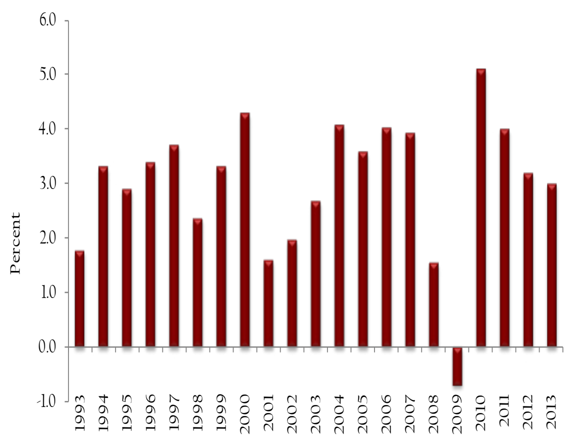
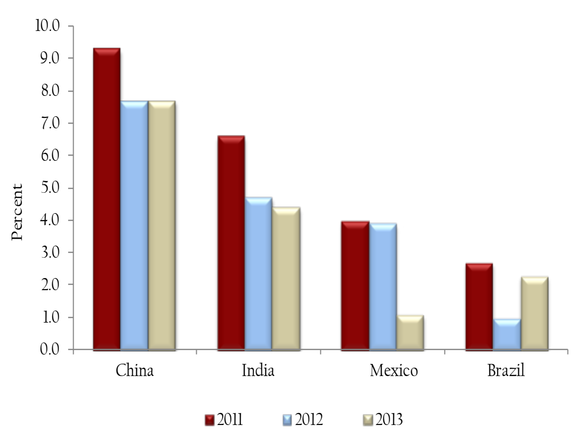
International Developments

Chart 2.1: Global Growth



Source: IMF

Chart 2.2: Selected Emerging Economies: GDP Growth Rate



Source: IMF

The world economy maintained momentum with a 3.0% increase that was on par with its 2012 performance. As has been the case since the start of the new millennium, the expansion was led by the emerging economies although with noticeable deceleration in the latter due to a slow down in exports, infrastructural and investment bottlenecks, softer domestic demand and the negative financial impact of the scaling down of the United States (US) Federal Reserve's asset purchase programme.

China again played a leading role with a 7.7% expansion that slightly exceeded expectations, although below the levels seen at the start of the century. In comparison with the previous year, its economic activity slackened due to sluggish global demand and rising municipal debt, while authorities continued their rebalancing efforts with a shift in emphasis toward domestic consumption and environmental protection. In the case of the other notable emerging economies such as Brazil and India, the performance was weaker with inflation surging upward and wider fiscal and trade deficits.

The advanced economies struggled to gain traction. Although activity strengthened in the second half of the year, growth in the US, which accounts for a quarter of the world's output, slowed from 2.8% to 1.9%. Its unemployment rate fell from 7.9% to 6.7%, but this was partly a reflection of a further

International Developments *continued*

Chart 2.3: Selected Advanced Economies: GDP Growth Rate

Source: IMF

decline in the labour force participation rate to 62.8%, the lowest it has been since February 1978. Neighbouring Canada grew by 2.0% but with the appreciation of its currency eroding its external competitiveness, this was driven mainly by private consumption and crude oil exports.

Turning to the east, the European Union's (EU) slow and feeble rehabilitation continued with growth contracting by 0.5%. While conditions were generally more favourable in the core countries of the Eurozone and the United Kingdom (UK), the periphery countries continued to grapple with weak domestic demand, high levels of debt and fragile banking systems. Germany's growth decelerated from 0.9% to 0.5% with strong consumer spending being partly offset by lower investment and slower growth in exports. France grew by 0.3%, however, a rebound in corporate investment and increased public spending failed to make a significant dent in record unemployment levels. While eking out a marginal increase in the last quarter to end a two-year recession, Italy nevertheless contracted by 1.9% on an annual basis. Spain, Portugal and Greece also experienced contractions of 1.2%, 1.3% and 2.7%, respectively.

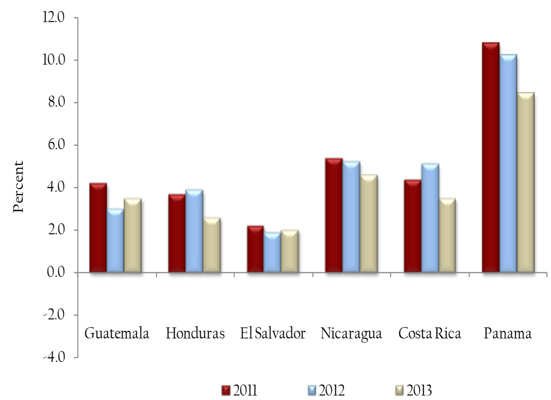
In contrast, the UK posted a 1.8% increase, its highest growth since 2007, with the impetus coming from the services sector, higher business investment and consumer spending, and an upturn in the housing market. GDP growth of 1.5% in Japan was lower than expected given its implementation of a large fiscal and monetary stimulus package. Despite the weakness of the yen, exports softened and with energy imports surging, Japan recorded its largest trade deficit since 1979.

Across the border and closer to home, growth in Mexico's GDP decelerated from 3.9% to 1.1%, reflecting weaker US demand for its exports and a drop in construction activity that was associated with a scaling down of public spending. Activity in the Central American countries also softened amid negative supply shocks and widening external imbalances.

Panama led the region with estimated growth of 8.4% that was driven by substantial investments for the expansion of the Panama

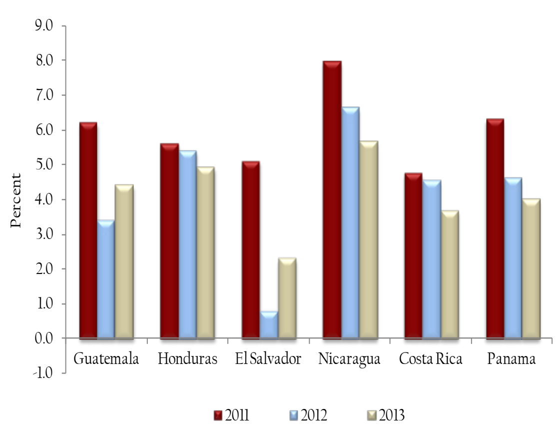
International Developments *continued*

Chart 2.4: Central American Economies: GDP Growth Rate



Sources: ECLAC and IMF

Chart 2.5: Central American Inflation



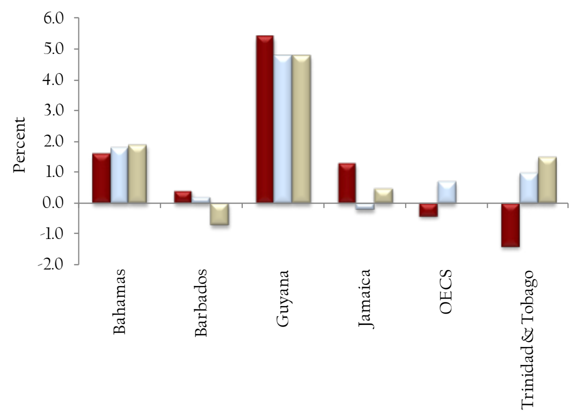
Sources: ECLAC and IMF

Canal and the city's first metro line. Except for Costa Rica, the other countries faced headwinds in the form of weaker tourist arrivals, falling remittances and weaker export demand. In addition, notable outbreaks of coffee leaf rust disease exacted a major toll on this important crop across the region. Agriculture and manufacturing industries were the hardest hit as exports slid downward, while imports vaulted upward with volume and price increases, particularly for food and energy. External current account deficits consequently widened, hovering above 5.0% of GDP in most of the countries, and holdings of international reserves were generally lower.

Among the CARICOM member states, the central issues continued to be declining competitiveness and longstanding external and fiscal vulnerabilities. The macroeconomic performance of the tourism-dependent economies of Barbados, Jamaica, Bahamas and the islands of the Eastern Caribbean Currency Union was depressed due to structural weaknesses and low visitor arrivals. The Bahamas was the only small island state to record real output growth of above 1.0%, as construction activity was boosted by major foreign-investment funded tourism projects even as private consumption fell and tourist receipts underperformed. Barbados faced significant challenges during the year with its economy estimated to have contracted by 0.7% due to shrinking foreign

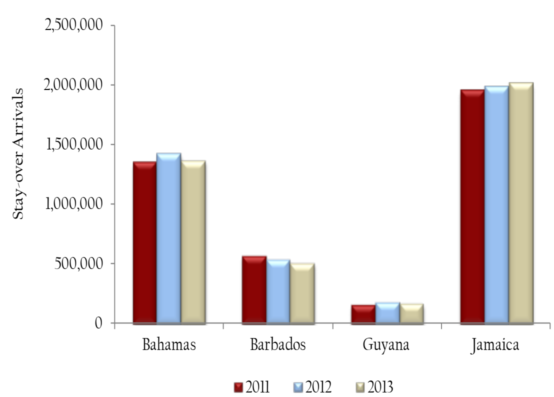
International Developments *continued*

Chart 2.6: Caribbean Economies: GDP Growth Rate



Sources: IMF and Scotiabank

Chart 2.7: Caribbean Tourism



Source: Caribbean Tourism Organization

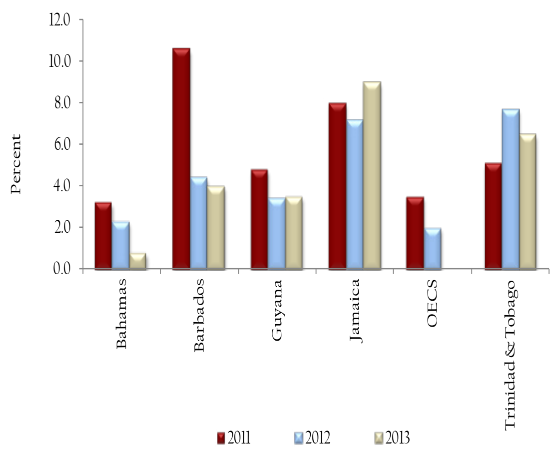
direct investment and stagnation in the tourism sector. Its fiscal and external current account deficits worsened.

In the case of Jamaica, its fragile recovery remained on track, and it is expected to eke out growth of 0.5% due in large part to an International Monetary Fund (IMF), four-year Extended Fund Facility of US$932.0mn that was approved in May 2013. The other countries that were in the forefront of regional growth were generally supported by vibrant commodity exports. The strongest growth was in Guyana, which posted a 4.8% increase that was underpinned by broad-based economic activity, strong commodity exports, debt relief and tax and investment reforms. Suriname grew at a similar pace, largely due to its mineral wealth and heavy reliance on commodity exports. GDP growth in Trinidad and Tobago was more modest at around 1.5% as the country sustained shocks stemming from maintenance-related outages in the energy sector and a cement industry dispute during the first half of the year.

In general, unemployment rates improved in commodity exporters and worsened in the others. Fiscal and external balance of payments vulnerabilities were also exacerbated in the tourism-dependent economies as tax receipts dwindled and reserves fell with the widening of external account deficits that in some cases exceeded 10.0% of GDP. While slackening demand and

International Developments *continued*

Chart 2.8: Caribbean Inflation



Sources: IMF and Scotiabank

excess capacity tended to moderate the rise in prices, the outturn for inflation was mixed for the region. The price level in the Bahamas, Barbados and Trinidad and Tobago rose by 0.8%, 4.0% and 6.5%, respectively. The largest price increases were in Jamaica where a further depreciation of the Jamaican dollar drove its inflation rate upward by 9.0%.