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NCB CAPITAL MARKETS LIMITED

LOCAL ECONOMIC OUTLOOK 2012

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Will Jamaica remain on Stand-by?

Global Growth continued despite several setbacks during the year

Although the global economy continued to record growth in 2011, the year was not without its challenges. During the year, concerns about sovereign solvency emerged as the ghost that never went away. Against the background of massive spending and tax packages to revive ailing economies and intervention to shore up financial institutions in the aftermath of the global financial crisis, governments in several developed countries are now struggling to rein in ballooning sovereign debt. In addition, stubbornly high unemployment rates also remained a challenge as the pace of growth failed to stimulate the level of job creation that was needed. These factors helped to dampen the recovery in major economies. That said, despite lingering concerns about the sovereign debt crisis in Europe, the high unemployment rate in the US, and the uncertainties relating to the sustainability of the economic recovery, predictions of a double dip recession did not materialize in 2011. Economic activity, in many emerging markets gained momentum and has remained in positive territory. The International Monetary Fund (IMF) estimated that the global economy recorded growth of 4% in 2011 propelled by developing countries and the rebound in Japan following the earthquake and tsunami in March.

Domestic Activity lagged that our global counterparts...

Despite positive economic growth globally, domestic economic activity still lagged that of our global counterparts. Growth in output came on the back of positive developments in key sectors such as the Mining and Quarrying Sector, where an increase in the price of aluminum on the international market led to the re-opening of one of the island's bauxite plants. Remittance inflows, though below pre-crisis levels, continued to improve relative to the previous year and increased tourist arrivals augmented hard-currency inflows to the island.

IMF Programme to continue taking the spot light..

One of the main sore spots, however, is the IMF Stand-by agreement which has stalled since December 2010. Failure to meet certain key qualitative components of the agreement has meant that there were no quarterly reviews and no disbursements since that time. This has created uncertainty in the financial markets. The new administration has stated that it will seek to negotiate a new arrangement with the IMF. In our outlook for 2012, our base assumption is that the government will be successful in this regard. A new IMF agreement would facilitate the resumption in the flow of funds from multilateral institutions which should help to keep interest rates low and facilitate continued macro-economic stability. As a result, the IMF program as well as fiscal compliance is again expected to take the spotlight this year. In the absence of an IMF agreement, however, there is the risk of a weakening of the local currency, higher interest rates and potentially higher inflation. This could also mean unfavourable movement in the prices of financial assets such as stocks and bonds.

Local Economic Growth

In 2011 economic activity rebounded from thirteen consecutive quarterly declines. Estimates from the Planning Institute of Jamaica (PIOJ) suggested that economic activity increased by a modest 1.4% during the period January to September relative to the corresponding period in 2010. The Goods Producing industry was estimated to have grown

4.4% while the Services industry was up a marginal 0.1%. The Manufacturing, Transport, Storage and Communication and Finance and Insurance Services sectors all registered declines. The decline in manufacturing was as a result of a contraction in Food, Beverages and Tobacco while the low interest rate environment was the main reason for the contraction in the Finance and Insurance sector. The sectors recording noteworthy growth were: Mining & Quarrying and Agriculture Forestry & Fisheries. Growth in Mining and Quarrying was driven by the re-opening of the Windalco Ewarton Plant in June 2010 and increased bauxite production from Noranda as global demand improved. The Agriculture sector benefited from more favourable weather conditions relative to the prior year.

There are, however uncertainties in the current year as the global economy is expected to grow by 3.25% (IMF World Economic Outlook Update Jan 24, 2012) due to fiscal challenges in the Eurozone and the inability of member nations to come to a consensus on an appropriate bailout package have resurrected contagion fears. In addition, proposed austerity measures are expected to have negative passthrough effects on already fragile economies such as Jamaica. The main challenges on the local side are uncertainties with respect to the IMF program and policy direction of the new administration. Further, pending public sector rationalization when implemented will likely weaken consumer demand and overall economic activity. However, growth in the Goods Producing sector particularly Mining and Agriculture (barring adverse weather conditions) should boost output. In addition, if the US labour market continues to improve, then US$ remittance inflows as well as tourist arrivals should remain stable in the current year.

Mining and Quarrying

Growth in the Mining and Quarrying industry is expected to persist in 2012 albeit at a slower pace than in 2011. Strong growth is predicated on continued increase in global demand for aluminum, particularly in markets such as China. Demand in China has remained strong with consumption levels amounting to 9,181 kilo tonnes in the first half of 2011, an increase of 11.5% following a 10.5% increase in 2010. Strong growth in this economy should continue to propel the industry given the wide scale infrastructure developments being undertaken. The improvement in unemployment levels in the US over the last few months and moderate economic growth both in US and Canada also bode well for stable demand from North America. This should further support increases in aluminum prices which rose on average 10.4% in 2011. Aluminum price is projected to increase to $2,500 per tonne in the fourth quarter of 2012 which represents a 19.6% increase from Q4 in 2011. Global production is expected to increase by 5.4%, while consumption should increase 6.5%. Given the outlook for the end product, local mining activity and alumina production should increase in the current year particularly if plans to re-open the Windalco Kirkvine plant are brought to fruition. In addition, firms currently not operating at full capacity are likely to increase production. As a result, Jamaica's share of total global alumina production should increase from the 2.1% as at June 2011, but is likely to remain just below the 4% level before the global crisis in 2008.

Agriculture Forestry and Fisheries

Agriculture Forestry and Fisheries was one of the main contributors to the recovery in 2011. This was driven by favourable weather conditions, replanting efforts following the passage of Tropical Storm Nicole in 2010 and government programs aimed at improving efficiency in the industry. With the continuation of government programs, activity should continue to increase in 2012 but growth is likely to be slower given that the recovery effect contributed to growth in 2011. That said, there is the ever present risk of natural disasters which could impede growth in the sector.

Construction
The Construction sector returned to growth in 2011 helped by increased activity on road works and residential developments. In 2012, it is expected that the recovery in the sector should continue given the positive impact of the Jamaica Development Infrastructure Programme and other civil engineering programmes. In addition, low interest rates have so far resulted in an increase in the volume and value of mortgages. We anticipate that low interest rates will continue to boost residential construction with a concentration in the middle income segment of the market given more robust demand from this segment. The main risk to growth in this sector is the increase in local unemployment.

Manufacturing
The Manufacturing industry has been in decline since the December 2007 quarter. The industry continues to be affected by demand side challenges as a result of elevated unemployment levels and weak consumer spending. Consumer spending is expected remain subdued for much of 2012, which should continue to affect the overall performance of the sector. This could be compounded by unfavourable tax packages which could further temper local demand while increasing input costs for manufacturers. Further, the export market could falter if contagion fears from the European debt crisis are realized and/or austerity measures restrict growth in our major trading partners. Beverages & Tobacco which are mainly exported are more sensitive to weaker consumer demand in foreign markets. That said, assuming that local interest rates remain low, unemployment rate in the US continues to decrease throughout 2012 and the demand for sugar (which is heavily weighted in the Food Processing category) improves further, it is likely that this industry will bottom out by mid-year with the possibility of registering growth in the latter part of the year.

Tourism
Tourist arrivals were resilient in 2011. However, this was the result of steep discounts offered by local hoteliers and an extensive marketing campaign undertaken by the government. The US remains the main source market accounting for 63.6% of arrivals as at August 2011. However, the Canadian market has experienced significant growth since 2007 and is now the second largest source market behind the US. The expectation is for modearte growth in tourism in 2012. Continued economic growth in Canada, albeit at a slower pace this year, should continue to spur demand from that market while an improvement in the US jobs market should result in the US market returning to growth. This should counter the expected decline in the European market resulting from adverse developments in that region. Additions to the list of cruise ships set to call on the Islands ports in the current year should also boost arrivals. Strong bookings are likely to result in a decrease in the amount of discounts offered and as such, expenditure should improve relative to 2011.

Finance & Insurance
The Finance and Insurance sector has been adversely affected by the reduction in interest rates following the Jamaica Debt Exchange program in 2010. Further, weak demand has meant stagnating loan growth. The sector should continue to be adversely affected by these developments in 2012 and as such should continue to decline. Building societies could benefit from the low interest rate environment which has translated into an increase in housing starts. However, this sector accounts for just a small segment of the market. With the push towards non-interest revenues such as Collective Investment Schemes to reduce the dependence on the repo product, profitability in the investment banking business could decline. In addition, there is the risk that the financial sector may be targeted to help to plug the government's fiscal deficit which could reduce the earnings of the entire sector.

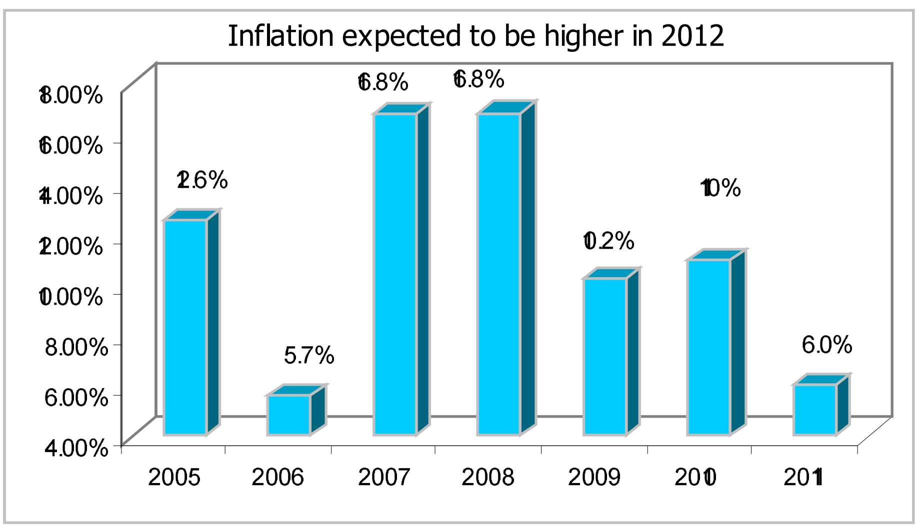
As such, local economic growth in 2012 is expected to fall in the 0.5% to 1.5%. Providing that growth the global economy is not dampened by the European debt crisis and the unemployment rate continues to improve over the next twelve months, the growth outturn should be closer to the higher end of the range.

Inflation

Despite several challenges inflation closed the year in single digits...

Helped by relatively stable commodity prices during the year, inflation fell in 2011. Barring supply shocks which were experienced during the Middle East Crisis in the first half of the year, oil and other commodity prices remained relatively contained. The Dow Jones Commodity Index declined by 8% in 2011 compared to the 23.63% increase in the prior year. Stability in the foreign exchange market and relatively weak local demand also contributed to the low inflation outturn. Inflation for the 2011 year stood at 6%, a notable reduction from the 11.7% recorded in the prior year and the lowest rate since STATIN revised the Consumer Price Index (CPI) basket in 2007. The inflation rate for the fiscal year April to December stood at 5.5% and is likely to end within BOJ's 6%-8% forecast by the end of the 2011/12 fiscal year.

"Housing, Water, Electricity, Gas and other fuels" division saw the largest price movement over the 12 month period (12.3%). This was driven by the strong increase in oil and electricity prices witnessed in March following civil unrest in North Africa and the Middle East. Speculation and market jitters surrounding possible fuel shortages added upward pressure to market prices. "Food and Non-Alcoholic Beverages, the most heavily weighted in the CPI Basket, rose by 5.4% and was fairly contained as consumer demand remained relatively weak. Favourable weather conditions and the glut of agriculture products also helped to temper upward price movements.



Moderately Higher inflation set for this year...

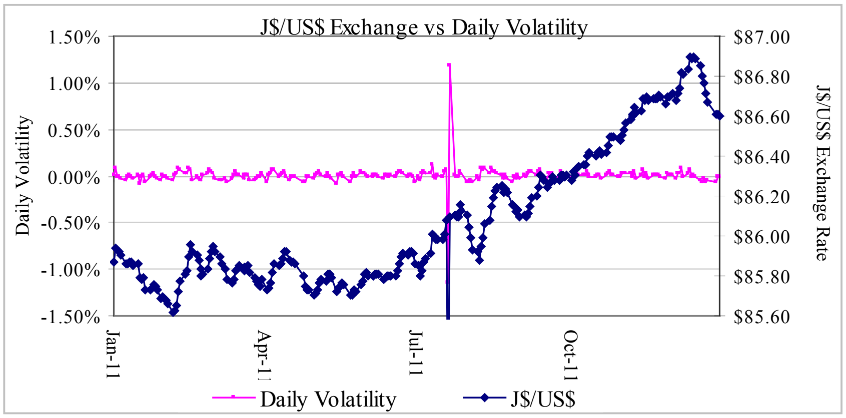
The inflation outlook for fiscal year 2012/13 is contingent on continued stability in macroeconomic variables particularly the foreign exchange rate as well as the prices of key commodities on the international market. The government's ability to successfully negotiate a new agreement with the IMF will go a far way in keeping uncertainty and speculation at bay. With limited fiscal space in implementing expansionary policies to spur demand, it is expected that consumer demand will remain soft, thereby tempering inflationary pressures. It is possible that the government will have to improve the fiscal accounts through tax increases which would have pass through effects on inflation. Current tensions over Iran's nuclear intentions and renewed unrest in Syria and Egypt could send oil prices higher in the New Year.

However, moderate global economic growth should temper significant upward movement commodity prices. There is also the ever present risk of natural disasters and unfavourable weather conditions which could result in added inflationary pressures. Already it is expected that the 2012 hurricane season will be 45% more active than 2011. That said, our base case forecast is for inflation in the range of 7% to 9% for 2012.

Foreign Exchange Market

Exchange rate stability was maintained throughout 2011...

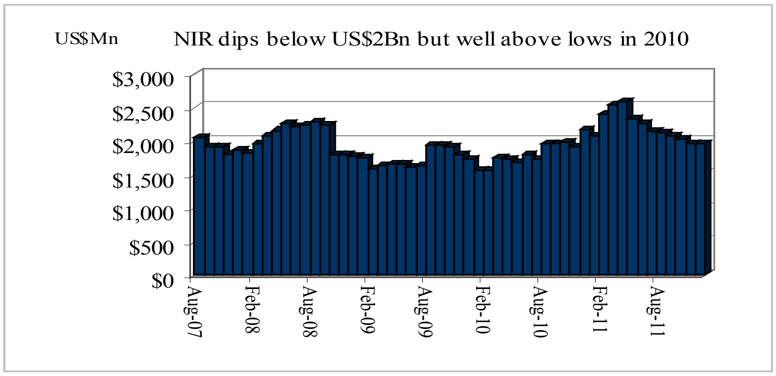
The foreign exchange market remained one of the positive areas in the economy in 2011. As at the end of December 2011, the weighted average selling rate for the US$ stood at J$86.60, representing a marginal depreciation of 0.86% compared to 2010. This is considerably lower than the historical average rate of depreciation.



Throughout the year, stability in the local currency was aided by the psychological impact of healthy NIR levels. There was also improvement in remittance inflows which augmented US$ supplies. With healthy reserves levels, the BOJ was able to make timely interventions to offset temporary supply imbalances in the market.

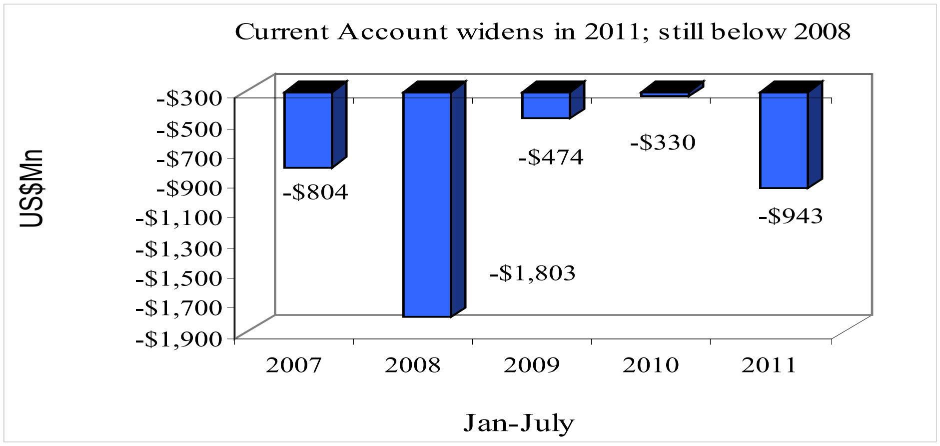
Renegotiating an agreement with the IMF will be crucial to FX stability.....

Over the next few months clarity on the agreement between the government and the IMF will be critical as this has implications for hard currency inflows and cheap financing for the government from other multilateral agencies. The widening of the current account deficit is also a worrying sign which could suggest further declines in the NIR over the short term and a slight uptick in the pace of depreciation of the local currency.



Increased demand for imports could put pressure on the NIR

The country's current account deficit widened between January and July 2011 to US$943Mn; almost three times higher than the same period last year. While it is below levels witnessed in 2008, if the trend persists, coupled with the lingering uncertainty, we expect additional pressures on the BOJ to maintain a stable currency. Additionally, pressures on the hard currency may come by way portfolio switching by investors as the yields on JMD fixed income instruments have fallen in line with yields on USD instruments.



Remittances growth should remain steady albeit slower than last year..

Nevertheless, continued growth in major economies such as the US, the source country for more than 60% of remittances should likely keep remittances afloat in the current year providing no severe contagion from the crisis in Europe. However, growth in overall remittances will likely be slower, tempered by the decline in remittances from Europe but sufficient to moderate any pressures on the US currency.

We anticipate that the government will ink a new deal with the IMF which will result in further funding for balance of payments support. This should help to bolster the NIR thereby providing sufficient ammunition to provide timely interventions into the FX market to shore up US$ shortages. Further, it will also boost investor confidence which is critical to stability in the currency. Therefore, our base scenario will be for 2-3% depreciation in the local currency, below its historical average annual depreciation rate of 7.85% recorded between 2005 and 2010.

Given the precarious fiscal position of the government, the primary risk to our outlook is the failure of the government to sign a deal with the IMF which would put a serious dent in investor confidence and increased demand for US$. Therefore, in the absence of a resumption of the IMF program, and slower growth in US$ remittances, the pace of depreciation in the local currency could accelerate relative to last year.

Interest Rates

Interest rates continued to fall in 2011 although at a slower pace than last year...

Interests rates continued on a general downward trend during the year supported by favourable inflation expectations, stable financial markets and relatively buoyant J$ liquidity. As a result of stability in these key variables, the BOJ reduced the rate on its 30 day CD during the year by 125 basis points to 6.25%. This represented a slowing of the pace of decline relative to 2010 when the BOJ reduced the rate on 30 day CDs by 300 basis points. Our thinking is that short term rates will remain stable in the near term as there is little room for the BOJ to further reduce interest rates given the air of uncertainty which has permeated the economy as the IMF program has stalled. The risk is that further rate reductions could create pressures on the local currency and threaten the stability in the foreign exchange market. Further, Treasury-bill yields are showing more resistance at current levels. The yields on 30-day, 90-day, and 180-day Treasury Bills fell by 99 basis points, 119 basis points and 102 basis points in 2011 to close the year at 6.49%, 6.21% and 6.46% respectively. However, the decline in the yields slowed significantly in the latter part of the year with yields actually inching upwards in the December auction. This suggests that investors are becoming less accepting of lower rates given the current level of uncertainty.

Yield curve likely to steepen during the year..

Our base case outlook for interest rates in 2012 is a steepening of the yield curve. Short term rates are expected to remain stable however, the small differential between USD and JMD rates at the longer end of the curve could see investors demand a higher premium for longer dated bonds resulting in a rise in long term rates.

The IMF agreement will play a critical role in ensuring the continuation of the low interest rate environment. This as funding from the IMF and other multi-laterals should help to keep the government's reliance on the domestic market for funding low. In addition, the greater level of confidence should help to maintain currency stability. The main risk to our outlook is a failure to resolve current issues with the IMF which could lead to a rise in short term rates.

Fiscal

Government outperformed its fiscal target relative to its target for 2010/2011

For the 2010/11 fiscal year, central government's operations resulted in a deficit of $74.21Bn. This represents a deficit to GDP ratio of 6.2%, and an outperformance relative to the 6.5% target outlined in the macroeconomic programme. Although revenues and grants underperformed, as tax collections and grants fell short of budget, cuts in capital expenditure helped to keep the deficit ahead of initial projections.

Government behind target up to November...

The targeted deficit to GDP ratio for the 2011/12 fiscal year is 4.6%. This is predicated on an expected 1.5% growth in the local economy. The government had also projected a primary balance of $69.26Bn for the FY2011/12. However, as at December 2011, the primary balance stood at just $26.6Bn and could deviate even further from the target by the end of the fiscal year. Furthermore, as at December, the government reported a fiscal deficit of $56.3Bn which was $6.4Bn behind budget. Both the fiscal deficit and primary balance targets are likely to be missed given that the government has little room for fiscal maneuvering as it tries to implement austerity measures in a slow growing economy.

Austerity measures implemented could be self-defeating and could result in weaker economic growth and lower revenue receipts. The public sector rationalization could actually increase the wage bill in the short term due to initial cost of severance packages as well as the projected increase in unemployment which will adversely impact PAYE and GCT receipts. In addition, discussions surrounding taxes on certain industries, if implemented, could result in an increase in unemployment as companies seek to improve efficiency in the face of lower revenue growth.

On the expenditure side, the 7% retroactive increase in public sector wages approved in August 2011 has increased expenditure. Further, although discussions are said to be in advanced stages, the government has not yet implemented tax and pension reforms or completed the divestment of the loss making Clarendon Alumina Plant. Rating agency S&P highlighted these fiscal challenges in the recent revision of the country's credit rating outlook from stable to negative. The agency also noted the likelihood of a downgrade if the government fails to increase its primary surplus and meet other requirements by 2012 that are necessary to restart IMF and other multilateral funding. A downgrade is far from ideal, as this could result in a rise in Eurobond yields and added pressure on long term JMD yields in response to widening differentials. S&P noted however that the ratings could improve if the government is able to improve its fiscal stance through a credible medium-term economic plan that will bring its IMF agreement on track while simultaneously reducing external pressures.

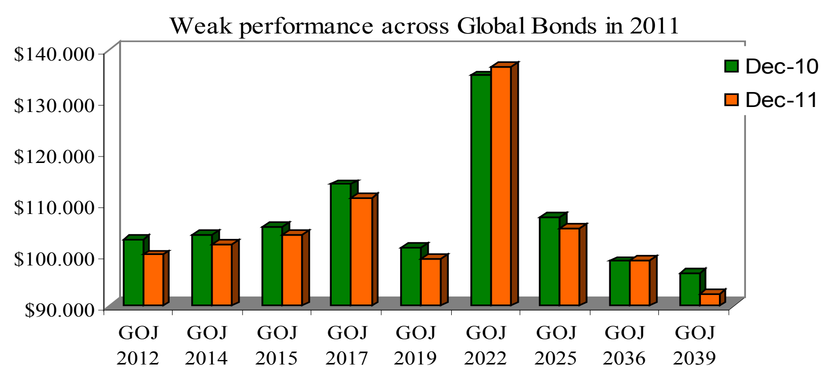
Fiscal Deficit to GDP likely to be missed for the 2011/12 fiscal year....

In a new IMF agreement however, we suspect measures aimed directly at reducing the debt burden which is approximately 130% of GDP. Further, the divestment of Clarendon Alumina Plant is said to be in the final stages, which should lead to improved fiscal flexibility when completed. In addition, the government appears intent on pushing through with tax reform which was one of the recommended structural reforms under the IMF agreement. Despite these positives, the challenges highlighted should result in the central government underperforming its target for fiscal year 2011/2012 which could end in the range of 5% to 6% of GDP.

GOJ Bonds

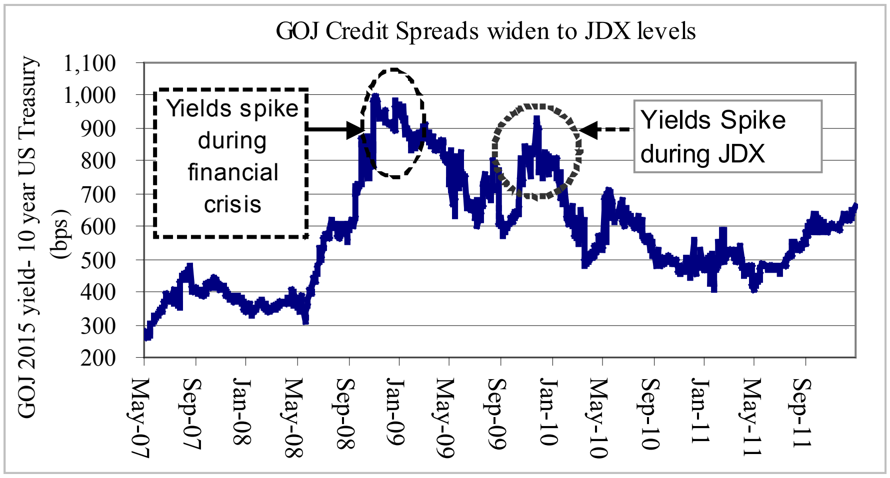
Nearly all GOJ Global bonds registered declines during the year...

In 2011, with the exception of one GOJ Global Bond, all GOJ Global bond prices fell against the background of the stalling of the IMF programme and developments in Europe which reduced appetite for emerging market debt. With the increase in uncertainty, GOJ Eurobonds experienced significant volatility, with prices falling on average just under 2% year over year.



Credit Spreads widen to Pre JDX levels

GOJ credit spreads have widened significantly over the last year due to the combined effects of the Europe debt crisis and the uncertainty regarding the state of the Standby Agreement with the IMF. Credit spreads are currently close to levels not seen since the Jamaica Debt Exchange Programme in early 2010. If the country's credit rating is downgraded, we could see spreads widen another 200 basis points to trade at spread levels (900 basis points) last seen during the JDX period.



Performance of Jamaican Eurobonds skewed to the downside over the short term

We believe that the risks for Jamaican Eurobonds are skewed to the downside in the short term until there is greater certainty with respect to the direction of the IMF Agreement and investor confidence is restored. In the interim, investors are also likely to apply a higher risk premium to GOJ debt given the inherent fiscal challenges affecting the government and the breakdown of the Standby Agreement between the government and the IMF.

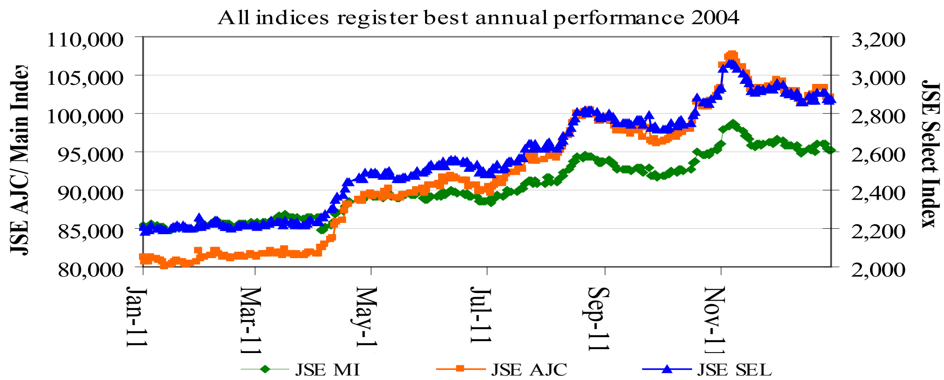
Upside potential if the IMF prgramme is quickly back on track

Further, the challenges being faced in the EuroZone may have spillover effects that limit the demand for debt of highly indebted emerging market country like Jamaica. Overseas investors are expected to continue shying away from highly indebted emerging countries until contagion fears surrounding the debt crisis are allayed and some semblance of normalcy returns to the international market. In addition, the negative outlook placed on the country's credit ratings late last year means that there could be a downgrade if the necessary fiscal adjustments are not made. At the same time, there could be some upside in GOJ bond prices, if the IMF programme gets back on track and the government maintains fiscal discipline to meet its target set for the 2012/13 fiscal year.

Stock Market

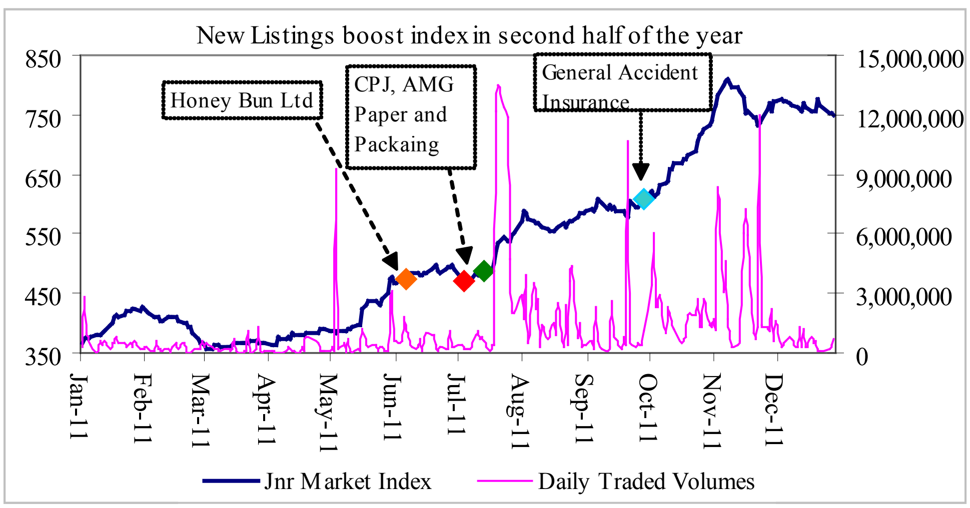
Equities recorded their best performance since 2004

The 2011 calendar year saw the local stock market recording its best annual performance since 2004. The improved performance was driven by low and stable market interest rates and, for the most part, solid corporate earnings releases. Additionally, with limited investment options available to both small and large investors, some of the excess JMD liquidity found its way into the equity market. The recovery in the local economy also helped to buoy investor sentiment. During the review period, the main JSE Index increased by 11.8% while the All Jamaica Composite Index added 26.5% and the Jamaica Select Index by an impressive 31.1%.



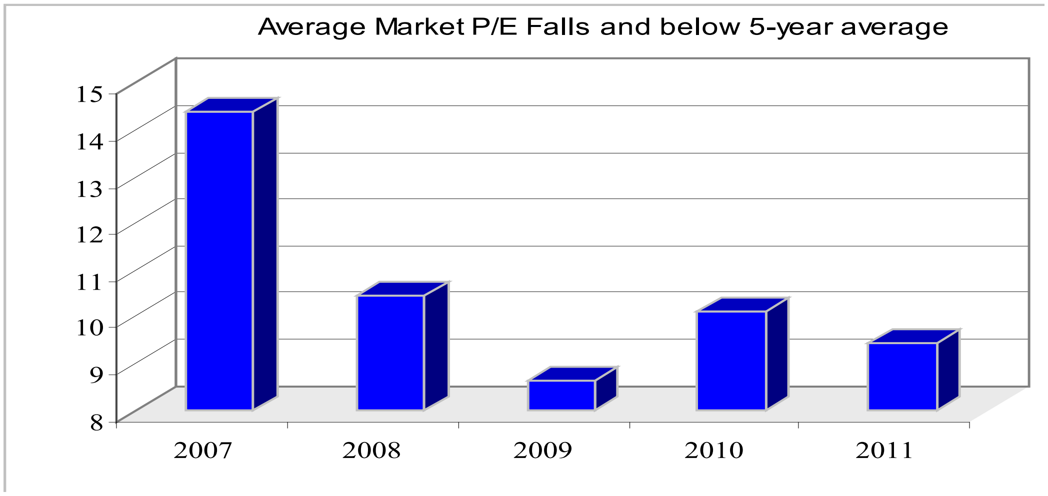
Junior Market registered an even more robust performance.....

The junior market continued the strong run seen since inception, registering a 97.1% increase over the 12 month period to December 2011. The index was, however, buoyed by the addition of four new companies in 2011 and the performance of these new additions in the latter part of the year.



Valuations still make equities on the main market an attractive investment option

Corporate earnings have historically been one of the primary drivers of stock market performance and usually a leading indicator for economic growth. Earnings growth of listed companies will likely be tempered by lingering weakness in the economy. However, the significant falloff in the prices earlier in the recession means that despite the price appreciation last year, valuations remain below pre-crisis levels. This suggests that equities are still undervalued relative to historical levels. The average Price/Earnings (P/E) ratio of the stock market as at the end of the calendar year stood at 9.4X; below its 5 year historical average of 10.6X, and considerably below P/E valuations in 2007 of 14.4X. However, with expectation of moderate earnings growth, P/E valuations should converge towards its historical average.



Our base case scenario is that the newly elected government will restore an agreement with the IMF soon after the current agreement expires in May which will help to quell some of the uncertainty in the environment. This would restore investor confidence, locally and internationally, help maintain low interest rates and stability in the local currency. The expectation is that doors for multilateral funding will be re-opened which will reduce the need for the government to tap the local market. However, we do anticipate that some austerity measures will be implemented that could keep consumer demand fairly subdued over the near term. As such, disposable incomes will likely be constrained keeping earnings growth moderate. Nevertheless, stability in the exchange rate and low interest rates will continue to lure investors into equities given the limited investment opportunities available.

We anticipate a "square root shape" trajectory in the stock market over the next twelve months...

In light of the uncertainty in the economy, the stock market will be volatile until there is clarity on the IMF agreement. However, we anticipate a "square root shape" trajectory over the next twelve months as the market is expected to dip but rebound sharply before remaining relatively flat to reflect the moderate growth in corporate earnings.

Sector Outlook

Corporate earnings should improve in the current year albeit at a slower pace than last year. The performance across the sectors should be mixed but should be sufficient to drive earnings higher than last year. Sectors that we expect to be the best performing are the conglomerates due to its diversification of business lines and the manufacturing sector followed by the Banking and Insurance sector.

Earnings growth is expected to be anemic for companies in the financial industry in the current year due primarily to the stabilization of interest rates and continued re-pricing of asset yields. With interest rates expected to remain low and stable at least over the short term (see base case scenario below), there will be less opportunity to widen spreads and to realize trading gains. Given the narrowing of spreads, net interest income for commercial banks will depend on growth in loan volumes. However, the sluggish economy could mean that banks may find it difficult to grow loan volume in the current environment despite the lowering of interest rates. Brokerage houses are also expected to face some challenges. The sovereign debt crisis has resulted in subdued bond trading activity which may temper

Failure to renegotiate an IMF agreement and higher interest rates are the biggest risks to our outlook for equities

trading gains. Trading gains have in the past been used to augment revenues in the face of falling net interest income. Although growth is expected in the Unit Trust market which has the potential to boost fee income, the manifestation in the bottom-line growth may be less visible given that fees earned on the Unit Trust product is significantly less than spreads on repurchase agreements. Given the challenges to organic growth, we expect further consolidation in the sector as companies seek inorganic growth opportunities.

Overall, we anticipate that there will be mixed results from the listed companies in the manufacturing sector. Companies will continue find top line growth to be challenging given the inherent challenges locally and overseas. However, we do anticipate continued creativity in developing new products, as it has done in the past that will meet the changing needs of consumers to help keep revenue growth steady. Additionally, these companies have been seeking to diversify their revenues outside of the main economies towards other fast growing counties to help mitigate concentration risk which could thereby allow them to be less affected by a possible downturn during the year. Nevertheless, we anticipate that improving on operational efficiencies will continue to form a major part of these companies' strategic directive to ensure that profit growth continues in the current year.

The primary risk to our outlook for the equities market is that the government fails to negotiate a new agreement with the IMF when the current agreement expires in May. If a new IMF deal is not negotiated, the risk to macroeconomic stability would increase along with interest rates. Higher rates will likely lure money out of equities into fixed income instruments causing equities to underperform. However, we see this as a very low probability event given that the new administration has stated its commitment to the low interest rate environment and has already begun discussions with the IMF.

Conclusion

Global growth is expected to face headwinds with contagion fears from the European debt crisis being the most worrying event. This could continue through the first half of the year as the uncertainty created could dampen global growth. However, we believe that European leaders will eventually devise a comprehensive strategy to resolve the situation. As such, we expect this to fizzle in the latter part of the year, thereby improving global growth prospects. In addition, further improvement in the US employment rate bodes well for a strengthening of the recovery later in 2012.

These positive developments should trickle down to the local economy. The main risk to local growth is the weak consumer demand particularly if more stringent austerity measures are implemented. There are also expected to be fiscal challenges which will be compounded by anemic demand. That said, an IMF agreement should provide the leeway to implement the measures necessary to maintain macro-economic stability while addressing the fiscal situation. Low interest rates and stability in the exchange rate are likely to persist despite the current air of uncertainty. As such, though fragile, the outlook is for the stability to persist throughout 2012.

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