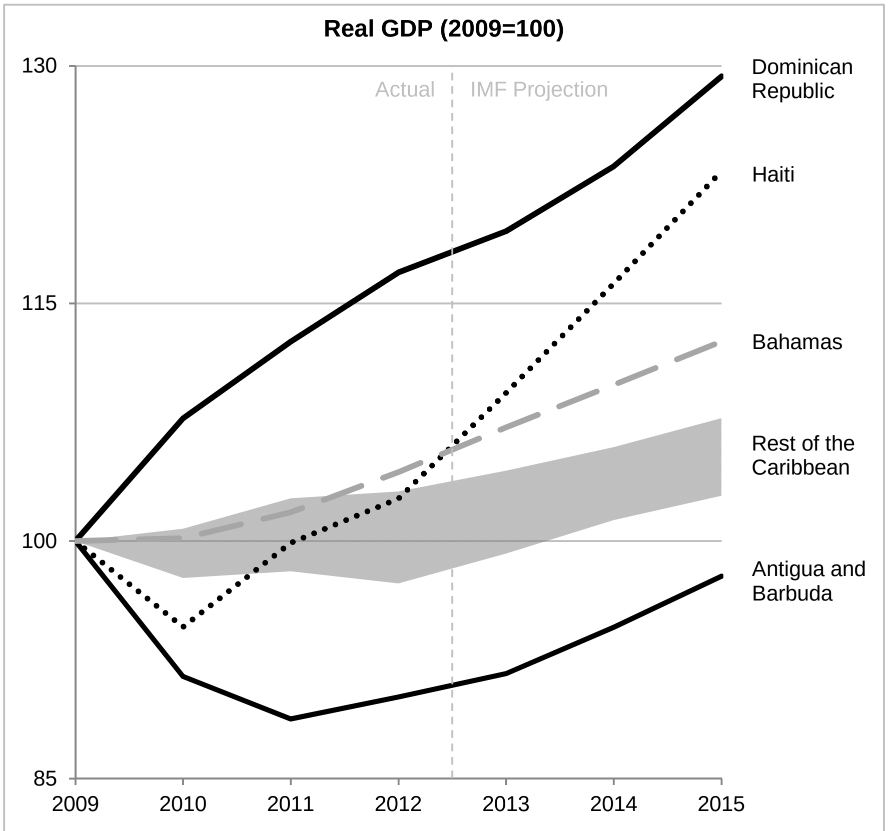
USAID
Economic Analysis
and Data Services

EADS Economic Trends Report

Caribbean

May 2013

Economic Overview



SOURCE: IMF, *World Economic Outlook*, April 2013.

Growth in the Caribbean remains restrained by high debt levels, lackluster tourism, and relatively uncompetitive industries. Given the comparative weakness of financial sector development in the Caribbean, slow economic growth runs the risk of causing credit quality to deteriorate, which would further trim the economic expansion. Although each Caribbean economy is projected to show growth in 2013, nearly all are at two percent or less. Only Haiti, with a projected 6.5 percent real GDP expansion this year, is growing briskly.

Most of the island economies have been moving in a narrow range over the past several years (note the grey-shaded area on the graph), but Antigua and Barbuda stands out as an economy which fell sharply for two years and is now recovering modestly. The economy is heavily dependent on tourism, and the global economic recession and financial crisis hit tourism and related construction hard.

On the upside, the Dominican Republic, Haiti, and the Bahamas are the leaders for growth since 2009. For the Dominican Republic, however, the rate of expansion peaked back in 2010 and annual rates are dropping. As the economic growth rate slipped in 2012, the fiscal deficit widened sharply to more than eight percent of GDP. To reverse the trend of a high debt-to-GDP ratio, the government passed tax law changes in November 2012 which included higher sales taxes. Fiscal consolidation is aimed at getting the country on a more sustainable track, but will undercut economic growth in 2013.

Haiti's current favorable growth rate continues its haphazard recovery from a sharp contraction after the earthquake in 2010. Macroeconomic policies have been supportive of economic expansion in the last few years, but investment activity is hampered by administrative capacity shortcomings, an unattractive business environment, and continued political tension. Cholera outbreaks and tropical storms continue to burden the economy. For 2013, the growth rate is expected to pick up on the basis of a favorable agricultural harvest and increased public investment.

Countries covered in this report include Antigua and Barbuda, Bahamas, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines. Due to data limitations and space constraints, not all countries are represented in every graph or analytical section.

Jamaica recently signed an agreement with the IMF to receive support for its comprehensive economic reform agenda. The fiscal position has deteriorated, the current account deficit has widened, and unemployment has risen, in the wake of slow economic growth. Fiscal reforms, including a tax package to improve revenue collection, were initiated in 2012 and IMF support from the Extended Fund Facility is partly intended to strengthen the policy credibility of the Jamaican government.

The Barbadian economy has been expanding modestly, in line with Jamaica and many of the island economies, for the last few years. Output was basically flat in 2012 and only a half of one percent growth is expected for 2013. Growth in tourism, traded services, and manufacturing exports has been flat or negative, while consumer spending has been rising only slightly.

In general terms, Caribbean economies are boosted by faster economic growth in the United States and Mexico, with a positive impact on tourism and worker remittances. However, there is still potential room for more economic integration in the Caribbean, and a stronger impact on growth from faster growth by larger economies in the region.

Econometric analysis by the Inter-American Development Bank, reported in their most recent regional survey, Rethinking Reforms, indicates that the Latin America and Caribbean economies are relatively less integrated than in other developing regions. The implication is that faster economic growth in the two largest Latin America and Caribbean economies (Brazil and Mexico) has relatively less of a multiplier effect on the region as a whole, than would be expected among developing countries in Europe or Asia when the largest economies in the region grow faster. In fact, according to the IADB econometric model, faster economic growth in Brazil and Mexico has a small negative impact on economic growth in Jamaica.

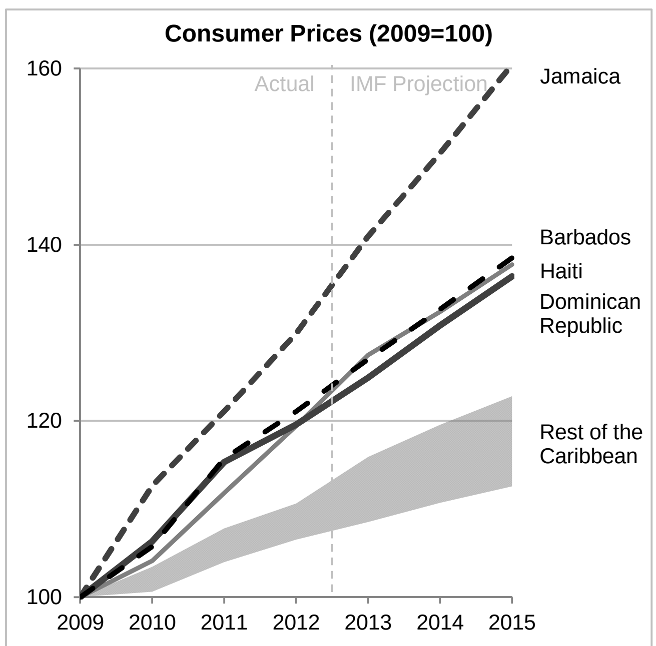
Real GDP Growth, 2013 (IMF Projections)	South America 4.6%	Central America 4.0%	Mexico 3.4%	Caribbean 1.8%

Inflation

Most Caribbean economies are able to control inflation within target ranges, with economic growth subdued and world food prices in check. Modest inflation prevails particularly in the smaller economies of the region, while Jamaica's inflation rate has been notably higher than in its neighbors. For 2009–20015, the IMF projects that Jamaican inflation will be at an eight percent annual rate.

Inflationary pressures in three other key Caribbean economies (Barbados, Haiti, and the Dominican Republic) fall somewhere between the modest price gains of the smaller economies and the price pressures of Jamaica.

Barbadian inflation was particularly acute in 2011, exceeding nine percent, but is estimated to be about half that pace for 2012. The Central Bank of Barbados credits more favorable world food price trends for the easing.



SOURCE: IMF, *World Economic Outlook*, April 2013.

Haitian inflation has picked up as the economy has expanded post-earthquake. Hurricanes Isaac and Sandy reduced the Haitian domestic food supply, putting pressure on prices. Monetary policy has been basically neutral in the past two years as key policy rates have been unchanged while broad money supply growth has fallen short of expected levels.

In the Dominican Republic, inflation easing has been better than expected. The core inflation rate was below 3.5 percent by October last year, well below the central bank target range of 4.5–6.5 percent.

CPI Inflation, 2013 (IMF Projections)	Mexico 3.7%	Caribbean 4.0%	Central America 4.3%	South America 6.2%

Banking and Financial Sector

Haiti's banking sector is in fairly good shape. Data for the end of September 2012 show that nonperforming loans are low (2.4 percent) and the average capital ratio (16.8 percent) is comfortably above the regulatory minimum of 12.0 percent. Demand for short term trade credit is boosting the growth of commercial bank credit to the private sector. Even with the recent strong credit growth, Haiti's level of credit is low relative to other low-income countries. Progress in Haiti has been assisted by the continuing implementation of a financial sector reform plan initiated in 2008.

In January, the Central Bank of Barbados reported that banks remain profitable, with adequate liquidity and capital positions above the statutory requirements. However, there was some continued deterioration in credit quality and timely servicing of loans during 2012.

In general, Caribbean economies have relatively underdeveloped domestic financial markets, particularly compared with Central American and Mexican markets. The average rank in the *Doing Business* indicators for "Getting Credit" is 99th (out of 185 economies) for the Caribbean, but 61st for the Central America and Mexico group. Only Trinidad and Tobago has a highly rated financial system among Caribbean economies.

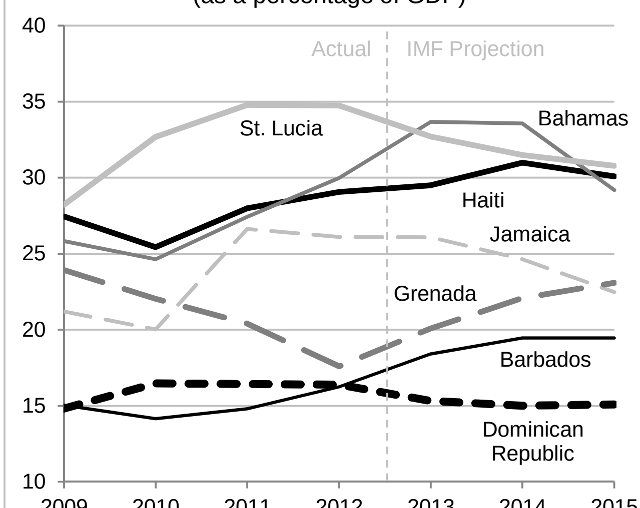
Investment

Several of the Caribbean economies have relatively high ratios of investment to GDP; the comparison table (based on unweighted averages) shows that the Caribbean outpaces the rest of Latin America and the Caribbean.

But robust investment levels are not consistent across the Caribbean. In Barbados, the Central Bank says that the country needs to accelerate the process by which new projects can be started. The difficulty in boosting investment contrasts with the generally favorable business environment in Barbados.

Investment as a percent of GDP in the Dominican Republic, typically among the lowest among Caribbean economies, could be boosted in coming years if the mining sector expands. Gold exports are ex-

Investment
(as a percentage of GDP)



SOURCE: IMF, *World Economic Outlook*, April 2013.

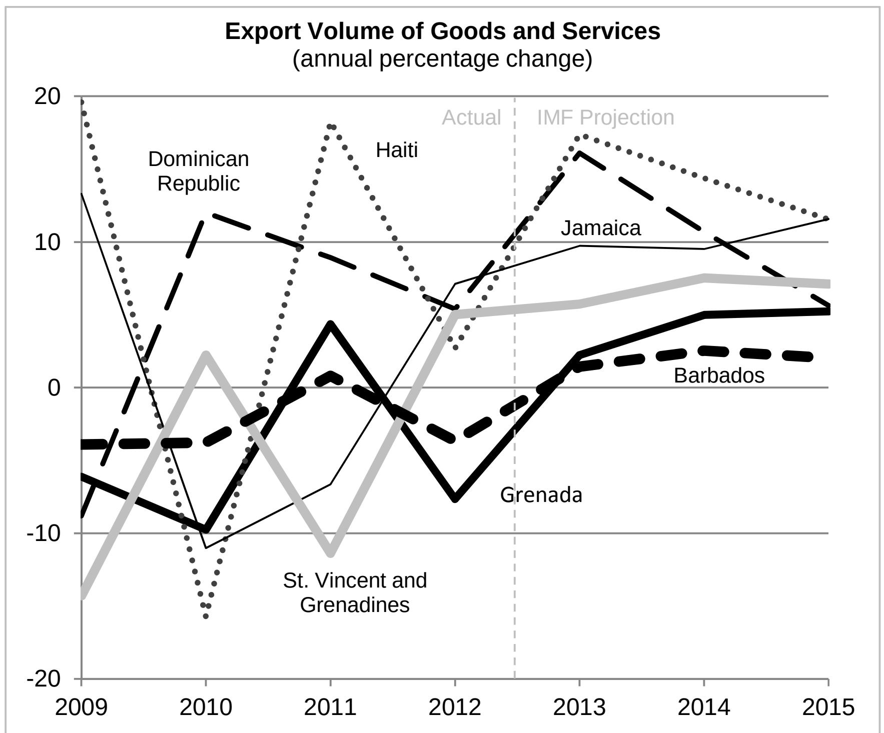
pected to be launched this year, but potential for silver, copper, and zinc is also foreseen. Another development that could foster more investment in industry would be improving the chronically underperforming electricity sector.

Investment in Haiti has improved since the 2010 recovery began, with further increases projected through 2014. Investment is strong in agricultural projects and public construction efforts.

Investment, 2013 (as a percentage of GDP) (IMF Projections)	Caribbean 27.0%	Mexico 24.4%	South America 22.9%	Central America 21.3%

Trade

Several Caribbean economies are enjoying strong growth in exports of goods and services, reflecting a rebound from the global economic recession. In some cases, such as Haiti where agricultural exports are currently favorable, downside risks remain.



SOURCE: IMF, *World Economic Outlook,* April 2013.

Jamaican exports have been boosted by strong demand for bauxite and alumina; prices for bauxite are expected to remain strong for the next few years. In addition, Jamaica's tourism sector has been thriving.

In the Dominican Republic, the sharp gain in exports for 2013, followed by lesser but still strong increases for 2014 and 2015, is partly driven by a new sector: gold mining. The same mine will also be adding silver and copper exports to the Dominican Republic economy.

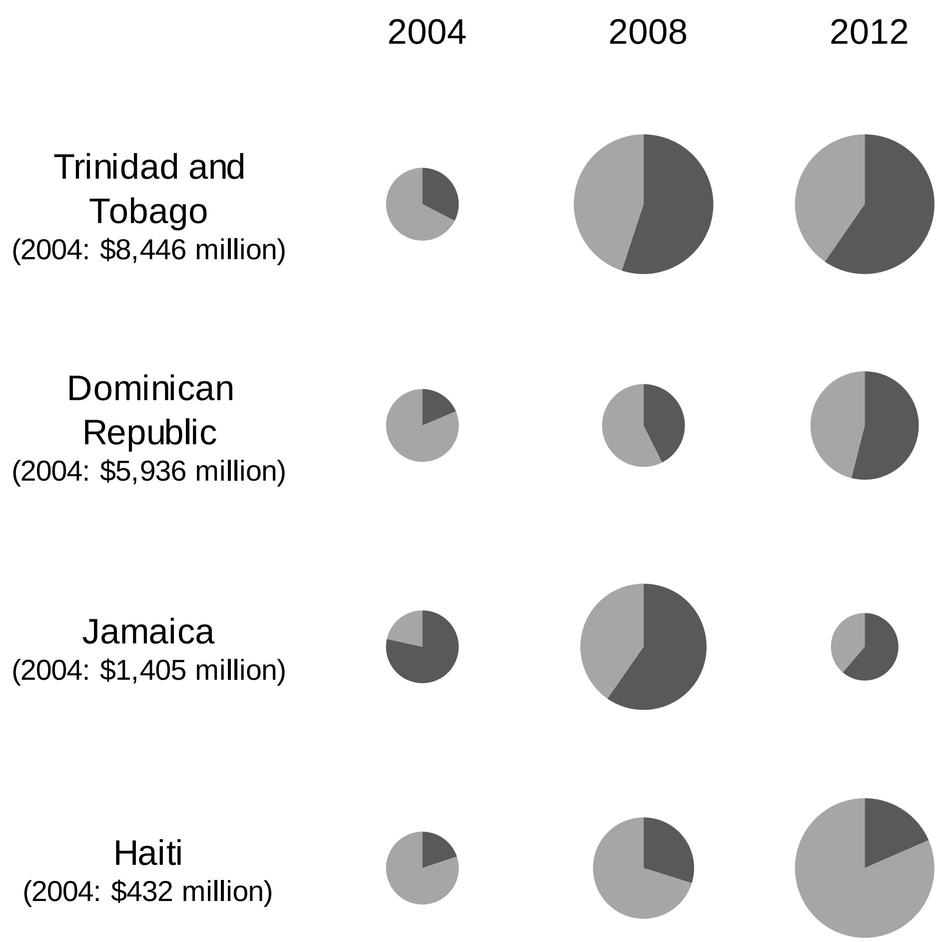
In Barbados, the overall growth rate of exports is tepid. However, the development of alternative energy sources is expected to trim the country's import bill for oil, with a favorable impact on the current account.

Export Volume of Goods and Services, 2013 (annual percentage change) (IMF Projections)	South America 6.7%	Caribbean 6.5%	Central America 3.5%	Mexico 2.9%

Changing Trade Relationships for Largest Economies

The charts below display some changing trade relationships among Caribbean economies and the rest of the world. For the Dominican Republic and Trinidad and Tobago, the share of their exports headed to the United States has fallen noticeably since 2004. In each case, the U.S. market formerly accounted for well over half of the country's exports of goods, but by 2012, that share had dropped below 50 percent. By contrast, the U.S. share of Haitian and Jamaican exports has either held steady or increased over the same period. One factor is policy changes, with the United States expanding access to its market for Haitian apparel in the aftermath of the 2010 earthquake.

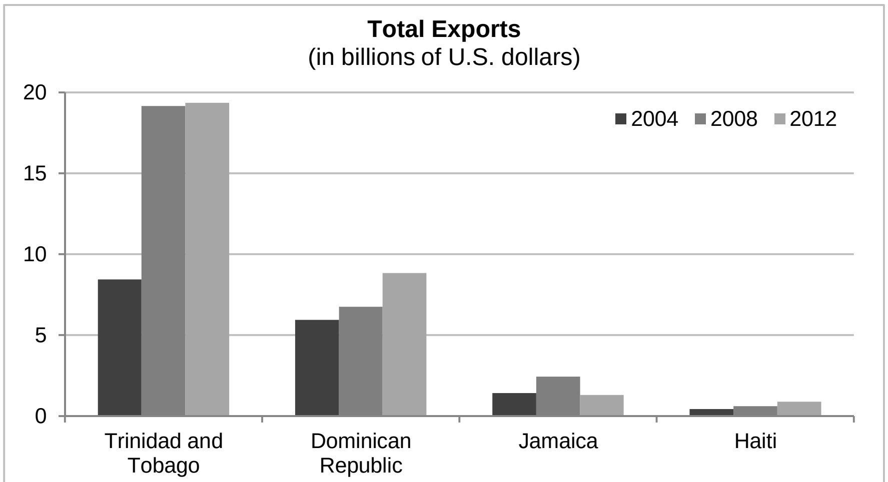
Change in Total Exports and Share of Exports to the U.S. and the Rest of the World



SOURCE: IMF, Direction of Trade Statistics, April 2013.

NOTES: Lighter shading is exports to the U.S.; darker shading is exports to the rest of the world. The size of each pie chart is proportionate to the overall dollar amount of goods exported by the country in the given year.

However, both the Dominican Republic and Trinidad and Tobago export on a much larger scale than either Haiti or Jamaica and the growth of exports by the Dominican Republic and Trinidad and Tobago has been stronger. While the percentage changes in total exports by Haiti and Trinidad and Tobago 2004–2012 are comparable, Jamaican exports in 2012 were actually below the 2004 level.



SOURCE: IMF, Directions of Trade Statistics, April 2013.

Additional Information

For questions or more information, please contact the author, Michael Shea at mshea@devtechsys.com.

For country-specific data and additional information about the countries covered in this report, please visit the ESDB Country Portal at http://esdb.eads.usaidallnet.gov/query/do?_program=/eads/esdb/countryPortal.

Sources used in compiling this report include the semi-annual *World Economic Outlook* and *Country Reports* from the International Monetary Fund (http://www.imf.org/), the *Global Economic Prospects* and *Doing Business* reports from the World Bank (http://www.worldbank.org/), and the 2013 *Latin American and Caribbean Macroeconomic Report* from the Inter-American Development Bank (http://www.iadb.org/).