	4.7	2.7	2.3	7.7	4.4
2014	3.6	2.2	2.8	1.2	1.4	4.9	2.5	1.8	7.5	5.4
2015	3.9	2.3	3.0	1.5	1.0	5.3	3.0	2.7	7.3	6.4

Source: World Economic Outlook: April 2014, IMF.

Despite these improvements, the main risks to the global economy remain on the downside. The main risks from advanced economies include the possibility of protracted low inflation and growth conditions, unstable reactions to the withdrawal of monetary stimulus and, very importantly, reduced incentive for the completion of reforms as economies improve. Risks related to emerging and developing countries include the potential for sharp reversal in capital flows to these countries as conditions improve in advanced economies and investors become more sensitive to vulnerabilities in these countries and weaker growth in China. Geopolitical risks such as the fallout from the Ukrainian crisis could also frustrate a robust and widespread recovery in the global economy. Most significantly however is the fact that the growth is still heavily dependent on fiscal and monetary stimulus in advanced economies, reflecting the fact that output gaps continue to be large in these countries meaning that private demand is still relatively muted and has not returned to pre-crisis levels. Very importantly, the slow pace of structural reforms in many developed economies means these underlying vulnerabilities can lead to reversals in the recovery process. For example, the fact that no agreement was reached on a credible medium fiscal strategy in the US means that the recent standoff in the US congress over the fiscal strategy and the partial shut-down of the US government may occur again in the near term.

The picture is also complicated for developing countries. The fact that the announcements of the tapering off of monetary stimulus by the US Federal Reserve caused interest rates on US treasury to increase which drove a sharp rebalancing of capital flows away from emerging and developing countries in the second quarter of 2013 illustrates one of the main risk facing emerging and developing countries, that is, the risk of sharp reversals of capital flows as the monetary policy stance and interest rates in advanced economies normalise. Fortunately, capital flows to these countries had recovered by the fourth quarter of 2013. Moreover, when the US Federal Reserve began tapering off its quantitative easing in early January 2014 US treasury yields and currency markets remained relatively stable suggesting that these developments had already been priced into the market. Markets did experience high volatility towards the end of January 2014 but this was due in large part to a significant devaluation of the Argentina Peso, slowing growth in China and a general correction of international equity markets. The fact that markets subsequently stabilised imply that recent adjustments have been driven by a modest flight to quality and a general rotation of capital from equity into developed market sovereign bonds and not by a wholesale reversal of capital flows to developing countries. Nevertheless, if this normalisation of interest rates is not handled properly the risks still exist for destabilising capital flows reversals in emerging and developing economies which could act as a major drag on global economic growth.

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. Credible medium-term fiscal sustainability programmes for these economies focusing on entitlement benefits and tax reforms, as well as better targeted expenditure programmes are still 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 ease fiscal consolidation programmes further 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 soft labour markets. There are encouraging signs though as unemployment has fallen albeit slowly in advanced economies but more significantly in the important US economy. This trend is expected to continue in 2014 and 2015 but unfortunately unemployment will remain high in the Euro Area as non-core countries remain weak (See Table 2).

Table 2: UNEMPLOYMENT RATES IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany	Korea	Singapore
2012	8.0	8.1	4.3	11.4	7.3	8.0	5.5	3.2	2.0
2013	7.9	7.4	4.0	12.1	7.1	7.6	5.3	3.1	1.9
2014	7.5	6.4	3.9	11.9	7.0	6.9	5.2	3.1	2.0
2015	7.3	6.2	3.9	11.6	6.9	6.6	5.2	3.1	2.1

Source: World Economic Outlook Dataset, April 2014, IMF.

Private consumer expenditure which is central to growth dynamics in developed markets remained weak in 2013 but is expected to improve in 2014 and 2015, driven by improvements in the US, UK and Canada as these countries surpass their long term averages in this area. Private consumption in the Euro Area is expected to improve but remain relatively weak in some countries such as Italy and Spain (See Table 3).

Table 3: CONSUMER EXPENDITURE GROWTH IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany	Italy	Spain
2012	1.2	2.2	2.0	-1.4	1.9	1.5	0.7	-4.0	-2.8
2013	1.3	2.0	1.9	-0.7	2.2	2.3	1.0	-2.6	-2.1
2014	1.9	2.7	0.7	0.6	2.2	2.4	1.0	-0.2	1.2
2015	2.1	2.9	0.6	1.0	2.1	2.6	1.1	0.5	0.9

Source: World Economic Outlook Dataset, April 2014, IMF.

Globally, inflation was muted in 2013 based on output gaps in advanced economies which are still relatively large, 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. These trends are expected to continue in 2014 and 2015. Inflation in Japan is also expected to record a temporary increase in 2014 and 2015 due to increases in the consumption tax (see Table 4).

Table 4: GLOBAL INFLATION RATES

	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Emerging Economies	LAC	China	India
2012	2.0	2.1	0.0	2.5	1.5	2.8	6.0	5.9	2.6	10.2
2013	1.4	1.5	0.4	1.3	1.0	2.6	5.8	6.8	2.6	9.5
2013	1.5	1.4	2.8	0.9	1.5	1.9	5.5	n.a.	3.0	8.0
2015	1.6	1.6	1.7	1.2	1.9	1.9	5.2	n.a.	3.0	7.5

Source: World Economic Outlook Dataset, April 2014, IMF.

The expectation of reductions in quantitative easing in the US now means that bond markets in emerging economies are more sensitive to monetary policy developments in developed market economies. Capital flows to developing and emerging countries 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 sharp increase in interest rates on long-term government bonds caused by the prospects of the tapering off of monetary stimulus caused investors to move out of developing and emerging countries assets in the spring and summer months in 2013. Flows to these countries eventually recovered towards the end of 2013 so that when the US Federal reserve actually began tapering in January 2014 long term US treasury yield remained relatively stable and the impact on currency and bond markets in developing and emerging countries were relatively muted, since risks had already been priced into the markets.

In view of the likelihood of continued tapering together with falling differentials between advanced and developing countries, economic growth is likely to lead to tighter financing conditions and capital flows to developing and emerging countries are therefore expected to soften (See Table 5). The potential for significant 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.

Table 5: NET CAPITAL FLOWS TO EMERGING AND DEVELOPING COUNTRIES (US$B)

Year	2008	2009	2010	2011	2012	2013	2014	2015
Net Portfolio Inflows	-81.6	57.6	193.4	86.8	234.8	186.5	162.9	164.6
Net FDI Inflows	468.8	332.2	409.9	520.1	471.4	475.6	439.6	447.4

Source: World Economic Outlook Dataset, April 2014, IMF.

The trend in international trade generally reflects the global growth dynamics. The improvement in economic growth in the second half of 2013 helped overcome weak growth in the first half of the year and resulted in an overall increase in the growth of international trade in 2013. Given that global growth prospects are expected to improve in 2014 and 2015, international trade is also expected to increase in those years assuming that the policymakers meet their commitments and new flash points in the global economy do not emerge (see Table 6).

Table 6: WORLD TRADE AND PRICES (% Change)

Year	2010	2011	2012	2013	2014	2015
World Trade Volume	12.8	6.2	2.8	3.0	4.3	5.3
World Trade in US Dollars Price Deflators	5.6	11.1	-1.8	-0.8	-0.2	-0.4
Volume of Exports in Advanced Economies	12.4	5.7	2.1	2.3	4.2	4.8
Volume of Exports in Emerging and Developing Economies	13.9	7.0	4.2	4.4	5.0	6.2

Source: World Economic Outlook: April 2014, IMF.

Commodity prices were relatively muted in 2013 due to rising supply, high stocks and relatively slow demand for most commodities. In the energy market, strong supply growth from non-OPEC suppliers more than made up for supply disruptions from the Middle East and this, together with relatively slow demand, drove the price dynamics for oil in 2013. On the other hand, natural gas prices rose because of very cold weather in the US. In the metals markets, rising supply, high stocks and slowing demand in China all combined to weaken prices which in 2013 was 30 per cent below the highs generated in 2011. In terms of food prices, rising supplies and high stocks driven by favourable weather conditions have led to flat prices in this commodity group as well.

In terms of commodity price prospects, future prices suggest that most commodity prices should be relatively muted in the near term. This prognosis is in keeping with expectations of improved supply and relatively weak demand. Most commodity prices are therefore expected to remain muted in 2014 and 2015 with the possibility of spikes in energy prices related to geopolitical tensions in the Middle East and Russia (See Tables 7 and 8).

Table 7: SELECTED COMMODITY PRICES

Commodity	Actual				Forecast	
	J-D 2011	J-D 2012	J-D 2013	Latest April 2014	J-D 2014	J-D 2015
Crude Oil – average $/bbl	104.0	105.0	104.1	104.9	104.1	102.8
Natural Gas US - $/mmbtu	4.0	2.8	3.7	4.6	3.7	4.5
Aluminium - $/mt	2401	2023	1847	1811	1847	1750
Rice Thai 5% - $/mt	543.0	563.0	505.9	395.0	505.9	430.0
Sugar (World) - $/kg	0.57	0.47	0.39	0.39	0.39	0.38
Bananas (US) - $/kg	0.97	0.98	0.92	0.93	0.92	0.95

Source: Commodity Price Pink Sheet, April 2014 and Commodity Price Forecast April 2014, World Bank

Table 8: COMMODITY PRICE INDICES (2010=100)

Commodity	Actual				Forecast	
	J-D 2011	J-D 2012	J-D 2013	Latest April 2014	J-D 2014	J-D 2015
Energy	128.7	127.6	127.4	128.3	127.4	126.8
Non Energy	119.8	109.5	101.7	100.0	101.7	99.1
Agriculture	121.6	114.5	106.3	107.3	106.3	105.3
Beverages	116.0	92.6	83.3	106.1	83.3	94.4
Food	122.5	124.5	115.6	112.5	115.6	111.8
Metals	113.5	96.1	90.8	85.5	90.8	86.2

Source: Commodity Price Pink Sheet, April 2014 and Commodity Price Forecast April 2014, World Bank

Despite serious concerns about the global economy in 2013 international tourism demand continues to show resilience and is one of the few sectors growing strongly. Tourist arrivals increased to 1, 087 million in 2013 up from 1, 035 million in 2012 representing a 5.0 per cent increase over the 2012 outturn. On a year-to-date (YTD) basis this is significantly above the long-term average growth in tourist arrivals of four per cent. 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 9).

Table 9: International Tourist Arrivals

Country/ Region	Total Millions			Percentage Change over Previous Year		
	2011	2012	2013	2010/11	2011/12	2012/13
Europe	**516.8**	**534.7**	**562.8**	**6.4**	**3.4**	**5.4**
Northern Europe	64.5	65.7	68.3	2.8	1.7	4.1
Western Europe	161.5	166.7	173.6	4.6	3.2	4.2
Cent. /East. Europe	103.9	111.6	118.8	9.2	7.7	6.9
South./Med. Europe	186.9	190.7	202.0	7.9	1.9	6.1
Asia and the Pacific	**218.5**	**233.6**	**247.7**	**6.6**	**6.8**	**6.0**
North-East Asia	115.8	122.8	127.1	3.8	6.0	3.6
South-East Asia	77.5	84.6	92.7	10.7	8.7	10.0
Oceania	11.7	12.1	12.7	0.9	4.1	4.4
South Asia	13.5	14.1	15.2	14.0	5.4	5.3
Americas	**156.0**	**163.2**	**168.9**	**3.6**	**4.5**	**3.6**
North America	102.1	106.7	111.4	2.6	4.5	4.3
Caribbean	20.1	20.9	20.9	3.0	2.8	1.0
Central America	8.3	8.9	9.2	4.4	7.3	4.2
South America	25.5	26.7	27.4	7.8	5.0	2.4
Africa	**49.6**	**52.8**	**56.1**	**-0.5**	**6.9**	**5.6**
North Africa	17.1	18.5	19.6	-9.1	8.2	6.2
Sub-Saharan Africa	32.6	34.4	36.5	4.6	6.2	5.2
Middle East	**54.4**	**51.1**	**51.9**	**-6.1**	**-5.2**	**0.3**
Advanced Economies	**531.0**	**552.0**	**580.0**	**4.9**	**3.7**	**5.2**
Emerging Economies	**464.0**	**484.0**	**507.0**	**4.9**	**4.4**	**4.8**
World	**995.0**	**1035.0**	**1087.0**	**4.9**	**4.0**	**5.0**

Source: UNWTO World Tourism Barometer Volume 12, January 2014

In terms of the regional distribution of tourist arrivals, Europe rebounded strongly but Asia and the Pacific continued to be the strongest region for tourist arrivals. The growth in arrivals in the Americas fell off from the performance in 2012 due in large part to lower growth in the Caribbean and South and Central America. The Middle East improved on its performance in 2012 but still registered the lowest growth in tourist arrivals in 2013 due to geopolitical tensions in that region. In contrast, the Africa regions seem to have recovered from geopolitical problems in North Africa to post growth of 5.6 per cent in 2013. Very importantly, tourist arrivals in advanced economies outpaced the growth in arrivals in emerging economies.

The international tourism industry has in recent years been driven by growth in emerging source markets. China became the largest outbound market in 2012 and accounted for approximately US$130.6 billion in tourism expenditure in 2013. Russia is also now the fifth largest outbound market and registered a 26 per cent increase in expenditure in 2013.

Other important emerging outbound markets include Turkey (24%), Egypt (23%), Qatar (18%), Kuwait (15%) and Brazil (14%). Traditional source markets in developed economies such as the US, Canada and Europe recorded much lower growth (1% to 6%) with countries such as Germany and Italy actually reporting declines in outbound expenditure.

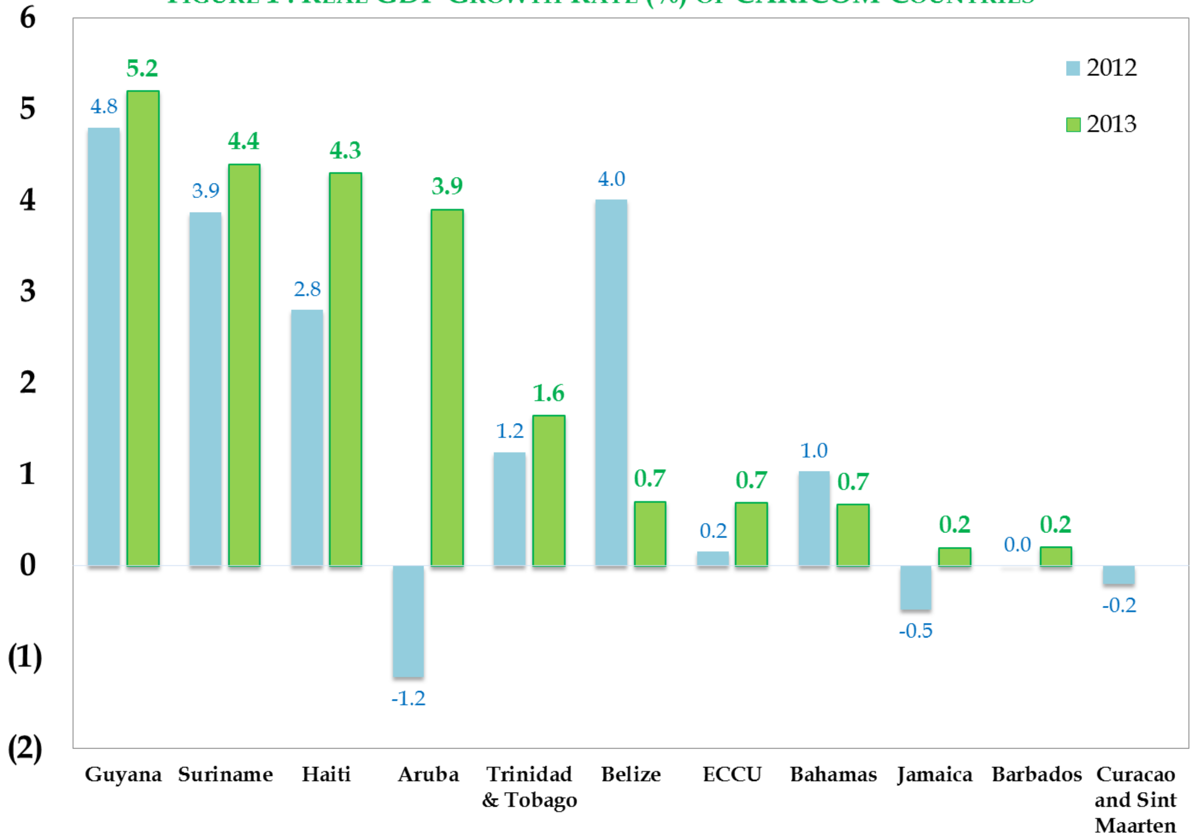
The prospects for the international tourism industry is for growth to exceed four per cent in 2014. Growth in the international tourism industry is expected to continue at just above the long term average of four per cent over the medium term. Emerging market destinations are likely to continue leading growth in the international tourism industry as tourism arrivals rebound in Africa and as the Asia and Pacific regions take advantage of the demand from high growth neighbouring countries. Emerging markets are now also important in terms of source markets, reinforcing their importance to the international tourism market. 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.

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 activity and limited connectivity has been identified as some of the major impediments to growth in tourism. Facilitating visas for tourists from new source markets could stimulate demand, spending and ultimately create millions of new jobs in destination 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

FIGURE 1 : REAL GDP GROWTH RATE (%) OF CARICOM COUNTRIES



The economic activities in the CARICOM region for 2013 were reported to be on the upswing. The estimated weighted average growth rate for the CARICOM economies increased from 1.7 per cent (2012) to 2.4 per cent in 2013. Most of the economies reported improvements in their real GDP levels for 2013, with most of them expressing concern about stability, mainly in the non-commodity producing economies. Figure 1 shows that the reported growth rate in real GDP for the region ranged from 0.2 per cent (Barbados) to 5.2 per cent (Guyana) for the year 2013. Seven of the ten countries reported increases in the level of their economic activities, while two countries, Belize and The Bahamas, reported significant declines in their economic activities.

The real GDP in Aruba is reported to have grown by 3.9 per cent for the year 2013. This is a considerable increase when compared to the negative 1.2 per cent reported for 2012. Aruba's economy has been under strain the past eight years having reported fluctuating growth rates since 2009. The main contributor to their increase in real GDP for 2013 was the strong growth in Aruba's tourism demand. Tourists from Venezuela and the USA contributed significantly to this increase in 2013.

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

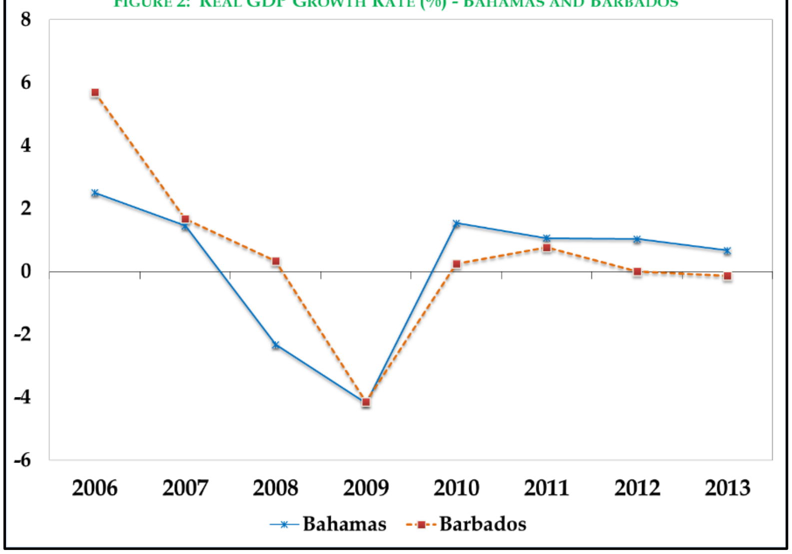
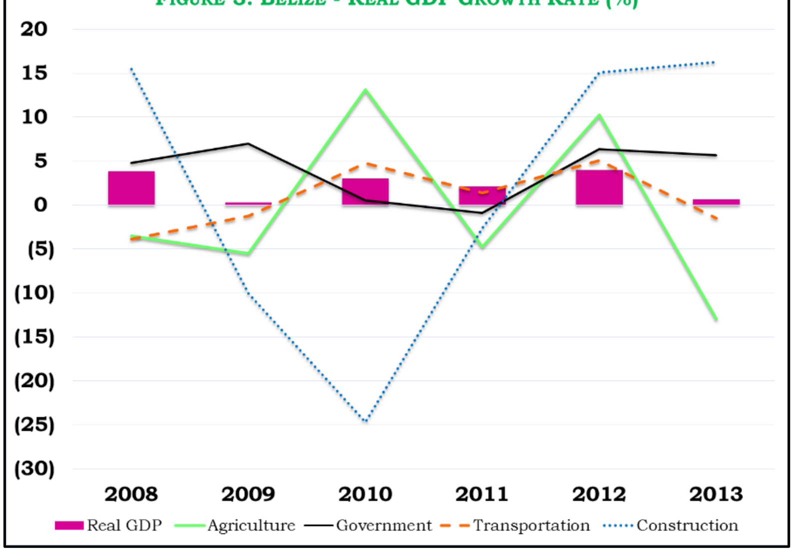


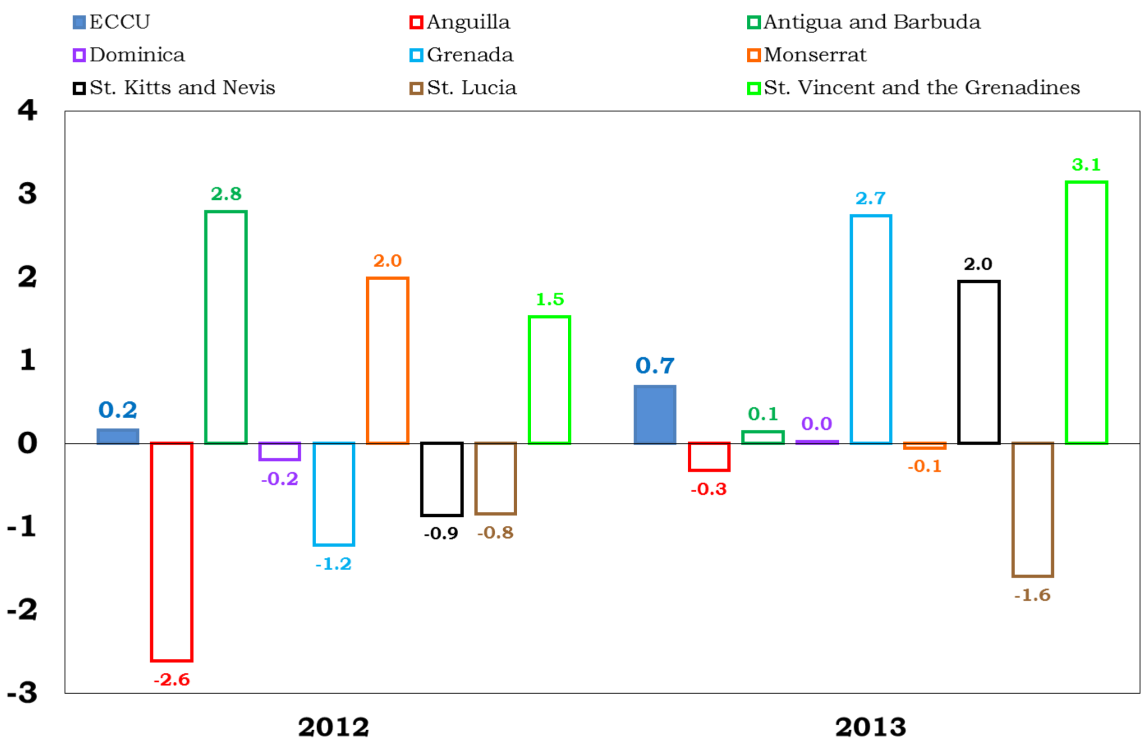
FIGURE 3: BELIZE - REAL GDP GROWTH RATE (%)



For the year 2013 the economies of The Bahamas and Barbados appear to be stagnant when compared to their indicators of growth for 2012. Economic activities in The Bahamas remain subdued in 2013. There was a slight fall in the real GDP growth rate from one per cent in 2012 to 0.7 per cent in 2013. Barbados's real GDP growth rate was reported to be a 0.2 per cent in 2013, while in 2012 it was zero per cent. The Agriculture sector in Barbados had a favourable year with a reported growth rate of 11.3 per cent for 2013. Figure 2 shows that since 2009, both The Bahamas and Barbados have been reporting growth rates that ranged from -1 per cent to 1.5 per cent. Tourism, which is the mainstay of these two economies, has drastically declined since 2009 and has not recovered since, particularly from their primary markets of UK and USA.

Belize's growth in economic activities was hindered by bad weather conditions and crop diseases in 2013. The economy contracted in 2013 having reported a noteworthy decline in its real GDP growth rate , from four per cent in 2012 to 0.7 per cent in 2013 (Figure 3). Declines were reported in the Agriculture, Government and Transportation sectors , the most significant being in the Agriculture sector from a growth rate of 10.3 per cent in 2012 to -12.9 per cent in 2013. However, the Belizean economy was able to thrive off the economic activities generated from the Construction sector which maintained its positive performance in 2012 into 2013 and also from the steady influx of tourist from their traditional Tourism markets – Canada and USA.

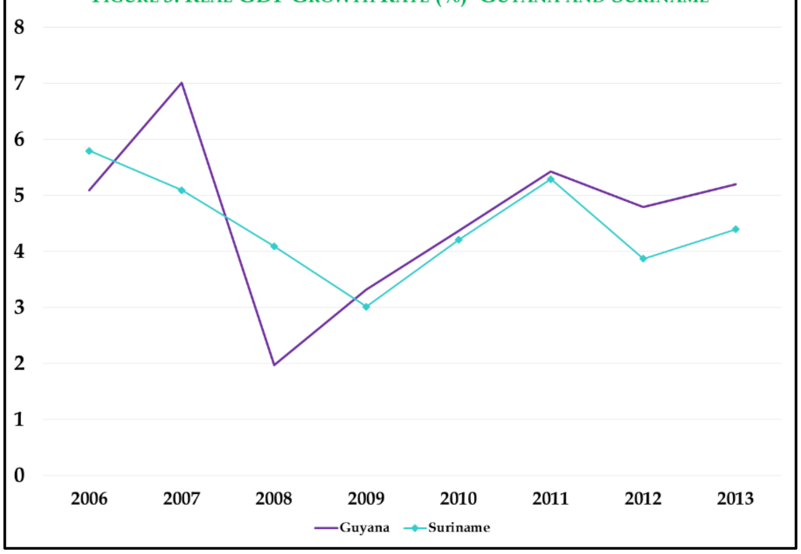
FIGURE 4: ECCU - REAL GDP GROWTH RATES (%)



Source : Eastern Caribbean Central Bank (ECCB) ; Note 2013 are ECCB estimates as at Feb 2014.

Economic activity within the ECCU has improved in 2013, having moved from a real GDP growth rate of 0.2 per cent (2012) to 0.7 per cent. Figure 4 shows the real GDP growth rates within the ECCU for 2013 ranged from -1.6 per cent (St. Lucia) to 3.1 per cent (St. Vincent and the Grenadines). Economies such as Anguilla, Dominica, Grenada, St. Kitts and Nevis and St. Vincent and the Grenadines reported growth in their economies for 2013. Increased output from key services sectors such as: Agriculture, Livestock and Forestry, Public Administration, Construction, Hotels and Restaurants, and Real Estate Renting and Business activities helped propel the ECCU economy in 2013. Some economies continue to struggle to regain some level of stable economic growth in economies such as Antigua and Barbuda, Monserrat and St. Lucia. In 2013 these economies reported growth rates in their real GDP that were lower than those rates reported in 2012.

Figure 5: Real GDP Growth Rate (%)- Guyana and Suriname



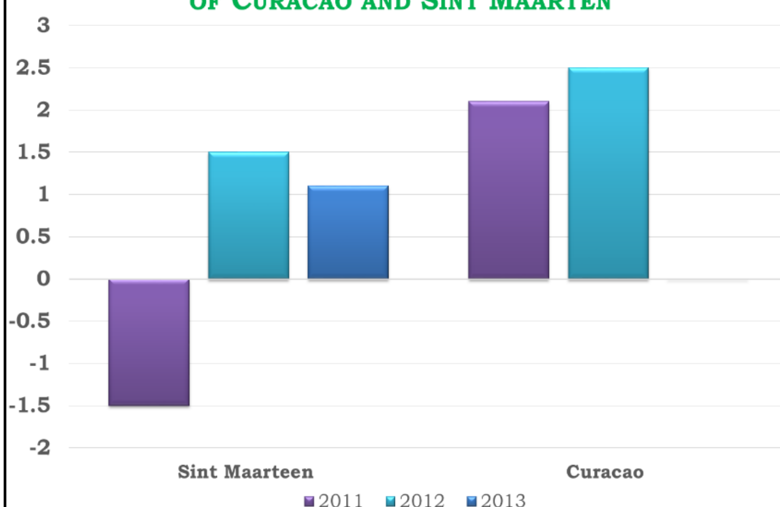
Suriname and Guyana have been two economies that have been able to register positive and relatively high level of economic growth throughout the global recession from 2007 (Figure 5). Guyana has reported seven consecutive years of relatively high and positive growth rate in its Real GDP; it has been benefiting from the favourable international prices for its commodities. In 2013 the reported real GDP growth rate was 5.2 per cent, Guyana's robust level of economic activities was on account of stronger performances in the Services, Gold, Diamond, Rice and Alcoholic Beverages industries, reflecting favourable prices and increased investments. Sectors that did not perform as well in 2013 were Sugar, Fishing, Bauxite and Wholesale & Retail Trade experienced some setbacks. With regards to Suriname, its real GDP growth rate reportedly increased from 3.9 per cent (2012) to 4.4 per cent (2013). The main drivers of this growth reported in 2013 were significant increases in economic activities in sectors such as Wholesale and Retail Trade, Construction, Transport and Communications Services, and Financial Services. Suriname's mining sectors contributed relatively less to growth, but it continues to be the main source for government revenue.

Haiti registered its third consecutive year of positive economic growth in its real GDP in 2013. The economy of Haiti's economic growth in 2013 of 4.3 per cent was mainly driven by construction activities, textile exports and increased agricultural output. This represents an almost double the increase in economic activities when compared to the 2.8 per cent reported in 2012.

Jamaica's economy grew by 0.2 per cent in 2013, an improvement in economic activities when compared to the contraction of 0.5 per cent reported for 2012. The economy's performance in 2013 reflected improvements in all industries with the exception of Agriculture, Forestry & Fishing, Manufacture, Electricity & Water Supply, Distribution and Producers of Government Services.

There was no aggregate data available for the monetary union of Curacao and Sint Maarten for the year 2013. Initial estimates for Sint Maarten reported a 1.1 per cent growth in its real GDP for 2013, representing a minor decrease in economic activities when compared to the 1.5 per cent reported in 2012. The utilities, manufacturing, and construction sectors were the main contributors to the growth in private sector activities for Sint Maarten in 2013. Preliminary indicators of

Figure 6: Real GDP Growth Rates (%) of Curacao and Sint Maarten



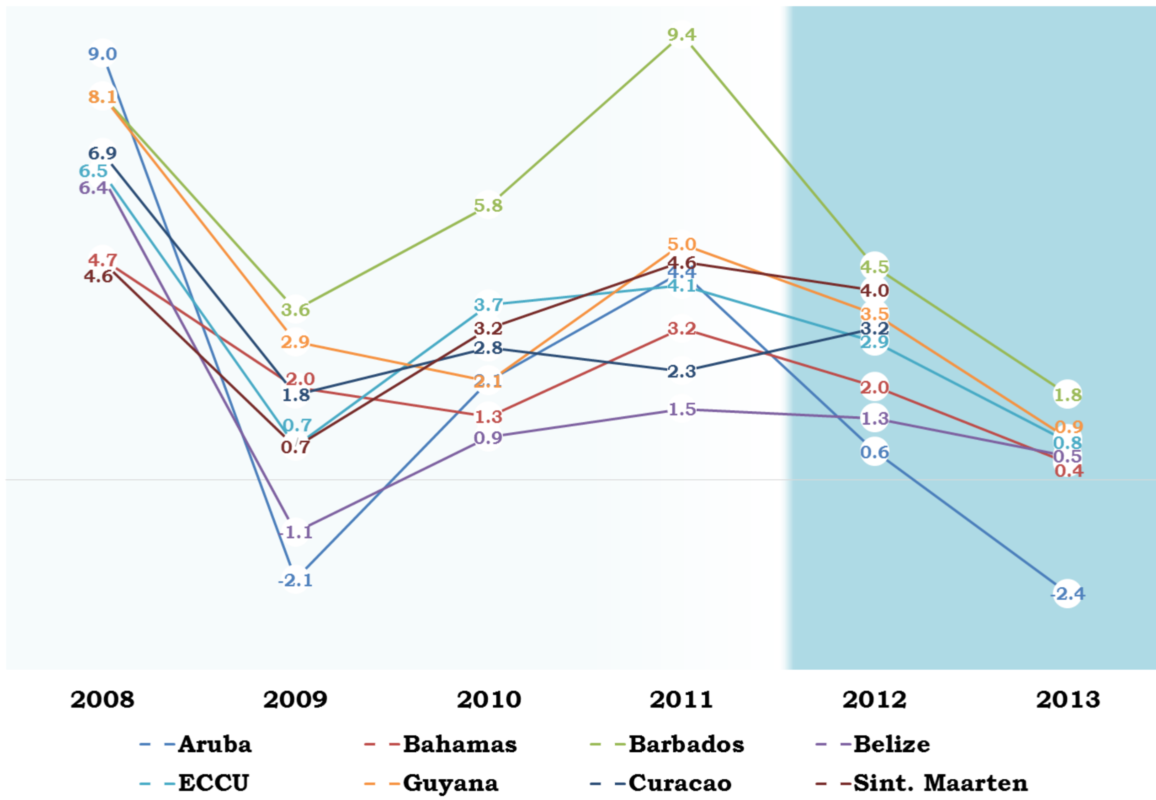
Source: Central Bank of Curacao and Sint Maarten

Curacao's economy suggest that there was a slowdown in economic activities. It is linked entirely to lower domestic demand. The decreased demand stemmed from reduced private demand, mitigated by increased public demand. Private demand dropped as consumer spending shrank, while private investment growth slowed down. The gain in public demand was primarily the result of increased government investments in the road infrastructure of Curacao. The decline in domestic demand was dampened by an increase in net foreign demand because imports dropped faster than exports in real terms.

There continues to be maintenance work ongoing in the energy sector of Trinidad and Tobago which is reflected in the low growth rate of real GDP of 1.6 per cent for 2013, a small increase from its 2012 rate of 1.2 per cent. Preliminary indicators for the year 2013 show that the non-energy sectors such as Finance, Construction, Agriculture and Distribution reported increases in economic activities for the year 2013.

3.2 INFLATION

FIGURE 6 : INFLATION RATES AVERAGE (%)



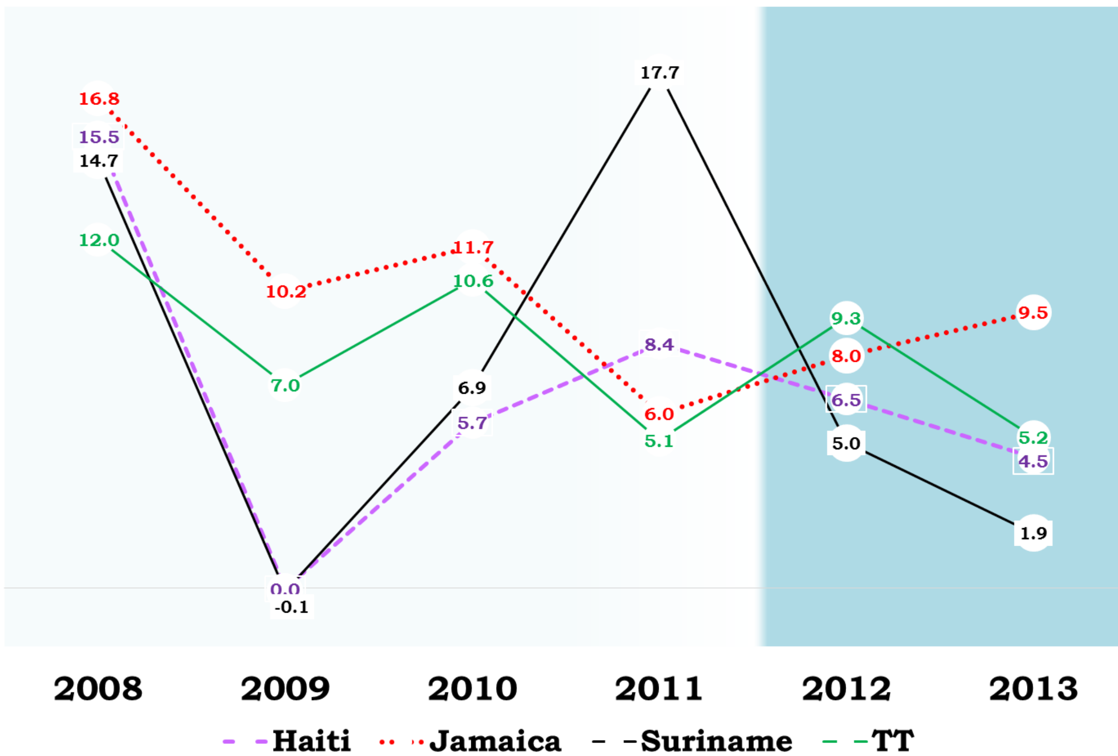
Inflation levels in the CARICOM region has subsided substantially, with all countries except Jamaica reporting declines in their average inflation rate for the year 2013. (Figures 6). Inflation rates ranged within the CARICOM region from -2.4 per cent (Aruba) to 9.5 per cent (Jamaica) in 2013. Lower prices in food and international energy prices were the main factors for the reported lower prices reported in the CARICOM economies.

Aruba's downward trend in overall prices continued from 2012 from an average inflation rate of 0.6 per cent to a negative rate of 2.4 per cent in 2013. The deflation occurring in 2013 was reflective of the internationally lower prices in food and energy.

Inflation within The Bahamas decelerated to 0.36 per cent in 2013, from 1.97 per cent a year earlier. This outturn mainly reflected a 0.40 per cent decrease in the average cost of

Housing, Water, Gas, Electricity & Other Fuels—the most heavily weighted component—a reversal from a 3.21 per cent gain in 2012.

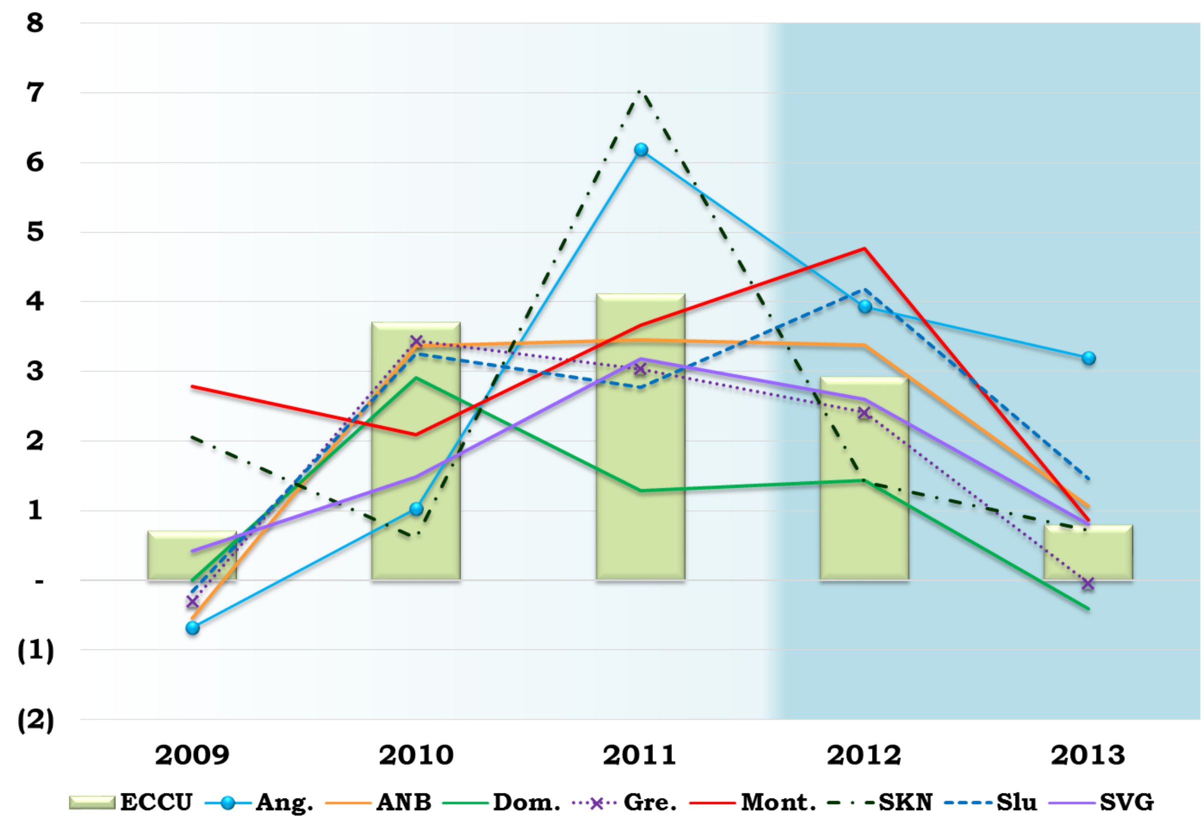
Figure 7 : Inflation Average rates (%)



The average cost of Food & Non-Alcoholic Beverages, Transportation, Furnishing, and Household Equipment & Routine Maintenance were sticky and did not increase significantly. The decline in global oil prices fed through to the domestic energy market, as evidenced by the reduction in the average annual price of gasoline and diesel, by 2.0 per cent and 1.2 per cent, to $5.34 and $5.14 per gallon, respectively. Similarly, the Bahamas Electricity Corporation's fuel charge decreased by 2.8 per cent to 25.92 cents per kilowatt hour (kWh), a reversal from the 15.3 per cent hike of 2012. In a modest offset, price increases were reported for Alcohol, Tobacco & Narcotics, Restaurant & Hotels, Miscellaneous Goods & Services and Recreation & Culture in 2013 when compared to their prices in 2012.

There was a significant decline in inflation within the Barbadian economy in 2013, the country having reported a decline from 4.5 per cent (2012) to 1.8 per cent (2013). This decline in inflation is reflective of the lower international prices of Food and Fuel in 2013. Food and Fuel account for 40 per cent of the retail price index in Barbados. Belize's inflation rate was already low at 1.3 per cent in 2012, and in 2013 it decreased further to 0.5 per cent. Inflationary pressures were not strong in Belize since it is being kept in check by the fixed exchange rate.

Figure 8: Inflation Rate Average for period (%) - ECCU



Inflation levels within the ECCU for the year 2013 ranged from 3.2 per cent (Anguilla) to -0.4 (Dominica), a lower range when compared to that of 2012 which was from 4.8 (Monserrat) to 1.4 (Dominica). The downward trend in inflation for the ECCU economies started in 2012 and continued into 2013 on account of overall decreases in sub-indices. Comparing 2012 to 2013, decreases were reported for Clothing and Footwear (4.5 per cent) and Fuel and Light (2.5 per cent), Medical Care and Expenses (1.7%), Housing (0.8 %) and Education (0.9). These reductions were partly offset by higher prices for the food component (0.1 per cent), which has the greatest weight in the consumer basket, as well as the Household Furnishings and Supplies (2.8 per cent), Housing (1.5 percent) and Transport and Communications (1.0 per cent) sub-indices.

Guyana's already weak inflationary pressures from 2012 weakened significantly again in 2013, its inflation rate for 2013 was 0.87 per cent, a 2.6 percentage point decrease when compared to its 2012 rate. The low rate of inflation in Guyana was influenced by high levels of supply of goods and services, easing of commodity prices and the relatively stable exchange rate.

Inflation in Haiti fell from 6.5 per cent (2012) to 4.5 per cent (2013), on account of the stabilizing of commodity prices, in particular, food prices and tightening of certain monetary policies in the year 2013. Food availability has improved significantly throughout the country since August 2013 due to the good performance of the spring agricultural season in most farming regions. At the same time, international commodity prices have trended downward according to the FAO Food Price Index. On the other hand, the exchange rate remained unchanged at 43.75 gourdes per US dollar from June 2013 to January 2014. This stability of the exchange rate has contributed to reducing the pass-through of the prices of imported goods, including foodstuffs, to local inflation. As a consequence, food prices have been relatively stable or decreasing in all local markets throughout the country.

Jamaica reported an inflation rate of 9.5 per cent a moderate increase when compared to eight per cent for 2012. Contributing to the increase in the inflation rate for 2013 was the fact that significant administrative adjustments in Transport and Utility rates continued depreciation of the exchange rate and increased crude oil prices. These inflationary pressures were damped a bit by the weak domestic demand conditions in Jamaica, the lower international prices on grains and communication costs.

There were no available data for the yearly average inflation rate of Curacao and Sint Maarten for 2013. Preliminary indicators suggest that lower food and fuel prices contributed to lower price levels in Curacao in 2013. However in Sint Maarten inflation indicators show a rise in inflationary pressure which is linked to higher electricity prices which were mitigated by low food prices.

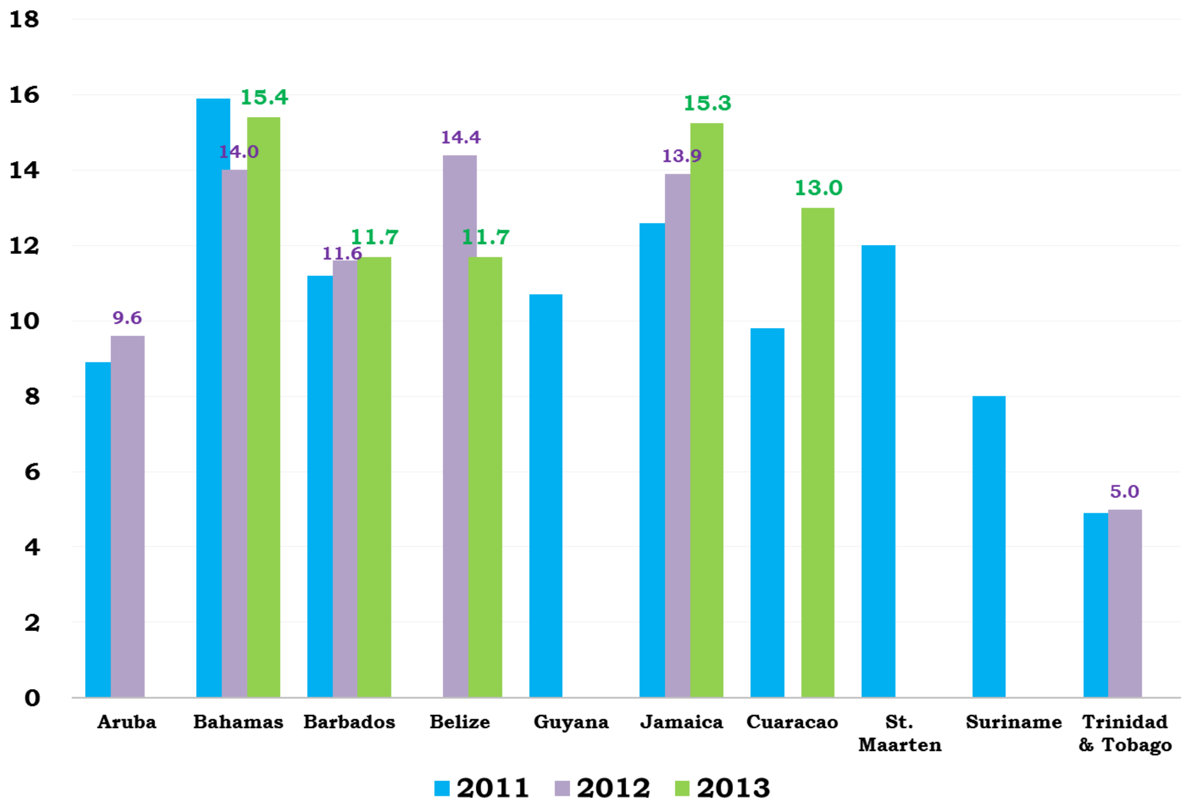
Suriname's annual average inflation rate was 1.9 per cent for 2013, representing a substantial decline of 3.1 percentage points when compared to the 2012 rate of 5 per cent. This is the lowest their inflation rate has been in 24 years. Lower food and fuel prices were the main contributors. Also favorable weather conditions impacted positively on the prices of domestically produced food stuff. The sharp increase in domestic demand in 2013 did not translate into price pressures as ample provisioning of foreign exchange facilitated imports.

Inflationary pressures in Trinidad and Tobago subsided considerably in 2013, because of the lower food prices. Food price inflation fell sharply from 13.8 per cent in January 2013 to a twenty four-month low of 3.0 per cent in September 2013, before moving into double-digit territory (10.2 per cent) in December 2013. A combination of better local weather conditions, growth in international crop production and improvements within the regional supply chain were key factors behind the improvement in food inflation in 2013. Trinidad and Tobago's annual average inflation rate was 5.2 per cent for the year 2013, a significant decline when compared to the 9.3 percent reported for 2012.

3.3 LABOUR MARKETS

The lack of labour statistics continues to be a major hindrance to the accurate assessment of the labour markets in the CARICOM region. Only five countries reported unemployment data for the year 2013; the unemployment rates ranged from 11.7 per cent (Barbados and Belize) to 15.4 per cent (The Bahamas). The slow-paced growth reported in most economies is the primary reason for the continued high levels of unemployment in the CARICOM region. All five countries with unemployment data, reported rates that were above ten per cent, not only in 2013, but since 2009.

Figure 9 : Unemployment Rates (%) of CARICOM Countires



The Bahamas unemployment rate increased in 2013 to 15.4 per cent from 14 percent (2012). Its domestic economy remains challenged and this has adversely affected the employment prospects for many Bahamian workers. Labour markets in Barbados are currently anxiety-filled since there is a mandate by the Barbados government to reduce its public sector wage bill by 2017. There is a high level of uncertainty with respect to employment prospects in Barbados, but the unemployment rate has remained relatively unchanged, moving from 11.6 per cent (2012) to 11.7 per cent (2013).

Belize reported improvements in their unemployment rates for the year 2013. It remained above ten per cent, but the number of persons employed has increased. Belize unemployment rate is reported to have improved by 2.7 percentage points in 2013, moving from 14.4 per cent in 2012 to 11.7 per cent (2013).

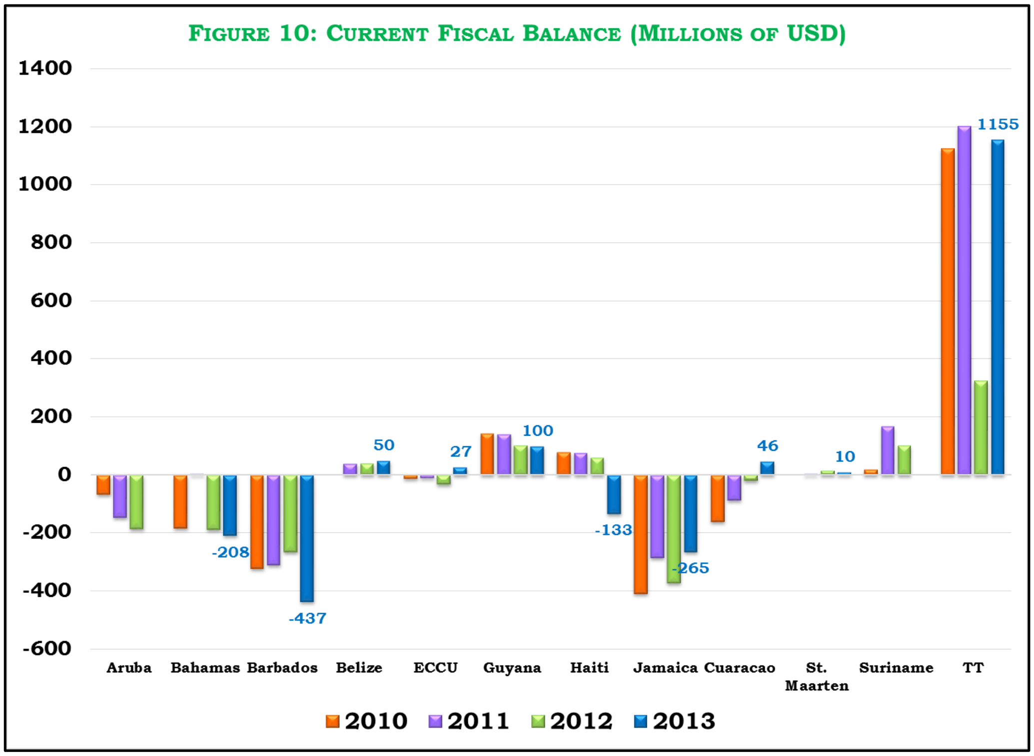
Indicators of employment levels in Curacao suggest that there is an increase in the joblessness in the economy; the unemployment rate for 2013 was 13 per cent, a substantial increase when compared to that of 2011, when it was 9.8 per cent.

The Statistical Institute of Jamaica (STATIN) indicated that the unemployment rate increased to 15.3 per cent in 2013 from the 13.9 per cent recorded in 2012. The rise in unemployment was reflective of an increase of 2.1 per cent in the labour force which outweighed the marginal growth of 0.5 per cent in employment. Concurrently, the job seeking rate increased to 9.8 per cent from 8.8 per cent recorded at end 2012. Higher unemployment was reflected primarily in Manufacture, Financial Intermediation, Wholesale & Retail Trade and Hotels & Restaurants.

Trinidad and Tobago reported an unemployment rate for the first quarter of 2013, as 3.7 per cent. Preliminary data on the unemployment levels in Trinidad and Tobago hint towards a rising unemployment rate for 2013. There has been a steady increase in retrenchment notices during 2013. Data from the Ministry of Labour and Small and Micro Enterprises Development reported a 13.9 per cent increase in the number of retrenchment notices filed in 2013 when compared to 2012. In 2013 about one quarter of the notices were filed by firms in the finance, insurance, real estate and business services sector. The Petroleum and Mining sector accounted for 16.1 per cent of the retrenchment notices, followed closely by the Distribution sector with 11.2 per cent.

3.4 FISCAL ACCOUNTS

3.41 Current Fiscal Accounts



The performances of the Central Governments were mixed among the countries for which data was available.[2] Among the reporting countries, Belize, the Eastern Caribbean Currency Union (ECCU), Guyana, Curacao, St. Maarten and Trinidad and Tobago recorded surpluses on the fiscal current account for the calendar year 2013. For a third of these countries, namely Belize and Trinidad and Tobago, the surplus was an improvement on the current fiscal balance in the calendar year 2012. In Guyana and St. Maarten the surplus narrowed. The remaining countries, namely, The Bahamas, Barbados, Haiti and Jamaica, closed 2013 in a current fiscal deficit position. Despite registering a deficit, the current fiscal position of Jamaica improved.

[2] No data was available for Aruba

Central Government performance in Haiti shifted from a current surplus position for the year ended December 2012 to a current deficit position for the year ended December 2013. The opposite is true of public fiscal outcomes in Curacao and the ECCU. Of the three, the ECCU experienced the smallest change between the comparable periods, while Haiti and Curacao registered the largest changes of all the reporting countries. In Curacao, the current account balance recovered from a deficit of US$19.8 million for 2012 to a surplus of US$46.4 million one year later. There were decreases in both current revenue and current expenditure; however, the pace of the latter was 58 times the former. The prudent expenditure performance was the aggregate of decreases in three of the four major lines of current expenditure, of which disbursement of transfers and subsidies experienced the sharpest decline, plummeting by 101.8 per cent. Personal emoluments and consumption expenditure were slashed by 11.8 per cent and 55.2 per cent respectively while interest payments rose marginally by 1.3 per cent. The combined effect was a 165.6 per cent shrinkage in public spending. In respect of government revenue, reductions in receipts from income tax (5.5%), international trade tax (3.6%) and non-tax proceeds (22.28%) were only partially offset by an uptick in sales tax collections (6.26%) resulting in a 2.86 per cent decrease in revenue. The direction of changes in the outturns were similar in the ECCU. The current balance shifted from a deficit of US$31.1 million at end-December 2012 to a surplus of US$27.0 million at end-December 2013. On the revenue side, current revenue was buoyed by a 122.2 per cent increase in non-tax revenue despite year-on-year decreases in income tax and international tax receipts of 11.9 per cent and 121.6 per cent respectively[3]. The result was a 162.1 per cent increase in current revenue, a whopping 82 times the marginal increase in current expenditure.

Conversely, the current account balance for Haiti deteriorated from a surplus of US$59.4 million at the end of 2012 to a deficit of US$132.5 million at the end of 2013; a massive 322.9 per cent fall out. The year-on-year growth of expenditure (6.21 %) outpaced that of revenue (5.27%) owing largely to a 57.6 per cent increase in transfers and subsidies. Other

[3] Data for non-tax revenue was not available

major lines of expenditure also grew, including outlay on goods and services (9.8%) and wages and salaries (10.6%), while interest expenses declined (6.6%). In a review of the Haitian economy, The IMF pointed to increased current expenditure due to financing the deficit of the state owned Electricity Company. Declines in income tax and net official transfers, as post-earthquake relief aid declined, were only partially offset by increases in customs duties and support grants. Fixed prices in oil products at the pump and a higher import bill cost forgone revenue equal to one per cent of GDP.

In The Bahamas and Barbados, the current account deficit for 2013 widened year-on-year, while in Jamaica, the deficit narrowed. At the end of 2013, the current account deficit in The Bahamas stood at US$208.3 million, a 10.8 per cent or US$20.3 million expansion vis-à-vis the previous year. The three per cent decline in public revenue eclipsed the modest 1.8 per cent decline in public outlay year-on-year. On the expenditure side, decreases in the purchase of good and services (6.74%), public service remuneration (3.64%), and transfers and subsidies (0.04%) were countered by an increase in interest debt payments (10.2%). On the revenue side, an increase in non-tax revenue from receipts of miscellaneous income, dividend payments from a major utility provider and proceeds from fines, forfeits and administration was not sufficient to counteract the decline in tax revenue due in large measure to a significant reduction in departure tax (following a one-time payment of arrears in 2012) and declines in foreign realty tax, property tax and hotel and gaming tax collections. In Barbados, a 13.6 per cent decrease in current revenue together with a 1.2 per cent increase in expenditure caused the current account deficit to expand from US$265.2 million or 4.5 per cent of GDP for the 2012 calendar year to US$437.3 or 8.5 per cent of GDP for the 2013 calendar year. A 7.7 per cent decline in consumption expenditure did not sufficiently counter increased public expenditure on wages and salaries (0.5%), transfers and subsidies (4.1%) and interest payments (3.4%).

Central governments of Trinidad and Tobago and Belize enjoyed significant surplus expansion when the 2012 and 2013 year-end current balances were compared. In Trinidad and Tobago, current revenue exceeded current expenditure by US$ 939.3 million at end-

December 2013, an enormous 187.2 per cent increase. All expenditure aggregates increased year-on-year as Government continued efforts to stimulate the economy through expansionary fiscal policy. Outlay on goods and services went up by US$364 million or 6.1 per cent, public sector remuneration spiked by US$373 million or 32.8 per cent, transfers and subsidies rose by US$29.9 million or 6.8 per cent while interest payments increased by US$67.8 million or 2.5 per cent. The result was a 10.6 per cent increase in current expenditure. These movements were the result of the completion of several wage negotiations, payment of the petroleum subsidy and interest payment on treasury bonds aimed at mopping up liquidity. The increase in revenue doubled that of expenditure year-on-year. Current revenue increased by 19.1 per cent on account of a 13.6 per cent uptick in income tax receipts, a 14.4 per cent rise in international trade tax and a significant 79.1 per cent increase in non-tax revenue. The CBTT reported that the growth of non-tax revenue was led by the receipt of dividends from state enterprises in November 2013 and the receipt of divestment proceeds, while tax revenues increased primarily due to higher oil and gas revenues. Sales tax receipts recorded a decline of 4.9 per cent (year-on-year) due to V.A.T refunds aimed at the reducing the build-up of outstanding V.A.T arrears.

In Belize, the current fiscal surplus increased 18.6 per cent (year-on-year) to end 2013 at US$50 million and ended 2012 US$42.4 million. The rate of growth of current revenue outstripped that of current expenditure. On the revenue side, increases in income tax (5.7%) and sales tax (15.7%) were partly countered by decreases in non-tax revenue (21.5%) and, to a lesser extent, international trade tax collections (1.9%) to increase revenue by 3.2 per cent. The Central Bank of Belize reported that increases in business and income tax receipts were the result of enhanced monitoring and reporting. The Bank further explained that non-tax collections declined due in large part to reduced receipts in oil dividends and the repayment of old debts. Additionally, the resilience of the general sales tax and fall out in import duties were on account of a shift to a sales tax on fuel imports and the removal of the fixed import duty. On the expenditure side, a 37.3 per cent decrease in interest payments was more than offset by increases in outlay on goods and services, wages and salaries, and transfers and subsidies to net a 1.4 per cent increase in current expenditure. The Central Bank recognized that the decline in interest expenses was attributable to the negotiation capitalization of one of the biannual interest payments on the restructured super bond. The most significant increased expenditure was subsidies and transfers which increased by 16.6 per cent (year-on-year) as a result of a reclassification exercise which shifted teachers' salaries into this category and increased contributions to the Karl Heusner Memorial Hospital and international organizations.

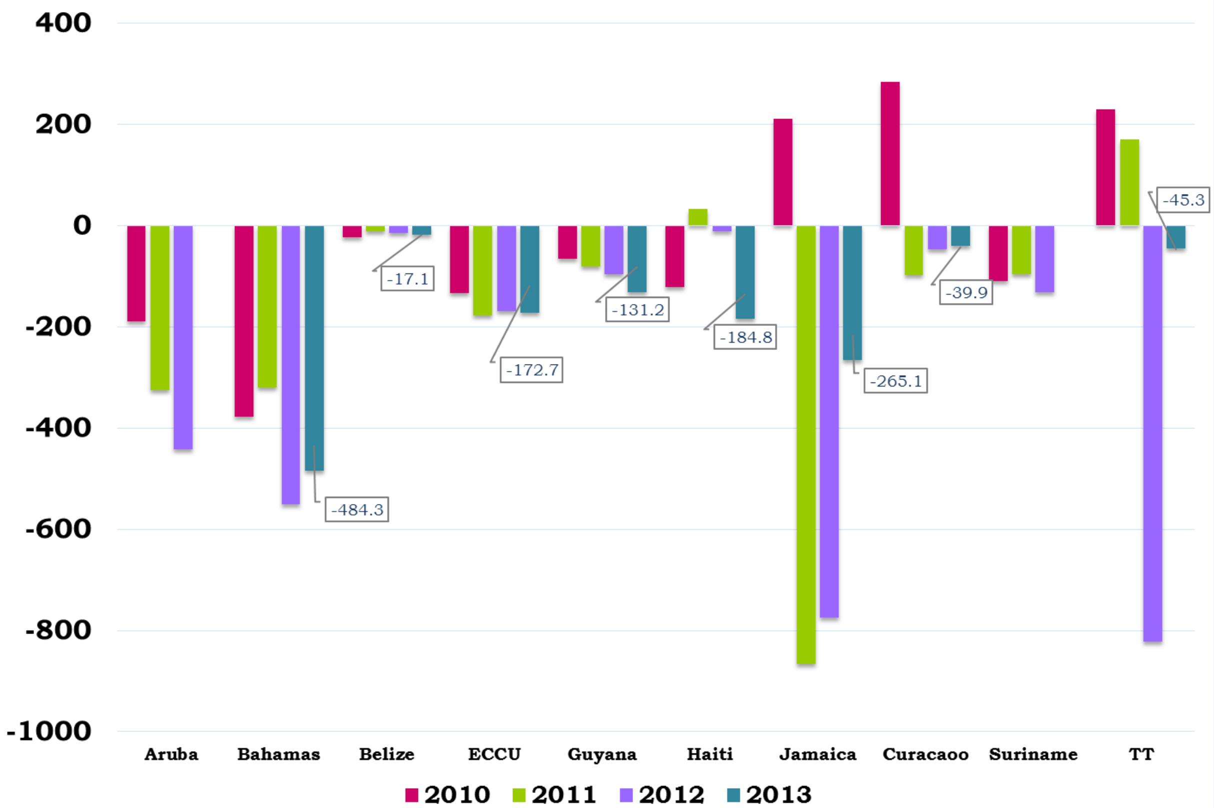
In Guyana and St. Maarten the fiscal surplus deteriorated. In Guyana, the fiscal surplus dipped from US$102.7 million (3.6% of GDP) in December 2012 to US$99.7 million (3.4% of GDP) in December 2013; 2.9 per cent decline. The deficit worsened as expenditure growth (26.5%) outpaced revenue growth (4.81%) five and a half fold. The increase in current spending was due to a 30.5 per cent jump in consumption spending, a 12.4 per cent rise in wage and salaries and a 12.9 per cent upswing in transfers and subsidies in 2013 relative to 2012. Interest expenses declined marginally by 1.8 per cent between the comparable periods. A 17.2 per cent decrease in non-tax receipts stemmed current revenue growth, despite increases in the other three revenue aggregates. The Central Government of St. Maarten increased current expenditure by nine and a half times the minimal increase in current revenue. Details on the composition of the changes in current expenditure and revenue were not available for St. Maarten.

Table 10 : CURRENT FISCAL BALANCE 2009 -2013 (US$M)

	2009	2010	2011	2012	Change 2012/11	% Change	2013	Change 2013/12	% Change
Aruba	(11.05)	(66.5)	(147.3)	(186.6)	(39.4)	26.7	n.a	n.a	n.a
Bahamas	(90.00)	(182.8)	4.0	(188.0)	(192.0)	(4800.0)	(208.3)	(20.3)	10.8
Barbados	(387.46)	(321.3)	(309.9)	(265.2)	44.6	(14.4)	(437.3)	(172.1)	64.9
Belize	(0.9)	35.52	34.81	42.28	7.4	21.5	50.3	10.8	27.3
EC Currency Union	(56.85)	(12.6)	(8.8)	(31.1)	(22.3)	254.7	27.0	58.1	(187.0)
Guyana	78.84	144.2	140.3	102.7	(37.6)	(26.8)	99.7	(3.0)	(2.9)
Haiti	42.12	78.9	77.0	59.5	(17.5)	(22.8)	(132.5)	(192.0)	(322.9)
Jamaica	(819.90)	(409.5)	(284.2)	(370.8)	(86.6)	30.5	(265.1)	105.7	(28.5)
Curacao	(105.22)	(161.4)	(86.4)	(20.0)	66.4	(43.2)	46.3	66.3	(332.1)
St. Maarten	n.a	n.a	5.8	15.7	9.9	96.1	9.9	(5.8)	(36.9)
Suriname	121.40	19.6	174.7	105.6	(69.1)	(39.6)	n.a	n.a	n.a
Trinidad & Tobago	284.69	1125.5	1199.9	280.8	(919.1)	(76.6)	939.3	658.5	234.5

3.4.2 Overall Fiscal Balance

FIGURE 11: OVERALL FISCAL BALANCE (UD$M)



All the reporting countries for which data was available[4], recorded overall fiscal deficits at the end of 2013. For The Bahamas, Guyana, Jamaica and Curacao the deficit at end-December 2013 was an improvement on the overall fiscal balance recorded for end-December 2012. In contrast, the overall deficit worsened in Belize, the ECCU and Haiti year-on-year.

The Bahamas, Jamaica and Curacao enjoyed an improved overall fiscal stance at the end of 2013 when compared to the end of 2012. In The Bahamas, the overall fiscal deficit decreased by 12.2 per cent from US$551.0 million at end-December 2012 to US$484. 26 million at end-December 2013. The narrowed overall deficit obtained in spite of a widening of the current account deficit between the comparable periods. As the Central Bank of The Bahamas noted, the change in capital revenue was negligible relative to the previous year when a state-owned building was sold. Capital expenditure firmed when the year-end values were compared. The Central Bank further noted that transfers to non-financial public institutions increased as funds were disbursed in aid of the acquisition of aviation equipment. Infrastructure related expenditure and miscellaneous capital investment (due to acquiring security and defense equipment) also increased. In 2013, these movements were partially offset by receding equity investments and reduced land acquisition following the purchase of the Government's headquarters in the previous year (2012). As a result capital expenditure tapered towards the end of the year, which together with 28.0 per cent reduction in current expenditure caused aggregate spending to decline to effect a narrowing of the deficit. In Curacao, given a surplus on the current account, there was a 13.8 per cent narrowing of the overall deficit from 1.5 per cent of GDP to 1.3 per cent of GDP at end-December 2012 and end-December 2013 respectively. In Jamaica, the overall deficit narrowed from US$774.9 million at end-December 2012 to US$265.09 at end-December 2013; a 65.8 per cent decline. It is worth noting that the USD value of the deficit may have declined by such a significant margin and the Jamaican dollar experienced unprecedented depreciation relative to the USD Dollar.

[4] Data was not available for Aruba, Barbados, St. Maarten

In Guyana, Haiti, Belize and the ECCU the overall fiscal position deteriorated. In Guyana, following a current account surplus, the overall deficit opened by 37.7 per cent from US$95.5 million at the close of 2012 to US$131.2 million a year later. In Haiti, domestically financed capital spending and an increase in current spending caused the overall deficit to worsen to 2.2 per cent of GDP (US$11.9 million) at the end of 2013 compared to 0.2 per cent of GDP (US$184.8 million) at the end of 2012. The consolidated performance of the Eastern Caribbean central governments featured a widening of overall fiscal deficit following a narrowing of the current account surplus and increased capital disbursements. The deficit stood at US$172.7 million at end-December 2013; 2.0 per cent higher than the previous year-end outturn. The overall fiscal deficit in Belize expanded from US$12.6 million or 0.8 per cent of GDP at 2012 year end to US$17.14 million or 1.1 per cent of GDP at 2013 year end. The expansion came as capital expenditure increased due largely to infrastructure related expenditure for such projects as the completion of the Southern Highway, the construction and Macal Bridge in Belize City and the repair and maintenance of highways. Funds were also disbursed for land and solid waste management, social and environmental projects, the Belize Sports Centre, the National Bank, and furniture and equipment for, and upgrading of, office buildings.

Trinidad and Tobago recorded the largest improvement in the overall fiscal position which swung from a deficit of US$821.6 million or -3.4 per cent of GDP at end-December 2012 to a deficit of only US$45.3 million or -0.2 per cent of GDP. The significant improvement was due to a significant increase in the current account surplus and decreased capital expenditure. The CBTT acknowledges that capital spending slowed due to sluggish project implementation and administrative setbacks.

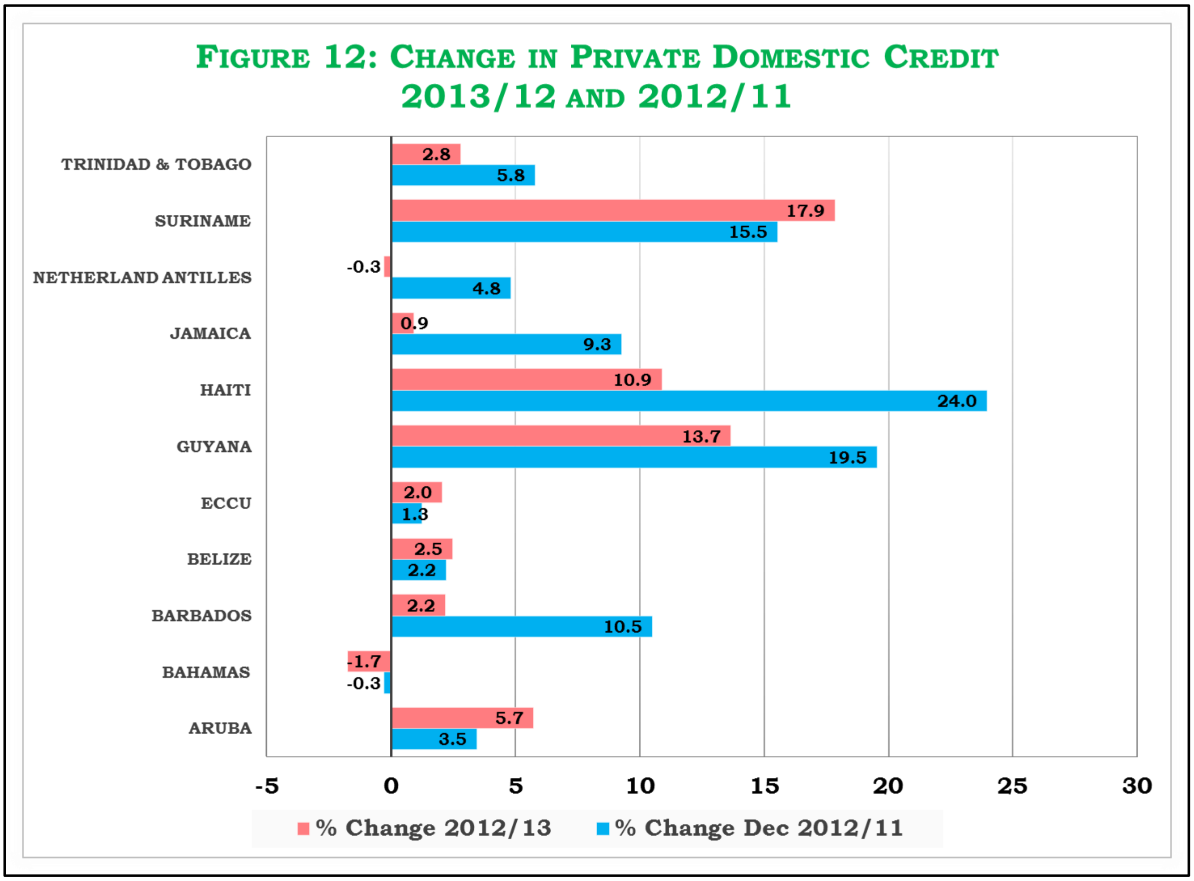
Table 11 : OVERALL FISCAL BALANCE , DECEMBER 2010 – DECEMBER 2013 (US$M)

	2011	2012	2013	Change 2013/12	% Change
Aruba	-325.2	-442.1	n.a.	n.a.	n.a.
Bahamas	-319.8	-551.0	-484.3	66.7	-12.1
Barbados	n.a	n.a	n.a	n.a	n.a
Belize	-11.4	-15.0	-17.14	-2.1	14.2
EC Currency Union	-177.7	-169.3	-172.7	-3.4	-2.02
Guyana	-80.2	-95.5	131.2	226.7	-237.3
Haiti	32.8	-11.9	184.8	196.7	-1652.4
Jamaica	-866.7	-774.9	-265.1	509.8	-65.8
Curacao	-97.9	-46.3	-39.9	6.4	-13.9
St. Maarten	n.a	n.a	n.a	n.a	n.a.
Suriname	-96.6	-131.1	n.a.	n.a.	n.a.
Trinidad & Tobago	170.6	-821.6	-45.3	776.3	-94.5

3.5 BANKING AND FINANCE

3.5.1 Private Domestic Credit

At the end of the 2013 calendar year, the movement in private domestic credit varied among countries covered in this report. Against the backdrop of prevailing excess liquidity and persistently low interest rates in the banking system, the growth of private domestic credit remained sluggish in four of the reporting countries at end-December 2013 relative to end-December 2012. These were Belize, the ECCU, Jamaica and Trinidad and Tobago. For another three territories, namely The Bahamas, Barbados and the Netherlands Antilles (St. Maarten and Curacao), the situation was bleaker as lower credit demand caused private domestic credit to contract between the comparable periods. Conversely, Guyana, Haiti and Suriname continued to experience the double digit year-on-year growth in domestic credit to the private sector in 2013 that they experienced in 2012.



Despite recording significant growth in private domestic credit at end-December 2013 relative to their regional counterparts, the pace of growth decelerated from that recorded at end-December 2012 in Guyana and Haiti. In Haiti credit to the private sector which had been resilient in the last three years slackened in 2013. The growth rate of outstanding private loans was more than halved from 24 per cent at year-end 2012 to 10.9 per cent at year-end 2013. Advances in private credit followed improved performance in Industry, specifically, chemical products and food, beverages and tobacco production, and construction. However, as the IMF pinpointed, an increasingly conservative monetary stance taken by the Central Bank increased the legal reserve requirement and served to diminish the pool of loanable funds just as it had done in the previous year. In Guyana, the year-on-year growth of credit to the private sector in December 2013 was 13.65 per cent; 13.83 per cent slower than year-on-year increase recorded in December 2012. Data released by the Bank of Guyana for the first half of the year revealed that the expansion of private domestic credit was mostly on account of increases in loans extended to the manufacturing, construction and engineering and mining sectors and real estate mortgages which grew by 15.1 per cent, 15 per cent, 7.5 per cent and 7.4 per cent respectively relative to end-December 2012 levels. Concomitant declines in the rice milling, agriculture and other sectors of 14.1 per cent, 2.3 per cent and 0.2 per cent respectively caused growth to slow.

Jamaica and Trinidad and Tobago also experienced decelerated growth in private credit at end-December 2013 (year-on-year). In Jamaica, growth in claims on the private sector was subdued, increasing by a mere 0.9 per cent at end-December 2013; eight percentage points slower than the previous year. For the review year, the Bank of Jamaica reported that the increase in private sector lending was primarily attributable to a moderate increase in personal credit— credit card receivables, term loans and mortgage loans—denominated in Jamaican dollars. Locally denominated business loans to the manufacturing and transport, storage and communications sectors and foreign currency denominated loans to the electricity, gas and water sectors also increased. However, the observed slowdown in private credit was attributable to the repayment of personal foreign currency loans as persons attempt to shed increasingly expensive debt due to the record depreciation of the Jamaican dollar over the review year. Despite an accommodating monetary policy stance by the Central Bank of Trinidad and Tobago (CBTT), growth in domestic private loans was lukewarm. Year-on-year, private credit grew by 2.8 per cent in December 2013 compared to 5.8 per cent in December 2012. The CBTT attributed the fallout to a decline in business loans. In December 2013, commercial lending continued along a monthly downward trajectory that began in December 2012 due in large measure to depressed capacity utilization in the manufacturing sector and businesses holding large cash balances. However, credit growth was buoyed by the momentum in consumer loans and residential mortgages. The CBTT highlighted that real estate mortgages recorded double digit growth for the sixteenth consecutive months up to December 2013. Consumer lending was bolstered by growth in borrowing for purchasing motor vehicles, home renovations and debt consolidation.

Credit to the private sector in Suriname firmed by 17.9 per cent (US$232.3 million) at end-December 2013 (year-on-year) to close the 2013 calendar year at US$1,533.5 million. This was three per cent points higher than the growth in credit for the corresponding period in 2012. The Central Bank of Suriname raised the reserve requirement for foreign currency deposit liabilities by five percentage point increments twice throughout the year to stem credit dollarization. The result was a deceleration in the growth of foreign currency loans outstanding to 13 per cent in 2013, six per cent slower than in 2012. The value of locally denominated private loans climbed by 21 per cent (year-on-year) in December 2013 despite a five percentage point increase in the reserve requirement on local currency deposits in September 2013.

In Aruba, the ECCU and Belize, the growth of private sector credit for the calendar year 2013 marginally outpaced the growth experienced one year earlier. In the ECCU, the year-on-year percentage change in private domestic credit at end-December 2013 (2%) was less than one per cent greater than that at end-December 2012 (1.3%). In the former case, the value of outstanding private loans rose by US$97.93 million (year-on-year) to close 2013 at US$4,887.8 million. The sluggish momentum of credit growth in the Currency Union occurred in spite of a decline in the lending rates mainly on account of the contraction in economic activity experienced by member countries. Private credit contracted in all member countries, except Dominica and St. Vincent and the Grenadines in the first half of the year in review. The Eastern Caribbean Central Bank (ECCB) reported that credit for all purposes except distributive trade decreased, with the most significant decline seen in the tourism sector. In Belize, the expansion in domestic private credit for the 2013 calendar year registered only a minimal 2.5 per cent increase (US$22,277 million) to close at US$ 915,266. This growth rate exceeded the previous year's growth by only 0.3 per cent as lending was offset in large part by repayments and debt forgiveness. The Central Bank of Belize explained that funds were expended to finance residential and commercial construction, land acquisition, commercial real estate and citrus production. Counteracting this were write-offs in the marine, distribution, real estate, tourism and transportation sub-sectors. Notable net repayments were made on personal loans and by entities in tourism and marine production. In Aruba the pace of annual growth in claims on the private sector was a mere 2.3 per cent higher in 2013 than what obtained a year earlier. At end- December 2013 the value of outstanding private loans stood at US$41,604 million, 5.7 per cent higher than the end-December 2012 level (US$1,518.1 million). As the Central Bank of Aruba reports, a decline in consumer credit is responsible for the tepid credit growth. Despite this decline, private credit was kept afloat by upturns in housing mortgages and commercial loans.

In Barbados, the Netherland Antilles and The Bahamas, the value of domestic credit to the private sector at end-December 2013 fell below end-December 2012 levels. In the context of increasingly excessive liquidity levels and depressed private sector demand, private sector credit continued to weaken in The Bahamas from US$6,629.3 million at end-December 2012 to US$6,514.2 million at end-December 2013; a 1.7 per cent contraction (comparable to a 0.3% decline at the end of 2012). The Central Bank of The Bahamas attributed the contraction primarily to a significant reduction in claims for miscellaneous purposes including the swap out of a significant commercial credit for equity financing. Losses in personal loans reversed the previous year's growth. Declines were also recorded for credit to the professional and other services, construction and tourism sectors while net lending positions were recorded for the manufacturing, entertainment and catering sectors, and private financial institutions. The deceleration of growth in private lending in Barbados and the Netherland Antilles was significant enough to effect a shift from year-on-year growth in December 2012 to year-on-year compression in December 2013. In December 2013, year-on-year movement in private credit in Barbados reversed from a progressive outturn of 10.5[5] per cent in December 2012 to a regressive outturn of 2.2 per cent in December 2013. This reduction in Barbados is the result of deteriorating loan quality and smaller profit margins driven by excess liquidity. The slowdown was less dire in the Netherland Antilles where a 4.8 per cent decline in private lending in 2012 reversed to a 0.3 per cent decline in 2013. As the Central

[5] Of this 2.2 per cent was due in part to a merger with A Part III Company.

Bank of Curacao and St. Maarten reports, an increase in consumer loans was countered by decreases in business loans and mortgages.

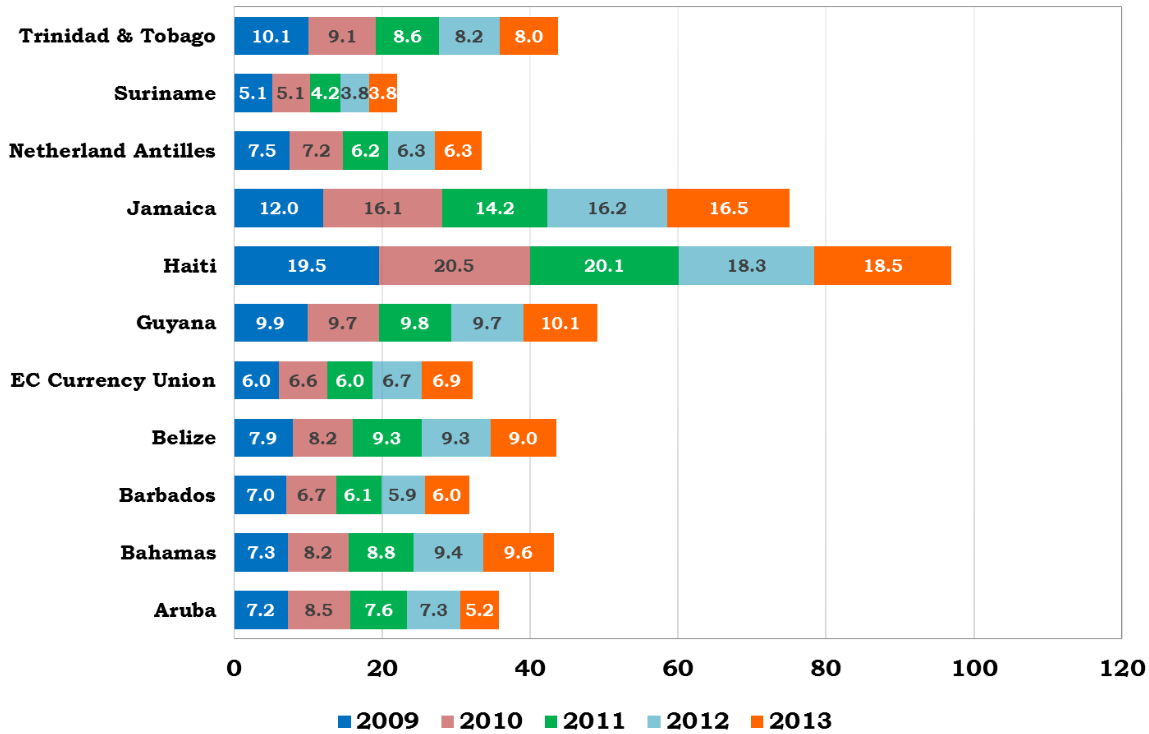
Table 12 : DOMESTIC CREDIT TO THE PRIVATE SECTOR END – DECEMBER 2011-2013 (US$M)

	end-Dec 2011	end-Dec 2012	Change 2012/11	% Change 2012/11	end-Dec 2013	Change 2013/12	% Change 2013/12
Aruba	1,467.2	1,518.1	50.89	3.47	1604.93	86.85	5.72
Bahamas	6,647.50	6,629.3	(18.20)	(0.27)	6514.20	(115.10)	(1.74)
Barbados	2,600	2,873	273	10.5	2811	(62)	(2.2)
Belize	873,707	892,990	19,283	2.2	915,266	22,276	2.49
EC Currency Union	4,730.57	4,789.9	59.33	1.25	4887.84	97.93	2.04
Guyana	660.80	789.8	129.04	19.53	897.66	107.81	13.65
Haiti	1,294.28	1,604.6	310.28	23.97	1779.50	174.94	10.90
Jamaica	2,718.76	2,970.4	251.66	9.26	2997.63	27.22	0.92
Netherland Antilles	3,006.73	3,151.9	145.17	4.83	3142.46	(9.44)	(0.30)
Suriname	1,126.20	1,301.2	175.00	15.54	1533.48	232.28	17.85
Trinidad & Tobago	6549.15	6,927.7	378.55	5.78	7122.04	194.33	2.81

3.5.2 Interest Rate Spreads

Systemic excess liquidity continued to plague the financial landscape of all the countries covered in this report which undoubtedly affected interest margins. As the pool of loanable funds ballooned, the weighted average loan rate in December 2013 vis-à-vis December 2012 declined in all countries, except Aruba, Barbados, Guyana, Suriname and the ECCU where the rate increased year-on-year. In a bid to preserve spreads, commercial banks in The Bahamas, Belize, the ECCU, Guyana, Haiti and Jamaica also reduced the average three-month deposit rate to mitigate against the rising cost of deposit liabilities. However, this end was not achieved in Belize and Trinidad and Tobago where the interest spread narrowed as the downward adjustment in the loan rate exceeded that of the deposit rate. The opposite is true in The Bahamas, the ECCU, Guyana and Haiti where the decrease in the average deposit rate was sufficient to allow interest spreads to widen.

Figure 13: Commercial Bank Interest Rate Spread Dec 2010-2013



In Belize, against the backdrop of sustained upward momentum in commercial bank liquidity, led by deposit accumulation of Venezuela Petro Caribe Agreement (VPCA) receipts by Central Government and lukewarm credit expansion, the weighted average loan rate declined by 74 basis points (year-on-year) to 11.1 per cent at end-December 2013. The Central Bank of Belize noted that this movement largely reflected a 80 basis point reduction in lending rates for residential construction loans together with 61 and 70 basis point reductions in lending rates for personal and commercial loans respectively. Simultaneously, the weighted average deposit rate declined to 2.55 per cent in December 2013 versus 2.17 per cent a year earlier, a 38 basis points sink. This movement was underpinned by dips in the rates paid on time, savings and demand deposits. However, as the Central Bank noted, further increases in the rates paid on savings/chequing accounts mitigated the declines. The combined result of these movements was a 36 basis point narrowing of the weighted average interest spread accruing to commercial banks.

The CBTT reported that commercial banks' holding of excess reserves reached unprecedented levels in the second half of 2013 putting downward pressure on the weighted average loan rate while the average deposit rate remained unchanged from its March 2013 level of 0.56 per cent, a negligible one basis point reduction from the end-December 2012 level. In response to the liquidity build up, the weighted average loan rate fell by 24 basis points from 8.75 per cent at the end of 2012 to 8.51 per cent at the end of 2013 in spite of the stabilization of lending rates in the second half of the year. As the CBTT further reported, the downtrend in the average loan rate tapered to a six basis reduction in September 2013; the smallest half year reduction registered since 2009. As a result, the commercial bank spread continued to trend downwards to close 2013 at 7.95 per cent; 23 basis points lower than at the close of 2012.

In Aruba, the Netherlands and Suriname, commercial banks also experienced reductions in their interest margins; however, movements in the weighted average loan rates were mixed. In Aruba, as net claims of the banking sector on the public sector rose due to a decline in government deposits and claims on the private sector fell due to decreased consumer lending, commercial banks offered higher interest rates on savings to attract deposits and charged marginally higher interest rates on loans. The average three-month deposit rate climbed by 220 basis points to 3.30 per cent in December 2013 (year-on-year); 22 times as much as the increase in the weighted average loan rate which closed 2013 at 8.50 per cent up from 8.40 per cent, at the end of 2012. The result was a 210 basis point narrowing of interest margins; the most significant decline of all the reporting countries. The Netherlands Antilles (Curacao and St. Maarten) had the least significant decline in interest rate spread as interest rates charged by commercial banks stabilized in the second half of the year while time deposit rates increased slightly. The sum of an upward six basis point movement in the average deposit rate and a downward two basis point movement in the average loan rate caused the interest margin to close by two basis points in December 2013 (year-on-year). The weighted average interest spread accruing to commercial banks in Suriname continued trending downward to reach its lowest end-December level since 2009. At 3.75 per cent the interest margin was five basis points lower in December 2013 relative to December 2012. This as the increase in the average deposit rate (25 b.p.) overshadowed the increase in the average loan rate (20 b.p.) by 5 basis points as the Central Bank increased the legal requirement for both foreign (twice) and local (once) currency deposits and private sector credit far outpaced economic growth.

In the remaining countries— The Bahamas, the ECCU, Guyana, Haiti and Jamaica— the weighted interest spread widened in December 2013 relative to December 2012. This end was achieved by differing movements in both the average loan rate and average deposit rate. In the ECCU and Guyana, the interest rate margin expanded as the weighted average loan rate firmed while the average three month deposit rate slackened. Guyanese commercial banks simultaneously effected a 30 basis point reduction in the average deposit rate from 1.39 per cent at end-December 2012 to 1.09 per cent at end-December 2013 and an eight basis point increase in the average loan rate from 11.08 per cent to 11.16 per cent over the comparable periods. As a result they enjoyed a higher interest margin of 10.07 per cent at end-December 2013, a 38 basis point improvement over the previous year. As noted by the Bank of Guyana, these movements reflected the effort by commercial banks to preserve profit margins while reducing costs. Taken together, the weighted average interest rate spread of commercial banks in the member countries of the ECCU increased by 27 basis points (year-on-year) to 6.93 per cent at the end of 2013. This result obtained as the average lending rate jumped slightly to 8.91 per cent from 8.94 per cent and the average deposit rate dipped from 2.25 per cent to 2.01 per cent between comparable periods.

In The Bahamas and Haiti there were rate decreases on both the deposit and lending sides. However, the decreases in average deposit rates eclipsed the decreases in the average loan rates in all two countries. In The Bahamas, the weighted average loan rate closed 2013 (10.79%) a mere two basis points higher that it closed 2012 (10.77%). The Central Bank solely attributes this small increase to increases in the rate charged on consumer loans. Given buoyant liquidity conditions, the weighted average deposit rate decreased by twelve times as much over the same period ending 2013 at 1.17 per cent. As the Central Bank of The Bahamas reports, this decline was led by declines in the rate paid on savings and time deposit of 56 and 14 basis points respectively. Consequently, the spread between the two contracted by 20 basis points to 9.6 per cent at end- December 2013. In Haiti, where monetary policy is preoccupied with price stability, the Bank of the Republic of Haiti tightened monetary policy by increasing the legal reserve requirement to curtail inflationary pressures from double digit growth in private credit. Commercial banks reduced the average lending rate and deposit rate to 18.69 per cent and 0.19 per cent respectively at end-December 2013. Notably, the decline of the former exceeds that of the latter more than three-fold resulting in 17 basis point expansion of the interest spread to close the 2013 calendar year at 18.5 per cent, the highest of all the reporting countries. In the case of Jamaica, the 127 basis point decrease in the weighted interest margin was achieved by an increase in the average loan rate of 95 basis points and the average deposit decreased by 32 basis points, between the comparable periods. It is worth noting that these movements were the most significant changes observed in both rates among the reporting countries. These movements yielded a weighted average loan rate of 17.49 per cent and an average three month deposit rate of 4.07 per cent at end-December 2013 (second highest and lowest behind Haiti) and an interest spread of 13.49 per cent (also second widest behind Haiti).

The movements in Barbados were unique. While the average lending rate increased by seven basis points (year-on-year) to 8.49 per cent in December 2013, the average deposit rate held firm at the December 2012 level of 2.52 per cent .

Table 13: COMMERCIAL BANKS' INTEREST RATE AND SPREAD END DECEMBER 2010- END DECEMBER 2013

	end-December 2010			end-December 2011			end-December 2012			end-December 2013			Change 2013/12		
	Loan Rate	3-month Deposit Rate	Interest Rate Spread	Loan Rate	3-month Deposit Rate	Interest Rate Spread	Loan Rate	3-month Deposit Rate	Interest Rate Spread	Loan Rate	3-month Deposit Rate	Interest Rate Spread	Loan Rate	3-month Deposit Rate	Interest Rate Spread
Aruba	10.30	1.80	8.50	9.00	1.40	7.60	8.40	1.10	7.3	8.5	3.30	5.20	0.10	2.20	(2.10)
Bahamas	11.18	3.02	8.16	10.72	1.88	8.84	10.79	1.41	9.4	10.77	1.17	9.60	(0.02)	(0.24)	0.22
Barbados	9.39	2.65	6.74	8.75	2.65	6.10	8.42	2.65	5.8	8.49	2.52	5.84	0.07	0.00	0.07
Belize	13.78	5.61	8.17	12.93	3.65	9.28	11.86	2.55	9.3	11.12	2.17	8.95	(0.74)	(0.38)	(0.36)
ECCU	9.48	2.88	6.61	9.53	3.50	6.03	8.91	2.25	6.7	8.90	2.01	6.93	0.03	(0.24)	0.27
Guyana	11.95	2.28	9.67	11.68	1.83	9.85	11.08	1.39	9.7	11.16	1.09	10.07	0.08	(0.30)	0.38
Haiti	20.96	0.50	20.46	20.43	0.32	20.12	18.76	0.43	18.3	18.69	0.19	18.50	(0.07)	(0.24)	0.17
Jamaica	20.43	4.58	15.82	18.03	3.53	15.89	18.44	3.75	14.69	17.50	4.07	13.42	(0.95)	(0.32)	1.2
Netherland Antilles	8.84	1.65	7.20	8.29	2.13	6.16	7.92	1.60	6.32	7.90	1.66	6.30	(0.02)	0.06	(0.02)
Suriname	11.80	6.70	5.10	11.70	7.50	4.20	11.80	8.00	3.8	12.00	8.25	3.75	0.20	0.25	(0.05)
Trinidad & Tobago	9.93	0.85	9.08	9.16	0.61	8.55	8.75	0.57	8.2	8.51	0.56	7.95	(0.24)	(0.01)	(0.23)

Note: All rates are the Weighted Average Rates.

3.5.3 Commercial Bank Performance

As regional central banks and commercial banks grapple with an accumulation of excess reserves, it comes as no surprise that in seven of the eleven reporting countries commercial banks recorded year-on-year increases in total deposits at the end of 2013. Notably, the pace of accumulation slowed from the previous year given varied attempts by regional central banks to mop up excess liquidity. Notwithstanding these efforts, commercial banks in Suriname, Trinidad and Tobago, Haiti, Guyana, Belize, The Bahamas and the ECCU recorded increases in their stock of deposit liabilities. Even in countries where deposits decreased, reserves remained well above required levels. This was the case in Aruba, Barbados, Jamaica and the Netherlands.

There was double digit growth in total deposits in the banking system in Suriname. All other movements in reporting countries, in either direction, were minimal to moderate. The opposite was obtained in Suriname where deposits grew by 11.8 per cent at end-December 2013, nine per cent slower than end-December 2012. The Central Bank of

Suriname pointed out that net credit to the government and private credit growth drove money growth in 2013. However, an increase in the legal reserve requirement on both local and foreign currency denominated deposit holdings effected a deceleration in liquidity expansion.

The Central Bank of The Bahamas acknowledged that for the third consecutive year, monetary conditions included weak private credit growth, continued mild economic performance and above average liquidity. The latter continued in 2013 as deposits continued to increase, albeit marginally at 1.14 per cent in December 2013 (year-on-year). Despite year-on-year growth appearing minimal in December 2013, the Bank was careful to point out that this was more likely the result of seasonal utilization of funds rather than an overall decrease in liquidity especially as sharper increases were recorded in the first half of the year. The Central Bank of Belize revealed that in the banking system in Belize, reserves exceeded required levels by 58 per cent by September 2013 due to the subdued pace of lending. Year-on-year, deposits increased by US$7,427.50 in December 2013.

In Trinidad and Tobago, total deposits in the banking sector grew by four per cent (US$ 573.9 million) in December 2013 relative to December 2012 to close the year at US14, 756.8 million. This rate of accumulation was eight per cent slower than the rate of growth recorded in December 2012 relative to December 2011. This slowdown came as the CBTT continued its liquidity absorption efforts and engaged in open market operations following an increase in statutory limits for treasury bills and notes. Moderate growth was also recorded in the ECCU, Guyana and Haiti where commercial banks consolidated holdings of deposits increased by 3.8 per cent, 6.9 per cent and 3.7 per cent in December 2013 relative to December 2012. In all three countries, these growth rates were less than the growth rates recorded when comparing 2012 and 2011 year end values.

In Aruba, Jamaica and the Netherlands liquidity absorption efforts were seemingly more successful as deposits decreased in December 2013 relative to December 2012. The decrease was minimal in Aruba where deposits decreased from US$2,134.7 million at the end of the 2012 to US$2126.2 million at the end of 2013, a 40 basis point reduction. In the

Netherlands Antilles, deposits also declined marginally from US$4,974 million to US$4,962 million; a 24 basis point reduction. The decline was sharper is Jamaica where deposits fell by 4.24 basis points from US$6,281.9 million in December 2012 to US$6,015.8 million in December 2013. This decline was driven by decreases in local currency Time deposits and Savings deposits as the banking public shed their increasingly devalued savings instruments due to the depreciation of the Jamaican dollar in favour of savings in other currencies.

Deposits have become more dollarized as the share of USD deposits to total deposits increased in all countries. This result was even obtained in Belize and Trinidad and Tobago where the value of USD deposit liabilities declined by 44.7 per cent and 7.4 per cent respectively. On average, the ratio of USD deposits to total deposits held at regional commercial banks increased by one percentage point.

Table 14 : 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-Dec 2012	end-Dec 2013	% change 2013/12	end-Dec 2012	end-Dec 2013	% change 2013/12	end-Dec 2012	end-Dec 2013	change 2013/12
Aruba	2134.7	2126.2	(0.4)	299.5	372.4	24.4	14.0	17.5	1.2
Bahamas	6207.7	6278.7	1.1	212.8	269.8	26.8	3.4	4.3	1.3
Barbados	4180	4325	3.9	205.4	234.5	14.2	4.3	5.4	1.1
Belize	1144.9	1152.3	0.6	106.5	58.9	(44.7)	9.3	5.1	0.5
ECCU	6668.5	6922.3	3.8	641.8	728.3	13.5	9.6	10.5	1.1
Guyana	1543.5	1650.7	6.9	44.0	49.7	13.0	2.9	3.0	1.1
Haiti	3015.1	3126.4	3.7	1682.0	1755.9	4.4	55.8	56.2	1.0
Jamaica	6282	6015.8	(4.2)	2458.1	2558.4	4.1	39.1	42.5	1.1
Netherland Antilles	4974.0	4962.0	(0.2)	1469.0	1565.0	6.5	29.5	31.5	1.1
Suriname	2240.7	2505.9	11.8	1151.2	1315.2	14.2	51.4	52.5	1.0
Trinidad & Tobago	14172.8	14746.7	4.0	3849.5	3564.2	(7.4)	27.2	24.2	0.9

There were mixed movements in the value of total outstanding loans year-on-year. In seven of the eleven reporting countries— Aruba (6.4 per cent), The Bahamas (0.2%), Belize (2.9%), Guyana (13.7%), Haiti (72.7%), Suriname (32.3%) and Trinidad and Tobago (4.1%)— total loans increased in December 2013 over December 2012. Generally, the movement in total disbursements followed the change in private credit except in the ECCU and Jamaica, where total loans decreased by 5.7 per cent and 0.3 per cent respectively. Despite increases in private loans as commercial bank loans to the public sector increased to overshadow the decreases in domestic private credit; in particular in Jamaica total domestic credit to private sector increased by 0.9 per cent. The Bahamas is also an exception, where notwithstanding a 174 basis point dip in private sector loans, total loans increased minimally by 20 basis points. See table below.

TABLE 15: TOTAL OUTSTANDING LOANS-BANKING SECTOR (US$M)

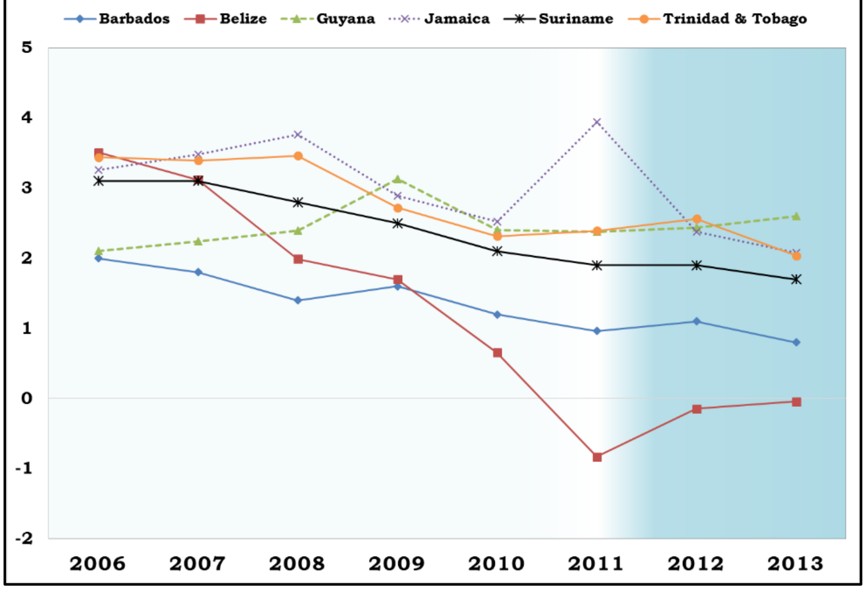
	Total Outstanding Loans- Banking Sector (US$M)			Domestic Private Credit % Change 2013/12
	end-December 2012	end-December 2013	% change 2013/12	
Aruba	1587.5	1690.0	6.45	5.72
Bahamas	7106.0	7120.4	0.20	(1.74)
Barbados	3074.6	2995.4	(2.57)	(2.84)
Belize	901317.5	927141.0	2.87	3.47
ECCU	5632.7	5307.1	(5.78)	2.04
Guyana	785.2	892.9	13.72	13.65
Haiti	887.1	1533.6	72.87	10.90
Jamaica	4398.7	4386.1	(0.29)	0.92
Netherland Antilles	3398.9	3396.0	(0.08)	(0.30)
Suriname	1500.9	1985.4	32.28	17.85
Trinidad & Tobago	7831.1	8149.5	4.07	2.81

3.5.4 Financial Soundness Indicators

Data on financial soundness indicators was available for Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago. For two thirds of the aforementioned countries, commercial bank profitability declined at 2013 year end relative to a year earlier. All banking systems featured a reduction in the ratio of non-performing loans to total loans. In terms of capital adequacy banks remained well capitalized, even where there was a decline in the ratio of regulatory capital to risk weighted assets.

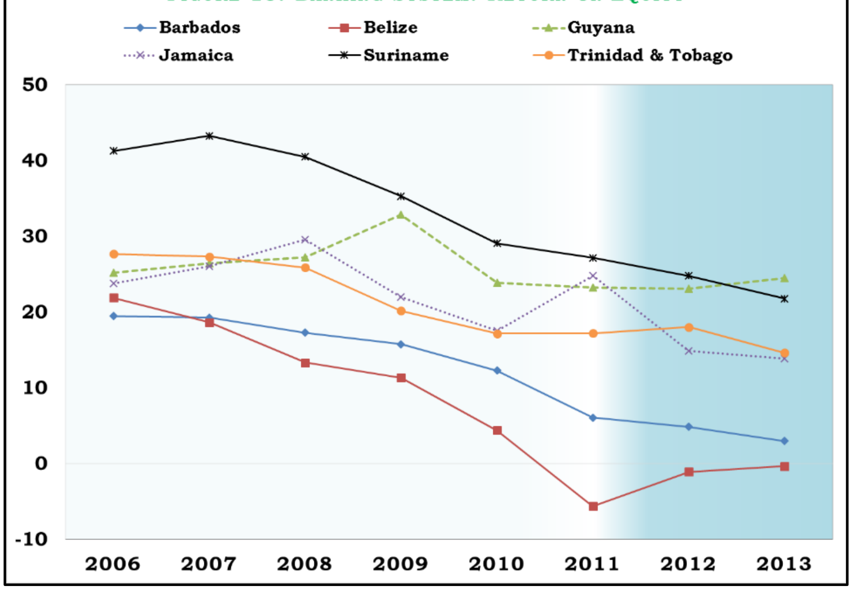
Following a decline in total outstanding loans and only a minimal opening of interest margins (1 bps) in Barbados, profitability declined in 2013. The return on assets (ROA) declined by 0.3 to 0.8 at the end of 2013 compared to 1.1 at the end of 2012. Credit quality showed signs of improvement in year-end levels despite an apparent worsening when mid-year levels were compared. The ratio of non-performing loans to total loans decreased from 12.9 per cent at end-December 2012 to 11.7 per cent at end-December 2013. Unfortunately, the improved loan quality did not translate to higher profits though the interest margin had opened slightly. Though the capital adequacy ratio declined by 1.3 per cent in December 2013 (year-on-year), banks maintained capital well above the regulatory threshold.

FIGURE 14: BANKING SYSTEM: RETURN ON ASSETS



In Belize, capital adequacy improved by 210 basis points at end-December 2013 compared to end-December 2012 to reach 24.4 per cent; six times the four per cent benchmark for tier I capital. The ratio of non-performing loans to total loans also showed

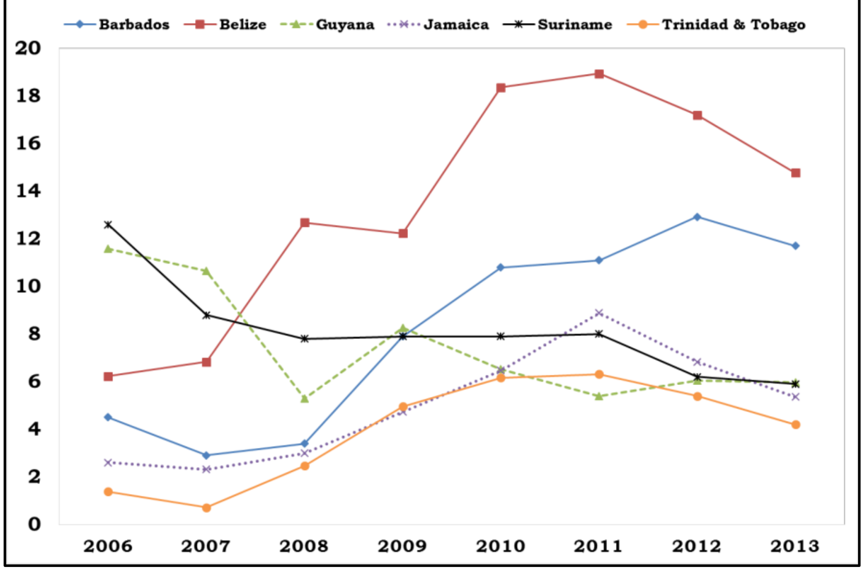
FIGURE 15: BANKING SYSTEM: RETURN ON EQUITY



signs of improvement, declining by 243 basis points in December 2013 (year-on-year). However, it must be noted that this outturn was more likely the result of continued write-offs of non-performing loans to the marine, distribution, tourism, real estate, and transportation sub-sectors and a 2.6 per cent increase in total loans rather than an improvement in loan performance. As such, with persistent superfluous liquidity and disbursements being countered by repayments and debt write-offs, commercial banks posted losses at the end of 2013. Banks made a loss on invested capital which yielded a return on equity (ROE) of -0.3 in December 2013. Notably, this was an improvement over the return in December 2012 which stood at -1.04. A similar situation existed with invested assets. The ROA at the end of 2013 was -0.04 compared to –0.14 at the end of 2012.

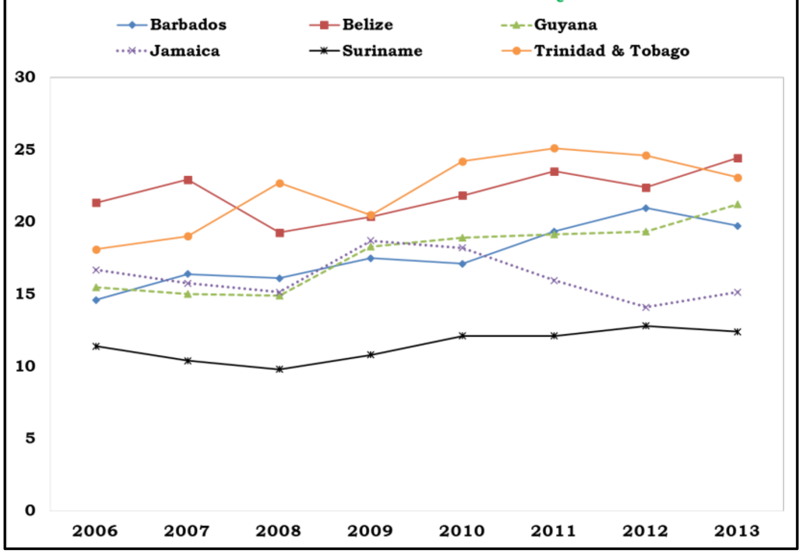
Commercial bank profitability in Suriname waned in 2013. The ROA fell from 1.9 at end-December 2012 to 1.7 at end- December 2013 as the weighted interest spread narrowed. Simultaneously, the ROE declined by 300 basis points in December 2013 relative to December 2012 to close the year at 21.8. Capital adequacy also declined by 40 basis points (year-on-year) to end the 2013 calendar year at 12.4 per cent; still triple to the mandated threshold. Non-performing loans to total loans declined by 30 basis point year-on-year at the end of 2013, however, this was not necessarily a reflection on improved loan performance but was most likely the result of a 32 per cent increase in total loans.

Figure 16: Banking System; Non Performing Loans to Total Loans



At the end of 2013, the Jamaican banking sector featured adequate capital and improved portfolio quality. The capital adequacy ratio improved to 15.1 per cent at end-December 2013 compared to 14.1 per cent at end-December 2012. The ratio of non-performing loans to total loans declined by 147 basis points (year-on-year) at end-December 2013. The Bank of Jamaica reported that the decline was the result of write-offs and, to a lesser extent, repayment of non-performing business loans across a variety of sectors. Notwithstanding improved loan performance, profitability diminished. The ROA decreased from 2.4 at the end of December 2012 to 2 at the end of December 2013. Capital invested also yielded lower returns relative to a year earlier as indicated by a decline in the ROE from 11.8 in 2012 to 11.1 in 2013.

Figure 17: Banking System: Capital Adequacy ratio

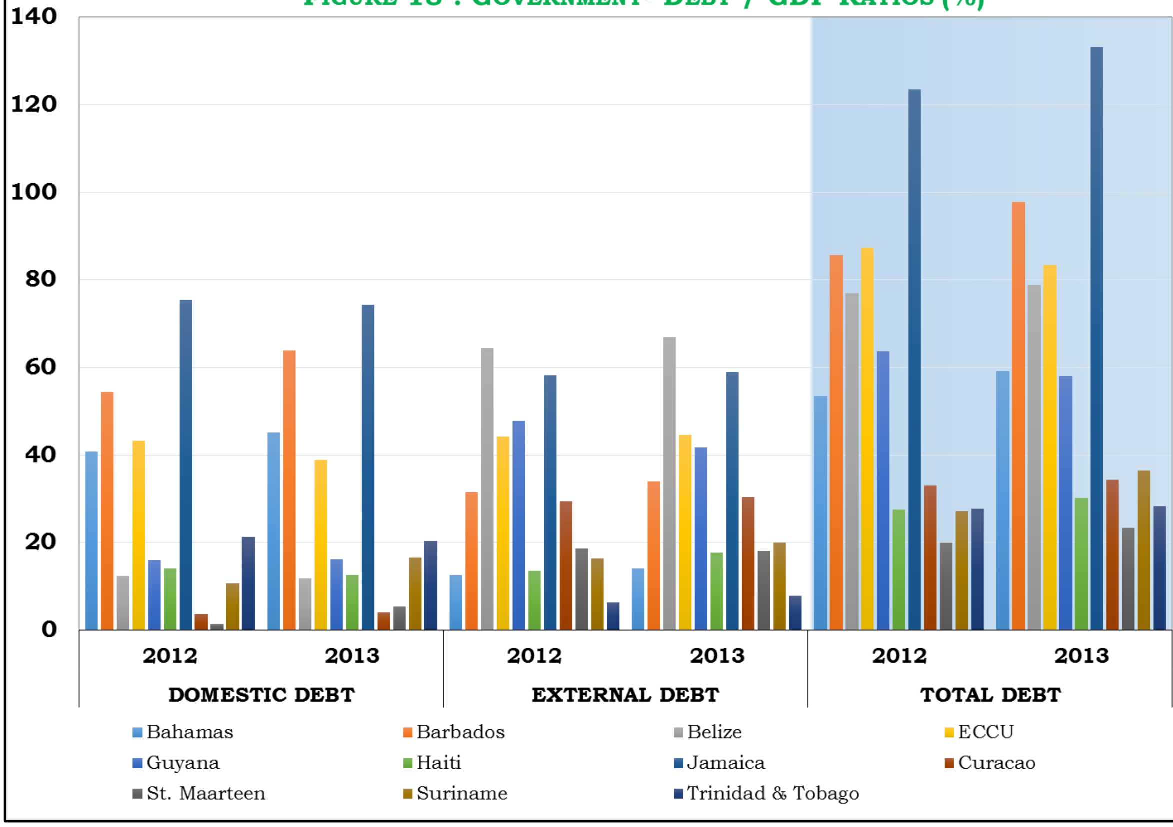


Guyanese commercial banks enjoyed higher returns on both invested assets and invested capital along with enhanced capital holdings and seemingly improved loan portfolio quality. The ROA and ROE increased by 16 and 145 basis points, respectively, (year-on-year) to close 2013 at 2.6 and 24.5, respectively, as interest spreads widened. Capital adequacy stood at 21.2 per cent at end-December 2013, 191 basis points higher than end-December 2012 and more than five times the Tier I threshold. The ratio of non-performing loans fell marginally by seven basis points as commercial banks spread their non-performing loans over a larger loan portfolio.

In December 2013, outturns in Trinidad and Tobago indicated lower profitability in the banking system, enhanced loan portfolio quality and decreased capital holdings, albeit still well above regulation. With interest margins narrowing, the ROA dipped 52 basis points from the December 2012 level to end 2013 at 2.0 per cent. Capital returns experienced a sharper decline by 339 basis points down to 14.6 over the comparable periods. With a 4.1 per cent increase in total outstanding loans, the ratio of non-performing loans to total loans decreased by 1.2 per cent. Banks held less capital as the capital adequacy ratio fell from 24.6 per cent at end-December 2012 to 23.1 per cent at end-December 2013.

3.6 PUBLIC DEBT

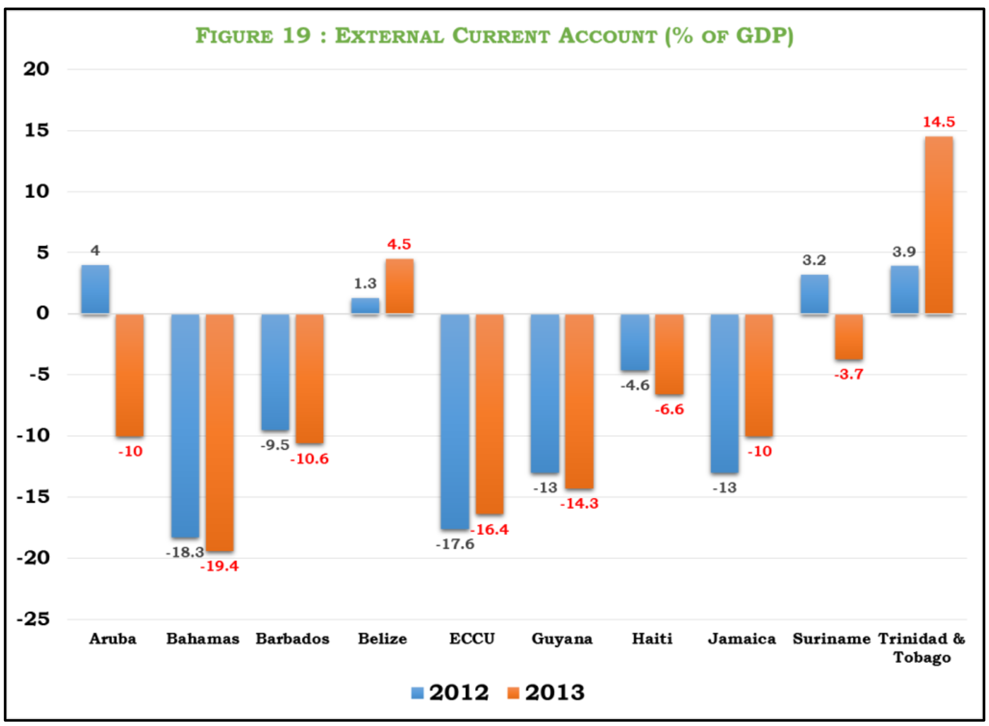
Figure 18 : Government- Debt / GDP Ratios (%)



Many of the Caribbean countries remained heavily indebted in 2013. The ratio of total debt to GDP exceeded 70 per cent in Barbados, Belize, the ECCU, and Jamaica, where it was as high as 133 per cent. For the Bahamas and Guyana it was 59 per cent and 58 per cent respectively. Furthermore, the debt-GDP ratios became more elevated in most of the 11 countries or country groupings. Only the ECCU as a group and Guyana had lower ratios of total debt to GDP in 2013 than they had in 2012. It should also be noted that treating the ECCU members as a group masks the high level of indebtedness of most countries in that group. For instance, debt-GDP ratios were 92 per cent in Antigua and Barbuda, 115 per cent in Grenada, 105 per cent in St Kitts and Nevis, and between 75 per cent -80 per cent in Dominica, St Vincent and the Grenadines and St Lucia.

For the majority of countries, expansion of external debt was the main source of the overall debt increase. The ratio of external debt to GDP increased in eight of the 11 countries and decreased in two of them while remaining the same in one country. Increases were generally by three index points. Somewhat differently, the ratio of domestic debt to GDP increased in only five of the 11 countries while decreasing in five others and remaining constant in the remaining country.

3.7 EXTERNAL CURRENT ACCOUNTS

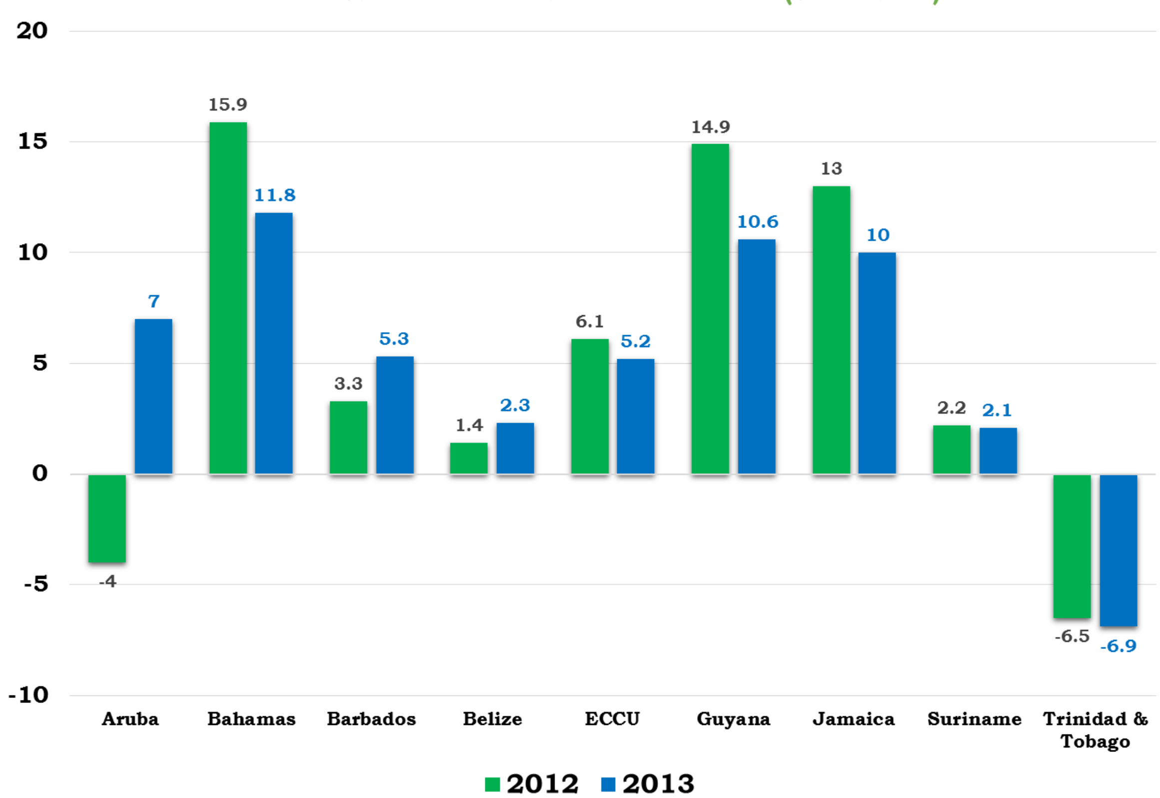


The trade sector of Caribbean economies underperformed. Total exports decreased in 2013 in Aruba, The Bahamas, Barbados, Belize, Guyana and Jamaica. The ECCU and Haiti experienced export growth. Imports also decreased in some countries: Aruba, Bahamas, Barbados, ECCU, Guyana and Jamaica. The exceptions are Haiti and Belize where imports increased.

The weak performance of the external sector is further revealed by the year to year changes in the external current account balance. External current account deficits increased in The Bahamas, Barbados, Guyana and Haiti. Jamaica remained in deficit but at a lower level. Aruba and Suriname experienced deterioration of their external current accounts from surpluses in 2012 to deficits in 2013. Belize increased its surplus considerably in 2013 as did Trinidad and Tobago. When viewed in relation to GDP, the situation seems marginally less bad with four of the ten reporting countries experiencing improvement in the ratio of external current accounts to GDP and six countries experiencing deterioration.

3.8 EXTERNAL CAPITAL ACCOUNTS

FIGURE 20 : EXTERNAL CAPITAL ACCOUNT (% OF GDP)

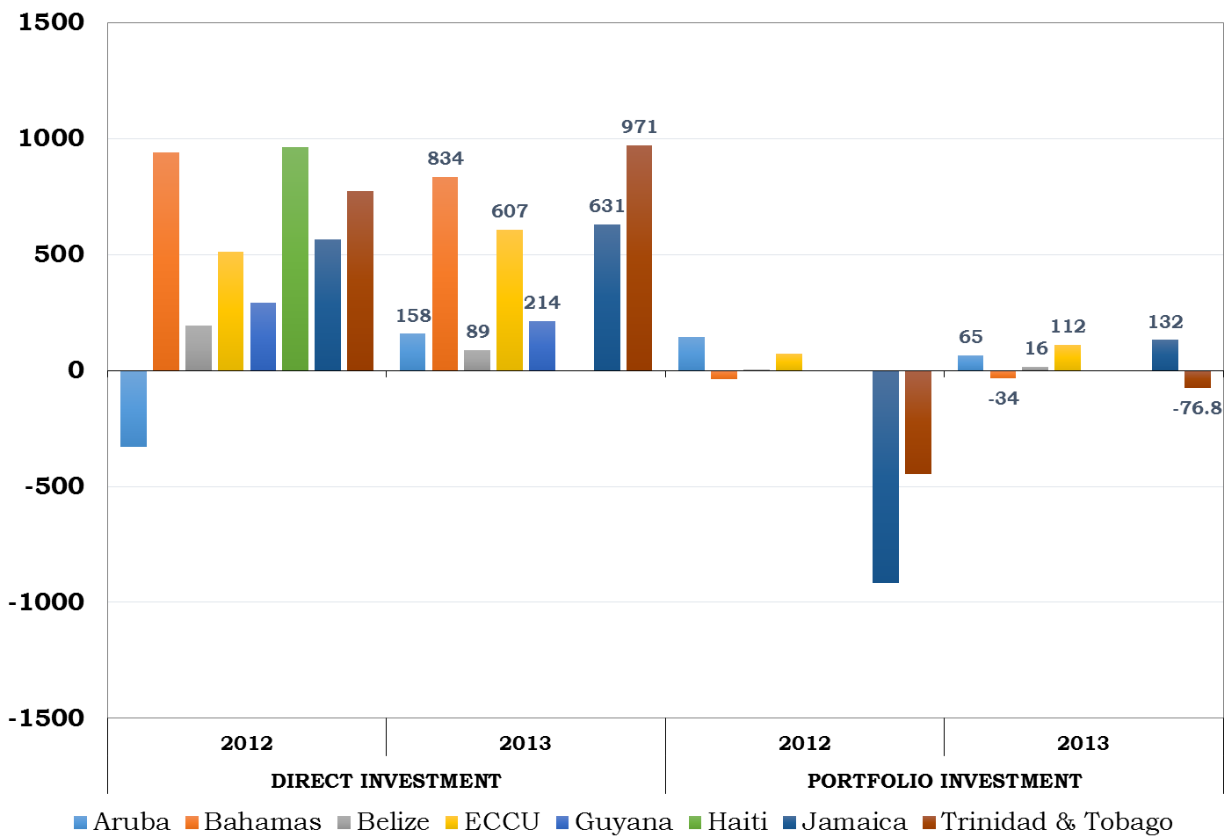


The region did not fare any better with its external capital accounts balance. Balances remained positive except in Trinidad and Tobago but the ratio of external capital accounts balance to GDP decreased in only three countries.

Foreign direct investment flows were positive in 2013 for the seven countries which reported. Inflows in 2013 exceeded the amounts received in 2012 by ECCU, Jamaica and Trinidad and Tobago. In the Bahamas, Belize and Guyana the amounts were smaller. Aruba moved from a situation of net outflows to net inflows.

Foreign portfolio investment flows were positive in 2013 in Aruba, Belize, ECCU and Jamaica. In Trinidad and Tobago, the outflows decreased.

Figure 21: Net Foreign Investments (US$M)



3.9 INTERNATIONAL RESERVES

Gross international reserves held by the monetary authorities increased in Belize by 39 per cent, in ECCU by four per cent, in Haiti by 5.6 per cent and in Trinidad and Tobago by 8.7 per cent. The monetary authorities in Barbados lost gross international reserves by 20.9 per cent, Guyana by 9.9 per cent, Jamaica by 8.2 per cent and Suriname by 23.1 per cent.

TABLE 16 : PERCENTAGE CHANGE IN GROSS INTERNATIONAL RESERVES (Q4, 2013 - Q4, 2012.)

COUNTRY	MONETARY AUTHORITIES	COMMERIAL BANKS
Aruba	-6.5	-77.5
Bahamas	-8.5	-
Barbados	-20.9	-2.6
Belize	39.4	-19.9
ECCU	4.0	4.3
Guyana	-9.9	-4.3
Haiti	5.6	13.2
Jamaica	-8.2	14.6
Suriname	-23.1	-
Trinidad & Tobago	-8.5	1.2

Source: Central Banks Data

In some countries, commercial banks also lost international reserves substantially: Aruba 77.5 per cent, Belize 19.9 per cent, and Haiti 13.2 per cent. In Barbados and Guyana, the losses were smaller, 2.6 per cent and 4.3 per cent respectively. Jamaica, ECCU and Trinidad and Tobago gained international reserves through their commercial banks with increases of 14.6 per cent, 4.3 per cent and 1.2 per cent respectively.

In the context of these developments, the import cover ratio, that is, ratio of official foreign reserves to imports of goods and services, decreased between June 2012 and June 2013 in several countries, namely the Bahamas, Barbados, Jamaica, Suriname and Trinidad and Tobago but increased in Belize, Guyana and the ECCU. However, only in the Bahamas and Jamaica did the import cover ratio at December 2013 fall below the three month import coverage target.

4.0 PROSPECTS FOR 2014

The economic outlook for 2014 is one of slow growth in most of the individual economies. The projections made by the IMF show eight countries growing faster in 2014 than in 2013, with the highest growth in that group being 2.7 per cent . Four other countries are also projected to grow but more slowly than they did in 2013. This second group included Haiti, Guyana and Suriname whose projected economic growth rates remain in the region of four per cent. No change in economic growth rate is projected for Trinidad and Tobago and Barbados is projected to experience a 1.2 per cent decrease in real output.

TABLE 17 : PROJECTED ECONOMIC OUTCOMES IN 2014 VS 2013

COUNTRY	REAL OUTPUT GROWTH		INFLATION RATE	EXTERNAL CURRENT A/C BALANCE	PUBLIC SECTOR PRIMARY BALANCE	PUBLIC SECTOR DEBT/ GDP
	2013	2014				
Antigua & Barbuda	0.5	1.6	C	I	D	H
Bahamas	1.9	2.3	F	I	I	H
Barbados	-0.1	-1.2	S	I	I	H
Belize	1.5	2.3	F	D	D	H
Dominica	0.8	1.7	F	D	D	H
Grenada	1.5	1.1	F	I	I	H
Guyana	4.8	4.3	F	D	I	H
Haiti	4.3	4.0	F	I	C	H
Jamaica	0.5	1.3	S	I	C	L
St. Kitts-Nevis	1.7	2.7	F	D	D	L
St. Lucia	-1.5	0.3	F	I	I	H
St. Vincent & Grenadines	2.1	2.3	F	D	I	H
Suriname	4.7	4.0	F	I	I	H
Trinidad & Tobago	2.2	2.2	S	C	D	H

Source: International Monetary Fund; Regional Economic Outlook; Western Hemisphere, April 2014.

LEGEND: C = constant; F = faster; S = slower; I = improve; D = deteriorate; H = higher; L = lower

The IMF projections also indicate accelerated price level increases in ten of the 14 countries, the exceptions being Antigua and Barbuda with constant rate of inflation in Barbados, Jamaica and Trinidad and Tobago where inflation is expected to abate.

The external current account balance is projected to improve in eight of the 14 countries and to deteriorate in five while being unchanged in one.

Government finances are projected to remain problematic. In only seven countries is the public sector primary balance projected to improve. In five countries it is expected to deteriorate. Public sector gross debt is projected to rise relative to GDP in 12 of the 14 countries, including in countries which are already highly indebted. Two of the more highly indebted countries, namely Jamaica and St Kitts-Nevis, are expected to have lower ratios of public sector gross debt to GDP in 2014.

APPENDIX I – COUNTRY REPORTS

JAMAICA

CONVERGENCE INDICATOR REPORT
AN OVERVIEW OF MACROECONOMIC DEVELOPMENTS IN JAMAICA (JANUARY – DECEMBER 2013)
(***Bank of Jamaica***)

SUMMARY

Jamaica's real Gross Domestic Product (GDP) is estimated to have increased by 0.2 per cent for CY2013, relative to a decline of 0.5 per cent recorded for CY2012. The increase in economic activity was reflected in both the tradable and non-tradable industries. Of note, Mining & Quarrying and Construction, Hotels & Restaurants, were the main industries for which growth was recorded.

The current account deficit of Jamaica's balance of payments (BOP) is estimated to have improved for the review period by US$315.5 million to US$1 413.5 million, relative to the current account deficit of US$1 729.0 million in CY2012. The improvement for CY2013 was reflected in all sub-accounts, with the exception of the Income sub-account.

For CY2013, net official and private investments were insufficient to finance the current account deficit. Consequently, the net international reserves (NIR) declined by US$77.8 million to US$1 047.8 million at end-CY2013, with gross reserves representing 12.8 weeks of imported goods and services. The NIR stock at end-CY2012 stood at US$1 125.6 million.

For CY2013, Central Government's fiscal balance improved to reflect a deficit of $26.7 billion relative to a deficit of $72.1 billion recorded for CY2012. The improvement in the fiscal position largely reflected an increase in Revenues & Grants, the impact of which was partly offset by a marginal growth in Government spending. The improvement came against the background of fiscal consolidation being undertaken consistent with the economic programme under an IMF Extended Fund Facility (EFF).

The Bank of Jamaica (BOJ) reduced its signal rate, the interest rate payable on its 30-day Certificate of Deposit (CD), on 25 February 2013. This policy action was effected in a

context of continued weak domestic demand conditions and a relatively favourable inflation outlook. The Bank's policy stance was consistent with the lower domestic interest rates which followed the successful implementation of the National Debt Exchange (NDX) by the Government of Jamaica (GOJ) and revenue measures aimed at improving fiscal sustainability.

The foreign exchange market reflected intermittent periods of volatility during CY2013, particularly during the March quarter, as the demand for foreign currency outweighed the supply to the system. The impact of this imbalance on the foreign exchange market was exacerbated by the relatively low net international reserves, which limited the capacity of the Bank to augment market supply. In the context of these developments, the Jamaica Dollar reflected a point-to-point depreciation of 12.6 per cent to $106.38 vis-à-vis the US dollar for CY2013, following depreciation of 6.9 per cent for CY2012.

The Jamaica Dollar also depreciated against its other major counterparts.

GROSS DOMESTIC PRODUCT (GDP)

The Jamaican economy is estimated to have grown by 0.2 per cent in CY2013, relative to a contraction of 0.5 per cent recorded for CY2012. The economy's performance, in the review period, reflected improvements in all industries with the exception of Agriculture, Forestry & Fishing, Manufacture, Electricity & Water Supply, Distribution and Producers of Government Services.

Following two consecutive years of growth due largely to enhanced productivity, Agriculture, Forestry & Fishing contracted by 0.5 per cent for CY2013. This outturn was driven by a decline of 8.8 per cent in the first half of the year as there was growth of 7.7 per cent in the second half of the year. The industry's performance reflected a fall in traditional export crops as domestic crop production increased. The contraction in export agriculture predominantly reflected lower output for cocoa, sugar and pimento as there were improvements in citrus and coffee exports.

For the review period, domestic crop production reflected recovery from the impact of Hurricane Sandy in October 2012 and subsequent drought conditions in the March and June 2013 quarters. This performance was influenced by improved weather conditions which facilitated planting and reaping of crops. Additionally, there were several support programmes including the Hurricane Sandy Recovery Programme, the Irish Potato Programme and the Jamaica Agro-Park Development Programme. The impact of these positive developments was partly offset by a marginal fall in productivity, as measured by output per hectare, relative to CY2012.

Electricity & Water Supply declined by 2.0 per cent for CY2013, reflecting an average contraction of 2.9 per cent over the first three quarters and expansion of 1.0 per cent for the December 2013 quarter. Both electricity consumption and water production are assessed to have declined for the year. The reduction in electricity consumption was influenced by disruptions in transmission due to technical losses and theft. Water production was affected by drought conditions in the first half of the year.

Hotels & Restaurants increased by 0.9 per cent compared to growth of 1.8 per cent for CY2012, mainly reflected in Hotels. The expansion in Hotels was inferred from increases of 1.1 per cent and 0.2 per cent in stop-over visitor arrivals and expenditure, respectively, relative to the previous year. Visitor arrivals benefited from additional flights from the United Kingdom, Russia, Costa Rica, Cuba and Canada as well as inaugural flights from Germany and Sweden. Stop-over visitor arrivals for the review period were also bolstered by marketing activities by the Jamaica Tourist Board and an influx of visitors for the Jamaica Diaspora Conference. However, there were offsetting impacts from flight rationalization by Caribbean Airlines and adverse winter conditions in the USA and Canada which affected air travel in the first half of the year.

Mining & Quarrying recorded an expansion of 3.8 per cent for CY2013 following contraction of 8.7 per cent for the previous year. The performance of the industry reflected an increase of 2.4 per cent in total bauxite production in contrast to a contraction of 8.8 per cent for CY2012. The expansion in total bauxite production was reflected in an increase of 5.5 per cent in alumina production as crude bauxite production fell by 1.7 per cent relative to the previous year. Higher capacity utilization contributed to the increase in alumina output.

During the review period, the capacity utilisation rate for the alumina industry increased to 40.4 per cent from 38.3 per cent for CY2012. On the other hand, the capacity utilisation rate for the bauxite industry fell to 89.6 per cent from 91.2 per cent for the previous year. Lower capacity utilization in the bauxite industry was attributed to disruptions in production partly associated with a dredging project which affected dock space at Port Rhoades. Additionally, slower ship rotation, a decline in the volume of bauxite ordered by refineries and rainfall adversely affected production.

Construction & Installation expanded by 1.8 per cent for the review period in contrast to a contraction of 4.4 per cent in CY2012. The industry's performance reflected increases in both residential and non-residential projects. Expansion in residential projects was inferred from data from the National Housing Trust which indicated an increase of 9.4 per cent in housing starts, in contrast to a decline of 30.1 per cent for CY2012. Non-residential construction is estimated to have expanded based on the implementation of projects under the Major Infrastructural Development Programme, several hotel projects and the continuation of Highway 2000. Growth in residential and non-residential projects was supported by an increase in cement production.

LABOUR MARKET

Information from the Statistical Institute of Jamaica (STATIN) indicated that the unemployment rate increased to 15.3 per cent in CY2013 from the 13.9 per cent recorded in CY2012. The rise in unemployment was reflective of an increase of 2.1 per cent in the labour force which outweighed the marginal growth of 0.5 per cent in employment. Concurrently, the job seeking rate increased to 9.8 per cent from 8.8 per cent recorded at end-CY2012. Higher unemployment was reflected primarily in Manufacture, Financial Intermediation, Wholesale & Retail Trade and Hotels & Restaurants.

INFLATION

Inflation for CY2013 was 9.5 per cent relative to 8.0 per cent for CY2012 and marked the third consecutive year of single-digit inflation. The uptick in inflation was against the background of significant administrative adjustments in transport and utility rates, continued depreciation in the exchange rate and increased crude oil prices. The impact of these inflationary impulses was moderated by generally weak domestic demand conditions, reduction in international grains prices and lower communication costs.

PUBLIC FINANCE

For CY2013, Central Government's fiscal balance improved to reflect a deficit of $26.7 billion relative to a deficit of $72.1 billion recorded for CY2012. The improvement in the fiscal position largely reflected an increase in Revenue & Grants, the impact of which was partly offset by marginal growth in Government spending. Higher Revenue & Grants was primarily associated with increased grant inflows of $10.6 billion relative to $1.8 billion for CY2012. The higher Expenditure largely reflected an increase of 5.3 per cent in wages & salaries, the impact of which was partly offset by a decline of 1.6 per cent in interest payments.

The stocks of domestic and external debt were $1 054.2 billion and US$8.3 billion, respectively, at end-CY2013. These stocks were relative to $995.2 billion and US$8.3 billion, respectively, at end-CY2012.

BALANCE OF PAYMENTS

The current account deficit of Jamaica's BOP is estimated to have improved for the review period by US$315.5 million to US$1 413.5 million, relative to current account deficit of US$1 729.0 million in CY2012. The improvement for CY2013 was reflected in all sub-accounts, with the exception of the Income sub-account.

The deficit on the Income sub-account worsened by US$60.0 million to US$267.3 million. This deterioration principally reflected a decline in the surplus on compensation of employees due to higher outflows by non-residents working in Jamaica and higher investment income outflows of deposit-taking institutions. With regard to the Merchandise Trade sub-account, the deficit narrowed by US$181.9 million relative to the deficit in CY2012. The value of imports (f.o.b.) declined by US$331.3 million, the impact of which was partly offset by a reduction of US$149.4 million in earnings from exports.

The surplus on the Current Transfers sub-account expanded by US$168.0 million to US$2 215.9 million, reflecting increases in both Private and Official Transfers. At the same time, net earnings from Services increased by US$25.6 million to US$614.1 million in CY2013. This reflected a narrowing of the deficit for Transportation as well as an improvement in the surplus on Travel, partly offset by a worsening in the deficit on Other Services.

Against these developments, net official and private investment flows were not sufficient to finance the current account deficit. Consequently, the NIR of the Bank fell by US$77.8 million to US$1 047.8 million at end-CY2013, with gross reserves representing 12.8 weeks of goods and services imports.

FOREIGN EXCHANGE MARKET

During CY2013, foreign exchange market developments were conditioned by uncertainty surrounding Jamaica's near-term macroeconomic outlook. Additionally, the exchange rate continued to adjust in the context of an unsustainable current account deficit. In the March 2013 quarter, the Government concluded discussions with the staff of the International Monetary Fund for a four-year Extended Fund Facility to support its medium-term economic programme. One of the main objectives of the programme is to correct Jamaica's balance of payments position, as the current account deficit had expanded to an unsustainable level.

Against this background, the foreign exchange market reflected intermittent periods of volatility during CY2013, particularly during the March 2013 quarter, as the demand for foreign currency outweighed the supply to the system. The impact of this imbalance on the foreign exchange market was exacerbated by the relatively low net international reserves, which limited the capacity of the Bank to augment market supply. In this context, total purchases reported by authorized foreign currency traders declined to US$8 512.6 million for CY2013 from US$10 181.0 million for CY2012. Concurrently, total foreign currency sales declined to US$8 657.8 million from US$10 278.8 million for CY2012.

In the context of these developments, the Jamaica Dollar reflected a point-to-point depreciation of 12.6 per cent to $106.38 vis-à-vis the US dollar for CY2013, following depreciation of 6.9 per cent for CY2012. The Jamaica Dollar also depreciated against its other major counterparts. Specifically, the local currency depreciated by 6.4 per cent to $99.72 against the Canadian dollar and 13.2 per cent to $175.84 against the Great Britain Pound for CY2013.

The depreciation in the value of the domestic currency occurred in a context of the general uncertainty about (i) the timeline for finalization of the country's medium-term economic programme with the IMF and (ii) the possible impact of the fiscal and structural adjustments which would be implemented under the programme. Of note, there was a slower pace of depreciation after the March quarter, following the approval of the economic programme by the Executive Board of the IMF on 01 May 2013.

MONETARY POLICY AND INTEREST RATE

During CY2013, the Bank of Jamaica reduced the interest rate payable on its 30-day Certificate of Deposit (CD) on one occasion, 25 February. This policy action was effected in a context of continued weak domestic demand conditions and a relatively favourable inflation outlook. In addition, the Bank's policy stance was consistent with the lower domestic interest rates which followed the successful implementation of the National Debt Exchange by the Government of Jamaica and revenue measures aimed at improving fiscal sustainability. For the remainder of the calendar year, the BOJ's focus on meeting the monetary targets in the economic programme and efforts to contain inflation expectation, led to the Bank maintaining its policy rate.

Of note, the rate on the Bank's overnight instrument was held at 0.25 per cent and the local currency cash reserve and liquid assets requirement were maintained at 12.0 per cent and 26.0 per cent, respectively, for 2013. However, the Bank continued to augment its liquidity management operations, by offering a suite of special open market operations (OMO) instruments with varying tenors.

The BOJ's liquidity management framework was further enhanced by the introduction of special repurchase agreements in the September 2013 quarter, to alleviate periodic liquidity constraints faced by deposit-taking institutions (DTIs). These special repurchase operations were conducted with two-week and overnight tenors. These enhancements were formalized on 16 December 2013, with the introduction of a Standing Liquidity Facility (SLF) and a Bi-Monthly Repurchase Operation

(BMRO) under which DTIs have access to overnight and fortnightly funding through repurchase arrangements. The interest rate on the SLF and BMRO were set at 150 basis points (bps) and 25 bps, respectively, above the rate on the Bank's 30-day CD. During CY2013, the Bank also intervened in the foreign exchange market to smooth supply and demand conditions and continued its intermediation through the Public Sector Entities (PSE) facility.

OUTLOOK

Growth in economic output is expected to accelerate in CY2014, given continued improvements in Jamaica's external competiveness and a strengthening of growth in the global economy. This forecast assumes expansions in Mining & Quarrying, Agriculture, Forestry & Fishing, Construction and Hotels & Restaurants. Growth is expected to be driven by increased external demand. Domestic demand conditions are anticipated to remain weak, albeit improving relative to CY2013, due to the protracted decline in real wages and sustained fiscal consolidation.

In this context, headline inflation for CY2014 is projected to decelerate relative to the rate recorded in CY2013. The outlook for inflation is also predicated on the non-recurrence of administrative price adjustments that took place in CY2013, a decline in international commodity prices and continued excess domestic capacity conditions.

The Bank will remain focused on maintaining single digit inflation and achieving the monetary targets outlined under the country's EFF with the IMF while ensuring adequate liquidity in the financial system. In addition, the Bank will begin to position itself for the implementation of full-fledged inflation targeting (FFIT) over the medium term pending a decision by the Government.

HAITI

Haiti: Recent Economic Developments and Outlook (April 2014)

(*Central Bank of Haiti*)

I. Introduction

The Haitian economy has shown a remarkable performance during fiscal year 2013: the rate of growth of real GDP reached 4.3 % up from 2.9 % in 2012 while headline inflation slowed on a year-on-year basis to 4.5 % at the end of the fiscal year from 6.5 % at the same period in 2012. Key indicators of economic activity for the first quarter of fiscal year 2014 and projections by the central bank for the second quarter suggested that the economy has kept its momentum during the first half of fiscal year 2014. Inflation has continued its downward trend started since April 2013 (7.3%) to stand at 3.2 % in February 2014. Despite the slowdown in imports and the improvement in exports, the trade deficit has worsened. After a long period of exchange rate stability from June to December 2013, the pressure has resumed in the foreign exchange market at the beginning of the second quarter of fiscal year 2014, despite sales of foreign reserves by the Central Bank. As a consequence, Net international reserves decreased. The government financial situation has deteriorated, leading to an increase in the monetary financing of 3.1 billion gourdes at the end of February 2014. Broad monetary base has grown by 1 % while the monetary base as defined in the financial program has increased by 6.3 %. Preliminary data suggest a contraction of broad money supply (M3) by 5.25 % and bank credit granted to the private sector expanded by 2 % from September 2013 to February 2014 compared to a growth of 6.6 % for the same period in the previous year. The banking system remained sound and profitable.

II. Recent economic developments

(a) Output and Consumer Prices

The Haitian economy registered a rate of growth of real GDP of 4.3 % in 2013 compared to 2.8 % in the previous year. It is for the third consecutive year that the economy has achieved a positive growth rate of GDP. Economic growth in 2013 was mainly driven by construction activities, textile exports and increased agricultural output. During the first half of the fiscal year 2014, the domestic economy has continued to perform relatively well according to key indicators of real economic activity published by the National Statistics Institute for the first quarter and estimates of the Central Bank for the second quarter. As a matter of fact, on a year-on-year basis, these indicators published for the first quarter of this fiscal showed that the index of industrial production increased by 8.9 %, the index of construction activity accelerated by 8.3 %, and the index of retail trade grew by 13.3 %. Projections by the Central Bank for the second quarter indicated that industrial production is expected to expand by 7.3 %, construction activity is expected to increase by 7.8 % and retail trade is expected to accelerate by 8.1 %. The only exception is the production of electrical energy that decreased by 8.9 % during the first semester and is expected to decline by 13 % during the second quarter.

Headline inflation, which had spiked to almost 8 % in April 2013, slowed down to 4.5 % at the end of fiscal year 2013 (September 30, 2013) due to stabilizing commodity prices and some tightening of monetary policy earlier in the year. It has continued its downward trend to stand at 3.2 % in February and March 2014. The main reason for the slowdown in headline inflation has been a deceleration in food inflation and the relative stability of the exchange rate of the Haitian currency (Gourde) against the US dollar during the second half of the calendar year 2013. Food availability has improved significantly throughout the country since August 2013 due to the good performance of the spring agricultural season in most farming regions. At the same time, international commodity prices have trended downward according to the FAO Food Price Index. On the other hand, the exchange rate remained unchanged at 43.75 gourdes per US dollars from June 2013 to January 2014. This stability of the exchange rate has contributed to reduce the pass-through of the prices of imported goods, including foodstuffs, to local inflation. As a consequence, Food prices have been relatively stable or decreasing in all local markets throughout the country. Regarding core inflation, measured by excluding the volatile components from the overall CPI, it has remained well contained and followed the similar declining path as headline inflation. On a year-on-year basis, core inflation slowed to 3.54 % in February 2014 down from 4.59 % in September 2013.

From October to December 2013, the trade deficit widened to 757.2 million U.S. dollars, an increase of 1.36 % with respect to the same period of last year. This is explained by the decline of exports and stagnation of imports during the period under review. Indeed, the exports of goods and services decrease by 2.7 % to 354.34 million of US dollars, while imports have stagnated around $ 1.1 billion. Although remittances which is the most important source of foreign exchange in the country expanded by 13.40 % in the first five months of the fiscal year, the foreign exchange market has come under intensifying pressures at the beginning of the second quarter. As of March 18, 2014, the exchange rate (end of month period) stood at 44.53 gourdes for a U.S. dollar, an increase of 1.48 % compared to December 31, 2013 and 1.76% with respect to October 2013. The volatility of the exchange rate brought the monetary authorities to intervene in the foreign exchange market. The central bank carried out net sales of foreign exchange equivalent to $ 17 million of U.S. dollars in January and February 2014 in order to contain excess volatility in the foreign exchange market. Consequently, the amount of net international reserves totaling 1.12 billion of U.S. dollars in December 2013 have fallen to around 993 millions of U.S. dollars as of March 12, 2014, which is a loss of 11.26%. The country's level of gross foreign reserves amounted to 2.08 billion of US dollars at the end of March 2014, which is the equivalent of 7.7 months of imports.

(b) Fiscal policy

Fiscal policy for the year 2014 seeks to strengthen revenue collection to meet the needs for growth enhancing investments and poverty reduction spending. During the first half of fiscal year 2014, the financial situation of the government has deteriorated. Tax revenues collected through the first six months of fiscal year 2013-2014 were estimated at 23.3 billion of gourde, an increase of 5.8% with respect to the same period of last year. On the other hand, public expenditures amounted to 33.5 billion of gourde, up by 13.5 % compared to the previous fiscal year. The budget deficit was partly financed by the Central Bank and the amount of monetary financing reached 3.1 billion of gourde at end of March 2014.

(c) Monetary policy

Monetary policy at the Bank of the Republic of Haiti (BRH) has always been conducted with the ultimate objective of ensuring price stability. During the second quarter of fiscal year 2014, one of the most important facts that characterized the national economic situation is the volatility of the exchange rate against a backdrop of continuous deceleration of inflation. After a period during which the exchange rate had showed a remarkable stability, the pressure has intensified in the foreign exchange market at the beginning of the second quarter of this fiscal year. Meanwhile, inflation has continued its downward trend that began in May 2013 where it stood at 7.3 % and then decelerated to 3.2% in February 2014.

In addition, bank credit to the private sector which was very buoyant in the last three years has been slackening. The growth rate of bank credit declined to 2 % from September 2013 to February 2014 compared to 7 % at the same period of last year. Facing such a situation, and taking into account the uncertainties surrounding the national and international economic and financial environments with regards to the potential impacts of internal and external shocks which may arise in the short and medium terms, the monetary authorities have decided to tighten monetary conditions by raising the key policy rates for the first time since January 2011 as well as the required reserve ratios. In addition, the central bank modified the composition of the ratio of required reserves on dollar deposits. However, the exemption granted to banks since 2010 for sound real estate mortgage loans remained unchanged. This prudent monetary policy move is intended to guard against the risk of renewed inflationary pressures in case of unexpected internal or external macroeconomic shocks.

With these new measures set in place, starting April first, 2014, the required reserve ratio on local currency deposits is 37% for commercial banks and non-bank subsidiaries and 25.5% for savings and mortgage banks. For dollar deposits, it is 39% for commercial banks and non-bank subsidiaries and 27.5% for savings and mortgage banks. In addition, the composition of the ratio of required reserves on dollar deposits was modified: from 100 % in foreign currency, commercial banks are now allowed to hold 90 % of the amount of reserve requirements in US dollars and 10 % in local currency. Furthermore, effective March 24, 2014, the nominal interest on BRH bonds (main open market instruments) of different maturities were raised by two percentage points. Thus, it is 3 % for 7-day, 4% for 28-day and 5% for 91-day BRH bonds. But, the benchmark repo rate has been held steady at 7 %. Moreover, the Central Bank has proceeded with its regular open market operations for the purpose of liquidity management of the banking system, by taking into account the volume of treasury bills issued by the Ministry of Finance in order to encourage commercial banks and other financial institutions to take part in the government bid. As a matter of fact, the Treasury has made two issuances of treasury bills during the second quarter of this fiscal year for a total amount of 2.8 billion of gourde.

Broad monetary base has grown by 1 % while the monetary base as defined in the financial program has increased by 6.3 %. Preliminary data suggest a contraction of broad money supply (M3) by 5.25 % and bank credit granted to the private sector expanded by 2 % from September 2013 to February 2014 compared to a growth rate of 6.6 % for the same period in the previous year. For its part, the banking system remained sound and profitable with ROA of 1.27% and ROE of 16.25 %. The ratio of non-performing loans has slightly increased, but it remained well below the benchmark of 5 %.

III. Conclusion and Short Term Outlook

The short term outlook of the Haitian economy remains positive. The dynamism of economic activity and the behavior of inflation in the United States are favorable for Haitian exports and remittances as well as the maintenance of the low level of inflation in Haiti. The stability of commodity prices in the international markets is another important contributing factor to price stability in Haiti. The renewed dynamism of construction activity and the buoyancy of retail trade driven specially by increased remittances will help keep the growth momentum. However, there are some risks to the outlook: the drought that ravaged some agricultural regions of the country during the winter will have a negative impact on food availability and, as a consequence, on food prices which have the highest weight (50.3 %) in the Consumer Price Index. Another important factor to this outlook is the Atlantic Hurricane season that will officially start in June (less than two months away), although some experts predict a less active hurricane season in 2014. Anyway, the monetary authorities will continue to assess the developments in the national and international economic environments and make appropriate adjustments to the monetary policy stance with a particular focus on preserving price stability.

SURINAME

SURINAME: BRIEF REVIEW OF MACROECONOMIC DEVELOPMENTS IN 2013

(Source: *Central Bank of Suriname*)

Summary

The pace of economic activity in Suriname remains steady. Real growth is estimated at 4.4% in 2013, slightly higher than the 3.9% recorded in 2012. Compared to recent years, growth in 2013 was driven to a larger extent by domestic demand rather than exports. Inflation recorded a historical low of 0.6% at end-2013.

However, the fiscal deficit widened considerably, reaching a deficit of 5.1% of GDP at end-September 2013. The worsening was driven by higher expenditure amidst declining mining-related revenue following lower gold and oil prices. Government debt rose sharply from 20% of GDP at end-September 2012 to 28% at end-September 2013, which remains below the national legal debt ceilings (60% of GDP), and relatively low compared to levels prevailing in peer countries in the region. A new Finance Minister was appointed on January 1, 2014, who has effectively begun to curtail expenditure and prioritize project implementation to moderate the fiscal imbalance.

Domestic demand also increased as private sector credit growth accelerated to a pace substantially higher than economic growth, negatively affecting the external current account. The external current account shifted to a deficit in 2013. The Central Bank provided adequate foreign exchange to facilitate trade and maintain confidence in the exchange rate peg, causing a decline in the country's international reserves. To reign in the fast pace of domestic credit expansion, the Central Bank raised the reserve requirement ratio twice for foreign currency deposits and once for domestic currency deposits in 2013.

Real Sector

<u>Inflation</u>

Inflation declined to 0.6% at the end of December 2013, the lowest rate in 25 years. Lower food and fuel prices were the main contributors. Imported inflation was insignificant as prices of major commodities declined in international markets. Favorable weather conditions also impacted positively on the prices of domestically produced food stuff. The sharp increase in domestic demand in 2013 did not translate into price pressures as ample provisioning of foreign exchange facilitated imports.

Growth

The strongest contribution to real growth in 2013 resulted from wholesale and retail activities following higher imports, and construction reflecting buoyant residential and commercial construction. To a lesser extent, manufacturing, transportation, storage and telecommunication, and public investment in infrastructure (pavement of roads, housing program, etc.) also contributed to growth. Although the mining sectors contributed relatively less to growth, they continue to be the main source for government revenue.

Mining Production and Exports

The production volume of refined oil went up by 16% while crude oil production remained more or less stable. The expansion of the oil refinery is progressing and is targeted to be completed by the end of 2014. Conversely, the gold industry recorded a slight drop of 1% in production, while alumina production declined by 4% in 2013. The gold sector is faced with a larger share of hard rock processing and longer haulage distances between the pits and the mill.

The export value of the mining sectors contracted by 13% in 2013. The export value of the bauxite industry contracted by 4% as a result of lower export volumes and lower export prices. The oil industry recorded a similar drop of 3% due to lower prices and notwithstanding the 1% increase in the export volume. The export value of gold fell by 17%, caused mainly by the large-scale gold mining segment which recorded a drop of 27%. The small-scale segment recorded a drop of 11%. The average export price of gold declined by 16% in 2013.

Public Sector

The authorities faced a significant deterioration in the overall fiscal balance in 2013. Available data till the end of September 2013 show a deficit of 5.1% of GDP. Total revenue fell from 18% of GDP at end-September 2012 to 17% at end-September 2013. Total expenditure rose from 20% of GDP to 22% in the corresponding period. Expenditure in 2013 was affected by the retroactive increase in civil servants wages and salaries at the beginning of 2013 and by a significant increase in capital expenditure following the execution of several investment projects.

The government drew almost equally on the domestic and external market to meet its financing needs in 2013. The external debt-to-GDP-ratio stood at 14% by the end of September 2013, while Suriname's external debt service, measured to exports of goods and services, was 1.3%. External debt was comprised mostly of multilateral loans from the IADB. Domestic debt amounted to 14% of GDP at the end of September 2013.

Monetary sector

The Central Bank raised the reserve requirement for foreign currency deposit liabilities from 40% to 45% on January 2, 2013 to stem credit growth in foreign currency and to discourage dollarization. The ratio was further increased to 50% on September 18, 2013. This time, the Central Bank also raised the reserve ratio for domestic currency liabilities from 25% to 30%.

A drop in in foreign assets led to a deceleration of broad money growth from 21% in 2012 to 11% in 2013. Contrary to the experience in recent years where increases in foreign assets dominated money growth, domestic credit was the main source of liquidity expansion in 2013. The increase in net credit to the government had the largest impact on domestic money creation, followed by private sector credit.

Growth in credit to the private sector in domestic currency rose from 13% in 2012 to 21%, and was mainly channeled to the trade, construction, and services sectors. Growth in foreign currency credit slowed down from 19% to 13% over the same period

External sector

The external current account shifted from a surplus of US$ 164 million in 2012, equivalent to 3.2% of GDP, to a deficit of US$198 million in 2013, equivalent to 3.7% of GDP. The deterioration was the result of exports of goods falling by 11% and imports of goods growing by 9%. The lower export receipts were caused largely by the mining sectors, specifically gold. Import growth was driven by higher oil consumption, and the purchase of minerals, capital goods, and metal product for the mining sectors. Improvements in the services and income accounts partially compensated for the large deterioration in the goods account.

Services outflows declined by 9% in 2013, mainly due to a decrease in construction services in the mining sector. As the construction of the refinery expansion of the State-owned oil company (Staatsolie) is coming to an end, the related construction services outflows are also falling. The income account registered a decline in outflows of 32%

reflecting lower profits of the foreign direct investment companies operating in the mining sectors as a result of lower commodity prices and higher production cost. The net balance on current transfers decreased by 9%, as the growth of outflows (20%) outpaced the growth of inflows (6%). The higher outflows were mainly channeled to Brazil, the Netherlands, the Philippines and Canada, while the growth in inflows originated mainly from the Netherlands and United States of America. The inflow of current transfers was equivalent to 2.9% of GDP in 2013.

The financial account registered a net inflow of capital mainly driven by government loan disbursements and direct investments in the mining sector. However, the inflows were insufficient to finance the deficit on the current account. International reserves declined by 23% to a level of US$775 million at end-2013. The reserves cover 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 expands to 4.5 months.

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