



CARIBBEAN ECONOMIC PERFORMANCE REPORT

December 2016



CARIBBEAN CENTRE FOR MONEY AND FINANCE

*Established under the joint auspices of the
Central Banks of the Caribbean Community and
The University of the West Indies*

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1.0 EXECUTIVE SUMMARY

Many of the challenges facing the global economy in 2015 have continued in 2016 with global growth expected to be 3.1 per cent for this year, rising moderately to 3.4 per cent in 2017. The softening of global growth in 2016 is driven by lower than expected growth in the USA and the materialisation of an important downside risks such as the UK vote to leave the EU. Advanced economies are expected to grow on average by 1.6 per cent in 2016, accelerating marginally to 1.8 per cent in 2017 as growth in the US economy improves.

In this challenging international economic environment the outlook for the CARICOM region is mixed. Overall, the IMF estimates that the region will grow by only 0.2 per cent in 2016 improving to 2.2 per cent in 2017. Growth has been hampered by unexpected weakness in the US economy in the first half of 2016 and continuing low growth amongst commodity producers.

Inflationary pressure in the region was relatively muted. The average inflation rate did increase from 1.6 per cent as of end June 2015 to 5.2 per cent in June 2016, largely due to developments in Suriname where exchange rate depreciation and higher electricity tariffs led to large increases in the inflation rate.

There continues to be low data availability of labour market information in some Caribbean economies. The average rate of unemployment at June 2016 for the Caribbean region¹ was 9.5 per cent, a minimal decline from the reported 10.2 (June 2015).

The overall fiscal balance of the Caribbean as a region improved by 22.8 per cent in the first half of 2016 relative to the corresponding period in 2015. The service-based economies reported better outturns on their current and overall fiscal accounts compared to the commodity-based economies. In the service based economies this performance was underpinned by higher revenues from improved economic activity and adjustment efforts while the weakness in the commodity based economies reflected weak fiscal revenues as commodity prices remained low.

¹ Unemployment Rates were only available for five Caribbean economies.

Deposit and lending interest rates of commercial banks continued to be fluctuate mildly between 2014 and 2015 for both the commodity-based and service-based economies. The total domestic credit of commercial banks for the Caribbean economies declined by 18.2 per cent in 2015 (US\$27.5 billion) relative to 2014 (US\$33.8 billion).

The banking system in the Caribbean remain well capitalised and relatively profitable in 2015. The average regulatory capital to risk weighted assets ratio for the Caribbean region remaining unchanged in 2014 and 2015 at 18.6 per cent. The commodity-based economies' banking systems were in better standing than the service-based economies, having reported higher profitability ratios. The average non-performing loan (NPLs) to total loans ratio for the region increased from 9.5 per cent (2014) to 9.7 per cent (2015) with the commodity-based economies recording a higher increase in NPLs, rising from 6.3 per cent in 2014 to 7.8 per cent in 2015.

The combined external current account for the Caribbean region improved in the first half of 2016 with an overall deficit of US\$1,019.4 relative to a deficit of US\$1,351 million in the corresponding period in 2015. The service-based economies combined external current account deficit balance in the first half of 2016 narrowed by 64.9 per cent relative to the corresponding period in 2015 due in large part to the lower cost of fuel imports. In contrast, the external current account of commodity-based economies was negatively affected by low commodity prices and their combined deficit widened by 39.0 percent.

Caribbean economies continue to struggle with high levels of debt. The total debt stock for the Caribbean region in June 2016 was US\$48,578.39 million representing an increase of 2.1 per cent relative to June 2015. The service-based economies total debt stock increased moderately by 1.3 per cent while the commodity-based economies debt increased by 5.2 per cent. The increase in debt in the commodity based economies was reflective of governments borrowing to finance their fiscal deficits.

The total gross international reserves of CARICOM countries fell by 2.2 per cent in June 2016 compared to its level in June 2015. This decline was due mainly to a decline of 8.9 per cent in total reserves for the commodity-based economies in the review period. This occurred as countries drew down reserves to finance governments' fiscal deficits in Suriname and Trinidad and Tobago. The trends in reserves amongst service-based economies were mixed

as Barbados and Belize also experienced a drop in their reserves while Jamaica and Curacao and Sint Maarten recorded increases in their external reserves.

In this challenging international economic environment, the outlook for the CARICOM region is mixed. Continuing low commodity prices are expected to benefit the tourism based economies of the region but restrain growth amongst commodity producers. This together with better performance from the important tourism sector means that service based countries are expected to out-perform their commodity based counterparts. Lower energy costs are also likely to help reduce external imbalances and lower fiscal deficits in these countries based on increased revenues from stronger growth and adjustment efforts. Over the next two years therefore growth in service based economies are projected to be 1.2 percent in 2016 rising to 2.2 percent in 2017. On the other hand, commodity based economies as a group are expected to experience negative growth of -1.9 per cent in 2016 which is expected to improve to 2.3 per cent in 2017.

2.0 GLOBAL ECONOMIC DEVELOPMENTS

Many of the challenges facing the global economy in 2015 have continued in 2016 with global growth expected to be 3.1 per cent for this year, rising moderately to 3.4 per cent in 2017. The softening of global growth in 2016 is driven by lower than expected growth in the USA and the materialisation of an important downside risks such as the UK vote to leave the EU. Advanced economies are expected to grow on average by 1.6 per cent in 2016, accelerating marginally to 1.8 per cent in 2017 as growth in the US economy improves (See Table 1).

Table 1: GLOBAL ECONOMIC GROWTH

Country/Region	2013	2014	2015	2016	2017
World	3.3	3.4	3.2	3.1	3.4
Advanced economies	1.1	1.8	1.9	1.6	1.8
<i>USA</i>	1.5	2.4	2.4	1.6	2.2
<i>Japan</i>	1.6	-0.1	0.5	0.5	0.6
<i>Canada</i>	2.0	2.4	1.2	1.2	1.9
<i>UK</i>	1.7	3.0	2.2	1.8	1.1
Euro area	-0.3	0.9	1.6	1.7	1.5
Emerging market and developing economies	5.0	4.6	4.0	4.2	4.6
<i>Russia</i>	1.3	0.6	-3.7	-0.8	1.1
Emerging and developing Asia	7.0	6.8	6.6	6.5	6.3
<i>China</i>	7.7	7.3	6.9	6.6	6.2
<i>India</i>	6.9	7.3	7.3	7.6	7.6
Latin America and the Caribbean	2.9	1.3	-0.1	-0.6	1.6
<i>Brazil</i>	2.7	0.1	-3.8	-3.3	0.5
Middle East and North Africa	2.3	2.7	2.5	3.4	3.4

Source: International Monetary Fund, World Economic Outlook Database, October 2016

Growth in the US fell off significantly in the first half of 2016 in spite of a supportive fiscal and monetary policy stance and strong consumption demand due to weakness in non-residential investments, lower net exports and a drawdown of inventories. Expectations are for growth to rebound in the second half of 2016 and into 2017 as inventories and business investment recover in spite of uncertainties created by the electoral cycle and a stronger dollar. In the case of Europe, the market reaction to Brexit was surprisingly orderly, with the volatility in financial markets in the wake of the vote abating fairly quickly, albeit with the pound sterling at a much weaker level. Nevertheless, the ultimate impact remains uncertain and will hinge on the trade and investment deal ultimately negotiated between the UK and the EU. More worrisome is the impact of the referendum results on political sentiment in other EU members where insular and protectionist political parties are gaining strength and

could cause further uncertainty about the policy framework likely to be adopted by EU countries in the future.

Emerging and developing economies are expected to grow on average by 4.2 per cent in 2016, improving to 4.6 per cent in 2017 as conditions in highly stressed economies normalise. The modest growth in 2016 is based on the assumptions of more modest growth in China, weak outlook for commodity producers and a terms of trade boost for oil-importing countries that is expected to be counterbalanced by tighter financing conditions and weaker external demand.

In the context of low inflationary pressures and uneven growth, the US authorities were likely to be very cautious in normalising monetary policy. The recent victory of Donald Trump in the US presidential election has, however, created a degree of uncertainty about the monetary policy stance the US Federal Reserve in the future. In particular, President elect Trump has stated that he intends to pursue an ambitious plan to upgrade US infrastructure. This, together with plans for tax cuts and the simplification of the tax code could lead to wider deficits and potentially higher inflationary pressures which would imply higher policy interest rates. The Federal Reserve is therefore likely to institute a rate increase in December and a faster pace of interest rate normalisation than one would have expected before the results of the US presidential election. In contrast, the European Central Bank and the Bank of Japan are likely to further ease monetary policy in the context of concerns about the global economy which would accentuate the divergence in interest rates across developed economies leading to the further strengthening of the US dollar and related capital flow dynamics.

In the current environment, downside risks to global growth prospects have intensified. The main risks include: potentially disruptive financial asset price shifts and financial market volatility driven by expected interest rate normalisation by the US Federal Reserve, the possibility of a “sudden stop” of capital flows and growing risks to financial stability in emerging market economies, the potential for disorderly economic transition in China, growing strains in oil exporting countries, longer lasting recessions in emerging market economies currently in crisis, geopolitical risks and growing protectionist and insular political sentiments. 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

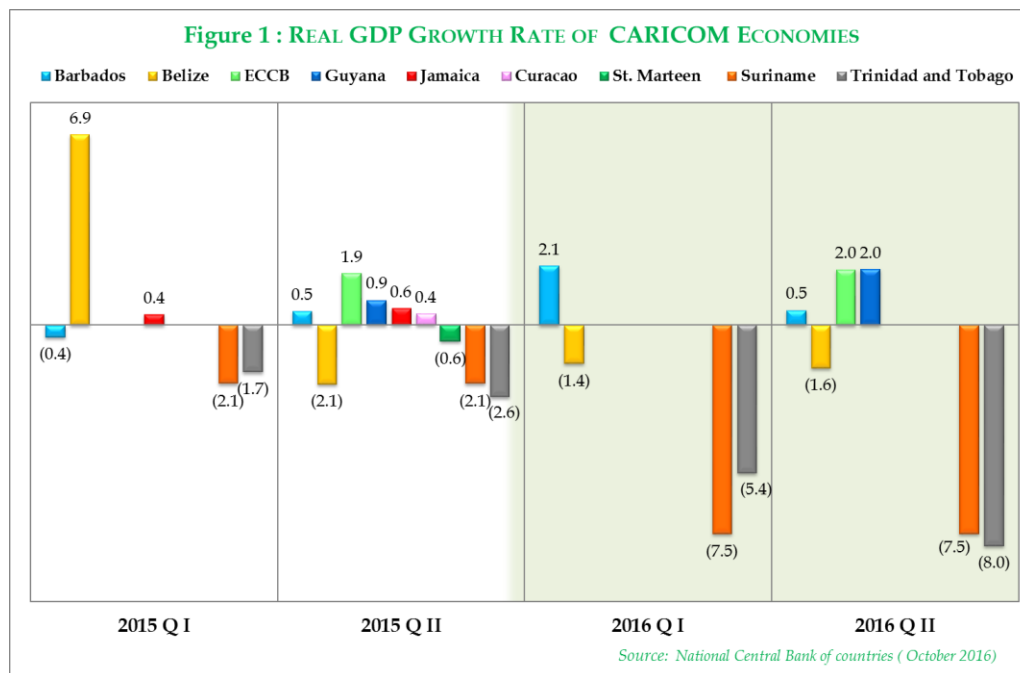
strengthening of the US dollar against other major currencies which implies huge challenges for portfolio management and real exchange rate appreciation along with its negative trade implications in some emerging and developing countries.

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 relatively muted pace of global growth is a phenomenon that is likely to last longer than expected. Very subdued industrial production and investment seem to lend credence to this view. There are also structural factors which seem to support this view such as high levels of indebtedness across sovereigns, corporates and households, frequent episodes of financial market volatility driven by weaknesses in the international financial architecture, low productivity growth generally and the growth realignment in China. The forces driving the performance of the global economy have therefore become more complex with structural challenges and potential risks entrenching asymmetries and creating a mixed bag of winners and losers. In this environment, it is very difficult to have meaningful international policy coordination which is critical to successfully confronting the myriad challenges facing the global economy.

3.0 REGIONAL ECONOMIC PERFORMANCE

3.1 ECONOMIC GROWTH

The average growth for the Caribbean region declined from 0.1 per cent in the first half of 2015 to -0.7 per cent in the corresponding period in 2016². Growth in the service-based economies for which data was available improved marginally from 1.2 per cent in the first half of 2015 to 1.5 per cent in the first half of 2016. In contrast, the average growth rate for commodity-based economies contracted significantly from -1.1 per cent to -3.6 per cent over the review period.



Continuing weakness in commodity prices and more consistent growth in tourism were the main reason for these growth performances. Commodity based economies such as Trinidad and Tobago and Suriname in particular experienced sharp declines in growth. Guyana was the only commodity-based economy which was able to post positive growth in the first half of 2016 based largely on the opening of two new gold mines in 2015 which led to an increase in gold production.

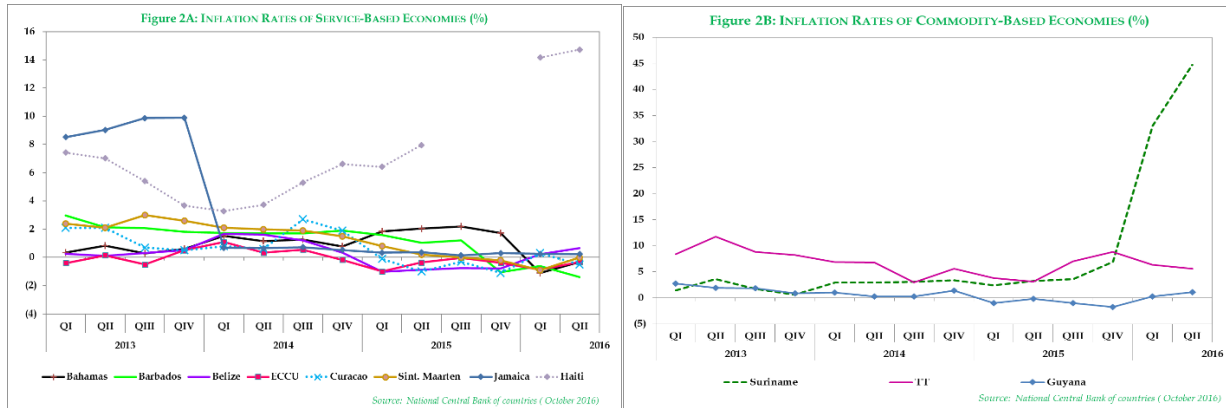
² Based on data for seven countries.

In Trinidad and Tobago the dominant petroleum sector declined by 9.1 per cent in the first quarter of 2016. The decline in energy prices, natural gas shortages along with maintenance problems and construction delays in major petrochemical projects all hampered growth in this sector. The maturation of certain oil and gas fields have also compounded the problem. Additionally, there was a significant decline of 15.7 per cent in the construction sector. In Suriname, problems such as the shutdown of its only bauxite and alumina plant in 2015, low commodity prices and fiscal challenges led to weakening growth.

In terms of service-based economies, Barbados, the ECCU and Jamaica all experienced slight increases in their levels of economic activities in the first half of 2016. Belize was the exception in this regard as its growth deteriorated from 2.4 per cent in the first half of 2015 to 1.5 per cent in the corresponding period in 2016. This performance reflected the fact that significant growth in the construction sector was overshadowed by a significant fall off in the agriculture sector. The ECCU economy also improved marginally from 1.9 per cent to 2.0 per cent between the first half of 2015 and 2016. The ECCU is struggling to grow at a faster pace due to a lack of competitiveness, exposure to natural disasters and banking sector problems but lower energy prices, better tourism outcomes and citizenship-by-investment receipts have managed to sustain their economy. Barbados' economy grew from 0.1 per cent in the first half of 2015 to 1.3 per cent in the same period in 2016. This performance was driven mainly by an increase in tourism activity during the winter season and an increase in private investment.

3.2 INFLATION

The average inflation rate for the Caribbean region increased from 1.6 per cent (June 2015) to 5.2 per cent (June 2016). This increase in the Caribbean regional average inflation rate stemmed from the increase in the average inflation rate of the commodity-based economies from 2.9 per cent (June 2015) to 16.4 per cent (June 2016) since the service-based economies reported a minimal increase in its average inflation rate from June 2015 (1.2%) to June 2016(1.5%) based on continuing low oil prices.



The overall inflation performance reflected developments in Suriname which experienced a drastic increase in its average inflation rate from 3.2 per cent (June 2015) to 44.7 per cent (June 2016). This due to higher electricity tariffs and the depreciation in the exchange rate. Heavy rainfall has also impacted their agriculture sector. A minimal increase was reported for Guyana’s average inflation rate from -0.2 per cent (June 2015) to 1.1 per cent (June 2016); this was due to increases in food prices.

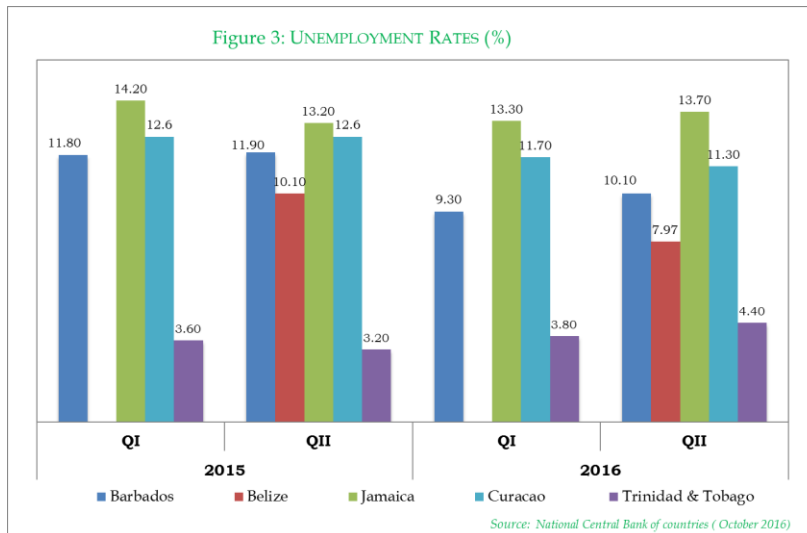
Only two of the service-based economies reported an increase in their average inflation rates for the review period. They were Belize and Haiti, of which the most notable increase from 8.0 per cent (June 2015) to 14.7 (June 2016) was experienced by Haiti. Inflation levels in Haiti was heavily influenced by their vulnerabilities in agricultural production. Many years of drought has caused many farmers to lose around 70 per cent of their harvest in certain regions. As such, this led to a decline in food production and subsequent higher prices for basic necessities. Moreover, its national currency, the “gourde” had been continuously depreciating against the US dollar for months.

3.3 LABOUR MARKETS

There continues to be low data availability of labour market information in some Caribbean economies. The average rate of unemployment at June 2016 for the Caribbean region³ was 9.5 per cent, a minimal decline from the reported 10.2 (June 2015). Trinidad and Tobago was the only commodity-based economy to report their level of unemployment for June 2016

³ Unemployment Rates were only available for five Caribbean economies.

(4.4%). The average unemployment rate of the four service-based economies was lower at the end of June 2016 (10.8 %) compared to the June 2015 (12.0%).



The labour sectors were moving at a sluggish pace with many Caribbean economies recording only marginally lower rates of unemployment. The commodity-based economy of Trinidad and Tobago recorded the lowest unemployment figures in the region, with its 4.4 per cent (June 2016), but this was

higher than its reported unemployment rate of 3.2 per cent for June 2015. This rise in unemployment was indicative of the challenging conditions that the country is currently facing. Low energy prices and less output from a number of sectors have led to this gradual decline in persons employed.

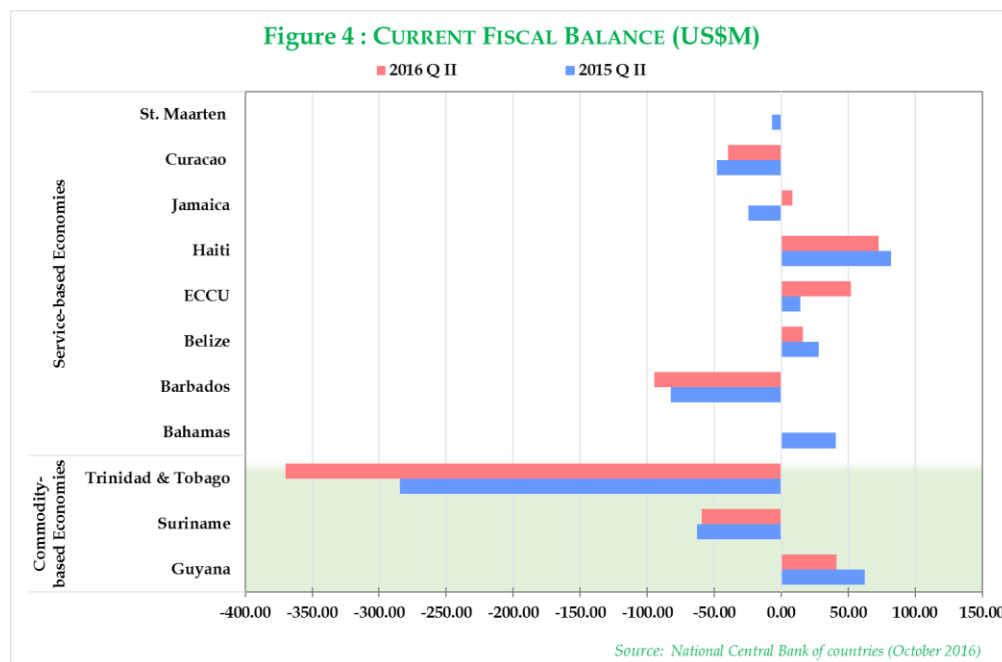
Trends in the unemployment rate of service-based countries showed slight fluctuations from June 2015 to June 2016. Barbados' unemployment rate decreased from 11.9 per cent (June 2015) to 10.1 per cent (June 2016). This decrease was facilitated by higher private investment and an overall increased level of tourism and construction. Also in Belize, labour markets improved as they experienced a significant decline in its unemployment rate from 10.1 per cent (June 2015) to 7.9 per cent (June 2016) due to an increase in agriculture and construction activities, as well as a strong tourism performance.

3.4 FISCAL ACCOUNTS

3.4.1 Current Fiscal Accounts

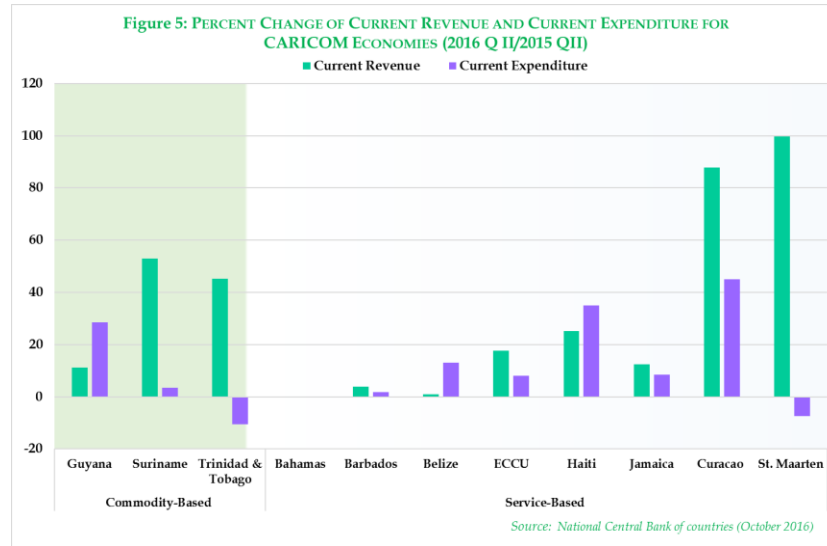
The Caribbean experienced a deterioration in its current fiscal account by 18.4 per cent, with its current fiscal deficit increasing from US\$ 314.8 million (Jan-June 2015) to US\$ 372.5

million (Jan-June 2016)⁴. The service-based economies combined current fiscal account balance were in better standing at the end of June 2016 with a surplus of US\$15.3 million, having moved from a combined current fiscal account deficit of US\$29.7 million (Jan-June 2015). On the hand commodity-based economies reported a widening of its combined current fiscal account deficit from US\$285.0 million (Jan-June 2015) to US\$387.8 million (Jan-June 2016). These trends were driven by low oil prices which resulted in lower revenues for the commodity-based economies and lower import costs for their service-based counterparts.



Current revenue increased for all the economies in the period Jan-June 2016, in comparison to Jan-June 2015, but not all economies experienced increases in their current expenditure (Figure 5). St. Maarten, Suriname and Trinidad and Tobago were the only economies to experience a decline in its current expenditure for Jan-June 2016 in comparison to the same period in 2015. The lower levels of current expenditure in Suriname and Trinidad and Tobago was an outcome of fiscal adjustments measures such as the reduction of transfers and subsidies.

⁴ Data was only available for six of the eight service-based economies for the period Jan-June 2016. The Bahamas had data available for the period Jan-March 2016.

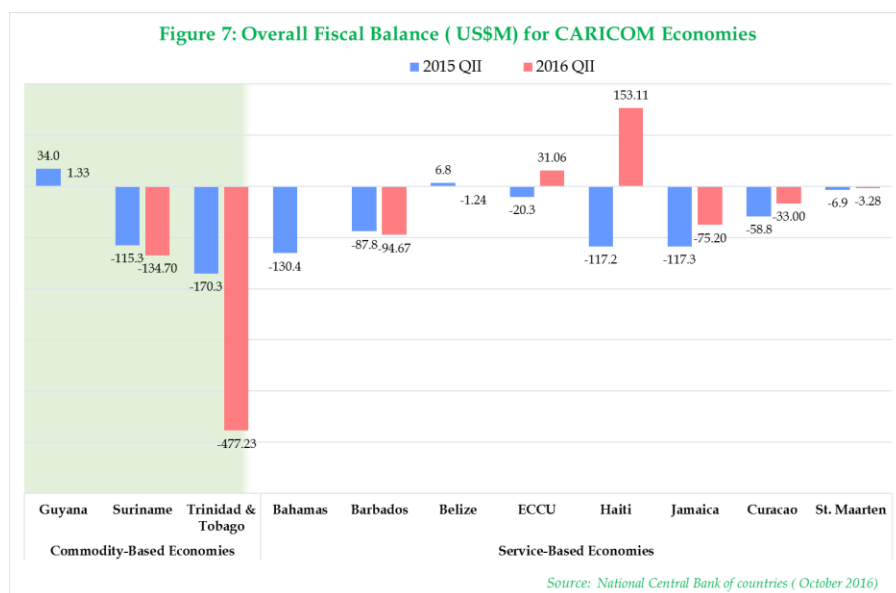
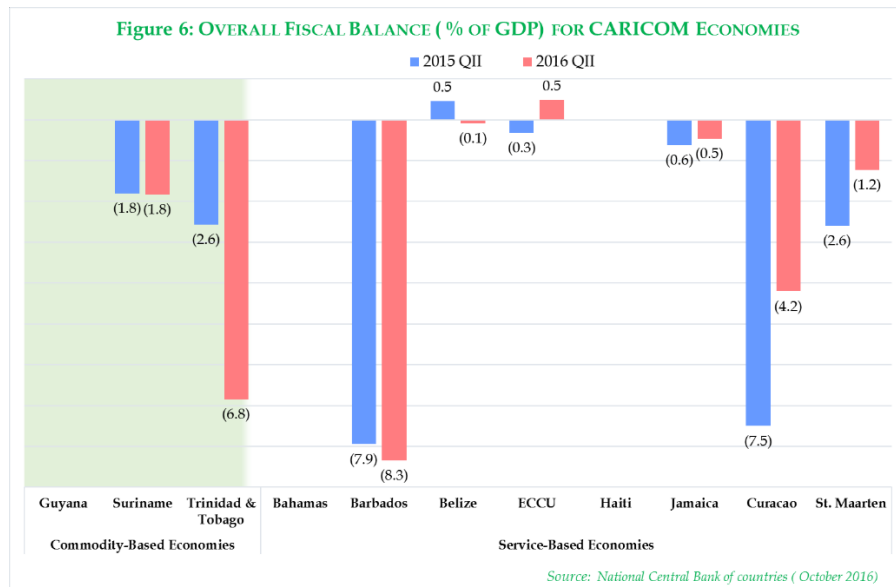


3.4.2 Overall Fiscal Accounts

The overall fiscal balance of the Caribbean improved by 22.8 per cent in the first half of 2016 compared to the corresponding period in 2015. The Caribbean reported an overall fiscal deficit of US\$633.8 million (Jan-June 2016) compared to an overall deficit of US\$820.49 million for Jan-June 2015. The service-based economies combined fiscal accounts balance again outperformed their commodity-based counterparts⁵. The service-based economies overall fiscal deficit narrowed significantly by 96 per cent in the first half of 2016 relative to the corresponding period in 2015 while commodity-based economies overall fiscal account deficit increased by 142.6 per cent the same period.

All three commodity-based economies experienced a worsening in their overall fiscal balance for the first half of 2016 in comparison to the same period in 2015 because of a sharp fall-off in their energy revenues. Of these economies, only Guyana was able to maintain an overall fiscal surplus for the period Jan-June 2016 (US\$1.3 million), although it experienced a 96.1 per cent decline from its Jan-June 2015 overall fiscal surplus (US\$34 million). Higher capital expenditure with respect to construction activity and higher current expenditure from transfer payments and employments cost were the main reason for Guyana’s worsening overall fiscal balance.

⁵ Data was only available for six of the eight service-based economies for the period Jan-June 2016. The Bahamas had data available for the period Jan-March 2016.

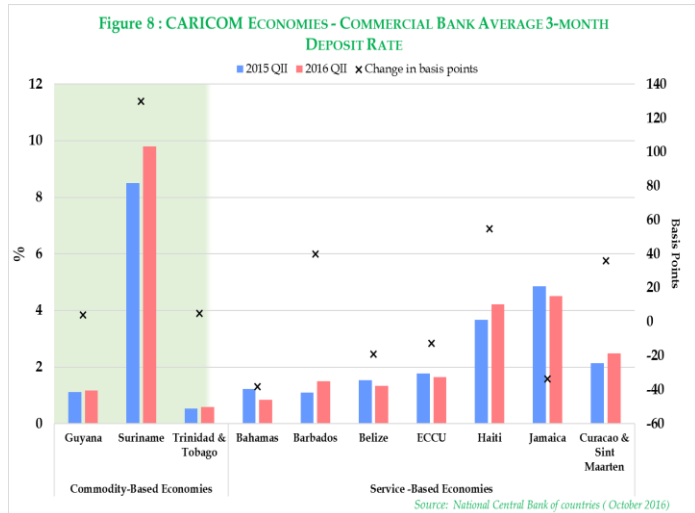


There were mixed performances in the overall fiscal accounts of the service-based economies for the first half of 2016. The Bahamas, Barbados and Belize experienced a worsening of their overall fiscal account balances while the other economies reported improvements. Increases in wages and transfers and subsidies fuelled the overall fiscal deficit in The Bahamas and Belize while the deterioration in Barbados was due to increased domestic debt interest payments.

3.5 BANKING AND FINANCE

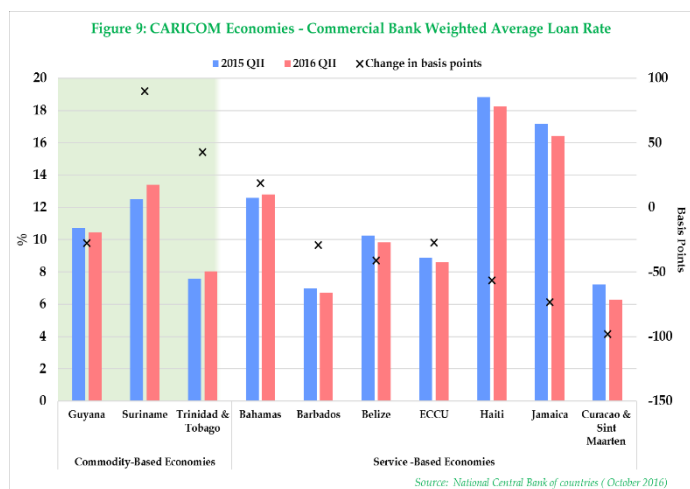
3.5.1 Interest Rates

Interest rates of commercial banks in the Caribbean did not change significantly in the review period, as they continue to be reflective of interest rate trends in advanced economies. The regional average for the three-month deposit rate of commercial banks declined by five basis points, moving from 2.60 per cent at June 2015 to 2.66 per cent at June 2016. Both the commodity-based and service-based economies experienced declines in this rate. The



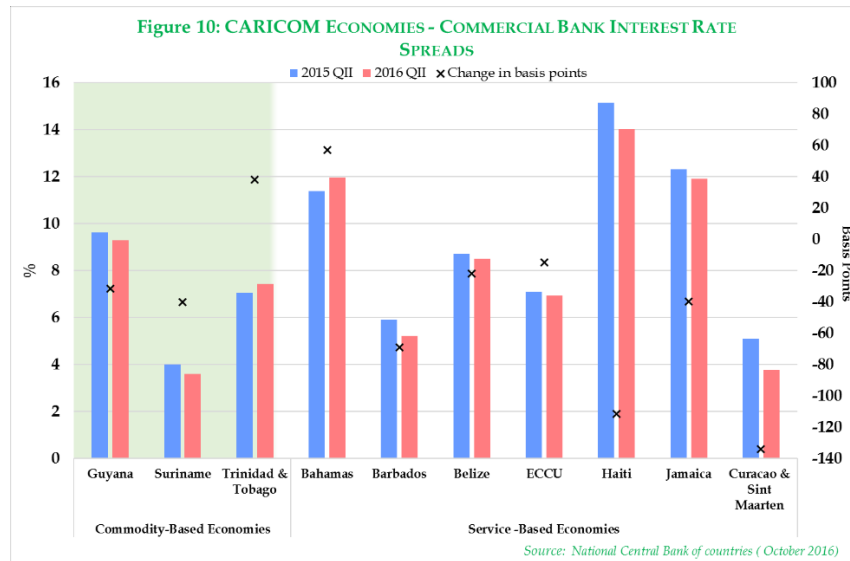
average three-month deposit rate for the service based-economies fell to 2.21 per cent at June 2016 from 2.31 per cent at June 2015. On the other hand, commodity-based economies experienced a minimal increase in their average three-month deposit rate from 3.39 per cent at June 2015 to 3.85 per cent at June 2016. This was due in large part to an increase of 130 basis point in Suriname. This increase in deposit rates in Suriname was linked to the Central bank of Suriname’s monetary tightening programme.

Loans rates in the Caribbean region remained sticky downwards, with the regional average commercial banks loan rate declining by 30 basis points 11.03 per cent at June 2015 to 10.73 per cent at June 2016. The service-based economies weighted average loan rate of the commercial banks declined from 11.32 per cent at June 2015 to 10.77 per cent at June 2016. In contrast, the



commodity-based economies weighted average loan rate increased from 10.28 per cent in June 2015 to 10.63 per cent in June 2016. There were changes to the repo rate in the latter half of 2015 for Trinidad and Tobago which influenced increased loan rates.

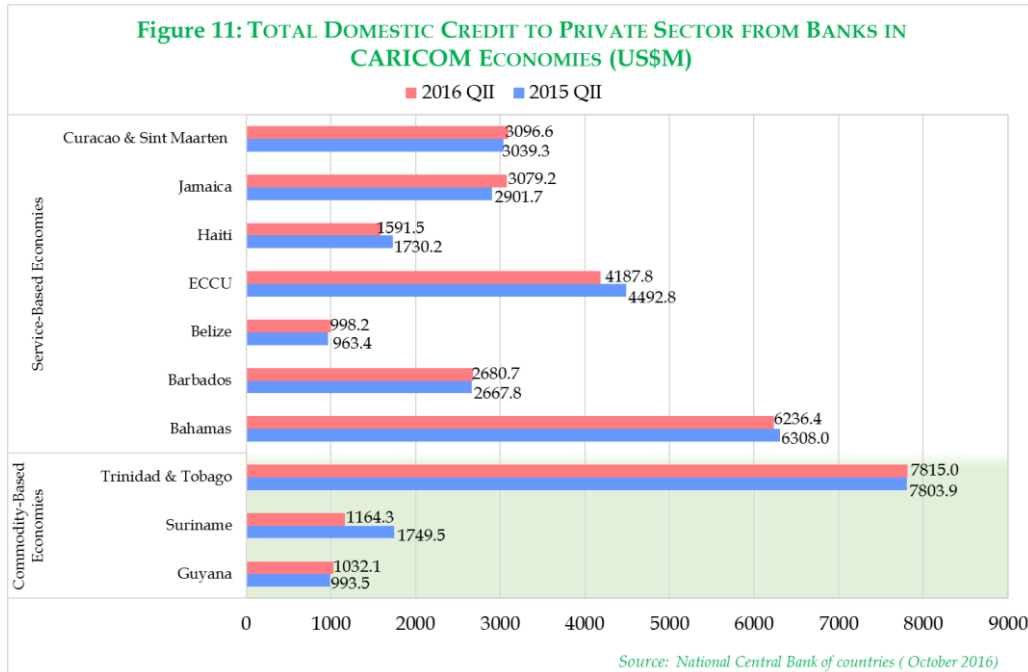
These interest rate trends translated into a very small contraction of the interest rate spreads. The average regional interest rate spread narrowed from 8.43 per cent at June 2015 to 8.08 per cent in June 2016. In the case of the service-based economies, the spread narrowed from 9.01 per cent at June 2015 to 8.57 per cent at June 2016 while the commodity-based economies spread declined from 6.89 per cent in June 2015 to 6.78 per cent in June 2016.



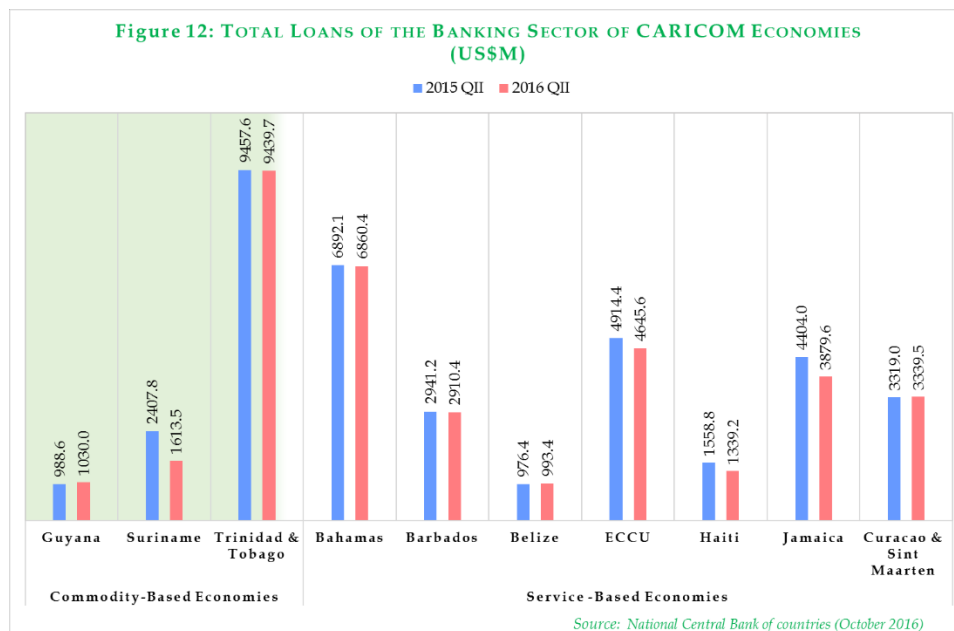
3.5.2 Commercial Bank Performance

The modest levels of economic growth experienced in the first six months of 2016 and the continued uncertainty of international economic prospects have resulted in an overall decline of 2.2 per cent in total private sector credit for the Caribbean economies between June 2015 and June 2016. This trend was evident in both service-based and commodity-based economies.

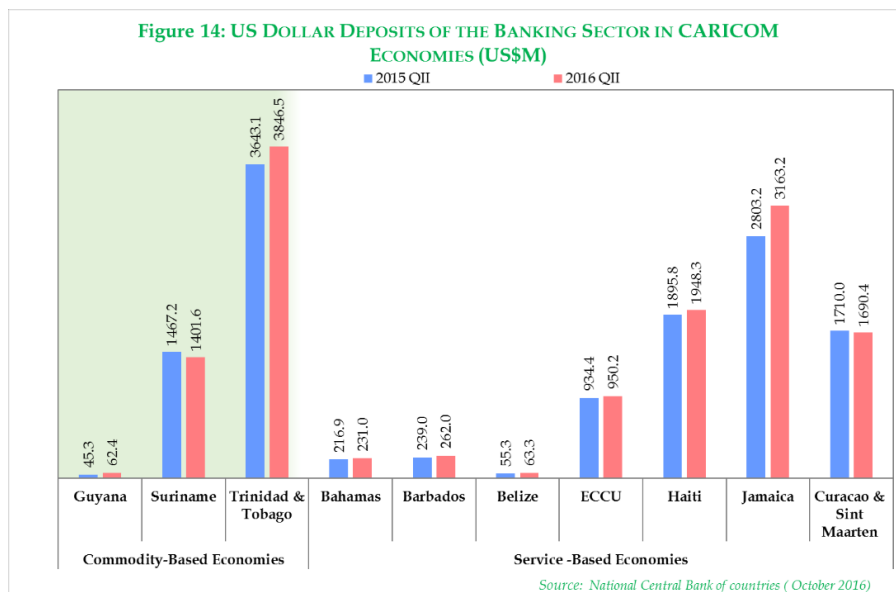
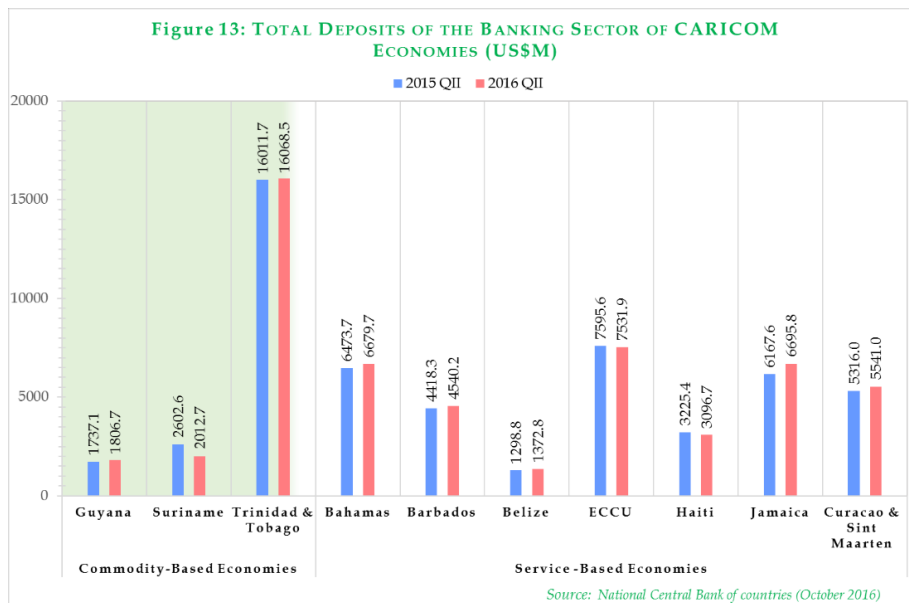
The service-based economies total private sector credit declined by 0.9 percent, moving from a total of US\$23,749.5 million (Jan-June 2015) to US\$23,533.8 million (Jan-June 2016). The contraction in total private sector credit was greater for the commodity-based economies with a reported decline of 5.1 per cent from Jan-June 2015 (US\$10,546.9 million) to Jan-June 2016 (US\$10,011.4 million). Suriname reported a significant decline of 33.4 per cent in private sector credit over the review period due in large part to the Central Bank of Suriname’s new monetary policy measures being imposed to control liquidity.



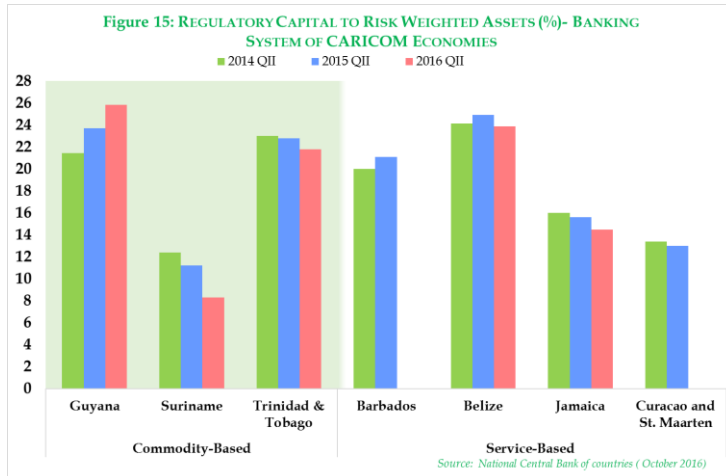
Reflective of the lower level of private sector credit being issued by commercial banks the total loans from commercial banks declined by 4.6 per cent in Jan-June 2016 (US\$37,792.4 million), when compared to total loans issued in Jan-June 2015 (US\$39,597 million). A decline in loans was experienced by both the service-based and commodity-based economies 3.9 per cent and 6.0 per cent, respectively.



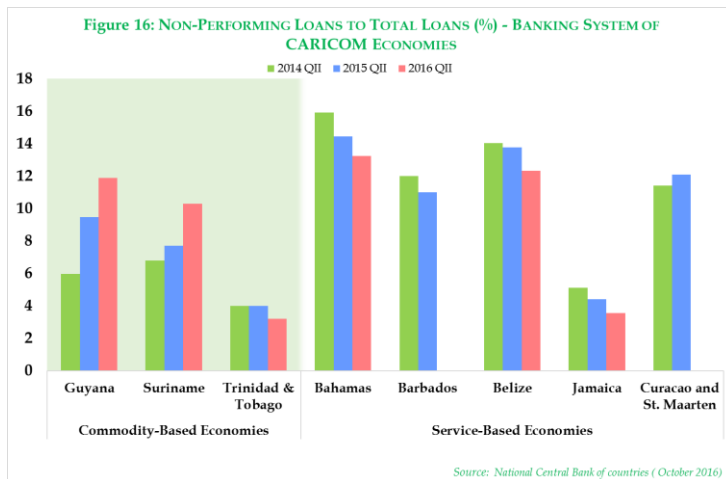
Total deposits of the banking sector for the Caribbean economies increased by 1.2 per cent in Jan-June 2016 (US\$57,731.4 million), in comparison to Jan-June 2015 (US\$57,055.3 million). The service-based economies experienced an increase of 3.1 per cent in deposits while the commodity-based economies declined by 2.3 per cent. This decline in deposits at commercial bank for the commodity-based economies can be linked to the increase in its US dollar deposit at commercial banks. Caribbean economies have experienced an increase in US dollar deposit in commercial banks of 4.3 per cent in Jan-June 2016 over its Jan-June 2015 level (Figure 14).



3.5.3 Banking System-Core Financial Soundness Indicators



The banking system of the Caribbean economies remain well capitalised and relatively profitable in the first half of 2016. The Capital to Risk Weighted Assets Ratios (CRWAR) for all the Caribbean economies for which data was available had ratios that were above the prudential eight per cent benchmark for the period Jan-June 2016 (Figure 15). A notable decline in Suriname’s CRWAR from 11.2 per cent (Jan-June 2015) to 8.3 per cent (Jan-June 2016) was due to two banks that were undercapitalized, one of them was a state-owned bank which become insolvent.

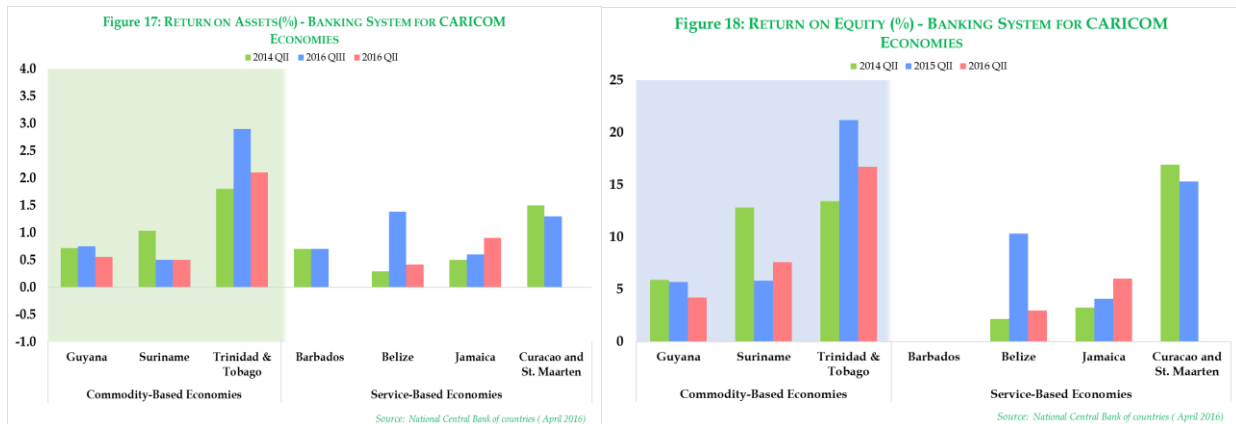


The ratio of Non-performing loan to total loans (NPL) increased in Jan-June 2016 compared to Jan-June 2015 for the commodity-based economies of Guyana and Suriname (Figure 16). Guyana’s higher NPL of 11.9 (Jan-June 2016) was due to increases in non-performing loans in in the business enterprises and households sectors. The increase in NPL from 7.7 per cent (Jan-June 2015) to 10.3 per cent (Jan-June 2016) was due to the weakening of their economy and currency depreciation. In the case of Trinidad and Tobago, its NPL ratio declined from four per cent (Jan-June 2015) to 3.2 per cent (Jan-June 2016). The three service-based economies for which data were available (The Bahamas, Belize and Jamaica) all reported lower NPL ratios for the period Jan-June 2016 relative to Jan-June 2015.

The banking system of the Caribbean economies remain well capitalised and relatively profitable in the first half of 2016. The Capital to Risk Weighted Assets Ratios (CRWAR) for all the Caribbean economies for which data was available had ratios that were above the prudential eight per cent benchmark for the period Jan-June 2016 (Figure 15). A notable decline in Suriname’s CRWAR from 11.2 per cent (Jan-June 2015) to 8.3 per cent (Jan-June 2016) was due to two banks that were undercapitalized, one of them was a state-owned bank which become insolvent.

The ratio of Non-performing loan to total loans (NPL) increased in Jan-June 2016 compared to Jan-June 2015 for the commodity-based economies of Guyana and Suriname (Figure 16). Guyana’s higher NPL of 11.9 (Jan-June 2016) was due to increases in non-performing loans in in the business enterprises and households sectors. The increase in NPL from 7.7 per cent (Jan-June 2015) to 10.3 per cent (Jan-June 2016) was due to the weakening of their economy and currency depreciation. In the case of Trinidad and Tobago, its NPL ratio declined from four per cent (Jan-June 2015) to 3.2 per cent (Jan-June 2016). The three service-based economies for which data were available (The Bahamas, Belize and Jamaica) all reported lower NPL ratios for the period Jan-June 2016 relative to Jan-June 2015.

Indicators of the profitability of the Caribbean banking sector weakened in the review period (Figure 17 and 18). The ratios for Return on Assets (ROA) and Return on Equity (ROE) were lower in Jan-June 2016, when compared to their ratios in Jan-June 2015 for Belize, Guyana and Trinidad and Tobago. Jamaica was the only economy to experience and increase in both profitability ratios for the review period.



3.6 PUBLIC DEBT

Caribbean economies continue to struggle to contain its relatively high levels of debt. The total debt stock for the Caribbean in June 2016 increased by 2.1 per cent relative to the level in June 2015. The service-based economies total debt stock increased slightly by 1.3 per cent, from US\$37,138.48 million (Jan-June 2015) to US\$37,604.20 million (Jan-June 2016). In contrast, the commodity-based economies total debt stock increased by 5.2 per cent in June 2016 relative to the level in June 2015. The increase in debt in the commodity-based economies was reflective of the drastic decline in energy prices and the related lower growth and government revenues, resulting in the need for government to borrow to finance budget deficits.

Table 3 : DEBT OF CARICOM ECONOMIES

Country		Domestic Debt (Millions of National Currency)			External Debt (US\$M)		
		2015 QII	2016 QII	(% Change 2016 QII /2015 QII)	2015 QII	2016 QII	(% Change 2016 QII /2015 QII)
Commodity- Based Economies	Guyana	75,867.80	84,439.47	11.30	1,220.01	1,143.58	-6.26
	Suriname	2,453.96	3,489.64	42.20	1,181.08	1,032.77	-12.56
	Trinidad & Tobago	30588.90	35829.85	17.13	2151.90	2159.90	-0.37
Service-Based Economies	Bahamas	4,044.66	4,211.49	4.12	1,593.20	1,741.45	9.31
	Barbados	6,054.92	6,732.10	11.18	1,410.94	1,454.67	3.10
	Belize	409.28	546.89	33.62	1,157.82	1,171.60	1.19
	EC Currency Union	5,862.94	5,856.27	-0.11	2,626.51	2,697.52	2.70
	Haiti	977.89	860.94	-11.96	1,906.30	2,016.80	5.80
	Jamaica	1,058,106.01	824,482.27	-22.08	8,284.56	10,224.62	23.42
	Curacao	120.16	164.95	37.28	1,231.45	1,290.28	4.78
	St. Maarten	111.31	106.68	-4.16	280.04	280.04	0

Source: National Central Banks of the Countries (October 2016)

Table 4: DEBT TO GDP RATIOS OF CARICOM ECONOMIES

	Country	Domestic Debt/GDP Ratio (%)		% Change 2016 QII/2015 QII	External Debt / GDP Ratio (%)		% Change 2016 QII/2015 QII
		2015 QII	2016 QII		2015 QII	2016 QII	
Commodity- Based Economy	Trinidad & Tobago	19.78	24.37	4.6	8.51	9.92	1.4
	Barbados	69.3	74.0	4.74	32.3	32.0	-0.30
Service-Based Economies	Belize	11.9	20.1	8.19	67.4	86.1	18.70
	Jamaica	64.6	50.4	-14.27	59.4	74.2	14.80
	Curacao	3.8	5.2	1.41	39.0	40.8	1.79
	St. Maarten	10.5	9.9	-0.57	26.3	26.0	-0.34

Source: National Central Banks of the countries, October 2016

For service-based countries, Curacao and Belize recorded the highest increase in domestic debt in the review period of 37.3 and 33.6 per cent respectively. Curacao's notable surge was due to the government increasing outstanding liabilities towards the social security bank (SVB) as well as the public pension fund (APC). Even though tourism is one of Belize's primary revenue-generating sectors, its reliance on the exportation of raw materials have left such industries exposed to the impacts from global difficulties, hence the reason for the drastic surge in debt. In contrast, Jamaica's tax reform and administration and better overall fiscal discipline has facilitated its lower level of domestic debt.

In terms of external debt outstanding, seven of the service-based economies recorded increases in their external debt outstanding. The increase in The Bahamas was due to a new capital project loan and drawdowns on existing loan facilities. Jamaica's external debt increased by 23.4 per cent June 2016 relative to the level in June 2015 due largely to external borrowings to finance its fiscal deficit.

3.7 INTERNATIONAL TRADE

3.7.1 External Current Account

The combined external current account for the Caribbean recorded a lower deficit of US\$1,019.4 million (Jan-June 2016), when compared to the deficit for Jan-June 2015 (US\$1,351 million). The service-based economies combined external current account deficit narrowed by a significant 64.9 per cent from Jan-June 2015 (US\$833 million) to Jan-June 2016 (US\$299.1 million) driven by lower import value of their oil imports. However, the lower oil prices adversely affected the commodity-based economies leading to their combined external current account deficit widening by 39.04 per cent from US\$518 million (Jan-June 2015) to US\$720.3 million (Jan-June 2016).

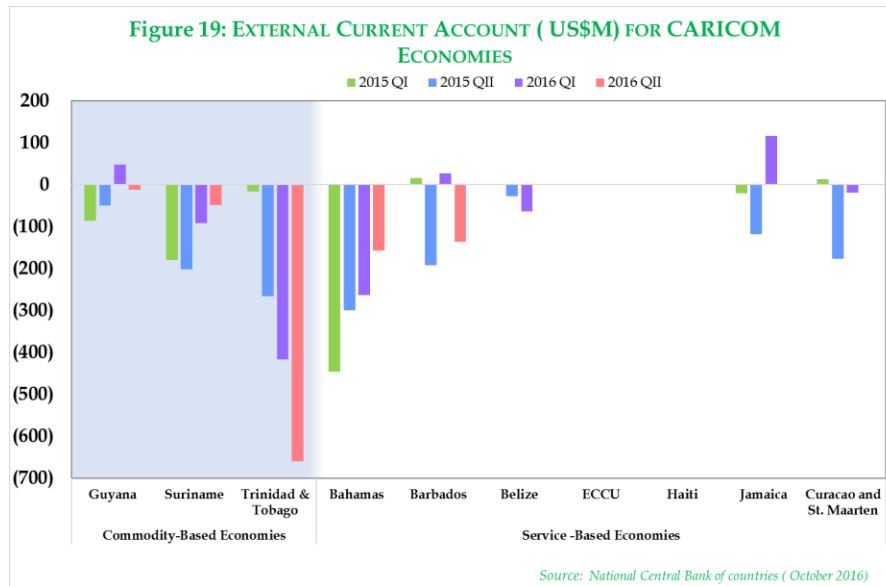
Caribbean economies experienced mixed performances on its balance of trade accounts over the review period (Table 5).

Table 5: INTERNATIONAL TRADE OF CARIOM ECONOMIES

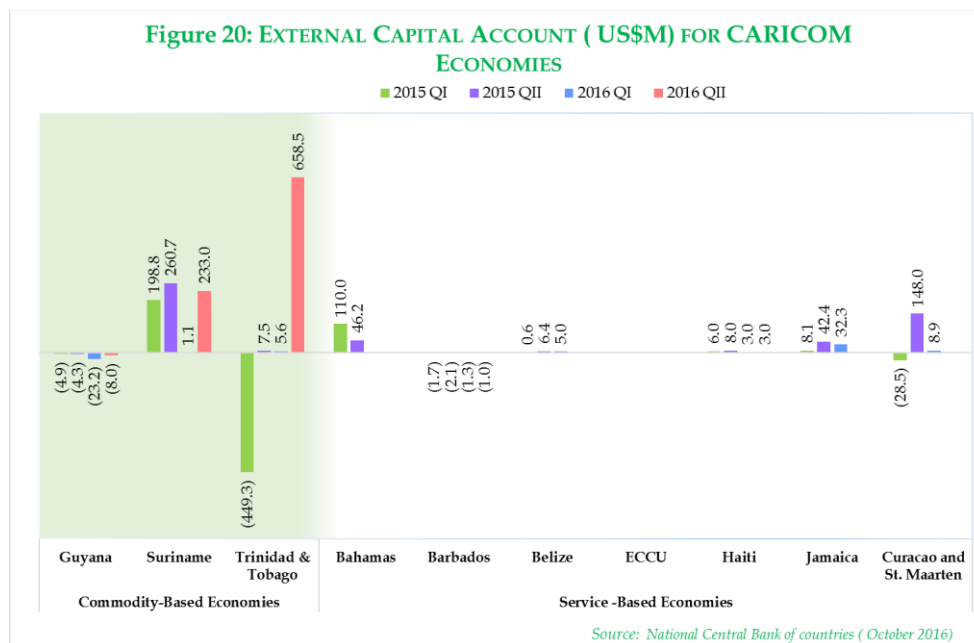
		TOTAL EXPORTS (US\$M)				TOTAL IMPORTS (US\$M)				Balance of Trade (US\$M)					
		2015 Q I	2015 Q II	2016 Q I	2016 Q II	2015 Q I	2015 Q II	2016 Q I	2016 Q II	2015 Q I	2015 Q II	2016 Q I	2016 Q II	% Change 2016 Q I/2015 Q I	% Change 2016 Q II/2015 Q II
Commodity- Based Economies	Guyana	230.6	296.5	309.3	371.2	378.5	399.3	314.7	389.3	-147.9	-102.7	-5.4	-18.2	-96.4	-82.3
	Suriname	481.0	437.5	295.6	353.7	534.2	527.1	318.6	321.3	-53.2	-89.6	-23.0	32.4	-56.7	-136.2
	Trinidad & Tobago	2521.5	2944.3	2077.3	1943.0	-17.6	-34.0	2149.2	2584.3	2116.5	2307.1	-1.5	-10.7	372.3	360.0
Service-Based Economies	Bahamas	863.0	951.6	n.a	n.a	1170.1	1121.4	n.a	n.a	-307.1	-169.8	n.a	n.a	n.a	n.a
	Barbados	192.6	183.2	234.7	200.5	354.5	392.9	370.5	377.0	-161.9	-209.7	-135.8	-176.6	-16.1	-15.8
	Belize	148.0	151.8	126.0		249.6	262.4	231.4	256.1	-101.6	-110.5	-105.3	-256.1	3.7	131.7
	ECCU	111.5	105.4	81.6	124.9	603.5	588.2	633.4	603.0	-492.0	-482.7	-551.9	-478.1	12.2	-1.0
	Haiti	252.9	215.2	252.7	223.2	900.6	883.2	750.8	690.2	-647.7	-667.9	-498.1	-467.0	-23.1	-30.1
	Jamaica	338.0	338.0	267.0	n.a	1108.7	1166.6	941.9	n.a	-770.7	-828.6	-674.9	n.a	-12.4	n.a
	Curacao	535.2	458.1	456.8	n.a	574.1	613.1	512.8	n.a	-38.9	-155.0	-55.9	n.a	43.8	n.a
	St. Maarten	401.6	270.2	396.4	n.a	330.5	276.1	331.7	n.a	71.1	-5.9	64.7	n.a	-8.9	n.a

Source: Central Banks of countries, October 2016

The current accounts for all economies that reported data for the period Jan-June 2016 all had deficits except for Jamaica (Figure 19)⁶. Jamaica movement from a current account deficit of US\$20.2 million (March 2015) to a surplus of US\$116.3 million (March 2016) was reflective of improvements on all other sub-accounts. The balances on the secondary income and the goods sub-accounts improved by US\$22.1 million and US\$91.5 million, respectively.



3.7.2 External Capital Account



⁶ No data on current account balance was available for ECCU and Haiti for Jan-June 2016.

The combined capital account for the Caribbean economies was a surplus of US\$1034.3 million for the period Jan-June 2016, a 72.6 per cent increase when compared to Jan-June 2015 (US\$599.3 million). The commodity-based economies capital account also improved from US\$263.9 million (Jan-June 2015) to US\$883.5 million (Jan-June 2016). Trinidad and Tobago’s capital account increased improved significantly in Jan-June 2016 due to the sale of assets. However, the combine capital account for the service-based economies contracted by 55.1 per cent, having declined from US\$335.4 million (Jan-June 2015) to US\$150.8 million (Jan-June 2016), reflective of lower investment.

Table 6 : CARICOM ECONOMIES FOREIGN DIRECT INVESTMENT AND PORTFOLIO INVESTMENT

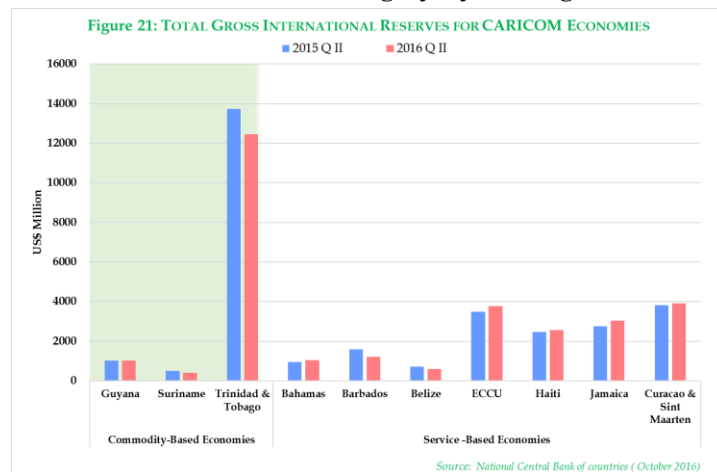
		Foreign Direct Investment						Portfolio Investment					
		US\$M			Per cent Change			US\$M		Per cent Change			
		2015 QI	2015 QII	2016 QI	2016 QII	2016 QI/2015QI	2016QII/2015QII	2015 QI	2015 QII	2016 QI	2016 QII	2016QI/2015 QI	2016QII/2015 QII
Commodity-based economies	Guyana	56.5	22.4	18.6	10.6	(67.1)	(52.9)	(2.0)	8.2	(2.4)	(3.9)	19.4	(147.3)
	Trinidad & Tobago	483.0	(416.5)	326.6	320.9	(32.4)	(177.0)	(81.1)	(9.2)	29.3	(14.5)	(136.2)	57.6
Service-based economies	Bahamas	150.3	41.2	(94.8)	78.3	(163.1)	90.1	(4.2)	(3.4)	(4.2)	(5.2)	0.0	52.9
	Belize	(24.2)	(48.7)	(29.0)	n.a.	19.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Jamaica	217.1	177.5	232.8	n.a.	7.2	n.a.	(298.0)	(129.8)	(231.1)	n.a.	(22.4)	n.a.

Source: National Central Banks, October 2016

3.7.3 International Reserves

Total gross international reserves for the Caribbean economies fell by 2.2 per cent in June 2016 (US\$31,064.9 million) when compared to its level at June 2015 (US\$31,760.5 million).

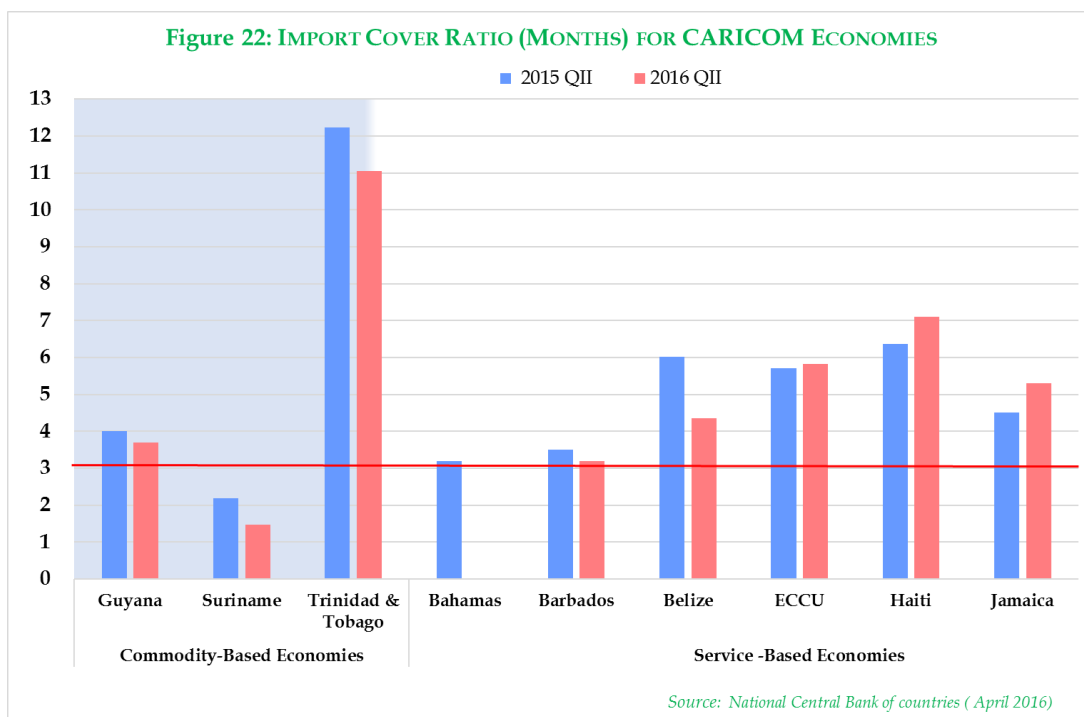
This decline was driven largely by the significant fall of 8.9 per cent in total reserves for the



commodity-based economies in the review period as reserves were drawn down to finance governments fiscal deficits in Suriname and Trinidad and Tobago. In contrast, the service-based economies reported an increase in its combined reserves of four per cent in the review period.

All three commodity based economies reported a decline in their import cover ratio. At the end of June 2016 the reserves of each economy were 3.7 months (Guyana), 1.5 months (Suriname) and 11.1 months (Trinidad and Tobago).

In the case the service-based economies, both Barbados (23.9 per cent) and Belize (16.7 per cent) registered declines in international reserves. The level of reserves contracted in Barbados and Belize due to the slow pace of economic activity and the need to service debt payments. All the other service-based economies experienced increases in their gross international reserves over the review period. Import cover ratios generally mirrored movements in international reserves.



4.0 ECONOMIC PROSPECTS 2016/2017

The prospects for growth in the Caribbean hinge not only on international developments but also on the inherent structural macroeconomic vulnerabilities of these countries. Factors such as the growth performance of important trading partners, commodity price trends and competition from non-traditional tourism destinations is likely to have a significant impact on Caribbean economic performance. Domestic factors such as fiscal and debt sustainability issues, external account weakness and relatively high NPLs will also impact on the growth trajectory in the near term depending on how these challenges are addressed.

In this challenging international economic environment the outlook for the CARICOM region is mixed. Overall, the IMF estimates that the region will grow by only 0.2 per cent in 2016 improving to 2.2 per cent in 2017. Growth has been hampered by unexpected weakness in the US economy in the first half of 2016 and continuing low growth amongst commodity producers.

Continuing low commodity prices are expected to benefit the service-based economies of the region. The dip in growth in the US is, however, expected to dampen tourism flows from the US creating a drag on growth in 2016 which eases in 2017 at the US economy recovers. Over the next two years growth in these economies are projected at 1.2 per cent in 2016 rising to 2.2 percent in 2017. Lower energy costs is also expected to help reduce external imbalances in these economies and fiscal balance in many countries are likely to improve in *some* of the service-based economies driven by increased revenues from stronger growth and adjustment efforts. This average performance does, however, masks significant differences in performance between service-based countries, reflecting pre-existing external, fiscal and financial vulnerabilities which restrain growth more intensely in some countries. Business and consumer confidence in particular have been negatively affected by these vulnerabilities which have proven to be significant factors hampering the robust recovery of private demand and growth in these jurisdictions.

Commodity-based producers on the other hand are expected to face increased challenges as commodity prices soften. This group of countries is expected on average to record negative growth of -1.9 per cent in 2016 which is expected to improve to 2.3 per cent in 2017 as commodity prices recover some lost ground. The negative shocks have also had differential

impact amongst commodity producers with Suriname and Trinidad and Tobago recording more significant fall-out from the commodity price shock. External imbalances have intensified in these countries leading to lower international reserves and increased pressure in the foreign exchange market.

Table 7: CARIBBEAN GROWTH PROSPECTS

Country	Actual		Projections	
	2014	2015	2016	2017
Bahamas, The	-0.5	-1.7	0.3	1.0
Barbados	0.2	0.9	1.7	1.7
Belize	4.1	1.0	0.0	2.6
ECCU	3.7	2.4	2.2	2.7
Guyana	3.8	3.2	4.0	4.1
Haiti	2.8	1.2	1.5	3.2
Jamaica	0.5	0.9	1.5	2.0
Suriname	1.8	-0.3	-7.0	0.5
Trinidad and Tobago	-1.0	-2.1	-2.8	2.3
Service Based Economies	1.8	0.8	1.2	2.2
Commodity Based Economies	1.6	0.3	-1.9	2.3
Regional Average	1.7	0.6	0.2	2.2

Source: Regional Central banks and IMF, Global Economic Prospects, October 2016.

It should also be noted that there are significant downside risks attached to this outlook. In particular, the potential for a Zika virus outbreak exist which could hamper tourism inflows and lead to the reversal of recent gains. The normalizing of the US relationship with Cuba is also likely to open up this relatively new market and intensify the level of competition within the Caribbean tourism market potentially leading to some CARICOM countries losing market share. Another important risk to the Caribbean is the issue of de-risking by international banks which could disrupt traditional correspondent banking relationships, leading to problems with international trade and investment. Any unexpected slowdown in the US and related exchange rate developments could also lead to reversals in the tourism sector and slower growth. The slowdown in the US economy in the 1st quarter of 2016 should have alerted the region to this possibility. Additionally, long standing debt and fiscal sustainability issues, relatively low productivity and relatively high NPLs could also create headwinds for growth in the Caribbean.

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. Service-based economies should use lower commodity prices to accelerate the fiscal consolidation process with a view to improving debt sustainability. Higher levels of non-performing loans in service-based economies is also a major drag on growth which implies the need for stronger macro-prudential frameworks.

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. Where appropriate, commodity exporters could allow more exchange rate flexibility to help with the adjustment process. Nevertheless, it would be prudent to implement most of the adjustment through the fiscal account rather than letting the exchange rate absorb most of the adjustment since it is a price subject to all kinds of psychological influences and group irrationality. The authorities in these jurisdictions should therefore tread very carefully in this area.

These are necessary but not sufficient conditions for the resumption of strong sustainable growth. It also requires an improvement in the level of international 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.