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FOR THE CARIBBEAN

Economic survey of the Caribbean 2014

Reduced downside risks and
better prospects for a recovery

Dillon Alleyne
Michael Hendrickson
Sheldon McLean
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E C L A C

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Abstract

The current survey provides an overview of the economic performance for 2013 of the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, Trinidad and Tobago plus the eight member states of the Eastern Caribbean Currency Union (ECCU) and the outlook for 2014 and 2015. Data were collected from a review of reports from national governments and through interviews with government officials in each of the countries analyzed.

The main findings are that while the Caribbean still faces a number of fiscal challenges it is anticipated that the situation will improve with positive growth over the medium term. At the same time, unemployment rates, especially for the service-based economies, are relatively high and continue to increase slowly in some cases. The survey also finds that inflation rates are relatively low, which has a positive impact on fixed income earners. With respect to investment, the domestic private sector remains risk averse as credit to this sector been increasing slowly. At the same time, public sector credit has declined, in part due to a number of programmes aimed at constraining the public sector.

Better economic performance is projected in 2014 and 2015, due to improved performance of the major export markets, the United States and Europe, and improved domestic investment. This is likely to increase employment and domestic demand, which have been depressed in the face of fiscal consolidation measures. It is also expected that inflows of both foreign direct investment (FDI) and remittances will increase due to anticipated better economic performance in the United States and Europe and that this will improve the current account balances.

Introduction

This survey provides an overview of the economic performance of the countries of the Caribbean and the economic outlook for 2014 and 2015. It shows that there are increasing prospects for Caribbean growth as global trade and GDP growth have improved since 2013. Improved economic performance in both the United States and Europe, which are the major markets for the Caribbean exports, is anticipated to have a positive impact on Caribbean growth. GDP growth for the region was 1.1 per cent in 2013, which was slightly better than in 2012.

Countries specializing in goods exports continue to post higher growth rates than those specializing in services,¹ with goods producers posting growth of 3.0 per cent compared to 0.5 per cent for service producers in 2013. At the same time unemployment rates for some countries have continued to increase despite positive growth, raising the spectre of jobless growth.

From a macroeconomic policy perspective the most serious challenge continues to be a limited fiscal space arising from the high debt burden. Despite a variety of fiscal consolidation programmes, the fiscal deficit for the Caribbean as a whole increased from 3.3 per cent of GDP in 2012 to 4 per cent in 2013. This highlights the fact that consolidation has been more difficult than anticipated in an environment of weak growth which has forced the Governments as “spenders of last resort” to help stabilise employment levels. In addition, despite marginal economic growth, revenue performance has been weak. Spending on capital investments has increased, and this is a welcome development, particularly upgrades to infrastructure. Overall, the service-based economies have more limited fiscal space than the goods-based economies, and this constrains their capacity to respond to negative external shocks. Public debt in the region declined from 73.2 per cent of GDP in 2012 to 72.4 per cent in 2013, but increased in a few countries. In addition, the overall debt service ratio declined; and this is a welcome sign, since debt service diminishes the fund available for productive uses.

¹ The goods producers are Belize, Guyana, Suriname and Trinidad and Tobago while the service producers are Anguilla, Antigua and Barbuda, Bahamas, Barbados, Dominica, Grenada, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

In terms of monetary policy, the policy stance was mainly neutral and inflation rates posted a decline, falling from 3.1 per cent in 2012 to 1.4 per cent in 2013. Domestic credit expansion continued to be weak and credit to the private sector increased from 66.3 per cent of GDP to 68 per cent in 2013; a significant part of this expansion was due to consumer credit. While this suggests an increase in consumer confidence, the domestic private sector remains risk averse with respect to expanding production. For interest rates, movement in the lending rates were mixed, but overall interest rate spreads declined slightly.

In terms of the external sector, export performance was relatively weak and several economies experienced an increase in their current account deficits arising from reduced tourism receipts and lower commodity prices for exports. The current account balance as a share of GDP was 9.4 per cent for the commodity producers but -18.8 per cent for the service producers; this reflects improvement in the current account since 2011.

The financial and capital account balance was largely unchanged in 2013 and FDI inflows improved steadily up to 2013. For example, FDI's share of the GDP rose from 5.6 per cent to 6.3 per cent for the goods producers and from 8.6 per cent to 11 per cent for the service producers. Financial capital also posted small increases for both groups of countries. Despite the slightly better performance of the financial capital account, the stock of international reserves increased for about half the countries and for the others there was some decline, reflecting the fact that capital inflows are still below pre-crisis levels.

Improved macroeconomic performance is expected in 2014 and 2015, with the overall regional growth expected to be 2 per cent in 2014 and 2.5 per cent in 2015. This will depend heavily on the improved demand for regional exports.

Section I of this survey analyses the impact of the global economy on the Caribbean subregion. It also provides a comparative analysis of GDP, unemployment and sectoral growth and composition. This is followed by subsections on fiscal policy and the public debt, monetary policy, domestic credit and inflation, the balance of payments and prospects for 2013 and 2014 plus recommendations for the medium term.

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

A statistical appendix follows, which supports the subregional analysis.

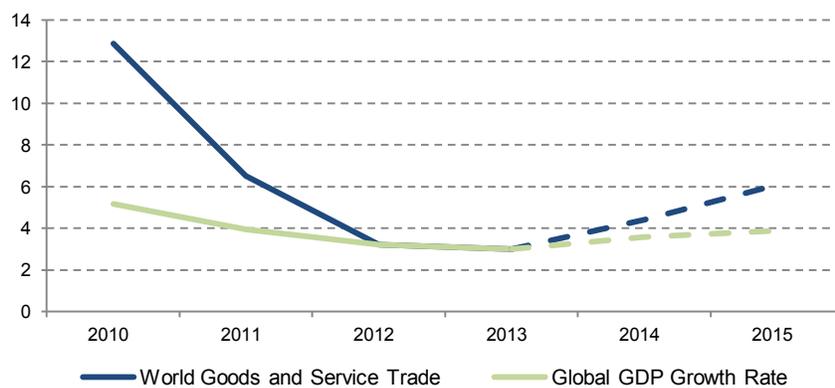
I. Subregional analysis

A. The global economic situation and the Caribbean response

1. Reduced downside risks and better prospects for a recovery

Since 2013 most forecasts predict an improved global economic performance for 2014, despite ongoing downside risks, especially among advanced economies. The growth in world trade in goods and services is anticipated to expand from 3 per cent in 2013 to 4.4 per cent in 2014 (Figure 1). Notwithstanding this improvement, the figure is far short of the 5.3 per cent annual average posted between 1993 and 2013.

FIGURE 1
WORLD TRADE ANNUAL GROWTH AND
GLOBAL GROWTH RATE 2010-2015
(Percentages)



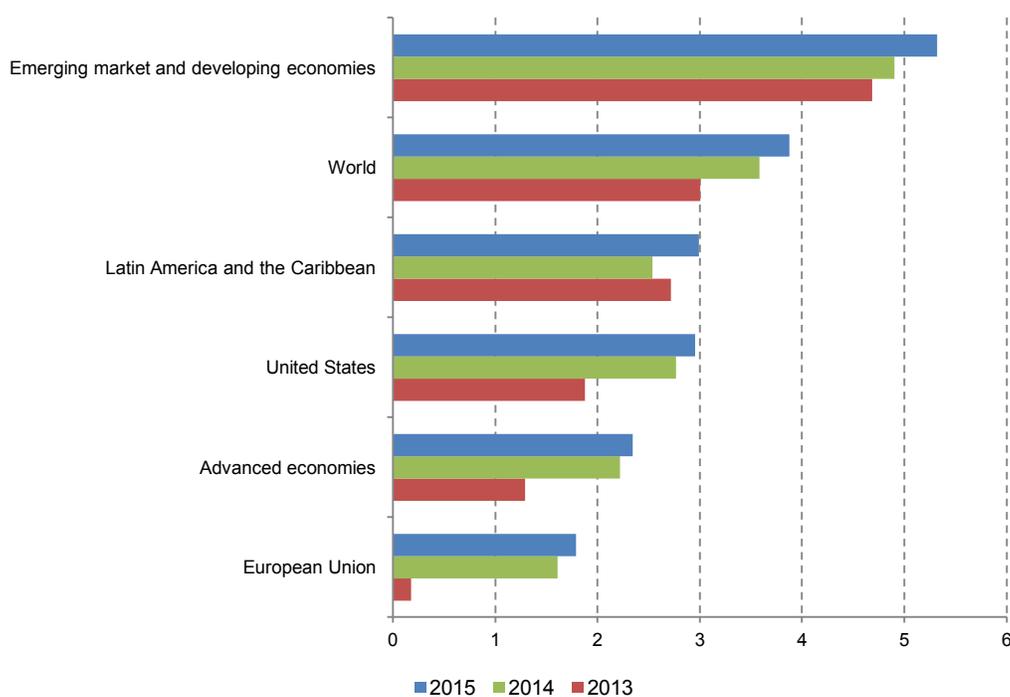
Source: Organization of Economic Cooperation and Development (OECD), Economic Outlook Volume 2014 Issue 1 – 95 and Volume 2013 Issue 2 – No 94 and International Monetary Fund, World Economic Outlook Database. April 2014.

The World Trade Organization (WTO) has pointed out that some risk factors for world trade, such as the sovereign debt crisis in Europe and uncertainty over debt ceiling negotiations in the United States, have receded in recent months. Overall, greater improvement is projected in 2014 and 2015.

At the same time, world GDP growth is expected to improve from 3.6 per cent in 2014 to a slightly higher growth rate of 3.9 per cent in 2015.

While the emerging and developing economies continue to post positive growth, this growth has been less robust than anticipated in 2013, as growth fell below 5 per cent, and will likely be restrained until 2015 when growth is expected at a little over 5 per cent (Figure 2). In emerging markets, China and India are expected to remain at their 2013 growth levels of 7.7 per cent and 6.7 per cent, respectively, for some time. In the case of advanced economies, growth is expected to be steady, increasing from 1.3 per cent in 2013 to 2.2 per cent in 2014 and as much as 2.3 per cent in 2015. Given the heavy reliance of Caribbean exports on the European Union (EU) and United States markets, the prospects there will be particularly important. In the case of the United States, growth rates are anticipated to improve over time with growth of 1.9 per cent in 2013 and 2.8 per cent expected in 2014. The first quarter results for 2014 however saw a decline of 2.9 per cent, however, this may have been the result of harsh weather conditions. Growth in the EU is expected to be positive but weak and will be affected by the degree of fiscal tightening.

FIGURE 2
GLOBAL ECONOMIC PROSPECTS
(Percentage growth)



(Percentage Growth of GDP)

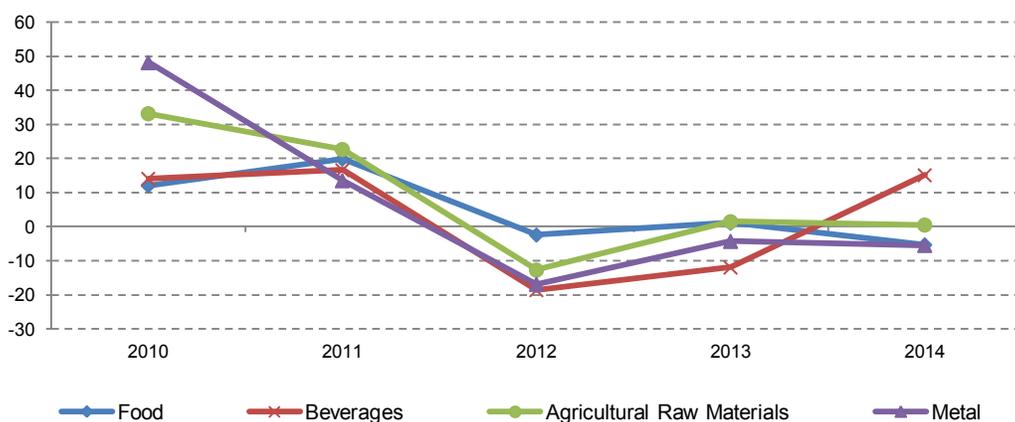
Source: International Monetary Fund, World Economic Outlook Database, April 2014, and Economic Commission for Latin America and the Caribbean, on the basis of official numbers.

The growth prediction for the global economy suggests that as it expands, future growth will be greatly influenced by high income economies relative to emerging economies. In the case of emerging

and developing economies, a stronger performance of advanced economies will cause, domestic financial conditions to tighten and this may reduce growth rates through higher interest rates.

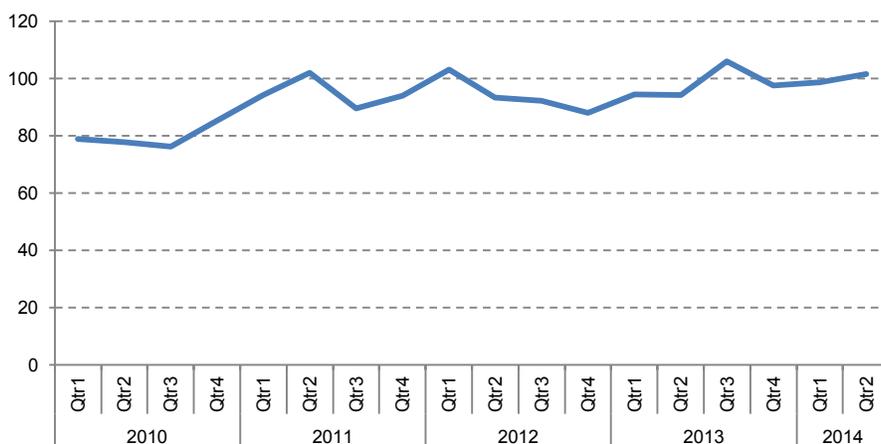
For Latin America and the Caribbean, growth will be moderate as the region posted growth of 2.7 per cent in 2013 which is below the average growth rate. This will increase by only 3.5 per cent in 2014 especially since the near term prospects of Argentina and Venezuela remain uncertain due to challenging economic and social conditions.

FIGURE 3
GLOBAL NON-OIL COMMODITY PRICES
(2010-2014)



Source:

FIGURE 4
CRUDE OIL PRICES: WEST TEXAS INTERMEDIATE
2010-2014
(United States dollars per barrel)



Source: International Monetary Fund, World Economic Outlook Database, April 2014; U.S. Department of Energy: Energy Information Administration.

Commodity prices continue to drop and, as Figure 3 shows, the prices of food, agricultural raw materials and metals all declined, while only beverage prices have risen. Global oil prices have also shown only a slight upward tendency (Figure 4); in the Caribbean, this helps to contain inflation, except where there has been currency devaluation. The improved performance in the advanced countries will likely be moderated by supply responses and monetary accommodation which suggests that, at least in the near term, prices will remain constrained. On the downside, commodity exporters in the Caribbean may be experiencing the decline in the commodity price as the commodity price super cycle comes to an end. According to an OECD report, “This past bonanza, however, is set to fade gradually, as China’s growth slows and the energy- and carbon-intensity of growth declines. Thus, the ‘shifting wealth’ from the rise of China will likely play a smaller role in lifting performances of commodity producers and exporters of parts and components in the future, thereby posing additional challenges for catching-up economies”².

2. Unemployment in developed countries

The growth and employment performance of major exports markets is of particular interest to the Caribbean. Higher incomes and employment in the EU and the United States translate into increased travel receipts and arrivals. The risk of recession in the United States has abated and this has translated into lower unemployment. Unemployment rates fell from 7.4 per cent in 2013 to 6.5 per cent in 2014 and are expected to fall further in 2015 (Table 1). Similar tendencies appear to be occurring in Canada; however, in the euro area, unemployment will remain stubbornly high at 11 per cent. Latin America, while not currently a large market for the Caribbean, is a potential source for increased exports given rising average incomes there and a growing middle class. The decline in commodity prices will likely see lower growth and unemployment rates may increase. The present forecasts are that unemployment rates will rise from 6.3 per cent in 2013 to 7.5 per cent in 2014 and remain at 7 per cent in 2015.

TABLE 1
UNEMPLOYMENT RATES, 2010-2015
(Percentages)

	2010	2011	2012	2013	2014	2015
United States	9.6	8.9	8.1	7.4	6.5	6.0
Canada	8	7.5	7.3	7.1	6.9	6.6
Euro area	10	10	11.2	11.9	11.7	11.4
OECD	8.3	7.9	7.9	7.9	7.5	7.2
Latin America ^a	7.3	6.7	6.4	6.3	7.14	7.08

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

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

B. GDP growth and unemployment in the Caribbean

Caribbean economic performance in 2013 was slightly better than it was in 2012, as growth rates rose from 0.7 per cent to 1.1 per cent (Table 2). Goods producers continue to outperform the service producers, although the latter sector showed improvement in 2013. The goods producers posted growth of 3.0 per cent, which was less than the 3.5 per cent generated last year. Meanwhile, the service producers generated growth of 0.5 per cent, which was better than the 0.3 per cent decline of last year. The lower primary commodity prices and below-average tourist arrivals and expenditure in 2013 have

² Organization for Economic Cooperation and Development (OECD, Perspectives on Global Development 2014).

had a dampening impact on overall growth. Looking at the countries individually, there were five countries that posted negative growth. Among these were Anguilla and Saint Lucia, which experienced a larger decline last year, and Barbados, which may have slipped into recession. Interestingly, tourist arrivals among the goods producers continue to show strong growth; this may be linked to business tourism and ecotourism.

TABLE 2
CARIBBEAN GDP GROWTH RATES, 2010-2015
(Percentages)

	2010	2011	2012	2013
Anguilla	-4.3	5.0	-6.7	-0.9
Antigua and Barbuda	-7.2	-2.0	3.3	0.6
Bahamas	1.5	1.1	1.0	0.7
Barbados	0.3	0.8	0.0	-0.1
Belize	3.1	2.1	4.0	0.7
Dominica	1.2	0.2	-1.2	-0.7
Grenada	-0.5	0.8	-1.8	1.9
Guyana	4.4	5.4	4.8	5.2
Jamaica	-1.4	1.3	-0.5	0.2
Montserrat	-2.8	5.5	3.6	-0.9
Saint Kitts and Nevis	-3.3	1.6	-1.3	2.1
Saint Lucia	-0.7	1.4	-1.3	-0.6
Saint Vincent and the Grenadines	-3.3	-0.4	1.5	2.8
Suriname	4.2	5.3	3.9	4.5
Trinidad and Tobago	0.2	-2.6	1.2	1.6
The Caribbean^a	-0.6	1.7	0.7	1.1
Service producers^a	-1.9	1.4	-0.3	0.5
Goods producers^a	3.0	2.6	3.5	3.0

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

^a Figures are computed as simple averages.

The sectoral composition of the economies of the Caribbean show a distinct pattern characterised by specialist services and goods production. For the goods producers, services were only 55 per cent of total value added in 2013 while for the service producers it was 81 per cent (Table 3). Among the other interesting patterns is the fact that while agriculture was 11.1 per cent for the goods producers it was a mere 3.9 per cent for the service economies, reflecting their high dependence on food imports. Another important difference was the fact that manufacturing among the goods producers was almost twice the share relative to the service producers in 2013.

TABLE 3
CARIBBEAN: SECTORAL COMPOSITION, GROWTH RATES AND CONTRIBUTION
2012-2013
(Percentages)

	Year	Agriculture	Mining and Oil	Manufacturing	Construction	Services
Sector Share of GDP						
Goods Producers	2012	11.4	14.6	14.0	5.3	54.6
	2013	11.1	14.5	13.7	5.9	54.8
Service Producers	2012	3.9	0.6	7.3	7.2	82.4
	2013	3.9	0.6	7.1	7.1	81.2
Sectoral Growth						
Goods Producers	2012	3.7	6.4	-2.5	3.9	5.6
	2013	1.4	2.0	1.7	13.9	3.2
Service producers	2012	5.0	-4.0	-0.8	-2.2	-0.2
	2013	2.1	5.8	-1.8	-0.6	-0.9
Contribution to GDP Growth						
Service Producers	2012	0.1	-0.1	-0.1	-0.2	-0.1
	2013	0.1	0.0	-0.1	0.0	0.5
Goods Producers	2012	0.7	0.5	-0.6	0.0	3.0
	2013	0.1	0.3	0.1	0.8	1.8

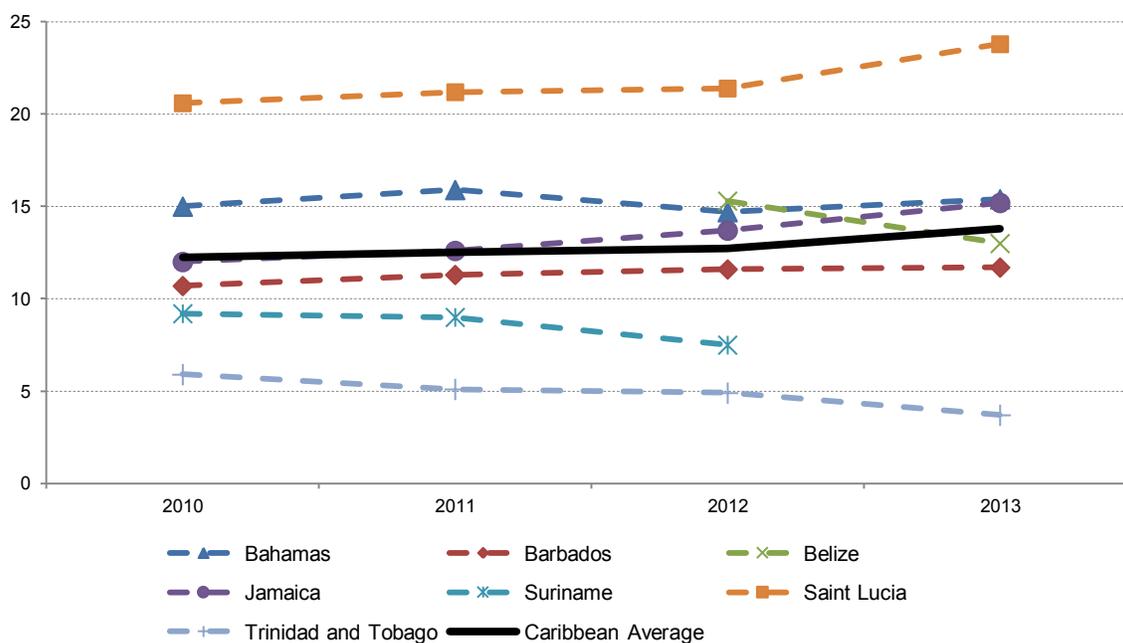
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Sectors are defined using the International Standard Industrial Classification of all Economic Activities (ISIC). Manufacturing includes all manufacturing beside petroleum products, and electricity, gas and water production; 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.

In terms of sectoral growth, with respect to the goods producers all sectors posted positive growth in 2013; this was led by construction and services, which grew by 13.9 per cent and 3.2 per cent, respectively. Despite the relatively small share of tourism services in these economies, services have been growing steadily.

For the service producers, the contribution of manufacturing to growth was negative while the contribution of construction was negligible. Positive contributions came from agriculture and services.

FIGURE 5
UNEMPLOYMENT RATES
2010-2013
(Percentages)



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

As expected, the weak growth outcome impacts on the level of employment and, in some cases, despite some growth the unemployment rate has continued to increase. In 2013, the Bahamas, Barbados, Jamaica and Saint Lucia posted slightly higher unemployment rates (figure 5); this is very much correlated with the underperformance in the tourism sector in general and a weak investment climate in particular. In several Caribbean countries, the unemployment of youth and women tend to be higher than the national average.

C. Fiscal policy and public debt

This section of the report analyses the main fiscal developments in the region in terms of the fiscal deficit, debt and debt service payments and the policy mechanisms that countries have been using to contain deficits and debt as they seek to achieve sustainable fiscal positions.

Despite stated plans from several Governments to advance fiscal consolidation to bring down debt and increase fiscal space, the fiscal deficit for the Caribbean as a whole increased from 3.3 per cent of GDP in 2012 to 4.0 per cent of GDP in 2013 (table 4).

TABLE 4
FISCAL BALANCE
(Percentage of GDP)

	2010	2011	2012	2013
Anguilla	0.1	2.7	1.5	0.7
Antigua and Barbuda	-1.4	-5.3	-1.4	-4.3
Bahamas	-4.8	-4.6	-5.6	-4.6
Barbados	-8.1	-4.6	-7.3	-11.3
Belize	-1.7	-0.8	-0.8	-1.1
Dominica	-6.4	-8.6	-9.0	-8.7
Grenada	-2.4	-3.2	-5.6	-5.4
Guyana	-2.9	-3.1	-4.9	-4.3
Jamaica	-6.3	-6.4	-4.1	-0.7
Montserrat	2.3	7.7	-6.7	-15.4
Saint Kitts and Nevis	-4.3	2.5	11.2	14.5
Saint Lucia	-0.6	-4.6	-6.4	-6.4
Saint Vincent and the Grenadines	-0.6	-4.6	-6.4	-6.7
Suriname	-2.5	-2.0	-2.7	-3.8
Trinidad and Tobago	0.1	-0.8	-1.4	-2.6
Caribbean	-2.6	-2.4	-3.3	-4.0
Goods producers	-1.7	-1.7	-2.4	-3.0
Service producers	-3.0	-2.6	-3.6	-4.4

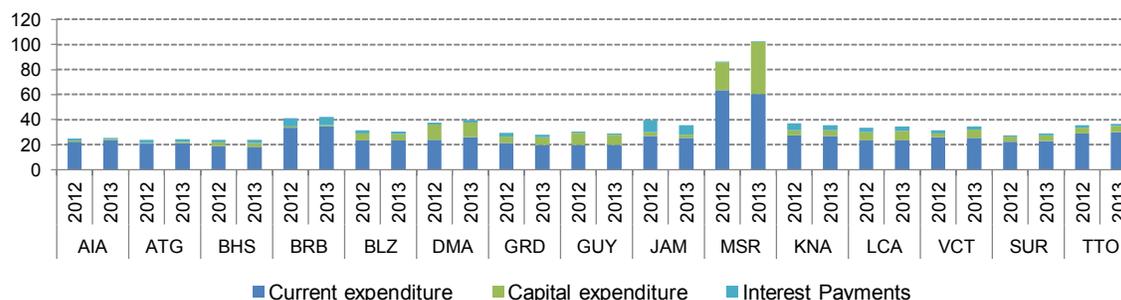
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Simple Average.

This highlights the fact that consolidation has been more difficult than anticipated in an environment of continued weak growth, stagnation in revenues and the “spender of last resort” role that the state has adopted to maintain employment in the wake of weak private sector investment and activity. Indeed, the deficit was higher than in the early period after the global crisis, when it averaged less than 3.0 per cent between 2008 and 2010.

The region registered a marginal improvement in economic growth in 2013, but revenue performance remained weak in the face of higher expenditure, leading to an increase in the deficit. Total expenditures grew by 1.1 percentage points to 36.7 per cent of GDP, driven by higher capital spending and reversing the stagnant performance of capital expenditure in the last two years (figure 6 and appendix I).

FIGURE 6
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.

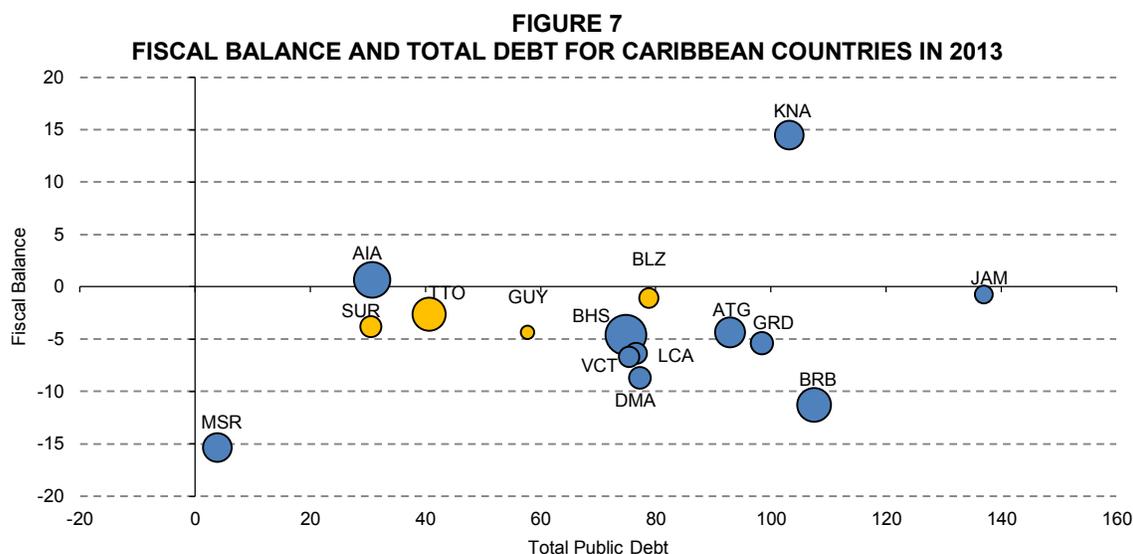
This is a welcome development, as growth in capital expenditures, particularly for infrastructure upgrades, are key to future economic growth. There was also a marginal decline in current spending relative to GDP, a trend that needs to form the platform of fiscal consolidation efforts, especially the containment of government consumption that is unproductive.

Fiscal space and performance continue to be influenced by the structure of the economies. The deficit was higher (4.4 per cent of GDP) in the service-based economies, relative to 3.0 per cent of GDP in the goods producers. The service producers were badly affected by the global crisis and continue to face more serious fiscal challenges in the wake of slower growth (0.5 per cent) than the goods producers (3.0 per cent).

Among the service producers, Montserrat registered the largest increase in the deficit, with an increase of 8.6 percentage points, equivalent to 15.4 per cent of GDP. This reflected an almost doubling of capital expenditure, associated with spending on exploration for geothermal energy that could significantly alleviate energy constraints in the island. In Barbados and Antigua and Barbuda, the deficit rose by 4.0 and 3.0 percentage points, respectively. Growth in the deficit in Barbados was related to a fall in revenues in line with the decline in economic activity. Antigua and Barbuda's deficit stemmed from higher spending on road infrastructure and reduced revenues. Meanwhile, Jamaica's deficit contracted by 3.3 percentage points to 0.7 per cent of GDP, underpinned by fiscal adjustment under the IMF Extended Fund Facility.

The deficit also increased in the goods producers, partly reflecting the tapering off the boom in commodity demand that led to a slowdown in revenues since expenditure remained stable. In Trinidad and Tobago the deficit rose by 1.2 per cent of GDP to 2.6 per cent of GDP, reflecting higher expenditure linked to wage settlements and road and other infrastructure expansion that offset growth in revenues.

The deficit increased by 1.1 per cent of GDP in Suriname and 0.3 per cent of GDP in Belize. Suriname's deficit increased due to a boost in government spending, current spending and capital investment. Meanwhile, the fiscal deficit in Belize was driven by higher capital expenditure, particularly road improvement in Belize City and major highways and increased government consumption due to higher spending on wages and salaries. Figure 7 reports the relationship between the fiscal deficit and the public debt in 2013.



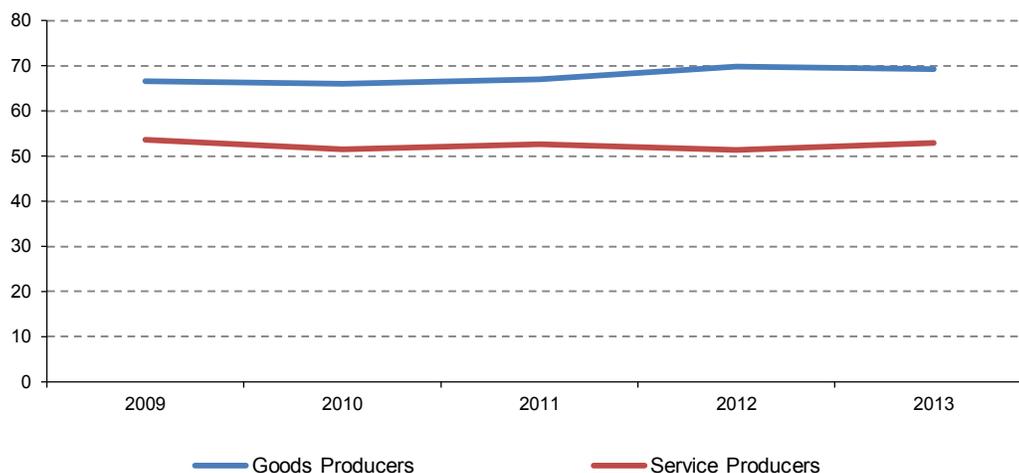
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Note: Size of bubble indicates 2012 GDP per capita in 2005 United States dollars. Yellow represents goods producers, blue represents service producers.

The difference in the extent of the fiscal challenge by economic structure is also reinforced by an index of fiscal flexibility³. This index measures discretionary government spending as a proportion of total spending. Fiscal flexibility for the Caribbean improved marginally from 56.3 in 2012 to 57.3 in 2013, indicating that although the deficit increased, this increase was driven mainly by discretionary spending, such as outlays on goods and services, rather than non-discretionary spending. In line with the greater fiscal space in the goods-producing economies, they had greater fiscal flexibility with 69.3 compared to 53 for the service producers (figure 8), reflecting lower discretion over spending in service producers.

³ The fiscal flexibility index is defined as : $FFI = (1 - NDE/TGE) * 100$, where NDE is non-discretionary expenditure defined as outlays on wages and salaries, transfers and interest payments and TGE is total government expenditure. The maximum value of the uncorrected index is 100, reflecting total fiscal flexibility. IMF (2012), "The Challenges of Fiscal Consolidation and Debt Reduction in the Caribbean", Amo-Yartey et.al, Working Paper WP/12/276.

FIGURE 8
FISCAL FLEXIBILITY INDEX



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

1. Public debt

The severe debt situation in the region moderated marginally in 2013, however debt remains at levels that could constrain growth and shift resources away from development projects to debt servicing. Average public debt declined from 73.2 per cent of GDP in 2012 to 72.4 per cent of GDP in 2013. This reduction in debt mainly reflected debt restructuring and forgiveness in a few countries. Saint Kitts and Nevis posted the largest decline in the debt ratio (a substantial 33 percentage points decline) in the region. This resulted from consecutive rounds of significant debt restructuring, including some debt write-off and a land-for-debt deal. The full completion of this process is expected to bring the debt down further. The debt also contracted in Guyana (5.9 percentage points), Trinidad and Tobago (4.4 percentage points) and Jamaica (1.1 percentage points). The reduction in the debt level in Guyana stemmed from debt relief under the Guyana-Venezuela Petrocaribe rice for fuel initiative. There was a small decline in public debt in Trinidad and Tobago stemming from a fall in the external debt ratio. Meanwhile, the debt contracted marginally by 1.1 per cent in Jamaica, owing to a decline in domestic debt. Nevertheless, external debt increased and, because it is denominated in foreign currency, has resulted in increased debt servicing costs due to the devaluation of the Jamaican dollar.

By contrast, notable increases in public debt were recorded in Barbados (9.3 percentage points), Suriname (9.0 percentage points), Antigua and Barbuda (4.8 percentage points) and the Bahamas (3.5 percentage points). In Barbados, the spike in debt stemmed from higher government borrowing, undertaken in part to service the regional airline LIAT. Suriname's debt was driven by sharp growth in expenditure on infrastructure. Antigua and Barbuda's debt expanded due to higher borrowing to modernize the ageing LIAT airplane fleet and for social sector transformation. Meanwhile, growth in debt in the Bahamas was bolstered by borrowing for infrastructure development.

2. Debt service payments

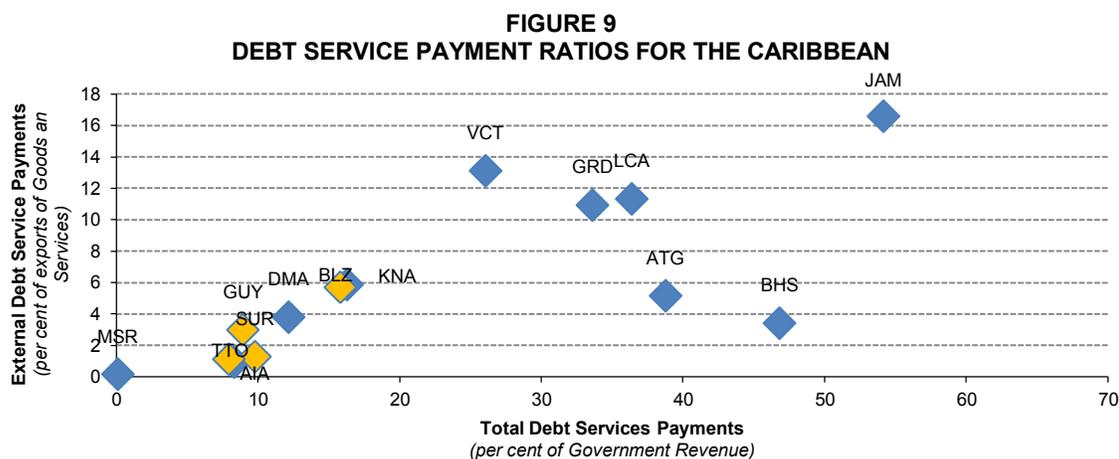
High debt servicing costs remain an important challenge in Caribbean economies. Debt servicing continues to absorb significant amounts of vital foreign exchange and domestic revenues. This constrains the extent to which governments can invest in necessary public infrastructure or finance social programmes that benefit the poor.

The debt service ratios provide some indication of the real costs of debt servicing in the region. In 2013, in a welcome development, the external debt service ratio (external debt service to exports of

goods and services) contracted by 2.5 percentage points to 5.5 per cent. This resulted from an over 20 per cent fall in external debt service payments. Nevertheless, the average ratio masked important differences among countries. The service producers experienced a larger decline (3.2 percentage points) in the external debt service ratio than the goods producers. This was influenced by a much larger decline in external debt service payments in these economies, partly reflecting debt restructuring and write-offs in a few countries (Annex 2).

Among the service producers, Saint Kitts and Nevis posted the largest contraction (13.2 percentage points) again reflecting the salutary effects of debt restructuring. Important declines were recorded by Grenada and Barbados (7.6 and 7.4 percentage points). The decline in the ratio in Grenada stemmed from a strong growth in exports of goods and services that offset the more modest growth in debt servicing costs.

Governments were marginally more challenged to meet total debt service costs from revenue as the ratio of debt service to government revenue increased from 24.1 per cent in 2012 to 24.8 per cent in 2013. The marginal increase reflected an increase in the ratio by 1.2 percentage points in the service producers that offset the 0.5 percentage point reduction in the goods producers. Service producers continue to face challenges in achieving pre-crisis level growth rates that could increase the buoyancy of government revenues. Notably, the debt service to revenue ratio for the service producers is almost three times that of the goods producers, underscoring the relative fiscal challenge faced by service producers, especially since the crisis.



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

D. Monetary policy, domestic credit and inflation

The authorities generally maintained a neutral monetary stance in 2013. Notable exceptions were Jamaica, which adopted a mildly expansionary monetary policy, and Suriname, whose approach was contractionary in response to a credit expansion perceived to be too rapid by the monetary authorities. Average deposit and lending rates, as well as interest rate spreads, declined marginally. In addition, both broad and narrow money supply trended upwards in 2013. Meanwhile, credit to the private sector increased marginally while credit to the public sector contracted. Inflation rates fell in the Caribbean subregion in 2013.

In 2013, annual average deposit and lending rates declined for most economies, with the exceptions of Anguilla, Barbados and Trinidad and Tobago, whose deposit rates remained constant, and

Montserrat, Saint Kitts and Nevis and Trinidad and Tobago, whose lending rate was unchanged from 2012 to 2013.

Lending rates declined marginally overall, but individual country results were mixed. For instance, in the ECCU, the overall average lending rate remained steady at 8.9 per cent between December 2012 and December 2013, while the average deposit rate declined slightly from 2.9 per cent to 2.7 per cent during the same period. Similarly, for the major commodity producers, the overall lending and deposit rates both fell slightly, the former by 0.3 percentage points to 11.0 per cent, and the latter by 0.2 percentage points to 2.8 per cent. The Bahamas and Suriname demonstrated the largest uptick (0.2 percentage points) in the lending rate to 11.1 per cent and 12.0 per cent respectively at the end of 2013. Lending rates also increased in Antigua and Barbuda, Dominica and Saint Vincent and the Grenadines. In contrast, year-on-year, lending rates fell in Jamaica, Belize and Guyana by 0.9, 0.8 and 0.5 percentage points respectively. Lending rates also fell by 0.3 percentage points in Grenada and 0.2 percentage points in Barbados, Grenada and Saint Lucia.

Interest rate spreads contracted marginally to 2012 levels at the end of the review period in Anguilla, Dominica, Saint Lucia and Suriname. It is also noteworthy that a total of six economies (Antigua and Barbuda, the Bahamas, Grenada, Montserrat, Saint Kitts and Nevis and Saint Vincent and the Grenadines) saw a year-on-year increase in the interest rate spread in 2013. Further, Jamaica, Guyana, Bahamas, and Belize registered the largest nominal spreads. For the remaining economies, the spread ranged from a regional low of 4.8 per cent for Suriname to 8.0 per cent in Trinidad and Tobago.

Table 5 summarizes lending and deposit rates and interest rate spread for 2011 and 2012.

TABLE 5
LENDING RATE, DEPOSIT RATE AND SPREAD, 2012-2013
(Percentages; Annual)

	2012			2013		
	Lending Rate	Deposit Rate	Spread ^a	Lending Rate	Deposit Rate	Spread ^a
Anguilla	9.5	3.0	6.5	9.5	3.0	6.5
Antigua and Barbuda	9.4	3.1	6.3	9.5	2.9	6.5
Bahamas	10.9	2.0	8.9	11.1	1.7	9.4
Barbados	8.7	2.5	6.2	8.5	2.5	6.0
Belize	11.9	2.6	9.3	11.1	2.2	9.0
Dominica	8.9	3.0	5.9	9.0	3.0	5.9
Grenada	9.2	2.7	6.5	9.1	2.5	6.6
Guyana	12.8	1.7	11.1	12.3	1.3	11.0
Jamaica	18.4	2.1	16.3	17.5	2.0	15.5
Montserrat	8.0	2.2	5.8	8.0	1.8	6.2
Saint Kitts and Nevis	8.5	3.5	5.0	8.5	3.2	5.4
Saint Lucia	8.6	3.0	5.6	8.4	2.8	5.6
Saint Vincent and the Grenadines	9.3	2.8	6.6	9.4	2.6	6.7
Suriname	11.8	7.0	4.8	12.0	7.2	4.8
Trinidad and Tobago	8.8	0.6	8.2	8.5	0.6	8.0

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

^a Lending rate minus deposit rate.

It is important to note that the subregional average ratio of M1 to GDP increased by 2.0 percentage points from 19.8 per cent (2012) to 21.8 per cent (2013). Notably, upwards trends in the ratio of M1 to GDP were observed for Anguilla, Antigua and Barbuda, Barbados, Grenada, Jamaica, Montserrat, Saint Vincent and the Grenadines and Trinidad and Tobago. Barbados, Grenada and Montserrat registered the largest increases in the ratio. In contrast, M1 as a share of GDP for Belize, Dominica, Guyana, Saint Kitts and Nevis, Saint Lucia and Suriname contracted in 2013 compared to the previous year.

At the subregional level, there was a similar growth in the ratio of M2 to GDP, which increased from 65.7 per cent to 68.7 per cent in the period under review. This uptick was primarily fuelled by sharp increases for Saint Vincent and the Grenadines, Saint Kitts and Nevis and Suriname. For Grenada the M2 GDP share remained unchanged from 2012 to 2013, whilst it decreased for Antigua and Barbuda, Belize, Dominica, Guyana and Montserrat.

TABLE 6
MONETARY AGGREGATES AND DOMESTIC CREDIT TO THE PRIVATE AND PUBLIC SECTOR, 2012-2013
(Percentage of GDP)

	M1		M2 ^a		Domestic Credit to the Private Sector		Domestic credit to the Public sector	
	2012	2013	2012	2013	2012	2013	2012	2013
Anguilla	5.6	5.7	36.2	37.3	179.1	175.0	-31.8	-35.1
Antigua and Barbuda	17.2	18.0	81.1	80.6	72.3	69.1	10.2	12.7
Bahamas, The	0.2	na	0.9	na	81.4	na	25.2	na
Barbados	35.1	38.7	105.0	na	75.8	66.7	21.1	23.3
Belize	35.1	34.7	77.7	76.7	56.9	56.8	5.8	1.2
Dominica	17.0	15.6	85.1	85.0	59.5	58.0	-8.1	12.9
Grenada	15.4	16.9	86.1	86.1	83.3	75.5	2.5	-0.2
Guyana	19.3	18.8	51.8	51.0	27.7	30.1	-7.7	-5.9
Jamaica	10.1	11.3	18.4	18.8	21.0	22.4	9.9	9.3
Montserrat	26.9	30.2	120.6	119.3	42.7	37.6	-52.4	-43.1
Saint Kitts and Nevis	27.4	26.0	93.6	97.5	71.3	97.8	4.1	-41.3
Saint Lucia	19.7	19.3	74.1	74.6	114.8	112.7	-5.1	-2.1
Saint Vincent and the Grenadines	19.0	19.7	60.3	67.5	55.3	53.5	-4.1	-2.6
Suriname	26.0	25.9	49.1	52.3	24.9	28.2	0.7	3.8
Trinidad and Tobago	23.2	24.3	46.1	46.6	28.0	na	-11.4	na
Caribbean	19.8	21.8	65.7	68.7	66.3	68.0	-2.7	-5.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; Eastern Caribbean Central Bank database. ^a M2 is defined as M1 plus savings and time deposits.

In examining trends in domestic credit for Caribbean economies, it is noteworthy that credit to the private sector increased marginally, from an average of 66.3 per cent of GDP in 2012 to 68.0 per cent in 2013. There was a discernible trend towards increased activity in non-tradable activities such as real estate, residential mortgages and personal loans in Belize. In the ECCU, commercial bank credit declined for all activities, including the construction sector and tourism industry, except for the category

personal use. The increase in private sector credit observed for Jamaica in 2013 primarily reflected significant growth in personal loans as a consequence of an expansion in unsecured consumer loans.

The expansion in private sector credit in Trinidad and Tobago was driven by consumer loans in 2013, primarily for purchases of motor vehicles, home improvement and debt consolidation. Credit also expanded in early 2014, driven by an increase in business lending for the first time in 15 months, due to growth in loans to the distribution and other services sector.

On the other hand, within the subregion, domestic credit to the public sector contracted even further from -2.7 per cent to -5.2 per cent of GDP between 2012 and 2013. This overall trend is reflective of ongoing fiscal consolidation, debt reduction and growth stimulation programmes in the subregion, particularly in the ECCU and Belize. This marked a second consecutive year of expansion in economic activity in the ECCU. Monetary aggregates and domestic credit are summarized in table 6.

There was a further decline in inflation rates in the Caribbean subregion in 2013, from 3.1 per cent in 2012 to 1.4 per cent at the end of 2013, after slowing from 5.3 per cent in 2011. This softening of consumer price inflation was attributable to weak domestic demand in some economies and relatively soft food, fuel, clothing and footwear prices. The decline was more distinct for the ECCU where prices declined by 0.4 per cent in 2013, compared to the 2.6 per cent increase in consumer prices in 2012. The steepest reductions were observed for Saint Lucia (5.7 percentage points), Montserrat (4.1 percentage points), Dominica (3.1 percentage points) and Grenada (3.0 percentage points). This tends to have a positive impact on low income households, who can maintain purchasing power.

Among other Caribbean economies the most notable declines were demonstrated in Suriname (3.7 percentage points), Guyana (2.6 percentage points) and Trinidad and Tobago (1.6 percentage points). In contrast, the rate of inflation increased in the Bahamas due, to higher food costs (6.2 per cent), communication (4.5 per cent) and services, which offset the fall in fuel prices, Belize and Jamaica in 2013. Inflation rates for the Caribbean are presented in table 7.

TABLE 7
INFLATION, 2010-2013
(Percentages)

	2010 ^a	2011 ^a	2012 ^a	2013 ^a
Anguilla	0.9	8.6	3.7	1.6
Antigua and Barbuda	2.9	4.0	1.8	1.1
Bahamas	1.3	3.2	0.7	0.8
Barbados	6.5	9.6	2.4	1.1
Belize	0.9	1.5	0.8	1.6
Dominica	0.2	2.0	2.0	-1.1
Grenada	4.2	3.5	1.8	-1.2
Guyana	4.5	3.3	3.5	0.9
Jamaica	11.7	6.0	8.0	9.7
Montserrat	2.5	4.4	3.6	-0.5
Saint Kitts and Nevis	5.2	2.8	0.1	0.4
Saint Lucia	4.2	4.8	5.0	-0.7
Saint Vincent and the Grenadines	2	4.7	1.0	na

Table 7 (concluded)

	2010 ^a	2011 ^a	2012 ^a	2013 ^a
Suriname	10.3	15.3	4.3	0.6
Trinidad and Tobago	13.4	5.3	7.2	5.6
The Caribbean^b	4.7	5.3	3.1	1.4

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

^a December to December.

^b Regional figures are calculated as a simple average.

E. Balance of payments

The performance of the Caribbean countries in the external sector was relatively weak in 2013 and the first quarter of 2014. Many countries recorded an expansion in their current account deficit, and with insufficient capital inflows to offset this, there was a slight decline in international reserves. This outcome, apart from lower commodity prices, was the result of a weak performance in the tourism sector. The increased current account deficit was also due to higher imports stemming from increased domestic demand.

The current account deficit is expected to be reduced in 2014, in line with the increasing world trade anticipated in 2014. However, the recovery is likely to be slow, with a downside risk of further fall in primary commodity prices.

1. Current account

According to the latest data, the current account balance as a per cent of GDP in 2013 deteriorated in several countries in the subregion.⁴ As table 8 shows below, both goods producers and service producers recorded increased current account deficits in 2013.

TABLE 8
CURRENT ACCOUNT BALANCE
(Percentage of GDP)

	2007	2008	2009	2010	2011	2012	2013
Anguilla	-51.7	-62.1	-33.8	-18.9	-12.6	-19.6	-17.1
Antigua and Barbuda	-29.9	-25.9	-14.0	-14.7	-10.4	-14.0	-16.5
Bahamas	-11.5	-10.6	-10.3	-10.3	-13.9	-18.1	
Barbados	-4.0	-9.6	-5.3	-8.2	-12.8	-9.5	
Belize	-4.0	-10.6	-6.2	-2.9	-1.1	-1.2	-4.5
Dominica	-21.1	-28.7	-22.7	-16.9	-13.8	-18.6	-14.3
Grenada	-31.9	-30.5	-25.6	-26.4	-26.6	-24.1	-25.6
Guyana	-10.9	-16.7	-11.4	-11.0	-14.4	-31.8	-40.4
Jamaica	-15.9	-20.4	-9.3	-7.1	-13.6	-11.7	-9.8
Montserrat	-19.3	-34.3	-21.4	-35.1	-15.8	-20.9	-41.4
Saint Kitts and Nevis	-16.4	-27.4	-25.2	-19.9	-13.9	-11.5	-8.2

⁴ The figures for 2013 are unavailable for the Bahamas and Barbados, but preliminary information suggests that the current account deficit expanded in these two countries as well.

Table 8 (concluded)

	2007	2008	2009	2010	2011	2012	2013
Saint Lucia	-29.9	-28.5	-11.5	-16.1	-18.6	-13.8	-7.4
Saint Vincent and the Grenadines	-28.0	-33.1	-29.2	-30.6	-29.4	-31.1	-29.0
Suriname	11.1	9.2	2.9	14.9	5.8	3.3	-3.7
Trinidad and Tobago	23.9	30.5	8.5	20.3	12.4	3.9	10.9
Goods producers	5.0	3.1	-1.5	5.3	0.7	-6.5	-9.4
Service producers	-23.6	-28.3	-18.9	-18.6	-16.5	-17.5	-18.8

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

For goods-based economies, the decline in commodity prices adversely affected their exports receipts, which resulted in an increased deficit in goods trade. An extreme case is that of Suriname, whose current account balance turned from surplus into deficit for the first time since 2006. This was a result of a fall of the price of gold and an increase in imports. Trinidad and Tobago is an exception among the goods producers, recording an increase of its current account surplus compared to 2012.⁵ Guyana recorded a lower trade account deficit in 2013 compared to the year before and, despite the fall in the price of gold, receipts from gold exports was quite high due to higher exports. However, the current account deteriorated due to significantly lower remittances income.

Although service-based economies benefitted to some extent from the lower prices of fuel and food they imported, more than half experienced an increase in their current account deficit. One common factor observed in these countries, except for Montserrat, was a contraction of the surplus in the service balance. In many countries, the tourism sector recorded reduced or only marginally increased receipts. The performance of the tourism sector in the subregion has been poor since the financial crisis, and it has not returned to pre-crisis levels, as major markets in the United States and the EU have had a sluggish recovery.

2. Financial and capital account

Capital and financial account balances were largely unchanged in many countries in the subregion in 2013. FDI inflows have improved steadily up to 2012, and then slowed in several goods-producing economies in 2013, while capital inflows in other forms improved and partially substituted for the decrease in FDI.

Goods-based economies such as Belize, Guyana and Trinidad and Tobago recorded a sharper decrease in FDI inflows in 2013 than that of service-based economies. However, this decrease was a result of the completion of several projects which caused a spike in FDI inflows in 2012, and therefore can be interpreted as temporary, rather than the result of a downward trend. Investments in key commodity sectors are still robust in goods-based economies in the subregion and expected to grow again in 2014, with several projects planned for that year.

⁵ However, it should be noted that the current account surplus in 2012 was quite small and the surplus in 2013 was actually lower than the average over the last six years.

TABLE 9
FINANCIAL CAPITAL, 2009-2013
(Percentage of GDP)

	FDI					Financial Capital				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Anguilla	15.4	4.2	13.2	15.4	20.2	15.1	15.7	-1.0	8.4	-3.1
Antigua and Barbuda	6.7	8.5	5.8	10.8	10.9	7.1	8.1	8.0	3.9	9.1
Bahamas	6.4	11.0	8.4	6.4	4.5	7.9	3.4	4.0	7.5	7.2
Barbados	3.5	0.0	16.6	12.2	0.0	2.1	6.3	5.5	-9.7	0.0
Belize	8.1	7.0	6.4	12.3	5.5	2.0	-4.6	-3.5	-6.6	5.1
Dominica	8.8	5.1	2.9	4.7	3.5	14.0	13.3	15.0	14.0	6.1
Grenada	13.3	7.8	5.5	3.9	9.0	17.3	4.0	4.3	7.2	1.4
Guyana	8.1	8.8	9.6	10.3	7.2	34.9	20.1	18.2	18.0	13.7
Jamaica	4.5	1.7	1.5	2.6	3.9	3.8	4.0	9.3	3.4	8.7
Montserrat	4.3	6.4	3.9	4.0	3.4	24.9	29.2	22.1	25.9	52.5
Saint Kitts and Nevis	18.3	16.7	14.9	12.5	14.8	13.7	12.3	10.9	-0.4	-4.7
Saint Lucia	12.3	9.6	6.2	5.7	6.2	3.3	7.2	12.5	8.8	0.1
Saint Vincent and the Grenadines	16.2	14.2	12.6	16.5	17.3	13.8	19.1	13.5	15.0	13.2
Suriname	-2.4	-5.7	1.6	1.2	2.2	1.0	-4.6	-2.7	5.9	4.8
Trinidad and Tobago	3.7	2.7	7.8	10.3	7.5	-12.7	-24.2	-14.3	-14.9	-1.9
Goods producers	4.4	3.2	6.3	8.5	5.6	6.3	-3.3	-0.6	0.6	5.4
Service producers	9.97	7.76	8.31	8.62	8.53	11.18	11.15	9.46	7.63	8.23

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

In 2013, the stock of international reserves decreased in seven countries due to the deterioration in current account balance. However where there was improvement, this was due to slightly better performances in the financial and capital accounts (table 10). The exception was Suriname, where the current account balance turned from surplus to deficit; capital inflows were not enough to offset this.

TABLE 10
INTERNATIONAL RESERVES, 2010-2013
(Percentage of GDP)

	2010	2011	2012	2013
Antigua and Barbuda	12.0	13.1	13.6	16.5
Bahamas	13.2	13.5	10.3	9.6
Barbados	18.8	18.6	19.9	16.5
Belize	15.6	15.9	18.4	24.9
Dominica	16.0	16.5	19.1	17.2

Table 10 (concluded)

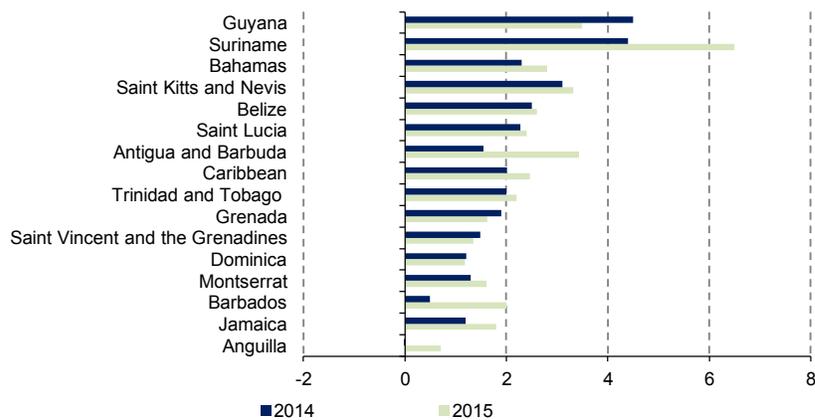
	2010	2011	2012	2013
Grenada	15.5	15.5	14.9	18.1
Guyana	34.6	31.1	30.3	26.2
Jamaica	18.9	15.8	13.5	12.8
Saint Kitts and Nevis	24.4	33.6	36.0	40.6
Saint Lucia	16.5	16.5	17.6	14.4
Saint Vincent and the Grenadines	16.5	13.2	16.0	18.6
Suriname	15.8	18.7	20.1	14.8
Trinidad and Tobago	47.1	44.8	41.4	41.6

Source: World Bank World Development Indicators.

F. Outlook for 2014-2015 and recommendations

The analysis for 2013 suggests that the Caribbean has had mixed results in terms of its economic performance. While the average growth rate has improved, a few countries still experience negative growth and, more importantly, the fiscal situation remains grave, especially among service-based economies. Improved growth is expected in 2014 and 2015; however, this improvement is expected to be modest and is premised on improved demand for exports and increasing domestic demand.

FIGURE 10
CARIBBEAN GDP GROWTH RATES FORECASTS, 2014-2015
(Percentages)



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

Growth in the subregion in 2014 and 2015 is likely to be no more than 2 and 2.5 per cent, respectively, and the goods-producing economies are expected to post higher growth than the service economies. The improved economic performance in the United States and Europe should help to sustain such growth through improved tourism arrivals and larger FDI inflows.

From a policy point of view the programmes aimed at fiscal consolidation are likely to begin to have a positive effect; this should bring down the debt burden and increase access to international

finance. It is recommended that such programmes be continued, despite the adjustment fatigue, but must be carefully crafted to protect the most vulnerable.

Given the risk-averse nature of the domestic private sector and the limited credit expansion, much more effort must be expended to improve the environment for business at both the domestic and regional level. All the indicators suggest that the cost of doing business in the Caribbean is high relative to other small economies.

Over the medium term, policies aimed at deepening the regional integration movement are important to address key structural gaps in the areas of productivity, competitiveness, innovation and connectivity. To address these challenges, emphasis must be on the following:

- Production of regional public goods in areas of energy, information and communication technology (ICT) and maritime transport.
- Investing in areas that will allow Caribbean firms to move up the value chain.
- Leveraging trade agreements and pursuing trade policy reforms to make trade a genuine engine of growth for regional economies.
- Actively targeting available aid for trade resources that remove supply side constraints, given the fiscal challenges facing the region.

II. Country briefs

A. Bahamas

1. General trends

Growth in the Bahamian economy slowed in 2013 to 0.7 per cent from 1.0 per cent in 2012. Growth was dampened by a decline in the high-value stopover tourism. This offset relatively dynamic FDI inflows for resort construction and buoyant activity in the offshore financial services sector. Inflation (December-December) increased marginally from 0.7 per cent in 2012 to 0.8 per cent in 2013 due to higher prices of food, health and other services that offset lower fuel prices. The labour market situation improved in 2013, with the rate of unemployment declining by 0.8 percentage points to 15.4 per cent between May and November.

Economic policymaking remains challenged by the decline in stopover arrivals, increasing government debt and opposition by the public to the introduction of the proposed 15 per cent VAT (value-added tax), which the Government deems necessary to achieve sustainable public finances. The Government has postponed the implementation of the VAT and the rate is expected to be lowered. The Government is moving to diversify source markets for tourism with a focus on emerging markets in Latin America and other regions. Nevertheless, there is a need to explore diversification in other sectors as its tourism continues to face intense competition from other source markets.

The fiscal situation remains a critical challenge for the authorities. The deficit worsened from 5.6 per cent of GDP in fiscal year 2011/12 to 6.6 per cent of GDP in fiscal year 2012/13. This stemmed from an increase in expenditure and a decline in revenue. However, in the first half of fiscal year 2013/14, a reduction in capital spending offset the marginal fall in total revenue. Monetary developments were marked by tepid growth in credit amid weak private sector activity, due to the narrowness of the recovery in activity. This meant that for three years liquidity has been above trend levels. As a result, interest rates on deposits fell, but the average loan rate increased, leading to a widening of interest rate spreads.

The economy is projected to further strengthen in 2014, with growth of 2.3 per cent. Growth is expected to be bolstered by a rebound in tourism based on recovery in the United States economy. Hotel occupancy levels and spending are expected to increase and will be bolstered by the construction of resorts. Employment is expected to increase, especially in the tourism and construction sectors, boosting domestic consumption. The current account deficit is expected to widen in 2014 as the growth in imports from an increase in activity is expected to offset an increase in stopover visitor arrivals and visitor expenditure.

2. Economic policy

a) Fiscal policy

The Government has stated its commitment to fiscal consolidation to bring the debt down to manageable levels. Nevertheless, given the weakness of the economy's recovery, this is expected to occur only in the medium-term. Fiscal policy remained expansionary in FY2012/13, with the deficit expanding from 4.2 per cent of GDP in 2012 to 5.3 per cent of GDP in 2013. Growth in the deficit was driven by a decline in revenue and a rise in expenditures. Tax receipts, which account for over four fifths of revenue, contracted by almost 5 per cent, mainly reflecting lower proceeds from excise taxes and taxes on imports. Excise tax receipts returned to trend growth after a substantial increase in the previous year when a public entity paid significant arrears. Import tax proceeds decreased by 4.6 per cent due to a decline in import payments, owing to reduced public sector construction activity. Non-tax receipts decreased by 7.8 per cent because of lower deferred interest payments, which were bolstered by a one-off payment in 2012. Meanwhile, income from public enterprises increased sharply due to receipt of outstanding landing fees from airlines.

Total expenditure grew marginally (0.5 per cent) due to a 5.3 per cent increase in capital spending as current outlays fell slightly. Capital spending was boosted by higher transfers for the acquisition of specialized aviation equipment and a modest (3.2 per cent) growth in outlays for infrastructure projects. Increased outlays were also recorded for defence and security, to aid in the fight against crime. In keeping with the pattern of using domestic financing to avoid foreign exchange risks, the deficit was financed mainly from domestic sources and an external loan.

Public debt increased from 61 per cent of GDP in calendar year 2012 to 66.2 per cent of GDP in calendar year 2013.

In the first half of fiscal year 2013/14, the fiscal deficit declined by 22.6 per cent to BZ\$209.1 million, 4.8 per cent of GDP. Total expenditure contracted by almost 7 per cent, reflecting reduced spending on public infrastructure projects. While current spending grew marginally, capital expenditure fell by over 33 per cent, compensating for the modest decrease in revenue. The Government has projected a deficit of 5.1 per cent of GDP in 2014/15 and seems on course to achieve this target. The recent budget has projected a deficit of 3.2 per cent for 2014/15, however, achieving this target will be conditional on additional tax measures, such as a VAT, to increase revenue and the containment of growth in spending.

b) Monetary and exchange rate policy

Monetary policy remained neutral in 2013, as the Central Bank left its policy discount rate unchanged. In weighing up the risks to the economy, the Bank noted that external reserves remained adequate to defend the fixed exchange rate. The weak recovery combined with high unemployment and mounting private sector debt has dampened credit demand. As a result, liquidity in banking has remained above the long-term average for the last three years. Domestic credit grew by 3.1 per cent, buoyed by public sector credit that stemmed from bank's increased holdings of sovereign debt. Alongside weakness in economic activity, private sector credit was constrained by a more conservative approach to lending by banks amidst a high amount of non-performing loans in the banking system. In a welcome development, loans to light manufacturing (\$12.4 million) increased during the year.

The broad money supply (M2) declined by 0.2 per cent, less than the 0.4 per cent contraction in 2012. This was influenced mainly by a 3.8 per cent reduction in time deposits that offset the 4.2 per cent increase in savings deposits. Banks have been substituting lower interest-bearing savings for higher cost

fixed deposits in an environment of high liquidity. Meanwhile, foreign currency deposits expanded by almost 10 per cent, reflecting higher holdings by the private sector.

The weighted average interest rate spread widened by 56 basis points to 9.42 per cent, as the loan rate rose by 22 basis points to 11.1 per cent, owing to an increase in the consumer loan segment. Meanwhile, the average deposit rate fell by 34 basis points to 1.7 per cent.

Banking sector credit quality worsened in 2013, influenced by sluggish economic activity and growth in employment. Loan delinquencies increased by 11.4 per cent, raising the ratio of to total private sector loans by 1.8 percentage points to 15.7 per cent. The Central Bank has intensified its monitoring and prudential oversight of banks to ensure improved risk management on their part.

3. Trends in the principal variables

a) The external sector

The current account deficit of the balance of payments widened to 19.4 per cent of GDP from 18.3 per cent of GDP in 2013. The merchandise trade deficit narrowed by almost 8 per cent, owing to a reduction in import payments for construction materials with the winding down of some government infrastructure projects. There were also lower payments for oil products due to the fall in oil prices. However, this was offset by a reduction in the services account surplus. The services account surplus narrowed by 26 per cent to less than 11 per cent of GDP, owing to higher payments for construction services, reflecting strong activity in FDI-related resort construction, including the massive Baha Mar project and also lower tourism receipts in line with the fall in high-spending stopover visitor arrivals.

The deficit on the income account expanded by 25 per cent to US\$329 million, underpinned by a spike in investment income outflows. This was associated with higher outflows by the non-bank sector as the banking sector registered net inflows.

The surplus on the capital and financial account contracted by 21 per cent to US\$990 million, in part owing to a 27 per cent reduction in net FDI inflows (reflecting a return to trend in equity inflows after the one-off purchase of a major resort in 2012) and lower financing for public infrastructure projects. On the other hand, real estate investment posted a five-fold increase, buttressed by the sale of high-end properties. Public sector capital inflows fell sharply following high inflows in 2012 when a port-related public entity obtained external financing for the expansion of operations. International reserves declined by 8.5 per cent to US\$741.6 million in 2013, covering 15.7 weeks on non-oil merchandise imports, down from 16.0 weeks in 2012.

b) Economic activity

GDP growth slowed in 2013 with growth of 0.7 per cent, down from 1.0 per cent in 2012. Real output was dampened by lower value added in the mainstay tourism sector. This growth includes growth in domestic consumption of 0.5 per cent, which includes 3.7 per cent growth in government consumption and a 0.3 per cent decrease in private consumption. Increased consumption offset the 1.8 per cent decline in investment and lower exports of goods and services, resulting in a modest increase in GDP growth.

Tourism value added contracted by 1.2 per cent. High value-added stopover arrivals declined by 4 per cent to 1.36 million visitors, resulting in a 3 per cent fall in visitor expenditure. Stopover arrivals were dampened by slowdown in growth and demand from the United States, the Bahamas's major market, greater competition from other Caribbean destinations and some decline in airlift and room capacity. Cruise ship passenger arrivals increased by 6.2 per cent to 4.4 million. A sample of the larger hotels indicated that average occupancy levels fell by 5.1 per cent and total room revenue was down by 7.0 per cent; this outweighed the effect of a 2.9 per cent increase in the average daily room rate to US\$236.

Construction activity slowed marginally (-1.0 per cent) despite vibrant growth in non-resident construction. Non-resident construction focussed on a number of hotel and resort projects including the mega Baha Mar project and resorts in the family islands. Meanwhile, the slowdown in domestic construction stemmed from the tapering off of public sector projects, including the New Providence Road Project and the Airport Development Project. High unemployment and consumer debt dampened

residential construction, which was reflected in a 16 per cent reduction in mortgages for new construction and repairs.

Activity in the offshore financial services sector was buoyant with increased registration of trusts and banks.

GDP is expected to grow by 2.3 per cent in 2014. The recovery will be driven by a rebound in stopover tourist arrivals and spending and tourism-related construction activity and continued buoyant activity in the offshore financial services sector.

c) Prices, wages and employment

Inflation increased marginally from 0.7 per cent in 2012 to 0.8 per cent in 2013 (December-December). This mainly reflected the higher costs of food (6.2 per cent), communication (4.5 per cent) and services, which offset the fall in fuel prices. Fuel prices decreased with the decline in international oil prices. With the need for prudent fiscal management, wages remained stable in 2013, but the wage bill actually decreased by 2.3 per cent. The rate of unemployment increased by 1.4 percentage points from 14 per cent in 2013 to 15.4 per cent in 2013 (November-November). However, the rate declined from 16.2 per cent in May 2013 to 15.4 per cent in November. The improvement in the labour market reflected 2,600 added jobs. In addition, the number of discouraged workers contracted by 15 per cent (1,205 persons).

B. Barbados

1. General characteristics of recent trends

Since the onset of the global crisis in 2009, the Barbados economy has struggled to achieve growth, with a contraction of 1.2 per cent in 2013, after remaining flat with 0.0 per cent growth in 2012. This trend was sustained into the first quarter of 2014, when the economy further declined by 0.4 per cent. Underlying this enduring sluggishness is the continued underperformance of the tourism sector, the country's main economic driver, with both long stay and cruise passenger arrivals falling by 1 per cent for the first quarter of 2014 compared to the same period in 2013. Significantly, overall tourist arrivals fell in spite of increases from its traditional source markets, the United Kingdom (8 per cent), and other European destinations (14 per cent), as arrivals from the United States and Canada fell by 8 per cent and 10 per cent, respectively.

Slow growth also resulted in an increased fiscal deficit from 7.3 per cent of GDP in 2012 to 11.3 per cent of GDP by the end of March 2014, as total revenue fell over the period. This led the Government to expand its fiscal consolidation measures over the short to medium term. While government expenditure remained largely unchanged at 41 per cent of GDP between 2012 and 2013, gross government debt to GDP increased from 85.7 per cent to 97.9 per cent.

Although there was a slight decline in imports, a sharper decline in exports resulted in a widening of the current account deficit between 2012 and 2013. Low tourism receipts along with a sharp decline in private capital inflows also placed pressures on international reserves, but this was eased by an injection of capital from additional borrowing.

The prevailing economic conditions were reflected in the trend in domestic inflation, which fell to 1.8 per cent from 4.5 per cent between 2012 and 2013. The unemployment rate also increased to 11.7 per cent as the Government's retrenchment programme took effect.

Given the recent negative growth, the Government adopted a new growth and development strategy in order to stimulate a sustained economic recovery. Short to medium term challenges will continue to be the high fiscal deficit and a large public debt. The country has however shown maturity as it begins this economic adjustment, with all social partners fully committing to the process. Growth is expected to be 0.5 per cent for 2014, with a possible improvement to 2.0 per cent in 2015.

2. Economic policies

a) Fiscal policy

With a growing fiscal deficit, Barbados adopted a number of robust fiscal policy measures in order to restructure the economy and return it to sustained growth over the medium term. These measures were categorized as adjustment, reform, recovery, and sustainability. Implementation of the first measure began with actions to reduce the fiscal deficit, and included a reduction of public employment through targeted retrenchment of 3,500 public sector workers (13 per cent of the public sector), further downsizing through attrition, a two year public sector wage freeze, and wage cuts for elected and appointed officials. The worsening fiscal situation was caused by reduced total revenues from 27.7 per cent to 24.9 per cent of GDP between the 2012/13 and 2013/14 fiscal years.

Fiscal consolidation efforts kept government expenditure unchanged at 41 per cent of GDP, with an increase of interest payments to 7.2 per cent of GDP being the most significant change between the 2012/13 and 2013/2014 fiscal periods. However, the primary balance remained unchanged at 0.3 per cent of GDP. As part of its fiscal reform process, Barbados expects to strengthen its revenue collections and management with the launch of the new Barbados Revenue Authority in April 2014.

b) Monetary and exchange rate policy

Barbados has a fixed exchange rate of B\$ 2:US\$ 1 which it supports through the maintenance of adequate international reserves. During 2013, a 76.6 per cent drop in private capital inflows reduced international reserves by US\$ 150.5 million, thereby placing pressure on the exchange rate. A subsequent US\$ 75 million loan, along with US\$ 23.5 million of private capital during the first quarter of 2014, improved the country's reserve position, returning it to 15 weeks of import cover, after falling to 13.4 weeks in September 2013.

Interest rates also remained low and stable, with the treasury bill rate falling from 3.6 per cent in 2012 to 3.2 per cent in 2013. Low interest rates were reflected in the low level of inflation, which averaged 1.8 per cent for 2013, falling from 4.5 per cent in 2012. First quarter inflation for 2014 was recorded at 1.7 per cent compared to 3.5 per cent for the previous year. This was due to reduced international prices for fuel and food, both of which are significant factors in the retail price index in Barbados. Given the global projection for continued low inflation levels during 2014, rising domestic inflation is unlikely for Barbados during 2014.

Credit to the non-financial sector also remained low, falling by 2.1 per cent between the first quarters of 2013 and 2014. This continues a trend in decreasing credit: credit fell by 0.8 per cent for the first quarter of 2013 relative to the same period in 2012. However, deposits to the banking system increased by 4.3 per cent on account of increases from private individuals and statutory bodies. This may reflect severance payments for public sector workers retrenched under the Government's fiscal consolidation programme. The excess liquidity ratio also increased 3.1 percentage points to 17.7 per cent in 2013. There was, however, a slight downward adjustment in the non-performing loan ratio from 12.9 per cent to 11.7 per cent between 2012 and 2013.

c) Other policies

Apart from the recent fiscal adjustments noted above, the Government has proposed further medium-term policy actions with respect to the diversification of the tourism sector; strengthening business facilitation to enhance international business and finance; developing the education services sector; expanding alternative energy; and strengthening the legislative and institutional framework. In the case of tourism, diversification efforts to further develop the luxury segment of the tourism sector have so far seen the introduction of the Sandals Hotel brand to Barbados in 2013. Work is also ongoing to further enrich visitor experiences through newer tourism niches such as ecotourism, sports tourism and culture tourism, and to increase visitor's arrivals from newer source markets, including South America and the Caribbean. The Government will stimulate the economy over the short to medium term by improving business facilitation services as a means to stimulate growth in the international business and finance sector.

With a highly educated workforce, Barbados is also aiming to further develop its education services sector by strengthening its education certification and accreditation infrastructure. This policy is

expected to have spillover benefits, as it enhances the workforce to better support the private sector to create jobs and sustain growth. Additionally, further expansion of the alternative energy sector is expected to reduce the country's fossil energy dependence and the resultant burden on the balance of payments. Finally, institutional reforms such as the recent establishment of the Barbados Revenue Authority and the planned restructuring of the country's parliamentary council and solicitor general's offices are expected to contribute to resuscitating growth in Barbados over the short to medium term.

3. Trends of the principal variables

a) External sector

The tourism sector continues to be the largest foreign exchange earner for Barbados, and its poor performance since the economic crisis has limited the country's return to sustained growth. After a 5.6 per cent fall in tourism arrivals between 2012 and 2013, the downward trend continued with a further 1 per cent drop during the first quarter of 2014 relative to the same period in 2013. There was, however, a notable shift in arrival trends across source markets, with visitors from the United Kingdom rebounding by 8 per cent in the first quarter of 2014 after falling by 3.1 per cent in the previous year. This improvement was on account of new airlift, as well as the appreciation of the pound sterling as the British economy gathers momentum. Arrivals from the rest of Europe also increased by 14 per cent, reflecting the overall strengthening of the European economy in 2013. These gains were nevertheless offset by reductions of 8 per cent and 10 per cent from the United States and Canada due to reduced airlift, while CARICOM arrivals fell by 7.4 per cent. The overall fall in stayover arrivals was not bolstered by cruise passengers, as arrivals from this subsector also fell by 1 per cent during first quarter 2014.

Considering trade in goods, rum exports declined by 1.2 per cent in 2013 relative to 2012, with further reductions in the first quarter of 2014 as bulk and bottled rum declined by 7 per cent and 31 per cent, respectively. Imports also fell marginally by 1.4 per cent as world market prices for energy and food remained stable during 2013. These changes resulted in a slight deterioration of the current account deficit which increased from 10.1 per cent of GDP in 2012 to 11.8 per cent of GDP in 2013. However, a significant fall in private inflows during 2013 resulted in a more significant impact on the capital account, which fell by 27.4 per cent by the end of 2013. Although increased public inflows during the first quarter of 2014 resulted in an improvement of the capital account, the level of international reserves fell by 21.3 per cent in 2013, representing 15.6 weeks of import cover, compared to 19 weeks in 2012. This subsequently improved slightly to 16 weeks by the end of the first quarter of 2014.

b) Economic growth

In light of the protracted low level of growth since the crisis, the Government's focus has been to re-engineer the economy in order to achieve positive and sustained growth in the medium term. The traditional drivers of growth have either stagnated or declined between 2012 and 2013. Apart from tourism, which contracted by 1 per cent, construction fell by 12 per cent, and sugar output declined by 29 per cent over the period. Output from mining and quarrying also decreased by 15 per cent. Meanwhile, output of rum and other beverages remained flat, manufacturing increased by a mere 0.6 per cent.

Overall, sector performance indicates declining real output, and with government spending remaining unchanged under its fiscal consolidation programme, there was little room for fiscal stimulation in 2013. Growth is expected to pick up again in 2014 with the initiation of several public-private projects, including expansion of Sandals Resorts and construction of the Sugar Point Cruise Pier and Pier-head Marina. These tourism and related public sector investments are projected to inject US\$ 2.25 billion in private capital inflows over the next three years. Hence, Barbados projects growth of 0.5 per cent in 2014 and 2.0 per cent and 2.5 per cent in 2015 and 2016, respectively.

c) Inflation, wages and employment

With the beginning of public sector retrenchment in the last quarter of 2013, unemployment increased to 11.7 per cent by the end of 2013. This retrenchment is expected to be exacerbated by additional layoffs as the private sector struggles to adjust to reduced government spending and further contraction of the Barbados economy.

Inflation also trended downwards and stood at 1.8 per cent in 2013 and 1.7 per cent in the first quarter of 2014. With respect to wages, real unit labour costs continue to fall, having declined by 9 per cent since 2009 at the start of the crisis. The Government's newly implemented two-year wage freeze, along with continuing sluggish economic conditions, are likely to stabilize wage rates over the short term.

The Barbados government has acknowledged the need for significant structural reforms in order to rekindle economic growth. Through the measures in its new medium-term growth and development strategy, real efforts at economic adjustment have already begun. As a small open economy, the success of these new measures will depend on continued positive performance of the global economy in general, and its specific trading partners in particular. Success will also depend on the willingness of the key social partners of the Government, the private sector and labour, to rally together in order to re-engineer the economy. So far this willingness appears to be there.

C. Belize

1. General characteristics of recent trends

Economic growth decelerated to 0.7 per cent in 2013, following strong growth of 4.0 per cent in 2012. Growth was dampened by lower output in agriculture, petroleum production and agro-based manufacturing. This was only partly offset by dynamic activity in tourism, construction and fisheries. Inflation (end of period) increased from 0.8 per cent in 2012 to 1.6 per cent in 2013, reflecting price increases in all categories of goods except clothing and footwear and miscellaneous goods and services. Average unemployment fell by 2.3 percentage points to 13 per cent, owing to vibrant growth in tourism, construction and other services.

The economy is projected to improve in 2014, with growth projected at between 2.0 per cent to 2.5 per cent. Pickup in activity is expected to be driven by continued strong growth in services, led mainly by tourism and construction and a modest recovery in agriculture. Stopover visitor arrivals are projected to increase by 5.0 per cent, reflecting improved performance in the main source markets, the United States and European Union. Construction will be buoyed by capital infrastructure projects, including major road improvement in Belize City and work on the Southern Highway and the Macal Bridge. Agriculture will recover based on a rebound in sugarcane and citrus output.

Fiscal challenges, which have been an area of signal difficulty for Belize, have eased with the restructuring of the Government's external commercial debt in 2013. The restructuring, though not as generous as it could have been, has led to an extension of the bond by some nine years to 2038 at a lower interest rate. This, alongside significant loan inflows on the Venezuela Petrocaribe Agreement, (VPCA) have increased the fiscal space. Nevertheless, the Government needs to use this space prudently to retire more expensive debt and to focus on development projects that could increase longer-term growth to deflate the debt in the future.

Government finances deteriorated in 2013, with the overall fiscal deficit increasing from 0.8 per cent of GDP in 2012 to 1.1 per cent of GDP in 2013. Although revenues increased, this was outweighed by a growth in expenditure that was driven by higher spending on wages and salaries, goods and services and capital spending. There was sharp increase in the current account deficit from 1.0 per cent of GDP in 2012 to 4.5 per cent of GDP in 2013. The widening deficit was fuelled by an expansion in the merchandise trade deficit that exceeded the tourism-led improvement in the services account.

Economic activity slowed in the first quarter of 2014. All major export commodities, except marine products, registered declines in output, which offset dynamic growth in stopover tourism. Marine products were bolstered by higher shrimp production. Petroleum production contracted by 23 per cent to 169,952 barrels, owing to depleting reserves in the two fields. Sugarcane deliveries declined by 33.6 per cent and citrus (-29.9 per cent) and banana (-4.7 per cent) experienced lower production. Meanwhile, tourism maintained strong growth with stopover arrivals rising by 10.6 per cent and cruise passenger arrivals up by 22.0 per cent. The Government's fiscal deficit more than doubled to BZ\$33.4 million during the first quarter of 2014, owing to strong growth in spending that offset an increase in revenue.

The broad money supply increased by 4.0 per cent, owing to growth in net foreign assets, which outweighed a decline in domestic credit. Debt overhang continues to constrain credit to the private sector. The trade deficit widened as imports expanded by 20 per cent, while exports were down by 1.4 per cent.

2. Economic policy

a) Fiscal policy

Fiscal policy in 2013 focused on securing an agreement with creditors to restructure the Government's external commercial (superbond) debt and boosting economic growth through increased expenditure on capital works. A successful debt restructuring deal was concluded, albeit with less favourable terms than the authorities had initially hoped. Nevertheless, the restructuring has provided important fiscal space for the Government, which was constrained by high debt servicing costs.

The debt exchange provides a 10 per cent haircut on principal payments, a nine year extension on the maturity of the bond to 2038 and a reduction in the average interest rate on the debt. The interest rate will be held at 5 per cent for the first five years of the bond, then will be increased to 6.678 per cent until maturity.

The Government's finances weakened in 2013, with the overall fiscal deficit expanding from 0.8 per cent of GDP to 1.1 per cent of GDP. This reflected a 1.8 per cent increase in expenditure that offset the 0.8 per cent growth in revenues. Higher expenditure was mainly driven by expanded capital outlays (3.9 per cent) associated with a major road improvement programme, including in Belize City and major highways. Other areas of focus included natural resource and solid waste management and a sustainable tourism project, centred on upgrading tourism sites. Current expenditure increased by 1.4 per cent to over 23 per cent of GDP, reflecting increased spending on wages and salaries, linked to the payment of annual increments to public servants, and a 10.8 per cent increase in spending on goods and services, largely associated with legal and administrative fees related to the restructuring of the debt. By contrast, interest payments declined by 37 per cent, owing to deferral of payment one of the biannual payments on the superbond and a fall in yields on treasury bills.

With a focus on improved tax administration and collection, tax revenues posted modest growth in 2013. However, total revenues grew by only 0.8 per cent, reflecting significant declines in incomes from the petroleum industry and grants. Tax receipts expanded by almost 8 per cent to BZ\$54.3 million, reflecting higher business and personal income taxes that benefited from improved monitoring and reporting. The general sales tax was bolstered by its imposition on fuel imports, replacing the fixed import duty that was levied before. Meanwhile, non-tax revenues contracted by 21.5 per cent to BZ\$28.2 million, stemming from lower dividends from the oil industry and reduced grant receipts.

The secular decline in receipts from the oil sector is of concern and the Government would need to explore how it can raise alternative sources of revenue. Also, grant receipts are exogenous and cannot form the base of stable programmed spending. This underscores the need for the Government to be prudent in the use of the Petrocaribe funds to ensure maximum development impact.

The budget for 2014/15 has projected a deficit of BZ\$ 57.1 million. This would represent a decline in the deficit from 2.3 per cent of GDP in 2013/14 GDP to 1.7 per cent GDP in 2014/15. Total revenue and grants are projected to grow by 6 per cent, while total expenditure is projected to increase by 4.0 per cent. The achievement of this target depends on continued improvements in revenue collection and the prudent management of expenditures.

In a turnaround from a three-year decline, public sector debt rose from 76.9 per cent of GDP to 78.9 per cent of GDP. Higher debt was fuelled by concessionary loans under the VPCA that led to a 5.4 per cent increase in the debt.

b) Monetary and exchange rate policy

Monetary policy remained neutral in 2013, as the Central Bank held its policy rate constant, despite the slower pace of growth. Broad money grew by a sluggish 1.4 per cent following robust expansion (11 per cent) in 2012. Deposit inflows were dampened by a fall in export receipts that was related to the

slowdown in activity. On the other hand, Central Bank reserves were bolstered by loan inflows to the Government under the VPCA and other sources.

With the slowdown in economic growth, domestic credit declined by almost 5 per cent in 2013, following the recovery in 2012. In a welcome development, credit to the private sector increased by 2.5 per cent, continuing the growth from 2012. However, this was offset by a sharp fall (77.9 per cent) in credit to the public sector. Commercial bank credit continues to favour non-tradable activities such as real estate, residential mortgages personal loans. Meanwhile, lending to the productive sectors, including agriculture and tourism, accounted for under 16 per cent of commercial bank loans in 2013.

Banks witnessed a sharp increase in excess cash reserves and this placed downward pressure on loan interest rates, with the weighted average lending rate declining by 80 basis points to 11.1 per cent, while the weighted average deposit rate fell by 40 basis points to 2.2 per cent, leading to a reduction of 30 basis points in the interest rate spread to 9.0 per cent. Banks wrote off almost BZ\$ 53 million in non-performing loans to tourism, manufacturing and distribution. This contributed to a reduction in non-performing loans from 11.0 per cent of total loans to 8.8 per cent of total loans.

c) Other policies

The Government has embarked upon a reform programme to improve fiscal management and modernize the financial system. Key elements include the implementation of the Inter-American Development Bank's (IDB's) Smart Stream System to improve public expenditure management and improved monitoring of interconnected financial institutions by the Central Bank to reduce inter-party risks.

3. Trends in the principal variables

a) The external sector

The balance of payments current account deficit widened from 1.2 per cent of GDP in 2012 to 4.5 per cent of GDP in 2013. The more than threefold expansion in the deficit was driven by worsening a merchandise deficit that more than offset the tourism-led improvement in the services account. Merchandise imports expanded by 7.1 per cent, boosted by higher demand for domestic consumption and for commercial free zone activity. Reflecting project activity, imports were dominated by machinery and equipment and manufactured goods that were used for infrastructure projects.

Exports contracted by 2.1 per cent owing in part to lower exports receipts for petroleum (-24.7 per cent) and citrus (-29.1 per cent). Petroleum continued to be affected by falling output from the two maturing wells, while citrus was dampened by citrus greening disease and lower prices. Sugar export receipts were relatively stable at around US\$54 million, however, despite higher volume, receipts were affected by the depreciation of the euro relative to the United States dollar to which the Belize dollar is pegged, which resulted in 6.9 per cent fall in average price.

The services account surplus increased by 8.7 per cent, buoyed by an 18.6 per cent expansion in travel receipts on account of growth in tourist arrivals. This outweighed higher net payments for transportation and other services. The capital and financial account surplus more than doubled to US\$186 million, reflecting burgeoning loan inflows under the VPCA and net FDI inflows of US\$1,77.2 million into tourism, real estate and petroleum exploration. International reserves expanded by 39 per cent to US\$201.4 million, covering 5 months of imports.

The current account deficit is projected to widen in 2014 as growth in imports, a return to biannual interest payments on the restructured debt and profit outflows offset the recovery in merchandise exports and dynamic tourism inflows. The surplus on the capital and financial account is projected to narrow due to a sharp fall in disbursements under the VPCA and lower grant receipts.

b) Economic activity

Economic growth slowed to 0.7 per cent in 2013, following the strong pick up in activity (4.0 per cent) in 2012. The slowdown in activity resulted from lower output in agriculture, manufacturing, transport and financial, real estate and business services. These declines partially offset strong growth in tourism, electricity gas and water and community and personal services. Real output in agriculture contracted by 1.5 per cent due to a 21.9 per cent fall in sugarcane deliveries, owing to froghopper infestation and a

sharp fall in citrus production, which was affected by citrus greening and heavy rains. Banana production also declined due in part to the heavy rains. Manufacturing was affected by a 23 per cent contraction in crude oil production, reflecting declining yield in the two ageing fields. Output of marine products maintained strong growth (17.5 per cent) associated with higher production of farmed shrimp with the opening of two additional shrimp farms and a hike in output of whole fish.

Activity in the tourism sector remained dynamic, fuelled by an increase in stopovers (5.8 per cent) to 272,255 visitors, cruise passenger arrivals (5.7 per cent) and visitor spending. Growth was boosted by increased marketing and investment in upgrading the tourism product by the Ministry of Tourism and the Belize Tourism Board.

c) Prices, wages and employment

Inflation increased from 0.8 per cent in 2012 to 1.6 per cent in 2013. This was due to higher prices of such items as food, fuel and transportation. The unemployment rate fell from 14.4 per cent in 2012 to 11.7 per cent in 2013. Wages were fairly stable in 2013, as there was no increase in the wages and salaries of public servants and higher wage costs reflected the payment of increments and the reclassification of a part of teachers' salaries. There was a 3.5 per cent growth in employment, in part owing to higher activity in construction, tourism and other services. Nevertheless, the participation rate fell from 65.4 per cent in 2012 to 64.2 per cent in 2013.

D. Eastern Caribbean Currency Union

1. General trends

Economic activity in the Eastern Caribbean Currency Union (ECCU) territories is expected to expand by 1.7 per cent in 2014, as the recovery in all six sovereign economies gathers momentum, albeit at varying levels. A quickening of the recovery in the construction sector coupled with sustained growth in the tourism industry will continue to have positive spillovers on the transportation and communications sectors. Wholesale and retail trade activities are expected to grow exponentially as a consequence of these drivers. The agricultural sector is also expected to be positively impacted. However, continued fiscal consolidation should limit government spending. Weak economic activity in some Member States should keep inflation in check, with inflation of approximately 1.8 per cent expected in 2014

In 2013, GDP increased by an average of 0.7 per cent compared to 0.2 per cent in 2012. This improvement in economic output can be linked to improvement in FDI inflows into the ECCU, as well as a higher level of private and public domestic investment. While the majority of Member States experienced positive economic growth, there was a contraction in economic activity in Saint Lucia. This notwithstanding, overall growth in the ECCU remained relatively low due to slower than anticipated growth in the United States (1.9 per cent), European Union (0.1 per cent) and Canada (2.0 per cent), the subregion's major tourism source markets.

Despite continuing to actively pursue fiscal consolidation strategies, there was a widening of the consolidated fiscal deficit from 2.6 per cent of GDP in 2012 to 2.8 per cent of GDP in 2013, primarily due to increased capital expenditure in Antigua and Barbuda, Saint Kitts and Nevis and Saint Vincent and the Grenadines. This deterioration of the deficit suggests the emergence of a less cautionary approach to fiscal policy-setting in some Member States. Capital expenditure concentrated largely on enhancing infrastructure, particularly road networks; in Saint Vincent and the Grenadines most capital expenditure was focused on the construction of the Argyle International Airport.

Notwithstanding the consolidated fiscal deficit, there was a 4.5 per cent increase in revenue in 2013. This was largely fuelled by non-tax revenue collection and a marginal increase in tax revenue. The 24.5 per cent growth in non-tax revenue was essentially attributable to fees generated by the Citizenship by Investment Programme in Saint Kitts and Nevis. Moreover, the uptick in tax revenues generated by the ECCU was primarily due to an increase in VAT collections on domestic goods and services.

Within the ECCU, prices declined by 0.4 per cent 2013, compared to the 2.6 per cent increase in consumer prices in 2012. The fall in consumer prices is attributed to weak demand and relatively soft food, fuel, clothing and footwear, housing and education prices.

2. Policy challenges

a) Fiscal policy

The onset of the global economic and financial crisis and ensuing sluggish recovery in the region's major export markets retarded economic growth in the ECCU. This unmasked and worsened structural fiscal imbalances which emerged as Member States accrued considerable debt in order to offset increased public expenditure. This increase was necessary to compensate for declining merchandise export revenues in the years preceding the crisis. In response, the ECCU adopted the Eight Point Stabilization and Growth Plan as the basis for restructuring their economies and stimulating sustained growth over the short to medium term. The goal of this approach of fiscal consolidation was to reduce fiscal deficits and public debt by meeting annual targets set by the Eastern Caribbean Central Bank (ECCB). During the period under review, guided by the imperatives of the Stabilization and Growth Programme, the ECCB continued to support ECCU member governments' fiscal reform and debt management efforts.

This notwithstanding, ECCU governments increased capital expenditures 2013, as there was a heightened focus on delivering key public goods and stimulating economic activity. The major drivers of the expansion in capital expenditure were Antigua and Barbuda, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines. Consequently, there was a 41.7 per cent increase in the overall deficit, which stood at 2.8 per cent of GDP at the end of 2013. Despite the expansion of the overall deficit, current revenue outstripped growth in current expenditure.

The ECCU Governments' current operations therefore generated a surplus (0.5 per cent of GDP) when compared to a deficit (0.1 per cent of GDP) in the previous year. It is noteworthy that observed increases in tax revenues and non-tax revenues were mainly due to VAT collections in Saint Lucia and fees associated with Saint Kitts' Citizen by Investment Programme, respectively. Total public sector debt declined by 0.3 per cent in 2013, compared to a 1.1 per cent increase in 2012, resulting in an improvement in the debt-to-GDP ratio to 98.5 per cent at the end of 2013. Public domestic debt declined (8.5 per cent), primarily due to the land-for-debt swap in Saint Kitts and Nevis, which offset an increase in external indebtedness as the Governments of Saint Lucia, Antigua and Barbuda, Grenada and Saint Vincent and Grenadines expanded borrowings. Saint Kitts and Nevis was the only ECCU economy for which public sector debt declined in 2013.

b) Monetary policy

Domestic credit stock in the ECCU economies contracted (3.7 per cent) further in 2013 owing to a fall (50.7 per cent) in the net credit positions of Governments as credit from commercial banks declined. The land-for-debt swap between the Government of Saint Kitts and Nevis and the commercial banks, which considerably reduced loans and advances to the state, largely accounted for the contraction in commercial bank credit to ECCU governments.

In contrast, an increase in credit to households, subsidiaries and affiliates led to a rise (2.0 per cent) in private sector credit in 2013. Further, with the exception of the category personal use, commercial bank credit across all other economic activities declined in 2013, including the construction sector (3.3 per cent) and tourism industry (5.8 per cent). The uptick (1.5 per cent) in commercial bank credit for property acquisition and other personal uses was on account of expansion in lending for home construction, renovation and house and land purchases. Interest rates across the Union remained relatively stable between 2012 and 2013, with the average weighted lending rate remaining at 8.9 per cent. However, in response to increased liquidity, the average weighted deposit rate declined by 0.18 percentage points to 2.84 per cent and the interest-rate spread widened by 0.21 percentage points to 6.1 per cent.

Foreign exchange reserves increased (3.9 per cent) by the end of 2013. This was largely as a result of the increase in foreign securities and the reduction in foreign liabilities. This stronger reserve

position buttresses the Central Bank's capacity to continue to support the fixed exchange regime of the Union, with the exchange rate remaining at US\$ 1 = EC\$ 2.7 at the end of the first quarter of 2014.

c) Other policies

In 2013 the ECCU continued to follow a path of fiscal consolidation, debt reduction and growth stimulation, which yielded a second consecutive year of GDP growth. However, while most economies kept expenditure in check, others (e.g., Antigua and Barbuda, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines) adopted a relatively more expansionary approach, seeking to address key structural gaps which have constrained growth and limited structural transformations for sustainable development. Capital expenditures in this respect largely centred on transportation interconnection, particularly road works, airport and port infrastructure. In fact, Saint Vincent and the Grenadines' capital expenditure almost tripled in 2013.

There was also an increased concentration on social protection and unemployment relief, particularly in Saint Lucia and Grenada, through state-assisted programmes such as SMILE and IMANI in Saint Lucia and Grenada, respectively. Collectively, these subtle shifts in policy focus have in no small way underpinned increased Government borrowing in Antigua and Barbuda, Grenada, Saint Lucia and Saint Vincent and Grenadines.

The region has also made considerable progress towards harmonized insurance legislation and the implementation of a harmonized legislative and regulatory compliance framework by the revised deadline to meet the requirements of the United States Foreign Account Tax Compliance Act. These two initiatives critical to the financial stability of the ECCU. To accelerate credit growth and strengthen the resilience of the financial sector, the ECCU is also seeking to establish a public credit bureau and a Single Financial Space. Additionally, the development finance institutions and development banks operating in the ECCU have increasingly been viewed as central players in fostering growth and structural transformation in ECCU economies. These development partners have been increasingly encouraged to adopt a policy-based approach to financial intermediation, where, in an effort to stimulate economic growth, resources are channelled to priority sectors such as tourism and manufacturing.

The construction of the Sandals La Resource and Spa at Pink Gin Bay in Grenada, as well as inflows under the Citizen by Investment Programme, other FDI projects and the Sugar Industry Diversification Foundation (SIDF) in Saint Kitts and Nevis, drove positive growth in tourism and private-sector construction activities in both countries. This was manifested in a 20.0 per cent expansion in output in the construction sector in Grenada and 8.0 per cent rise in the sector's value added in Saint Kitts and Nevis in 2013. Efforts to increase FDI inflows, particularly into the tourism sector in order to strengthen recovery, are expected to accelerate further throughout the ECCU in 2014.

Furthermore, Antigua and Barbuda successfully completed its three-year standby arrangement (SBA) with IMF in 2013 and Saint Kitts and Nevis is scheduled to complete theirs in 2014. Grenada has recently (2014) entered into a three year Extended Credit Facility Arrangement with the IMF for US\$21.9 million which is conditioned by structural reforms, fiscal adjustment and comprehensive debt restructuring. The foregoing is indicative of the ECCU's commitment to undertaking the economic restructuring necessary to spur economic growth in the short to medium term.

Moreover, the adjustments and reforms under the SBA improved Saint Kitts and Nevis' fiscal position and reduced its debt. In addition, following a cumulative contraction of 10 per cent in GDP over from 2009 to 2012, real GDP expanded 2.0 per cent in 2013. However, Antigua and Barbuda has had some deterioration in respect of capital expenditure and macroeconomic performance since exiting the SBA with the IMF, and therefore may need to create a medium-term fiscal consolidation framework geared at reining in public debt.

3. The main variables

a) The external sector

The balance-of-payments current account deficit narrowed from 17.6 per cent of GDP in 2012 to 16.4 per cent of GDP in 2013. The decrease in the current account deficit is attributable to a reduction in the

deficit for merchandise trade. There was also an increase in the surplus of the services account in 2013, which was driven by increased inflows from travel and government services.

The balance-of-payments income account recorded a narrowing of the deficit to \$408.1 million in 2013 from \$470 million in 2012. There was also a contraction in the surplus on the capital and financial accounts of the balance-of payments in 2013, primarily due to a 28.9 per cent decline in the outflow of funds from commercial banks.

b) Economic activity

Structurally, ECCU economies have invariably evolved from primarily agricultural to predominantly service-based economies; however, agriculture still remains an important productive sector for ECCU countries, particularly the Windward Islands (i.e., Saint Lucia, Saint Vincent and Grenada). Export earnings from tourism and agriculture are the main drivers of the ECCU's trade performance.

There was a slender (0.1 per cent) increase in total stopover visitor arrivals between 2012 and 2013. However, disaggregated data reveals that the performance amongst ECCU economies was mixed, with Antigua and Barbuda and Saint Vincent and the Grenadines experiencing declines of 6.8 per cent and 3.5 per cent respectively, while all other countries experienced an increase in stopover visitor arrivals in 2013. Increased arrivals from Canada (7.2 per cent), the United States (1.9 per cent) and the Caribbean (0.1 per cent) supported the overall rise in stopover arrivals. The improved performance of the tourism sector is reflective of increased buoyancy of the economies of the United States and Canada.

Following the 12.7 per cent contraction in 2012, there was a further decline (1.8 per cent) in cruise ship passenger arrivals across the ECCU, despite a 1.7 per cent increase in the number of cruise ships calling. At the country level, while cruise passenger arrivals expanded in Saint Kitts and Nevis (9.35 per cent), Saint Lucia (3.89 per cent) and Saint Vincent and the Grenadines (3.89 per cent), arrivals in the remaining ECCU economies declined. This trend is reflective of increased competition from nontraditional destinations.

Driven primarily by an increase in crop production, in particular an 11.3 per cent rise in nutmeg output, agricultural output in the ECCU expanded (1.64 per cent) in 2013. Overall output, however, was dampened by declines in banana production in Dominica (29.3 per cent), Grenada (5.5 per cent) and Saint Lucia (1.6 per cent) due to the Black Sigatoka disease, drought and unfavourable weather, respectively. There was an estimated 7.3 per cent contraction in banana production in 2013. The livestock subsector also rebounded in 2013 with production increasing by 2.5 per cent, following a 4.0 per cent decline in 2012.

ECCU-wide GDP growth, however, was constrained by a contraction in value added in the manufacturing sector (by 3.8 per cent) in 2013. Weakened domestic, regional and international demand led to lower manufacturing output in Saint Kitts and Nevis and Saint Lucia, while Saint Kitts and Nevis was also affected by the stop in production of several internationally recognized beverage brands. In contrast, manufacturing output demonstrated distinct recoveries in Dominica (beverages and soap), Grenada (beverages) and Saint Vincent and the Grenadines (beer, flour and feeds).

Fuelled by increased (18.1 per cent) FDI inflows, value added in the construction industry trended upwards by 2.9 per cent in 2013 on the heels of a 4.3 per cent downturn in the previous year. The recovery of construction activity within the ECCU was underpinned by strong sectoral performances in Grenada (20.0 per cent), Saint Vincent and the Grenadines (15.0 per cent), Saint Kitts and Nevis (8.0 per cent) and Antigua and Barbuda (5.0 per cent).

The overall growth prospects are encouraging for ECCU in 2014 given the anticipated strengthening of the global economy. All the ECCU countries are expected to generate positive growth in 2014 because of the recovering demand for leisure services from major source markets. The marketing initiatives undertaken by the region in both traditional and nontraditional markets are expected to be a key driver in increasing the performance of the industry. Furthermore, the ECCB's efforts to manage debt prudently, make fiscal reforms, modernize the financial system and promote private sector development are key to ensuring the requisite environment for sustained growth to persist in the short to medium term.

c) Prices, wages and employment

Consumer price inflation cooled from 2.6 per cent in 2012 to 0.4 per cent in 2013. The main factors contributing to the easing of inflation were lower prices for clothing and footwear, fuel and electricity, medical expenses, housing and education. However, there were increases in the prices of in food (0.1 per cent), household furnishing (2.8 per cent), housing (1.5 per cent) and transport and communications (1.0 per cent). The consumer price index decreased in Dominica, Grenada and Saint Lucia, while it accelerated in Antigua and Barbuda. Saint Kitts and Nevis experienced a slowing of the rate of inflation. Consumer Prices in Saint Vincent and the Grenadines were unchanged from 2012 to 2013. It is possible that that continued expansion in capital expenditures in economies such as Antigua and Barbuda, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines could stimulate domestic demand leading to a projected inflation of 1.8 per cent in 2014.

Official unemployment statistics are, for the most part, unavailable, with except for Grenada and Saint Lucia. The unemployment rate in Saint Lucia is estimated to be 23 per cent and youth unemployment 39 per cent. The situation is more serious in Grenada where the unemployment rate stands at 33.5 per cent, and 55.6 per cent amongst the youth. This suggests that unemployment, particularly amongst youth, is emerging as an acute structural problem for the ECCU. There were public-sector wage increases in some of the member states namely Dominica (2.5 per cent), Saint Lucia (4 per cent) and Saint Vincent and the Grenadines (1.5 per cent).

E. Guyana

1. General characteristics of recent trends

The Guyanese economy continued to expand robustly in 2013, growing by 5.2 per cent owing to the strong performance of key commodity sectors such as gold, rice and the construction sector, fuelled by public investment in infrastructure. The gold industry, the main driver of the economy in recent years, continued to perform well, achieving a record high output, which compensated for the fall in world market price. On the other hand, the sugar sector could not emerge from its difficult years of low production. The Government has sought to further boost the economy by making investments in physical infrastructure, ICT and the power supply system, and by helping the key mining and agricultural industries to implement recapitalization and an upgrade of their facilities. Several infrastructure projects are expected to be supported by foreign governments and multilateral donors in 2014. The record level of government expenditure was also reflected in an increase in wages of public sector employees. While government revenue increased due to the expansion of economic activities, it was not sufficient to offset the expenditure, and the Government ran a fiscal deficit which was financed by new borrowings from domestic and foreign sources.

The Government has had difficulties in implementing its policy agenda since the opposition gained a majority in the parliament in 2011. After the 2013 budget speech, the opposition succeeded in cutting the budget before it was finally approved by the parliament. The Government's key policies that have been affected as a result of this include the Low Carbon Development Strategy (LCDS) as well as projects involving capital expenditure. The monetary policy of the Central Bank has accommodated growth with a marginal increase in the money supply and stable interest rates, which contributed to a modest rate of inflation of 0.9 per cent at the end of the year and marginal depreciation of the currency. Although the trade deficit contracted, the current account deficit increased in 2013 due to a decline in remittances from abroad. There was an overall balance of payments deficit as the capital account surplus weakened because of a decline in FDI inflows.

The economy is expected to continue to grow robustly in 2014. The mining sector and rice industry will remain the principal drivers of growth. Preliminary information suggests a slightly better performance of the sugar sector in the first quarter of the year, but it will take several years for the sector to be fully recapitalized and mechanized. The growth rate in 2014 is estimated to be around 4.5 per cent with, downside risks being a fall in commodity prices and a change in the political climate which is adverse to investors.

2. Economic policies

a) Fiscal policy

The central government ran a large deficit of 4.5 per cent of GDP in 2013, mainly due to an increase in public sector wages which was not covered by an increase in tax revenue. Although capital expenditure contracted slightly compared to 2012, the Government implemented a number of projects to boost the economy and improve infrastructure. These projects included upgrading the highway along the East Coast and the access road to Cheddi Jagan International Airport, as well as the construction of energy substations and the continuation of the One Laptop Per Family initiative to distribute laptops and provide access to ICT services to every family in the country. The Government also sought to modernize traditional commodity sectors such as agriculture and mining. This included support to the sugar industry which has been underperforming in recent years, in order to return it to a growth trajectory, through, *inter alia*, assisting the restructuring efforts of the largest sugar producer, GUYSUCO.

Government revenue increased by 4.8 per cent compared to 2012. A series of tax reforms instituted in 2011 and 2012 set a higher tax threshold for corporate income tax and lower rate for personal income tax. Despite this tax relief, total tax revenue increased in 2013 thanks to the expansion in economic activity and reinforcement of compliance initiatives, especially for the self-employed.

In 2014, the Government is expected to continue to adopt an expansionary fiscal policy. Revenue is expected to further increase thanks to the expansion of the economy, but this increase will be less than the increase in capital expenditure. In addition to the ongoing projects, the Government will continue ongoing initiatives to improve roads and bridges as well as air and river transport infrastructure. The Government will also launch key projects in 2014, including the improvement of West Coast Demerara Road in collaboration with the Caribbean Development Bank, and promotion of an e-Government system. The projected deficit for 2014 is 4.7 per cent of GDP.

Despite consecutive years of fiscal deficit, Guyana reduced outstanding external debt in 2013, thanks to a debt relief agreement with Venezuela under the Guyana-Venezuela Petrocaribe rice-for fuel deal, in which accumulated debt was reduced in return for Guyanese rice. On the other hand, domestic debt increased in 2013 to finance the fiscal deficit. The debt-GDP ratio at the end of 2013 was 57.9 per cent and in 2014, public debt will slightly increase toward the end of the year.

b) Monetary policy

Monetary instruments available to the Bank of Guyana include reserve requirements and open market operations. Recently, the bank has adopted the latter for implementing its short and medium term policy, while the reserve requirement rate has remained unchanged at 12 per cent since 2002.

The intention of the Central Bank's monetary policy has not changed following the global financial crisis: 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 2013, reflecting an increase in demand deposits and quasi money. The interest rates of commercial banks trended downwards in 2013, which contributed to the growth in private sector credit, especially in manufacturing, construction and engineering sectors. Monetary policy should not change significantly through 2014, given the favourable economic outlook.

c) Exchange policy

The foreign exchange market was impacted by high demand for foreign currency, mainly driven by fuel imports. The Bank of Guyana has maintained a stable nominal exchange rate and intervened in the foreign exchange market by selling a total of US\$ 163.6 million of foreign currency. As a consequence, the Guyana dollar depreciated against the United States dollar in 2013 by only 0.86 per cent on year-to-year basis at the end of the year. Activity in the foreign exchange market contracted by 5.8 per cent compared to that of 2012. The Guyanese dollar slightly depreciated in the first quarter of 2014, and its gradual nominal depreciation is expected to continue due to the structural weaknesses in Guyana's external accounts and the stance of the central bank's exchange-rate policy.

d) Other policies

One of the recent main areas of concern, which could affect the country's access to international financial markets and foreign investment, is the failure in passing a key piece of legislation on financial crime, the Anti-Money Laundering and Countering of Financing Terrorism Act. The Act is considered a part of international efforts to fight illegal financing and, as a result. Being the only country in the Caribbean which has not passed the bill, Guyana was blacklisted by the Caribbean Financial Action Task Force, which may discourage financial institutions and investors from working with Guyanese institutions.

The Government signed several bilateral loan and grant agreements in 2013 and the first quarter of 2014. Among them were a series of agreements with China, which shows a closer economic relationship between two countries since the economic and technical cooperation agreement signed in 2012. Guyana also signed a grant agreement of US\$ 8.16 million in August and of US\$ 4.93 million in December to implement technical cooperation projects in the country. In 2014, the Government also secured a US\$ 2.9 million grant with Japan to establish funds for private sector.

3. Trends of the principal variables

a) External sector

The overall balance of payment recorded a deficit of US\$ 119.45 million in 2013, compared to a slight surplus of US\$ 32.89 million in the year before, due to both an expansion of the current account deficit and contraction of capital account surplus. The main reason for the increase in the current account deficit was a decline in transfers, especially remittances, caused by economic downturns in the major source markets. The deficit in merchandise trade balance contracted from US\$ 581.3 million (2012) to US\$ 471.4 million (2013). While export earnings declined due to the fall in commodity prices, a decrease in imports offset this, resulting in a contraction of the trade deficit by 18.9 per cent. The capital account surplus contracted from US\$ 418.3 million to US\$ 314.75 million, which was attributed to a decrease in FDI inflows. The deficit in the balance of payment was financed by a drawdown of international reserves, which resulted in a 5.7 per cent decline in net international reserves. The decline in investment inflows was mainly due to the completion of several investment projects. However, since there are key infrastructural projects planned in 2014, the decline observed in 2013 can be considered to be temporary. FDI is still robust in mining, and telecommunication sectors. The economy is expected to record a smaller deficit in balance of payment in 2014 due to higher FDI inflows, which can partially offset the deficit in the current account.

b) Economic growth

The Guyanese economy expanded significantly, by 5.2 per cent in 2013, fuelled by the strong performance in the rice and gold industries as well as the construction sector, which was buoyed by large infrastructure projects. Rice output increased sharply (26.9 per cent), thanks to private sector investment and favourable weather conditions. The Petrocaribe debt relief agreement has also positively impacted the rice industry, as rice exports have been utilized to offset fuel debt. Gold output in 2013 recorded a historical high, in spite of the fall in the world market price. The increase in gold production reflected the expansion of small and medium scale miners. On the other hand, sugar output experienced a decline of 14.4 per cent in 2013, due to a combination of negative factors such as unfavourable weather for sugar production, industrial disputes, a labour shift to other sectors, and an insufficient supply of quality cane. The performance of the service sector also contributed to the growth of the economy, driven by the expansion of construction (22.6 per cent), as well as the finance, insurance and real estate sector (11.2 per cent).

Preliminary information suggests that the economy continues to grow in 2014. A fall in the price of gold is a downside risk, but the sector is expected to continue to boost the economy with foreign investment and small- and medium-scale mining activities. Rice, manufacture, and sugar sectors are performing better in the first quarter of 2014, compared with the corresponding period in 2013. However, the improvement in the sugar sector will be only marginal until GUYSUOCO has completed its recapitalization and mechanization initiatives under their strategic plan for 2014-2017. The construction sector continues to be a driving force for public and private investment. As a consequence, the economy

is expected to grow by around 4.5 per cent in 2014, with the primary downside risks being a fall in commodity prices and a political climate which is unfavourable to foreign investors.

c) Inflation, wages and employment

Inflation remained under control through 2013. The year-to-year variation in consumer prices at the end of the year was 0.9 per cent thanks to marginal changes in food prices and government support to electricity suppliers aimed at keeping the cost of electricity low. Inflation will continue to be moderate in 2014 but will be higher compared to 2013, due to the expected upward pressures on fuel and food prices.

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 4.7 per cent in 2013. The salaries for public sector employees were increased by 5.0 per cent from January to December 2013.

F. Jamaica

1. General characteristics of recent trends

The Jamaican economy recorded positive growth of 0.2 per cent in 2013 having contracted by 0.5 per cent in 2012. This is good news given that the economy posted positive growth in the last two quarters of 2013 after a period of stagnation. This was followed by positive growth of 1.6 per cent in the first quarter of 2014, with the goods producing sector growing by 5.6 per cent and the service sector growing by 0.3 per cent. It is anticipated that in 2014, growth will be 1.2 per cent and positive growth is expected from such sectors as mining and quarrying, agriculture, forestry and fishing and construction. The hotel and restaurant sectors are expected to improve due to positive performances of the major tourist markets, Europe and the United States.

The economic policies of 2013 were conducted within the framework of a 48-month Extended Fund Facility (EFF) with the IMF. Its approval resulted in Jamaica receiving loan inflows totalling US\$ 207.2 million, of which US\$ 87.9 million was allocated for budgetary support. The agreement is also expected to attract support in excess of US\$ 1 billion from other multilateral agencies.

The major challenges to the economy were the fiscal stress arising from a high debt of 131.9 per cent of GDP and the deteriorating exchange rate, despite the signing of the IMF agreement. Because of these developments, the Jamaica Dollar registered a year-on-year depreciation of 13.3 per cent vis-à-vis the United States dollar in December 2013, following a depreciation of 6.6 per cent for 2012. Apart from the inflationary impact of depreciation due to the increased price of imported goods in the local currency, this also affects the external debt burden, as the country's debt is denominated in foreign exchange.

Despite this depreciation however, inflation remained in the single digits for the calendar year. Headline inflation was 9.5 per cent in 2013, up from 8.0 per cent in 2012. The data indicated that Jamaica's current account deficit declined to US\$ 1,413.0 million or 9 per cent of GDP for 2013, from a deficit of US\$ 1,729.0 million or 13 per cent of GDP for 2012. This improvement was reflected in all subaccounts, particularly the trade balance, due to a sharp decline in imports.

2. Economic policy

a) Fiscal policy

The fiscal situation continues to be fragile and the Government's central focus has been on passing various IMF tests based on the primary and overall balance of the public sector, including minimum spending requirements to protect the most vulnerable. Economic reviews for the second and third quarters were successfully completed during the year, and the country is on course to satisfy all the targets for the remaining two quarters of fiscal year 2013/14.

The fiscal year 2012/13 budget of the Government was formulated within the context of the EFF and for the period April to September 2013, central government operations resulted in an actual deficit of J\$ 19.6 billion; the projected deficit was J\$ 24.8 billion, while the deficit in the same period of 2012 was J\$ 47.5 billion. This resulted in a primary surplus of J\$ 61.7 billion for the period, which exceeded

the EFF target. This represented a primary surplus of 7.5 per cent of GDP in 2013/14, compared with a surplus of 4.5 per cent in 2012/13. Revenues and grants for April to December 2013 were some J\$10.9 billion below budget but were above the amount registered for the same period in 2012. This weak revenue performance was due to lower than expected tax revenue.⁶ At the same time, expenditure was also below budget reflecting a decline in both capital and recurrent expenditure.

Recurrent expenditures were lower than expected, due to higher-than-anticipated savings from the National Debt Exchange, under which domestic debt instruments were exchanged for lower returns over a longer period, and due lower-than-anticipated wages and salary increases.

The public debt, estimated at some 131.9 per cent of GDP, grew moderately by 6.9 per cent to J\$1932.6 billion and reflected increases in both domestic and external debt. In fiscal year 2012/13, the domestic debt was 75.5 per cent of GDP; and this fell to 69.4 per cent of GDP in 2013/14. On the other hand, the external debt over the same period rose from 60.2 per cent of GDP to 62.2 per cent of GDP. The fact that the external debt is denominated in foreign exchange creates an additional burden from the devaluation of the currency. Some 54.4 per cent of Jamaica's debt is denominated in Jamaican dollars.

In order to lock in the gains of fiscal consolidation, a number of policies are being pursued which will bring down the debt to acceptable levels. On the fiscal side, the reforms include the Government's acceptance of a legally binding rule to ensure a sustainable global balance, the introduction of a five year public sector investment programme beginning in fiscal year 2013/14, and a review of the public sector remuneration to help inform policy reform.

On the revenue side, the granting of tax waivers is to be stopped, avenues for charitable contribution are to be harmonized and the granting of waivers for such contributions to be stopped. The objective is to reduce loopholes through which taxpayers can reduce their tax contribution to the Government. There are also a number of administrative tax reforms, including an expansion of staff in the tax offices, which is designed to improve compliance and provide more information on taxpayers.

The 2014/15 budget was a continuation of the previous budget and was crafted in the context of the EFF. Some 23 per cent of the budget was earmarked for the development of infrastructure, and wages are constrained as part of the Memorandum of Understanding between the Government of Jamaica and public sector unions.

b) Monetary policy

Monetary policy in 2013 was mildly expansionary in light of growing uncertainty as a result of exchange rate changes and concerns about inflation. The money supply M1J⁷ was fairly constant between 2012 and 2013 and grew by 10.5 per cent and 11.6 per cent, respectively. Over the same period, currency with the public grew from 3.6 per cent to 7.1 per cent while demand deposits declined from 15.5 per cent to 14.7 per cent. The weighted average local deposit rate declined from 2.10 per cent in 2012 to 2.04 per cent in 2013, while the lending rate over the same period fell from 18.4 per cent to 17.5 per cent. As a consequence, the interest spread which was 16.3 per cent in 2012, fell to 15.5 per cent in 2013. This lowering of the interest rate followed lower average rates on the heels of the Jamaica debt exchange. The Jamaica 30-day certificate of deposit was reduced to 5.75 per cent in February 2013 and this rate was maintained throughout the year and into the first quarter of 2014.

Credit to the private sector in 2013 grew by 16.3 per cent and was dominated by Jamaican dollar transactions. The increase in private sector credit for 2013 primarily reflected significant growth in personal loans as a consequence of an expansion in unsecured consumer loans in the first quarter and the transfer of the loan portfolio of a building society to a commercial bank in August 2013.

Loans and advances, the largest component of private sector credit, expanded by 18.3 per cent, compared with a growth of 15.9 per cent in 2012. This growth was reflected across most sectors.

⁶ The impact of low revenues was reduced by an increase in grants from the European Union.

⁷ M1J is the narrow money supply (M1) excluding foreign currency deposits.

The stock of loans to businesses increased by 12.0 per cent in 2013, following growth of 10.7 per cent in 2012. For the review year, the growth in business loans was reflected in all sectors, in particular distribution (9.7 per cent), electricity, gas and water (36.1 per cent) and professional and other services (14.7 per cent).

At the end of 2013 there was an improvement in the quality of the commercial bank loan portfolio relative to 2012. The ratio of nonperforming loans to total loans declined to 5.4 per cent at the end of 2013 from 7.0 per cent at the end of 2012. Similarly, non-performing loans as a ratio of total private sector loans declined to 5.6 per cent at the end of 2013 from 7.5 per cent at the end of 2012. The Finance Bill, which is currently being prepared by the Chief Parliamentary Counsel, seeks to amalgamate the provisions of the Banking Act, the Financial Institutions Act and the Bank of Jamaica (Building Societies) Regulations into one legislation. It is expected to include amendments that will give the Bank of Jamaica more supervisory responsibilities for deposit-taking institutions.

c) Exchange rate policy

In December of 2013, the foreign exchange rate was J\$ 104.26 per US\$ 1.00, representing a nominal depreciation of 13.3 per cent. This represents a real depreciation of the Jamaica dollar relative to the United States dollar of 5.2 per cent. This compares with nominal and real depreciation rates of 6.6 per cent and 3.1 per cent, respectively, for 2012.

This depreciation of the currency occurred despite the signing of the EFF, as there was lingering uncertainty about the economy. While depreciation may increase competitiveness in some sectors, it placed pressure on the Bank of Jamaica to intervene to prevent too large a deterioration of the currency. The accelerated pace of depreciation was also in the context of relatively low net international reserves (NIR) and a high current account deficit.

The depreciation of the currency was due to inadequate levels of private inflows to meet higher foreign exchange demand, owing to uncertainty surrounding the terms of and delay in signing an agreement with the IMF during the first half of 2013. The decline in NIR in 2013 contributed to the unease in the foreign exchange market.

d) Other policies

The objective of the EFF programme is to help create the conditions for sustained growth through significant improvement in fiscal operations, a reduction of the debt and an improvement in competitiveness. A number of fiscal, administrative and monetary measures have been introduced to support the EFF. From the point of view of the banking sector, the Central Bank introduced a new standing liquidity facility to help depositing taking institutions meet their overnight cash demands. In addition, the Central Bank is gradually lifting the cap on investment in foreign securities by security dealers and collective investment schemes.

The EFF also paved the way for the unlocking of funds for budgetary support from multilateral institutions and facilitated the achievement of conditions necessary for the country's ratings to be upgraded during the fiscal year. The outlook projected by the rating agencies was a movement of Jamaica's economic performance from stable to positive.

The overarching pillars of the EFF are aimed at fostering investments and sustainable growth and among these are the following:

- A time-bound fiscal consolidation, supported by fundamental fiscal and monetary policy reforms aimed at creating a stable, predictable and resilient macroeconomic environment.
- Structural reforms aimed at significantly strengthening Jamaica's external competitiveness and generating higher levels of factor productivity.
- The provision of appropriate safety nets to ensure social stability during the period of economic transformation.

It is to be noted, however, that the policy space has been seriously restricted by weak but improving domestic and international demand and the heavy fiscal burden.

3. Evolution of the main variables

a) The external sector

The data for 2013 indicate that the current account balance improved by US\$316. million to US\$1,413.5 million or 9 per cent of GDP, compared with 13 per cent of GDP in 2012. This improvement was due to several factors. There was some improvement of the merchandise balance, due to a decline in exports and a greater decline in imports. At the same time the service balance, the income balance and net current transfers balance improved.

The service balance posted positive growth of 4.4 per cent and travel grew by 1.3 per cent. The slightly higher earnings from travel reflected a growth of 1.6 per cent in foreign national stopover visitor arrivals relative to 2012. Overall, the deficit of the goods and service balance narrowed by 5.8 per cent. This implies that while some adjustment to the current account balance is taking place, it is occurring slowly. The other significant account was the transfers account, which was positive with 8.2 per cent growth. In this subaccount remittances remained robust, approaching pre-crisis levels with a growth of 4.3 percent.

At the end of December 2013, NIR was US\$ 1,047.8 million, a decline of US\$ 77.8 million relative to December 2012. The reduction in NIR largely reflected net payments on behalf of the Government, the impact of which was partly offset by net purchases of foreign currency by the Bank of Jamaica. Gross international reserves amounted to US\$ 1 817.6 million as at 31 December 2013 and represented 12.6 weeks of estimated goods and services imports relative to 13.2 weeks at the end of 2012. The NIR stock at end-March 2014 amounted to US\$1,303.6 million, US\$ 255.8 million higher than the stock at end-December 2013 and US\$ 64.0 million above the target of US\$ 1,239.6 million under the EFF. The Bank's gross reserves at end-March amounted to US\$ 2048.6 million, representing 14.6 weeks of projected goods and services imports.

b) Economic activity

The performance of the economy improved in 2013 as the GDP growth rate was 0.2 per cent, compared with a decline of 0.5 per cent in 2012. This was due to improved performance in a number of sectors. The goods producing sectors made up of agriculture, mining and quarrying, manufacture and construction grew by 0.4 per cent; however, this was the result of positive growth in mining and quarrying and construction. The performance of mining was due in part to higher global aluminium demand, reflected in increased output at the JAMALCO and WINDALCO plants. This led to a 5.5 percent increase in alumina production to 1,854.9 tonnes, which outweighed the 1.7 per cent decline in crude bauxite to 4,688.3 tonnes.

The agriculture, forestry and fishing sector contracted by 0.5 per cent while manufacturing contracted by 0.8 per cent. The construction sector grew by 1.8 per cent and mining and quarrying posted growth of 3.8 per cent. The service industry grew by 0.1 per cent. Given that services are nearly 80 per cent of the total economy, this meagre growth significantly impacted overall economic performance. There were three subsectors that posted negative growth in the service sector: electricity and water supply, wholesale and retail trade and producers of government services. The increase in water service prices and drought conditions might have led to reduced demand, while wholesale and retail were affected by the decline in manufacturing.

Growth in the first quarter of 2014 of 1.6 per cent continued the momentum of positive growth in the last three quarters. This was the result of growth of the goods sector by 5.6 per cent and of the service sector by 0.3 per cent. Within the goods sector, agriculture showed significant growth of 18 per cent, followed by mining and quarrying (8 per cent) and construction (0.5 per cent). On the other hand, manufacturing declined by 0.3 per cent. If there are no adverse weather conditions in 2014, agriculture should continue to post positive growth.

For services, the 0.3 per cent growth rate stemmed from positive growth in most sectors, except for government services, which fell by 0.2 per cent. Growth was led by hotels and restaurants (5.5 per cent). The growth of the service sector depends heavily on the performance of tourism in the major source markets of Europe and North America.

c) Inflation, wages and employment

Inflation for 2013 was 9.5 per cent, compared with 8.0 per cent in 2012, marking the third consecutive year of single-digit inflation. The increase in inflation was partly due to significant increases in transport and utility rates, continued depreciation in the exchange rate and increased crude oil prices. The impact of these inflationary impulses was moderated by generally weak domestic demand conditions, reduction in international grains prices, lower communication costs, declining real wages and higher unemployment.

For 2013, the greater Kingston metropolitan area posted inflation of 9.6 per cent, compared with 10.0 percent in 2012. In contrast, other urban centres posted inflation of 10.1 per cent (up from 9.0 per cent in 2012) and rural areas recorded inflation of 10.1 percent (up from 9.0 per cent).

significant share of the recurrent expenditure is the wage bill which has come under the purview of the EFF as part of the fiscal consolidation process. A Wage Restraint Agreement signed with unions in March 2013, covered more than 82.0 per cent of the public sector, well in excess of the prior action threshold of 70.0 per cent under the EFF. This agreement is expected to contribute to the achievement of the Government's wage target of 9.0 per cent of GDP by March 2016. The annual targets for FY 2013/14 and FY 2014/15 are 10.6 per cent and 9.7 per cent, respectively. The reduction in the wage bill is supported by a wage freeze for the period 2012-2015, a commitment to no net hiring of workers over the medium-term and filling only critical vacancies.

The estimated public sector wage bill for fiscal year 2013/14 was J\$ 157.3 billion, which was a 6.7 per cent average percentage change relative to the previous fiscal year (J\$ 146.1 billion). Projections for fiscal year 2014/15 indicate an increase to J\$ 161.2 billion, an average percentage change of 2.5 per cent. The increase in the wage bill was the result of payment of the third and fourth tranches of arrears related to the implementation of the 7.0 per cent increase under the Third Memorandum of Understanding (MOU III) between the Government of Jamaica and the Jamaica Confederation of Trade Unions. On the advice of the Minimum Wage Advisory Commission, in January 2014, the minimum wage was increased by 12 per cent.

Because of weak growth conditions, the unemployment rate increased from 14.5 per cent in January 2013 to 15.4 per cent in July 2013. However, in October 2013, the rate fell to 14.9 per cent and was 13.4 per cent in January 2014. In fact the total employed labour force increased by 20,500 persons compared to January 2013. In October 2013, the male unemployment rate was 11 per cent but the female unemployment rate was approximately 20 per cent a disparity which has persisted for at least two decades.

G. Suriname

1. General characteristics of recent trends

The economy of Suriname posted continued strong growth of 4.5 per cent in 2013 based on positive performance in a number of sectors. Sectors that showed negative growth were agriculture, hunting and fishing (-1.9 per cent) and mining and quarrying (-0.4 per cent), which constitute 8.19 per cent and 5.13 per cent of GDP, respectively. On the other hand, positive growth was led by such sectors as construction, which grew by 14.1 per cent, wholesale and retail trade (8.9 per cent) and hotels and restaurants (8.1 per cent). Government also contributed to growth through as investment and recurrent spending, caused the public sector to grow by 2.8 per cent. Given that general elections are due in May 2015, there is likely to be increased capital spending related to the elections cycle.

In 2014, growth is expected to be positive at about 4.4 per cent, assuming that global economic conditions do not change radically and export prices do not fall significantly. New investments are expected in the gold and oil industries; this will partly compensate for the uncertain outlook in the bauxite sector.

Inflation has continued to be moderate, partly owing to soft commodity prices, and annual inflation was 0.6 per cent at the end of 2013. Inflation in 2014 is likely to rise somewhat (but remain in single digits) because of the imposition of new sales taxes and other taxes to be decided. However,

energy costs are likely to fall because of the increased refining of petrochemical products, which will help reduce production costs.

The exchange rate of Suriname has remained within the band established by the Central Bank of Sr\$ 3.25-3.35:US\$ 1 and the value of the currency is expected to remain stable for the near future.

In terms of the balance of payments, the trade surplus narrowed to 4.4 per cent of GDP in 2013 down from 14 per cent of GDP in 2012. This narrowing of the surplus brought the current account balance into deficit of about 3.9 of GDP.

2. Economic policy

a) Fiscal policy

The fiscal policy stance has been expansionary, with expenditure growing in excess of revenue. As a result, the fiscal deficit was about 8 per cent of GDP. In the first quarter of 2013, expenditure outstripped revenue by 40 per cent but there was some adjustment in the second quarter, when revenue increased more than expenditure by 3.9 per cent. In the third quarter revenue was again above expenditure by 24.6 per cent. Despite concerns about the deficit, government spending is likely to expand in the next two years in light of the general elections in 2015. The Government had contemplated the introduction of a VAT to replace the existing sales tax and improve revenue efficiency, however, this has been put on hold since the revenue authorities were not sufficiently prepared to collect this tax.

The debt-to-GDP ratio for Suriname, while within the sustainable range, has expanded from 16.4 per cent in 2012 to 36.5 per cent in 2013.⁸ This jump in the debt ratio since 2012 is a reflection of the expansion of government expenditure within a short period. By March 2014, however, the ratio fell to 28.9 per cent of GDP, reflecting reduced borrowing by the central government. The external debt is now 19.7 per cent of GDP and the domestic debt is 9.2 per cent of GDP.

While there are plans to increase infrastructure 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, the expanding deficit may put such plans on hold in 2014. In addition, as part of fiscal control measures, the Government, backed by the IMF, is likely to implement legal and administrative reforms for five state-owned companies. This is to seek help from the IDB and the World Bank to improve the management of public enterprises and to reform the tariff rates for utilities so that losses can be reduced.

The Government owns several unprofitable enterprises and, with the assistance of the IDB and the World Bank, is seeking to improve the management of public enterprises, which are to be privatized in some cases. The Suriname Investment Corporation has been charged with privatizing some of these within the agricultural sector. There are also plans to reform the tariff structure of public enterprises that are posting losses, which should 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 monetary stance of the Central Bank was mainly contractionary in response to credit expansion, which is perceived to be too rapid and which might lead to inflation. Thus, with no open market instruments and a thin financial market, the cash reserve requirement for both Surinamese dollar deposits and foreign currency deposits were each raised by 5 percentage points. The Surinamese dollar cash reserve will increase from 25 per cent to 30 per cent and the cash reserves for foreign currency from 45 per cent to 50 per cent. 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.

Additionally, government borrowing is through arrangements with the banking sector and institutional investors rather than through the market. As a result, steps have been taken to create a sound

⁸ This definition of the debt includes contingent liabilities and reflects the real obligations of the Government.

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. The Central Bank of Suriname met with the Board of the Association of Exchange Offices in September to discuss the scope for foreign exchange bureaus to participate in the foreign exchange market. They will have increased participation since they will no longer be required to resell 15 per cent of their intake to the Government, and they will continue to carry out foreign exchange transactions in cash with the public.

In line with economic growth, the narrow money supply (M1) grew by 21.4 per cent in 2012 and 3.7 per cent in 2013, while M2 also grew by 21 per cent in 2012 and 11 per cent in 2013. Credit to the domestic economy expanded by 14.8 per cent in 2012 and 24.8 per cent in 2013. The raising of the reserve requirement ratio was designed to restrain further credit expansion in late 2013 and in 2014.

For interest rates, the weighted nominal deposit rate was 7.2 per cent in 2012 and in 2013, but lending rates increased from 11.8 per cent in 2012 to 12.0 per cent in 2013. In 2014, the deposit and lending rates were 7.3 per cent and 12.2 per cent, respectively.

c) Exchange rate policy

The foreign exchange market stabilized after the Surinamese dollar was devalued in 2011 to equalize the official and unofficial exchange rates. The Central Bank has established a band of Sr\$3.25 to Sr\$3.35 :US\$1 within which all official transactions are expected to take place. There are no immediate concerns about fluctuations in the currency and, by May 2013, the rate was at Sr\$3.3:US\$1. Despite current reserves, in the context of solid growth prospects, there are no immediate concerns about the stability of the exchange rate.

d) Other policies

A number of major projects are anticipated that will increase FDI in Suriname considerably. Among these projects are a US\$700 million expansion of the Rosebel gold mine and a joint venture between Newmont Mining and Suriname Aluminium Co. to develop the US\$800 million gold mine which will start operations in 2014. 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 account for some 90 per cent of export earnings, makes Suriname vulnerable to commodity price shocks. In recognition of this, the Government is setting up the Savings and Stability Fund Suriname (SSFS), 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.

Suriname has continued to receive high ratings from such rating agencies as Moody's and Fitch and this has helped to improve Suriname's access to international capital markets. These reasons ratings are because of the stability of the economy in the last few years. This includes prudent debt management, positive short and medium term growth prospects, access to international creditors and growing resilience to negative external shocks.

According to the Central Bank, in order to regain fiscal control, the Government has stopped unnecessary spending on goods and services, while project implementation is being prioritized and made more efficient. This is being followed up with a number of measures to restore the necessary level of government revenue. Among these are the discontinuation of outdated and very inefficient taxes and stamp duties, increasing environmental taxes, terminating a myriad of customs duty exemptions that fomented corruption and inefficiencies and reducing unapproved direct, indirect, and disguised subsidies to state-owned companies.

3. Evolution of the main variables

a) The external sector

The current account surplus of US\$ 163.9 million in 2012 was reduced to a deficit of US\$ 197.9 million in 2013, the first current account deficit since 2006. This deficit represented 3.9 per cent of the GDP, compared to surplus of 3.2 per cent of GDP in 2012. In the subaccounts, the merchandise trade balance declined because imports grew faster than exports. In fact, exports of goods declined by 11 per cent in 2013 relative to similar exports in 2012 by 11. The economy is highly dependent on the exports of oil and especially gold for foreign exchange earnings; gold prices improved 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. Earnings from gold were 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\$ 66 million in 2013 relative to US\$ 72.7 million in 2012. In 2012, gross international reserves were US\$ 1,008 million and this fell to US\$ 775.4 million in 2013; this represented 4.7 and 3.4 months of import cover, respectively. This was largely due to the decline in the trade surplus over this period. In the light of the robust growth projected for 2014 and increasing exports, the current account balance is expected to improve further, which will add to reserves.

b) Economic activity

Economic growth in Suriname has been fairly robust, as the economy posted growth of 4.5 per cent in 2013 and growth in 2014 is expected to be 4.4 per cent. All sectors, with the exception of agriculture, hunting and fishing (-1.9 per cent) and mining and quarrying (-0.4 per cent), posted positive growth in 2013. Negative growth in mining and quarrying was due to a drop in bauxite output, 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, until recently, by the elevated price of gold. There is a policy to regulate persons working in the industry and to reduce informal aspects production.

In 2013, construction posted growth of 14.1 per cent while the sector's share of GDP was 6 per cent. In addition, the hotels and restaurant sector grew by 8.1 per cent and its share in GDP was 3 per cent. Other sectors, including government spending grew at lower rates but contributed positively to growth. In 2014, it is expected that all sectors will show positive growth and that construction will again be the growth leader followed by hotels and restaurants. In addition, agriculture, hunting and fishing and mining and quarrying, which posted negative growth in 2013, are expected to return to positive growth.

c) Inflation, wages and employment

Consumer price pressure was reduced in the second half of 2013, aided by weakened demand, and as a result, inflation fell to 0.6 per cent in 2013. It is likely that inflation will remain below double digits in 2014 barring any major price spikes from import inflation. On the other hand, in light of the general elections, wage pressure could cause prices to increase. A major upside risk would be the imposition of a sales tax that could cause a one-off pass-through with respect to prices. There is also little expectation of price increases from the exchange rate pass-through given the currency's current stability. The unemployment rate has declined from 9.2 per cent in 2010 to 8.2 per cent in 2011 and is likely to be no higher in 2012. There are no available unemployment data for 2013, however, it is likely that unemployment rates will come down further in 2014 because of several new investment activities now in progress.

H. Trinidad and Tobago

1. General characteristics of recent trends

Economic growth in Trinidad and Tobago continues to rebound from the negative and negligibly positive rates of 2009 to 2011. Growth for 2013 is estimated at 1.6 per cent, up from the 1.2 per cent measured in 2012. Growth in 2014 is projected to be 2 per cent. The growth in 2013 was driven mainly

by expansion in the non-energy sector by 2.4 per cent as a result of growth in services. The energy sector also grew by 0.5 per cent, despite a shutdown of two major oil and gas providers and the dependent downstream companies in the third quarter.

Prices remained fairly steady in 2013, with Trinidad and Tobago recording a year-end inflation rate of 5.6 per cent. Prices were even steadier in early 2014, as inflation rates fell to 3.3 per cent in April

The central government fiscal deficit was 2.4 per cent of GDP in 2013 and the primary deficit was 1 per cent of GDP. The fiscal deficit widened by one percentage point from 2012 ; increased expenditure due to higher wage and salary payments and expanded capital expenditure was partly offset by increased corporation tax and VAT collection. Above-expected oil prices and production, in addition to significant non-tax revenues, suggest a fiscal surplus in the first half of fiscal year 2013-2014.

A current account surplus of 14.6 per cent of GDP was recorded over the period January to September 2013.

2. Economic policies

a) Fiscal policy

The Government continued with its expansionary fiscal policy as the central government's deficit expanded from TT\$ 2.2 billion or 1.4 per cent of GDP in fiscal 2011-2012 to TT\$ 4.2 billion or 2.4 per cent of GDP for fiscal year 2012-2013. The primary balance fell from a surplus of 0.5 per cent of GDP to a deficit of 1 per cent. . On the revenue side, increases were measured in taxes on income due to a rise in the number of companies paying corporate income tax, as well as taxes on goods and services as a result of increased sales of new and used vehicles and larger collections of VAT. Non-tax revenue also increased by 38 per cent. Total expenditure and net lending grew, mainly due to the conclusion of a number of wage negotiations; expenditure on wages and salaries increased by 29 per cent. Capital expenditure grew by 18 per cent due to increased infrastructural activity. Transfers and subsidies also increased, while interest payments declined.

Early estimates for fiscal year 2013-2014 point toward a budget surplus. The increase in government revenues in late 2013 was a result of a number of factors: increased energy revenue due to higher-than-expected oil prices and production; increased non-energy revenue from higher business and individual taxes; and increased non-tax revenue from a large dividend collection from a state enterprise and receipts from the initial public offering of a state-owned commercial bank. The Government also decreased expenditure, and this fall in expenditure was a result of the Government's continued push to reduce the petroleum subsidy; petroleum subsidy payments in the first half of fiscal 2013/2014 amounted to less than 25 per cent of their value in the corresponding period of the previous year.

Total public sector debt (sterilized debt) was 41 per cent of GDP in December 2013. This represented a decline of five percentage points from the previous year. External debt, which was 8 per cent of GDP, declined from the 8.8 per cent of GDP that was recorded in 2012. The official debt figures exclude a \$ 1 billion bond intended for road infrastructure projects, and a \$ 3.5 billion bond for the completion of a government building in central Port of Spain.

b) Monetary policy

The Central Bank of Trinidad and Tobago continued its accommodative stance from previous years into 2013. The repo rate remains at 2.75 per cent, as it has been since September 2012. The average deposit rate fell from 8.75 per cent at the end of 2012 to 8.51 per cent at the end of 2013. The nominal deposit rate fell marginally to 0.56 per cent from 0.57 per cent the previous year. Private sector credit increased by 3.7 per cent (year-on-year) in December 2013, compared to a 4.7 per cent increase in the corresponding month of the previous year. Private sector credit growth was driven by consumer loans in 2013, primarily for purchases of motor vehicles, home improvement and debt consolidation. Business loans, on the other hand, contracted throughout 2013.

Liquidity expanded as M2 increased by 8.8 per cent from 2012 to 2013, and by 5.4 per cent from 2013 to the first quarter of 2014. This expansion was brought on by government fiscal operations, particularly in the second half of 2013.

In December 2013, the central bank increased the borrowing limits under the Treasury Bills and Notes Acts. With the corresponding increase in liquidity, the Central Bank strengthened its open market operations and removed about TT\$ 1.2 billion from the banking system. In the commercial sector, banks lowered their lending rates in the first quarter of 2014 to encourage borrowing. The commercial banks weighted average lending rate fell from 8.51 per cent at the end of 2013 to 8.28 per cent at the end of March 2014; this represented the largest quarterly decrease in over two years. The average deposit rate on the other hand fell marginally, by 0.01 percentage points, over the same period, narrowing the interest rate spread to 7.72 per cent at the end of March 2014 from 7.96 per cent at the end of 2013.

Private sector credit expanded in early 2014, driven by the first increase in business lending in 15 months. The majority of the increase was due to growth in loans to the distribution and other services sector. Consumer loans continued their increase from 2013, growing by 5.8 per cent year-on-year in March 2014. The recent demand for real estate mortgage loans has been boosted by record low mortgage rates.

c) Exchange policy

In 2013, authorized foreign exchange dealers purchased US\$1.32 billion from the central bank, 26 per cent less than was purchased in 2012. The smaller sales gap was due to increased inflows from the energy sector matching increased public demand in the second half of the year. The sales of foreign exchange in 2013 went mainly to the retail and distribution sector, which accounted for 31 per cent of sales in the second half of 2013.

In early 2014, there were reports of tightness in the foreign exchange market. Several commercial banks resorted to rationing their supply of United States dollars to deal with the shortage. The central bank then entered the market to offset the foreign exchange sales gap. Over the first five months the central bank sold US\$610 million to authorized dealers. These actions boosted the supply of United States dollars and increased their accessibility by midyear. These interventions also resulted in slight fluctuations in the United States dollar - Trinidad and Tobago dollar exchange rate over the first half of the year.

3. Trends of the principal variables

a) External sector

The surplus of the goods balance for the first nine months of 2013 grew by 21.7 per cent over the corresponding period in the previous year. The current account balance was estimated at US\$ 2.8 billion (14.6 per cent of GDP) for the period January to September 2013, while the capital and financial account balance posted a deficit of US\$ 1.4 billion (7.5 per cent of GDP) over the same period. The overall balance is estimated to have recorded a surplus of US\$ 227 million (1.2 per cent of GDP).

FDI was estimated at US\$ 1.32 billion over the first nine months of 2013, a decline of 8 per cent from the same period in the previous year.

Net official reserves were estimated at US\$ 9.99 billion or 12 months of import cover at the end of 2013.

b) Economic growth

In 2013, Trinidad and Tobago's economy grew by 1.6 per cent, up slightly from the 1.2 per cent growth recorded in 2012. This growth was generated mainly from the non-energy sector, which grew by 2.4 per cent, keeping in line with the growth it experienced in the previous year. The contribution of this sector to GDP also increased to 60.3 per cent, attaining its highest share in recent years. The main driver of non-energy sector was growth in the largest non-energy sub-sector, services. The non-energy sector was also boosted by strong growth in the manufacturing and agricultural sector. Agricultural production increased after two years in decline, thanks in part to the Government's introduction of the "Agriculture-Caroni Green Initiative" in June 2013. This initiative provided opportunities for farmers with no land tenure to farm unutilized agricultural land, and was meant to increase the supply of locally produced food on the domestic market.

The energy sector remained constrained in 2013, growing by only 0.5 per cent. Positive growth in the first half of the year was offset by a shutdown of two major natural gas producers for maintenance activity and coordinated shutdowns in the downstream sector in the third quarter. These stoppages

resulted in a 4.1 per cent year-on-year contraction of the energy sector in the third quarter of 2013. In the fourth quarter, however, the sector returned to positive growth. High international energy prices in the second half of 2013 also contributed to the recovery.

In September 2013, the Government of Trinidad and Tobago and the Government of Venezuela signed an agreement to develop a large gas field that lies on the maritime border between both countries. Under the agreement, 73.78 per cent of the approximately ten trillion cubic feet of natural gas will be allocated to Venezuela, and the remaining 26.3 per cent will be allocated to Trinidad and Tobago. In December 2013, a deposit of 50 to 115 million barrels of high-quality crude oil was discovered off the south-eastern coast of Trinidad. Also in December, several oil spills occurring off the south-western part of Trinidad resulted in the Environmental Authority (EMA) imposing a TT\$ 20 million fine on the state oil company, Petrotrin.

The energy sector saw declines in oil and gas production in January 2014 but increases in March. The petrochemical sector expanded production by 2.9 per cent in the first quarter of 2014. Providing that the energy sector has completed the majority of its maintenance activities and there are no major stoppages this year, high energy prices could mean increased production and revenues in the sector in 2014. The non-energy sector is expected to post further growth in 2014, due to both private and public sector projects. Ongoing public projects include a hospital, an aquatic centre, a cinema and a shopping centre. Growth is estimated at 2 per cent in 2014, boosted by a combination of fiscal and monetary stimulus.

c) Inflation, wages and employment

Headline inflation measured 7.3 per cent (year-on-year) in January 2013. It fell gradually over the year to a 21-month low of 2.7 per cent in October and rose again to 5.6 per cent by the end of the year. Inflation has fluctuated somewhat in early 2014. The most recent data indicate that inflation was 3.3 per cent in March. The decrease in headline inflation was primarily due to reduced food inflation. Local food price inflation eased due to higher output resulting from the Agriculture-Caroni Green Initiative and generally favorable growing conditions. Core inflation remained steady throughout 2013, decreasing from 2.2 per cent in January 2013 to 2.0 per cent in December, but increased relatively sharply to 2.6 per cent in April 2014. The Central Bank predicts further upside risks for core inflation if the economy continues to grow and consumption increases.

Unemployment data for Trinidad and Tobago lags by about a year. The latest data places unemployment at a 3.7 per cent in the first quarter of 2013, which is a decline from 4.7 percent in the fourth quarter of 2012, and which also represents a historic low for the country. Reports for the first quarter of 2014 are mixed: there have been reports of labour shortages, especially in the manufacturing and agriculture sectors, alongside increased retrenchment notices, particularly in the sectors of finance, insurance, business services and real estate and chemical and non-metallic minerals.

Annexes

Annex 1

TABLE A.1
CENTRAL GOVERNMENT FISCAL EXPENDITURE BY CATEGORIES
(Percentage of GDP)

	Current expenditure				Capital expenditure				Interest			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Anguilla	25.7	21.9	22.4	23.3	0.4	1.2	1.2	1.1	1.5	1.1	1.1	1.2
Antigua and	22.3	23.5	20.8	21.1	1.7	1.3	0.6	1.3	2.6	2.5	2.5	2.0
Barbuda Bahamas	17.6	19.2	18.9	18.3	2.0	2.6	3.0	3.1	2.3	2.7	2.3	2.3
Barbados	33.6	34.1	33.5	34.3	1.4	1.1	1.0	1.4	5.7	6.1	6.5	6.6
Belize	24.4	24.1	23.6	23.2	4.8	4.1	5.1	5.2	3.4	3.5	3.0	1.8
Dominica	24.7	24.7	23.6	25.9	12.3	13.3	12.5	11.8	1.6	1.9	1.5	2.1
Grenada	19.6	20.0	21.2	19.7	5.2	6.3	5.0	6.0	2.1	2.5	3.4	2.5
Guyana	18.8	19.1	19.8	19.9	10.3	9.5	9.7	8.2	1.7	1.5	1.1	1.0
Jamaica	28.4	27.7	27.1	25.4	4.7	4.2	2.8	2.5	11.0	11.0	9.5	7.7
Montserrat	58.8	54.2	63.6	60.6	19.9	16.2	22.5	41.3	0.1	0.0	0.0	0.0
Saint Kitts and Nevis	28.4	30.3	27.7	26.8	6.6	4.3	3.7	4.7	6.7	6.4	5.9	4.1
Saint Lucia	21.4	21.3	23.2	23.4	4.3	7.7	6.8	7.5	2.7	2.9	3.5	3.7
Saint Vincent and the Grenadines	25.7	27.1	26.1	25.6	4.3	3.4	2.9	6.3	2.8	2.5	2.4	2.4
Suriname	20.0	20.0	22.3	23.0	4.6	4.9	4.4	4.4	0.9	1.0	0.9	1.3
Trinidad and Tobago	28.9	28.6	29.1	29.9	5.0	4.8	4.6	5.1	2.6	2.0	1.9	1.6
Caribbean	26.6	26.4	26.8	26.7	5.8	5.7	5.7	7.3	3.2	3.2	3.0	2.7
Goods producers	23.0	23.0	23.7	24.0	6.2	5.8	6.0	5.7	2.1	2.0	1.7	1.4
Service producers	27.8	27.6	28.0	27.7	5.7	5.6	5.6	7.9	3.6	3.6	3.5	3.2

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

^a Simple Average.

Annex 2

TABLE A.2
DEBT SERVICE PAYMENT RATIOS FOR THE CARIBBEAN

	External Debt Service Payments (US\$M)				External Debt Service Payments (percentage of Exports of Goods and Services)				Total Debt Services Payments (percentage of Government Revenue)			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Anguilla	8.6	2.8	2.6	2.6	6.7	2.0	1.9	0.9	113.7	5.0	7.8	8.3
Antigua and Barbuda	33.5	34.2	22.8	27.3	6.4	6.4	4.2	5.2	31.8	31.8	34.8	38.8
Bahamas	129.9	63.8	124.2	117.1	4.0	1.9	3.4	3.4	36.4	43.2	38.4	46.8
Barbados	320.5	135.1	144.3	149.0	17.0	6.5	7.4	0.0	65.9	40.1	45.8	57.7
Belize	76.6	81.4	79.0	62.0	9.4	8.6	7.7	5.9	25.1	22.5	20.3	16.3
Dominica	8.5	11.3	10.9	11.3	4.9	5.9	6.8	3.8	8.5	12.9	14.6	12.1
Grenada	26.7	23.5	38.3	40.7	14.5	12.0	18.6	10.9	19.5	25.8	34.8	33.6
Guyana	28.6	39.9	42.4	45.9	2.5	2.8	2.5	3.0	10.0	9.8	8.6	8.9
Jamaica	723.3	696.9	1019.1	696.8	18.1	16.3	23.1	16.6	73.3	64.9	62.5	54.1
Montserrat	0.0	0.1	0.1	0.1	0.4	0.4	0.4	0.2	0.2	0.1	0.1	0.1
Saint Kitts and Nevis	38.3	49.1	48.2	16.6	18.5	20.4	18.9	5.7	38.0	44.9	27.7	15.8
Saint Lucia	63.2	42.1	44.2	69.0	10.5	7.4	7.4	11.3	34.2	22.6	26.7	36.4
Saint Vincent and the Grenadines	28.4	27.6	26.9	25.2	15.6	15.2	14.4	13.1	33.4	22.8	23.3	26.1
Suriname	23.9	29.3	58.2	33.5	1.0	1.1	2.0	1.3	6.9	8.0	8.6	9.8
Trinidad and Tobago	367.1	157.5	171.2	161.6	3.0	0.8	0.9	1.1	12.2	7.8	7.3	7.9
Caribbean	125.1	93.0	122.2	97.3	8.8	7.2	8.0	5.5	34.0	24.1	24.1	24.8
Goods Producers	124.0	77.0	87.7	75.8	4.0	3.3	3.3	2.8	13.6	12.0	11.2	10.7
Service Producers	125.5	98.8	134.7	105.1	10.6	8.6	9.7	6.5	41.4	28.6	28.8	30.0

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



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