INTERNATIONAL & REGIONAL OVERVIEW

Chart 3.1: Global Growth

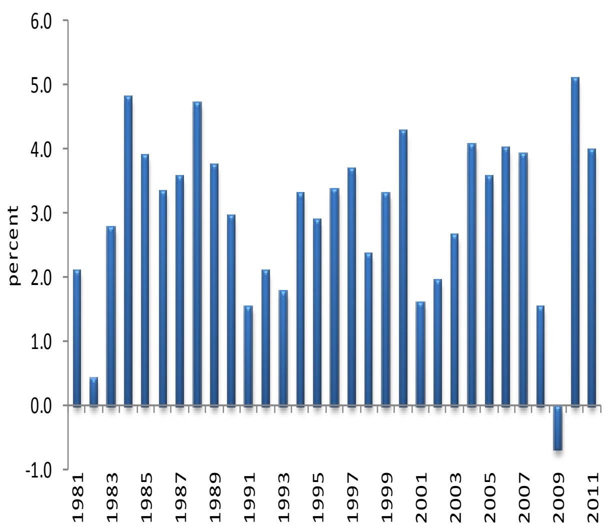
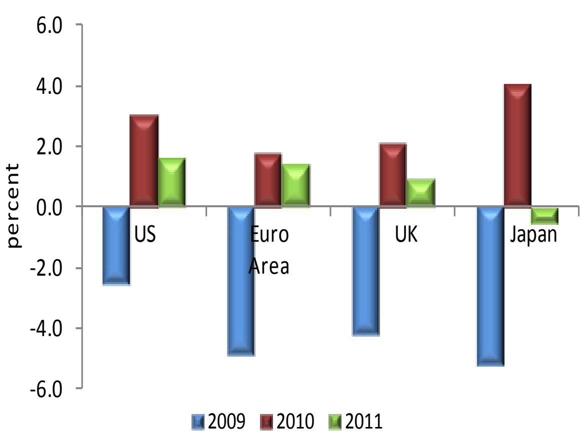


Chart 3.2: Selected Advanced Economies: GDP Growth Rate



Global growth decelerated to 4.0% in 2011 in the context of a deepening euro-zone crisis, a shaky US recovery, natural disasters in Japan and heightened volatility in global financial markets. Despite highly accommodative macroeconomic policies, US growth slowed from 3.0% to 1.6% with high oil prices, weakness in residential construction and supply chain disruptions in the automotive industry dampening household and business activities. However, there were some signs of a turnaround in the second half of the year as an uptick of investment in equipment and software as well as increased exports contributed to a fall in the unemployment rate to 9.1%. While major natural disasters resulted in a 0.5% contraction in the Japanese economy, there were also signs of recovery in the second half of the year as reconstruction efforts picked up pace.

In the UK, GDP growth decelerated to 0.9% against the backdrop of continued fiscal tightening, weakened business and consumer confidence and slowdown in export growth. Industrial output and construction were down, while growth in the services sector remained sluggish. Output in the entire euro area grew by 1.4%, however, the region's performance was uneven with stronger growth in Germany and Sweden being juxtaposed with the weaker performance of debt-ridden countries such as Portugal, Ireland and Greece. These latter were further constrained by the difficulties and slowness in implementing much needed fiscal adjustments and growth-enhancing reforms.

In contrast, the performance of the emerging and developing economies continued to be fairly strong with surging commodity prices coupled with increased domestic demand spurring growth in Latin America, while the Asian economies expanded at a robust pace, notwithstanding disruptions in

Chart 3.3: Selected Emerging Economies GDP Growth Rate

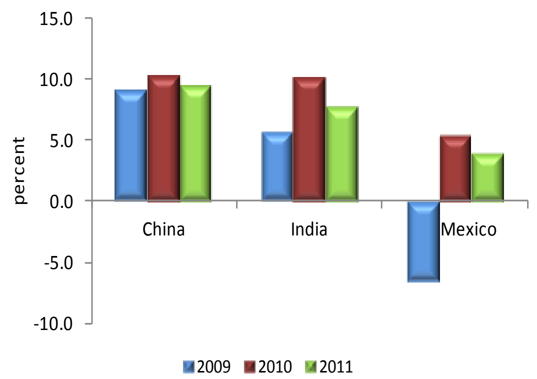


Chart 3.4: Caribbean Economies GDP Growth Rate

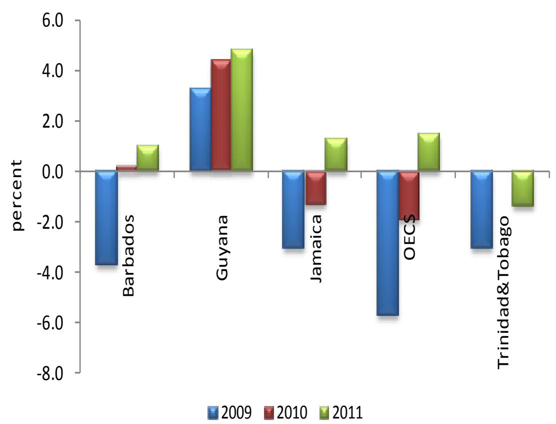
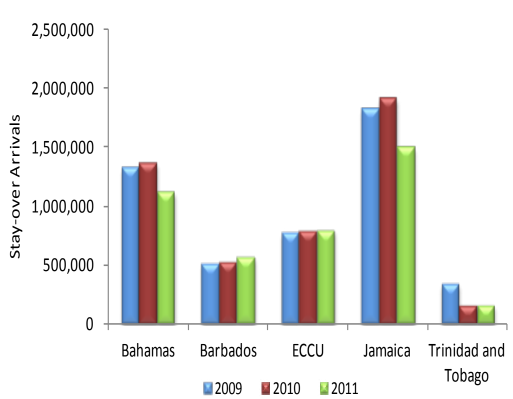


Chart 3.5: Caribbean Tourism



supply chains and ebbing demand from advanced economies. China reported growth of 9.5% on the back of strong industrial output, while private consumption was the driver of a 7.8% expansion in India. In both cases, there was a strengthening of inflationary pressure. Closer to home, Mexico's growth slackened to 4.0% as expansions in construction, services and manufacturing coincided with contractions in agriculture, exports and reduced growth in capital formation and private consumption.

In the Caribbean, regional growth accelerated marginally to 0.7% as countries continued to be constrained by the weak recovery in their major export markets, mounting public sector debt, weak tourism flows and rising consumer prices. Guyana led with a 4.8% increase supported by favourable weather, high commodity prices (particularly for gold, rice and sugar) and increased output from the manufacturing and services sectors. At the other extreme, Trinidad & Tobago experienced a 1.4% contraction, the third consecutive decline since 2009, due mostly to lower output from the crude oil and natural gas sectors. Barbados, the Eastern Caribbean Currency Union (ECCU) and The Bahamas benefitted from a slight upswing in tourism and grew by 1.0%, 1.5% and 2.0%, respectively, after posting negative or minimal growth over the past two years. Primary activities (mining and quarrying, agriculture, forestry and fishing) and, to a lesser extent, hotel and restaurant activities underpinned growth of 1.3% in Jamaica's GDP.
Caribbean governments continued to grapple with fiscal imbalances and high levels of public sector debt during the year. Unemployment levels were for the most part stubbornly high and the increased cost of

Chart 3.6: Caribbean Inflation

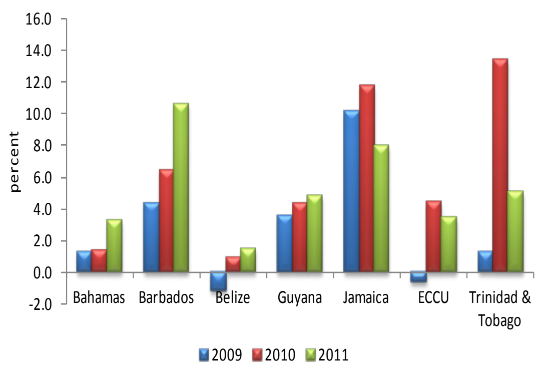


Chart 3.7: GDP Growth Rate

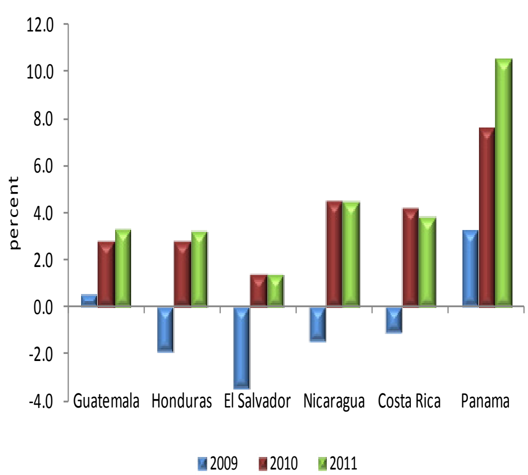
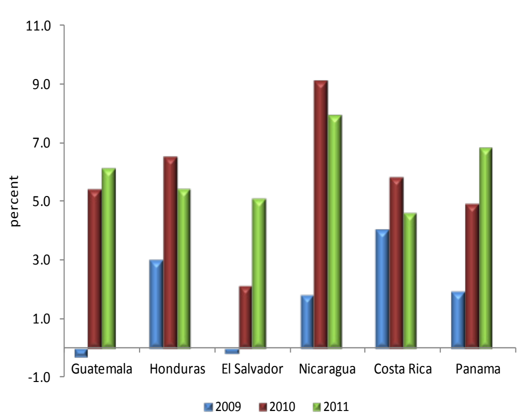


Chart 3.8: Central America Inflation



imported items, particularly food and fuel, pushed inflation upwards throughout the region ranging from 10.6% in Barbados to 3.2% in Bahamas. Guyana and Trinidad & Tobago experienced price hikes of 4.8% and 5.1%, respectively. Monetary policies were generally accommodative and aimed at lowering interest rates in the context of subdued private sector credit demand and high levels of bank liquidity. Meanwhile, balance of payments pressures led several countries to enter standby arrangements with the IMF including Jamaica, Antigua & Barbuda, and St. Kitts & Nevis. Jamaica also negotiated a debt exchange with its creditors which is anticipated to save the government US$400.0mn in interest expenses over the 2011/2012 fiscal year.

Countries in the Central American region showed more resiliency in the face of the sluggish nature of the recovery in the advanced economies. Panama led with a 10.5% expansion that was internally driven by public investment projects such as the expansion of the Panama Canal, the construction of a metro train system as well as various housing and highway projects. GDP growth in the other countries was more dependent on exogenous factors such as family remittances, US demand, fluctuating commodity prices and inflows from services, the most important being tourism. El Salvador, and to a lesser degree, Honduras and Guatemala were affected by Tropical Depression 12 (TD12) which inflicted damage to agricultural production. Since it was harder hit by TD12, the Salvadoran economy lagged behind the rest with growth of only 1.4%. Guatemala and Honduras were able to post GDP growth of 3.3% and 3.2% respectively, driven mainly by activity in mining, commerce and financial services in the case of Guatemala, and by telecommunications in

Honduras. Nicaragua and Costa Rica maintained momentum with growth of 4.5% and 3.8%, respectively, that was driven by foreign direct investment (FDI) into communications, construction and free zones.

Inflation in the region remained relatively high as supply shortages due to TD12 and the rise in crude oil prices pushed the cost of public transportation, food & beverages and fuel upwards. Price levels rose by 7.9% in Nicaragua, and by 6.8% and 6.1%, respectively, in Panama and Guatemala. Honduras, El Salvador and Costa Rica also reported inflation rates of 5.4%, 5.1% and 4.6%, respectively.

Attempts to rein in fiscal deficits were moderately successful with the average for the region edging downwards from 3.7% of GDP in 2010 to 3.5% of GDP in 2011, as all countries, except Honduras, recorded contractions. External current account deficits generally worsened due to a significant deterioration in merchandise trade balances. While exports were up moderately, imports grew faster, boosted by domestic demand and higher international prices of petroleum and industrial inputs. This was partly offset by a general increase in workers' remittances to the region, notwithstanding the uncertainties faced by Central American migrant labour in the United States. Meanwhile, FDI inflows that were mainly directed to manufacturing and telecommunications helped to finance the widening current account gaps. Costa Rica was the primary beneficiary as its telecommunications sector was opened to foreign competition.

In other developments, a free trade agreement between Mexico and Central America (excluding Panama) was signed in November. This agreement replaced previously signed bilateral agreements and should contribute to economies of scale and the sale of inputs to the Mexican automotive industry. Costa Rica also signed bilateral agreements with Peru and China, while in October 2011, the US approved the signing of a free trade agreement with Panama.