Economic Survey of the Caribbean 2013
Improved economic performance with reduced downside risks

Dillon Alleyne
Michael Hendrickson
Willard Phillips
Kohei Yoshida
Machel Pantin
Nyasha Skerrette
Economic Survey of the Caribbean 2013
Improved economic performance with reduced downside risks

Dillon Alleyne
Michael Hendrickson
Willard Phillips
Kohei Yoshida
Machel Pantin
Nyasha Skerrette
This document has been prepared under the supervision of Dillon Alleyne, Coordinator of the Economic Development Unit, Economic Commission for Latin America and the Caribbean subregional headquarters for the Caribbean, with the assistance of Michael Hendrickson, Willard Phillips and Kohei Yoshida, Economic Affairs Officers, and Machel Pantin and Nyasha Skerritte, Research Assistants.

The views expressed in this document, which has been reproduced without formal editing, are those of the authors and do not necessarily reflect the views of the Organization.
## Contents

Abstract ........................................................................................................................................................................ 5

Introduction ........................................................................................................................................................................ 7

I. Subregional analysis ......................................................................................................................................................... 9
   A. The global economic situation and the Caribbean response .................................................................................. 9
      1. Better prospects for a recovery .......................................................................................................................... 7
      2. Unemployment in developed countries ............................................................................................................. 11
   B. GDP growth in the Caribbean ................................................................................................................................. 12
   C. Fiscal policy and public debt ..................................................................................................................................... 14
      1. Public debt ............................................................................................................................................................ 18
      2. Debt service payments .......................................................................................................................................... 18
   D. Monetary policy ......................................................................................................................................................... 19
   E. Balance of payments .................................................................................................................................................. 23
      1. Current account .................................................................................................................................................... 24
      2. Financial and capital account ............................................................................................................................ 25
      3. International reserves .......................................................................................................................................... 26
   F. Outlook for 2013-2014 and recommendations ..................................................................................................... 27

II. Country briefs ................................................................................................................................................................ 29
   A. Bahamas ....................................................................................................................................................................... 29
      1. General trends ....................................................................................................................................................... 29
      2. Economic policy .................................................................................................................................................... 30
      3. Trends in the principal variables .......................................................................................................................... 31
   B. Barbados .................................................................................................................................................................... 32
      1. General trends ....................................................................................................................................................... 32
      2. Economic policies .................................................................................................................................................. 33
      3. Trends of the principal variables .......................................................................................................................... 34
   C. Belize ........................................................................................................................................................................... 35
      1. General trends ....................................................................................................................................................... 35
      2. Economic policy .................................................................................................................................................... 36
      3. Trends in the principal variables .......................................................................................................................... 38
   D. Eastern Caribbean Currency Union .......................................................................................................................... 39
      1. General trends ....................................................................................................................................................... 39
      2. Economic policies .................................................................................................................................................. 39
3. Trends in the principal variables ................................................. 41

E. Guyana .................................................................................. 42
1. General trends ........................................................................ 42
2. Economic policies ............................................................... 43
3. Trends in the principal variables ............................................ 44

F. Jamaica .................................................................................. 45
1. Economic policy .................................................................... 46
2. Evolution of the main variables .............................................. 48

G. Trinidad and Tobago .............................................................. 50
1. General characteristics ........................................................ 50
2. Economic policies ............................................................... 50
3. Trends of the principal variables .......................................... 52

H. Suriname ................................................................................ 53
1. General characteristics ........................................................ 53
2. Economic policy ................................................................... 54
3. Evolution of the main variables ............................................. 56

Studies and Perspectives series, The Caribbean: issues published ........................................... 57

Tables
TABLE 1 UNEMPLOYMENT RATES ....................................................... 11
TABLE 2 CARIBBEAN: GDP GROWTH RATES, 2007-2012 .................. 12
TABLE 3 CARIBBEAN: SECTORAL COMPOSITION, GROWTH RATES
AND CONTRIBUTION, 2011 AND 2012 ........................................ 13
TABLE 4 CARIBBEAN UNEMPLOYMENT RATES, 2005-2012 .............. 14
TABLE 5 CARIBBEAN: CENTRAL GOVERNMENT FISCAL
EXPENDITURE BY CATEGORIES ................................................. 15
TABLE 6 FISCAL BALANCE, 2009-2012 .......................................... 16
TABLE 7 DEBT SERVICE PAYMENT RATIOS FOR THE CARIBBEAN .... 20
TABLE 8 LENDING RATE, DEPOSIT RATE AND SPREAD, 2011-2012 .... 22
TABLE 9 MONETARY AGGREGATES AND DOMESTIC CREDIT
TO THE PRIVATE AND PUBLIC SECTOR, 2011-2012 ....................... 22
TABLE 10 INFLATION RATES – CARIBBEAN COUNTRIES, 2008-2012 .... 23
TABLE 11 CURRENT ACCOUNT BALANCE ....................................... 24
TABLE 12 FDI FLOWS TO THE CARIBBEAN ..................................... 25
TABLE 13 CARIBBEAN: FINANCIAL CAPITAL, 2008-2012 ............... 26
TABLE 14 INTERNATIONAL RESERVES, 2009-2012 ....................... 26

Figures
FIGURE 1 WORLD TRADE ANNUAL GROWTH, 2011-2014 ................... 9
FIGURE 2 GLOBAL ECONOMIC PROSPECTS .................................. 10
FIGURE 3 COMMODITY PRICES ................................................... 11
FIGURE 4 CARIBBEAN: CENTRAL GOVERNMENT FISCAL
EXPENDITURE BY CATEGORIES ................................................ 15
FIGURE 5 TOTAL PUBLIC DEBT AND FISCAL BALANCE, 2012 ........... 17
FIGURE 6 CARIBBEAN GDP GROWTH RATES FORECASTS 2013 AND 2014 .. 28
Abstract

This survey posits that improving global prospects especially in the United States and Europe will mean opportunities for positive growth in the Caribbean due to increasing exports and renewed inflows from foreign direct investment and remittances. It points out that the response of the Caribbean economies to the global crisis has been asymmetric with the goods\(^1\) producing economies doing better than the service producing economies with respect to growth and their public finances. On the latter issue the region faces severe challenges as debt to GDP ratios in some countries are in excess of 100per cent. Such high debt burdens impact growth negatively through many channels. Among these are the upward pressure placed on domestic interest rates, and the decline in government capital spending which is often complementary to private investment.

The survey also notes that the domestic private sector still remains risk averse and this together with depressed foreign direct investment has not promoted robust investment in the region, except for a few countries. For these reasons it suggests that private/public sector partnerships are a useful vehicle for jump starting private investment and allowing for investment to continue. In addition, with limited public resources available, such partnership allow some public functions to be pursued.

The outlook for 2012 and 2013 is for modest overall growth in the subregion and this is contingent on improved demand in major export markets over this period leading to increased domestic investment and employment.

\(^1\) The goods based economies are Geyana, Belize, Suriname and Trinidad and Tobago. The service based economies are the Bahamas, Jamaica and countries of the ECCU, which are Antigua and Barbuda, Dominica, Grenada, Saint Kitts, Saint Lucia, Saint Vincent and the Grenadines, Anguilla and Montserrat.
Introduction

The growing prospects for improved global trade growth augurs well for the Caribbean as the economies depend heavily on exports of goods and services. Overall regional growth in 2012 was 0.6 per cent which was driven by positive growth of 3.7 per cent among the goods producing economies of the region. The service oriented economies on the other hand experienced a decline of 0.6 per cent. The lack of robust growth especially in the service oriented economies impacted on unemployment, with rates varying from 4.9 per cent to 21.4 per cent. For some countries like Barbados and Jamaica the rate increased over 2011.

The issues of greatest economic challenge for the Caribbean have been the heavy debt burden and limited fiscal space. The fiscal deficit fell to 1.7 per cent of GDP in 2011 but increased to 3.4 per cent in 2012. This was partly due to the expansion of government expenditure to cushion the fall out in employment and incomes and lower revenue growth. Meanwhile the services producers had a fiscal deficit of 3.7 per cent relative to that of the goods producers of 2.8 per cent. The public debt rose from 72.2 per cent in 2011 to 74.5 per cent in 2012 and much of this increase was due to expansion in domestic debt. The debt is higher among the service producing economies (82 per cent) of GDP relative to the goods producers of (53.9 per cent) of GDP. Debt payment costs absorbed some 26.3 per cent of government revenue in the region in 2012 and this was down from 28.6 per cent the year before. However, among the service producers debt service payments were some 34 per cent of revenue.

Turning to monetary policy the policy stance was largely neutral as deposit rates remained largely unchanged and lending rates declined marginally and interest rate spreads remained fairly constant. Among the other monetary aggregates, growth in credit to the private and public sector fell marginally. Meanwhile inflation moderated, falling from 5.2 per cent in 2011 to 3.1 per cent in 2012. The slower inflation rates were due to smaller increases in the categories of food, fuel and light, transportation and communication.

The sluggish recovery of the global economy and continuing challenges due to weak export growth led to mixed outcomes in the external sector of the sub-region in 2012. The current account deficit increased slightly to 1.8 per cent of GDP for the goods producers but for the service producers it remained at 17 per cent of GDP. Meanwhile Foreign Direct Investment (FDI) which is an important
source of foreign exchange inflow and a key aspect of economic expansion of the economies of the region increased by 14 per cent between 2011 and 2012. When the data were disaggregated to reflect the structure of the economies, the goods based economies posted an increase of 59 per cent. One of the significant recipients of FDI in 2012 was Trinidad and Tobago. Not surprisingly, the international reserve position of the region in 2012 was similar to that of 2011 due to weak export growth.

The outlook for 2013 and 2014 are for small improvements in economic performance with positive growth expected for all the countries of the sub region and this is likely to moderate unemployment. It is projected that growth in the Caribbean as a whole will be 2.1 per cent in 2013 and 2.3 per cent in 2014 with the service producers growing at 1.5 per cent and 1.8 per cent over the two years. Meanwhile the goods producers will post growth rates of 3.7 per cent over both years. The forecasts are premised on improved economic performance in major export markets for Caribbean goods and services and tighter fiscal controls including debt reduction in the subregion.

The current survey provides an overview of the economic performance for 2012 and the outlook for 2013 of the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago, and of the eight member countries of the Eastern Caribbean Currency Union (ECCU). The introduction provides a summary of the main issues raised in the present report, including an assessment of the economic prospects for 2012.

Section I analyses the impact of the global economy on the Caribbean subregion. It then provides a comparative analysis of unemployment, GDP and sectoral growth performance. This is followed by a subsection on fiscal policy and the public debt. Subsequent subsections focus on monetary and financial policies, the balance of payments, economic prospects for 2013, and recommendations.

Section II presents country briefs for the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago, together with a group assessment of the eight member countries of the ECCU.

A statistical appendix follows to support the subregional analysis and country briefs.
I. Subregional analysis

A. The global economic situation and the Caribbean response

1. Better prospects for a recovery

The prospects for global growth are good despite continuing downside risks which have lessened in the last year. World trade growth which was 2.7 per cent in 2012 is expected to improve with growth rates of 3.6 per cent and 5.8 per cent in 2013 and 2014 respectively. At the same time, the 2012 growth rates for major groups of countries as developing and emerging markets, the European Union and the United States were 5.1 per cent, -0.2 per cent and 2.2 per cent respectively. The three speed growth is expected to continue in 2013 and 2014 with the emerging and developing markets expected to grow at, 5.3 and 5.7 per cent in 2013 and 2014, respectively, the United States projected to grow at 1.9 per cent and 3.0 per cent and the European Union anticipated to experience growth at 0 per cent and 1.3 per cent in the two years respectively.

FIGURE 1
WORLD TRADE ANNUAL GROWTH, 2011-2014
(Percentage)

Source: Organisation for Economic Co-operation and Development (OECD), Economic Outlook Volume 2013 Issue 1 – No. 93
The ongoing fiscal problems in the European Union and still weak economic recovery in the United States have been counterbalanced by robust growth in the emerging developing economies. It is to be noted that the economic challenges in the United States of America (US) and the European Union (EU), which are major export markets for Caribbean goods and services, especially tourism services, have had a direct impact on Caribbean growth performance.

**FIGURE 2**

**GLOBAL ECONOMIC PROSPECTS**

(Percentage Growth)

In considering Latin America and the Caribbean as a whole, while growth prospects are somewhat lower in light of a waning of the commodity boom, growth rates are still positive and significant. In Latin America and the Caribbean, the growth rate was 4.6 per cent in 2011. This fell to 3 per cent growth in 2012, and in 2013 and 2014 this rate is anticipated to be 3.4 per cent and 3.9 per cent respectively. For the Caribbean however, average growth will be much less since their recovery has been much slower.

Despite the growing optimism, there are still several downside risks to the global economy. According to the IMF (WEO 2013) over the medium term, downside risks revolve around the absence of strong fiscal consolidation plans in the United States and Japan; high private sector debt, limited policy space, and insufficient institutional progress in the euro area, which could lead to a protracted period of low growth; distortions from easy and unconventional monetary policy in many advanced economies; and overinvestment and high asset prices in many emerging markets and developing economies.

Growing unemployment and fiscal sustainability issues in the EU can impact negatively on the demand for tourism services in the Caribbean and FDI flows from that region. Other downside risks are reversals to the stability in oil prices which will add to the import costs of Caribbean economies and additionally rising food prices which are anticipated in 2013.
2. Unemployment in developed countries

The slight uptick in growth in major regions has had an impact on reducing unemployment. This is of particular importance to the Caribbean since its major export markets are the United States and countries in the EU, and lower incomes in those markets impact Caribbean exports, especially through lower travel demand.

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>UNEMPLOYMENT RATES</th>
<th>(Percentages)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>United States</td>
<td>4.6</td>
<td>5.8</td>
</tr>
<tr>
<td>Canada</td>
<td>6</td>
<td>6.1</td>
</tr>
<tr>
<td>Euro area</td>
<td>7.4</td>
<td>7.4</td>
</tr>
<tr>
<td>OECD</td>
<td>5.7</td>
<td>6</td>
</tr>
<tr>
<td>Latin America*</td>
<td>7.5</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Source: OECD Economic Outlook 2013, Economist Intelligence Unit 2013.

\* Unemployment average for Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Mexico, Peru, and Venezuela.

Table 1 shows that except for the euro area which is anticipated to have higher unemployment in 2013 and 2014 relative to 2012, all major regions are expected to show lower unemployment. The unemployment rate in the United States remains high but is expected to decline from 8.1 per cent in 2012
to 7.8 per cent and 7.5 per cent in 2013 and 2014 respectively. A similar pattern is expected for Latin America with the unemployment in 2014 expected to be slightly higher than in 2012.

**B. GDP growth in the Caribbean**

The goods producing economies continue to experience positive growth due to elevated export prices especially for such commodities as gold, sugar, rice, oil and gas and bauxite. Belize, Guyana and Suriname have grown throughout the period 2008 to 2012, but Trinidad and Tobago has been affected by variations in oil and natural gas prices, and the decline in domestic investment that was driven largely by public sector projects.

Economic growth in 2012 in the Caribbean was 0.6 per cent based on the improved demand in major export markets but much of this was due to the goods producing economies which grew at 3.7 per cent.

**TABLE 2**

<table>
<thead>
<tr>
<th>CARIBBEAN: GDP GROWTH RATES, 2007-2012</th>
<th>(Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Anguilla</td>
<td>-1.5</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>0.1</td>
</tr>
<tr>
<td>Bahamas</td>
<td>-2.3</td>
</tr>
<tr>
<td>Barbados</td>
<td>0.3</td>
</tr>
<tr>
<td>Belize</td>
<td>3.8</td>
</tr>
<tr>
<td>Dominica</td>
<td>7.8</td>
</tr>
<tr>
<td>Grenada</td>
<td>0.9</td>
</tr>
<tr>
<td>Guyana</td>
<td>2.0</td>
</tr>
<tr>
<td>Jamaica</td>
<td>-0.8</td>
</tr>
<tr>
<td>Montserrat</td>
<td>4.5</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>4.6</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>5.1</td>
</tr>
<tr>
<td>Saint Vincent and the Grenadines</td>
<td>1.6</td>
</tr>
<tr>
<td>Suriname</td>
<td>4.7</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>3.4</td>
</tr>
<tr>
<td>The Caribbean*</td>
<td>2.3</td>
</tr>
<tr>
<td>Service producers*</td>
<td>1.9</td>
</tr>
<tr>
<td>Goods producers*</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

* Figures are computed as simple averages.

The structural differences between the goods and service producers is clearly revealed in TABLE 3 below: where for the service producers in 2011 and 2012, services were some 81 per cent of GDP, while on the other hand, for the goods producers, services were between 53 and 54 percent in the two years. In terms of sectoral growth, among good producers, there was positive growth in 2011 and 2012 among all sectors except construction in 2011 and manufacturing in 2012. In the case of the service producers,
negative growth occurred in construction and manufacturing in 2011 and in mining and oil, construction and services again in 2012.\(^2\)

### TABLE 3

**CARIBBEAN: SECTORAL\(^a\) COMPOSITION, GROWTH RATES AND CONTRIBUTION, 2011 AND 2012**

(Percentage)

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Mining and Oil</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sector share of GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods producers 2012</td>
<td>11.05</td>
<td>14.50</td>
<td>14.24</td>
<td>5.85</td>
<td>54.37</td>
</tr>
<tr>
<td>Service producers 2011</td>
<td>3.72</td>
<td>0.66</td>
<td>7.22</td>
<td>7.39</td>
<td>81.01</td>
</tr>
<tr>
<td>Service producers 2012</td>
<td>3.84</td>
<td>0.61</td>
<td>7.31</td>
<td>7.19</td>
<td>81.06</td>
</tr>
</tbody>
</table>

| **Sectoral growth** |             |                |               |              |          |
| Goods producers 2011 | 0.72        | 4.58           | 3.78          | -0.84        | 2.56     |
| Goods producers 2012 | 6.98        | 2.63           | -0.45         | 2.24         | 4.77     |
| Service producers 2011 | 5.84     | 16.26          | -0.55         | -3.06        | 1.59     |
| Service producers 2012 | 3.51      | -7.86          | 0.43          | -3.57        | -0.52    |

| **Contribution to GDP growth** |             |                |               |              |          |
| Service producers 2011 | 0.1         | 0.1            | 0.6           | 0.0          | 1.5      |
| Service producers 2012 | 1.0         | 0.2            | -0.1          | 0.0          | 2.6      |
| Goods producers 2011 | 0.1         | 0.0            | 0.0           | -0.3         | 1.3      |
| Goods producers 2012 | 0.1         | -0.1           | 0.0           | -0.2         | -0.4     |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

\(^a\) Sectors are defined using the International Standard Industrial Classification of all Economic Activities (ISIC). Manufacturing includes all manufacturing beside petroleum products, and electric, gas and water products; Services include wholesale and retail trade, transportation, accommodation and food services, communication, financial and other services, as well as taxes on products less subsidies and less FISM and any statistical discrepancies.

The last section of Table 3 reported the contribution of economic sectors to overall growth in real GDP for 2011 and 2012. For the goods producing economies all sectors contributed positively in 2011, and in 2012, positive contributions came from all the subsectors except for manufacturing (-0.1 per cent). For the service producers, in 2011 all sectors except construction (-0.3 per cent) contributed positively, while for the 2012 three sectors declined: services (-0.4), construction (-0.2) and mining and oil (-0.1).

The lack of robust growth in the post-crisis period continue to depress labour markets in the Caribbean. The paucity of data in some countries makes it difficult to assess this issue fully for all Caribbean countries; however, there is enough information to determine certain trends in the labour markets (see Table 4).

\(^3\) The average sectoral growth across Caribbean countries provides important information on the economies most affected by the crisis, and on those at the forefront of the recovery.
Unemployment rates tended to decline between 2003 and 2007, in line with the period of economic expansion for most Caribbean countries. In the post-crisis period however, unemployment rates tended to increase. Jamaica has seen a steady increase in the unemployment rate as a result of low growth and fiscal pressures due to high debt burden. In Barbados, the unemployment rate moved up to 11.6 per cent in 2012 from 11.3 per cent in 2011. This has been due to the challenges in tourism as arrivals have not returned to trend levels. In the case of the Bahamas, unemployment rates moved steadily from 14.2 per cent in 2009 to 15.9 per cent in 2011 but fell back to 14.7 per cent in 2012. Much of this decline was due to a boost in the construction sector. The investment stimulus in hotel construction is likely to help in reduce the unemployment rate. It is to be noted also that the average unemployment rates for women and youth continue to be higher than the national average in the Caribbean.

C. Fiscal policy and public debt

This section of the report analyses fiscal performance and policy in the Caribbean. The focus is on the extent of the fiscal constraint in the region and whether countries have been able to achieve some measure of fiscal consolidation to reduce high debt levels.

Arguably, among other macroeconomic policy levers, fiscal policy is the most significant in the Caribbean today. Large fiscal deficits and high debt overhang in a number of countries are the main challenges to macroeconomic stability. Moreover, debt levels and debt servicing costs are now at a level in most countries, where they could hurt future growth. Therefore, reducing debt levels and improving competitiveness are critical for sustainable growth.

The fiscal deficit in the Caribbean had increased from 3.7 per cent of GDP in 2009 to 4.4 per cent of GDP in 2010 reflecting stimulus measures to cushion the impact of the global crisis. Nevertheless, the deficit moderated between 2010 and 2011, as some countries introduced fiscal consolidation measures to reduce debt levels. This was facilitated by good growth in revenue, partly due to the recovery in economic activity.

---

3 Governments with fiscal space (relatively low debt and deficits) undertook measures including the fast-forwarding of infrastructure projects, unemployment assistance programmes and marketing assistance to boost tourist arrivals partly to maintain employment levels in the sector.
With the slowdown in growth in 2012, governments increased their spending to cushion the fallout in employment and incomes. Therefore government expenditure expanded to 34.2 per cent of GDP. This combined with a marginal decline in government revenue, led to an increase in the fiscal deficit from 1.7 per cent in 2011 to 3.4 per cent in 2012. Despite growth in total expenditure, capital expenditure stagnated owing to the sharp reversal in growth among service producers (see Table 5 below). A continuation of this pattern could adversely affect future growth.

**Figure 4**

**Caribbean: Central Government Fiscal Expenditure by Categories**

(Percentage of GDP)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

**Table 5**

Caribbean: Central Government Fiscal Expenditure by Categories

(Percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>Current expenditure</th>
<th>Capital expenditure</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods producers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belize</td>
<td>22.6</td>
<td>23.9</td>
<td>23.2</td>
</tr>
<tr>
<td>Guyana</td>
<td>19.5</td>
<td>19.1</td>
<td>20.1</td>
</tr>
<tr>
<td>Suriname</td>
<td>19.7</td>
<td>20.1</td>
<td>20.3</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>27.7</td>
<td>28.9</td>
<td>28.6</td>
</tr>
<tr>
<td>Service producers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anguilla</td>
<td>27.9</td>
<td>27.9</td>
<td>28.2</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>26.5</td>
<td>25.7</td>
<td>21.8</td>
</tr>
</tbody>
</table>
As in previous years, the level of fiscal space and performance was influenced by the structure of the economies. The deficit increased by 1.6 percentage points to 2.8 per cent of GDP in the goods producers, while it expanded by 1.9 percentage points to 3.7 per cent of GDP in the service producers. Although not to the same extent as in previous years, the goods producers continued to benefit from high commodity prices for minerals such as gold and also agricultural products and these windfall receipts bolstered revenues. Indeed, total revenue grew by 3.9 per cent in the goods producers, compared with a decline of 2.0 per cent in the service producers. Meanwhile, expenditure grew by 10.9 per cent in the goods producers, compared with 1.2 per cent in service producers, reflecting the differential in capacity to spend.

The service producers were impacted by a slowdown in growth in tourism, reflecting the weakness of the recovery in major markets and a fall-off in construction activity in some economies. Tourist arrivals were also affected by reduced airlift from the US market and the UK’s Air Passenger Duty that increased the cost of travel to the Caribbean from the UK. The ECCU recorded the largest increase (2.0 percentage points) in the deficit among the service producers. Sluggish economic conditions in the ECCU resulted in a decline of growth in revenue, which alongside growth in spending to stimulate activity, led to a higher deficit.4

### TABLE 6
**FISCAL BALANCE, 2009-2012**

<table>
<thead>
<tr>
<th>Fiscal balance</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goods producers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belize</td>
<td>-2.8</td>
<td>-2.1</td>
<td>-0.8</td>
<td>-1.0</td>
</tr>
<tr>
<td>Guyana</td>
<td>-3.7</td>
<td>-2.9</td>
<td>-3.1</td>
<td>-5.3</td>
</tr>
<tr>
<td>Suriname</td>
<td>2.1</td>
<td>-2.9</td>
<td>-0.1</td>
<td>-3.6</td>
</tr>
<tr>
<td><strong>Caribbean</strong></td>
<td>26.5</td>
<td>26.9</td>
<td>26.9</td>
<td>27.6</td>
</tr>
</tbody>
</table>

4 The deficit contracted in Jamaica, reflecting efforts to lock-in fiscal consolidation to increase the chances of securing an IMF agreement.
### Fiscal balance

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trinidad and Tobago</td>
<td>-5.5</td>
<td>0.1</td>
<td>-0.7</td>
<td>-1.2</td>
</tr>
<tr>
<td>Service producers *</td>
<td>-4.2</td>
<td>-5.3</td>
<td>-1.8</td>
<td>-3.7</td>
</tr>
<tr>
<td>Anguilla</td>
<td>-8.5</td>
<td>0.1</td>
<td>2.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>-11.0</td>
<td>-1.2</td>
<td>-5.3</td>
<td>-1.4</td>
</tr>
<tr>
<td>Bahamas</td>
<td>-5.2</td>
<td>-4.9</td>
<td>-4.1</td>
<td>-6.8</td>
</tr>
<tr>
<td>Barbados</td>
<td>-7.2</td>
<td>-5.7</td>
<td>-4.4</td>
<td>-8.0</td>
</tr>
<tr>
<td>Dominica</td>
<td>-2.1</td>
<td>-5.4</td>
<td>-8.8</td>
<td>-12.2</td>
</tr>
<tr>
<td>Grenada</td>
<td>-4.9</td>
<td>-2.4</td>
<td>-3.2</td>
<td>-5.6</td>
</tr>
<tr>
<td>Jamaica</td>
<td>-5.8</td>
<td>-5.3</td>
<td>-6.4</td>
<td>-4.0</td>
</tr>
<tr>
<td>Montserrat</td>
<td>3.7</td>
<td>-21.2</td>
<td>8.4</td>
<td>-7.3</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>-1.0</td>
<td>-4.1</td>
<td>8.7</td>
<td>13.0</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>-2.1</td>
<td>-6.0</td>
<td>-4.9</td>
<td>-7.2</td>
</tr>
<tr>
<td>Saint Vincent and the Grenadines</td>
<td>-1.6</td>
<td>-2.8</td>
<td>-3.0</td>
<td>-2.2</td>
</tr>
<tr>
<td>Caribbean</td>
<td>-3.7</td>
<td>-4.4</td>
<td>-1.7</td>
<td>-3.4</td>
</tr>
</tbody>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.  
* Simple Average.

### FIGURE 5

**TOTAL PUBLIC DEBT AND FISCAL BALANCE, 2012**

(Percent of GDP)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
1. Public debt

The worsened fiscal position contributed to growth in public debt from 72.2 per cent of GDP in 2011 to 74.5 per cent of GDP in 2012. This is far above the threshold that Caribbean researchers\(^5\) \(^6\) have found could hurt growth and real incomes. Growth in debt was led by increases in domestic debt, as external debt remained largely stable. Governments seem to be trying to contain their holdings of external debt to avoid foreign interest rate and exchange rate risks when benchmark international interest rates rise in the future for instance with the tightening of US monetary policy.

Nevertheless, increased holdings of domestic debt also pose risks in that it could crowd out productive private investment.

The increase in the debt was higher among the service producers (2.7 percentage points) to 82 per cent, compared with (1.3 percentage points) to 53.9 per cent in the goods producers. St. Lucia and Dominica (8.9 and 8.5 percentage points) had the largest increase in debt among the service producers. The rise in the debt was fuelled by fiscal expansion, including an employment programme in St. Lucia and borrowing for rehabilitation and reconstruction after weather-related damage in Dominica. Meanwhile, St. Kitts and Nevis and Antigua and Barbuda benefited from debt restructuring and fiscal consolidation programmes under the IMF. As a result, their debt ratios contracted by 9.9 and 4.3 percentage points in 2012.

Although Trinidad and Tobago’s debt remains relatively low, it recorded the largest increase (10.6 percentage points to 46.6 per cent of GDP in 2012). This partly resulted from government settling debt to Colonial Life Insurance Company (Trinidad) Limited (CLICO) policy holders. By February 2013, debt had increased to 48.7 per cent of GDP. Debt increased by 8.9 per cent and 8.5 per cent in St. Lucia and Dominica. Jamaica’s debt expanded by 6.1 percentage points to 134.1 per cent of GDP, partly due to currency depreciation that inflated external debt. Jamaica signed an IMF Agreement in April 2013, which will provide financing for economic adjustment. The programme is anchored by a fiscal responsibility framework and a targeted debt ratio of 100 per cent of GDP in the medium-term.

The recent debt restructuring in St. Kitts and Nevis, Grenada and Belize is crucial for medium to long-term fiscal sustainability. St. Kitts and Nevis has implemented a debt exchange offer that covered 13 per cent of its debt (EC$117.9 million in debt forgiveness) and a 1,200 acres land for debt swap. Belize has restructured its super bond debt on terms that provide a 10 per cent haircut on principal and extension of the maturity of the debt by 9 years. This has provided welcome relief and fiscal space for the government.

2. Debt service payments

High debt service costs continue to pose a challenge to reducing the high debt burden in the region. High debt service costs are even more onerous in the present environment that is marked by low growth and sluggish export receipts. Moreover, debt service costs alongside other relatively non-discretionary spending including wages and some components of goods and services, severely constrains the space to expand public investment in infrastructure, education, health and other social services. Indeed, this has been evident in the willingness of governments to sacrifice capital spending in order to meet debt service commitments and other non-discretionary spending. Through this avenue, high debt service serves to dampen future growth prospects.

The external debt service ratio (external debt service to exports of goods and services), with the exception of Barbados\(^5\) remained stable at 9.1 per cent in the Caribbean as a whole in 2012 (see Table 7 below). This stemmed from a decline in debt service among the goods producers that offset the small increase in debt service among service-producers. The external debt service ratio declined in the goods producers from 4.4 in 2011 to 3.3 per cent in 2012, owing to growth in imports that offset debt service.

---


\(^6\) Data are not available for Barbados.
D. Monetary policy

Most Caribbean economies continued a generally neutral monetary stance in 2012. Deposit rates remained largely unchanged from 2011, with the only exceptions being Belize where the rate declined from 3.6 per cent to 2.6 per cent; and Jamaica which registered a decline from 4.2 per cent to 3.9 per cent. Anguilla also recorded a change with annual average deposit rates increasing by 0.6 percentage point to stand at 3.5 per cent at the end of the year. Lending rates also declined marginally overall, with the largest change being for Guyana (1.5 per cent) and Belize (1 per cent) to settle at 12.8 per cent and 12 per cent respectively by the end of 2012. The lending rate also fell by 0.86 per cent points to 9.5 per cent for Grenada, and 0.41 percentage points to 8.75 per cent in Trinidad and Tobago. With only minimal changes in deposit and lending rates, interest rate spreads also remained largely unchanged with Jamaica (14.5 per cent), Guyana (11.1 per cent) and Belize (9.4 per cent) maintaining the largest gaps during 2012. For the remaining economies, the spread ranged from 4.8 per cent for Suriname, to 8.9 per cent for the Bahamas.

This generally conservative adjustment to interest rates reflects the prevailing sluggishness in most Caribbean economies. In the Eastern Caribbean Currency Union (ECCU), for instance, the overall average lending rate declined by 0.6 percentage point to 8.9 per cent between December 2011 and December 2012, while the average deposit rate increased slightly from 2.9 per cent to 3.0 per cent during the same period. Table 8 summarizes lending and deposit rates for 2011 and 2012.
<table>
<thead>
<tr>
<th>Country</th>
<th>External Debt Service Payments (US$M)</th>
<th>External Debt Service Payments (per cent of Exports of Goods and Services)</th>
<th>Total Debt Services Payments (per cent of Government Revenue)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>68.1</td>
<td>38.0</td>
<td>33.5</td>
</tr>
<tr>
<td>Bahamas</td>
<td>38.2</td>
<td>85.6</td>
<td>129.9</td>
</tr>
<tr>
<td>Barbados</td>
<td>148.2</td>
<td>157.9</td>
<td>401.1</td>
</tr>
<tr>
<td>Belize</td>
<td>96.9</td>
<td>81.2</td>
<td>76.6</td>
</tr>
<tr>
<td>Dominica</td>
<td>13.9</td>
<td>8.4</td>
<td>8.5</td>
</tr>
<tr>
<td>Grenada</td>
<td>21.9</td>
<td>21.3</td>
<td>26.7</td>
</tr>
<tr>
<td>Guyana</td>
<td>20.5</td>
<td>17.5</td>
<td>28.6</td>
</tr>
<tr>
<td>Jamaica</td>
<td>880.6</td>
<td>1052.0</td>
<td>753.2</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>36.2</td>
<td>38.1</td>
<td>38.3</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>41.8</td>
<td>41.7</td>
<td>63.2</td>
</tr>
<tr>
<td>Saint Vincent and the Grenadines</td>
<td>26.6</td>
<td>25.7</td>
<td>28.4</td>
</tr>
<tr>
<td>Suriname</td>
<td>19.9</td>
<td>96.4</td>
<td>23.8</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>323.0</td>
<td>603.0</td>
<td>344.0</td>
</tr>
<tr>
<td>Caribbean</td>
<td>133.5</td>
<td>179.2</td>
<td>150.4</td>
</tr>
<tr>
<td>Goods producers</td>
<td>115.1</td>
<td>215.0</td>
<td>116.3</td>
</tr>
<tr>
<td>Service producers</td>
<td>141.7</td>
<td>163.3</td>
<td>164.8</td>
</tr>
</tbody>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures
## TABLE 8
LENDING RATE, DEPOSIT RATE AND SPREAD, 2011-2012
(Percentage; Annual)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lending rate</td>
<td>Deposit rate</td>
</tr>
<tr>
<td>Anguilla</td>
<td>10.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>10.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Bahamas</td>
<td>11.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Barbados</td>
<td>8.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Belize</td>
<td>13.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Dominica</td>
<td>8.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Grenada</td>
<td>10.36</td>
<td>3.0</td>
</tr>
<tr>
<td>Guyana</td>
<td>11.68</td>
<td>2.0</td>
</tr>
<tr>
<td>Jamaica</td>
<td>18.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Montserrat</td>
<td>8.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>9.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>9.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Saint Vincent and the Grenadines</td>
<td>9.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Suriname</td>
<td>11.7</td>
<td>6.6</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>9.2</td>
<td>0.61</td>
</tr>
</tbody>
</table>

* Lending rate minus deposit rate.

Considering monetary aggregates, the share of M1 increased slightly on average for the sub-region, from 21.1 per cent of GDP to 21.4 per cent of GDP between 2011 and 2012. In the case of M1, the most significant changes over the period were observed for Belize where there was an increase from 28.3 per cent to 34.9 per cent of GDP, and Dominica and Montserrat where M1 increased by 2.9 percentage points to 17.6 and 29.1 per cent of GDP respectively. Trinidad and Tobago also recorded a 2.5 percentage point increase to 23.2 per cent of GDP. Other countries registered declines in the share of M1 relative to GDP with Antigua and Barbuda (from 19.9 per cent to 17.4 per cent) and Barbados (from 36.4 per cent to 35.1 per cent) showing the largest fall during the period. All other countries showed only slight changes with M1 for Grenada and Jamaica for example increasing by 0.2 per cent and 0.4 per cent of GDP respectively. This overall trend in M1 is reflected in M2 which increased from 69.3 per cent to 72.1 per cent of GDP over the same period. In this regard, the largest increases were for Montserrat (from 117.0 per cent to 130.1 per cent) followed by Dominica (from 80.4 per cent to 87.9 per cent). These changes in money aggregates reflect in part the efforts of monetary authorities to absorb excess liquidity, as well as declines in overall GDP as Caribbean economies remained relatively flat throughout 2012.
TABLE 9
MONETARY AGGREGATES AND DOMESTIC CREDIT TO THE PRIVATE AND PUBLIC SECTOR, 2011-2012
(Percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>5.7</td>
<td>5.6</td>
<td>33.7</td>
<td>36.5</td>
<td>-27.0</td>
<td>-32.0</td>
<td>180.6</td>
<td>177.6</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>18.9</td>
<td>17.4</td>
<td>85.4</td>
<td>82.3</td>
<td>13.6</td>
<td>10.5</td>
<td>74.5</td>
<td>80.1</td>
</tr>
<tr>
<td>Bahamas</td>
<td>16.5</td>
<td>19.9</td>
<td>73.6</td>
<td>77.0</td>
<td>24.2</td>
<td>26.0</td>
<td>83.8</td>
<td>85.4</td>
</tr>
<tr>
<td>Barbados</td>
<td>36.4</td>
<td>35.1</td>
<td>99.8</td>
<td>105.0</td>
<td>15.6</td>
<td>21.1</td>
<td>75.8</td>
<td>62.6</td>
</tr>
<tr>
<td>Belize</td>
<td>28.3</td>
<td>34.9</td>
<td>74.3</td>
<td>77.4</td>
<td>5.5</td>
<td>5.7</td>
<td>56.7</td>
<td>59.2</td>
</tr>
<tr>
<td>Dominica</td>
<td>14.7</td>
<td>17.6</td>
<td>80.4</td>
<td>87.9</td>
<td>-8.6</td>
<td>-8.4</td>
<td>61.5</td>
<td>59.3</td>
</tr>
<tr>
<td>Grenada</td>
<td>15.4</td>
<td>15.6</td>
<td>87.8</td>
<td>87.4</td>
<td>-0.8</td>
<td>2.5</td>
<td>64.6</td>
<td>85.4</td>
</tr>
<tr>
<td>Guyana</td>
<td>18.5</td>
<td>19.5</td>
<td>51.5</td>
<td>52.5</td>
<td>-4.9</td>
<td>-7.8</td>
<td>28.1</td>
<td>25.6</td>
</tr>
<tr>
<td>Jamaica</td>
<td>9.7</td>
<td>10.1</td>
<td>18.6</td>
<td>18.3</td>
<td>10.4</td>
<td>9.9</td>
<td>20.9</td>
<td>19.0</td>
</tr>
<tr>
<td>Montserrat</td>
<td>26.2</td>
<td>29.1</td>
<td>117.0</td>
<td>130.1</td>
<td>-46.7</td>
<td>-56.6</td>
<td>46.1</td>
<td>43.4</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>23.8</td>
<td>26.2</td>
<td>86.5</td>
<td>89.6</td>
<td>-46.7</td>
<td>-56.6</td>
<td>69.7</td>
<td>69.6</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>20.7</td>
<td>21.9</td>
<td>78.3</td>
<td>82.3</td>
<td>36.0</td>
<td>46.2</td>
<td>127.5</td>
<td>118.9</td>
</tr>
<tr>
<td>Saint Vincent and the Grenadines</td>
<td>17.8</td>
<td>18.8</td>
<td>57.1</td>
<td>59.6</td>
<td>-8.9</td>
<td>-5.7</td>
<td>53.9</td>
<td>53.5</td>
</tr>
<tr>
<td>Suriname</td>
<td>25.2</td>
<td>26.6</td>
<td>47.7</td>
<td>50.2</td>
<td>0.6</td>
<td>0.7</td>
<td>25.4</td>
<td>25.1</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>20.7</td>
<td>23.2</td>
<td>42.6</td>
<td>46.1</td>
<td>-5.5</td>
<td>-4.4</td>
<td>28.8</td>
<td>27.9</td>
</tr>
<tr>
<td>Caribbean</td>
<td>20.1</td>
<td>21.4</td>
<td>69.3</td>
<td>72.1</td>
<td>-0.1</td>
<td>0.3</td>
<td>67.9</td>
<td>66.2</td>
</tr>
</tbody>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; Bank of Jamaica database; Eastern Caribbean Central Bank database.

* M2 is defined as M1 plus savings and time deposits.

With respect to domestic credit, credit to the private sector, increased marginally for Caribbean economies, from an average of 66.2 per cent of GDP in 2011, to 67.9 per cent in 2012. Most countries experienced no significant changes over the period, the exceptions being Antigua and Barbuda which recorded a 5.6 percentage point reduction to 74.3 per cent of GDP during 2012, and Belize which fell from 59.2 per cent to 56.7 per cent. At the same time the Guyana, Montserrat and Saint Lucia all showed marginal increases of 2.5 per cent, 2.7 per cent and 8.6 per cent respectively. These marginal increases reflect specific initiatives by some governments to stimulate the domestic economy in light of the continued sluggishness which prevailed in the sub-region during 2012. Saint Lucia for instance implemented a construction programme, in order to stimulate construction activity while Guyana provided support to the agriculture and mining sectors in their efforts to recapitalize and upgrade facilities. In the case of domestic credit to the public sector, this increased from -0.1 per cent to 0.3 per cent of GDP for the sub-region between 2011 and 2012. This overall trend reflects increasing strains on governments to incur further debt notwithstanding the current debt burden, and ongoing fiscal consolidation programmes in the region. Notable increases were recorded for the Bahamas (1.8 per cent), Barbados (5.5 per cent), Guyana (3.3 per cent) and Saint Kitts and Nevis (10.2 per cent), and notable declines for Anguilla (5 per cent) and Montserrat (9.8 per cent). Overall however, the limited movement in this area demonstrated the limited fiscal capacity of Caribbean governments to undertake public sector projects during the period. Monetary aggregates and domestic credit are summarized in Table 9 above.
Inflation rates in the Caribbean slowed in 2012, after showing strongly upward trends in 2011. With a subsequent slowing of the global recovery in 2012, the average rate of inflation for the region fell from 5.2 per cent in 2011 to 3.1 per cent by the end of 2012. This decline was more moderate for the ECCU where inflation slowed to 2.4 per cent for the subregion in 2012, after rising by 4.4 per cent in 2011. Slower inflation rates for food, fuel and light, and transportation and communications, were principally responsible for the overall slowing of inflation in the ECCU, with the sharpest reductions observed for St. Vincent and the Grenadines (from 4.7 per cent to 1 per cent), Antigua and Barbuda (from 4.0 per cent to 1.8 per cent), Grenada (from 3.5 per cent to 1.8 per cent) and Saint Kitts and Nevis (from 2.8 per cent to 0.2 per cent). Still, among the countries, Saint Lucia showed the strongest inflation as that country adapted to the introduction of a 15 per cent value added tax in 2012. Among other Caribbean economics more significant declines were also noted for Barbados (from 9.6 per cent to 2.4 per cent), and Suriname (from 15.3 per cent to 4.3 per cent). Only in the case of Trinidad and Tobago (from 5.3 per cent to 7.2 per cent), Jamaica (6.0 per cent to 8.0 per cent) and Guyana (2.8 per cent to 3.5 per cent) were there increases in the rate of inflation for 2012. Inflation rates for the Caribbean are presented in Table 10 below.

### TABLE 10

**INFLATION RATES – CARIBBEAN COUNTRIES, 2008 – 2012**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>5.3</td>
<td>-0.6</td>
<td>0.9</td>
<td>0.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>0.7</td>
<td>2.4</td>
<td>2.9</td>
<td>4.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Bahamas</td>
<td>4.8</td>
<td>4.6</td>
<td>1.3</td>
<td>3.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Barbados</td>
<td>7.3</td>
<td>4.4</td>
<td>6.5</td>
<td>9.6</td>
<td>2.4</td>
</tr>
<tr>
<td>Belize</td>
<td>6.4</td>
<td>-1.1</td>
<td>0.9</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Dominica</td>
<td>2.0</td>
<td>3.2</td>
<td>2.3</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Grenada</td>
<td>5.2</td>
<td>-2.4</td>
<td>4.2</td>
<td>3.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Guyana</td>
<td>3.3</td>
<td>0.0</td>
<td>1.8</td>
<td>2.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Jamaica</td>
<td>16.8</td>
<td>10.3</td>
<td>11.6</td>
<td>6.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Montserrat</td>
<td>4.5</td>
<td>2.5</td>
<td>2.6</td>
<td>4.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>6.5</td>
<td>1.2</td>
<td>5.2</td>
<td>2.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>3.4</td>
<td>3.1</td>
<td>4.2</td>
<td>4.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Saint Vincent and the Grenadines</td>
<td>8.7</td>
<td>-1.6</td>
<td>2.0</td>
<td>4.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Suriname</td>
<td>9.4</td>
<td>1.5</td>
<td>10.3</td>
<td>15.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>14.5</td>
<td>1.3</td>
<td>13.4</td>
<td>5.3</td>
<td>7.2</td>
</tr>
<tr>
<td>The Caribbean</td>
<td>6.6</td>
<td>1.5</td>
<td>4.7</td>
<td>5.2</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

* December to December.

_**Table 10**_ scheduled to be presented here.

### E. Balance of payments

The sluggish recovery of the global economy and continuing challenges due to weak export growth led to the mixed outcome in the external sector of the sub-region in 2012. While favourable prices of some commodities helped goods-based economies increase their exports and FDI inflows to those industries,
service-based economies suffered from weak performance in tourism and related sectors. This trend in the external sector continued in 2013 within the sub-region.

1. Current account

Many countries in the sub-region experienced increases in goods import, due to the recovery of some domestic activities and to the high commodity prices, especially fuel price. In addition, imports for construction projects grew sharply in some countries where government-led or FDI-related projects were ongoing. Exports did not improve sufficiently to offset the increase of import in many countries. The main reason for the sluggish recovery of exports was the recession of the global economy, especially in the Eurozone.

On the other hand, high commodity prices for some exports helped goods-exporters to considerably increase their export earnings. The typical example is Guyana which decreased its current account deficit thanks to the buoyant export of gold. Suriname and Belize also increased their exports, though they were not much enough to offset the increase in imports. Trinidad and Tobago was an exception, as the maintenance works in oil and gas industry resulted in a decrease in energy sector exports.

Many service-based economies in the sub-region experienced an expansion of the current account deficit due to the increase in imports of goods. The exception was Jamaica where imports decreased and current account deficit contracted, due to the sluggish recovery of the economy.

<table>
<thead>
<tr>
<th>TABLE 11</th>
<th>CURRENT ACCOUNT BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Percentage of GDP)</td>
</tr>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Goods producers a</td>
<td>7.7</td>
</tr>
<tr>
<td>Belize</td>
<td>-2.1</td>
</tr>
<tr>
<td>Guyana</td>
<td>-17.2</td>
</tr>
<tr>
<td>Suriname</td>
<td>10.4</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>39.5</td>
</tr>
<tr>
<td>Service producers a</td>
<td>-21.3</td>
</tr>
<tr>
<td>Anguilla</td>
<td>-50.8</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>-25.1</td>
</tr>
<tr>
<td>Bahamas</td>
<td>-17.2</td>
</tr>
<tr>
<td>Barbados</td>
<td>-6.5</td>
</tr>
<tr>
<td>Dominica</td>
<td>-12.6</td>
</tr>
<tr>
<td>Grenada</td>
<td>-32.3</td>
</tr>
<tr>
<td>Montserrat</td>
<td>-14.4</td>
</tr>
<tr>
<td>Jamaica</td>
<td>-9.9</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>-14.4</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>-31.4</td>
</tr>
<tr>
<td>Saint Vincent and the Grenadines</td>
<td>-19.5</td>
</tr>
<tr>
<td>Caribbean a</td>
<td>-13.6</td>
</tr>
</tbody>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a Aggregates calculated as simple average.
2. Financial and capital account

Foreign Direct Investment (FDI) inflows for the region continued to increase gradually in 2012 by 14 per cent compared to 2011. When disaggregated, however, this increase relied much on goods-based economies, especially Trinidad and Tobago which recorded a 90 per cent increase compared to the year before. On the other hand, FDI inflows to most service-based economies decreased in 2012. This suggests that investors’ confidence in the Caribbean economies gradually improved, but unevenly depending on countries.

<table>
<thead>
<tr>
<th>TABLE 12</th>
<th>FDI INFLOWS TO THE CARIBBEAN (Million of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Goods producers</td>
<td>2,918</td>
</tr>
<tr>
<td>Belize</td>
<td>170</td>
</tr>
<tr>
<td>Guyana</td>
<td>179</td>
</tr>
<tr>
<td>Suriname</td>
<td>-231</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>2,801</td>
</tr>
<tr>
<td>Service producers</td>
<td>3,721</td>
</tr>
<tr>
<td>Anguilla</td>
<td>99</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>159</td>
</tr>
<tr>
<td>Bahamas</td>
<td>860</td>
</tr>
<tr>
<td>Barbados</td>
<td>464</td>
</tr>
<tr>
<td>Dominica</td>
<td>57</td>
</tr>
<tr>
<td>Granada</td>
<td>135</td>
</tr>
<tr>
<td>Jamaica</td>
<td>1,437</td>
</tr>
<tr>
<td>Montserrat</td>
<td>13</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>178</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>158</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>161</td>
</tr>
<tr>
<td>Caribbean</td>
<td>6,639</td>
</tr>
</tbody>
</table>

Source: FDI in Latin America and the Caribbean (ECLAC).
**TABLE 13**

**CARIBBEAN: FINANCIAL CAPITAL, 2008-2012**

*(Percentage of GDP)*

<table>
<thead>
<tr>
<th></th>
<th>FDI</th>
<th>Financial Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods producers a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belize</td>
<td>12.3</td>
<td>8</td>
</tr>
<tr>
<td>Guyana</td>
<td>9.3</td>
<td>8.1</td>
</tr>
<tr>
<td>Suriname</td>
<td>-7.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>7.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Service producers a</td>
<td>16.97</td>
<td>10.6</td>
</tr>
<tr>
<td>Anguilla</td>
<td>28.1</td>
<td>15.6</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>12.6</td>
<td>9.4</td>
</tr>
<tr>
<td>Bahamas, the</td>
<td>10.4</td>
<td>8.5</td>
</tr>
<tr>
<td>Barbados</td>
<td>6.6</td>
<td>2</td>
</tr>
<tr>
<td>Dominica</td>
<td>12.2</td>
<td>8.9</td>
</tr>
<tr>
<td>Grenada</td>
<td>17.1</td>
<td>13.5</td>
</tr>
<tr>
<td>Jamaica</td>
<td>15.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Montserrat</td>
<td>21.9</td>
<td>4.3</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>25.3</td>
<td>19.4</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>14.3</td>
<td>13.2</td>
</tr>
<tr>
<td>St Vincent and the</td>
<td>22.7</td>
<td>15.2</td>
</tr>
</tbody>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Note: Figures are computed as simple averages.

### 3. International reserves

The general trend of balance of payments in the Caribbean sub-region as a whole in 2012 was characterized by the expansion of the current account deficit due to the increase of imports in trade balance and the expansion of incoming FDI and financial capital. As the capital account surplus was not much enough to offset the current account deficit in many countries, the international reserves within the whole sub-region (excluding Montserrat which skewed the average) slightly decreased in 2012, compared to the previous year.

**TABLE 14**

**INTERNATIONAL RESERVES, 2009 – 2012**

*(Percentage of GDP)*

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>4.9</td>
<td>27.1</td>
<td>23.4</td>
<td>24.6</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>6.3</td>
<td>7.4</td>
<td>6.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Bahamas</td>
<td>3.0</td>
<td>2.9</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Barbados</td>
<td>10.2</td>
<td>8.2</td>
<td>3.5</td>
<td>n.a</td>
</tr>
<tr>
<td>Belize</td>
<td>15.8</td>
<td>15.1</td>
<td>16</td>
<td>18.5</td>
</tr>
<tr>
<td>Dominica</td>
<td>1.1</td>
<td>2.3</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Grenada</td>
<td>6.4</td>
<td>5.4</td>
<td>5.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Guyana</td>
<td>35.5</td>
<td>31.5</td>
<td>35.2</td>
<td>32.9</td>
</tr>
</tbody>
</table>
F.  Outlook for 2013-2014 and recommendations

The foregoing analysis suggests that while the Caribbean subregion has experienced improved economic performance, the service producers continue to experience difficulties. This springs partly from the lack of robust tourism growth, capital inflows and the spillover effects to other sectors. There are also emerging downside risks for the goods producers as the commodity boom may be subsiding. In their case there is an urgent need to build fiscal buffers to redress countercyclical difficulties if primary commodity prices fall.

The fiscal challenges, especially in the ECCU, have made it difficult for governments to invest and this has helped to reduce domestic demand. A number of countries turned to IMF for balance of payments and budgetary support.

The outlook for 2013 and 2014 are for small improvements in economic performance with positive growth expected for all the countries of the sub region; this is likely to moderate unemployment. It is projected that growth in the Caribbean as a whole will be 2.1 per cent in 2013 and 2.3 per cent in 2014 with the service producers growing at 1.5 per cent and 1.8 per cent over the two years. Meanwhile the goods producers will post growth rates of 3.7 per cent over each of the next two years. However, this will be heavily influenced by improved external demand conditions. For example, tourist arrivals for most Caribbean countries in the first quarter of 2013 have been negative except for Suriname, Montserrat, Belize and Anguilla.
In the context of a difficult external environment, a number of recommendations are made to address some of the economic challenges facing the Caribbean.

Programmes designed to maintain and eventually reduce debt levels must continue in the most debt challenged countries. At the same time, public spending must be rationalized for greater efficiency in service delivery. It must be emphasized however, that fiscal consolidation programmes must be balanced against the need to maintain and expand social protection, given the high levels of unemployment in some countries. Programs of social protection are an important aspect of satisfying the Millennium Development Goals. In this context fiscal covenants are an important vehicle to properly addressing the social costs and benefits of the fiscal adjustment that is taking place.

While access to financing through concessional aid or financial markets has been reduced for some countries, new and creative financial mechanisms must be developed with a view of financing new activities for markets. Much more aggressive policies must be pursued to help develop clusters and niches through SMEs at both the national and regional levels, which are not constrained by scale economies.

There is need to complement the changes in the CSME with the full liberalisation of the movement of Caribbean people so that labour markets are made efficient and productivity can improve.

Countries that have done well, due to elevated commodity prices, must be cautious and use the windfall revenue gains to diversify production and to buffer future external shocks, since commodity booms are temporary.

Finally, new modalities for engaging the private sector must be developed so that they become an integral part of the development agenda. In this context, a new development policy and focus based on structural change must be premised on private sector participation. This must go beyond private/Public sector partnership to include broader institutional engagement with the traditional private and other non government sectors.
II. Country briefs

Country briefs may not reflect data in the document; data updated to June 2013.

A. Bahamas

1. General trends

The recovery in the Bahamian economy continued in 2012 with a marginal increase in growth to 1.8 per cent from 1.7 per cent in 2011. The impetus for growth came mostly from tourism and construction activity. Nevertheless, the narrowness of the recovery constrained its impact on the labour market, leading to only marginal gains in employment. Inflation declined from 3.2 per cent in 2011 to 0.7 per cent in 2012 December–December, led by reduced costs of transportation, communication and recreation and culture.

Two headwinds continue to challenge the economy and could undermine the strength and duration of the recovery. The first is the unsustainable fiscal position of the government and the second is the weak investment by the domestic private sector and the related issue of weak bank credit quality. The fiscal deficit expanded to 5.6 per cent of GDP in Fiscal Year2011/12, up from 4.6 per cent of GDP in Fiscal Year2010/11, reflecting a decline in revenue in the face of higher expenditure. This trend has continued in the first half of Fiscal Year2012/13.

Public sector debt has spiked since the recession and is now at levels (over 60 per cent of GDP) where it could hurt growth. An orderly fiscal consolidation programme marked by improved expenditure management and a stronger fiscal effort is needed to bring the debt and servicing costs under control. The government has embarked on a programme to achieve debt sustainability in the medium-term, expenditure restraint and the introduction of a 15 per cent VAT by July 2014. Activity in the domestic private sector remained weak, partly linked to caution in lending by commercial banks, owing to high non-performing loans (NPLs).

The current account deficit widened from 13.8 per cent of GDP in 2011 to 17.8 per cent of GDP in 2012, partly reflecting increased imports for construction projects and a smaller surplus on the services account due to higher payments for construction and transportation services.
Growth is expected to strengthen to 3.0 per cent in 2013, underpinned by continued recovery in stopover tourism and construction activity with spillovers into the wholesale and retail sector. Nevertheless, actual growth would depend on the strength of the recovery in the United States. The fiscal deficit is expected to be contained to around 6.5 per cent of GDP, as the government strives to contain expenditure and strengthen revenue collections. The current account deficit is projected to widen in 2013, as the uptick in activity fuel higher demand for imports, especially for construction projects, which would offset growth in tourism receipts.

Economic activity was expected to have been flat in the first quarter of 2013 compared with the similar period of 2012. This stemmed from a decline in tourism value added that was expected to be offset by increased construction activity. Tourist arrivals by air that includes the high value added stopover segment contracted by 3.4 per cent after growing by 11.2 per cent in the similar quarter of 2012. Construction meanwhile was buoyed by the Baha Mar project and public infrastructure works. The fiscal deficit expanded due to higher government spending, driven by capital expenditure. The current account deficit was expected to widen, reflecting higher import construction materials and household goods that offset sluggish growth in exports.

2. Economic policy
   a) General trends
Fiscal management remains the signal challenge for the Bahamas. The government implemented a fiscal stimulus package and acted as employer of last resort to combat the adverse effects of the global crisis. As a result, the fiscal deficit jumped from 1.8 per cent of GDP in Fiscal Year 2007/08 to 5.6 per cent of GDP in Fiscal Year 2011/12. Similarly, public debt rose from 44 per cent of GDP in 2008 to 61 per cent of GDP in 2012.

Fiscal policy was again expansionary in Fiscal Year 2011/12, as government maintained spending on a number of projects, including the airport improvement project and major road works aimed at nurturing the recovery and reducing the hardship for citizens. The fiscal deficit increased to 5.6 per cent of GDP in 2012 from 4.6 per cent in 2011. Total expenditure expanded by 5.2 per cent to 17.0 per cent of GDP, driven an 18.9 per cent rise in capital spending. The surge in capital spending, 3.8 per cent above budget, was associated with significant road and other infrastructure works and substantial cost overruns on these projects. Other outlays went towards government’s acquisition of land and the acquisition of a new Government headquarters. Current spending was contained due to lower domestic debt interest payments on account of the lowering of prime lending rate in the previous year, as government consumption was higher. Growth in revenues receded, owing to lower receipts from taxes on international trade, which reverted to trend following a one-off surge in stamp tax from the sale of an oil refinery in the previous year. Non-tax revenues were buoyed by the payment of deferred interest on bond investments and proceeds from the sale of government property.

Public sector debt increased from 61.8 per cent of GDP in calendar 2011 to 67.2 per cent of GDP in calendar 2012, reflecting increased borrowing by the Central Government and public corporations.

The worsening fiscal situation continued into the first half of Fiscal Year 2012/13. The deficit expanded by B$106.3 million to 6.3 per cent of GDP. Fiscal deterioration stemmed from a 7.2 per cent contraction in revenue in the face of a 5.8 per cent growth in spending. Capital spending continued to surge with substantial expenditure on major road and other infrastructure. Revenues contracted by 6.0 per cent stemming from excise taxes, which normalised after the payment of arrears in the previous year. Non-tax proceeds rose in line with higher receipts from public enterprises.

With a continuation of the trend growth in spending alongside dampened revenues, the government is likely to overshoot its deficit target of 6.5 per cent of GDP for 2012/13. However, the government has embarked on a programme to rein in capital spending and improve revenues. Key short-term measures include a review of custom fees to bring them in line with the cost of providing the service, a real property tax amnesty as of March, 2013 to encourage citizens to pay on time, improved execution and reprioritisation of capital projects, upgrading of the tax administration infrastructure to strengthen collections. In the medium to longer-term, reform measures include the 15 per cent VAT
slated for July 2014. Expenditure reform will focus on steady reduction in spending by 0.5 per cent of GDP starting in 2013/14 to 2016/17. This would entail prudent expenditure management, cut in wastage and improved prioritisation of spending. Efforts by the government to set up a national lottery and allowing gambling by locals, partly as a means of raising revenue to aid in fiscal consolidation was rejected in a referendum in early 2013.

b) Fiscal policy
Monetary policy was neutral in 2012 since with the economy on the path to recovery, the Central Bank did not adjust its policy rates. Nevertheless, the Bank monitored developments in the international and domestic economy for pressure points that could affect the fixed exchange rate.

Domestic credit grew by 2.1 per cent, directed to the public sector, as credit to the private was flat. Banks increased their holdings of government paper in an environment where rates of return on other investments remained very low. Growth in credit to the private sector has averaged less than 1.0 per cent over the last three years and despite the recovery private investment remains weak amid weak profit margins and uncertainty about future prospects. During the year credit increased to the distribution ($45 million), transport and manufacturing sectors, but was offset by reduced flows to other sectors including tourism and professional services.

Growth in the broad money supply (M2) slowed to 0.4 per cent, reflecting the only marginal pickup in economic activity. Savings deposits increased marginally, but time deposits contracted by 4.1 per cent due in part to a significant decline in interest rates that they attracted. Liquidity in the banking system remain elevated due both to the sluggish private sector credit demand and increased discretion by banks in lending as a result of high loan losses. In this environment, the weighted average interest rate spread widened by 51 basis points. The average deposit rate moderated by 61 basis points to 2.02 per cent, while the loan rate fell by 10 basis points to 10.88 per cent. Banks credit quality deteriorated amidst continued high levels of unemployment, which affected the ability of creditors to service their loans. Private sector loan arrears rose by 3.5 per cent to B$1,250.5 million, while non-performing loans increased by 6.3 per cent. Also, banking sector profitability weakened with net income falling by 26.5 per cent, reflecting lower interest income.

The Central Bank has embarked on a programme to strengthen regulatory oversight of the financial system. Important measures include the full roll-out of its risk based supervision framework (RBSF), which the Bank hopes to entrench as standard practice and a credit bureau to provide a formal, secure mechanism for exchanging credit information in an effort to reduce the incidence of non-performing loans.

3. Trends in the principal variables

a) The external sector
Imports picked up with continued recovery in activity, contributing to a widening of the current account deficit to 17.8 per cent of GDP in 2012 from 13.8 per cent of GDP in 2011. The merchandise deficit expanded by 11.5 per cent to B$2,375.6 million, driven by an 11.9 per cent (US$353.2 million) expansion in imports, which offset the 13.1 per cent (US$108.9 million) growth in exports. Non-oil imports and building materials and equipment were boosted by the large foreign investment based projects and government infrastructure works. In addition, higher import volume and prices led to a 13.1 per cent increase in payments for oil imports.

The services account surplus narrowed by 7.5 per cent to B$1,214.7 million due to higher payments for construction services related to foreign hotel construction and increased payments for transportation services. These more than offset the 3.6 per cent increase in travel-related receipts, associated with the recovery in the tourism sector and higher receipts for government services. The income account deficit deteriorated by B$64 million, arising from higher profit repatriations by non-banks.

The surplus on the capital and financial account advanced by 4.7 per cent, buoyed largely by government borrowing of B$180.0 million and loan financing for infrastructure projects. Commercial banks scaled back their short-term capital outflows significantly. Meanwhile, net foreign direct investment contracted sharply (33.3 per cent) to B$444.8 million. This mainly reflected a return to trend
in equity investments, which had surged in 2011 on account of government’s sale of its majority shareholding in Bahamas Telecommunications Company (BTC) and a fall in real estate purchases. The new government had expressed plans to re-nationalize the BTC, but this is not expected to occur in the short-term. International reserves declined by 5.8 per cent to US$810.2 million, covering around 4 months of non-oil merchandise imports.

b) Economic activity
The economy continued to recover with growth of 1.8 per cent in 2012. Activity was buoyed by increased tourist arrivals, especially the high value added air arrivals, dynamic growth in construction and higher value added in transport and communications. Total visitor arrivals increased by 6.3 per cent to 5,940,170 boosted by a 7.1 per cent rise in air arrivals and a 6.1 per cent increase in sea arrivals. This growth reflected the recovery in major markets and aggressive, including incentive programmes. Information from a sample of hotels indicated that room revenue rose by 4.0 per cent in 2012, advancing the almost 3 per cent gain in 2011. However, this stemmed from increase in the average occupancy rate, as the average daily room rate fell by 3.0 per cent to B$229.2, reflecting discounting by some hotels to attract visitors.

Construction activity accelerated (24.3 per cent) propelled by foreign investment-funded hotel construction including the Baha Mar Resort and Albany hotel. These were complemented by significant public sector capital works, including a number of roads and the airport. Nevertheless, domestic private construction remained weak, reflecting high unemployment and debt deleveraging by private individuals. This was reflected in a 28.1 per cent contraction in total mortgage loans for new construction and repairs. Moreover, mortgage commitments indicate that the challenges facing domestic private construction are expected to last into the medium-term.

In the offshore financial services sector, the number of licensed banks and trust companies declined by 10 to 268. Nevertheless, activity in the sector remained buoyant. The sector has overhauled its regulation, prudential oversight mechanisms and risk assessment systems to make them compliant with international standards.

On the expenditure side, gross domestic investment rebounded strongly to grow by 10.5 per cent, bolstered by public infrastructure investment. Nevertheless, consumption expenditure declined by 1.5 per cent following marginal growth in 2011, as consumer confidence remains weak in the face of the narrow recovery.

c) Prices, wages and employment
Inflation fell from 3.2 per cent in 2011 to 0.7 per cent in 2012 December-December. Declines in prices were registered for transportation, despite the volatility in international fuel prices. Prices in the communication and recreation and culture sub-sectors also moderated. Meanwhile price increases were recorded for clothing and footwear, food & beverages and medical care & health. Domestic fuel costs rose in line with higher international oil prices. The average price of gasoline and diesel rose by 5.4 per cent and 6.2 per cent, leading to an increase in the Bahamas Electricity Corporation’s fuel charge.

Wages remained largely stable in 2012, as government sought to contain its current costs. The modest increase in wage costs came largely from the payment of increments to civil servants. Improved economic conditions contributed to marginal gains in employment. As a result, unemployment fell from 15.9 per cent in 2011 to 14.7 per cent in 2012. Nevertheless, unemployment among the 15-24 age cohort, including university graduates remained protractedly high at over 30 per cent. In addition, unemployment was lower among females than males.

B. Barbados

1. General trends
The Barbados economy continues to reflect its openness to external shocks, as real GDP growth remained flat at 0.0 per cent in 2012, and contracted slightly by 0.4 per cent by the end of the first quarter of 2013. This overall trend bears out the continued sluggishness of the global economy since 2008, and
the impact of the sovereign debt crisis in Europe in particular over the past year, as Barbados relies
heavily on European source markets for its tourism sector, the country’s main economic driver.

Overall long-stay tourist arrivals declined by 12 per cent in April 2013, when compared with
April, 2012, with most source markets showing slight to significant reductions.

This slow growth in turn impacted the fiscal deficit which increased by 2.7 percentage points to
7.3 per cent of GDP between fiscal years 2011/2012 and 2012/2013, on account of a 5.5 per cent fall in
tax revenues. At the same time, government expenditure also increased by 3.3 per cent largely due to a
10.8 per cent increase in interest payments on domestic borrowings, and a 5.9 per cent and 5.8 per cent
increase in grant payments to individuals and institutions respectively. The deteriorating fiscal situation
resulted in an increase in gross public sector debt from 80.2 per cent to 83.4 per cent of GDP between
March, 2012 and 2013, with the larger share of government borrowings sourced domestically.

And notwithstanding a slight moderation in imports where fuel and food prices fell slightly, the
current account slipped from a surplus in 2012 to a deficit in 2013, due to the strong contraction of
tourism receipts. Data from the first quarter of 2013 are suggestive of a continuation of this trend as
retained imports increased modestly by 1.2 per cent compared with a 2.3 per cent fall in the same period
of the previous year.

Sluggish domestic economic conditions also resulted in a slowing of domestic inflation from 9.4
per cent to 3.3 per cent year on year to March 2013, and a slight increase in the unemployment rate at
the end of 2012 to 11.6 per cent compared to 11.3 per cent at the end of 2011. The increase in
unemployment was driven mainly by layoffs in the construction sector where unemployment increased
by 11 per cent during 2012.

Underlying these economic developments was the political and economic uncertainty related to
the February 2013 parliamentary elections which the incumbent government won by a slight margin.
This uncertainty possibly also contributed to some economic slowdown over the past six months. The
new government will continue to face fiscal, structural and institutional challenges which limit a return
growth of the Barbados economy over the short to medium term. Real growth is projected to be 0.7
per cent for 2013.

2. Economic policies

a) Fiscal policy

Since 2010, Barbados has adopted a contractionary fiscal stance through its five-year Medium Term
Fiscal Strategy (2010 – 2014), as a means of responding to the global crisis. This strategy targets a
reduction in fiscal expenditure, increasing government revenue and stringent debt management as its
principal objectives. The positive results achieved in the 2011/2012 fiscal year of the strategy were
significantly reversed in 2012/2013, as the fiscal deficit increased once again from 4.6 per cent to 7.3 per
cent of GDP. The primary balance, however, remained virtually unchanged at 0.3 per cent of GDP over
the review period.

An increase in personal income tax thresholds as well as reduction in the effective tax rate from
20 per cent to 17 per cent mainly account for this decline, as direct tax revenues fell by 7.1 per cent. This
was compounded by overall domestic economic sluggishness as reflected in a 5 per cent reduction in
indirect taxes, and a 6.3 per cent and 7.1 per cent fall in excise duties and VAT respectively. At the same
time, government expenditure rose by 3.3 per cent over the previous fiscal year, driven by increased
interest payments by 10.8 per cent along with increases in grants. These trends resulted in a an increase
in the gross public debt from 80.2 per cent – 83.4 per cent of GDP over the same period.

b) Monetary and exchange policy

During 2012 the Central Bank of Barbados continued its monetary policy stance of supporting the fixed
exchange rate at BDS $2 = USD 1, through the maintenance of adequate international reserves. In an
effort to stimulate domestic demand, interest rates have also remained low and stable with the treasury
bill rate ranging from 3.4 per cent to 3.6 per cent between 2011 and 2012, and continued to be
maintained at 3.6 per cent as at March, 2013. This accommodative policy stance has also been made possible by the declining rate of inflation which fell from 9.4 per cent to 4.5 per cent during 2012, with a further 1.2 percentage points decline to 3.3 per cent by March 2013. This sharp decline in prices reflects the moderation of international food and fuel prices in the past year, and reduced inflation is expected to be maintained in 2013, as the global economy overcomes the impact of recent drought conditions in the United States, and energy price inflation slows. Credit to the non-financial sector remains sluggish since the onset of the crisis, and fell by 0.8 per cent as at March, 2013 compared to an increase of 1.5 per cent in the first quarter of 2012. This is as a result of the slow down in business, professional and construction activity related to major projects in the tourism sector, as well as public sector projects. At the same time, reduced economic activity has also impacted deposits, and consumer’s loan repayments. Deposits for instance fell by 0.7 per cent during the first quarter of 2013, while the non-performing loan ratio stood at 10 per cent at the end of 2012.

c) Other policies

With respect to other policies for further stimulation of the economy, a protracted period of low growth over the past four years, along with slow recovery in the global economy, continue to limit scope for the implementation of economic stimulation policy over the short to medium term. It is this situation which prompted the government to dispense with its holdings of Barbados National Bank shares in 2012, resulting in a 14 per cent reduction of the fiscal deficit. In terms of public sector investments, efforts to further develop the luxury segment of the tourism sector, as well to enrich visitor experience have been ongoing, and newer tourism niches such as eco, sports and culture have been targeted for further future development. The enhanced marketing of the international finance and business sector, strengthening of the agro-processing and alternative energy sectors, and the improvement of overall competitiveness through increased public sector efficiency have also been identified.

With a newly received, mandate from the electorate, the Barbados government may perceive a freer hand to pursue these strategies in order to return the economy to growth. Successful implementation of such policies would however depend on the extent to which continued goodwill could be secured from social partners. This is especially important given that both labour and the private sector have shown some weariness in the recent past. Still the strong social compact, as well as the perception of low corruption, highly educated workforce, and stable public institutions should serve the country well in advancing its economic recovery prospects into the future.

3. Trends of the principal variables

a) External sector

As a tourism-based economy, services comprise the largest share of exports in the Barbadian economy. After a slightly positive performance in 2011, the sector contracted again in 2012, and continued this trend into the first quarter of 2013. Given that the United Kingdom is Barbados’ main source market, that country’s recently implemented airline passenger duty (APD), as well as the protracted Eurozone crisis were primarily responsible for the fall in stay-over arrivals during the period. This was exacerbated by the hosting of the summer Olympics, as well as the passage of Hurricane Sandy in the United States. Reduced airlift out of the United States, as well as in the Caribbean region also contributed to the fall in stay-over arrivals. In terms of markets, apart from Germany which grew by 7 per cent as at April 2013 year on year, all other tourism sources registered reduced visitor to Barbados during the period. This ranged from 1.2 per cent for Canada, to 7.3 per cent and 10.7 percent for the United Kingdom and the United States respectively. Notably, fall off in arrivals from other Caribbean destinations were also significant, amounting to 31.6 per cent for Trinidad and Tobago, and 15.5 per cent for other CARICOM countries.

With respect to trade in goods, exports were boosted by 4 per cent on account of a 16 per cent increase of rum. Spending on imports however declined due to lower energy prices, as lower imports of construction materials and capital goods. In spite of this, there was a deterioration of the current account deficit from its surplus position in the first quarter of 2012, to a deficit by the first quarter of 2013, as the poor performance of the tourism sector took effect. The capital account also recorded a decline between
the first quarter of 2012 and 2013, once again reflecting the sharp drop in tourism capital flows during the period. The net effect of all of the above was for a small decline in international reserves, from USD732.2 million at the end of 2012, representing 19.5 weeks of import cover, to USD714.9 million in March 2013 providing 19.0 weeks of import cover.

b) Economic growth

Given the importance of the tourism sector, it is not surprising that the economy remained flat in 2012. But sluggish performance in manufacturing, construction and agriculture also contributed to this poor result. Manufacturing for instance fell by 4 per cent during the review period as domestic demand for tobacco, chemicals and beverages weakened. In the case of agriculture, sugar production fell significantly by 25 per cent as poor quality yields reduced cane to sugar conversion. Non-sugar agriculture however fell only marginally, although there was a slight increase in fish production between 2012 and the first quarter of 2013. Barbados also continued to suffer declines in its international business and financial services sector with a 6 per cent decline in new registrations between February 2012 and 2013. Construction output, which is closely linked to capital investment if the tourism sector also fell by 7.8 per cent in 2012, and was reflected in a 5 per cent decline in building materials imports relative to the previous year. Further, the government completed a number of major building projects in 2012, and the adoption of a limited capital investment programme under its fiscal consolidation programme further reduced capital spending by 7.5 per cent which also reduced construction activity. In terms of overall demand, weak investor confidence reflected in low credit uptake continued from 2012 into 2013.

c) Inflation, wages and employment

Sluggish economic conditions resulted in a marginal increase in unemployment, as the construction sector continued to cut jobs. This was despite of the strong efforts of government and the private sector to prevent jobs loss in the context of a wage freeze negotiated at the onset of the global economic crisis. Recent evidence suggests that these social partners are finding it increasingly difficult to curtail job loss, as the sluggishness in the Barbados economy endures.

Inflation also moderated significantly between 2011 and 2012 with the fall in the price of fuel, food, housing and transportation. The annual inflation rate stood at 4.5 per cent at the end of 2012, falling from 9.4 per cent at the same time in 2011. There was a further dampening of the inflation rate during the first quarter of 2013, as the lagged effects of international food and fuel prices continued to be felt in the early part of 2013.

Overall, trends for the Barbados economy indicate continued economic stagnation through 2012 and into the first quarter of 2013. The recent national elections during the first quarter of 2013 are also likely to have contributed to the economic slow-down, as the country adopted a wait and see mindset in light of a closely contested poll. The country now faces the difficult task of implementing necessary strategies to re-initiate growth. This will however depend significantly on strong growth performance of Barbados’ principal trading partners.

C. Belize

1. General trends

The recovery in Belize’s economy continued in 2012 with strong growth of 5.3 per cent, well above the 1.9 per cent registered in 2011 and also above the average for Latin America and the Caribbean. In addition, this was the third consecutive year of positive growth. Growth was driven by a rebound in demand for agricultural products, tourism and construction services. Belize unlike most of its Caribbean counterparts is in the development phase of its tourism life cycle and this combined with aggressive marketing led to strong growth in air arrivals and also higher average visitor expenditure. Growth is projected to slow to 2.7 per cent in 2013, due to a weakening in key drivers of growth in 2012. Agricultural output will return to trend levels with the return to the normal crop cycle and lower petroleum production will also contribute to lower growth.
Despite the pick-up in domestic demand, inflation moderated to 0.6 per cent in 2012 from 2.6 per cent in 2011 led by lower costs of household goods and maintenance and fuel and power. Unemployment was expected to be lower with broad-based growth in a number of sectors. Government finances deteriorated marginally in 2012, with overall deficit rising to 1.0 per cent of GDP from 0.8 per cent of GDP in 2011, and the primary surplus falling by 0.7 percentage points to 2.0 per cent of GDP. Public sector debt increased in nominal terms but fell by 5.1 percentage points to 76.8 per cent of GDP due to sharp growth in GDP. Economic management continues to be complicated by a challenging fiscal situation, which led to the government making only a partial payment on the super bond debt in August. In the event, the government approached its creditors to restructure the debt to achieve more sustainable debt servicing costs, facilitate debt sustainability and provide savings to maintain public investment, especially in growth-propelling infrastructure. The government was able to achieve a successful restructuring of the debt in March 2013. Key features include a 10 per cent principal haircut or US$54.8 million, an increase in maturity by 9 years to 2038.

A pickup in activity fuelled strong growth in imports that led to a widening of the current account deficit to 3.6 per cent of GDP in 2012, relative to 2.2 per cent of GDP in 2011. Growth is expected to slow to 2.7 per cent as the return to normal agricultural output and lower petroleum production offset higher value added in tourism. Inflation is expected to pickup to around 2.5 per cent linked to growth in activity. The fiscal deficit is projected to moderate to around 0.5 per cent of GDP, reflecting in part the debt restructuring deal. The current account deficit is expected to narrow to 0.5 per cent of GDP benefiting from higher tourism inflows, reduced debt interest payments and increase official transfers. The financial account will be boosted by concessional loan disbursements under PetroCaribe.

The economy declined by 0.5 per cent in the first quarter of 2013, compared with growth of 6.3 per cent in first quarter of 2012. Manufacturing contracted by 19 per cent, mainly reflecting the continued decline in petroleum production, owing to falling reserves in the two main oil fields. Agriculture declined by 5.2 per cent partly due to the return to normal crops cycle for main crops. These declines were only partly offset by robust growth (17.9 per cent) in construction activity. The fiscal deficit was expected to record a modest increase as government attempted to nurture growth in activity. The trade deficit expanded by some 46 per cent in the first quarter of 2013, relative to the similar period of 2012. Following this pattern, the current account deficit was expected to widen in 2013, as expected higher tourism inflows are offset by the merchandise deficit.

2. Economic policy

a) Fiscal policy

High and unsustainable debt leaves very little fiscal headroom for the government. The government has committed to reform to improve the fiscal position and bring the debt down to manageable levels that does not harm long-term growth. Nevertheless, fiscal consolidation is expected to take place over the medium-term as the authorities try to avoid austerity measures in an effort to nurture the recovery in the economy. Therefore the fiscal stance was more or less neutral in 2012, with the overall deficit increasing marginally to 1.0 per cent of GDP from 0.8 per cent of GDP in 2011. Primary savings declined by 0.7 percentage points to 2.0 per cent of GDP due to faster growth in expenditure than revenues. Although growth in current spending were contained with a modest increase in wages and salaries and a marginal rise in outlays on goods and services, total outlays was propelled by a surge in capital spending (32.3 per cent). Interest payments fell by 9.8 per cent due to government’s partial withholding of interest payments on the super bond debt to push for its restructuring. Capital expenditure rebounded after the contraction in 2011, driven by outlays on road infrastructure, including the upgrading of roads in Belize City, education and health facilities. There was also higher spending on social and development projects in Belize City to rehabilitate youths who are prone to a life of crime.

Meanwhile, revenues rose by 6.3 per cent to 27.5 per cent of GDP, despite a 17.1 per cent reduction in proceeds from the petroleum industry, owing to the sharp decline in oil production. Revenues were bolstered by higher receipts from the general sales tax (GST), which replaced the fixed import duty on fuel imports. Receipts from import duties also increased due to the growth in imports.
Similarly, non-tax revenues were boosted by the one-off loan repayments by Belize Sugar Industries Ltd (BSI), Belize Telemedia Limited and the Development Finance Corporation (DFC). These more than offset the $11.2 million in dividends that BTL was ordered to hold in escrow by the court following its nationalization. Grant receipts were buoyed by higher inflows under the EU supported upgrade programmes for banana and sugar.

Public sector debt contracted by 5.1 percentage points to 76.8 per cent of GDP, reflecting as amortizations on the external debt outweighed disbursements. Debt service payments fell by 3.0 per cent to BZ$1.58 million, owing to lower LIBOR rates and a partial interest payment on the super bond.

A fall in expenditure that outpaced the decline in revenues led to a BZ$29.0 million reduction in the overall fiscal deficit in the first two months of calendar year 2013 relative to 2012. The decline in spending reflected both lower current and capital outlays. Reduced spending was mainly attributed to the deferral of interest payment on the super bond, while government negotiated with its restructuring with creditors. Revenues were squeezed by lower receipts from import duties, petroleum taxes, non-tax receipts and grants.

The budget for Fiscal Year 2013/14 has projected an increase in the overall deficit to 1.9 per cent of GDP and a primary surplus of 1.1 per cent of GDP. Revenues are expected to rise marginally, owing to improved collections, as the government has not imposed any new taxes. Total expenditure is projected to increase by 8.2 per cent, driven by higher current spending as capital expenditure will remain relatively stable.

The government was able to secure a restructuring of the super bond debt, although not on as favourable terms as it had hoped for. Nevertheless, the restructuring provides useful fiscal headroom for the government, which supported by prudent management can chart a course for debt sustainability. The restructuring entails a 10.0 per cent haircut on principal, and extension of the maturity of the debt by 9 years, capitalisation of unpaid interest payments and a step up coupon rate at 5.0 per cent for the first four years then 6.7 per cent for the remaining years to maturity.

The government has started discussions on tax reform to make the tax system more efficient and equitable. This would entail a review of all the major taxes, including the general sales tax, especially to widen its base and contain refund claims and income tax to improve its progressivity.

b) Monetary and exchange rate policy
Monetary policy was neutral in 2012 as in the wake of a strong recovery, the Central Bank did not adjust its policy rate or change its security requirement for commercial banks.

Reversing two years of decline, domestic credit grew by 3.0 per cent, driven by a stronger economy. Credit to the private sector increased by 2.2 per cent, despite commercial banks write-of over BZ$37 million in non-performing loans. Private sector credit was stimulated by 103 basis points decline in commercial banks average lending rate to 12.0 per cent in 2012. Nevertheless, the bulk of the credit went to the personal sector, residential mortgages and infrastructure with hardly any going to productive activity-tourism, agriculture and manufacturing, due partly to a past history of poor debt servicing in these sectors. Meanwhile, high banking sector liquidity afforded commercial banks the opportunity to make better liability-asset matches, by reducing their holdings of more costly time deposits, and cutting interest rates on them. This led to a 110 basis points fall in the weighted average deposit rate to 2.6 per cent, the lowest in 35 years. High non-performing loans and increased loan loss provisioning resulted in banking sector losses for two consecutive years.

Broad money expanded by 11 per cent, bolstered by a substantial increase in net foreign assets, reflecting higher receipts from sugar and tourism, FDI inflows and loan disbursements.

c) Other policies
Partly in recognition of the fiscal constraint, the government is exploring public private partnerships in the development of some sectors and activities, including education and training and the stimulation of entrepreneurship.
3. Trends in the principal variables

a) The external sector
Reversing three years of contraction, the balance of payments current account deficit widened to 3.6 per cent of GDP in 2012, from 2.2 per cent of GDP in 2011. The outcome resulted from a 22.8 per cent expansion in the merchandise deficit fuelled by sharp growth in imports that offset more modest rise in exports. Import payments increased (8.1 per cent) boosted by growth in activity and higher prices for some categories, including fuel. Growth in exports was contained (3.9 per cent) as higher receipts from the commercial free zone (CFZ) were offset by lower proceeds from domestic exports, as increased receipts for sugar, citrus and bananas were offset by a fall in revenues from petroleum and papaya exports.

The deficit on the income account widened, owing to high outflows of labour income due to the employment of more foreign seasonal workers to reap the larger citrus and banana harvests and lower fair trade sugar receipts. Meanwhile, the services account services expanded by 33.3 per cent to US$225.8 million, buttressed by dynamic tourism receipts, stemming from higher tourist arrivals and average spending. The surplus on the capital and financial account rebounded, underpinned by dynamic growth in foreign direct investment that more than doubled to US$193.4 million. International reserves expanded by 22 per cent to US$288.9 million, covering 4.6 months of merchandise imports.

b) Economic activity
Economic growth accelerated to 5.3 per cent in 2012, from 1.9 per cent in 2011. Growth was propelled by the agriculture, tourism, construction and telecommunications subsectors, which offset the sharp decline in petroleum output. The recorded one of the highest growth rates in the Caribbean region. Agriculture rebounded with strong growth of 23.9 per cent, driven by a 26.8 per cent increase in sugar production due to favourable weather conditions and improved productivity and efficiency. As a result sugar production surpassed the 100,000 long ton benchmark for the first time since the 2005/06 crop. Citrus and banana output also rebounded after suffering storm damage in the previous year, but also benefited from improved farm management. Marine products posted dynamic growth of 13.5 per cent as the partial sale of the Belize Aquaculture Limited (BAL) to a foreign investor led to an over 15 per cent hike in farmed shrimp production. This was supported by increases in production of whole fish and conch.

The tourism sector posted a welcome recovery, marked by increased stay-over arrivals and higher average visitor spending. Overnight visitors increased by 10.3 per cent to 257,291 bolstered by aggressive marketing and the upgrading of standards for tourism facilities by the Belize Tourism Board. However, cruise passenger arrivals declined by 11.9 per cent, owing to inadequate docking and tendering facilities. Partly reflecting government’s policy of upgrading growth-inducing public infrastructure and lower loan interest rates, construction activity picked up, centred on roads and bridges, residential housing and condominiums. Meanwhile, manufacturing contracted by 5.0 per cent, as lower petroleum production, offset the rise in agro-based manufacturing. Petroleum production plunged by 26.8 per cent to 1,029,938 barrels, stemming from declines at both oil fields. Sugar production expanded by 16.3 per cent to 114,536 long tons, as the spike in sugar cane output offset the modest decline in productivity. Citrus juice production increased by 28.3 per cent, reflecting the surge in fruit deliveries.

The sugar industry seems set on a course to better realise its potential after BSI was taken over by American Sugar Refining (ASR). ASR has upgraded the plant operations and processing leading to increased productivity in the industry along with management and organisational expertise. ASR is targeting 180,000 long tons of sugar as its benchmark, substantially more than what has been produced in the past.

c) Prices, wages and employment
Reflecting the softening of some international prices, inflation moderated to 0.6 per cent from 2.6 per cent in 2011. The costs of household goods and maintenance declined by 1.1 per cent, while fuel costs eased by 0.2 per cent, partly reflecting the sourcing of fuel products under the more cost effective PetroCaribe deal. Food prices increased by 1.0 per cent, reflecting higher US feed prices due to the drought in the US that resulted in higher costs of poultry. Wage levels remained stable as both the public and private sectors sought to contain costs, but the public sector wage bill increased due to the payment of regular
increments to public servants. Unemployment increased from 13.1 per cent in 2009, when the last labour force survey was undertaken to 14.4 per cent in 2012. Nevertheless, it is expected that unemployment would have declined relative to 2011, as broad based growth in agriculture, tourism and construction would have led to increased employment levels.

D. Eastern Caribbean Currency Union

1. General trends

Most of the economies of the Eastern Caribbean Currency Union (ECCU) contracted in 2012, when compared to their economic performance of 2011, with GDP growth falling by 0.2 per cent on average across all eight countries. This is on account of a decline in tourism earnings, construction and transportation over the period. Some economies however, performed marginally better than others, reflecting the renewed buoyancy of the United States economy, the region’s main tourism source market, as well as some growth in agriculture, as this sector began to show signs of recovery from the impact of Hurricane Tomas, in 2011, as well as the ravages of the Black Sigatoka disease. For instance, St. Vincent and the Grenadines and Antigua and Barbuda both recorded real growth of 1.5 per cent and 2.3 per cent respectively between 2011 and 2012. All other countries however recorded declines, with St. Lucia (-3.04 per cent) and Dominica (-1.5 per cent), showing the largest contractions.

Despite this reduced growth, continued fiscal consolidation strategies in most ECCU countries resulted in a tightening of the fiscal deficit as the consolidated primary balance fell to 2.0 per cent of GDP in 2012, after rising to 2.9 per cent in 2011. Saint Vincent and the Grenadines and Antigua and Barbuda both moved from deficit to surplus on the primary balance, while deficits increased for St. Kitts and Nevis, Saint Lucia, and Grenada.

Fiscal constraint was exercised within the context of IMF recommended measures in order to improve fiscal and debt sustainability over the short to medium term. Hence, many countries such as Saint Lucia, Dominica, and Saint Kitts and Nevis sought to contain capital spending. On the revenue side, efforts were also made to widen the tax base and increase revenue through the introduction of value added tax (VAT), as in the case of Saint Lucia. But overall sluggishness in most economies resulted in a 3.4 per cent fall current revenue, with non-tax revenues showing the most significant decline (15.6 per cent), while tax collections on international trade and transactions fell by 4.8 per cent.

The latter case reflects a decline in merchandise trade in which imports fell due to a reduction in real sector activity in the construction, hotel and restaurant sectors. And with exports increasing just marginally on the strength of increase earnings from bananas, the merchandise trade deficit contracted slightly in 2012.

Sluggish economic growth also served to moderate inflation within the ECCU, with consumer prices increasing by 2.6 per cent for 2012, compared to the same period in 2011. Increases in food prices (2.1 per cent), clothing and footwear (3.8 per cent), alcoholic drinks (2.1 per cent), and education (4.8 per cent) were the principal drivers of inflation, with St. Lucia (5.0 per cent) reporting the largest increase among all countries.

For 2013, growth in the sub-region is projected to remain weak at 1.5 per cent, although the economic recovery is expected to strengthen as conditions in the US economy improve. However continued fiscal strategies will limit government spending and inflation is likely to remain low as the current level of economic activity persists. While two countries (St. Lucia and Grenada) are settling down again after recent elections, Antigua and Barbuda is anticipated to hold elections in 2014. Given the region’s strong legacy of parliamentary democracy however, political stability is likely to be maintained as the basis for renewed growth over the short to medium term.

2. Economic policies

Since the onset of the global economic crisis, the ECCU countries have adopted the Eight Point Stabilization and Growth Plan as the basis for restructuring their economies and simulating sustained
growth over the short to medium term. As noted by the ECCB, this plan aims to reduce fiscal deficits and public debt, over time by setting annual targets which for the eight countries in 2012 ranged from between -6.2 per cent and 5.2 per cent for the Primary Balance to GDP Ratio; and between 4.5 per cent and 97.9 per cent for the debt to GDP ratio.

Towards this end, ECCU governments imposed cuts in capital expenditure in 2012, with mixed results for the countries. For instance, smaller deficits were recorded for Dominica, Antigua and Barbuda, and Saint Vincent and the Grenadines, while overall higher deficits were realized for Saint Lucia and Grenada. Saint Kitts and Nevis also moved from deficit to a surplus position between 2011 and 2012. Overall, current expenditure fell by 0.7 per cent for the first nine months of 2012 compared to a 4.4 per cent increase for the same period in 2011. Figures from the ECCB indicate that this was driven primarily by reduced spending on goods and services (9.1 per cent), personnel emoluments (1.0 per cent), transfers and subsidies (1.7 per cent) and interest payments (2.3 per cent).

This notwithstanding, the overall result was an increase in the current account deficit for the ECCU as a whole, from 0.08 per cent to 0.46 per cent of GDP, as current revenue fell more sharply than current expenditure between 2011 and 2012. This reflects the continued sluggishness of the sub-region’s economies as tourism and manufacturing earnings in particular fell during the period. Hence current revenues fell by 3.4 per cent on account of a 15.6 per cent reduction in non-tax revenues in all countries except Saint Lucia. Further reductions were also noted for taxes on international trade and transactions (4.8 per cent), income and profits (1.2 per cent) and domestic goods and services (0.1 per cent). On the positive side however, increased property taxes especially in Antigua and Barbuda, and Saint Kitts and Nevis boosted overall tax revenues.

The worsening fiscal balance also translated into a 1.5 per cent increase in the total disbursed outstanding debt for the ECCU between 2011 and 2012. Considering specific countries, the largest increase in public debt was for Saint Lucia (9.3 per cent), but Saint Vincent and the Grenadines, and Grenada also recorded increases.

Considering monetary policy, the main objective of the ECCB continues to be currency management within the union with a view towards maintaining the stability of the exchange rate. Since the onset of the global economic crisis, monetary policy has also been oriented to further developing and strengthening the sub-regional finance and capital markets into a single financial space. Under the oversight of the ECCB, monetary liabilities (M2) increased by 2.3 per cent between 2011 and 2012, with savings deposits and foreign currency deposits increasing by 6.1 per cent and 0.2 per cent respectively. Currency in circulation also increased marginally by 0.2 per cent in response to a rise in demand deposits.

The uptake of domestic credit in the ECCU economies also continued to be low, with only a 0.9 per cent increase in 2012, compared to a 0.4 per cent increase the previous year. The increase of credit uptake was almost evenly split between government and the private sector, with government increasing its share of credit by 1.5 per cent, while the share of the private sector increased by 1.6 per cent. And while government deposits declined slightly (0.1 per cent), there was a significant increase (9.3 per cent) in net deposits of non-financial public enterprises. Additionally, within the private sector, there was a 20.2 per cent increase in outstanding credit to non-bank financial institutions on the strength increased loans.

These trends however show the general sluggishness of the ECCU economies during the period with most commercial bank credit being disbursed to activities such as mining and quarrying (1.9 per cent), tourism (3.8 per cent) and construction (0.8 per cent). Still, lending for personal uses dominated the share of credit and amounted to 44.5 per cent of outstanding credit during the first nine months of 2012.

Low credit uptake alongside a slightly better increase in deposits led to an increase in commercial bank liquidity, with the liquidity ratio increasing to 32 per cent, a 2 percentage point increase over the figure for 2011. The ratio of loans to deposits also fell to 85.1 during the period as deposits increased relative to the draw down of loans.

Interest rates across the union remained largely stable between 2011 and 2012, with the average weighted lending rate being 8.49 per cent and the average weighted deposit rate being 3.09 towards the
end of 2012. High liquidity also motivated a narrowing of the interest rate spread which decreased by 1.1 percentage points to 5.40 percentage points between 2011 and 2012.

The reserve position of the ECCU however increased, as net foreign assets of commercial banks increased by 11.4 per cent, while that of the Central Bank increased by 4.8 per cent. This improved reserve position strengthens the Central Bank’s capacity to continue to support the fixed exchange regime of the union with the exchange rate remaining at USD1 = EC$2.68 as at the end of the first quarter of 2013.

In broad terms, the policy regime of the ECCU over the past year has been to continue its fiscal consolidation strategy, while seeking to reduce debt and to stimulate growth. Although the contraction experienced over the last year, has further constrained fiscal capacity to implement countercyclical measures, recent signs of buoyancy in the US economy - the subregion’s main trading partner - portend positive expectations for a weak recovery to gather momentum in 2013. Further, some economies such as Antigua and Barbuda – which has successfully completed its standby arrangement with the IMF - and St. Kitts and Nevis which is currently implementing one, provide evidence of the prospects for the ECCU in successfully achieving the anticipated economic restructuring over the short to medium term. The last year also saw evidence of a rebound of agriculture, which can also serve to strengthen the sub-region’s trade balance. At the same time, several downside risks remain, with the main ones being the ability of the sub-region to continue to secure airlift for its vital tourism sector, the capacity to meet the high cost of energy, and to guarantee its energy security, and the ever present threat of natural hazards such as hurricanes, which hold the potential to impose high economic and environmental damage costs.

3. Trends in the principal variables

Although ECCU countries have mostly transitioned from agricultural to serviced-based economies, agriculture remains an important sector for some countries. Hence export earnings from tourism and agriculture largely determine trade performance for the sub-region. In the case of tourism, total stay-over visitor arrivals increased marginally (0.11 per cent) for the sub-region as a whole between 2011 and 2012. Most new arrivals came mainly from Canada which posted strong growth of 5.7 per cent, and the United States (1.8 per cent). However arrivals from the Caribbean region continued to decline, with a fall of 6.0 per cent in 2012, compared to a smaller decline (1.2 per cent) in 2011. This very marginal increase in arrivals reflects the impact of reduced airlift, and increased airfares into the sub-region in 2012, due to the rationalization of travel routes by some air carriers from the United States. The implementation of the United Kingdom’s Air Passenger Duty has also affected arrivals from the UK, which for some countries remains the main source market for stay-over visitors. These impacts which together have intensified in 2013, resulted in a 0.3 per cent decline in tourism value added up to October, 2012 relative to the same period in 2011, as increased airfares reduced tourism spend.

Among the countries, the most significant drop in stay-over visitors was recorded for, Saint Lucia (2.1 per cent), while slight increases were observed for Dominica (3.2 per cent), Antigua and Barbuda (1.7 per cent), Saint Kitts and Nevis (1.8 per cent), and Saint Vincent and the Grenadines (1.6 per cent). A notable emerging trend is the decline in cruise ship passengers across ECCU countries, as the numbers of ships calling decreased consistently between 2011 and 2012. In this regard, Grenada registered the largest decline in cruise visitors of 24.4 per cent, followed by Dominica (18.6 per cent). Antigua and Barbuda is the only country to have seen a marginal increase in cruise visitors during the period. This pattern reflects the continued weaknesses in the United States economy, the sub-regions predominant source market for cruisers.

With respect to agriculture, there is evidence of some overall recovery in the sector after the devastation by Hurricane Tomas, and the more recent infestation of Black Sigatoka disease. The exceptions are Dominica where overall Banana output fell by 29 per cent in 2012, and Saint Kitts and Nevis which was affected by drought conditions early in the planting season. But Saint Lucia and Grenada showed spectacular rebound in agricultural output, with banana production more than doubling in output between 2011 and 2012. Further, cocoa and fruits and vegetable production increased by 33 per cent and 20 per cent respectively in Grenada, while fisheries increased in St. Lucia. Crop production also increased by 2 per cent in Saint Vincent and the Grenadines. Significantly however, nutmeg
production fell dramatically (48.9 per cent) in Grenada, possibly reflecting the natural production cycle of this crop.

Unlike tourism and agriculture however, both construction and manufacturing remained depressed over the review period. Construction suffered the impacts of limited capital spending under most government’s fiscal consolidation programmes, and consequently contracted further in 2012. Only in the case of Antigua and Barbuda, and St Vincent and the Grenadines, where major works are underway for airport construction, was there a slight increase in value added in the sector. With respect to private construction, limited fiscal stimulus initiatives in Antigua and Barbuda (the Construct Antigua and Barbuda Initiative) and Saint Lucia (Private Construction Stimulus) were not sufficient to enhance value added in the sector. More generally however, a fall in direct foreign investment to the hotel and tourism sector, along with sluggish economic activity and consequent low credit uptake, has further reduced private construction in the ECCU sub-region.

Considering manufacturing, most countries also reported only marginal increases with Saint Lucia, Saint Kitts and Nevis, and Saint Vincent and the Grenadines showing the most promise between 2011 and 2012. In Saint Lucia, slight output growth was observed for corrugated paper and paper products, food and beverages, and electrical items, while exports of electrical machinery, and telecommunications electronics increased for Saint Kitts and Nevis.

Based on the foregoing, the overall growth prospects remain weak for the ECCU in 2013, after yet another year of economic contraction (0.15 per cent) in 2012. Still, some countries such as Antigua and Barbuda and Saint Vincent and the Grenadines provide evidence that at a slight recovery could begin to gather momentum from 2013. Growth for the region as a whole is projected to be 1.52 per cent in 2013, with most countries having a projected growth rate of between 1 per cent – 2 per cent.

This notwithstanding, major growth challenges will continue to endure, with the most significant of these being the subregion’s substantial debt burden which will continue to warrant strong fiscal consolidation measures. In this regard, the winding up of several public sector capital programmes in some countries (St Lucia, Dominica, and Saint Kitts and Nevis) will dampen growth prospects going forward. Further challenges to secure foreign direct investment amidst the continued economic turmoil in Europe will also mitigate growth strategies. But the revitalization of the agriculture sector in some countries (Saint Vincent and the Grenadines, Grenada, and Saint Lucia), along with some progress in reducing public debt and restructuring the fiscal regime (Antigua and Barbuda and Saint Kitts and Nevis) is likely to moderate the impact of these constraints.

In terms of unemployment, while official statistics and mostly unavailable, this is expected to remain high during the short term, with the fiscal consolidation strategies of most governments effectively imposing a wage-freeze in these economies. Tepid growth will also limit investment and related uptake of credit. However given that the economic performance in 2012 suggests an improvement over the previous year, continued economic improvement for the subregion as a whole is a reasonable projection going forward. This is likely to be enhanced by the sub-region’s generally stable political climate, which has fostered smooth administrative changes in two countries over the past year. Additionally, as small open economies, the evidence of continued improvements in the US economy, the sub-region’s principal trading partner bodes well for continued growth in the short to medium term.

**E. Guyana**

1. **General trends**

Guyanese economy grew robustly in 2012, at 4.8 per cent, thanks to an high prices of exportable commodities and public and private investments especially in infrastructure and mining sectors. Government expenditures, which hit record levels in 2012 and 2013, have sought to further boost the economy by making investments in physical infrastructure, ICT and power supply system, and by helping the key mining and agricultural industries to implement recapitalization and upgrade of their facilities. Several infrastructure projects are expected to be supported by foreign governments under
agreements and memorandum of understandings (MOU) signed in the reporting period between such countries as China and Brazil. The government’s budget has also been targeting the poor and vulnerable groups including elderly, homeless and indigenous communities. On the other hand, the consecutive years of fiscal deficit, as well as new borrowings from external multilateral and bilateral donors, raised the debt-GDP ratio to 65 per cent.

In the political scene, the government has had difficulties in implementing its agenda as the opposition gained a majority in the parliament after 2011. The government’s key policies that have been affected in this situation include Low Carbon Development Strategy (LCDS) which faced a serious budget cut in 2013. The monetary policy of the central bank has accommodated growth with marginal increase in money supply and stable interest rates, which contributed to a modest rate of inflation, 3.5 per cent at the year end, and minimal depreciation of the domestic currency. The current account deficit slightly increased in 2012 due to the expansion in import of both goods and services. However, robust growth of goods export, on the back of high commodity prices, mostly offset the imports and made the increase in current account deficit only marginal. Despite the current account deficit, overall balance of payment recorded surplus as foreign direct investment inflows was robust and cancelled the deficit in trade balance.

The economy is expected to continue growing in 2013. The mining sector remains the principal driver of growth with high price of commodities. The expected better performance of sugar industry which experienced negative growth last year will also contribute to the economy. Furthermore, public and private investments are expected to increase as large infrastructure projects are ongoing. The growth rate in 2013 is therefore likely to be higher than that in 2012 at around 5.3 per cent.

2. Economic policies

a) Fiscal policy

The overall fiscal balance of the government recorded a large deficit of 4.7 per cent of GDP in 2012, due to the expansionary fiscal policy to boost the economy. A record level of expenditure was accounted for by investments in large infrastructure projects and increasing wages in the public sector. In the budget for 2013, the government plans to carry on operating an expansionary policy based on the same principle. The budget made a point of the improvement of infrastructure to accelerate the growth, such as more effective power supply (for example, a large support will be provided to Guyana Power and Light Inc.), utilization of ICT, and physical infrastructure including roads, bridges and air/sea ports. The government also aims to modernise the traditional sectors such as agriculture and mining. Especially for the sugar sector, whose output declined in 2012 due to weather conditions and some mechanical problems, the government will continue to provide a considerable support to the largest sugar producer, GUYSUCCO.

On the revenue side, the government’s intention of boosting the economy has been reflected in its tax reforms. After corporate income tax was lowered in 2011 (although it is still high compared to the regional standard), personal income tax was also reformed in 2012 with a higher threshold and a lower tax rate, which resulted in the decrease of personal income tax collection in 2012. However, the total tax revenue increased in 2012 thanks to the expansion in economic activity and increase of the import duties. In 2013, the revenue is expected to increase owing to the higher tax collection from expanding economic activity and reinforcement of compliance check especially for self-employed. However, it will not be enough to offset the expanding expenditure, and the overall balance will end up in higher deficit compared to 2012. The stock of public debt increased to 65 per cent of GDP at the end of 2012 as a result of more increase in external debt than the decrease in internal debt. Internal debt stock declined due to the lower issuance of treasury bills. This was because the central bank helped the government to sterilize excess liquidity by selling foreign currency in the foreign exchange market. With respect to external debt, while considerable amount of disbursement was made in such sectors as infrastructure and environment, the government sought to maintain debt sustainability by debt relief negotiations with donors. The government negotiated a debt compensation agreement with Venezuela in 2012, under which the US$100.8 million of Petrocaribe debt was reduced in exchange for the provision of Guyanese rice and paddy shipped from 2009 to 2011. The second debt compensation agreement with Venezuela is expected to be made in 2013 which will partially offset the increase of external debt. However, the total
public debt stock will increase, in light of expected disbursement in infrastructure projects including Amaila Falls Hydroelectric Power plant project.

b) Monetary policy
Instruments available to the Bank of Guyana include reserve requirements and open market operations. Recently, the bank has adopted the latter one for implementing its short/medium term policy, while the reserve requirement rate has not changed at 12 per cent after 2002.

The intention of the central bank’s monetary policy during 2012 and the first quarter of 2013 was not to be expansionary or contractionary, but to ensure adequate level of liquidity to be in line with the current robust economic growth. Both narrow money (M1) and broad money (M2) grew gradually in 2012, reflecting an increase in demand deposits and quasi money, but each growth was slightly less than that in 2011. The interest rates of commercial banks declined in early 2012 and remained at the level throughout the year, which contributed to the considerable growth in private sector credit by 20 per cent during the year. Rice milling industry was a main driver of this growth in credit as it recorded 106 per cent increase, followed by mining and quarrying sector and other manufacturing sector. Considering the favourable economic outlook for 2013, the stance of the monetary policy will not change dramatically throughout the year and lending to the private sector is expected to expand.

c) Exchange policy
Activity in the foreign exchange market increased by 12 per cent in 2012 owing to higher trade, remittances and investment flows. The central bank has made a point of stable nominal exchange rate and intervened in foreign exchange market by selling foreign currency which contributed to the minimal currency depreciation by 0.37 per cent on year-on-year basis (December). As Guyanese dollar slightly depreciated in the first quarter of 2013, its gradual nominal depreciation is expected to continue due to the structural weaknesses in Guyana’s external accounts and the stance of central bank’s exchange policy.

d) Other policies
In 2012 and 2013, the government signed several agreements or MOUs with foreign governments to collaborate on economic development. Among them is the series of economic and technical cooperation agreements with China, under which Guyana would receive total US$9.6 million. Both governments also signed an agreement on concessional loan of US$130 million for upgrade of Cheddi Jagan International Airport. The government also signed an MOU with Brazil to collaborate on infrastructure projects which would contribute to the strong physical integration of two countries. The government has sought to take an initiative in combating climate change and continued to push its Low Carbon Development Strategy (LCDS), under which the country can receive performance-based payments up to US$250 million from the government of Norway. It was reported that Guyana, at the end of 2012, fulfilled all the requirements for a third tranche of US$45 million. In May 2013, however, the negotiations between the government and the opposition, who enjoys a majority in the parliament, ended up in the budget cut for LCDS to 5 per cent of original allocation. This has raised a concern about the smooth implementation of LCDS-related projects including Amaila Falls Hydroelectric Power plant project.

3. Trends in the principal variables

a) External sector
Current account deficit expanded reflecting the increase in service account, especially in non-factor services such as freight or insurance. However, the expansion was marginal thanks to the robust goods exports as well as slight increases in credit of income and transfers. Gold export was the main driver of this expansion of exports, thanks to the favourable international price. On the other hand, bauxite export increased due to higher volumes exported in spite of lower export price. Exports of agricultural products such as rice also contributed to the expansion of goods exports. Although the volume of exported sugar declined, the total value of sugar export marginally increased thanks to the favourable prices. On the other hand, capital account recorded significant increase in its surplus. The main driver of this increase was foreign direct investment inflows, mainly in mining and telecommunication sectors, which was 19 per cent more than that in 2011. As a result of this strong performance in capital account which cancelled the current account deficit, the overall balance of payment turned into surplus in 2012. Consequently, international reserves in the central bank increased by 8 per cent on year-on-year basis at
the end of 2012, and the gross foreign reserves at the bank became equivalent to 4 months of imports. In 2013, current account deficit is expected to increase since several large infrastructure will drive goods imports. Preliminary trends suggest that, however, FDI inflows continue to be robust, which will be able to offset the current account deficit and keep the overall balance of payment surplus.

b) Economic growth
The economy grew 4.8 per cent in 2012, the seventh consecutive year of positive growth, owing to the increase in production of commodities on the back of high prices and private and public investments. In mid-2012, the government revised down growth forecast from 4.1 per cent to 3.8 per cent after the growth of the first half of the year turned out to be less than expected, mainly due to the sugar sector which underperformed because of unfavourable weather condition. However, the economy showed a strong performance in the second half which resulted in the better outcome than originally projected. The main driver was a mining sector which recorded a growth of 14.8 per cent over 2011. The gold mining sector contributed most thanks to its favourable world price. The high price of gold attracted not only foreign investors but also local small and medium scale miners who contributed to more efficient production. Bauxite production also increased and contributed to the growth thanks to higher international demand, despite the halt in operation caused by civil unrest against electricity rate hikes. In the agricultural sector, rice industry continued to increase production. In addition to the favourable market price, the continuing growth of production was attributed to the improvement of infrastructure, such as drainage and irrigation system, led by the government and donors such as IDB. On the other hand, sugar output contracted by 7.8 per cent in 2012, due to unfavourable weather condition in the first half, an industrial dispute, and some mechanical problems. The performance of service sector was fairly good, driven by transportation sector with higher demand for imported vehicles and by financial and insurance activities with increased private sector credit mentioned above.

Preliminary information suggests that the economy continues to grow constantly in 2013. Export is expected to expand thanks to the high prices of primary commodities. Sugar industry which constrained the growth in 2012 will gradually improve this year as recapitalisation plan of GUYSUCO and upgrading of processing facility are currently ongoing. Additionally, in March 2013 the EU decided to extend its Sugar Regime to 2019/2020. Since this regime allows importers in EU to access tariff- and quota-free sugar from Least Developed Countries (LCDs), sugar exports to EU is unlikely to face a drastic contraction. ICT is another sector that can drive the economy in 2013. The government has begun to put in serious effort to introduce ICT, and made considerable investment in the sector. Investment will also increase with relation to large physical infrastructure projects. As a consequence, the economy is expected to grow by around 5.3 per cent in 2013.

c) Inflation, wages and employment
Despite of increase in food price and demand-side pressures on the back of robust growth of the economy, inflation remained under control at 3.5 per cent at the year end. Consumer prices were stable thanks to prudent monetary policy of the central bank and excise tax reduction on imported fuel which cushioned the impact of the international fuel price hike. Considering the anticipated upward trends of food and fuel prices, inflation rate in 2013 is expected to increase, but still moderate at around 4.3 per cent.

While official figures for recent changes in the labour market in the private sector are not available, continued above-trend growth has likely contributed to a decline in unemployment. In the public sector, it was reported that employment increased by 3.5 per cent in 2012. The wages for public sector employees and teachers in the public education system was granted 5 per cent increase in January 2012.

F. Jamaica
The Jamaican economy had been severely challenged in 2012 due to the delays in the signing of a new IMF agreement and the consequent uncertainty as growth continued to decline. Economic growth in 2012 was negative at 0.3 per cent, with the goods sector declining by 1.5 per cent and the service sector showing no growth. This was due to weak international demand, especially for major exports and weak domestic demand as well as uncertainty with respect to delays in signing a new IMF agreement.
As a result of the signing of an Extended Fund Facility (EFF) with the IMF in April 2013, it is expected that there will be greater confidence in the economy due to expected foreign exchange inflows from the Fund, the World Bank and the Inter-American development Bank in support of Jamaica’s medium term economic programme. This programme is aimed at fiscal consolidation and medium term growth. In addition, the NIR is expected to improve due to the signing of the IMF agreement and the fact that additional financial resources have been promised from the Inter-America Development Bank and the World Bank. The economy is expected to grow at no more than 0.5 per cent in 2013 and will show more robust growth in the following year.

The first quarter economic performance in 2012 has shown negative growth of 0.7 per cent with the biggest decline of 10 per cent, occurring in agriculture, followed by a decline of 6.8 per cent for mining and quarrying. Inflation in 2012 inched up to 8 per cent from 6 per cent in 2011 due to Hurricane Sandy which affected food prices later in the year and drought conditions in the early part of the year. Imported inflation due to the pass through in higher grain prices and exchange rate depreciation also helped to raise the inflation rate.

The fiscal situation continued to be a challenge as the fiscal deficit was 4.1 per cent of GDP with a primary surplus of 5.3 per cent, both of which represented improvements over last year due to attempts at fiscal consolidation. The debt to GDP, which was 130 per cent, continued to depress the economy as a large proportion of government expenditure (55 per cent) represents debt repayments. The national debt exchange of February 2013 was a success, as more than 97 per cent of investors took the offer. The objective was to reduce interest rates and lengthen maturities of government debt instruments. The current account of the balance narrowed to 12.5 per cent of GDP, aided by lower imports due to depressed demand and as a consequence, lower deficits in the income and goods account. At the same time lower private and official investment inflows caused the NIR of the BOJ to decline by $840 million.

1. Economic policy

a) Fiscal policy

The immediate challenge facing the Jamaican economy is linked to the fiscal situation which remains extremely weak. The fiscal and primary balances as a share of GDP were -4.1 and 5.3 per cent and represented improved performance in Fiscal Year 2012 relative to Fiscal Year 2011. The improvement also reflected attempts at fiscal consolidation in anticipation of the signing of an IMF agreement (EFF) that was submitted to the Fund in April 2013. The programme will run for four years and will be underpinned by a number of obligations aimed at controlling public spending and raising revenue. Between 2011 and 2012 tax revenue increased from 22.9 per cent to 23.6 per cent of GDP while expenditure declined from 31.9 per cent to 29.5 per cent of GDP. The revenue improvement was underpinned by a number of revenue measures including a widening of the general consumption tax (GCT) base which was accompanied by a slight decline in the rate from 17.5 per cent to 16.5 per cent. In addition, a number of tax rates were increased including a tax on dividends payable to residents. On the expenditure side, capital and other spending tended to be below the amounts budgeted. For example, while capital expenditure was 4.2 per cent of GDP in 2011, it fell to 2.8 per cent in 2012. This decline was due to delays in the executing of capital projects.

The huge public debt continued to be the biggest fiscal challenge as debt to GDP stood at 130 per cent of GDP at the end of 2012, of which 56.8 per cent was external debt. The external debt in Jamaican dollars terms increased by 2.4 per cent in 2012 relative to 2011, due to the depreciation of the Jamaican dollar. It is anticipated that debt sustainability should improve under the IMF programme and in February 2013 the national debt exchange was successfully launched. The IMF programme is underpinned by a legislated fiscal responsibility framework (FRF) under which by the end of fiscal year 2015/16, the overall fiscal balance should be zero, the debt to GDP ratio should be under 100 per cent.

---

7 This was an IMF pre requirement.
8 The fiscal year (FY) runs from April to March the following year.
and there should be a wage bill of no more than 9 per cent of GDP. These targets are a bit ambitious in light of low growth and weak demand in major export markets.

The government will also address public debt reduction through debt-asset swaps (based on land, buildings, etc.) by at least 1 percent of GDP over the IMF programme period. A preliminary valuation of these assets will be completed by end-June 2013. The legal and administrative processes involved in the exchange of these assets will be fully elaborated; an action plan for their completion developed by September 2013 and the specific operations will be executed before end-2013/14.

b) Monetary policy
The monetary policy stance was mildly contractionary in 2012, in light of the deteriorating exchange rate, growing economic uncertainty and the need to contain inflation. The money supply increased by 4.6 per cent which was about half the expansion in 2011, while interest rates on the Bank’s 30 day certificate of deposits were maintained at 6.25 per cent throughout the year. The lack of money supply expansion would have been linked to the decline in remittances as well.

The weighted average interest rate in 2012 inched up slightly to 18.4 per cent while the deposit rate fell from 2.44 to 2.10 per cent, which resulted in an increase in the interest rate spread. In the March quarter of 2013, the overall weighted average lending rate of commercial banks declined to 17.97 per cent and there were declines in average lending rates on all categories of private sector loans.

Credit to the private sector however in 2012 grew by 16.2 per cent, and the bulk of this was loans and advances made up of a mixture of business and personal loans. Business lending rose by 15.9 per cent while personal lending increased by 22.1 per cent and the latter may have been driven by loans for motor vehicle purchases and debt consolidation. While the credit expansion seems unusual in a fairly depressed environment, it may well be that some portion of such loans may reflect foreign exchange purchases. It is also important to note that the ratio of nonperforming loans to total loans improved in 2012. In the March quarter of 2013 the stock of credit to the private sector grew by 5.3 per cent relative to the December 2012 quarter. This is significant in light of the uncertainty in the economy. The credit expansion was largely loans and advances which grew by 6.3 per cent, and this growth was stronger than the expansion in the last five March quarters. The majority of loans and advances went to the following sectors: electricity gas and water, construction and land development and entertainment.

In early 2013, in anticipation of the signing of the IMF agreement, the Bank of Jamaica began an expansionary policy to stimulate growth through investment. As a result, the Bank cut its policy rate to 5.75 per cent. This adjustment was in the context of generally weak demand conditions and the continuation of favourable inflation expectations despite the depreciation of the exchange rate. The lowering of the Bank’s policy rate was consistent with the successful implementation of the national debt exchange, which resulted in a decline in interest rates on selected domestic government of Jamaica securities between 1 per cent and 5 per cent points. Additionally in the March quarter, there was a decline in the expansion of broad money (MJ3) by 0.6 per cent in comparison with a 2 per cent increase in the corresponding quarter. This was due to a decline in the net international reserves of US$241.3 million.

Given financial stability concerns, a contingency planning framework is in place, with the Financial Regulatory Council (FRC) taking the lead role in ensuring appropriate coordination and communications. The FRC is an interagency policy level group, chaired by the Bank of Jamaica. Funds from the multilateral institutions will be devoted to re-establishing a Financial Sector Support Fund (FSSF) as a backstopping mechanism, primarily to provide temporary assistance to solvent financial institutions, in the amount of approximately US$760 million. This fund was established by the government and administered by the Bank of Jamaica, as was the case in 2010.

c) Exchange rate policy
The foreign exchange market faced excess demand in 2012 and the Bank of Jamaica was very vigilant in trying to support the currency in light of the increasing uncertainty surrounding the Jamaican economy. This was due to the decline in private inflows and lower official receipts relative to 2011. Loss of confidence and some capital flight saw the Jamaican dollar weaken against the US dollar. The exchange rate depreciated to J$92.7:US$1 at the end of 2012 which was a nominal depreciation of 6.8 per cent. In
the March quarter, the weighted average selling rate of the US dollar depreciated by 6 per cent to J$98.98=US$1. This followed a depreciation of 3.3 per cent in the December quarter and was above the average depreciation rate of 2.1 per cent in the preceding five March quarters. This suggested the impact of growing uncertainty on the financial system. The increased pace of depreciation is linked to a decline in the net private capital flows of US$255.3m during the quarter. The exchange rate is likely to depreciate more slowly now that an IMF agreement is in place.

**d) Other policies**

Jamaica’s macroeconomic policy will be driven by the 48 month IMF Extended Fund Facility (EFF) agreement which will provide some US$750 m in financial support. As part of the pre-condition, a new tax package designed to raise some J$19.9 billion was implemented to narrow the large budget deficit and a national debt exchange in February 2013 was implemented. The debt exchange was geared at reducing the debt to GDP ratio by at least 8.5 per cent by 2020. The agreement, which is underpinned by a medium term macroeconomic policy, will be monitored quarterly from April 25th 2013 to March 20th 2017 and each of these will trigger the release of resources. In light of the fiscal challenges and as part of the legislated Fiscal Responsibility Framework (FRF), the government is committed to achieve several targets by Fiscal Year 2015/16. Among these are an overall fiscal balance that is practically zero, a debt to GDP ratio of no more than 100 per cent, and a wage to GDP ratio of no more than 9 per cent. The target for the primary surplus will be 7.5 per cent in Fiscal Year 2013/14 and to this end, a series of revenue measures are contemplated that will raise revenue of J$23.7b. Several of the measures will include increases in tax rates.

Central to the medium term strategy is the containment of expenditure, through a number of strategies. Among these will be the containment of wages, which are a large percentage of recurrent expenditure. The government has signed a Memorandum of Understanding (MOU) with the public sector and trade unions, however, the agreement will depend critically on inflation control. Other measures are better targeting of social spending to save resources and the reform of the public sector through the elimination of posts and non-filling of positions. There will be a five year public sector investment programme to manage capital spending and there will be a monitoring of public bodies to avoid debt build up.

The programme broadly aims at generating growth of at least 2 per cent by Fiscal Year 2016/17, premised on the assumption that investment plans will be implemented and structural reforms will be successful. Inflation is targeted to be 8.75 per cent in Fiscal Year 2012/13 and around 8 per cent by Fiscal Year 2016/17. In addition to fiscal consolidation it is anticipated that the balance of payments deficit will be reduced to sustainable levels.

Some of these policies have downside risks. The most significant is the challenge of raising additional taxes in an environment of weak domestic and international demand as well as weak demand for domestic and foreign investment.

**2. Evolution of the main variables**

**a) The external sector**

The data for 2012 suggests that Jamaica’s current account of the balance of payments improved in 2012 by US$ 207 m or 12 per cent of GDP. This was due to a reduction in the deficits in a number of sub accounts. For example, imports declined by (2.0 per cent) while exports had a marginal increase of (0.2 per cent), with the overall goods balance having a deficit of 2.8 per cent. The important service balance also declined by 3.9 per cent relative to last year due to marginal increases in travel receipts and a decline in other services and transportation. The latter reflecting reduced activities at the ports. The small rise in travel receipts was due to the rise of a mere 1 per cent in stopover visitors and a 17.4 per cent increase in cruise arrivals which is not the bulk of the tourists. The data available for January 2013 suggested that arrivals are down by 4 per cent. The income account showed improvement with a deficit of 2.2 per cent, much of which was attributable to lower investment income going abroad and a decline in interest payments by the government. The performance of transfers was also weak as gross private transfers made up of remittances rose by 0.8 per cent for 2012 relative to 2.5 per cent in 2011 and this is related to challenging economic conditions in major source markets as the United States. In the case of
the capital and financial account, the deficit was 9.8 per cent reflecting a decline in net private and official investment, due to delays in signing of the IMF agreement. Overall net private and official investment were insufficient to cover the current account deficit and the NBR deteriorated by $840.5 m to SUS 1125.6 m or 13.2 weeks of import cover. Given the IMF agreement and promises by the IADB and the World Bank for financial support, the balance of payments should improve before the end of the year. For the first quarter there was an increase in next export demand as exports of goods and services expanded by 12.9 per cent while imports of goods and services declined by 4.4 per cent. The increase in exports was driven by non traditional exports.

b) Economic activity
The overall performance of the economy in 2012 was disappointing as there was a decline of 0.3 per cent. This was the result of a decline in a number of sectors. Among these were mining and quarrying, which declined by 9.1 per cent (contributing 2 per cent to GDP), construction by 3.8 per cent (contributing 7 per cent to GDP) and transport storage and communications which declined by 1.6 per cent (contributing 11 per cent to GDP). The decline in construction reflected the level of uncertainty in the economy while mining and quarrying reflected the challenges in the bauxite sector due to the slow pace in demand for alumina, as well as the decline in capacity utilisation partly due to mechanical difficulties. In terms of sectors that grew positively, agriculture, forestry and fishing grew by 2.6 per cent (contributing 7 per cent of GDP), while hotels and restaurants grew by 1.8 per cent (contributing 6 per cent of GDP). The growth in agriculture was much slower in 2012 relative to 2011 and reflected modest expansion in domestic agriculture and the impact of the hurricane plus drought conditions in the early part of the year. Other growth sectors were wholesale and retail commerce 0.4 per cent and financial institutions and insurance 0.7 per cent. The first quarter data suggested that the goods producing sectors, made up of agriculture, mining, sand quarrying and construction, declined by 2.8 per cent while the service sectors remained flat at less than 1 per cent. The overall impact on growth was 0.7 per cent decline. The full impact of the hurricane effects in the last quarter was now being felt as agriculture declined by 10 per cent and the problems in mining continued as it declined 6.8 per cent.

It is expected that with weak domestic and international demand, the economy will not grow by more than 0.5 per cent in 2013 and would pick up later as the IMF programme begins to inspire more confidence in the economy.

c) Inflation, wages and employment
Inflation was some 8 per cent in 2012 relative to the rate of 6 per cent the year before, and the factors responsible for this were tax increases, food price increases due to the passage of hurricane Sandy and import inflation due to grain prices earlier in the year and the exchange rate pass through. At the same time inflationary impulses were moderated by some reduction in oil prices and the generally weak domestic demand conditions. Price increases occurred in the three major regions of Jamaica: the greater Kingston Metropolitan Area, (10.0 per cent), the other urban centres (6.9 per cent) and rural areas (6.9 per cent). The increases in prices were largely due to increases in food and non-alcoholic beverages of 14.3 per cent. A significant source of price increase has been the broadening of the base general consumption tax, even though the rates were reduced slightly. Inflation in the March quarter was 2.7 per cent in which was close to the December quarter data. The outlook for 2013 is an inflation rate of near 10 per cent which would reflect demand pressures and higher import prices.

Real wages contracted by 3.2 per cent in 2012, relative to a 1.8 per cent growth in 2011 and the reduction was observed across all sectors except mining and quarrying. There were significant declines in real wages (12.4 per cent) in the hotel and restaurant sector which reflects the reduced demand for labour over that period.

In light of the weak growth conditions, the unemployment rate increased from 13.7 per cent in October 2012 to 14.2 per cent in January 2013. The rate of unemployment continues to vary by gender with male unemployment rate at 10.3 per cent in January 2013 and the rate for females at 18.9 per cent. Unemployment may remain at these high rates if growth does not improve beyond the less than 1 per cent anticipated.
G. Trinidad and Tobago

1. General characteristics
The economy of Trinidad and Tobago experienced limited growth last year as a result of plant shutdowns for maintenance and security upgrades in the dominant energy sector. Shutdowns by several firms in the energy sector in both the first and second half of the year resulted in negative growth in the energy sector for 2012. The non-energy sector was affected by industrial action in a major cement producing firm, which impacted on construction and manufacturing activity. This sector, however, recovered over the 12 month period. Overall, economic growth in 2012 is estimated at 0.2 per cent. Indicators for 2013 suggest positive growth, with expansion in production of most petroleum products, and continued growth in LNG production. This outlook is tempered, however, by the prospect of another shutdown in the energy sector, of BP Trinidad and Tobago (BPTT) and BG Group Trinidad and Tobago (BGTT), in late 2013. The importance of these firms cannot be overstated, as BPTT alone provides over 60 per cent of the natural gas supply to Trinidad. Growth in 2013 is estimated at 2.0 per cent. The headline inflation rate was measured at 7.2 per cent in December 2012 and has since fallen to 6.9 per cent in March 2013. Monetary policy remained accommodative in 2012.

The government of Trinidad and Tobago ran a fiscal deficit of 4 per cent and a primary deficit of 1.8 per cent in the fiscal year October 2011 to September 2012. The main thrust of the government spending in 2012 was the government's Public Sector Investment Programme, which they strived to implement over the year. The completion of this programme was hindered by numerous administrative delays and implementation deferrals. Some of the fiscal measures introduced were the removal of value added tax (VAT) on non-luxury food products and the removal of the subsidy on premium motor fuel in an effort to reduce the petroleum subsidy. In early fiscal 2013 a rise in total revenue was offset by an increase in central government spending. Public sector debt grew from 45.6 per cent of GDP in September 2012, to 48.7 per cent of GDP by February 2013, and is expected to grow over the remainder of the fiscal year. The current account balance was US$1.322 million in 2012. This represented a drastic fall from its value in the previous year, mainly due to reduced exports, in turn resulting from the diminished performance of the energy sector in 2012.

One of the main challenges of the government is the persistent crime in Trinidad and Tobago. In March a controversial bill to extend powers to the military was approved by parliament. In other political developments, in the Tobago House of Assembly (THA) elections in January, a partner of the ruling coalition party was defeated soundly by the opposition party.

2. Economic policies
 a) Fiscal
In fiscal year 2012, the Trinidad and Tobago government ran a deficit of 4 per cent of GDP, and its primary deficit was 1.8 per cent of GDP. Revenue and expenditure were 31.2 per cent and 35.2 per cent of GDP respectively. The government's increased capital spending in fiscal 2012 through its Public Sector Investment Programme, with the intention of stimulating economic growth. Energy revenue declined in fiscal 2012 as a result of reduced crude oil and natural gas production. This decline was however, offset by increased Value Added Tax receipts.

A rise in government spending in the first half of fiscal year 2013 (October 2012-March 2013) led to a deficit of TT $1.8 billion (approximately 2.3 per cent of GDP) over the period. This was just about TT $3 billion less than the surplus of TT $2.8 measured in the first half of fiscal 2012. Government spending rose by 22.7 per cent in the first half of fiscal year 2013 compared to the same period in the preceding fiscal year. A main driver of this growth was the increased expenditure toward the petroleum subsidy. Trinidad and Tobago has long provided a subsidy on petroleum to local consumers as means of containing costs of the industrial and agricultural sectors. This subsidy has grown over the years and the current government has made attempts to reduce both the current payments and the arrears on the account. To reduce its arrears, the government increased payments toward the petroleum subsidy and increased the price of premium gasoline by over 40 per cent. Payments to the subsidy were TT $4.2 billion in the first half of fiscal 2013, up from TT $0.8 billion in the same period the year before. There
was also an increase in the wages and salaries category, as several wage negotiations came to a close. Interest payments, however, fell due to lower internal and external interest rates. The government’s capital expenditure programme was lower than expected for the first half of fiscal 2013, due to several delays, including administrative delays, outstanding submission of invoices for payment and delayed implementation of several projects. From October 2012 to March 2013, only 33 per cent of the budgeted expenditure for capital projects had taken place. It is expected that capital spending would increase in the second half of the fiscal year, as government further attempts to stimulate the economy.

Total government revenue for the period grew by 1.3 per cent, due to increased non-energy revenue. Non-energy revenue increased by 10.4 per cent compared to the first half of fiscal 2012. Taxes on income and profits as well as VAT increased, in addition to increase profits from state enterprises. Energy revenues, on the other hand, fell by 5.9 per cent. This was due mainly to reduced production as a result of shutdowns for maintenance in several energy companies and reduced energy prices.

Total public sector debt grew by almost ten percentage points over fiscal 2012, mainly due to government’s efforts to settle with policy holders of the failed Colonial Life Insurance (Trinidad) Limited (CLICO). Total public sector debt, estimated at 45.6 per cent of GDP in September 2012, grew to 48.7 per cent of GDP by February 2013. This was due in the main to new borrowing by the central government in the first half of fiscal 2013. A total of TT$5.1 billion was raised to help finance the CLICO investment fund (CIF), which was launched in November 2012 and listed on the Trinidad and Tobago stock exchange in January 2013. This fund was established to hold shares previously held by CLICO in Republic Bank Limited (RBL). External debt grew in fiscal 2012, due to new loans from the Inter-American Development Bank (IADB) and inflows from existing loans. External debt declined slightly in 2013 to 6.8 per cent of GDP from 6.9 per cent, as a result of higher principal repayments on a 2010 loan for four helicopters. External debt could be expected to increase over the rest of fiscal 2013, as government has already signed several new loan agreements to finance infrastructural projects.

b) Monetary
The central bank maintained an accommodative monetary policy through 2012 in an attempt to improve financial conditions to help facilitate economic recovery. The central bank’s repo rate was set at 3.0 per cent in July 2011, and was then reduced to 2.75 per cent in September 2012. The commercial banks loan rates fell from 8.92 per cent in June 2012 to 8.75 per cent in December. Deposit rates declined from 0.61 per cent in December 2011 to 0.57 per cent in December 2012. The central bank maintained its accommodative policy into the start of 2013. The repo rate has remained at 2.75 per cent up to March 2013.

Private sector credit grew slowly over 2012. Non-bank financial institutions reduced their mortgage portfolios and focused on project and lease financing. This muted growth reflected a cautious attitude on the side of consumers. Private sector credit growth was also subdued in the early months of 2013, growing by 2.1 per cent year-on-year in February. Growth was the same in December 2012, but was higher (3.4 per cent in January 2012). Lending by the banking financial sector grew, while lending by the non-banking sector contracted.

Business sector credit grew in the first half of 2012, up to 5.1 per cent (year-on-year) in July 2012, then fell to 0.8 per cent in December 2012. Commercial bank lending to several business sectors, such as construction, finance insurance and real estate, manufacturing and petroleum, declined toward the end of 2012. Business sector credit then fell further to -2.1 per cent in February 2013.

As a result of low credit demand and large fiscal injections in 2012 there has been an excess of liquidity in the financial system. The rise in commercial banks’ reserves in excess prompted the central bank to request that the commercial banks increase their holdings of interest-bearing special deposits at the central bank for one year. The central bank also absorbed some of this excess liquidity through open market operations and sales of foreign exchange. The high levels of liquidity virtually eliminated activity in the inter-bank market. Further, the high excess liquidity contributed to record low levels of short-term
interest rates in 2012 and early 2013. The TT 3-month T-bill rate fell from 0.6 per cent in July 2012 to 0.18 per cent by March 2013.

Currency in active circulation and demand deposits (M-1A) expanded in 2012, due to the main to increased demand for demand deposits. This growth continued into 2013, as M-1A grew by 12.9 per cent (year-on-year) in February 2013. Though this was down from the 19.5 per cent growth experienced in August 2012. The broad money supply, M-2 (M-1A plus savings and time deposits) also expanded in 2012, boosted by growth in savings. Time deposits, which fell over most of 2012, experienced positive growth in February 2013 as a result of large inflows of funds from government-related entities. Foreign currency deposits grew by 4 per cent (year-on-year) in August 2012. This growth accelerated to 21.8 per cent in February 2013, due largely to the deposit of funds from a matured investment of a non-bank financial institution.

c) Exchange
Sales of foreign currency to the public in 2012 increased by 8.5 per cent, most of which was to the retail and distribution sector of the economy. Purchases of foreign exchange, however, grew by only 2.5 per cent. This reduced level of purchases was due to the constrained energy sector activities. In the first quarter of 2013 sales reduced slightly and purchases grew, compared to the same period in the previous year. The TT/US dollar exchange rate remained relatively unaffected by the foreign exchange market activity, and stood at US$ 1:TT$ 6.44 at the end of March 2013. While the TT: US exchange rate remained steady, the real effective exchange rate appreciated as a result of a rise in domestic inflation in 2012.

Gross official reserves stood at US$ 9.8 billion, or 13.5 months of import cover at the end of 2011. This number declined to US$ 9.2 billion at the end of 2012, and then rose slightly to US$ 9.3 billion (10.4 months of import cover) at the end of April 2013.

3. Trends of the principal variables
a) External sector
The global balance for 2012 was estimated at a deficit of 2.6 per cent of GDP (US$ 622.1 million), which contrasts with the surplus of 3.2 per cent of GDP (US$ 752 million) in 2011. The current account balance for Trinidad and Tobago in 2012 was 5.5 per cent of GDP (US$1.322 million), less than half of the figure for the previous year. The reduced current account was largely a result of the decreased merchandise trade in 2012. The merchandise trade surplus was US$1.5 billion less in 2012 than in 2011, at US$3.9 billion, or 16.3 per cent of GDP. Exports and imports both fell in 2012, but the decrease in exports of 13.1 per cent outweighed the decrease in imports of 4.7 per cent. The main factor was the decline in energy exports, which fell in 2012, as a result of the maintenance works in the energy sector. Crude oil exports, in fact, fell by almost 28 per cent. The volume of liquefied natural gas (LNG) however, grew by 3.4 per cent in 2012. Energy imports fell by $0.4 billion from 2011 to 2012. Net current transfers were measured at $116 million in 2012, up from $33.1 in the previous year. The cause of this difference was largely methodological, as the number of firms surveyed was increased.

There was some activity in commodity prices toward the end of 2012 and the start of 2013. Crude oil prices fell toward the end of 2012 due to high stocks, but rose in early 2013 as a result of economic recovery in the US and a colder than average winter increasing demand. The cold weather also boosted the price of natural gas in late 2012 and early 2013. The price of methanol increased in early 2013 due to increased demand. Prospects in this market may be negative however, due to developments in low-priced shale gas in the United States.

Net foreign direct investment (FDI) increased over the year, due to increased reinvestments by foreign owned energy companies. The majority of FDI was directed to the energy industry and sourced from North America. In February the government launched a bidding round for onshore oil blocks, estimated to hold 500 million barrels of oil equivalent. Contracts will be awarded in September. This measure aims to attract additional FDI to the energy and manufacturing sectors.

b) Economic growth
The vulnerability of Trinidad and Tobago’s energy-dependent economy was exposed in 2012 as a series of shutdowns among several firms in the energy sector resulted in almost nil growth for 2012. Official
estimates for growth in 2012 have been revised to 0.2 per cent, which is still an improvement over the negative growth in 2011. The low growth estimated was as a result of 1.5 per cent growth in the second half of the year offsetting a contraction of 1 per cent in the first. Contraction in the energy sector was as a result of shutdowns for maintenance and safety operations at several oil producing firms. These shutdowns began in the first half of the year and continued until late 2012. The maintenance work affected output of petroleum, natural gas, liquid natural gas, petrochemicals and methanol.

As a result, growth in the energy sector was negative in the first half of the year, with contractions of 0.5 per cent and 7.3 per cent in the first two quarters respectively. Toward the end of the year, the situation improved, and the energy sector experienced growth of 0.6 per cent and 0.0 per cent in the third and fourth quarters respectively. The non-energy sector, on the other hand, had a relatively successful year. This sector experienced a moderate recovery throughout the year, with positive growth in each quarter. Some sub-sectors, however, were affected by industrial action early in the year. A three-month strike at a major cement producer resulted in a shortage that affected the construction and manufacturing industries. These industries contracted by 3.5 per cent and 3.9 per cent (year-on-year) respectively in the second quarter of 2012, but recovered to 2.3 per cent and 0.9 per cent growth in the last quarter. Agriculture contracted by more than 4 per cent in each of the first three quarters of the year, but recovered to 2.6 per cent growth in the last quarter of 2012.

The outlook for 2013 is mixed. Early indicators point to a recovery of most energy products, such as natural gas, petrochemicals and methanol. However, another shutdown in production by two of the country’s largest energy producers, BPTT and BGTT is expected in September 2013. If these shutdowns take longer than projected they could be expected to dampen GDP growth in this year. More industrial relations actions could also hinder growth in 2013. GDP growth in 2013 is estimated at 2.0 per cent.

**c) Inflation wages and employment**

Unemployment data for Trinidad and Tobago, though a bit dated, indicates that it remained low in 2012. Most recent estimates show that unemployment fell from 5.4 per cent in the first quarter of 2012 to 4.9 in the second. This is almost a full percentage point lower than its value in the same period of the previous year. Although unemployment data for 2013 is unavailable, recent information showed an increase in retrenchment notices at the start of 2013. Most of these notices were in the distribution, printing and packaging, and finance, insurance and real estate sectors.

Headline inflation (year-on-year) was measured at 7.2 per cent in December 2012. It continued its decline stemming from June 2012 into 2013, measuring 5.9 per cent in February, before increasing to 6.9 per cent in March. The main driver, as usual, was food inflation, which measured 12.9 per cent in March 2013. However, the removal of VAT of non-luxury food items contributed to the fall in inflation over the past several months.

Core inflation remained low at 2.2 per cent in March 2013. Core inflation rose to 3.1 from October to December 2012, but otherwise has remained below 3 per cent since January 2011.

**H. Suriname**

**1. General characteristics**

The Suriname economy continues to post robust growth recording rates of 4.7 per cent in 2011 and 4.5 per cent in 2012 and it is anticipated that in 2013 growth will remain elevated at 4.7 per cent. Economic growth is premised on primary commodity prices which have been robust so far, and are expected to be elevated for some time. In 2012, all sectors showed positive growth with the exception of mining and quarrying, which was the result of the decline in bauxite production due to the exhaustion of mining deposits in existing mining areas. Growth was particularly significant in the following sectors: hotels and restaurants (11.7 per cent), construction (14.0 per cent) and financial intermediation (5.7 per cent). According to the official projection, in 2013, strong growth is expected in all sectors as in 2012 except for mining and quarrying which may show weak positive growth.
The inflation rate after increasing by 15.4 per cent in 2011 due to realignment of the exchange rate with the unofficial rate, settled down to 4.3 per cent in 2012 and is anticipated to be no more than 5 per cent in 2013. It is possible that inflation may increase thereafter but remain in single digits, due to impulses from pent up domestic demand and increases from import prices to the economy. Energy import costs influence production costs and Suriname has been investing in energy expansion, including renewable energy, which should help the economy to reduce such costs.

The fiscal situation in Suriname is much improved given the increase in revenues due to positive growth and cautious expansion of expenditure. The primary balance, which was 4 per cent in 2011, fell to 1.1 per cent in 2012 while the overall balance was in deficit at 3.6 per cent in 2012. At the moment the public finances are fairly robust and not expected to deteriorate. Suriname also has a low debt to GDP ratio of 25 per cent with the external debt at 13.4 per cent and the domestic debt at 11.7 per cent of GDP in 2012. The external sector has been boosted by inflows of FDI and the balance of payments improved in 2011 and 2012. The economy has accumulated net reserves of nearly a US$ 1 billion last year, which was some 20 weeks of imports of goods and services. The devaluation of the exchange rate in 2011 followed by the introduction of a narrow trading band and a growing cushion of foreign reserves will help to support currency stability in 2013.

2. Economic policy

a) Fiscal policy
The fiscal policy stance has been conservative with expenditure growing in line with revenue. As a result, the overall balance has been fairly low at 3.6 per cent of GDP in 2012. Government total revenue which was 25.2 per cent of GDP in 2011, declined to 24.6 per cent in 2012. All categories of revenue remained virtually the same as a share of GDP relative to 2011. On the other hand, expenditure increased slightly from 25.2 per cent to 28.2 per cent of GDP. The government is contemplating the introduction of a value added tax to replace the existing sales tax and this should improve revenue efficiency. In terms of current expenditure, wages increased by 8.1 per cent and this represented some recovery in wages by workers from the inflationary period in 2011. A portion of the wage increase was paid in early 2013.

The debt ratios for Suriname are within the sustainable range, with external and internal debt together representing some 25 per cent of GDP. Given that the external debt is some 13 per cent of GDP, there is very little foreign exchange risk due to devaluation of the currency. In light of favourable financial situation, the government of Suriname intends to issue a first time ever sovereign bond for approximately US$ 500 million, later this year, to raise funds for the financing of its equity share in planned joint ventures with two North American mining companies.

While the government has been maintaining fiscal discipline, there are plans to increase infrastructural spending as outlined in the 2012 budget which provides for the construction of housing for low-income groups, and for the repair and building of roads, bridges and state owned schools. Suriname also aims to introduce a value added tax (VAT) in 2013 which will help to improve the efficiency in tax collection. In addition the government backed by the IMF is likely to implement legal and administrative reforms for five state owned companies. The idea is to seek help from the Inter-American Development Bank (IDB) and the World Bank to help improve the management of public enterprises and to reform the tariff rates for utilities so that losses can be reduced.

The government has possession of a number of loss making enterprises and with the assistance of the Inter-American Development Bank (IADB) and the World Bank is seeking to improve the management of public enterprises and in some cases, these are to be privatized. The Suriname Investment Corporation has been charged to privatise some of these within the agricultural sector. There are also plans to reform the tariff structure of public enterprises that are posting losses and this should...

---

10 Suriname Central Government operations.
impact favourably on the public accounts. Given the favourable outlook for commodity prices in the medium term, government finances should continue to be robust.

b) Monetary policy
The fiscal stance of the Central Bank was moderately expansionary but the instruments available to the Bank are limited. Thus there are no open market operations and monetary management is based on the reserve requirement of financial institutions. The reserve requirement is 25 per cent for local dollar accounts and 45 per cent for foreign currency accounts. The monetary authority is aware of the limitations of the current system and is contemplating moving to indirect monetary instruments which will depend on developing the local money and capital market. In addition, government borrowing takes the form of arrangements with the banking sector and not through a process of market rate determination. Additionally, there are moves to create sound monetary policy framework by increasing transparency and consistency in the mutual dealings between the government and the Central bank. The foreign exchange law is being amended to make the Central Bank the only entity authorised to monitor and set exchange rate policy, which is intended to remove political pressure from the rate-setting process.

In line with economic growth, the money supply (M1) grew by 18 per cent in 2011 and 21.4 per cent in 2012, while M2 also grew by 21 per cent in 2012. Credit to the domestic economy in 2012 expanded by 14.8 per cent, and the distribution of credit to the primary and secondary sectors, which included agriculture, construction and utilities was 14.4 per cent and credit to the other sectors made up of trade, transport, services and housing construction was 85.6 per cent. The increase in credit to the primary and secondary sectors was 25 per cent while the increase to the other sectors was 14 per cent. In terms of interest rates, the weighted nominal deposit rate rose from 6.6 per cent in 2011 to 7 per cent in 2012 but at the same time, lending rates moved up as well from 11.7 to 11.8 per cent which reduced the interest rate spread.

c) Exchange rate policy
The foreign exchange market stabilised after the Surinamese dollar was devalued in 2011 to integrate the official and unofficial exchange rates. The Central Bank has established a band of Sr$3.25 to Sr$3.35 :US1 within which all official transactions are expected to take place. There are no immediate concerns about the fluctuation in the currency and by May 2013 the rate was at Sr3.3:US$1. It is expected that this rate will continue to hold for the duration of 2013.

d) Other policies
A number of major projects are anticipated that will increase Foreign Direct Investment in Suriname considerably. Among these projects are a US$700 m expansion of the Rosebel gold mine and a joint venture between Newmont Mining and Suriname Aluminium Co. to develop the US$ 800m gold mine which will start operations in 2013. As a consequence this will increase the dependence of the economy on gold production. In addition, the state owned oil company, Staatsolie, is expanding its oil refining capacity. This US$700 million refinery will make Suriname a net exporter of refined fuels and will add to revenue. The heavy dependence on minerals however, which accounts for 92 per cent of export earnings in 2011, makes Suriname vulnerable to commodity price shocks. In recognition of this, the government is setting up the Savings and Stability Fund Suriname, the Suriname version of a sovereign wealth fund. With the establishment of the SSFS, income streams from mining will be allocated to the budget according to strict rules and the remaining sums will be transferred to the Fund for financial investments. The SSFS thus serves to stabilize government income and expenditure and to generate surplus savings from non-renewable resources for future generations.

A measure of the optimistic outlook for Suriname in the financial markets was the upgrade of the bong rating of the government by Moodie’s to a Ba3 which improves Suriname’s access to international capital markets. The reasons given reflect the stability experienced by the economy in the last few years. Among these were prudent debt management, positive short and medium term growth prospects, access to international creditors and growing resilience to negative external shocks.
3. **Evolution of the main variables**

a) **The external sector**

The current account balance which was US$251 m in 2012 represented a decline in the surplus since 2011. This represented 8 per cent of the GDP respectively in 2012 falling from 9 per cent in 2011. Looking at the sub accounts, merchandise trade balance declined due to imports growing more rapidly than exports. The economy is highly dependent on the exports of oil and especially gold for foreign exchange earnings with gold prices improving considerably in the last few years. For example, gold exports increased by 30 per cent between 2010 and 2011 and 9.6 per cent between 2011 and 2012 and earnings from gold was 57 per cent of total merchandise exports in 2012.

The service balance was negative and larger than last year, while the balance on current transfers was US$87 m in 2011 and US$70 m in 2012. In the light of robust growth and increasing exports, the expectation is that the current account balance will improve further and this will add to reserves.

b) **Economic activity**

Economic growth in Suriname has been fairly robust as the economy posted growth of 4.7 per cent in 2011 and 4.5 per cent in 2012, with growth in 2013 expected to be at least 4.7 per cent. All sectors with the exception of mining (-3.2 per cent) posted positive growth in 2012. This was due to the fallout from bauxite, the largest contributor to mining in recent years, as the current mines were exhausted in the South of the country. The State owned bauxite company is exploring opportunities for bauxite production elsewhere in the country. The mining sector and other commodity sectors, including the state owned energy sector, are the major contributors to growth in Suriname. Positive growth has been driven by investment in these sectors and especially the elevated prices of gold. There has been a policy to regulate persons working in the industry and to reduce the informal aspects of production.

In 2012, construction posted growth of 14.0 per cent in 2011 and 4 per cent last year, while the sector share of GDP was 6 per cent. In addition, hotels and restaurants grew by 11.7 per cent and its share in GDP was 3 per cent. In terms of value added, the largest contributing sectors have been manufacturing (23.3 per cent) and wholesale and retail (20 per cent) and both sectors grew by 0.4 and 7.4 per cent respectively in 2012. Agriculture which contributed 8.9 per cent of GDP grew at the rate of 4.6 per cent and 5.3 per cent in 2011 and 2012 respectively. This sector is a major employer but its fortunes have been mixed. There are good prospects for the investment in palm oil, while in the case of the banana industry the changes in the EU regime have reduced its comparative advantage.

c) **Inflation, wages and employment**

The rate of inflation moderated considerably since 2011 when it rose to 15.3 per cent but since then it has fallen to 4.3 per cent and is likely to remain that way in 2013. Despite increases in fuel and food prices during last year and a nominal wage increase of 10 per cent, prices have remained fairly stable. Wages increased in 2012 but were paid out in tranches in late 2012 and early 2013. The unemployment rate has declined from 9.2 per cent in 2010 to 8.2 per cent in 2011. There are no available unemployment data for 2012, however it is likely that unemployment rates will come down further in light of the fact that several new investment activities are in progress.
Issues published

A complete list as well as pdf files are available at

www.eclac.org/publicaciones

34. Situation of unpaid work and gender in the Caribbean: The measurement of unpaid work through time use studies, LC/L.3763, LC/CAR/L.432, 2014.