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CARIBBEAN REGION QUARTERLY BULLETIN

High debt ratios and fiscal concerns continue to push for more structural fiscal reforms in Jamaica and Barbados. Meanwhile, Guyana and Suriname will widen their fiscal deficit as a result of increasing public investment. There are some indicators of slow growth recovery in The Bahamas and Trinidad and Tobago.

SELECTED INDICATORS 2013, WEO PROJECTIONS	Real Growth Rate	Inflation (12 month change)	Public Sector Primary Balance	Current Account Balance (%GDP)	General Government consolidated Debt (%
1) Highly indebted					
Jamaica	0.6	8.3	7.5	-10.3	142.8
Barbados	0.5	-0.3	0.6	-6.1	72.3
2) Medium indebtedness					
Bahamas	2.7	2.0	-3.6	-13.7	56.5
Trinidad & Tobago	2.0	5.0	0.3	10.3	36.4
3) Low-debt or FSO countries					
Suriname	4.5	4.5	-1.4	3.9	20.0
Guyana 1/	5.5	6.0	-1.7	-14.1	61.3
Caribbean Average	**2.6**	**4.3**	**0.3**	**-5.0**	**64.9**

Source: WEO and national authorities.
1/ Most debt is on concessional terms

Summary of Recent Developments by Country

In The Bahamas, preliminary results for 2012 show that real GDP growth was 1.8%, mainly driven by the construction sector. The fiscal deficit widened from Jun-12 to Jan-13, following a 6% decline in revenues and an increase in expenditures.

In Barbados, The Democratic Labor Party will remain in power after defeating the Barbados Labor Party in the National Elections in February. The government is planning to announce a new Strategy Plan to consolidate its fiscal efforts and growth promotion incentives. Real GDP contracted by 0.4% in the first quarter of 2013, following a poor performance in the tourist industry.

Guyana's fiscal deficit deteriorated to 4.6% of GDP in 2012 as a result of an increase in wages, transfers to public enterprise and an aggressive public investment strategy. Authorities expect that the fiscal deficit will widen to 4.7% of GDP in 2013.

In Jamaica, The Executive Board of the IMF approved a four-year Extended Fund Facility (EFF) for the amount of SDR 615.38 million. Following the EFF requirements, the fiscal program targets an annual central government's primary surpluses of 7½ percent of GDP over the program period. The GOJ implemented a National Debt Exchange of all domestic securities for new instruments with lower coupons and extended maturities. Yearly interest savings from the exchange are estimated at 1.2% of GDP. Real growth remains weak and is estimated to have shrunk by around 0.5 percent in FY2012/13.

In Suriname, The National Assembly approved a plan to increase its participation in large-scale mining projects by US$700 million. The economy grew around 4 percent in 2012. In 2013, higher levels of investment, particularly in mining and the public sector will expand real GDP by 4.5%.

Trinidad and Tobago's economic growth began to recover in the second half of 2012, with a year-on-year growth rate of 1.2%. Credit growth remains lackluster. Despite some moderation on food inflation to an annual rate of 9.4% in April, core inflation remains very low.

Special Country Reports in this Issue…

In **The Bahamas, Guyana, Jamaica** and **Trinidad and Tobago** we analyze the fiscal sector performance and the medium-term debt sustainability. While Guyana and Trinidad and Tobago debt levels remain sustainable under reasonable macroeconomic assumptions, Jamaica's high debt level has been a major constraint for growth and a source of risk for the country. The government of Bahamas will also need to follow a strict fiscal policy in order to meet this year's fiscal deficit target.

In **Barbados**, we discuss the banking sector stability and risks. Although non-performing loans have increased over the last year, other indicators show that banks remain highly liquid and well-capitalized.

In **Suriname**, we evaluate its economic and trade integration from a longer-term perspective since the country has been trying to diversify its commodity dependent economy and trade partners.

Special Regional Report: PetroCaribe

The PetroCaribe Energy Cooperation Agreement emerged in 2005 and has provided cheap financing for many Caribbean Countries.
In this issue, we discuss the scope of the program and the impact on the countries of the region. In particular, we analyzed how Jamaica has benefitted from this program.
The main take-away is that PetroCaribe is an important program for those countries that depend heavily on oil imports, for example Jamaica and Guyana. It offers better financing conditions, in particular to those countries with restricted access to capital markets.
It ends with an update of IDB Caribbean regional initiatives.

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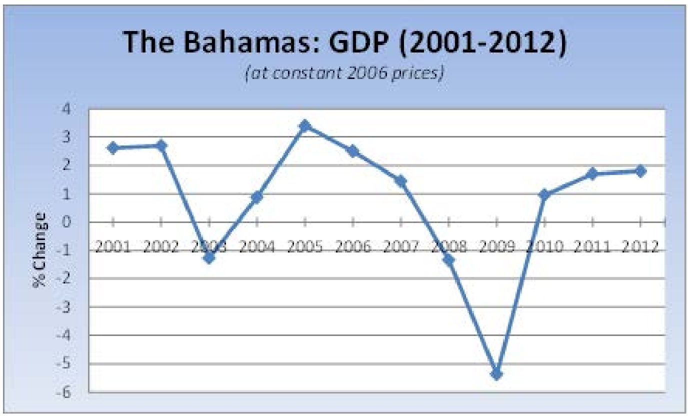
BAHAMAS

AN UPTICK IN GROWTH…BUT NON-PERFORMING LOANS STILL HIGH

Recent Developments

Preliminary results for 2012 output show nominal GDP growth at 3.5%, while real GDP grew at 1.83%. Activity in the construction industry was the primary impetus for this growth, associated with the $2.6 billion BahaMar Resort & Casino hotel development, due to open December 2014. The overall growth in the economy was supported further by positive movements in the Manufacturing, Hotel and Marine Transport sectors. Despite positive growth rates, unemployment remains stubbornly high at 14%, with youth unemployment standing at 30.7% (but down from 34%). More specifically, the data further show that there was an increase in the number of employed persons (1,925), particularly in the manufacturing sector, and a decrease (1,175) in the number of unemployed persons, resulting in a decline of 0.7 percentage points in the unemployment rate, resulting in the 14.0% rate for the country.

Tourist arrivals in 2012 increased by 6.3% compared to the same percentage growth in 2011. Growth rates for the air and sea components advanced by 7.1% and 6.1%, respectively. New Providence continues to attract the majority (55.3%) of tourists, followed by the Family Islands (30.5%) and Grand Bahama (14.1%). Hotel performance for February indicated a lowering in room revenues by 6.3%, despite the 5.5% increase in the average daily room rate. Underpinning this change was the decline in the occupancy rate to 65.9%.



Developments in the fiscal accounts from June 2012 to January 2013, highlight a widened deficit position by two-thirds. This was mainly due to a fall in revenue - (6% decrease in comparison with the same period the previous year) and higher expenditures. Capital expenditure increased by 21% in the first seven months of the year, reflecting mainly the public works of the New Providence Road Improvement Program and BahaMar-related construction related activity. The deficit was financed domestically mostly with Registered Stock, Treasury bills and short-term advances. Moreover, the Government obtained a US$180 million loan from a financial entity in December 2012 with a 10 year bullet amortization scheme. Government was also financed from external sources.

Highlights

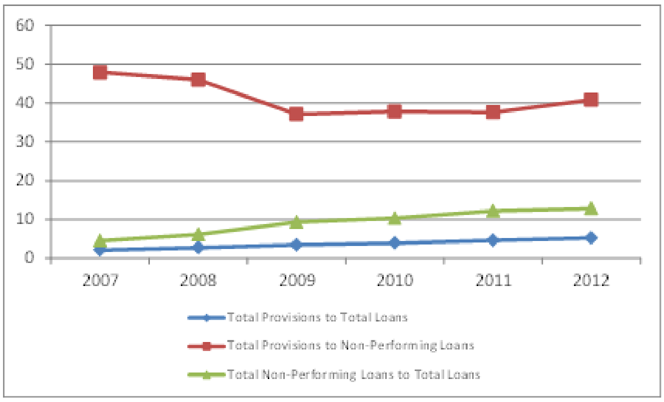
Preliminary results for 2012 national accounts indicate nominal GDP growth rate for The Bahamas of 3.5 percent, and real GDP growth of 1.83 percent. The small difference between the two suggests that the price increase was very moderate.

Key components of the medium-term fiscal plan include measures to both eliminate the primary deficit and get the debt-to-GDP ratio to lower levels. These efforts are expected to result in a leveling of the debt-to-GDP ratio by 2014/2015 and a consequent gradual reduction in the ratio to just over 50% of GDP by 2016/2017.

The IMF's Financial System Stability Assessment concluded, among other things, that the financial system remains stable but non-performing loan levels need to be monitored.

Asset quality indicators continued to worsen during 2012 and represent the main challenge of the domestic financial sector in The Bahamas. By September 2012, the total loan arrears for private sector credit accounted for 18% of the total credit. Non-performing loans (arrears with 90 days or more of delay) accounted for 13% of total loans. The loan portfolio worsened during the first two years of the Global Financial crisis. Loan arrears have remained high, although these levels appear to have smoothed out. Data indicate a worsening of the mortgage loan portfolio over the period. The domestic banks are holding on to their portfolios of non-performing mortgages, avoiding fire sales and foreclosures, so as to maintain the value of their collaterals. The banks also have been working with the clients to refinance the loans since the start of the crisis. Moreover, the government announced a mortgage relief plan to mitigate the impact of the economic crisis on the housing market. In addition to the specific decision not to commence massive fire sales and foreclosures, the banks increased their provisioning levels. Provisions to total loans grew from 2.1% in 2007 to 5.2% by September 2012. The IMF's FSAP discourse on the matter indicates that high non-performing loans on mortgages do not pose an immediate threat to the banks, despite the bank's reluctance to foreclose on properties. The FSAP stressed that Banks have high capital and liquidity ratios.

Figure 1. Non-performing Loans



The IMF approved on February 5th, 2013 the 2012 Article IV consultation with The Bahamas. The staff report highlights the following challenges for the country.

- *Fiscal Consolidation*: the IMF stressed that there is a need to contain the rising level of debt by implementing a comprehensive fiscal consolidation process.
- *External Sustainability*: the IMF highlights that there is a non-negligible deficit that is not financed by non-debt generating FDI.
- *Medium term growth*: there is a need to remove the impediments for economic growth.
- *Strengthen financial supervision and oversight*: given the high level of NPLs, there is a need to enhance provisioning and monitoring.

The IMF produced the *Financial System Stability Assessment* for The Bahamas, which reviews the workings of the domestic financial sector. The main conclusions of the report are:

- The financial sector does not face obvious near-term threats to financial stability.
- There is a need to monitor non-performing loans closely.
- The financial sector oversight has improved greatly. However, there is room for improvement in the areas of insurance, securities and pensions.
- There is a need to modernize the crisis management and financial safety net framework.

The Offshore financial sector in the Bahamas faces some uncertainty due to the changes in international regulations that could change the comparative advantage of offshore financial centers around the world

Important Issues for the IDB

The Government of The Bahamas outlined its strategy to finance its fiscal needs in the upcoming years. It has chosen to use only US$ 150 million of financing from the IDB in the upcoming 5 years, which represents 12% of the estimated fiscal gap for the period (US$ 1.2 billion). The remaining will mostly come from domestic and international financial markets. Therefore, GoBH will utilize Bank financing of up to $150 million for tightly focused transformative interventions that have high government priority and require specialized technical support. GOBH has decided to primarily use the investment loan modality and may use policy-based financing as deemed appropriate. Average annual approvals and disbursements will be significantly lower than levels observed in the current CS. Nevertheless, net flows are expected to remain positive during the 2013-2017 period.

The Country and the Bank signed the agreement to start the execution of the Technical Cooperation entitled: "Strengthening Institutional Capacity of the Office of the Prime Minister". The objective is to support the preparation of a long-term National Economic Development Plan and to enhance the government's capacity to assess the impact of investment projects and their alignment to the National Economic Development Plan.

High-frequency macroeconomic Indicators				
Indicators	Last data	Period	Prior data	Period
Annual GDP growth (%)	1.8	2012	2.0	2011
Tourism arrivals (% - YoY)	6.3	Dec-12	6.3	Dec-13
Exports (YoY - growth)	6.6	13-Apr	27.3	Q3 2011
Imports (YoY - growth)	7.3	13-Apr	13.9	Q3 2011
Private sector credit growth (% - YoY)	-1.5	May-13	-1.4	Feb-13
Inflation	3.2	Dec-12	3.3	Nov-11
Exchange Rate (End of Period)	1.0	May-13	1.0	Apr-11
Country Risk Rating (Moodys)	Baa1	12-Dec	A3	Oct-11
Unemployment rate (%)	14.0	May-12	14.7	12-May

BAHAMAS BRACING THEMSELVES FOR MEDIUM-TERM FISCAL CONSOLIDATION

Despite some bold measures announced in the mid-year budget and in the medium-term fiscal framework, the government needs to be bolder with reforms than in the past.

On May 29th, 2013, The Minister of Finance presented the 2013/2014 Budget Statement, which outlined specifics of both the government's short-term and medium-term fiscal action plans. For FY 2013/14, he stressed that the Government continues to expect to reach its fiscal target of a deficit of 6.5% to GDP in 2012/13. It is implementing specific activities to adjust to the lower-than-earlier-expected revenue levels, including reducing recurrent expenditures and enhancing tax collection, particularly for property tax and customs. By instituting measures to mitigate the weaknesses, the GFS deficit should approximate 6.1% of GDP, slightly below the budget forecast of 6.5%.

The specific-short term measures to be adopted are:

- Constrain the expenditures of government ministries and departments over the remainder of the current fiscal year.
- Moderate the pace of capital expenditures below the amounts budgeted.
- Implement structural measures to improve revenue performance and tighten expenditure controls over the medium-term.
- Plan a comprehensive program to reform the real property tax administration. This would include new legislation, new operating procedures and application of new software. In the interim, giving relief to taxpayers, GOBH announced a new amnesty program with regard to real property taxes, effective March 1st, 2013, which aims to incentivize increased payments. According to the Minister of Finance, these efforts are an attempt at "cleaning up the real property tax register and modernizing the administrative infrastructure" to allow for a more stable approach to enforcing compliance.
- Reduction on the rate of Excise Tax on trucks less than 20 tons from 85% to 65%. GOBH has also promised to review Excise Tax rates on all motor vehicles, taking into consideration traffic and environmental concerns.

The Government also presented an outline of the details of the medium term fiscal consolidation plan. Its goal is to stabilize and reduce the stock of debt in the medium term. The articulated goals are:

- For recurrent expenditure, to reduce recurrent outlays by 0.5% of GDP each year to reach to 19.1% by FY 2016/17;
- For capital expenditure, the Government will target an execution rate of 3% of GDP and;
- For revenues, to increase by 4 percentage points of GDP from FY 2013/14 to FY 2016/17. The Government expects to run fiscal surpluses by FY 2016/17 (Table 1).

The measures to support these expressed targets are as follows:

- To enhance recurrent revenues,
  - The implementation of a fundamental reform of the tax system, including the introduction of a Value Added Tax in July 2014;
  - The establishment of the new Central Revenue Agency (CRA);
  - Modernization of the Customs Department;
  - The introduction of the new excise stamps for tobacco products, as a means of significantly curtailing revenue leakage in that area.

- To reduce recurrent expenditure:
  - The new Financial Administration and Audit Act fully will come into force on July 1, 2013;
  - Restructuring the Ministry of Finance to effectively monitor the operations and expenditures of all ministries, departments and public corporations;
  - Specific actions will be taken to address electricity consumption, communications costs and the management of government assets, and motor vehicles specifically across all areas of government;

Table 1 Medium-Term Fiscal Consolidation Plan (% of GDP)

	2011/12	2012/13-Budget	2012/13-Projected Outturn	2013/14	2014/15	2015/16	2016/17
Recurrent Expenditure	20.4	21.5	20	20.1	19.9	19.5	19.1
Recurrent Revenue	17.9	18.3	16.6	17.4	19.4	20.9	21.5
Capital Expenditure	4.9	4.7	4.2	3.4	3.0	3.0	3.0
Primary Balance	-3.3	-4.1	-3.8	-2.4	0.4	2.7	3.4
Overall Balance	-5.6	-6.5	-6.1	-5.1	-2.4	0	0.8
Debt Stock	48.8	52.7	53.1	56.4	56.6	54.5	51.5

Source: Ministry of Finance - 2013/14 Budget Communication

The credit-rating agencies seem somewhat more skeptical about the plan. Moody's released in March 2013 an assessment of the Bahamian economy and their outlook for the medium term. The report stresses that The Bahamas is unlikely to

stabilize its national debt before 2016-2017 and that the proposed Value-Added Tax (VAT) reform program--scheduled to be implemented in July 2014--may be difficult to operationalize and politically contentious. Additionally, the rating agency sees limited prospects for the fiscal consolidation necessary to strengthen the Government's balance sheet and stabilize debt levels in the next two years.

The Medium Term Fiscal Consolidation Plan has some Downside risks that are worth noting.

It is linked to the recovery of economic activity in the US. Economic growth is directly related to US economic activity, so further deterioration could jeopardize the success of the consolidation plan.

The Plan is highly dependent on the success of VAT implementation. The improvement in the fiscal accounts is mostly obtained by an increase in tax revenue thanks to the implementation of the VAT. The establishment of a value-added tax has been discussed for many years, so there is a question as to whether it will, indeed, be implemented this time around. Moreover, any delay in the implementation of such a reform could affect the fiscal consolidation efforts, implying higher –than-expected fiscal deficits. A delay in the implementation could also trigger further downgrades in the sovereign rating of the country, jeopardizing the success of the consolidation plan, and even the investment-grade rating.

Financing needs are above US$ 1 billion in the next couple of years. In spite of the fact that the fiscal consolidation plan has the projected surpluses over the medium term, the Government expects to run deficits for more than US$ 1 billion in the upcoming years. The debt management strategy to be adopted at this juncture is very important to determine the debt burden and its profile in the upcoming years.

The cost of domestic market financing is apparently not too attractive. It is generally linked to the PRIME rate set by the Central Bank of The Bahamas which is 4.75% nowadays and most issues are variable interest rate instruments. The experience of The Bahamas in the international market has not been too favorable, as the latest bonds issued (in 2009) had a fairly high fixed interest rate of 7% and a bullet amortization. The Ministry of Finance reports that it has obtained a loan from a private bank for US$ 180 million with a 10-year bullet amortization period, but it has not released information on the interest cost of the debt. The financing is even less flexible if one considers that the Ministry of Finance has a target of financing at least 50% of the fiscal gap with domestic sources, regardless of the cost differential.

The Bahamas: Selected Indicators

	2007	2008	2009	2010	2011	Projections 2012
(Annual percentage changes, unless otherwise indicated)						
Real Sector						
Real GDP	1.4	-2.3	-4.9	0.2	1.6	1.8
Nominal GDP (millions of local currency)	4.4	-0.9	-6.4	0.7	0.2	5.9
Inflation (end of period) IMF	2.8	4.5	1.3	1.6	4.0	1.5
Inflation (end of period) - Central Bank	2.8	4.6	1.3	1.7	3.2	na
External Sector						
Exports of goods and services US$	21.8	0.9	-20.4	4.4	7.6	7.2
Exports of goods and services B$	9.3	-2.3	-17.9	3.4	5.0	7.2
of which: Travel Receipts	6.5	-2.2	-10.0	6.7	4.5	9
Imports of goods and services US$	4.6	1.5	-18.9	1.1	12.9	11.5
Imports of goods and services B$	1.6	-0.8	-16.3	4.5	13.0	11.5
Current Account (% GDP)	-11.5	-10.6	-10.5	-10.5	-14.0	-16
FDI (percent of GDP)	9.7	11.6	9.5	12.0	11.6	14.8
(In percent of GDP, unless otherwise indicated, on a fiscal year basis)						
Central Government	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Revenue and Grants	17.2	16.6	16.8	18.4	19	18.5
of which: tax revenues	15.3	14.2	14.3	16.7	17.3	16.7
Current Expenditure	16.2	17.8	18.0	19.6	19.9	20.1
Capital Expenditure and Net lending	2.8	3.3	3.2	3.6	3.5	4.3
Primary Balance	0.6	-1.1	-0.9	-1.1	-1.2	-3.6
Overall Balance	-1.8	-4.5	-4.4	-4.8	-4.5	-5.9
Consolidate NFPS balance 1/	-1.6	-4.4	-4.6	-4.8	-5.9	na
Debt Indicators						
Central Government Debt	32.3	38.6	43.9	45.7	48.6	53.6
Central Government Debt over Revenue:	188.1	233.0	261.1	247.9	256.5	289.7
External Public Debt	3.3	4.8	9.1	9.4	9.4	10.1
External debt service as percent of exports of	6.6	6.6	25.4	11.5	5.7	8.5

1/ General Government
2/ The increase in 2009 reflects repayment of internal forex loan of US$ 185 milion to domestic banks.
Source: IMF WEO and national authorities.

Highlights

Barbados continues to struggle with the challenges of slow growth and fiscal imbalance. The economy had no growth in 2012 and contracted slightly in the first quarter of 2013. The weak growth outlook is partly associated with falling tourist arrivals in 2012 and early 2013. The fiscal deficit has worsened and the public debt-GDP ratio continues to rise.

With current fiscal performance failing to meet government targets, the Government is in the process of formulating a new strategy which is expected to be announced later in August2013.

External economic performance has also shown some fragility, with tourist arrivals dropping and oil prices and international capital inflows fluctuating.

Recent Developments

National Elections took place on 21 February 2013. The Democratic Labor Party retained the government by a narrow margin of 16 in Parliament to 14 seats for the opposing Barbados Labor Party. With a new administration in place and the term of the current country strategy (2009-13) coming to an end, preparation of a new **IDB Country Strategy with Barbados** is being set in motion.

Barbados continues to struggle with economic stagnation, as the Central Bank of Barbados recorded zero growth in 2012 and contraction of 0.4 percent in the first quarter of 2013. Consistent with the weak pace of economic activity, the unemployment rate inched up to 11.6 percent on average in 2012 compared to 11.3 percent in the previous year. Fiscal performance has also taken a turn for the worst in the past year. The fiscal deficit which had narrowed from 9.1 percent of GDP in 2010/11 to 4.6 percent in 2011/12 deteriorated sharply to 7.3 percent in 2012/13. Not surprisingly, with the deficit worsening, the public sector debt/GDP ratio (net of NIS holdings of Government paper) has started to rise again from 80 percent in March 2012 to 83 percent by March 2013 (it was 56 percent in 2008). If lending from the National Insurance Scheme (NIS) is included, the public debt ratio reaches 120 percent from 84.3 percent in 2008. This deterioration has meant that fiscal performance has not kept pace with the targets of the Government's Medium-Term Fiscal Strategy for fiscal and debt consolidation. Recognizing this, the Government has started to prepare a new strategy which is expected to try to strike a balance between growth and austerity objectives. The Government is expected to announce the new strategy later this year.

The stagnant nature of economic activity is inevitably linked to the poor performance of the vitally important tourist industry in Barbados over the last year and a half. Stopover visitor arrivals were down by 9 percent in January-February 2013 (the height of the tourist season) following a reduction of 6.2 percent during 2012 as a whole. This was associated with a 6 percent reduction in airlift capacity. The impact of the drop in arrivals was aggravated by a 5 percent drop in average tourist spending. Manufacturing and agricultural output also declined in 2012 but, boosted by a 16 percent rise in rum exports, domestic exports grew by 4 percent. New registrations of companies in the international business and financial services sector were down by 6 percent in the first quarter of 2013, and construction activity, which is a useful barometer of investment activity in the economy, shrank by 7.6 percent in 2012.

Other macroeconomic indicators are within acceptable ranges but are subject to the fragility imposed by stagnant growth and the rising fiscal burden. The inflation rate continued its downward trend since reaching a high of 9.4 percent in 2011, falling to 3.3 percent by March 2013 (annualized). These rates compare with an annual average of 3.4 percent between 1990 and 2010 and reflect increased price volatility over the last few years.

The outlook for the external balance is somewhat pessimistic. The balance-of-payments current account deficit improved sharply from a deficit of 11.6 percent of GDP in 2011 to a 4.7 percent deficit in 2012. However the outlook for 2013 is for a worsening of the balance: the first quarter balance--which would normally be positive-- showed a deficit of 2.7 percent of GDP. This is largely attributable to the poor showing of tourism, as merchandise imports showed a 10 percent reduction over that period. Net capital inflows also showed a sharp decline in the 2013 first quarter, amounting to a mere US$8.4 million compared to US$55.0 million in the same period of 2012.

Although reserve levels are adequate, this recent external performance could change that. As of end of March 2013, net international reserves stood at US$714.8 million, slightly above the average of US$708 million over the period 2006-2012. This level of reserves is considered adequate, representing the equivalent of 19 weeks of import cover. However, as noted above, balance-of-payments performance has shown significant signs of weakening in the first quarter of 2013. If the recent scenario of current account decline and reduced capital inflows

persists, Barbados faces the prospect of significant reserve loss, which may force the government to increase its external borrowing this year in order to protect the exchange rate peg.

Citing the country's lackluster economic performance and outlook and declining debt metrics, Moody's announced a downgrade of Barbados's credit rating in December 2012, to **Ba1 from Baa3**. Moody's also mentioned the weak economic outlook, given declining competitiveness and productivity and the low prospects for economic growth in the major industrial countries where the tourists originate. This follows a downgrade by **S&P from 'BBB-/A-3' to BB+/B'** in July 2012. While highlighting the current macroeconomic weaknesses and challenges, Moody's also acknowledged strengths which support the Ba1 rating, including the high per-capita income and strong reputation as a tourist destination, strong public institutions and stable political system, the favourable maturity profile of the debt structure and high proportion of domestic debt.

Table 1. Fiscal Indicators, 2007-2013

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Fiscal Revenue (% of GDP)	27.6	29.9	26.4	26.8	29.3	26.5
Total Expenditure (% of GDP)	31.0	35.0	34.0	36.0	33.9	34.4
Current Expenditure	27.8	32.1	32.0	34.4	32.6	33.1
Transfers	10.9	13.1	12.5	13.8	11.8	12.4
Wages and Salaries	9.0	9.6	9.8	10.1	10.1	10.0
Interest Payments	3.8	4.6	5.0	6.0	6.1	6.4
Capital Expenditure	2.7	2.7	1.9	1.3	1.1	1.0
Fiscal Balance	-3.4	-5.1	-7.6	-9.1	-4.6	-7.3
Primary Balance	0.4	-0.5	-2.6	-3.2	1.5	-1.6
GDP (BB$ Mil)	8,966	8,687	8,793	8,490	8,626	8698 (p)

Sources: Central Bank of Barbados Review 2011, IMF Article IV 2011 (P)- IMF Projections

Issues for the Bank to Watch Out For

As pointed out above, it is evident that fiscal performance has gone off-track in relation to the targets of the Government's Medium-Term Fiscal Strategy. Having won a new mandate in the February national elections, the Government has pledged to review its fiscal consolidation efforts and propose a new strategy. It is expected that the new strategy will be announced in the presentation of the Budgetary Proposals which is expected around August. On the basis of statements by Government officials, it is evident that the strategy will again try to strike a balance between growth promotion and austerity, with increased emphasis on the former. It remains to be seen what concrete measures will be put in place to achieve this, as tax waivers and incentives may not be compatible with fiscal consolidation. With the deficit widening and public debt rising, and the global economy yet to make a strong recovery, the Government will be highly constrained in terms of its room to manouver. It is expected that a Fiscal PBL will be approved later this year which will provide the country with balance of payment support based on the fulfillment of measures linked to the improvement of tax policy and administration, quality and efficiency of public expenditures and debt management.

The measures coming out of the G8 summit meeting in June 2013 may threaten the existence of the international business and financial services sector (IBFS) in Barbados. These measures are designed to combat illegal evasion of taxes, as well as legal tax avoidance by large corporations that make use of loopholes and tax havens. The Foreign Accounts Tax Compliance Act (FATCA) recently passed by the United States (U.S.) congress binds countries, like Barbados, to share information with the U.S. Treasury about the operations of offshore businesses. This could potentially erode the incentive to establish a company in a "low tax jurisdiction" and subsequently negatively impact the country's macroeconomic position by lowering foreign direct investment (FDI), tax receipts and employment, among others.

High-Frequency indicators

Indicator	Latest available		Previous	
Annual GDP growth (%)	-0.4	Q1 2013	0	2012
Tourism arrivals (% change)	-8.9	Jan-Feb 2013	-6.2	2012
Exports (12-month growth)	-9.4	Q1 2013	3	2012
Imports (12-month growth)	-4	Q1 2013	-7.4	2012
Private sector credit growth (Yoy %)	-1.1	2012	-0.5	2011
Inflation rate	3.3	Q1 2013	4.5	2012
Exchange rate (end of period)	2	2012	2	2011
Country risk rating (Moody's)	Ba1	12-Dec	Baa3	11-Jun
Unemployment rate	11.6	2012	11.3	2011

The banking sector remains stable and robust despite some persistent non-performing loans in the books. The Financial Stability Report issued by the Central Bank points to the weak global and domestic macroeconomic environment (see selected indicators in table 2). These have resulted in a worsening of credit quality in the Barbadian banking system, even though the financial system remains robust. Non-performing loans (NPLs) rose from 11.1 percent at the end of 2011 to 12.7 percent as at September 2012 (see graph). However, as at September 2012, banks remain highly liquid, well-capitalized and profitable. Stress tests indicate that it would take a considerable negative shock to economic activity (equivalent to 15 percent of GDP) or an 80 percent increase in NPLs for the least well-capitalized bank to fall below the statutory minimum requirement of 8 percent. Some credit unions have recorded declining credit quality but this does not pose a systemic risk. Insurance companies also experienced declining incomes, but liquidity and solvency indicators improved. The Barbados subsidiary of the failed Trinidad and Tobago-based company, CL Financial, has been placed under judicial management and the court has approved plans for its restructuring and sale.

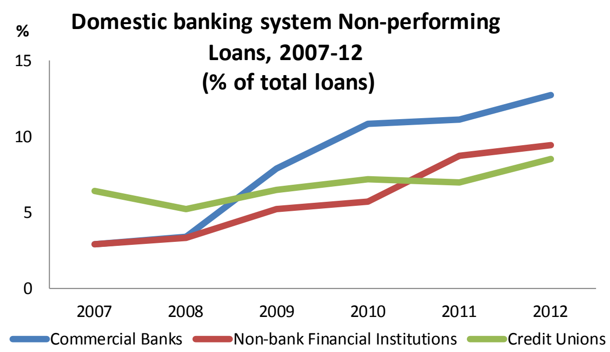


Table 2. Barbados: Selected Financial Stability Indicators, September 2012

	Commercial Banks	Non-bank financial Institutions	Credit Unions
Capital Adequacy Ratio (CAR)	19.6	22.8	-
Liquidity Indicators			
Loan to deposit ratio (%)	75.6	114.4	116.5
Demand deposits to total deposits (%)	27.3	23.3	-
Liquid assets, % of total assets	13.2	66.5	-
Credit Risk Indicators			
Total assets (growth rate, %)	9.0	4.7	3.2
Loans and advances (growth rate, %)	-1.9	-	1.7
Non-performing loans ratio (%)	12.7	9.4	8.5
Substandard loans/Total loans (%)	9.9	7.5	-
Doubtful loans/Total loans (%)	1.9	0.9	-
Loss Loans/Total loans (%)	0.8	1.0	-
Provisions to non-performing loans (%)	36.5	31.4	3.1
Profitability Indicators			
Return on Equity (ROE)	5.9	-	-
Return on Assets (ROA)	1.0	1.3	3.0

Source: Central Bank of Barbados Financial Stability Report

A joint IMF/World Bank team will visit Barbados to carry out an FSAP assessment in mid-year. This will be followed by an Article IV consultation toward the end of the year. The last Article IV Report on Barbados was issued in November 2011. The 2012 Consultation was postponed because the Government was not prepared to receive the mission at that time.

Barbados Selected Indicators

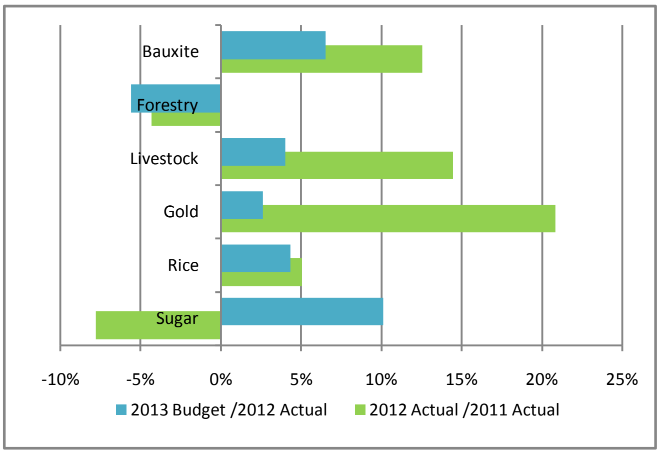
	2007	2008	2009	2010	2011	2012(p)
Real Sector		**(in percent unless otherwise indicated)**				
Real GDP growth	1.7	0.3	-4.1	0.3	0.8	0.0
Inflation	4.0	8.1	3.6	5.8	9.4	4.5
Unemployment	7.4	8.1	10.0	10.8	11.3	11.6
External Sector						
Current Account Balance (% of GDP)	-5.5	-11.2	-7.1	-6.1	-11.6	-4.7
Net Capital Inflow (% of GDP)	11.0	6.1	8.1	5.7	9.1	8.0
Foreign Exchange reserves (BD$m.)	1549.9	1359.3	1488.7	1435.3	1423.3	1464.3
Foreign Exchange reserves cover (weeks)	20.9	16.4	21.1	18.4	17.7	19.5
Central Government (Fiscal Year)			**In percent of GDP**			
Revenue & grants	27.6	29.9	26.4	26.8	29.3	27.5
Total expenditure	31.0	35.0	34.0	36.0	33.9	34.8
Current expenditure	27.8	32.1	32.0	34.4	32.6	33.5
Capital expenditure & net lending	3.2	2.9	2.0	1.6	1.4	1.3
Primary balance	0.4	-0.5	-2.6	-3.2	1.5	-0.8
Overall fiscal balance	-3.4	-5.1	-7.6	-9.1	-4.6	-7.3
General Government balance	1.8	-0.8	-6.0	-3.9	-4.4	-4.0
Debt Indicators						
General Government debt (% of GDP)	51.7	55.7	66.0	75.1	80.2	83.0
External public debt (% of GDP)	22.2	22.8	27.2	31.9	31.9	30.2
External debt service (% of goods & service exports)	5.3	5.7	7.0	16.7	6.6	6.8

Source: Central Bank of Barbados; IMF WEO, April 2013

Recent Developments

Guyana posted another year of strong economic performance, realizing growth of 4.8 percent in 2012. The economy continues to expand at a steady pace largely credited to the robust activity in the non-sugar sectors that grew by 5.4 percent on the back of high commodity prices, foreign direct investment, and domestic credit expansion. The primary drivers of economic growth during 2012 were the rice, mineral and services sectors, as the sugar sector contracted. This achievement has seen authorities' project economic growth of 5.3 percent in 2013.

GDP at 2006 prices by industrial origin (percent change)



Reforms in the sugar sector are expected to increased output in the medium term. Sugar production contracted by 7.8 percent in 2012 due to a dry spell of its first crop. The main measures taken to address structural and technical inefficiencies are: (i) retool the industry through mechanization of field operations and technology to reduce the impact of adverse weather and maintain consistent production; (ii) improve of value-added with the newly constructed sugar packaging plant at Enmore, and (iii) increase private sugar cane cultivation

In 2012, rice production grew by 5 percent to 422,057 metric tons, in part due to the rice compensation agreement with Venezuela that was penned in 2011, as an offshoot of the Petrocaribe agreement. Under that agreement, Guyana exported 281,731 metric tons (66 percent of total production) of rice to Venezuela at premium prices that facilitated debt compensation in 2012. However, there is a potential downside risk to its continuation given the death of President Hugo Chavez. Changes to the agreement could severely impact the rice sector and Guyana's balance of payments.

Authorities anticipate higher production in 2013 as the industry seeks to boost production and capitalize on high prices. Domestically, the rice sector has benefited from: (i) investments made in supportive infrastructure, linking harvesting, manufacturing and marketing; (ii) improved drainage and irrigation, and (iii) lucrative prices for exports under the rice-for-fuel compensation arrangement with Venezuela, which continues to account for more than 60 percent of rice exports.

Highlights

Guyana' economic outlook remains strong on the backdrop of its seventh year of economic growth in 2012. The economy grew by 4.8% and was primarily driven strong performances in the traditional sectors (excl. sugar) and expanding private and public investment activity that have seen intense focus on infrastructure development and improving productive capacity.

The overall macro economy remained stable; however, mounting concerns exist regarding the governments growing transfers to the public sector enterprises and aggressive public investment portfolio and their reliance on debt instruments for financing. Efficiency should be improved so that reliance on loans and grants to meet primary balance shortfalls is limited.

On March 25th, the Minority Government, led by President Donald Ramotar, presented a national budget of G$208.8 billion that facilitated capital investments in energy, transport, and communication; however, growth in social sector spending and pro-poor investment policies were relatively subdued.

The mining and quarrying industry recorded 14.8 percent growth over 2012. Gold production of 438,645 ounces (20.8 percent higher than 2011) was the highest recorded since the closure of Omai Gold Mines in 2005, primarily due to high investment despite marginal decline in prices. The bauxite industry recorded growth in value added of 12.5 percent, (producing 2,213,972 tons), with cement- grade bauxite achieving record production.

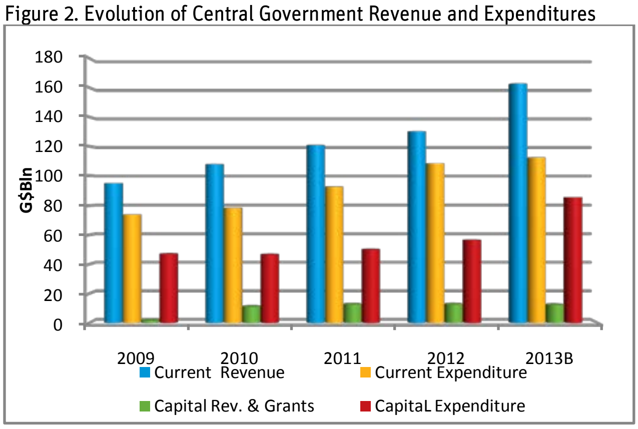
The manufacturing sector grew by 2.4 percent, much slower than the 6.8 percent realized in 2011, while construction activity contracted by 11 percent during 2012 due to public sector infrastructure delays.

Fiscal Developments

The fiscal deficit increased from 4.4 percent of GDP in 2011 to 4.6 percent in 2012. Authorities attributed the deterioration to higher wages and salaries, transfers and an aggressive public investment strategy. Given these developments, authorities project further widening of the fiscal balance to 4.7 percent of GDP in 2013.

Central Government revenue (net of GRIF inflows) grew by 7 percent to G$129.4 billion in 2012. Tax revenues accounted for 91.5 percent of total current revenue collections, net of GRIF inflows. Authorities indicated higher VAT and corporation tax receipts In contrast, personal income tax under declined by 4.1 percent to $16.2 billion as a result of the increase in the income tax threshold granted 2012. Capital revenue and grants grew marginally by 0.3 percent in 2012, reflecting increases in grant aide.

Figure 2. Evolution of Central Government Revenue and Expenditures



Non-interest current expenditure increased by 17.1 percent. This development was attributed to a 43.2 percent in transfer payments as subventions for operating expenses for the Guyana Power & Light (GPL) and the Guyana Sugar Corporation Incorporated (GUYSUCO). Authorities also cited an 11 percent rise in expenditures for wages and salaries due to salary increases for public servants and new recruitment, mainly in health and education sectors.

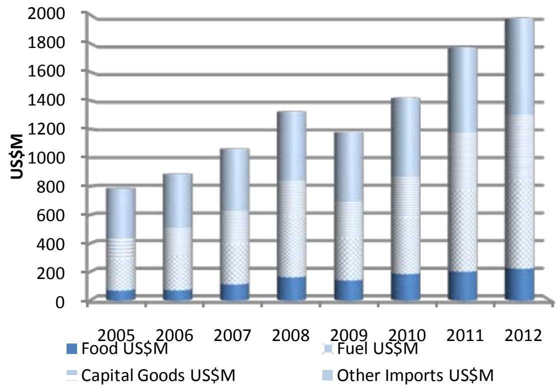
Capital expenditure increased by 12.6 percent to $56.4 billion due to the advancement of several key development projects that include x and y

Merchandise Trade Developments

In 2012, the current account deficit widened by 6.1 percent as commodity price volatility and domestic activities provided mixed performances. Exports grew by 23.6 percent, benefited from bilateral trade agreements and high world market prices for precious metals (particularly gold and bauxite) and agricultural products such as rice. The dynamics driving imports, which expanded by 11.7 percent evolved with much nonfuel goods inextricably linked to heavy public and private sector investment (Figure 3). Based on IMF staff estimates on the level of FDI activity and official borrowing, the current account is projected to remain fully financed over the medium term.

Remittances--the portion of migrant workers' earnings sent home to their families--are a substantial and growing part of Guyana's economy. In 2012, remittances amounted to US697 Mln (11.9 percent higher than 2011), approximately 27.8 percent of GDP. Authorities cite the recent evolution of source markets that now include significant contributions from China and Brazil as their respective populations grow. Remittance flows are expected to remain robust and grow over the medium term, helping to keep the current account sustainable

Figure 3. Evolution of Merchandise Import Components



To pay attention to

Budget cuts that reduced transfers to the Guyana Power and Light (GPL), of G$5.2 Bln from an allocated GS$10.2 Bln, that are expected to result in electricity tariff increases during 2013.

On April 18th the government signed a Memorandum of Understanding with the Canadian Mining Company, Sandsprings Resources Ltd, and its wholly owned subsidiary, CM Power Company, which allows them to undertake further feasibility studies of the development of a 60-Mega Watt hydro power project on the Kurupung River, Region 7.

Guyana recorded the lowest score in Caricom in Transparency Internationals 2012 report. The Corruption Perceptions Index (CPI) revealed Guyana is ranked 133 out of 174 countries with a mark of 28 out of 100; well behind its CCB counterparts.

The President just launched an update to Guyana's Low Carbon Development Strategy, which summarizes progress towards delivering on priority areas including development of renewable energy, diversification, and a climate resilient economy.

High-frequency macroeconomic Indicators

Indicators	Last data	Period	Prior data	Period
Annual GDP growth (%)	4.8	2012	5.4	2011
Exports (12-month growth)	23.6	2012	27.4	2011
Imports (12-month growth)	11.6	2012	24.7	2011
Private sector credit growth (%)	24.7	2012	23.1	2011
Inflation	3.5	2012	3.3	2011
Exchange Rate (End of Period)	204.8	2012	203.75	2011

2013 Budget Developments

The 2013 National Budget of G$208.8 billion, the largest in Guyana's history, was presented by finance Minister Dr. Ashni Singh on March 25, 2013, under the theme '*Overcoming Challenges Together: Accelerating Gains for Guyana'*. The 2013 estimates represented a 19.6 percent increase over 2012 and addressed Guyana's medium term capital investment needs in energy, transport, and communication infrastructure.

In 2013, Authorities project 10.3 percent growth in Central Government current revenue (net of GRIF inflows) of G$142.8 billion mainly attributed to an estimated 6.3 percent increase in tax collections. Congruently, capital revenue and grants are expected to decline 2.3 percent in 2013. Authorities anticipate HIPC and MDRI relief will contribute be lower, while Project and Program funds are also projected to decrease by $527 million.

Non-interest current expenditures will increase by $4.1 billion to G$112.5 billion in 2013, largely on account of wages and salaries, and public sector transfer payments. Meanwhile, capital expenditures will increase 52% to G$85.7 billon as capital investment and projects move forward

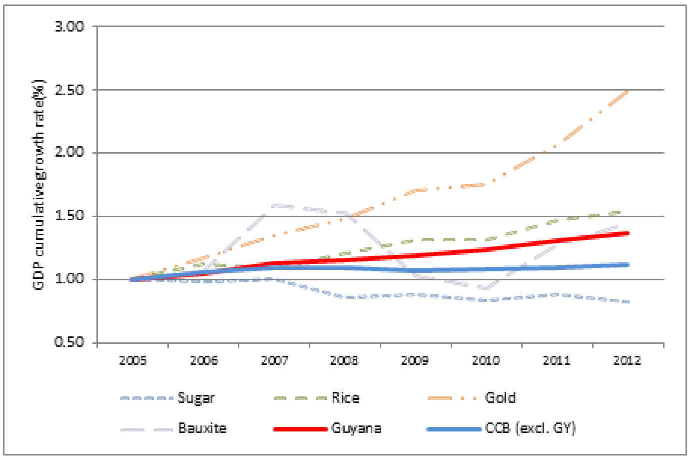
Tensions between the opposition and government marred the budget process. The 2013 budget cycle began in July 2012, and this time consisted of the government hosting a tribunal with the Parliamentary opposition and stakeholders drawn from the private and social sectors to address the needs and concerns of Guyanese. However, despite the early start to consultations, the government and the opposition-led parliament met in February 2013 given political difficulties and lack of common ground. This delay later impeded the consultation and revision process the tribunal was intended to achieve before the national budget was presented in Parliament.

The 2013 Budget was subjected to scrutiny by the Opposition-led House. After final considerations, the 2013 Budget was cut by 15 percent or G$31.4 billion and estimates revised. Reductions in the 2013 estimates were focused on the Amaila Falls Hydro Project under the LCDS and financed by GRIF (cut by G$19Bln), Public Works Ministry (by G$5.3Bln, incl. CJIA airport project), Specialty Hospital (by G$1.2 Bln), GPL subvention (by G$81.3 Mln) and National Communications Network (NCN) by G$135.5 Mln). Negotiations between the parliamentary opposition and President Ramotar to reduce the cuts are expected to yield little results given deep political divide.

The outlook for medium-term growth remains positive.

Economic progress since 2005 has been impressive, with real GDP growth averaging 4.6 percent through 2012. Guyana has outperformed all Caribbean countries despite the challenges in the global front. In the last seven years --taking 2005 (=100) as base-- Guyana grew 37 percent compared to 12 percent of the Caribbean region (Figure 3).

Figure 3. Cumulative growth: Guyana, Caribbean region and economic sectors



However, economic activity is still concentrated around a few important commodities produced by the agricultural and mining sectors. With recent increases in mineral prices, especially gold, the mining sector continues to be a main contributor to the economy, accounting for 11.8 percent of GDP. The agricultural sector comprises 19.8 percent of GDP (including the sugar sector's contribution of 3.7 percent to GDP and rice 2.7 percent of GDP).

Not only has growth been higher, but also volatility has decreased. Growth volatility (as measured by the variability coefficient of growth) has decreased from 2.14 for the period 2000–2005 to 0.35 for 2006–2012. Inversely, average growth rose from 0.8 percent to 4.6 percent between the two periods. Volatility is projected to decline further between 2013 and 2016 to 0.12, whereas average GDP growth should be 5.4 percent over the same period (Figure 4).

Given the medium term outlook, it is important to pay attention to the evolution of the fiscal performance, the public debt and its sustainability. Two issues may cause difficulties in the medium term: less access to concessional resources and an increasing need of foreign exchange to finance crucial capital expenditures. Infrastructure investment is crucial for removing productive bottlenecks.

Figure 4. Growth performance and volatility 2000–2016

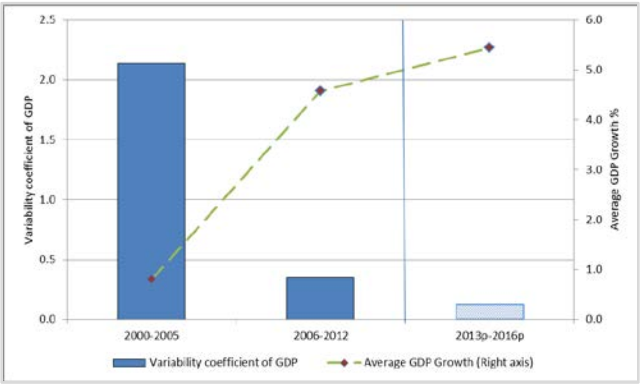
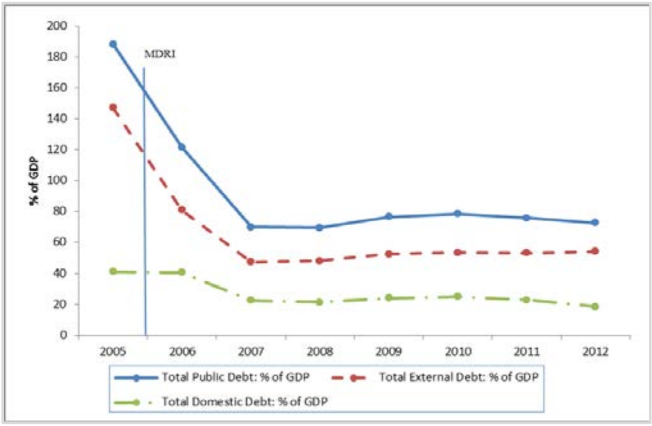


Figure 5. Evolution of public and external debt (as percent of GDP)



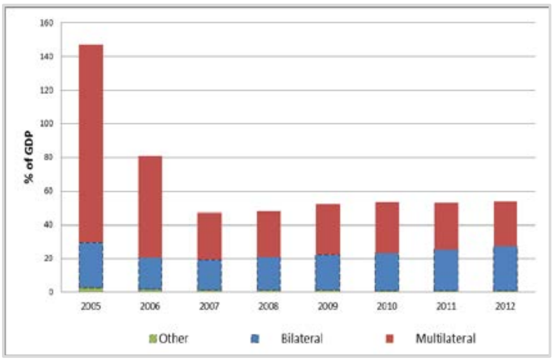
Fiscal sector consolidation efforts over the years have yielded positive results and the medium-term macroeconomic framework envisions improvement in the fiscal deficit of around 3.9 percent by 2016. Even while responding to higher fuel prices and the fallouts of the financial and economic crises, the consolidation path is evident. The fiscal deficit declined from 13.6 percent of GDP in 2005 to an estimated 4.6 percent of GDP in 2012 (somewhat higher than the target of 4.2 percent of GDP); however it has increased slightly in the last three years.

However, to consolidate the fiscal deficit Guyana needs to work in three fronts. First, it needs to improve its public enterprise performance and accelerate plans to bolster operational and administrative capacity. Continued fiscal pressures from GUYSUCO's low productivity and GPL's recurrent losses --due to high levels of technical and commercial losses-- could affect the consolidation of the fiscal deficit. Second, it needs to reduce its reliance on loans and grants to meet primary balance shortfalls, given the declining trend in grants and concessional resources from development partners (partly reflecting ceilings or shifting priorities). Lastly, the government should monitor closely public sector investment projects, like the AFHP, with a view to ensuring that the project is financially and economically viable so as not to expose the budget to future debt distress. There are fiscal risks if GPL were unable to cope with large capital and operational costs during construction or meet its PPA commitments during operation.

Most debt is concessionary. The stock of external public and publicly guaranteed debt rose since 2011 by 12.6 percent to reach 54.2 percent of GDP at end-2012, however, in present value terms; external–debt-to-GDP was 33 percent. External debt service (as percentage of exports) is low, increasing to 4 percent in 2012 (Figure 5).

In 2012 as in the past, the IDB was Guyana's largest creditor, followed by Venezuela and China (Figure 6). Guyana's debt with the IDB represented 38.1 percent of the total external debt at the end of 2012 (from 29.8 percent in 2009). Debt owed to China was 10.5 percent in 2012 (from 3.5 percent in 2009).

Figure 6. External debt by source (percent of GDP)



Given the large number of ongoing infrastructure projects, a continued increase in the external debt over the medium term appears likely. Guyana has managed its debt profile in a broadly conservative manner. Robust growth will contribute to the steady improvements in the country's debt outlook.

Guyana's debt sustainability analysis reveals that the country remains at moderate risk of debt distress. The PV of external debt-to-GDP ratio peaks at 38.8 percent of GDP in 2016, below the 40 percent threshold. Additionally, all other indicators remain well below their thresholds. Debt service ratios remain low (at about 5 percent of exports and 11 percent of revenue in the long term). The government should therefore have no problems in meeting its debt service payments. It should be noted that Guyana's debt sustainability analysis reveals that the risk of debt distress becomes more elevated under scenarios in which authorities depart from the fiscal consolidation path and/or contract debt under less concessional conditions.

Guyana: Selected Indicators

	2008	2009	2010	2011	2012
	(Annual percentage changes, unless otherwise indicated)				
Real Sector					
Real GDP	2	3.3	4.4	5.4	4.8
Nominal GDP (millions of local currency)	349,475	359,549	400,922	460,108	511,337
Inflation	6.4	3.7	4.5	3.3	3.5
External Sector					
Exports of goods and services	14.8	-0.8	14.6	25.8	18.4
of which: Remittances					
Imports of goods and services	19.9	-6.8	17.9	25.1	13.6
Current Account (%GDP)	-13.2	-8.5	-10.7	-16.4	-15.7
FDI (%GDP)	9.3	8.1	9.9	9.9	10.8
	(In percent of GDP, unless otherwise indicated)				
Central Government					
Revenue and Grants	25.4	27.2	26	26.5	27.9
of which: tax revenues					
Current Expenditure	20	19.5	18.8	19.8	21.1
Capital Expenditure and Net Lending	5.4	7.7	7.2	6.7	11.1
Overall Balance	-3.8	-3.7	-2.9	-3.2	-6.2
Debt Indicators					
Central Government Debt	62.9	67	68	69.3	72.1
Central Government Debt/ Revenues	247.3	246.7	261.7	261.6	n.a
External Debt (end of period)	43.7	45.9	46.1	48.6	54.2
External debt service as a % of exports of goods and services	2.1	1.8	2.6	3	n.a

Highlights

The Executive Board of the IMF approved a four-year Extended Fund Facility with Jamaica in the amount of SDR 615.38 million. Prior actions comprising a debt operation, curtailing tax waivers and implementing a formal agreement on public sector wages preceded the approval.

Anxiety over the worsening macroeconomic situation has increased substantially, making the outlook highly vulnerable to shocks and loss of confidence, especially in relation to the government's commitment to the EFF.

The fundamental reforms required for the IMF agreement are meeting political resistance. However, GOJ is aware of the risk of failure. As such, we expect the government to stay highly committed to the reform agenda embedded in the program.

Jamaica's public debt remains among the highest in the world at over 140% of GDP. The FY2013/14 Budget will target a primary surplus of 7.5% of GDP through both expenditure restraints and new tax measures. However, deep, institutional reforms are required for Jamaica to become sustainable over the medium term.

Recent Developments

The Executive Board of the IMF approved a four-year Extended Fund Facility (EFF) for Jamaica. The approval of the SDR 615.38 million program follows the implementation of prior actions, comprising a debt operation, curtailing tax waivers and implementing a formal agreement on public sector wages.

The EFF is centered on an upfront fiscal adjustment, supported by extensive fiscal reforms. The fiscal program targets annual primary surpluses for the central government of 7½ percent of GDP over the program period while bringing public entities to a balanced budget. Other pillars include structural reforms to remove constraints to growth and employment; debt management operations aimed at putting public debt on a sustainable path while guarding financial sector stability and actions to improve competitiveness. In addition, the program includes a floor on social spending and measures to strengthen the social safety net.

As part of the prior actions, GOJ implemented the National Debt Exchange. The NDX exchanged all domestic securities for new instruments with lower coupons and extended maturities (see description in January 2013 QB). External instruments were excluded from the exchange. Yearly interest savings from the exchange are estimated at 1.2% of GDP, which should result in a cumulative reduction in debt-to-GDP of 8.5% by 2020.

Jamaica's vulnerability has increased. The failure to tackle the high level of debt, the challenging fiscal situation and the delays in negotiating a new program with the IMF triggered a steady decline in investor's confidence over the last two years. The major vulnerabilities lie on the external side and the sustainability of debt. At 145% of GDP, Jamaica's public and publicly guaranteed debt is one of the highest in the world.

The external vulnerability has become the major short-term risk for the country. Net international reserves have declined from US$2.27 billion at end-June 2011 to below US$900 million as of April 2013 before recovering to US$1 billion by end of June 2013. This decline was due to a combination of lower capital inflows from both official and private sources and interventions by the Central Bank of Jamaica (BOJ) to stabilize the exchange rate. The current level of reserves is above EFF targets even though it continues to be below the BOJ benchmark level of US$1.2bln required to cover short-term obligations. In light of insufficient supply, financial institutions were rationing foreign exchange during the first quarter of 2013. Liquidity in the market has been improving steadily since the IMF announced that its Board would discuss the EFF but investors are still cautiously holding US dollars.

Jamaica still benefits from low interest rates but they may not continue. Following the signing of the last IMF agreement, interest rates fell in 2010 and 2011. But after two debt operations in three years, investors are reluctant to buy GOJ securities at these low interest rates. Without a strong boost in investor's confidence, rates are likely to move higher, which would be detrimental to fiscal sustainability. Almost 40% of Jamaica's domestic bonds, which are equivalent to around 20% of direct public debt, have a variable interest rate.

Continuously low GDP growth has also contributed to the fiscal challenges. Following three years of contraction, Jamaica grew around 1.5 percent in 2011. Growth evaporated in 2012 as a result of the weak global economy and the uncertainties in the domestic market. Jamaica's economy has been contracting over

the last year and is estimated to have shrunk by around 0.5 percent in FY2012/13.

The FY2013/14 Budget will target a primary surplus of 7.5% of GDP through both expenditure restraints and new tax measures. However, additional measures are required—especially the implementation of a comprehensive tax reform and the public sector rationalization—for Jamaica's fiscal balance to be consistent with medium-term sustainability. Revenue measures included in the FY2012/13 budget were an important first step in the right direction but the primary surplus amounted to 5.3% of GDP, below the target of 6% of GDP

In addition to the strong fiscal effort, more measures are required for the debt to return on a sustainable path. The fiscal adjustment was complemented by the NDX and GOJ is considering additional debt operations, for instance a swap of debt for land.

The weak economic situation continues to take a toll on the poor and unemployed population. Poverty increased from 9.9% in 2007 to around, or over, 20%, while unemployment currently stands at over 14% after bottoming at below 10% in 2007. As a consequence, the program with the IMF includes policies that focus on growth, job creation and improvements in the social safety net. Based on improved investor sentiment, as the EFF gets implemented, and strategic investments, GDP grow is projected to accelerate from 0.8% this year to around 3% by FY2018/2019.

In sum, an immediate and strong commitment to a sustainable medium-term fiscal framework is required to restore market confidence and to allow the country to restore macroeconomic stability. Given the reliance of GOJ on the IMF to support the stabilization of the economy, investors will closely monitor GOJ's adherence to the EFF.

Issues to Watch Out for

- Investors will monitor the implementation of the IMF program closely. Any doubts of GOJ's commitment to adhere to it would hurt investors' confidence.
- The EFF comprises important, frontloaded structural benchmarks. Their implementation will show Jamaica's commitment to the four-year program.
- Domestic demand for JM$ GOJ securities is currently very low. Improvements in investor confidence as a result of successful EFF reviews will be required to re-establish normal functioning of the domestic debt market.
- An improvement in investor confidence would also be required to normalize the working of the foreign exchange market. Following a 12% depreciation over the last year, holders of US$ remain reluctant to exchange them into JM$.
- The government is committed to a reform agenda to reduce structural constrains to economic growth. Successful implementation would soften/ compensate for the adverse effect of the fiscal consolidation on economic growth.

Effects on Our Work

Given the recent vulnerable macroeconomic framework, there was no scope for Policy Based Loans. However, adherence to the IMF program should support a medium-term macroeconomic framework that is conducive for PBL lending. As a result, preparation of PBLs has begun.
The embedded reforms, the protection of poor and vulnerable groups as well as the implementation of the government's growth agenda offers various opportunities for the IDB and other development partners to provide technical and financial support to GOJ.

High-Frequency Macroeconomic Indicators

Indicators	Last data	Period	Prior data	Period
Real quarterly GDP Growth (y/y)	-0.9	4Q 2012	-0.2	3Q 2012
Inflation (quarterly)	2.7	1Q 2013	2.6	4Q 2012
NIR (US$ million)	884	31-Mar-13	1010	31-Jan-13
Exchange rate (JM$/US$)	99.3	30-Apr-13	94.14	31-Jan-13
Unemployment rate (%)	14.2	Jan-13	13.7	Oct-12

Source: MoFP, BOJ, SATIN and own calculation

Introduction

Jamaica has long struggled with low economic growth and high public debt. Over the last 30 years, the public sector debt-to-GDP ratio has rarely been below 100%. Starting in 2007, a series of shocks culminating in the global financial and economic crisis led to a renewed increase in debt-to-GDP. Debt stabilized in 2010 but increased again in 2012, one major reason being the adjustment of the Jamaican Dollar.

Debt Stock

The ratio of public and publicly guaranteed debt-to-GDP currently stands at around 135.7% of GDP, which includes around 12% of publicly guaranteed debt (table 1). (This number differs from the IMF figure as it excludes implicitly guaranteed loans to public sector entities by Petrocaribe amounting to around 11% of GDP). Because of the exchange rate depreciation, the debt-to-GDP ratio has increased by 2.5% of GDP between end-March 2012 and end-March 2013, even though the debt stock decreased in nominal terms.

Table 1: Composition of Public and Publicly Guaranteed Debt, March, 2012 and March, 2013 (in millions of US$)

GOJ Total Debt Composition, March 2013

	Mar-12	Mar-13
External Debt	**8676.1**	**8458.7**
Bilateral	**787.4**	**801**
OECD	402.2	299
Non-OECD	385.2	502
Multilateral	**3358.7**	**3,468**
IDB	1291.2	1,242
IBRD	721.7	687
IMF	823.5	1,037
Other	522.2	503
Private Creditors	**4,530.0**	**4,190**
Commercial	465.8	437
Bonds	4,028.3	3,724
Other	36.0	29
Domestic Debt	**10,641.0**	**10,173**
JDX/NDX Bonds	**9,616.1**	**8,741**
Fixed	3,819.7	4,189
Variable	4,579.1	3,320
US$	927.8	890
CPI Indexed	289.5	342
Other, direct	1,024.8	1,433
PPG Debt	**19,317.1**	**18,632**
PPG Debt/GDP	**133.5%**	**135.7%**

Debt Management

The February 2013 NDX improved the risk and cost characteristics of public domestic debt (table 2). The exchange extended the average maturity from 6.4 to 10.5 years and resulted in direct interest savings estimated at 1.25% of GDP per year. Similarly, both debt maturing and debt reprising in one year decreased substantially because of the NDX. However, 41% of debt reprising within one year still constitutes a vulnerability that should be addressed in debt management strategies going forward. In addition, demand for domestic debt is expected to be low following the NDX, increasing the rollover risk and hampering financing through the domestic market.

Table 2. Comparison of Risk Indicators for Domestic Government Securities between March 2010 and March 2013

	March 31, 2010	March 31, 2013: no NDX	March 31, 2013: NDX
GOJ Bonds to GDP	56%	60%	67%
Debt maturing in 1 year	5%	9%	3%
Average time to maturity	8.3	6.4	10.5
Share variable rate debt	45%	54%	38%
Debt refixing in 1 year	51%	59%	41%
Share US$ denominated	11%	8%	10%

Notes: The no NDX scenario does not include securities that would have been issued at the end of February in the absence of the NDX.

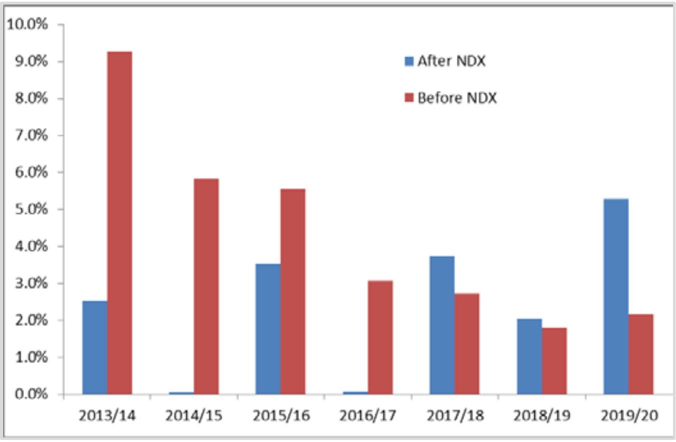
Refinancing risk for the total debt remains a concern. While the NDX extended the share of domestic debt, there is a bunching of external debt maturities in FY2015/16 and 2017/18 (figure 1 and 2). In addition, the high share of foreign currency denominated debt in the total public and publicly guaranteed debt portfolio exposes Jamaica to exchange rate fluctuations.

Fiscal Response

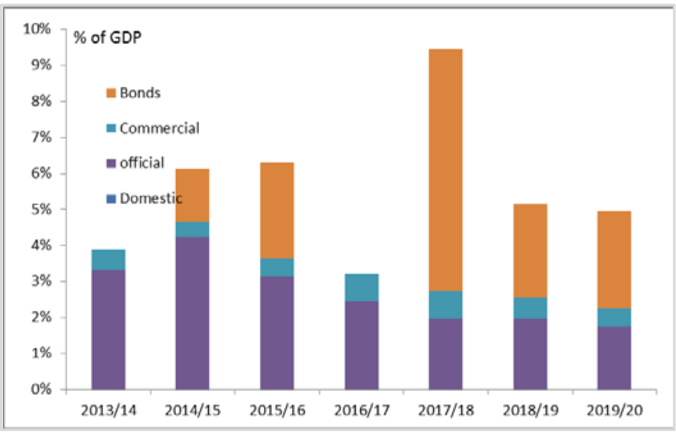
GOJ's medium-term macroeconomic framework and the IMF program are built around a strong fiscal consolidation. Assuming prudent macroeconomic policies are pursued and in the absence of shocks, the debt-to-GDP is expected to decline to around 100% by FY2019/20. The Government has indicated its intention to find measures to further reduce the debt-to-GDP ratio by 2020. Potential measures include the use of IFI support to buyback external, commercial debt and land for debt swaps for domestic debt.

The sensitivity analysis indicates that Jamaica's debt is vulnerable to the real exchange rate and interest rate hikes. Under the reform scenario supported by the EFF, we expect market confidence to rebound and financial and macroeconomic indicators to remain stable, decreasing the risk of uncontrolled shifts in the nominal exchange rate or the interest rate. However, the vulnerability also highlights the importance of a strong commitment for a sustainable medium term macroeconomic framework and the EFF. Natural disasters, which occur regularly in Jamaica, are another source of risk.

Domestic Amortization 2013/14-2019/20, % of GDP



Amortization 2013/14-2019/20, % of GDP



Sources: MoFPS and own calculations.

Reducing the high level of debt requires a demanding fiscal adjustment but a reduction of expenditures is restricted. Jamaica's budget is highly rigid as interest payment and public sector salaries alone amount to over two thirds of its revenues. At the same time, efforts to increase revenues to compensate for the high level of expenditures have often failed. Fiscal targets are usually missed because of revenue underperformance rather than higher than projected expenditures. As a result, deep, structural reforms are required not only on the expenditure side, but also on the revenue side. In line with this, the economic framework that the EFF supports tackles the three major fiscal weaknesses, public sector salaries, interest payments and revenue collection.

The medium-term fiscal framework will target a primary surplus of 7.5% of GDP from FY2013/14 onwards. In the short term, the increase in the primary surplus will be based on both expenditure restraints and new revenue measures, including the two prior actions of a virtual freeze on discretionary waivers and the wage agreement with the public sector unions. These short-term measures are expected to lead to the deeper, institutional reforms that are required for a sustainable medium term framework. The overall balance is projected to improve as the high primary surpluses will be complemented by decreasing interest payments resulting from the NDX and restricted borrowing.

Conclusion

The high level of debt is a major constraint for growth and a main source of risk for Jamaica. At close to 150%, there is very little room left to accommodate adverse developments or shocks. As a consequence, the authorities are committed to address the high level of debt with support of the IMF and other Multilaterals.

GOJ will need to maintain a tight fiscal program for several years. Because the adjustment is frontloaded, the first year will be crucial for success. A successful first year would not only boost investor confidence but fiscal space also increases as the full effect of the tax reform and the wage freeze will be felt. Jamaica cannot allow slippages in the reform agenda and needs to focus on growth enhancing policies as debt-to-GDP is projected to only decrease slowly even under a benign economic environment. Slippages would increase the risk of strong adjustments in the interest rate and the exchange rate, leading to further negative consequences for the fiscal situation.

Jamaica Selected Indicators

	2008/09	2009/10	*2010/11*	*2011/12*	*Est 2012/13*
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	-1.7%	-2.6%	-0.6%	1.3%	-0.3%
Nominal GDP	12.0%	8.1%	7.8%	5.9%	7.8%
Inflation (end of period)	12.4%	13.3%	7.8%	7.3%	9.0%
External Sector					
Exports of goods and services (yoy,%)	-5.9%	-19.1%	-0.1%	6.2%	2.9%
Tourism (in percent of exports)	33.5%	43.2%	44.7%	47.1%	45.6%
Imports of goods and services (yoy, %)	0.5%	-30.3%	8.2%	17.4%	-3.5%
Current Account (in percent of GDP)	-18.7%	-7.6%	-8.9%	-14.8%	-11.6%
Exchange Rate, end of period	88.82	89.51	85.75	87.30	98.89
Treasury Bill rate, end-of-period (%)	21.5%	10.5%	6.5%	6.2%	5.4%
(In percent of GDP, unless otherwise indicated, on fiscal year basis)					
Central Government					
Revenues and Grants	27.0%	27.1%	26.4%	25.5%	25.5%
Budgetary Expenditure	34.4%	38.1%	32.8%	31.9%	29.5%
Primary Balance	4.9%	6.1%	4.5%	3.1%	5.3%
Budget Balance	-7.4%	-11.0%	-6.5%	-6.4%	-4.0%
Public Sector Balance	-9.3%	-12.4%	-7.0%	-6.4%	-5.6%
Debt Indicators					
Public Sector Debt	126.4%	139.5%	141.3%	143.9%	146.8%
Public Sector Debt over Revenues	468.4%	514.1%	536.1%	564.2%	584.3%
Foreign Currency Public Debt (end of period)	71.6%	80.5%	83.3%	81.4%	76.0%
External Interest payments as percent of exports of goods and services	9.3%	12.1%	11.5%	10.4%	-
International Reserves					
Net International Reserves (mill of USD)	1,629	1,752	2,553	1,777	884
Gross International Reserves (Weeks of G&S Imp.)	13.7	18.4	23.4	17.8	<12

Source: MoFP, BOJ, STATIN, IMF and own calculations

Highlights

Standard & Poor's (S&P), while maintaining its rating at BB-/B, raised the outlook for the Surinamese economy from stable to positive.

Suriname plans to increase its participation in the gold mining industry as the Iamgold US$700 million expansion gold deal was debated and adopted by parliament.

Sound monetary policies continue to keep headline inflation low at 3.1 percent in February 2013. GDP estimates shows 4 percent growth for 2012. The overall fiscal balance reached in 2012 is -2.8 percent of GDP as expenditure on wages, good and services, and capital goods increased.

Recent Developments

Standard & Poor's (S&P) raised Suriname's outlook. In April 2013, S&P maintained Suriname's sovereign rating at 'BB-/B' and revised its outlook from stable to positive. The international credit rating agency attributes this change to the prospective large investments in the mining and oil industries, which are expected to boost growth. Exports will increase and enhance government revenues.

The National Assembly debated Suriname's plans to participate in large scale mining projects. In the end, the assembly approved sovereign participation in the US$700 million Iamgold expansion gold deal. Simultaneously, the recent decline in international gold prices, from US$1,800 to $1,400 raised concerns over the viability and profitability of the proposed projects. The state had earned US$146 million in taxes on profits and income tax from IamGold in 2011. This figure is expected to grow over the medium term as production will increase significantly. In addition to the Iamgold deal, the government also plans to increase its participation with Surgold, a Newmont-Alcoa joint venture, a US$800 million deal. Both deals are subject to more thorough feasibility analyses in which international environment and social safeguards are expected to be applied. The authorities still have to define a strategy to delineate land rights, especially in the context of these new agreements and recent international legal decisions.

In targeting poverty reduction and continuing its social protection program, the government is exploring the feasibility of introducing a social security program by 2014. The social protection program is expected to include new pensions, general health insurance, a minimum wage, as well as other benefits and labor regulations. President Desi Bouterse stated that he expects a draft proposal to be completed this year. The President also emphasized the need to address educational opportunities as the strong basis to combat poverty. He explained that his administration, the Mega Combination (MC), will work towards achieving "this noble task."

The availability of macroeconomic data got a boost with impressive upgrades to the statistical platform on the Central Bank Website. The fully renovated Website for the *Centrale Bank van Suriname* boasts several new features, including analytical pieces of recent macroeconomic performance and prospective policies pending implementation. Since 2011, the site started hosting regularly (monthly) updated macroeconomic data across several sectors. One of the latest features is a compendium on macroeconomic data spanning more than 50 years. Visit www.cbvs.sr for more information.

The Bureau of Statistics (ABS) provided a brief snapshot into the results of the 2012 census exercise that it conducted with support from the IDB. ABS estimates that the total population increased to 534,189 in 2012 from 492,829 in 2004. While the population in Paramaribo declined by 4 percent, those of Wanica and Para grew by 37 and 27 percent.

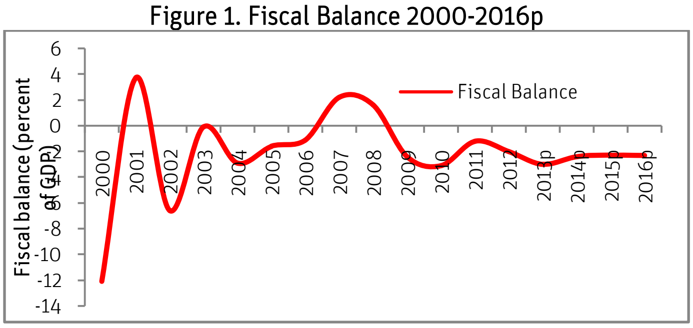
Suriname launched its Competitiveness Forum in February 2013. The Competitiveness Unit Suriname, with support from Compete Caribbean, the Caribbean Growth Forum, and the IDB hosted a two day consultation on competitiveness. Vice President for Countries Roberto Vellutini and a team of senior officials attended the function, which explored themes on innovation, public-private partnerships, decentralization, and access to finance. A six-week series of round table discussions followed in which four action plans were drafted by local participants. For further information on the competitiveness agenda in Suriname, visit www.surinamecompete.org.

Suriname's macroeconomy continues to perform well on most accounts. Although still dependent on gold, oil, and bauxite, recently rebased GDP estimates show stronger contributions from the services sector, mainly in the manufacturing, wholesale, and retail subsectors over the last four years. GDP growth in 2012 was around 4 percent. Higher levels of investment, particularly in mining and the public sector, will expand real GDP by 4.5 percent in 2013. IMF projects a medium term average growth rate of 4.7 percent, assuming that the country's oil refinery capacity expands by 2015. The strength of the global economy, particularly developments in the Euro-zone (an important trade area for Suriname), the United States, and

the Caribbean region, and eventual commodity price trends may affect these projections.

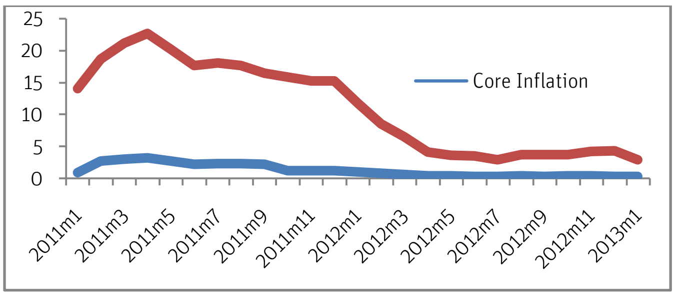
The Government continues to implement strong macroeconomic policies aimed at maintaining a strong fiscal position. The overall fiscal balance reached -2.8 percent of GDP in 2012. This is following large infrastructure expenditures in the mining sector as well as the maintenance of a large social sector program. Although the government continues to maintain tight control over its expenditures, at the end of 2012 there was an unbudgeted 10 percent salary increase. It is expected that they will pay the annual vacation allowance to public servants in June, which is one month's gross salary in addition to the 10 percent granted. The recent fall in commodity prices of oil and gold may affect revenue collection and some are concerned about how the government will meet these expenditures. In recent weeks gold prices have stabilized and are not expected to fall further. Revenues continue to increase as Staatsolie, the state owned oil company, transferred SRD$1 billion in 2012, a 22 percent increase over the previous year. The fiscal balance has been quite volatile since 2000.

Figure 1. Fiscal Balance 2000-2016p



Inflation levels remain low and stable. After peaking at 22 percent in 2011 it has remained below the double digit figures during 2012 (Figure 2). Sound monetary policies continue to keep headline inflation low at 3.1 percent in February 2013. The CPI food index remains vulnerable to global food prices and import inflation. While global food prices are projected to increase in the near future, the impact on local prices is unlikely to be as large as in 2008.

Figure 2. Core inflation & Headline Inflation, 2011-13



Moreover, the authorities are committed to further fiscal tightening and to strengthening their capacity to manage monetary policy through open market operations in the future. Indeed, sound monetary policy facilitated the alignment of Suriname's exchange rate with fundamentals and its parity with the parallel market rate. The government is considering moving to a more flexible exchange rate regime over the medium term.

Despite a significantly improved macroeconomic position, Suriname wrestles with governance, barriers to competition, and transparency. These issues impede growth and further development of the non-extractive sectors. Some preliminary evidence suggests there are noteworthy obstacles for Suriname to sustain its current explosive growth in capital per worker. Growth is heavily dependent on investments associated with the volatile mining industry. The average worker is employed in the public service and is not highly qualified. Therefore, university-educated workers attract a high return for their education; however, they are less likely to seek employment in the private sector. The mining sector also distorts wages, paying about 110 percent higher than in the non-mining sectors.[1] The Doing Business Index, Global Competitiveness Index, and Kaufmann Index all suggest that Suriname's relative performance with respect to its business environment and governance framework could be strengthened. Excessive red tape, limited use of technology and low innovation deflate Suriname's competitiveness.[2] These bottlenecks are expected to be released gradually as the competitiveness agenda proceeds.

The IDB and Suriname: What to Expect

IDB's program in 2013 consists of one investment loan in energy and three policy-based lending operations in the financial, agriculture, and energy sectors. The financial sector program, for US$100 million, will go to the Board in June.

High-frequency macroeconomic Indicators

Indicators	Last data	Period	Prior data	Period
Annual GDP growth (%)	4..0	2012	4.2	2011
Tourism arrivals (annual % cl	20.5	12-Feb	7.9	12-Jan
Exports (12-month growth)	16.1	Q4 2012	9.5	Q1 2012
Imports (12-month growth)	12.2	Q4 2012	14.4	Q1 2012
Private sector credit growth,	2.4	Q1 2012	3.4	Q4 2011
Inflation	1.4	13-Mar	2.9	12-Jul
Exchange Rate (End of Perioc	3.35	13-Apr	3.35	12-Sep
Unemployment rate (Number	10,748	2010	12,616	2009

[1] See "Suriname Returns to Education," Stampini and Gardener, 2012.
[2] Between 2007 and 2012, Suriname's competitiveness performance in the Doing Business Survey declined by 14 percentile points. See Annex II for a disaggregated representation of Suriname's Doing Business performance.

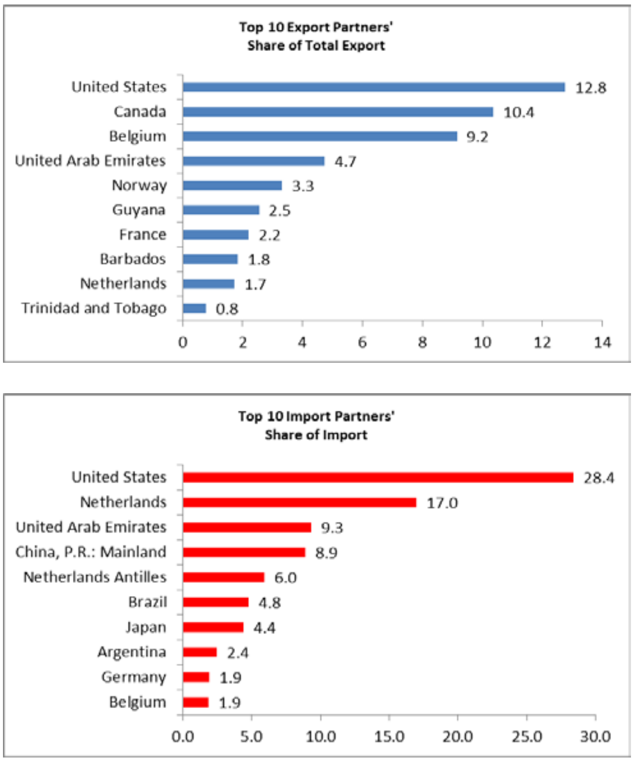
A Look at Integration and Development in Suriname

In many ways, Suriname is different from other countries in South America. As the smallest country on the continent with a population of approximately 530,000 inhabitants, covering 164,000 square kilometres, Suriname is an emerald expanse threaded by mineral-rich rivers. It is also the only sovereign country where Dutch is spoken in the Western Hemisphere that is outside of the Kingdom of the Netherlands. Suriname shares borders with the only French-speaking territory, French Guyana, the only Portuguese-speaking territory, Brazil, and the only English speaking territory, Guyana—all clustered together in one corner of South America. Suriname is very unique indeed. It has a very colourful and insightful pre-independence history that explains the very geographical and economic isolation of which it seeks to free itself with integration policies at the centre.

As a former plantation society, Suriname's economy centred on agricultural primary products for export: sugar, cotton, cocoa, and coffee. Domestic producers did not add much value to these products before exporting them to European destinations. During the twentieth century, the economy shifted from agriculture toward mining (and extraction) in three sectors: bauxite, oil, and gold. Immediately before Independence in 1975, most of the processing activities that took place were initiated by foreign entities. The rapid and successive changes in main economic products drove also the migration policy of the country. Labourers and exploiters arrived from all over the world to integrate and create a unique melting pot of people, which we cannot describe any better than "Sranan."

With the surge in demand for aluminium during the Second World War, Suriname exploited its bauxite potential and became a significant player in the sector.[3] The United States obtained approximately 80 percent of the raw materials for making aluminium from Suriname during WWII. The State Oil Company of Suriname (Staatsolie) was formed in 1980. Oil extraction began in 1982 and increased gradually over time, reaching almost 6 million barrels per year today. The oil sector provides significant inputs to the bauxite processing industry, thus preventing an otherwise large fuel import bill. While Suriname's gold production is small compared with world output, the sector gradually became a significant contributor to GDP, especially recently. Although gold mining began during the 19th century, it was not until the 1990s that it grew in prominence when it became a source of income for interior communities. Brazilian operators also began introducing new technologies in the sector. Some estimate that more than 50 percent of gold mining is done informally. A little over 40 percent of export products end up in five countries. Likewise, more than 60 percent of Suriname's imports came from only four countries in 2011. Figure 3 show Suriname's main trading partners and products in 2011—a structure that has not varied much over the years.

Figure 3
Suriname Top 10 Export and Import Partners as Shares in 2011



Sources: UN Comtrade, CBvS, and IMF, 2012.

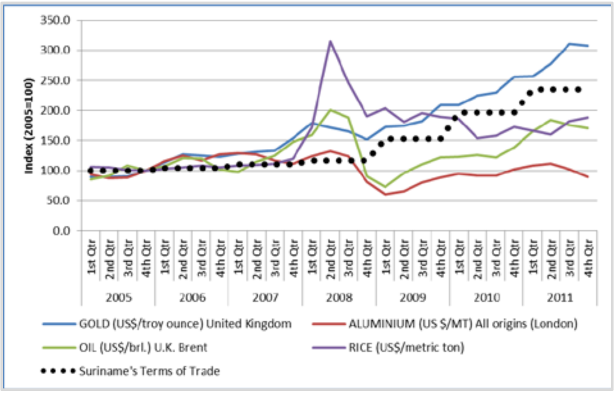
This commodity dependent economic structure, which also results in a concentration of its trade relations, made for some interesting developments in Suriname, especially following the recent crises. Suriname exports only a few goods and depends heavily on imported items, including food.

Since the advent of the food, fuel and financial crises in 2008 and 2009, which eventually morphed into the "global economic crisis," Suriname's macroeconomic performance was affected, primarily due to commodity price and demand changes. Suriname's terms of trade strengthened in a sustained fashion from 2008 and more than doubled by 2011. After plummeting in 2008, aluminium prices rose steadily until the second quarter in 2011 (after which it started to decline). Following the end of the fuel crisis in 2008, oil prices grew significantly in real

[3] The bauxite sector was born after the First World War with the formation of the Suriname Bauxite Company (now the Suriname Aluminium Company), which has been in operation since 1922. Large scale operations were realized during the 1940s.

terms. Although rice prices are higher than pre-food crisis 2008 levels, they have fallen substantially from their peak in Q2 2008. The factor that is most correlated with the rapid rise of Suriname's terms of trade is the real gold price, which has tripled since 2005. Figure 4 constructs an index of real commodity prices and Suriname's terms of trade using 2005 as the base year (2005=100).

Figure 4 Commodity Prices and Terms of Trade



Following elections in 2010, the administration undertook a careful analysis of the main development challenges facing Suriname, in the context of its historical past. Suriname was starting to feel the effects of its isolation. The stability of macroeconomic and development performance was concentrated in Suriname's relations with too few countries. Until 2010, besides its trade relations, foreign policy was concentrated mainly with The Netherlands. After all, through bilateral aid, Suriname received lumpy Dutch resources, sometimes reaching 25 percent of total expenditure until 2011. The new administration sought to revamp Suriname's position in the region and the rest of the world. Integration became a pivotal means for catapulting Suriname to its next stage in development.

Old Friends, New Alliances

For the most part, the authorities are following it *Development Plan 2012–2016* imperatives. Suriname embraced its participation in the Caribbean Community and served as its head in 2011. Since then, the country has left an indelible mark in its discussions pertaining to the restructuring of the organization, pushing for more transparent policies on movement of labour, and creating strategic initiatives to foster further integration especially in agriculture and commodities.

In the area of transport, Suriname is developing by leaps and bounds. Within the last year, Suriname has added more flights to Guyana, French Guyana, and Brazil. With the expansion and upgrading of the international airport, the authorities hope to field flights from deep within Latin America as well as North America. There are even discussions to develop air bridges with selected African countries. To complement these air initiatives, Suriname is completing its major road project that connects the capital city, Paramaribo to the border with French Guyana. Additional projects to build a bridge on the border with Guyana and a direct road linkage to Brazil are on the medium term agenda of the authorities.

Similarly, the energy sector is moving forward with a carefully considered integration strategy. Brazil, Guyana, and Suriname are developing a series of projects in which the three countries will improve power generation mainly through hydroelectric capacity—collectively called the *Arco Norte*.

President Bouterse, at his inauguration in 2010, famously declared that Suriname's "new path to Europe is through France." The new administration fortified its diplomatic presence in Paris, Jakarta, Brussels, Pretoria, Brasilia, and New Delhi. He also talked about the importance of strengthening relations with the Caribbean Community (CARICOM), and forging new economic alliances. Vibrant arrangements with India and China reflect global trends in engaging these emerging economies and thus diversifying Suriname's basket of trade partners. To this group, Turkey also joined this year following a high level visit by the Vice President of Suriname.

Suriname is trying to catch up in diversifying its economic products and trade partners while times are good. To do so, the country is appropriately adopting strong economic management policies for improving domestic performance, its sovereign image, and ensuring adequate countercyclical measures. Further, it is pending membership to a few important regional bodies, especially in South America, while deepening its participation in those in which it is already a participant. Yet, institutional and human capital constraints could slow the process. In addition, the country will require a more explicit strategy for linking its economic policies with its foreign policy—which is possible. Perhaps within a decade, Suriname's trade and economic policy will look more integrated with the rest of the world, much like its people.

Suriname: Selected Indicators

	2008	2009	2010	2011	2012e
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	4.1	3.5	4.5	4.2	4.0
Nominal GDP	26.2	-3.1	13.2	25.8	11.94
Consumer Price Index (end of period)	9.4	1.3	10.3	15.3	3.1
Exchange Rates (end of period)	2.75	2.75	2.75	3.3	3.3
(In percent of GDP, unless otherwise indicated, on a calendar year basis)					
External Sector					
Exports of goods and services	53.4	68.2	54.3	64.5	63.1
Imports of goods and services	62.2	60.7	62.7	73.0	68.8
Current Account Balance	9.6	-1.1	1.0	0.4	-0.2
Stock of Gross International Reserves (US$ Millions)	666	763	785	987	1,209
Savings and Investment					
Private Sector Balance	5.0	1.9	9.6	4.7	-0.6
Public Sector Balance	1.6	-2.4	-3.1	0.9	0.5
Savings	6.0	3.3	1.8	6.9	6.3
Investment	4.4	5.7	4.9	6.0	5.8
Central Government					
Revenue and Grants	31	36.4	25.8	26.0	25.0
Total Expenditure	29.1	35.3	28.2	25.2	24.5
Primary Balance	2.2	-1.2	-2.3	1.8	1.4
Overall Balance	1.8	-3.0	-3.6	0.9	0.5
Consolidate NFPS balance	1.8	-3.0	-3.6	0.9	0.5
Debt Indicators					
Total Public Debt	18.0	18.5	21.6	19.1	18.6
Public Debt over Revenues	65.6	61.5	81.0	73.3	74.4
External Debt (end of period)	10.4	8.3	8.7	7.6	10.3
Domestic Debt (end of period)	7.6	10.2	12.9	10.8	8.3
External debt as percent of exports of goods and services	15.7	15.8	14.5	17.3	18.9

Source: Based on IMF Article IV Country Report and Central Bank of Suriname

Is the turning point of economic growth around the corner?

Economic recovery remains slow. Economic growth for the fourth quarter of 2012 was 1.1 percent, following an expansion of 1.8% in the third quarter. This is a vast improvement over the 3.6 percent decline in the second quarter, which was mostly the result of low oil and gas output. Higher production of natural gas (LNG) led to marginal growth in the energy sector, but crude oil production fell by 10.7 percent due to maturing oil fields and maintenance operations amid lower spare capacity of natural gas.

Prospects for growth resumption are good, but not spectacular. Assuming oil and gas facilities are fully back online, the Central Bank is predicting growth at 2.5% in 2013. However, continued sluggish output of energy makes some observers somewhat more skeptical about a solid bounce-back.

Oil and gas exploration continues to be encouraged through incentives in the contracting regime. Oil production, in particular, has fallen by close to 50 percent in the last seven years. The government is making some efforts to increase upstream activity, and completed a very successful bid round in 2012. The majority of the acreage was awarded to BHP Billiton, but it has not yet started operations. In mid-2012, proven reserves were estimated at 8.4 years by Ryder-Scott based on the current reserves-to-production ratio, below the 2010 double-digit estimate.

Long-term prospects for gas exports will depend on global developments. The Ministry of Energy and Energy Affairs is seeking new markets particularly in Asia and LAC where LNG prices are considerably higher. Nonetheless, with LNG terminals opening up in Australia in the coming years aimed to supply the Asian market, competition from them and other global suppliers will be great. Another source of concern over the long-term is the prospect of LNG export terminals opening up in the United States, traditionally an importer from Trinidad & Tobago. Already one of more than a dozen applications to the United States Department of Energy has been approved, although there are long lead times in the construction of the terminals. Therefore, the continued dependence on oil and gas exports and revenue will pose economic challenges for T&T in the future given rising extraction costs and uncertainty regarding both the national policy environment and the international market for gas.

Highlights

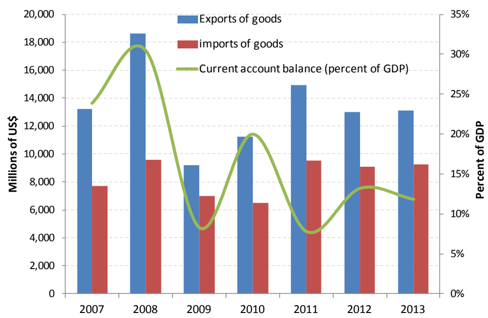
Economic growth began to recover in the second part of 2012, with a year-on-year growth rate of 1.2%. Growth could reach 2.5%, but will depend on the capacity of the energy sector to increase production and complete fields' maintenance.

Inflation has moderated at the beginning of 2013. Domestic prices continue to be driven by food inflation.

Monetary policy effectiveness has been limited. Although the Central Bank has reduced the repo rate to a record level of 2.75%, the demand for credit has remained low.

The external sector continues to be in a privileged position. Trinidad & Tobago has typically run a current account surplus. It reached almost 30% of GDP in the middle of the last decade with both favorable volumes and prices of hydrocarbons. More recently, the fall in energy prices led to a narrowing of the surplus starting in 2009 to just above 10% of GDP (Figure 1). The slight worsening of the current account in the past 2-3 years directly reflects lower export demand for energy and energy related products. Still, gross official reserves remain at US$9.2 billion or 10.4 months of prospective imports of goods and non-factor services. This indicates a comfortable buffer.

Figure 1. The external sector of Trinidad & Tobago and Tobago



Source: Central Bank of Trinidad & Tobago

Inflation in Trinidad & Tobago and the role of monetary policy.

Inflation has been moderating, and currently stands at around 7% annually, but food prices have been the main culprits of volatility in the past few years (Figure 2). Food price inflation reached almost 40% by August 2010—higher than during the 2008 food crisis--as a result of a severe drought that affected the domestic supply of staple agricultural commodities, particularly fruits and vegetables. Food inflation declined steadily, had a short-lived spike in May 2012 but fell again to reach 9.4% in April 2013. The three main reasons for the subsequent food price moderation were: (1) domestic food supplies eventually recovered; (ii) The Central Statistical Office modified the methodology for adding the weights of food products in the retail price index to conform to international standards. (iii) The Value Added Tax for about 7,000 food items was removed, which created a one-time deflationary effect.

Like any small open economy, the country is highly dependent on imported commodities, so changes in international food prices create inflationary pressures and volatility, although it is temporary. In contrast, increases in the international prices of oil and gas do not generate direct inflationary pressures, as the domestic prices of transportation fuels and electricity are highly subsidized and regulated

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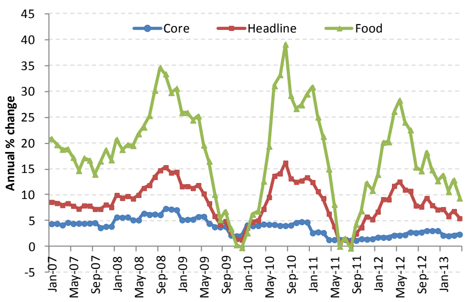
Figure 2. Inflation in Trinidad & Tobago and Tobago



Source: Central Bank of Trinidad & Tobago

As a small open economy susceptible to external shocks, the tools for policy interventions are limited. Since so many services are indexed to the US dollar, Trinidad & Tobago prefers to maintain its exchange rate within a very narrow band. Therefore, in practice it is like a fixed exchange rate regime. Even the scope for monetary policy is limited. For example, since early 2009 the central bank progressively lowered its policy rate--known as the “Repo” rate—to a record level of 2.75%. The purpose was to stimulate lending and growth (expansionary monetary policy). Nonetheless, demand for credit remained low, growing by a mere 2.1% annually as of February 2013. Business credit actually fell. This low credit demand reflects hesitation of consumers to make large purchases and some firms to begin investing, given the uncertain economic situation of major trading partners. They are no longer sensitive to interest rates. On the positive side, it also means that non-food, non-oil inflation—so-called ‘core’ inflation, is low and steady (at around 2.1% annually).

Policymakers are concerned about the excess liquidity. In early May the government issued a 7-year government bond to raise TT$1 billion, with a coupon rate of 2.60% per annum. The main purpose is to absorb the huge build-up of liquidity in the system, in other words, to reduce the amount of available cash in the system, given the low demand for credit.

Issues for the Bank to Watch Out For

The showcasing of the Caribbean Growth Forum Trinidad & Tobago chapter took off on May 8th, with over 200 people in attendance. The initial summary of these can be found in https://sites.google.com/site/cgfTrinidadtobago/documents
The facilitators of each of the groups agreed to meet again to look at concrete action plans in each defined areas by June.

High-frequency macroeconomic Indicators				
Indicators	Last data	Period	Prior data	Period
Annual GDP growth (%)	1.0	Q4 2012	1.8	Q3 2012
Tourism arrivals (annual % change)	-13.8	Dec-10	-5.7	Nov-10
Exports (12-month growth)	-13.1	Q4 2012	-12.1	Q3 2012
Imports (12-month growth)	-4.7	Q4 2012	13.9	Q3 2012
Private sector credit growth (%)	3.8	Nov-13	3.7	Oct-13
Inflation	5.5	Apr-13	6.9	Mar-13
Exchange Rate (End of Period)	6.45	May-13	6.44	Apr-13
Natural gas production (% yoy change)	2.1	Q4 2012	3.3	Q3 2012
Unemployment rate (%)	4.9	Jun-12	5.4	Mar-12

Trinidad & Tobago is perhaps the only economy in the region to be in the privileged position of having a relatively diversified capital stock, middle-to-high income (per-capita income in purchasing power parity terms of over US$25,074), and sufficient external and fiscal buffers to withstand a possible external shock today. Nonetheless, the high dependence on easy-to-attain energy revenue has left it with many structural problems on the fiscal front which, if not addressed, could lead to sustainability issues in the long-term. This section discusses TT's fiscal and public debt sustainability using various tools. While debt levels are quite manageable currently, it concludes that there is a high degree of uncertainty as to where debt levels could go in the long run.

Fiscal problem

TT's dependence on oil and gas is most evident if one looks at fiscal revenues, which are highly dependent on the energy sector.

- More than half of **central government revenues** derive from taxation of energy. During the 2011/12 fiscal year ending September 2012, central government revenues totaled about 32% of GDP, out of which 17.4% of GDP were accounted for by the energy sector.

- **Expenditures** over the last decade have increased substantially due to transfers and subsidies: central government expenditure grew from 25% of GDP in FY 2001/02 to almost 31% in FY 2011/12, with 50% of the increase accounted for by transfers and subsidies. Expenditure has been pro-cyclical, meaning that this growing spending item also increased the most when revenues were high.

- As a result, **the deficit** over the last three years has been consistently below the budgeted amount due in large part to two reasons: (i) higher–than-budgeted energy revenues, given the practice of assuming conservative oil and gas prices; and (ii) underperformance on the capital expenditures relative to the budgeted amount, due in most part to slow project implementation of the public service.

As uncertainty about the outlook for energy prices and investment looms, it is clear that the fiscal sector will continue to face several challenges going forward. These include state-owned enterprises that are contributing substantially to the fiscal deficit and an extensive subsidy scheme in the country, ranging from fuel subsidies to tertiary education tuition assistance.

A profile of the public debt

The central government debt, which had averaged about 30% in the last 3 years, stood at 43% of GDP at end-December according to the Ministry of Finance, in large part because of debt issued in respect of the CLICO Settlement Offer is included.

Table 3. Composition of Public Debt, November 2012

	In millions of $ TT	In millions of US$	In percent of GDP
Total public debt 1/	71,664	11,025	46.7
Contringent liabilities	25,664	3,948	16.7
Central government	46,000	7,077	30.0
External debt	12,482	1,920	8.1
Domestic debt 2/	33,518	5,157	21.8
Composition of central government domestic debt, including Open Market Operations			
Bonds/notes 2/	12,891		8.4
Treasury bills	14,200		9.2
Treasury notes	5,000		3.3
Debt management bills	800		0.5
Bolts and leases	536		0.3
Other 3/	91		0.1
Memo: GDP estimate, 2012	153,588		

Source: Central Bank of Trinidad Economic Bulletin, January 2013

1/ Excludes Open market operations

2/ Includes CLICO bonds

3/ Consists of the outstanding balances on tax-free savings bonds, public sector arrears and Central Bank fixed-rate bonds.

The definition of gross public debt takes account of many factors (see Table 2). The public sector gross debt as of November 2012 was equivalent to 46.7% of GDP. The equivalent of 16.7 percentage points of GDP was attributable to contingent liabilities, namely, debt of public entities for which there is an implicit government guarantee. Excluding those items, the central government debt is equal to 30 percent of GDP, out of which two-thirds is domestic and denominated in

domestic currency. Indeed, almost 13 percentage points of GDP accumulated over the past 2-3 years has been attributable to the payout to policy-holders following the failure of the insurance giant (CLICO) and its affiliates. New shares issued backed by repossessed assets will allow up to about 5 percentage points of GDP of that debt to turn to equity by end-2013.

By any measure, current public debt remains manageable. External debt is low, at 9% of GDP, Moreover, international reserves are 4 times the size of the entire external debt, while service payments are equivalent to less than 2% of exports, the latter two indicators signaling that there are no repayment problems, Moreover, interest payments on all debt was only 5 percent of revenue in the 2011/12 fiscal year (concern arises if this ratio is 15 percent or more). The debt has an investment-grade rating on external debt of 'A stable' and A+/Stable on domestic debt. Finally, this definition of gross debt does not take into account the Heritage Stabilization Fund (HSF), equivalent to about 18 percentage points of GDP. This is appropriate because the HSF represents savings for future generations. Nonetheless, net debt (net of HSF) is thus 25% of GDP.

Debt Sustainability Analyses

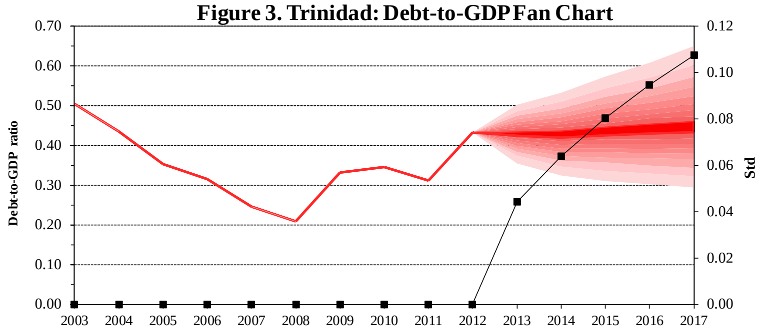
There are various methodologies for assessing the sustainability of public debt. The IDB has developed various models, some of which have been applied to Trinidad & Tobago, and are summarized below. For the purposes of the analysis, we use the debt-to-GDP ratio of the Central Government including the CLICO bonds, which is 43% of GDP. However, this is a (conservatively) high number because about 8 percentage points of GDP-worth of that will likely be transformed into shares backed by CLICO assets.

Standard long-term sustainability: According to a very simple measurement, Trinidad & Tobago could maintain the current fiscal stance and still keep its debt-to-GDP ratio at or below current levels. When asked the question: what is the lowest possible level of the primary fiscal balance, on average, for the debt to remain at current levels over the long-run, in terms of GDP? The answer is a primary balance of 0.25% of GDP, which is actually slightly lower than the primary balance achieved over the last 6 years (except for FY2008/09). The assumption is that long-run GDP growth stays around 3% on average in the long run, which is less that the spectacular growth in the decade before 2008, but more than in the last five years.

The endogenous debt dynamics (EDD) approach looks at the evolution of debt over the medium-term that results from a given path of the primary balance, taking baseline projections on growth and inflation from the IMF's World Economic Outlook, and assuming that interest rates 5 years out will be equal to the average over the last 10 years. The results show that debt-to-GDP will rise slightly, to 45% of GDP by 2018. Additionally, we 'simulate' a negative shock in which lower oil prices reduce growth and fiscal revenues, leading to a higher deficit. Even assuming that the government did not implement policies in reaction to the negative shock, the worse-case scenario has debt rising to 60% of GDP by 2018. This is a high level but manageable and still below the average for the region.

The Fan Chart Approach. The fan chart approach is named as such because it creates a 'fan' around the projection of the debt-to-GDP over the medium term. This baseline projection, referred to as the 'central forecast', is usually obtained through an EDD approach. The fan tells us of the probability that the

Figure 3. Trinidad: Debt-to-GDP Fan Chart



actual outcome will deviate from the central tendency: the lighter and further away the shade, the less likely that debt-to-GDP will be in that range. The set of possible outcomes can be calculated in various ways, in this case we used the historical standard deviations of all the input variables that go into the debt-to-GDP projection.

The results show that the debt-to-GDP could reach about 45% of GDP on average by 2017, but could vary between 29% and 65%, which is a fairly wide span comparatively speaking. This large variation reflects the historical volatility of many of the variables that determine TT's debt (GDP growth, inflation, and the primary fiscal balance). Underlying that variation is its dependence on oil and gas, in addition to other external influences on the possible outcome of the debt. The black line in Figure 3 shows the standard deviation of the equation, in other words, the degree of uncertainty about the forecast.

In conclusion, while there is a high degree of uncertainty about the outcome, Trinidad & Tobago's debt continues to be sustainable under reasonable assumptions about the path of the major macroeconomic variables. However, this analysis does not take into account the quality of public expenditures, nor the possibly changing structure of the economy. In both aspects, Trinidad & Tobago needs to be vigilant and use this window of opportunity to retool and reorient the composition of expenditure towards more productive and efficient activities.

Trinidad and Tobago: Selected Indicators

	2007	2008	2009	2010	2011	2012 Estimation
(Annual percentage changes, unless otherwise indicated)						
Real Sector 1/						
Real GDP	4.8	3.4	-4.4	0.2	-2.6	0.4
Nominal GDP (millions of local currency)	18.1	28.0	-30.8	8.3	14.5	2.1
Inflation (end of period)	7.6	14.5	1.3	13.4	5.3	7.2
External Sector						
Exports of goods and services	-4.8	37.1	-49.3	21.7	18.8	-1.7
of which: oil and natural gas	-18.0	47.3	-46.8	-1.0	27.5	n.a.
Imports of goods and services	17.0	23.6	-26.1	-6.1	27.3	-4.7
Current Account (% GDP)	23.8	30.3	8.5	20.2	7.8	13.2
FDI (percent of GDP)	3.8	7.5	3.7	2.7	3.3	6.6
of GDP, unless otherwise indicated, on a fiscal year basis)						
Central Government						
Revenue and Grants	30.4	34.3	29.0	34.1	32.6	32.0
of which: energy revenues	16.9	19.6	14.1	17.4	19.1	17.4
Current Expenditure	22.8	21.1	27.2	28.5	30.0	30.9
Capital Expenditure and Net lending	5.9	5.8	6.1	4.9	5.4	5.0
Primary Balance	3.7	9.1	-2.3	2.6	1.1	1.5
Overall Balance	-1.7	7.3	-5.0	0.1	-0.8	-1.2
Consolidate NFPS balance (incl. CLICO)	8.0	-10.3	-6.4	-0.3	-6.2	n.a.
Debt Indicators (last column includes debt increase due to issue to CLICO debt holders)						
Central Government Debt	16.2	13.8	20.4	22.2	19.3	30.0
Central Government Debt over Revenues	53.3	40.2	70.3	65.1	59.2	93.8
External Public Debt (end of period)	6.7	5.9	8.4	9.4	9.1	9.3
External debt service as percent of exports of goods and services	2.1	0.9	4.8	1.4	1.4	1.8

Source: Official estimates, WEO April 2013 projections and Ministry of Finance (for 2012 fiscal projections)

An Introduction

The PetroCaribe Energy Cooperation Agreement was conceived by President Chavez in 2005 and was originally intended to help finance petroleum imports of all Caribbean countries. What is its scope eight years later? This note discusses the terms and coverage of this special financing program of Venezuela and its implications for some of the CCB countries.

The scope of the program

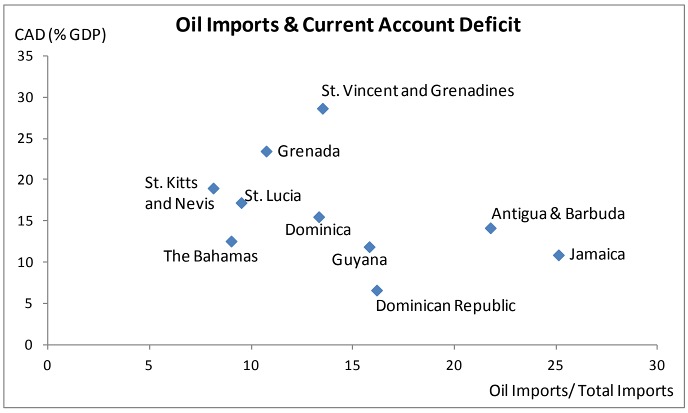
Venezuela sells a relatively large volume of petroleum products to Latin American and Caribbean countries under favorable financial conditions. Under various cooperation agreements, beneficiary countries can receive long-term financing (15–25 years) at below-market interest rates (1–2 percent) for 25–60 percent of their purchases of petroleum products from Venezuela. Moreover, they have the option of paying for these purchases and servicing the related long-term loans in cash or in-kind (e.g. exporting food products to Venezuela). According to estimates, during 2005–11, an average of 325,000 barrels per day (bpd) was traded under cooperation arrangements, with a peak of 514,000 bdp in 2008 when many beneficiary countries activated or increased their participation in the agreements. After 2009, volumes have stabilized around 250,000 bpd.

The extent of the subsidy is greater the higher the oil price, by construction. The basic idea is that the country pays for some of the imported petroleum up front, and depending on the going price will receive a credit for the remaining amount. Financing is applied on a sliding scale, with the payment threshold averaging about USD41 per barrel since 2005. The maximum Payment up front was USD50.58 per barrel. As table 1 shows, the financing rules mean that the higher the prices of Venezuelan oil, the greater the financing component (see table 1).

Table 1: Oil Prices and PetroCaribe Financing

Price equal or higher than	Financing
$15/bbl	5%
$20/bbl	10%
$22/bbl	15%
$24/bbl	20%
$30/bbl	25%
$40/bbl	30%
$50/bbl	40%
$100/bbl	50%

There are 22 beneficiaries of PetroCaribe and related agreements. These include a large portion of LAC countries, such as middle-income countries from South America (Argentina, Bolivia, Paraguay and Uruguay) and all low-income countries from Central America (Belize, El Salvador, Guatemala, Honduras and Nicaragua). From the Caribbean region, it includes many OECS countries (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Vincent and the Grenadines), Haiti and Cuba and three CCB countries: Jamaica, Guyana and Suriname. Non-member countries have sometimes participated in other agreements[1].



What is the impact on the countries?

Most of the PetroCaribe beneficiary countries depend heavily on oil imports, with many of them having an oil import bill larger than the current account deficit (see Figure 2). For example, 20 percent of Guyana's import bill is accounted for by petroleum products. With oil prices soaring since 2006, the level of financing from PetroCaribe has risen in importance. From all the beneficiary countries, Nicaragua, Guyana, Haiti and Jamaica are the four countries that depend the most on PetroCaribe for external financing (implicitly through the program). It is estimated that the extent of the credit through this special program was equivalent to between 4-5% of 2011 GDP for Guyana and Jamaica. The large amount of financing has led to a rapid accumulation of debt with Venezuela by end 2011 of almost 15 percent of GDP for Jamaica and 11 percent of GDP for Guyana. Out of the OECS countries, Grenada and St. Kitts and Nevis have similar double-digit cumulative debt in 2011

[1] For example, Trinidad and Tobago and Barbados have developed a very small program which provides Barbados with a small subsidy on its oil imports, as it exports crude to Trinidad for refining, which then imports back refined products.

resulting from the PetroCaribe program. For Suriname it is less than 5% of GDP according to a study by economists at the Royal Bank of Canada (see Figure 2)[2].

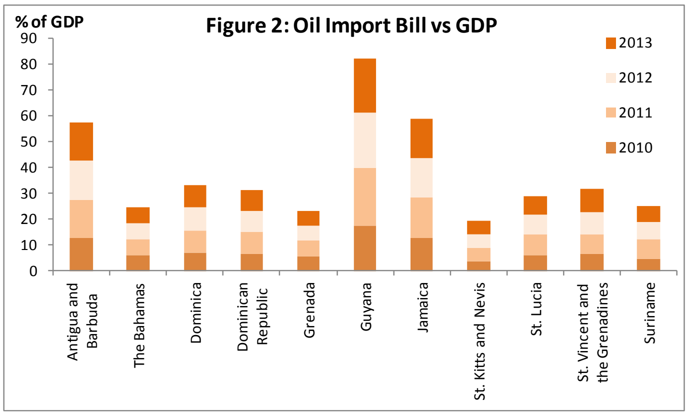


Figure 2: Oil Import Bill vs GDP

The importance of this program for the Caribbean was highlighted in the media in the past 3-4 months. Based on news stories, there was speculation that the death of former Venezuelan President Chavez could lead to some rethinking of the program, given economic concerns in Venezuela. However, the newly-elected President Maduro vowed to continue it, notwithstanding some prior discussions about possibly changing the financing modalities. Indeed, at the PetroCaribe Summit held in Caracas on May 5, the declaration indicated that the agreement would continue. Nonetheless, it is worth considering what would be the hypothetical repercussion of its elimination as a way of highlighting its current impact.

The first-round impact of a disruption of these agreements would likely be a gap on the external financing account of each country and also the financing of the public sector (as the entities typically involved are either the government or a public company). The governments of Jamaica and Guyana would both suffer an important financing gap, as both governments use PetroCaribe's proceeds to fund social and infrastructure spending, and provide soft loans to public enterprises and buy food products from local farmers (such as rice in Guyana. In turn, the food is bartered in lieu of past debts with Venezuela.

[2] Dukaharan, Marla and Jennifer Raffoul, 2013, "PetroCaribe: A handout, not a hand-up, which may soon run out", mimeo, presentation at the 5th Biennial International Business, Banking and Finance Conference, UWI St. Augustine, Trinidad and Tobago, May 2, 2013.
http://sta.uwi.edu/conferences/13/finance/academicpapers.asp

The impact of PetroCaribe on Jamaica

The PetroCaribe agreement with Jamaica specifically consists of a Fund called the PetroCaribe Development Fund (PDF). Basically, Venezuela agrees to convert a portion of each crude oil import payment by Petrojam, the state oil company, into a long-term concessional loan, which is administered by the PDF. As a result, Jamaica benefits in different ways from this agreement.

- First, part of the payment for petroleum owed to Venezuela is paid directly to the PDF. Therefore, the external financing requirement is substantially lower than what it would be if petroleum was paid at international prices. According to Jamaican government estimates, the savings on the balance of payments is about US$500-US$600 million per year, a substantially large sum, equivalent to 25%-30% of last year's (2012) current account balance.

- Second, PetroCaribe represents a credit facility on concessionary terms for the Jamaican government, as well as state-owned-enterprises which are the main beneficiaries of the funds.

- Third, PDF has been used as a countercyclical financing facility when access to other sources of financing was restricted. Under this agreement, Jamaica's *Petrojam* has a quota of 23,000 barrels per day, which represents around two thirds of its oil needs. *Petrojam* pays 40% of the bill to PDVSA (the Venezuelan state oil company) and the remaining 60% goes to the PDF. The terms of this loan are generous: 1% interest, two- year grace period and up to 25 years to repay.

As a result, Jamaica continues to rely on PetroCaribe funding. Dr. Wesley Hughes, Chairman of the PetroCaribe Development Fund, reported that in the absence of the PDF: "We have analyzed that initially the impact [of Petrocaribe] would be about US$50 million/month (US$600 million/annum) that we would have to find, as a balance of payment impact." At the same time, the Jamaican authorities are aware that the program will probably not continue indefinitely in the current form. As such, the explicit goal is to reduce Jamaica's dependency on oil imports, including through strategic investments financed by the PDF.

Conclusions

PetroCaribe is indeed an important program for the Caribbean, including some of CCB countries. Over the last few years, the PetroCaribe funds complemented other financing sources when access to both official financing and capital markets was restricted. The Caribbean's reliance on PetroCaribe will continue as many beneficiary countries are facing challenging economic situations and restricted access to domestic and foreign funding. While the PetroCaribe financing to the Caribbean provides a buffer for external financing, multilaterals should help countries prepare an exit strategy in light of the uncertainties surrounding the continuation of PetroCaribe over the long term. This can take the form of targeted energy programs to help reduce the reliance on fuel imports (renewable) as well as helping countries improve their policy buffers in the event of rising oil prices, the signs of which are already present At the same time, China could be pivotal because Venezuelan supply could be diverted to China at the expense of the PetroCaribe program. On the other hand, China could alleviate the situation as it expands its financing to the Caribbean and becomes an important ally.

Note: some data taken from IMF Statistics and World Economic Outlook, April 2013.

Progress on Recent Initiatives by the IDB's: major contributions to integration and development of the Caribbean region

The Caribbean Community Regional Aid for Trade Strategy (CARICOM -AfT Strategy) was launched on June 11, 2013 in Port-au-Prince, Haiti. President Materlly of Haiti and Chairman of (CARICOM) was joined by the Director General of the World Trade Organization **(WTO)** and the Secretary-General of CARICOM. The Strategy aims to create a consensus among CARICOM Member States on trade-related priorities in need of funding to ensure growth and development for the region. The CARICOM AfT Strategy document--supported by the IDB--is the result of numerous consultations across the Caribbean region. Stakeholders identified three main goals for the AfT Strategy: 1) Upgrading key economic infrastructure, 2) Enhancing export competitiveness and facilitating trade expansion and diversification and 3) Deepening regional integration and maximizing gains from external trade agreements.

The IDB is also in the process of finalizing a Strategic Agenda on Integration (SAI); a mechanism for inter-sector coordination consistent with the Bank's Country Strategy process. To pursue global and regional economic integration objectives in the Caribbean, the IDB is working simultaneously on the *software* and *hardware* of integration, using a diverse mix of instruments, socializing its approach through regional policy dialogues, and ensuring buy-in and ownership at the national level.

The IDB's Caribbean Department and Brazil are working on a plan to boost their economic ties. The plan will identify priority interventions and initiatives within the framework of the recently signed Brazil-IDB Memorandum of Understanding. The main priority areas will be tourism and small-scale agriculture. Progress is being made on technical studies that will be key to identifying opportunities for expanded engagement in transport and tourism involving the public and private sectors. There is particular interest in improving **air links** between Brazil and the Caribbean to boost the earnings of tourism-dependent island economies. Preliminary reports for internal consultation with selected stakeholders are expected later this year.

A loan to the Caribbean Development Bank (CDB) for on-lending to the four low-income countries of the Organization of Easter Caribbean States (OECS) was recently signed—the first in years. The Caribbean Department is also working on an US$100 million non-sovereign guaranteed loan to the CDB that will benefit the development of the region. This will be discussed more in an upcoming Quarterly Bulletin supplement on the OECS.

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