CARIBBEAN ECONOMIC PERFORMANCE REPORT

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CARIBBEAN CENTRE FOR MONEY AND FINANCE

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1.0 EXECUTIVE SUMMARY

The global economy in the last year has been characterised by divergence amongst major economies and differential performances between developed and emerging economies. Overall global economic growth in 2014 was slower than expected at 3.4 per cent and global growth is now projected to slow to 3.1 per cent in 2015 before improving to 3.6 per cent in 2016. This performance was and will be underpinned by stronger growth in advanced economies but more so in the US and the UK with the Euro Area and Japan registering smaller improvements. In contrast, emerging and developing economies registered slightly slower growth of 4.6 per cent in 2014 and they are expected to slow further to four per cent in 2015 before recovering to 4.5 per cent in 2016, with Latin America and the Caribbean recording the most significant deterioration in growth.

In the current environment, risks to global growth prospects are mostly weighted on the downside and are more significant than they were just a few months ago. Risks include disruptive financial asset price shifts and financial market volatility driven by an expected interest rate hike by the US Federal Reserve at the end of 2015. Future growth in emerging and developing economies in particular can be compromised in an environment already characterised by declining commodity prices, reduced capital flows and pressure on their exchange rates. In addition, these risks include the further strengthening of the US dollar against other major currencies which implies huge challenges for portfolio management and real exchange rate appreciation along with its negative trade implications in some emerging and developing countries. Additionally, increased geopolitical risks, a sharper than expected growth deceleration in China, the possibility of stagnation in Europe and Japan and lower than expected growth in potential output are important risks to global growth prospects.

The pace of economic growth in CARICOM territories over the period Jan-June 2015 fell off considerably when compared to the corresponding period in 2014. The average regional growth rate of Caribbean economies moved from 2.25 per cent (Jan-June 2014) to 0.53 per cent (Jan-June 2015). This was driven mainly by the commodity-producing economies which experienced declines in their level of economic activity in the first half of 2015 because of the drastic drop in commodity prices and contractions in their output from primary sectors of their economies. The tourism-dependent economies experienced a minimal improvement in their economic performance due to improvements in their source markets such as the US and the UK.

In terms of some key areas of economic performance, the overall fiscal balance as a percentage of GDP for the region improved from -7.7 per cent (Jan-June 2014) to -4.1 per cent (Jan-June 2015). This improvement was driven in large part by increased tax revenues as growth improved in service-based economies. All jurisdictions, with the exception of Guyana, had overall fiscal balances that were in deficit for the period at the end of June 2015. On the external accounts, the external current account balance narrowed from a deficit of US$719.7 million at the end of June 2014 to a deficit of US$445.45 million (June 2015). The Caribbean region, although still experiencing high indebtedness in 2015, showed moderate declines in their debt to GDP ratios. The region's average domestic debt to GDP ratio moved from 32.8 per cent at June 2014 to 27.8 per cent at June 2015. The external debt level of the region was relatively static moving from US$20.9 billion in June 2014 to US$19.4 billion in June 2015.

In the current challenging international economic environment the outlook for the CARICOM region is mixed. The major forces that will drive the performance of the region include commodity price trends, a stronger US economy and related exchange and interest rate dynamics. Commodity-based producers are expected to face increased challenges as commodity prices soften while the services-based economies rebound based on improved tourism outturns and lower fuel costs. The IMF estimates that the regions will grow by approximately 2.2 per cent in 2015 improving to 2.4 per cent in 2016. Commodity producers are generally expected to post slower growth relative to service-based economies over the next two years with the former group of countries forecast to record lower growth of 1.9 per cent and 2.3 per cent in 2015 and 2016 while the latter group is expected to record growth of 2.3 per cent and 2.5 per cent over these two years.

In this context, the main objective for the region is to increase economic growth while steadily reducing macroeconomic and financial vulnerabilities. An important area for action is, therefore, to strengthen the fiscal accounts which is key to rebalancing the external accounts. The fiscal consolidation that this implies in some cases only requires increasing the efficiency of government expenditure programmes to weed out wastages without compromising the level of services provided to citizens and businesses. In other cases, however, more fundamental changes to expenditure and revenue systems are required. These are, however, necessary but not the only conditions needed for the resumption of strong sustainable growth. It also requires an improvement in competitiveness which implies a range of actions in connected areas including the improvement of the business environment, increasing labour productivity and improving the quality of public infrastructure. The region also needs to strengthen the legal and regulatory frameworks for financial risk assessment and mitigation to deal with any financial vulnerabilities which can threaten the resumption of sustainable growth in the Caribbean.

2.0 GLOBAL ECONOMIC DEVELOPMENTS

The global economy continued to grow at a modest pace with a propensity for reversals in 2015. This was reflected in the performance of the US economy for the first half of 2015 as growth fell off in the first quarter (after strong growth in the third and fourth quarters of 2014) before recovering in the second quarter. The global economy in the last year has been characterised by divergence amongst major economies and differential performances between developed and emerging economies. Overall global economic growth in 2014 was slower than expected at 3.4 per cent and global growth is now projected to slow to 3.1 per cent in 2015 before improving to 3.6 per cent in 2016.

This performance was and will be underpinned by stronger growth in advanced economies but more so in the US and the UK with the Euro Area and Japan registering smaller improvements. In contrast, emerging and developing economies registered slightly slower growth of 4.6 per cent in 2014 and they are expected to slow further to four per cent in 2015 before recovering to 4.5 per cent in 2016, with Latin America and the Caribbean recording the most significant deterioration in growth (See Table 1). The relatively muted and unbalanced nature of global growth since the international financial and economic crisis has raised concerns of a "new normal" of lower growth which implies that the moderate pace of global growth is a phenomenon that is likely to last longer than expected. The fact that there is broad-based weakness in investment around the world lends credence to this view since this not only restrains current growth but future growth as well. In addition to low investment, other factors driving this growth dynamic include high levels of indebtedness, financial sector weaknesses, low productivity growth, growth realignment in China, weaker growth in commodity-based economies and political instability.

In the current environment, risks to global growth prospects are mostly weighted on the downside and are more significant than they were just a few months ago. Risks include disruptive financial asset price shifts and financial market volatility driven by an expected interest rate hike by the US Federal Reserve at the end of 2015. Future growth in emerging and developing economies in particular can be compromised in an environment already characterised by declining commodity prices, reduced capital flows and pressure on their exchange rates. These risks include the further strengthening of the US dollar against other major currencies which implies huge challenges for portfolio management and real exchange rate appreciation along with its negative trade implications in some emerging and developing countries. Additionally, increased geopolitical risks, a sharper than expected growth deceleration in China, the possibility of stagnation in Europe and Japan and lower than expected growth in potential output are important risks to global growth prospects.

The forces driving the performance of the global economy have become increasingly complex with structural challenges and potential risks entrenching asymmetries and creating a mixed bag of winners and losers. This often serves to frustrate international policy coordination which is critical to successfully confronting the myriad challenges facing the global economy.

Table 1: GLOBAL ECONOMIC GROWTH

Country/Region	2013	2014	2015	2016
World	**3.3**	**3.4**	**3.1**	**3.6**
Advanced economies	**1.1**	**1.8**	**2.0**	**2.2**
USA	*1.5*	*2.4*	*2.6*	*2.8*
Japan	*1.6*	*-0.1*	*0.6*	*1.0*
Canada	*2.0*	*2.4*	*1.0*	*1.7*
UK	*1.7*	*3.0*	*2.5*	*2.2*
Euro area	**-0.3**	**0.9**	**1.5**	**1.6**
Emerging market and developing economies	**5.0**	**4.6**	**4.0**	**4.5**
Russia	*1.3*	*0.6*	*-3.8*	*-0.6*
Emerging and developing Asia	**7.0**	**6.8**	**6.5**	**6.4**
China	*7.7*	*7.3*	*6.8*	*6.3*
India	*6.9*	*7.3*	*7.3*	*7.5*
Latin America and the Caribbean	**2.9**	**1.3**	**-0.3**	**0.8**
Brazil	*2.7*	*0.1*	*-3.0*	*-1.0*
Middle East and North Africa	**2.3**	**2.7**	**2.5**	**3.9**

Source: International Monetary Fund, World Economic Outlook Database, October 2015

The strength of the labour market is a very important barometer of the durability of the recovery. Unemployment has declined in some advanced economies but has remained stubbornly high in the Euro Area reflecting the substantial output gaps in that region that still exist in spite of improved growth. Unemployment levels are expected to continue falling in 2015 and 2016 (See Table 2).

Table 2: UNEMPLOYMENT RATES IN ADVANCED ECONOMIES

Year	Canada	Germany	Japan	Korea	Singapore	UK	US	Advanced Economies	Euro Area
2013	7.1	5.2	4.0	3.1	1.9	7.6	7.4	7.9	12.0
2014	6.9	5.0	3.6	3.5	2.0	6.2	6.2	7.3	11.6
2015	6.8	4.7	3.5	3.7	2.0	5.6	5.3	-	11.0
2016	6.8	4.7	3.5	3.5	2.0	5.5	4.9	-	10.5

Source: World Economic Outlook Dataset, October 2015, IMF.

Private consumption has improved in developed economies with the exception of Japan in 2014, reflecting better growth performance, improving labour markets and lower oil prices. Consumer expenditure, which is central to growth dynamics in developed markets, is generally expected to increase further in 2015 with the exception of Canada. Private consumption is expected to register further increases in advanced economies with Japan also recording an improvement but with European countries experiencing some deterioration in 2016. (See Table 3).

Table 3: CONSUMER EXPENDITURE GROWTH IN ADVANCED ECONOMIES

Year	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Germany
2013	1.4	2.4	2.1	-0.7	2.5	1.7	0.9
2014	1.7	2.5	-1.2	1.0	2.7	2.0	1.2
2015	2.3	3.2	-0.5	1.8	2.3	3.1	1.8
2016	2.7	3.5	2.2	1.5	2.8	2.6	1.4

Source: World Economic Outlook Dataset, October 2015, IMF.

Inflationary trends in developed markets were generally subdued in 2015. This is based on relatively large output gaps in many countries and lower oil prices. In emerging and developing countries as a group, however, inflation has risen primarily because of significant exchange rate depreciations especially in Latin America. Inflationary trends are expected to increase in developed economies in 2016 as output gaps close whereas in emerging and developing economies inflation is expected to subside a little as exchange rate pressure eases (see Table 4).

Table 4: GLOBAL INFLATION RATES

	Advanced Economies	USA	Japan	Euro Area	Canada	UK	Emerging Economies	LAC	China	India
2013	1.4	1.5	0.4	1.3	1.0	2.6	5.8	6.7	2.6	10.0
2014	1.4	1.6	2.7	0.4	1.9	1.5	5.1	7.9	2.0	5.9
2015	0.3	0.1	0.7	0.2	1.0	0.1	5.6	11.2	1.5	5.4
2016	1.2	1.1	0.4	1.0	1.6	1.5	5.1	10.7	1.8	5.5

Source: World Economic Outlook Dataset, October 2015, IMF.

The strengthening US dollar and the related volatility in exchange rates have increased tensions in the market and exposed some emerging and developing countries to market and liquidity risks. The potential for liquidity problems to occur especially in countries with high external funding requirements in this tighter funding environment is now a major risk for some emerging market economies. This could set the stage for sudden reversals in capital flows and the attendant crisis in capital and currency markets in some emerging and developing economies. Indeed, this has already happened in some emerging markets.

Overall trade volumes is expected to fall slightly in 2015 and pick up in 2016 following the global growth cycle. The sharp drop in trade in terms of value is in large part because of commodity price trends with commodity prices expected to fall in 2015 but to rise again in 2016 (see Table 5).

Table 5: WORLD TRADE AND PRICES (% Change)

Year	2009	2010	2011	2012	2013	2014	2015	2016
World Trade Volume	-10.3	12.5	6.7	2.9	3.3	3.3	3.2	4.1
World Trade in US dollars Price Deflators	-10.5	5.7	11.2	-1.7	-0.6	-1.8	-12.1	-0.5
Volume of Exports in advanced economies	-11.2	12.1	5.9	2.2	2.9	3.4	3.1	3.4
Volume of Exports in Emerging and developing economies	-8.0	13.6	7.6	4.5	4.4	2.9	3.9	4.8

Source: World Economic Outlook Dataset, October 2015, IMF.

Commodity prices have broadly tracked the trajectory in the global economy with prices softening due to decreased demand from important emerging markets, most notable China. The fact that oil prices have fallen more sharply than other commodities suggests that factors idiosyncratic to the oil market are at play. In particular, improvement in supply from non-OPEC countries, the maintenance of supply volumes by OPEC in the face of decreased demand, increased energy efficiency and the appreciation of the US dollar against major currencies have all helped to drive prices lower (See Table 6). This softness in energy prices continued unabated in spite of significant geopolitical risks in the Middle East, North Africa and Russia.

Oil and natural gas prices have softened considerably so far in 2015. Oil prices are expected to remain muted for the rest of 2015 and into 2016 but gas prices are expected to pick up from current levels but remain below 2014 prices for the next two years.

Table 6: SELECTED COMMODITY PRICES

Commodity	Actual				Forecast	
	J-D 2012	J-D 2013	J-D 2014	Latest Oct. 2015	J-D 2015	J-D 2016
Crude Oil – average $/bbl	105.0	104.1	96.2	47.8	52.5	51.4
Natural Gas US - $/mmbtu	2.8	3.7	4.4	2.3	2.8	3.0
Aluminium - $/mt	2023	1847	1867	1516	1700	1650
Rice Thai 5% - $/mt	563.0	505.9	422.8	373.0	385.0	387.4
Sugar (World) - $/kg	0.47	0.39	0.37	0.31	0.29	0.29
Bananas (US) - $/kg	0.98	0.92	0.93	0.93	0.97	0.96

Source: Commodity Price Pink Sheet, June 2015 and Commodity Price forecast November 2015, World Bank

In terms of other important commodities, the prognosis is generally the same with only banana prices expected to increase over the 2014 levels.

Despite serious concerns about the global economy, the international tourism industry continues to show resilience and is one of the few sectors growing strongly. The United Nations World Tourism Organisation (UNWTO) estimates that international tourism accounts for 30 per cent and six per cent of the world's export of services and goods and services respectively. Moreover, as a worldwide export category, international tourism is ranked fourth after fuels, chemicals and foods. Very importantly, it ranked first in many developing countries.

UNWTO indicates that international tourist arrivals increased by 4.3 per cent to reach 810 million visitors in the first eight months of 2015, 33 million more visitors than the same period in 2014. Growth in tourist arrivals in the first half on 2015 was on average 5.2 per cent higher than the corresponding period in 2014. This growth in the international tourism industry above the historical average of four per cent in an environment of moderate and uneven global growth and geopolitical problems in Ukraine, the Middle East and North Africa highlights the resilience of this sector.

In terms of the regional distribution of tourist arrivals, advanced economies (4.5%) grew at a faster pace than emerging economies (3.9%) in the first half of 2015 compared to the same period in 2014. This robust performance by advanced economies was driven by strong performances by Europe (5.2%) which benefitted from a weaker currency. In other regions Asia and the Pacific grew by 4.7 percent while the Americas grew by 4.2 per cent. The strongest performance in 2015 so far was the Caribbean region which grew by 7.1 percent while arrivals in both North Africa and the Middle East suffered because of political crisis and civil wars.

Table 7: International Tourist Arrivals

Country/Region	Percent Change Arrivals		Percent Change Arrivals	
	13/12	14/13	QI13/QI 12	QI 14 / QI 13
Europe	**4.8**	**2.4**	**5.9**	**4.5**
Northern Europe	*2.9*	*5.4*	*4.3*	*5.4*
Western Europe	*2.8*	*2.2*	*4.1*	*3.8*
Cent. /East. Europe	*7.5*	*-5.9*	*8.6*	*5.5*
South./Med. Europe	*5.6*	*6.9*	*6.5*	*4.1*
Asia and the Pacific	**6.9**	**5.7**	**4.2**	**5.1**
North-East Asia	*3.4*	*7.2*	*4.5*	*4.6*
South-East Asia	*11.3*	*3.0*	*3.3*	*6.0*
Oceania	*4.6*	*6.0*	*8.5*	*5.5*
South Asia	*12.0*	*10.4*	*3.6*	*3.3*
Americas	**3.1**	**8.4**	**4.8**	**3.6**
North America	*3.6*	*9.5*	*3.4*	*3.5*
Caribbean	*2.8*	*6.1*	*7.7*	*6.4*
Central America	*2.6*	*5.6*	*6.8*	*6.1*
South America	*1.5*	*6.8*	*6.4*	*0.9*
Africa	**4.7**	**1.8**	**-4.9**	**-7.4**
North Africa	*6.0*	*-1.8*	*-5.3*	*-12.9*
Sub-Saharan Africa	*4.0*	*3.9*	*-4.8*	*-4.0*
Middle East	**-2.9**	**6.2**	**9.2**	**1.1**
Advanced Economies	**4.6**	**5.7**	**4.5**	**4.6**
Emerging Economies	**4.6**	**2.5**	**5.1**	**2.8**
World	**4.6**	**4.2**	**4.8**	**3.8**

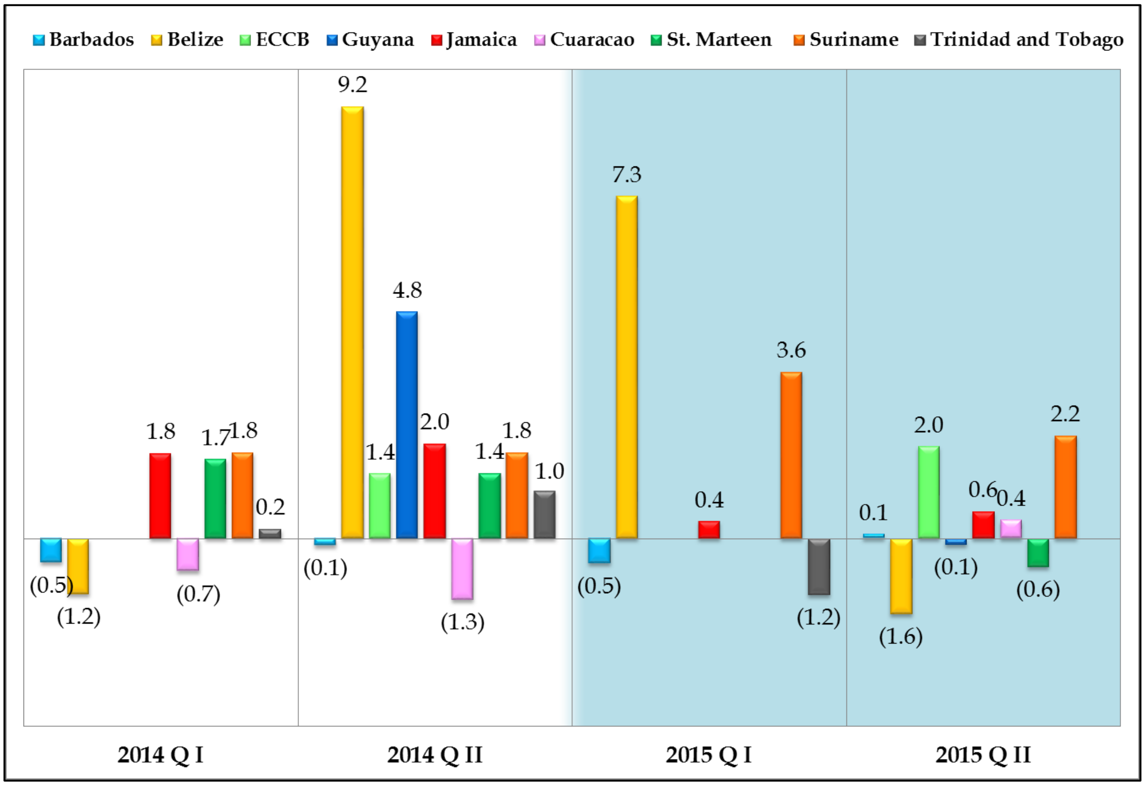
Source: UNWTO World Tourism Barometer Volume 13, October 2015

The outlook for the tourism industry in 2015 is for growth of between three and four per cent. An important trend to note is that exchange rate developments are having considerable impacts on the pattern of tourism demand with outbound travel from the US increasing as the dollar strengthened. Europe has benefitted from a weaker currency as inbound tourism increased strongly. This implies that countries that are pegged to the US dollar have to be wary of losing market shares because of this dynamic. The increasing competition from new destinations also implies that mature destinations have to improve their competitiveness if they want to increase market share. Factors such as complicated visa procedures, direct taxation of tourism activity and limited connectivity have been identified as some of the major impediments to growth in tourism.

3.0 REGIONAL ECONOMIC PERFORMANCE

3.1 ECONOMIC GROWTH

Figure 1: Real GDP Growth Rate of CARICOM Economies



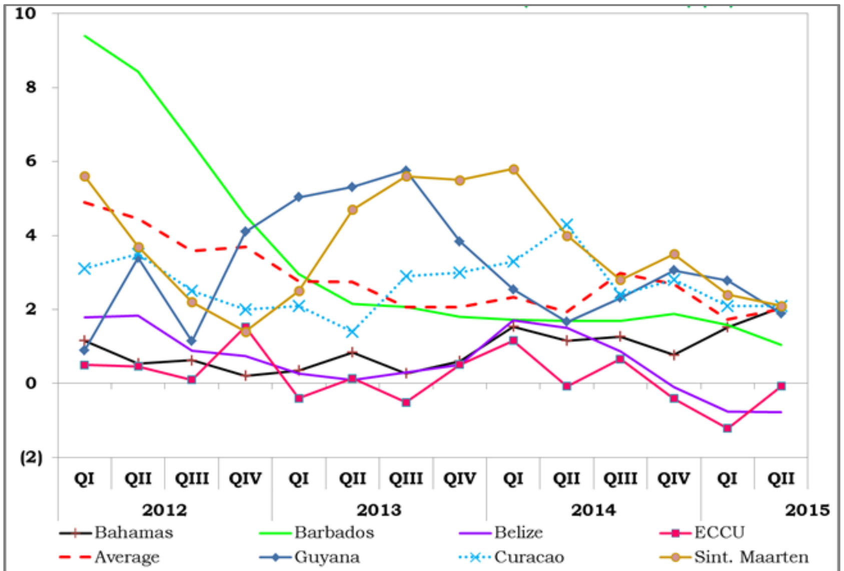
The economic activities of the CARICOM region slowed down considerably in 2015, to a regional average of 0.37 per cent at the end June 2015. This represents a 1.89 percentage point decline from its 2.25 per cent reported for the same time period in 2014. The growth in CARICOM economies occurred unevenly in the first half of 2015. Comparing their growth rates in real GDP from June 2014 to June 2015 it was found that the economies reported either minimal increases or significant declines in their levels of economic activities.

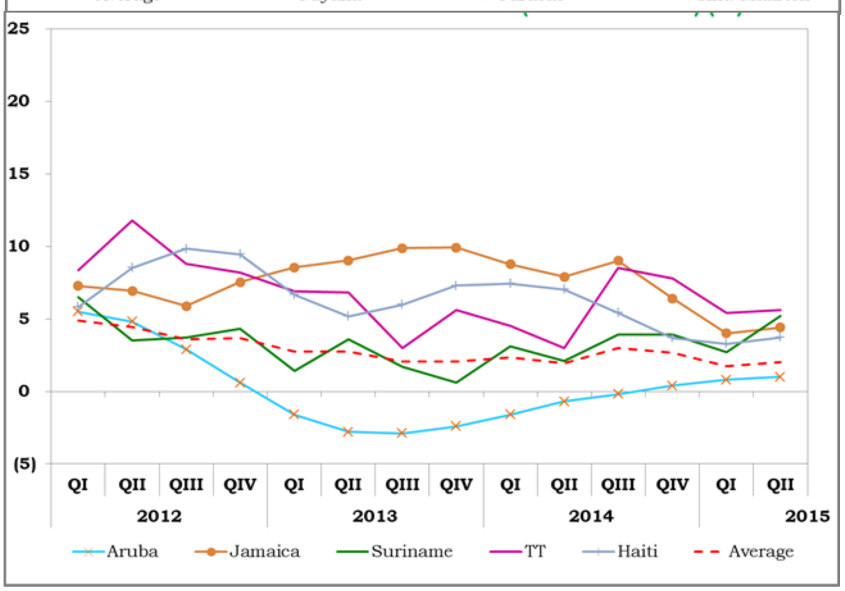
The minimal increases in real GDP ranged from 0.23 percentage points (Barbados) to 0.36 (Suriname). For the economies of Aruba, Bahamas Barbados, ECCU and Curacao, moderate growth increases were a result of improvements in tourism that continued from 2014, as well as Foreign Direct Investment (FDI). Suriname's growth was driven by construction, wholesale and retail trade and fishery.

Notable declines in real GDP ranged from 1.4 percentage points (Jamaica) to 10.8 percentage points (Belize). In both Belize and Guyana the contraction in economic activities in the first half of 2015 was a result of lower levels of production from their primary sectors, while in Jamaica it was due to the impact of drought conditions during the first half of 2015 on its sectors such as Agriculture, Forestry & Fishing and Electricity & Water Supply. Trinidad and Tobago's economy also contracted in 2015, having reported a negative 1.2 per cent growth in real GDP for March 2015; this stemmed from a contraction in its energy sector output.

3.2 Inflation

Figure 2 A: CARICOM Inflation Rates (point to point) (%)





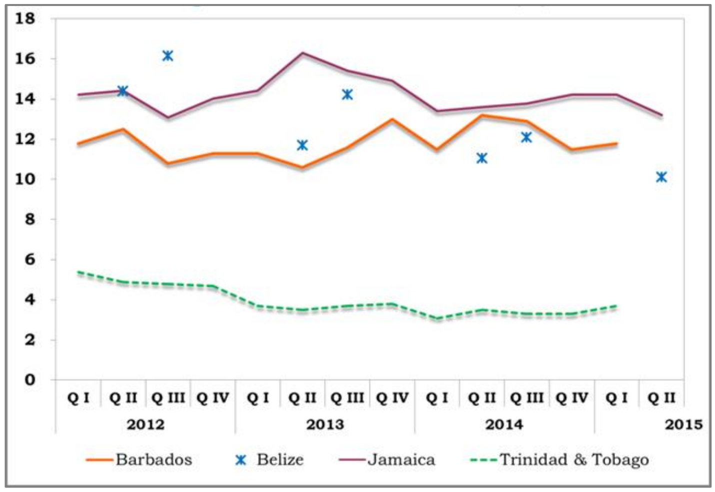
Inflationary pressures in the CARICOM region for the period Jan-June 2015 were relatively low. The average rate of inflation for the region was 2.02 per cent (June 2015) a small increase when compared to 1.93 per cent reported for June 2014.

Five economies reported increases in their inflation rates for the review period, but these increases were very moderate, ranging from 0.89 percentage point (The Bahamas) to 4.23 (Haiti). Increases in inflationary pressures in Haiti, Suriname and Trinidad and Tobago for the period Jan-June 2015 were due to increases in domestic food prices.

Lower prices internationally for oil and food were the reason for the lower inflation rates reported in Barbados, Belize, Curacao and Sint Maarten, ECCU, Guyana and Jamaica.

3.3 LABOUR MARKETS

Figure 3: Unemployment Rate (%)



Employment opportunities in the CARICOM region continue to be troubled by the slow-paced recovery of its member economies. Limited data on employment trends were available for first half of 2015.

Belize's unemployment rate continued to trend downward, declining by one percentage point in April 2015 to 10.1 per cent from the 11.1 per cent recorded in April 2014. The job gains were in the service industries. In the Bahamas, the unemployment rate was 12 per cent at end-May compared to 15.7 per cent in the preceding six month period.

The unemployment rate in Jamaica moderated to 13.2 per cent as at April 2015 from the 13.6 per cent as at April 2014. The decline in unemployment rate reflected a decline in the labour force of 0.8 per cent which outweighed the fall in employment of 0.3 per cent. Lower employment was primarily recorded in Agriculture, Distribution and Manufacturing.

At June 2015, Trinidad and Tobago's unemployment rate was 3.6 per cent, a very minimal increase when compared to 3.5 per cent reported at June 2014. The increase in the unemployment rate was mainly on account of a decline in the number of individuals with jobs when compared to the corresponding period in 2014.

Guyana's total public sector employment increased by 1.2 percent from December-2014 to June-2015. This position reflected a 3.1 percent expansion of employment within the core civil services as employment in public corporations declined by 0.3 per cent on account of the 0.7 per cent reduction in Guyana Sugar Corporation's recruitment.

Preliminary estimates indicated a deceleration in private sector employment due to the reduction in activities primarily in the construction and mining industries.

3.4 Fiscal Accounts

3.4.1 Current Fiscal Accounts

The current fiscal accounts for the CARICOM economies in 2015 were in deficit for eight economies, while the other four economies had fiscal accounts in surplus for March/June 2015 compared to their balances to March/June 2014.

Table 8 - Current Fiscal Balance (Millions of National Currency)

	2014		2015		Percent Changes	
	Q I	Q II	Q I	Q II	2014QI /2015QI	2014 QII/2015 QII
Aruba	(61.7)	54.5	(57.8)	-	(6.4)	-
Bahamas	3.2	(46.9)	75.1	40.8	2311.3	187.0
Barbados	(197.3)	(173.4)	(21.1)	(185.4)	(89.3)	6.9
Belize	9.60	60.1	37.0	-	285.3	-
ECCU	49.3	106.3	191.5	47.6	288.6	(55.3)
Guyana	9701.6	10555.9	10279.8	12904.3	6.0	22.3
Haiti	5035.2	3279.0	(4417.1)	(1661.0)	(12.3)	(49.3)
Jamaica	34233.0	(5609.0)	22535.4	(1269.4)	34.2	(77.4)
Curacao	95.9	(60.1)	132.9	(86.4)	38.6	43.76
St. Maarten	31.4	(15.1)	38.2	(12.5)	21.8	(17.5)
Suriname	54.6	94.3	(326.3)	(36.9)	(697.4)	(139.1)
Trinidad & Tobago	(2490.6)	2951.7	731.8	(1079.2)	(129.4)	(136.6)

Source: National Central Banks for Caribbean Countries

Aruba and Belize only had data available to March 2015, and the two economies experienced favourable improvements in their current fiscal balance in the March quarter when compared to their first quarter fiscal balance in 2014.

The Bahamas had an exceptional increase having moved from a current fiscal deficit of B$ 46.9 million at the end of June 2014 to a surplus of B$40.8 million; the main reason being the increase in revenue was due to Value Added Tax. Guyana, Haiti, Jamaica and Sint Maarten also had improvements in their current fiscal balance for the first half 2015.

In all three case the improvements in their current fiscal accounts was on account of increases in their current revenue and lower current expenditure for the review period.

At the end of June 2015 the current fiscal accounts for Barbados, Curacao, Suriname and Trinidad and Tobago had declines compared to their June 2014 account balances. The deterioration was significant for Suriname and Trinidad and Tobago moving from a current account fiscal surplus balance in June 2014 to a deficit balance in June 2015. Suriname's deficit was due to a significant decline in revenue from the mining sector due to the unfavorable low commodity prices.

3.4.2 Overall Fiscal Accounts

Table 9 - Overall Fiscal Balance (Millions of National Currency)

	2014		2015		Percent Change	
	Q I	Q II	Q I	Q II	2014QI /2015QI	2014 QII/2015 QII
Aruba	(73.91)	(71.18)	(57.83)	-	21.7	-
Bahamas	(49.43)	(100.11)	856.0	(130.39)	(117.3)	30.3
Barbados	(275.4)	(200.4)	(112.3)	(220.5)	(59.2)	10.0
Belize	(31.9)	32.4	(63.2)	-	98.4	-
ECCU	(38.1)	(7.3)	73.6	(16.1)	(293.1)	121.6
Guyana	5902.1	(1677.9)	6673.4	7924.6	13.1	(572.3)
Haiti	(6377.7)	(6947.4)	-	(10100.0)	-	45.4
Jamaica	21355.3	(13726.7)	18238.6	(10312.7)	(14.6)	(24.9)
Curacao	93.5	181.6	371.0	(105.9)	296.8	(158.3)
St. Maarten	32.0	106.6	39.8	(1.6)	24.5	(101.5)
Suriname	(94.4)	(340.2)	(330.6)	(326.4)	250.3	(4.1)
Trinidad & Tobago	(3903.4)	1720.0	(281.0)	(1358.3)	(92.8)	(179.0)

Source: National Central Banks for Caribbean Countries

The Bahamas and Guyana are the only economies to have positive overall fiscal balances in the first half of 2015; all other economies had negative balances. Five economies reported improvements in their overall fiscal balance. Aruba only had data till March 2015 and Aruba's overall fiscal balance, although still in deficit, was lower by 21.7 per cent when compared to the March 2014 deficit. The Bahamas' overall fiscal balance deficit at June 2014 worsened by 30.3 per cent by the end of June 2015. Guyana, Jamaica and Suriname, although still having deficits in June 2015, reported improvements in overall fiscal balance when compared to balances at June 2014. Increases in revenue due to improved collection of taxes were the main contributor to Guyana and Jamaica's favourable improvements in their overall fiscal deficits.

However the economies of Barbados, ECCU, Haiti and Trinidad and Tobago experienced deteriorations in their overall fiscal balance at June 2015 when compared to June 2014; and Belize was for the period March 2014 to March 2015. The most significant deterioration in overall fiscal balances was in Trinidad and Tobago, the main reason being lower revenue from the energy sector.

3.5 BANKING AND FINANCE

3.5.1 Interest Rates

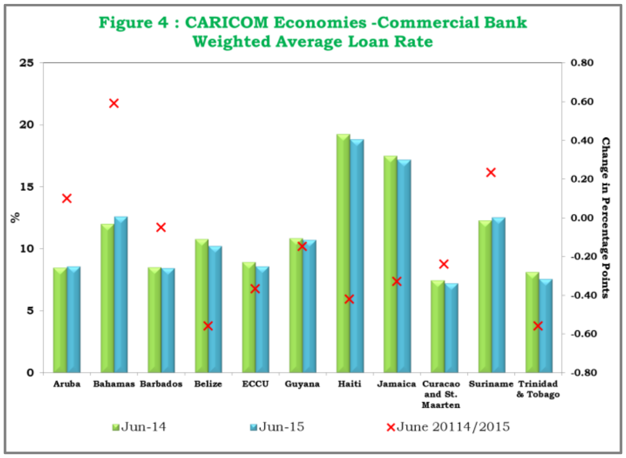


Figure 4 : CARICOM Economies -Commercial Bank Weighted Average Loan Rate

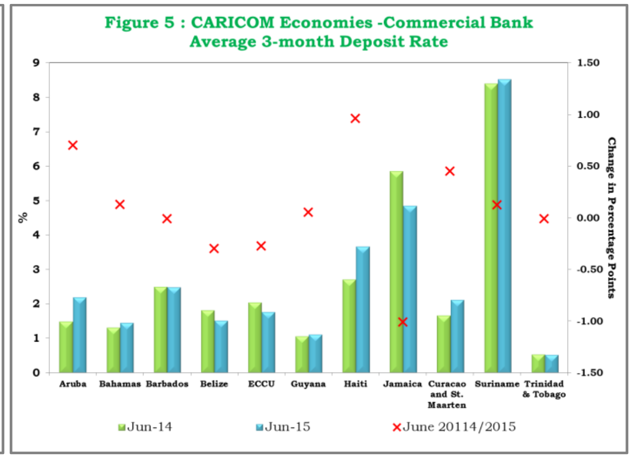


Figure 5 : CARICOM Economies -Commercial Bank Average 3-month Deposit Rate

Commercial bank loan rates remained relatively unchanged from June 2014 to June 2015. The percentage point differences between the two time periods for all the CARICOM economies were minimal increase or decrease, ranging from 0.8 to -0.8 (Figure 4) .

The deposit rates of the commercial banks remained relatively low in 2014, with minimal changes in all economies of less than one percentage point (Figure 5). Aruba, Guyana, Haiti, Curacao & Sint Maarten and Suriname had increases in their deposit rates at June 2015, compared to June 2014.

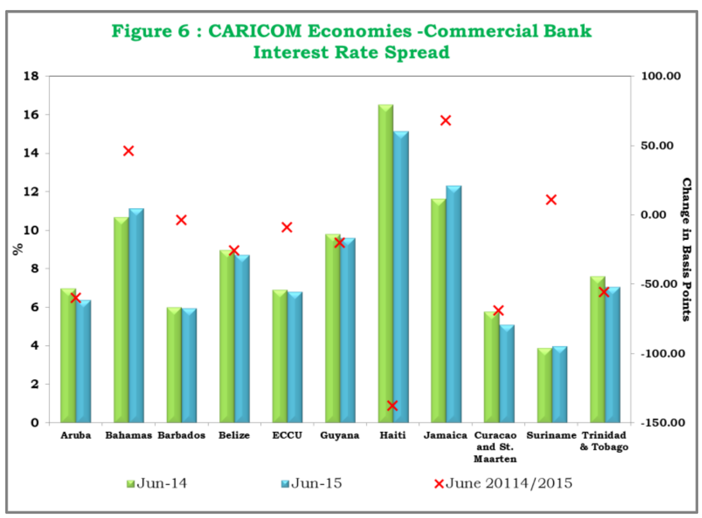
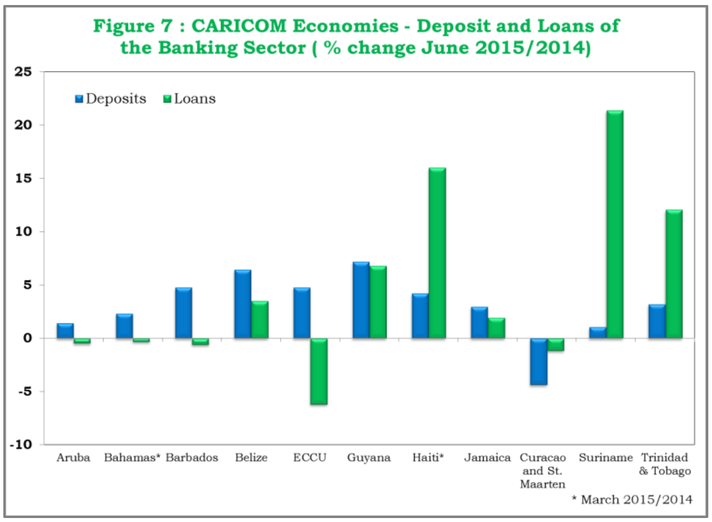


Figure 6 : CARICOM Economies -Commercial Bank Interest Rate Spread

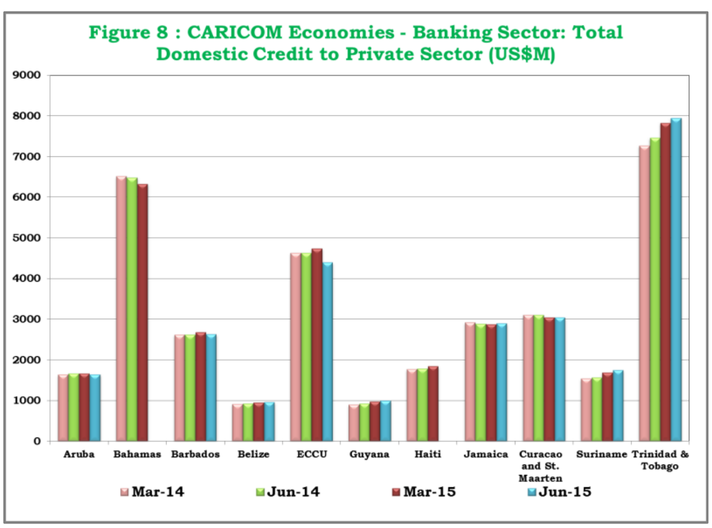
The interest rate spread of commercial banks narrowed in June 2015 when compared to June 2014 in most of the CARICOM economies (Figure 6). The decline in interest rate spreads ranged from four basis points (Barbados) to 138 basis points (Haiti). The increase in commercial banks deposit rates was the reason for the narrowing of interest rate spreads in these economies. However the economies of The Bahamas, Jamaica and Suriname experienced a widening in their interest rate spread ranging from 10.6 basis points to 68.1 basis points.

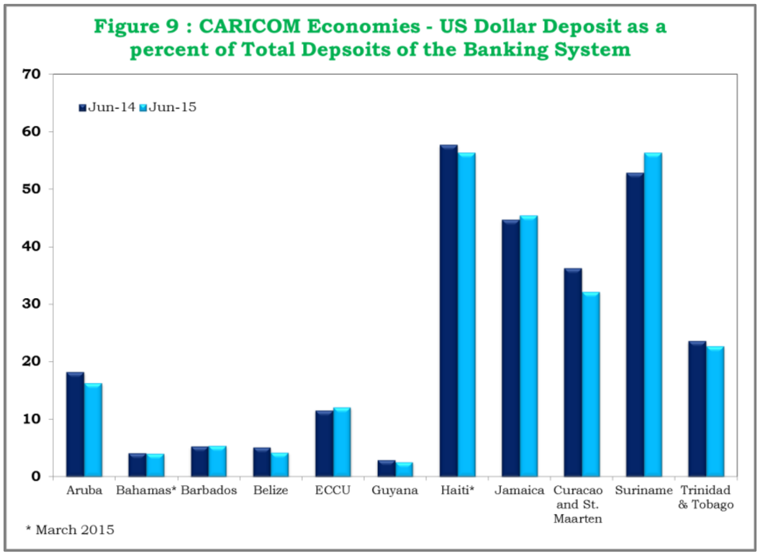
3.5.2 Commercial Bank Performance



The high liquidity that has been a defining characteristic of the CARICOM financial systems since 2010 finally showed signs of subsiding in the first half of 2015. At the end of June 2015 lending by the banking sector increased in six economies, ranging from 1.91 per cent (Jamaica) to 21.38 per cent (Suriname).

Domestic credit by commercial banks to the private sector increased during the review period of June 2014 to June 2015 in Barbados, Belize, Guyana, Haiti, Jamaica, Suriname and Trinidad and Tobago. The per cent increases ranged from 0.65 per cent (Barbados) to 11.9 per cent (Suriname). This growth of 11.9 per cent in Suriname was entirely due to higher SRD-denominated loans and was particularly noticeable in the trade, services, and industrial sectors. Lower levels of private sector lending were reported for the economies of Aruba, The Bahamas, ECCU and Curacao and Sint Maarten due to declines in lending to business and consumers.

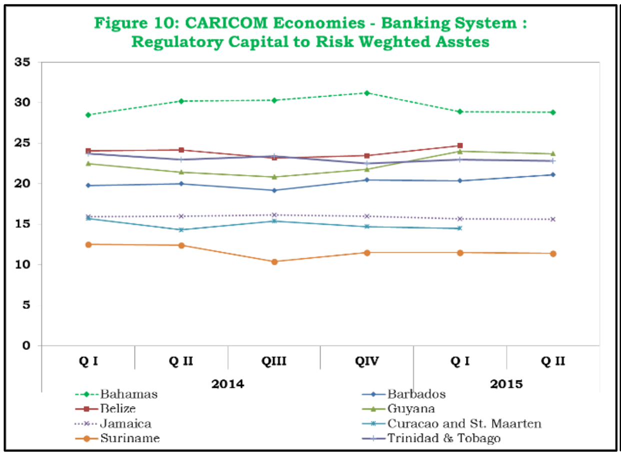


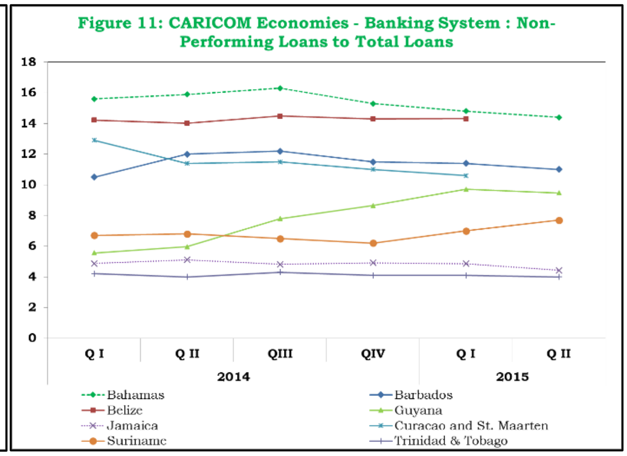


All economies except Curacao and Sint Maarten experienced increases in their deposit in the banking sector for the first half of 2015, in comparison to its deposits at the same time in 2014. The increases ranged from 1.04 per cent (Suriname) to 6.49 per cent (Belize). US dollar deposits in the banking system increased in Barbados, ECCU, Jamaica and Suriname at June 2015, the increases ranging from 4.63 per cent (Jamaica) to 9.32 per cent (ECCU). In the ECCU the increase in US dollar deposits stemmed from an in increase in private sector demand deposits and EC dollar cheques and drafts issued. However notable decreases were experienced in US dollar deposits at June 2015, in comparison to the amount in the banking systems at June 2014. Declines were reported for Aruba (9.10%), Bahamas (16.8%), Belize (11.1%), Guyana (5.23%), Curacao and Sint Maarten (15.26%) and Trinidad and Tobago (0.59%). In Curacao and Sint Maarten the decrease in US dollar deposit was due to a decrease in both demand (-11.7%) and time deposits (-15.5%).

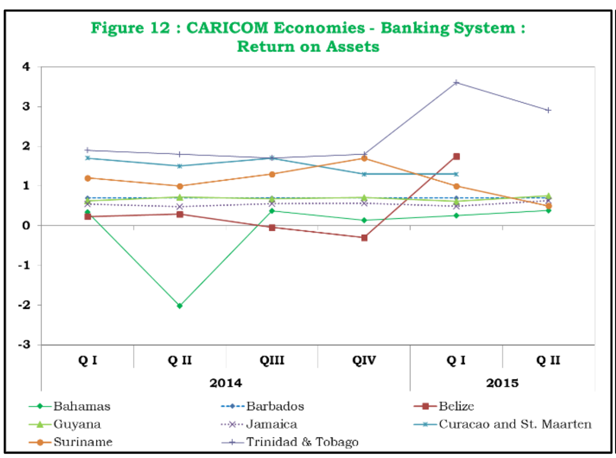
3.5.3 Financial Soundness Indicators – Banking System

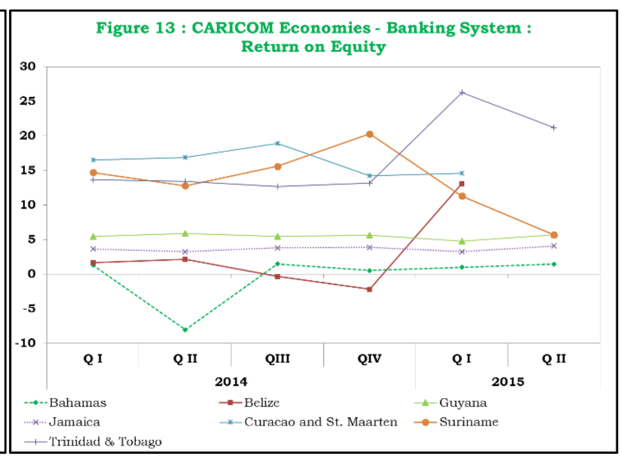
The banking sector remained well capitalized in the first half of 2015, the capital adequacy ratios for the six reporting economies were above the stipulated eight per cent. In Jamaica and Suriname the CAR decline minimally when compared to the June 2014 ratio.





Non-performing loans to total loans ratio in the banking system was mixed for the six reporting economies. Lower NPL ratios were reported in Barbados, The Bahamas and Jamaica at the end of June 2015, compared to their NPL ratios at the end of June 2014. However Belize, Guyana and Suriname had increases in their NPL ratios for the same review period. Trinidad and Tobago's NPL ratio remained relatively unchanged.





The profitability of the CARICOM banking system improved moderately in the first half of 2015 compared to the same period in 2014. Both the return on asset and return on equity ratios reported minimal, and in some cases moderate, increases over the review period. Increases in their return on assets ratio was experienced by Belize, Guyana, The Bahamas,Jamaica and Trinidad and Tobago, while Belize, Jamaica and Trinidad and Tobago also reported increases in their return on equity ratios. However, Guyana reported a decline in its return on equity. Declines in banking system profitability were experienced by Suriname which had a significantly lower return on assets and return on equity ratios in June 2015, compared to it June 2014 ratios.

3.6 PUBLIC DEBT

The CARICOM economies' debt issues continued into 2015. At the end of the first half of 2015 all economies had experienced increases in their overall debt.

Table 10 : CARICOM Economies Debt Outstanding

Country	Domestic Debt Outstanding (National Currency $M)		Domestic Debt Outstanding (% Change 2015 QII /2014 QII)	External Debt Outstanding (US$M)		External Debt Outstanding (% Change 2015 QII /2014 QII)
	2014 Q II	2015 QII		2014 QII	2015 QII	
Bahamas	3670.7	4044.7	10.9	1487.8	1609.7	8.3
Barbados	5472.6	6125.5	11.9	1455.8	1397.2	(4.0)
Belize	379.8	409.3	7.8	1093.9	1157.8	5.8
ECCU	6224.1	5778.0	(7.1)	2657.3	2613.0	(1.7)
Guyana	87298.8	75867.8	(13.1)	1226.6	1220.0	(0.5)
Haiti	1020.1	977.9	(4.1)	1562.4*	1938.9*	24.1*
Jamaica	1031923.1	1058106.0	2.5	8327.3	8284.6	(0.5)
Curacao	109.5	120.1	9.7	1094.2	1231.3	12.5
Sint Maarten	140.6	111.3	(20.8)	263.1	280.0	6.44
Suriname	1459.3	2168.1	48.5	769.4	884.6	14.9
Trinidad and Tobago	28267.4	30733.7	8.7	2272.0	2259.2	(0.6)

Source : National Central Banks for Caribbean Countries ; *: Represents Data at the end of March

The domestic debt outstanding in the ECCU, Guyana, Haiti and Sint Maarten experienced a reduction in June 2015 compared to June 2014. The decline in domestic debt was notable in Guyana and Sint Maarten. Guyana's decline of 13.1 per cent reflected a contraction in the stock of outstanding government treasury bills.

The other economies, with the exception of Suriname, all had increases in their domestic debt levels that ranged from 2.5 per cent (Jamaica) to 11.9 per cent (Barbados). Suriname's June 2015 domestic debt compared to its June 2014 level, increased by a very significant 48.5 per cent, this was due to increased borrowing by the government from the Central Bank and private domestic banks to finance its fiscal deficit.

The external debt increases ranged from 5.8 per cent (Belize) to 14.9 per cent (Suriname). Suriname's external debt increase was due to new concessional loans with multilateral organizations. Data on the external debt outstanding was only available to March 2015 for Haiti, its external debt outstanding for this period compared to its March 2014 level increased by a considerable 24.1 per cent.

3.7 INTERNATIONAL TRADE

3.7.1 External Current Account

The trade sector of the CARICOM economies for which data was available, showed that they continue to underperform in the first half of 2015. Barbados, Belize, Guyana, Jamaica, Curacao and Suriname all experienced a negative balance of trade at June 2015. Trinidad and Tobago only had trade data available to March 2015; their balance of trade was in surplus.

Table 11 - External Current Account (US$M)

	2014 Q I	2014 Q II	2015 Q I	2015 Q II	Percent Change 2015 QII/2014QII
Aruba	56.31	-71.0	-	-	-
Bahamas	-324.4	-354.6	-334.6	-176.0	-50.3
Barbados	-60.3	-177.8	15.8	--144.0	-19.0
Belize	-4.8	-9.7	-4.8	-9.7	0.0
Guyana	-116.7	-97.9	-77.5	-43.8	-55.3
Jamaica	-127.1	-270.8	40.7	-85.5	-68.4
Curacao *	-99.2	-21.8	-47.2	-	-52.5*
St. Maarten	14.4	-1.2	-	-	-
Suriname	-55.2	-89.5	-164.4	-168.5	88.3
Trinidad & Tobago*	-355.0	344.9	19.7	-	-105.5*

Source: National Central Banks for Caribbean Countries ; *: Represent 2015 QI/2014 QI

The performance of the economies' external current accounts was mixed for the first half of 2015 compared to the performance in the first half of 2014. Three of the economies – Barbados, Guyana and Jamaica - reported improvements in their current account balances while Suriname reported a deterioration and Belize had no change. The most notable contractions in current account balance for the review period were in Guyana and Jamaica. The contraction of 55.3 per cent in Guyana's external current account was on account of a lower balance of trade deficit and lower net payments for services. Jamaica's contraction of 68.4 per cent in its current account reflected improvements on all sub-accounts. However Suriname experienced an 88.3 per cent increase in its current account balance at June 2015 in comparison to it June 2014 balance. This was because the goods account recorded a deficit in the first half of 2015 compared to a surplus in the first half of 2014. Exports of goods fell by 15 per cent, primarily driven by gold and oil, while imports of goods rose by eight per cent, in particular the imports of capital goods by the mining sector due to the construction of the new gold mine.

Curacao and Trinidad and Tobago also experienced improvements in their external current accounts at the end of March 2015 compared to its March 2014. The narrowing of Curacao's current account by 52.5 per cent was because of lower imports and increases in exports. Trinidad and Tobago's improvement of 105.3 per cent was mainly a reflection of the substantial narrowing of the deficit on the investment income account.

3.7.2 External Capital Account

The Bahamas, Barbados and Trinidad and Tobago were the only economies to report a negative external current account balance during the first half of 2015. The other six economies reported positive capital accounts.

Table 12 - External Capital Account (Absolute - US$M)

	2014 Q I	2014 Q II	2015 Q I	2015 Q II	Percent change 2015 QII/2014 QII
Aruba	-10.9	30.7	-	-	-
Bahamas	390.6	419.6	110.8	46.2	-89.0
Barbados	-2.3	-1.3	-1.7	-2.1	57.5
Belize	22.7	7.7	22.7	5.2	-32.5
Guyana	63.5	17.3	7.6	12.9	-25.1
Haiti	5.8	6.5	6.0	8.0	23.1
Jamaica	403.9	375.1	311.1	137.9	-63.2
Curacao	75.8	33.2	24.3	-	-67.9*
St. Maarten	2.5	-19.6	-	-	-
Suriname	101.0	48.6	135.1	169.1	248.2
Trinidad & Tobago	381.3	-52.9	-626.0	-	-264.2*

Source: National Central Banks for Caribbean Countries ; *: Represent 2015 QI/2014 QI

The external capital account of Barbados worsened for the review period to June 2015 compared to June 2014, the deficit having increased by 57.5 per cent. Trinidad and Tobago went from an external capital account surplus at March 2014 to register a deficit increase of 264.2 per cent of its balance in March 2015. This was on account of a considerable increase in the outflows in all sub sectors of the external capital account.

Table 13 : CARICOM Economies Foreign Direct Investment and Portfolio Investment (US$M)

	Foreign Direct Investment				Portfolio Investment			
	2014 Q I	2014Q II	2015 Q I	2015 Q II	2014 Q I	2014 Q II	2015 Q I	2015 Q II
Aruba	27.5	48.6	-	-	26.8	-10.2	-	-
Bahamas	148.1	395.5	145.5	35.4	-10.5	-3.1	4.2	3.4
Belize	30.7	30.5	26.5	42.3	-	-	-	-
Guyana	53.4	67.6	69.0	39.6	2.2	-9.6	-2.0	8.2
Jamaica	112.5	154.7	146.0	107.8	51.6	12.1	51.6	12.1
Curacao	24.6	38.5	22.1	-	74.6	203.8	179.0	-
St. Maarten	25.2	4.4	-	-	8.7	28.3	-	-
Trinidad & Tobago	305.7	446.8	420.9	-	-33.0	-60.1	-92.1	-

Source: National Central Banks for Caribbean Countries

Belize, Guyana, Haiti, Jamaica, and Suriname reported improvements in their external capital accounts for June 2015 compared to the balance at June 2014. The most notable change in its capital account was Suriname's 248.2 per cent increase at June 2015; this was on account of a net inflow of capital mainly driven by a currency swap (CNY-SRD) transaction between the Central Bank and the People's Bank of China and loan disbursements received by the non-bank private sector and the government.

3.8 INTERNATIONAL RESERVES

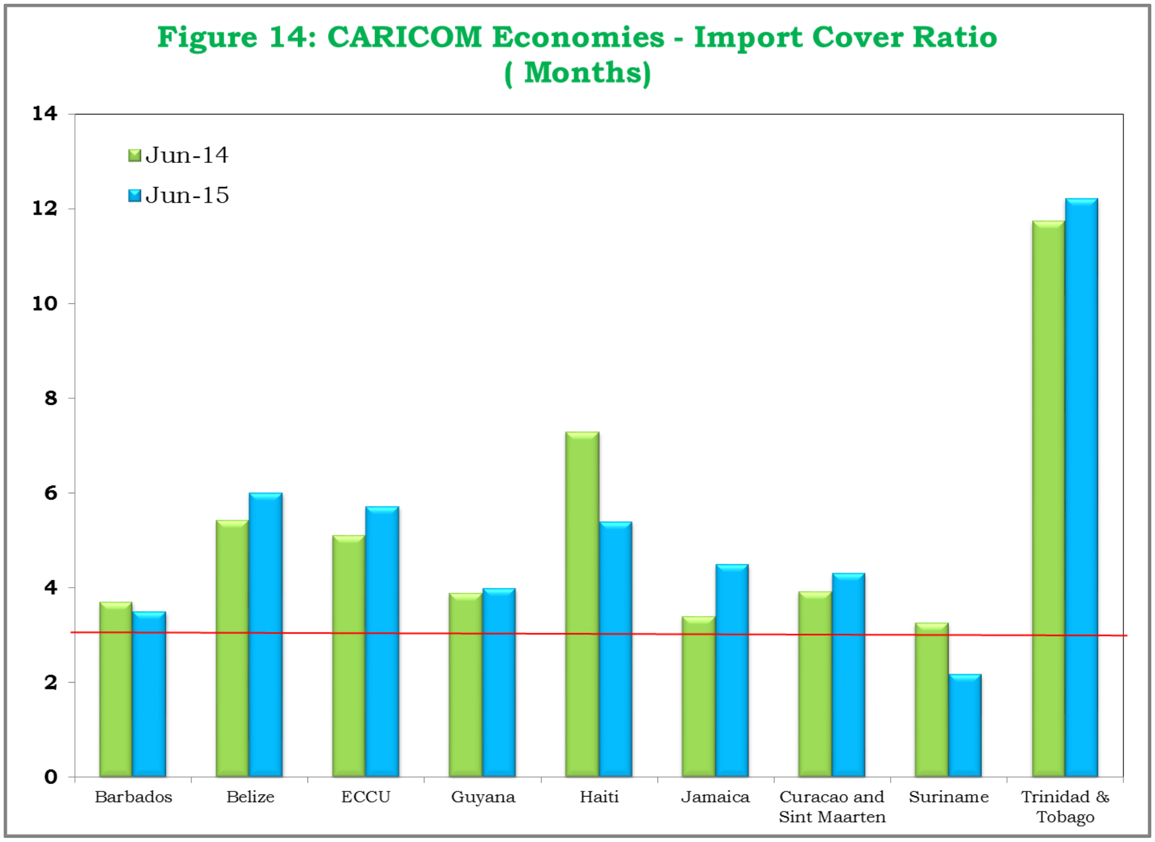
Table 14 : CARICOM Economies - Gross International Reserves

	Monetary Authorities			Commercial Banks		
	2014 QII	2015 QII	%Change 2015 QII / 2014 QII	2014 QII	2015 QII	%Change 2015 QII / 2014 QII
Aruba	619.7	698.4	12.7	9.6	71.6	649.5
Bahamas*	1016.9	953.2	-6.3			
Barbados	589.6	525.2	-10.9	1117.7	1081.3	-3.3
Belize	441.3	543.7	23.2	186.9	178.2	-4.6
ECCU	1302.0	1461.9	12.3	1577.4	1940.7	23.0
Guyana	670.5	626.9	-6.5	323.7	398.3	23.1
Haiti	1894.7	1823.6	-3.8	637.4	640.3	0.5
Jamaica	2016.5	2537.3	25.8	197.3	202.0	2.4
Curacao and St. Maarten	1861.0	1920.0	3.2	2154.1	1892.7	-12.1
Suriname	732.1	503.9	-31.2			
Trinidad & Tobago	10305.2	10592.1	2.8	3199.9	3127.3	-2.3

Source: National Central Banks for Caribbean Countries

Total gross international reserves increased in six economies over the review period (June 2015/June 2014), increases ranging from 1.4 per cent (Trinidad and Tobago) to 23.7 per cent (Jamaica). The high increase in Jamaica's reserves of 23.7 percent was because for the review period the net official and private investment flows were sufficient to finance the current account deficit, thereby boosting its monetary authorities reserves by 25.8 per cent. Three economies experienced moderate declines in total gross international reserves ranging from 2.6 per cent (Haiti) to five per cent (Curacao and Sint Maarten); while a significant decline was experienced by Suriname (31.2%). The Bahamas showed a 6.3 per cent decline in its total gross reserves between June 2014 and June 2015. Aruba's gross international reserves in its commercial banks increased very significantly from US$9.6 million (June 2014) to US$71.6 million (June 2015); this was on account of the increase in tourist arrivals that improved business activities.

The economies that had data for June 2015 all reported import cover ratios that remained above the three months criteria, except for Suriname (Figure 14). Suriname's drastic decline in reserves is the reason for the decline in its import cover ratio to 2.2 months for June 2015. However, removing the imports of the mining sector, their import cover ratio would be three months. The imports of the mining sector will be financed by the mining companies themselves.



4.0 PROSPECTS 2015/2016

The prospects for growth in the Caribbean hinge not only on international developments but also on the inherent structural macroeconomic vulnerabilities of these countries. The global economy in the last year has been characterised by divergence amongst major economies, differential performances between developed and emerging economies and relatively muted global growth. The fact that downside risks have become more significant over the last three months also signal that these difficult international economic conditions are likely to persist over the next two years. Additionally, questions about the sustainability of the PETROCARIBE arrangement, based on severe economic problems in Venezuela driven by a sharp drop in oil prices, is a significant risk to Caribbean economic growth prospects, since this arrangement is a significant source of balance of payment support for many countries in the region which already have chronic balance of payments problems.

In this challenging international economic environment the outlook for the CARICOM region is mixed. The major forces that will drive the performance of the region include commodity price trends, a stronger US economy and related exchange and interest rate dynamics. Commodity-based producers are expected to face increased challenges as commodity prices soften while the services-based economies rebound based on improved tourism outturns and lower fuel costs. The IMF estimates that the region will grow by approximately 2.2 per cent in 2015 improving to 2.4 per cent in 2016. Commodity producers are generally expected to post slower growth relative to service-based economies over the next two years with the former group of countries forecast to record lower growth of 1.9 per cent and 2.3 per cent in 2015 and 2016 while the latter group is expected to record growth of 2.3 per cent and 2.5 per cent over these two years. There would be significant differences between countries however since some countries have pre-existing external, fiscal and financial vulnerabilities which restrain growth. These vulnerabilities have constrained business and consumer confidence and hampered private demand and growth in those jurisdictions. The financial vulnerability of the ECCU Area is another important risk to a robust recovery in the region.

Table 15: Caribbean Growth Prospects

Country	Actual		Projections	
	2013	2014	2015	2016
Guyana	5.2	3.9	3.2	4.9
Suriname	2.8	1.8	1.5	0.5
Trinidad and Tobago	1.7	1.9	1.0	1.4
Bahamas	0.0	1.0	1.2	2.2
Barbados	-0.1	0.2	1.0	1.1
Belize	1.5	3.6	2.2	3.2
ECCU	1.1	1.3	2.9	2.5
Haiti	4.2	2.7	2.5	3.2
Jamaica	0.2	0.4	1.1	2.1
Service Based Economies	**1.2**	**1.5**	**2.3**	**2.5**
Commodity Based Economies	**3.3**	**3.1**	**1.9**	**2.3**
Regional Average	**1.9**	**2.1**	**2.2**	**2.4**

Source: National Central Banks for Caribbean Countries and The IMF, Global Economic Prospects, October 2015.

Guyana, Belize and Haiti are the only countries in the region expected to register relatively robust growth over the next two years with Suriname, Trinidad and Tobago and Barbados registering growth at the lower end of the spectrum. Overall, the region is expected to record slightly higher growth in 2015 with a further improvement in 2016. Despite this more favorable outlook there are structural impediments to growth which can get worse. In particular, in the fixed exchange rate regime countries in the region, exchange rates will strengthen with the US dollar increasing costs and thereby worsening the competitive position of the region relative to competing destinations in and out of the region unless there are cost savings elsewhere or the quality of the product improves. The normalizing of the US relationship with Cuba is likely to open up this relatively new market and intensify the level of competition within the Caribbean tourism market leading to CARICOM countries losing market share.

In this context, the main objective for the region is to increase economic growth while steadily reducing macroeconomic and financial vulnerabilities. There are still significant problems, however, in terms of fiscal and debt sustainability. An important area for action is, therefore, to strengthen the fiscal accounts which is key to rebalancing the external accounts. Service-based economies should use lower commodity prices to accelerate the fiscal consolidation process with a view to improving debt sustainability. Moreover, although commodity producers may have lower debt burdens, lower commodity prices requires a disciplined policy framework to shore up revenues and prevent similar sustainability issues from developing. The fiscal consolidation that this implies in some cases only requires increasing the efficiency of government expenditure programmes to weed out wastages without compromising the level of services provided to citizens and businesses. Higher levels of non-performing loans in service-based economies is also a major drag on growth which implies the need for stronger macroprudential frameworks. These are, however, necessary but not sufficient conditions for the resumption of strong sustainable growth. It also requires an improvement in competitiveness which implies a range of actions in connected areas including the improvement of the business environment, increasing labour productivity and improving the quality of public infrastructure. The region also needs to strengthen the legal and regulatory frameworks for financial risk assessment and mitigation to deal with any financial vulnerabilities which can threaten the resumption of sustainable growth in the Caribbean.

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