CARIBBEAN CENTRE FOR MONEY & FINANCE

CARIBBEAN ECONOMIC PERFORMANCE REPORT 2016

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CARIBBEAN CENTRE FOR MONEY AND FINANCE

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CARIBBEAN CENTRE FOR MONEY AND FINANCE
The University of the West Indies
St. Augustine, Trinidad and Tobago
Phone: (868) 645-1174**, Fax:** (868) 645-6017
E-Mail: ccmf@sta.uwi.edu
Website: www.ccmfuwi.org

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1.0 EXECUTIVE SUMMARY

There have been modest improvements in the global economy since the fourth quarter of 2016. The global growth forecast for 2017 has therefore been marked up from 3.4 to 3.5 per cent and it is expected to approximate 3.6 per cent in 2018. This improvement is likely to be more widespread than past global economic recovery episodes driven by the US but also by more resilience in Europe, China, Japan and some improvement amongst commodity exporters. This improvement was underpinned in large part by increased investment which has resulted in significant improvements in international manufacturing and trade. The improvement has, however, not been universal and many downside risks still cloud global economic prospects.

The global economy therefore continues to be hampered by structural weaknesses in the form of low productivity and high income inequality. Moreover, inward looking policies and protectionist sentiments are also gaining traction in many countries driven by the unequal distribution of the benefits of globalisation. Other major risks include the potential for faster than expected increase in interest rates in the US which can lead to the tightening of financial conditions and the slowing of capital flows to emerging and developing countries, as well as US dollar appreciation and the associated negative impact on the external competitiveness of many emerging and developing economies pegged to the Dollar. The expected de-regulation in the US also has the potential to dilute financial regulations and increase the likelihood of renewed financial instability.

In this context, the major policy priorities include greater political commitment to implement structural reform packages, policies to develop skills, remove barriers to competition and trade, policies to support demand at the national level in the form of well targeted infrastructure programmes and other supply-friendly fiscal measures (where there is fiscal space), the continuing repair of the balance sheet of financial institutions and improvements in macro-prudential frameworks to deal with any emerging risks to the international financial system.

In this environment, average economic growth in the Caribbean fell from 0.4 per cent in 2015 to -0.5 per cent in 2016 as the slight improvement in growth amongst service-based economies was overshadowed by a significant decline in the average growth of commodity-based economies from -0.4 to -2.6 percent in the review period. Inflationary pressures were relatively muted except in Suriname where significant currency depreciation drove up inflation.

The labour markets in the Caribbean continue to be affected by the slowdown in regional economic activity. The average rate of unemployment for the region (for which data was available) remained relatively unchanged in the review period but there were increased levels of unemployment amongst commodity-based economies.

In spite of fiscal consolidation efforts, most economies overall fiscal accounts deteriorated in 2016 except in the ECCU. The dynamic of reduced revenues but expenditures that were sticky downwards contributed to this outcome. The region's combined overall fiscal deficit widened by 14.8 per cent in 2016 when compared to 2015. This was due in large part to a 50 per cent deterioration in the overall balance amongst commodity-based economies.

Caribbean economies continued to struggle with relatively high levels of debt in 2016. The total debt stock for the region increased by 5.6 per cent. The service-based economies' total debt stock increased by 4.4 per cent while that of commodity-based economies increased by 9.5 per cent. The latter group's increased indebtedness was due to increased borrowings to fund deficits in the face of weak commodity prices.

In the financial sector, interest rates were relatively muted except in Suriname where the monetary authorities sought to tighten policy to deal with inflationary pressures driven by exchange rate developments. In contrast, interest rate generally fell off in their service-based counterparts due in large part to low credit demand. Total private sector credit for the region remained relatively unchanged in 2016, moving from US$30,748.87 million in 2015 to US$30,682.1 million in 2016. The demand for US dollars in the Caribbean continued to be high in 2016. Regionally, US dollar deposits at commercial banks increased by four per cent from US$11,958.9 million in 2015 to US$12,436.7 million in 2016. The four core Financial Soundness Indicators (FSIs) for 2016 also reveal that the banking system in the Caribbean remains well capitalised and relatively profitable in comparison to 2015.

Available data for the external current account in 2016 show that the Caribbean region experienced a combined deficit of US$1,603.9 million. This represented an improvement in the region's external competitiveness when compared to the reported regional deficit of US$3,446.6 in 2015. Commodity-based economies recorded a widening of their deficit in 2016 compared to 2015 as exports fell sharply based on both price and supply dynamics. In contrast, the external accounts of their service-based counterparts improved as their combined deficit narrowed driven by improved tourism receipts. In this context, the total gross international reserves for Caribbean declined by 2.1 per cent in 2016 relative to 2015. This deterioration in reserves was more pronounced amongst the commodity-based countries.

The improvements in the global economic situation since the fourth quarter of 2016, particularly the positive developments in the US, is one of the most important factors impacting on the outlook for Caribbean economies. This together with some recovery in international commodity prices over the next two years mean that growth prospects for the region is much more positive. Overall, the IMF expects average regional growth to improve to 1.6 percent in 2017, strengthening further to 2.4 percent in 2018.

2.0 GLOBAL ECONOMIC DEVELOPMENTS

Many of the challenges facing the global economy in 2015 continued in 2016 with global growth falling from 3.2 per cent to 3.1 per cent over this period. There have, however, been modest improvements in the global economy since mid-2016 leading to an increase in the growth forecast for 2017 from 3.4 to 3.5 per cent rising further to 3.6 percent in 2018 (Table 1). The expected increase in growth is expected to be more widespread but there remain serious challenges in some developed economies and commodity exporters. This recovery was driven by increased growth in key developed market economies, improved macroeconomic performances amongst commodity exporters and continued strong growth in China.

TABLE 1: GLOBAL ECONOMIC GROWTH

Country/Region	2014	2015	2016	2017	2018
World	**3.4**	**3.2**	**3.1**	**3.5**	**3.6**
Advanced economies	**1.8**	**1.9**	**1.7**	**2.0**	**2.0**
USA	*2.4*	*2.4*	1.6	2.3	2.5
Japan	*-0.1*	*0.5*	1.0	1.2	0.6
Canada	*2.4*	*1.2*	1.4	1.9	2.0
UK	*3.0*	*2.2*	1.8	2.0	1.5
Euro area	**0.9**	**1.6**	**1.7**	**1.7**	**1.6**
Emerging market and developing economies	**4.6**	**4.0**	**4.1**	**4.5**	**4.8**
Russia	*0.6*	*-3.7*	-0.2	1.4	1.4
Emerging and developing Asia	**6.8**	**6.6**	**6.4**	**6.4**	**6.4**
China	*7.3*	*6.9*	6.7	6.6	6.2
India	*7.3*	*7.3*	6.8	7.2	7.7
Latin America and the Caribbean	**1.3**	**-0.1**	**-1.0**	**1.1**	**2.0**
Brazil	*0.1*	*-3.8*	-3.6	0.2	1.7
Middle East and North Africa	**2.7**	**2.5**	**3.8**	**2.3**	**3.2**

Source: International Monetary Fund, World Economic Outlook Database, April 2017

Better growth outcomes amongst developed economies, especially since the fourth quarter of 2016, were underpinned by stronger growth in the US and better than expected growth in the UK, Germany and Japan. Growth in developed market economies averaged 1.7 per cent in 2016 but is expected to increase to 2.0 per cent in 2017 and 2018. This improvement was driven in large part by increased investment which has resulted in significant improvements in manufacturing and trade. These were two areas which had been key factors restraining global growth. Increased investment was driven by stronger business and consumer confidence in the context of buoyant financial markets, continued policy support in major economies and expectations of fiscal expansion and de-regulation in the US.

Growth in the US rebounded in the second half of 2016 and into 2017 as inventories and business investment recovered 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.

In the context of low inflationary pressures and uneven growth, the US authorities were likely to be very cautious in normalising monetary policy. However, President Trump's aim to pursue an ambitious plan to upgrade US infrastructure together with promised 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. In this context, the Federal Reserve instituted two rate increases since then. This implies that a faster pace of interest rate normalisation is more likely now 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.

Emerging and developing economies grew on average by 4.1 per cent in 2016 and is expected to improve to 4.5 per cent in 2017 as conditions in highly stressed economies normalise. The lower than expected growth in the first three quarters of 2016 was driven by more modest growth in China, weaker growth amongst commodity producers and weaker external demand. In the fourth quarter of 2016, however, stronger commodity prices underpinned by agreed restrictions on supply, policies to support macroeconomic stability and China's public investment programmes have supported improved growth amongst this group of countries.

The improvement has, however, not been universal. Amongst emerging economies India has encountered some headwinds in the form of the currency exchange initiative while Brazil remained trapped in a recessionary spiral. Conflict in the Middle East have also led to reversals in that region and Turkey while political challenges have created a significant drag on growth in South Africa. In developed economies, fiscal and debt sustainability issues, an escalation in real estate prices and an unfinished financial reform agenda are areas of vulnerability. There is also growing insular and protectionist sentiments in the EU and the US which has strengthened nationalist political parties which could cause further uncertainty about the policy framework likely to be adopted by these countries in the future.

More generally, there also seems to be a dis-connect between financial markets and fundamentals in major markets. This is reflected in the fact that equity valuations have increased significantly in many of these markets over the past six months despite expectations about long-term nominal and real GDP growth that are still relatively weak. Expectations for corporate earnings growth in the euro area and the United States have also not been revised up over this period. This could set the stage for a reversal of market sentiments leading to market volatility which could derail the recovery.

The global economic recovery therefore continues to be vulnerable to downside risks such as structural weaknesses in the form of low productivity and high income inequality. Increasingly, inward looking policies and protectionist sentiments are also gaining traction in many countries driven by the unequal distribution of the benefits of globalisation. This has furthered eroded support for the global economic and financial governance system created in the aftermath of the World War II which has supported the development of emerging and developing countries. Other major risks include the potential for faster than expected increase in interest rates in the US which can lead to the tightening of financial conditions and the slowing of capital flows to emerging and developing countries, as well as US dollar appreciation and the associated negative impact on the external competitiveness of emerging and developing economies pegged to the Dollar. The expected de-regulation in the US also has the potential to dilute financial regulations which can increase financial stability risks. Additionally, the escalation of geopolitical tensions in the Middle East and on the Korean peninsula have the potential to be a major impediment to global economic growth.

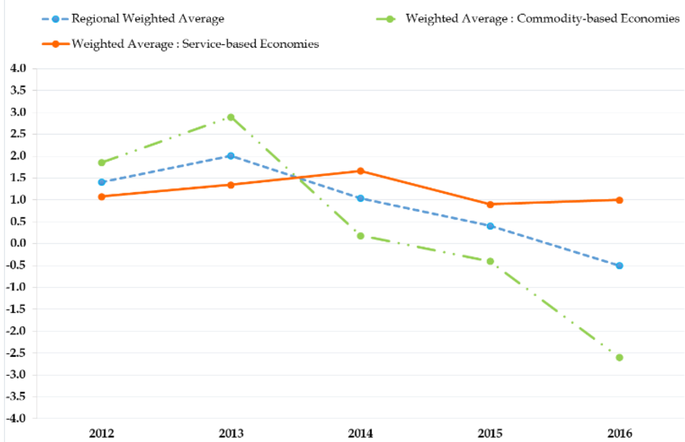
In this context, the major policy priorities should include greater political commitment to implement structural reform packages to boost inclusive growth. These should combine policies to develop skills, remove barriers to competition and trade, and improve labour market policies in a way that raises overall incomes and shares the gains widely. This could include policies to support demand at the national level in the form of well targeted infrastructure programmes and other supply friendly fiscal measures, especially where there is fiscal space. The continuing repair of the balance sheet of financial institutions and improvements in macro-prudential frameworks to deal with any emerging risks to the financial system should also be a priority. Additionally, a range of developed and emerging and developing countries need to develop a more credible long-term debt strategy to bolster confidence and remove a major source of vulnerability to global economic prospects. Finally, and most importantly in the current political climate, is the need to renew support for the multilateral financial and trade regime which has supported the global economic system since 1945.

3.0 REGIONAL ECONOMIC PERFORMANCE

3.1 ECONOMIC GROWTH

The region's weighted average growth rate has been trending downward since 2014 (Figure 1). In 2016, the weighted average growth rate was -0.5 per cent declining from 0.4 per cent in 2015. The service-based economies' weighted average growth rate improved marginally from 0.9 per cent in 2015 to one per cent in 2016. This was offset by a marked decline in the weighted average growth rate of the commodity-based economies from -0.4 per cent in 2015 to -2.6 per cent in 2016. Low commodity prices hampered growth in the commodity-based economies while the service-based economies benefitted from consistent improvements in their tourism sector.

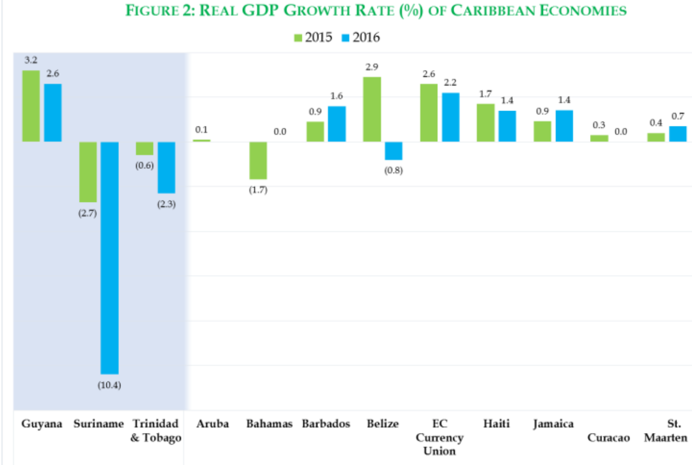
FIGURE 1: WEIGHTED AVERAGE GROWTH RATES OF THE CARIBBEAN ECONOMIES (%)



Source: National Central Bank of countries (April 2017)

Suriname experienced the most notable decline in its real growth rate from -2.7 per cent in 2015 to -10.4 per cent in 2016. Suriname's economic contraction was due in large part to the fall in international gold and oil prices and to spill-over effects from the closure of the Suralco alumina plant in 2015. In 2016, this situation continued because of insufficient fiscal buffers and ineffective policy responses to its economic situation. The main contributor to the decline in economic activity was the government sector, which contracted by 26.9 per cent between 2015 and 2016. In mid-2016, developments on policy reforms were either delayed or reversed. The government's decision to freeze fuel pump prices in nominal terms and to cancel the increase in electricity prices decreased the available public sector resources by an estimated 0.8 per cent of annual GDP per month, according to the International Monetary Fund. Also, construction activity contracted significantly from 12.9 per cent in 2015 to -8.3 per cent in 2016.

FIGURE 2: REAL GDP GROWTH RATE (%) OF CARIBBEAN ECONOMIES



Source: National Central Bank of countries (April 2017)

Guyana's decline in real GDP growth rate from 3.2 per cent in 2015 to 2.6 per cent in 2016 was due to a major slowdown in its agriculture sector. Low commodity prices, harsh weather conditions and lower international market prices for rice. Also, an inadequate supply of cranes for the sugar industry compounded the problem resulting in a decrease in output from the transportation sector from 13.6 per cent in 2015 to three per cent in 2016. The construction sector, however, rebounded and improved from -10.0 per cent in 2015 to 3.2 per cent in 2016. Trinidad and Tobago reported a decline in real GDP growth rate from -0.6 per cent in 2015 to -2.3 per cent in 2016. This was due to the continued contraction in the petroleum sector by 9.6 per cent. Preparatory work by major oil and gas producers to accommodate new fields and increased maintenance repairs led to a decrease in upstream productivity. Also, productivity was impacted downstream as well, with petrochemical producers being negatively impacted by reduced oil and gas supplies which resulted in lower LNG, fertilizer and methanol production. Construction activity also contracted, this was based on reductions in cement and retail sales of hardware and construction materials in 2016.

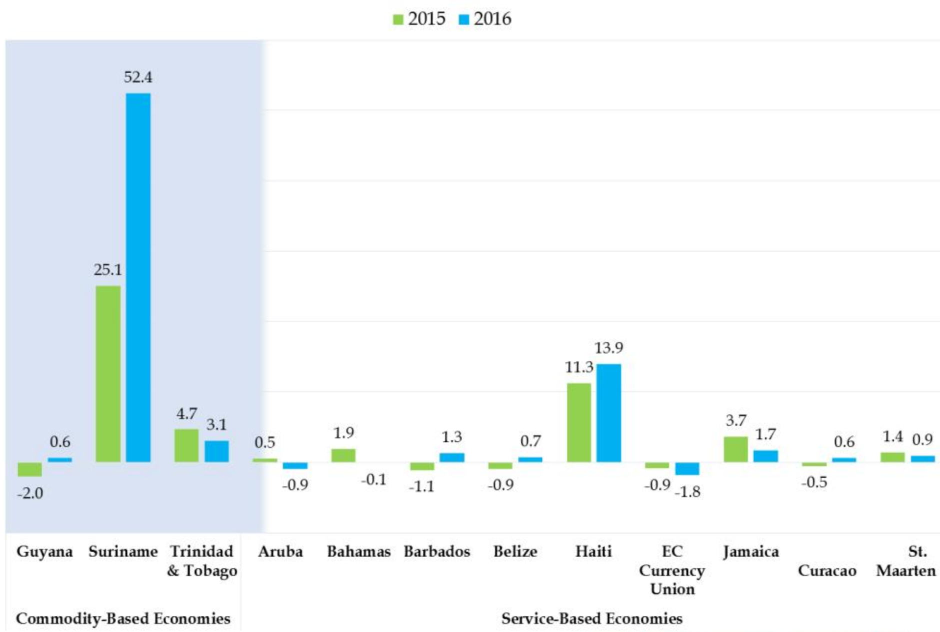
In terms of service-based economies, Belize experienced the largest decline in its growth rate from 2.9 per cent in 2015 to -0.8 per cent in 2016 due to a decrease in agricultural and fishery output and the adverse effects of Hurricane Earl. The ECCU's slight decline from 2.6 per cent to 2.2 per cent over the review period was due to a decline in output from their agriculture sector but this was largely outweighed by the growth in the construction sector. A decrease in non-banana output and harsh weather conditions influenced the contraction of the agriculture sector from 9.5 per in 2015 to -2.1 per cent in 2016. The construction of tourism-related establishments and residences continued to boost the construction sector in the ECCU. Haiti's marginal decline was due to damage and loss inflicted by Hurricane Matthew in October 2016.

Barbados' increase in real growth rate from 0.9 per cent in 2015 to 1.6 per cent in 2016 was mainly driven by the improved performance of tourism and business-process outsourcing. The increase in real growth in Jamaica from 0.9 per cent in 2015 to 1.4 per cent in 2016 was aided by higher rates of net external and domestic demand. Increased consumer confidence and higher rates of employment and investor confidence facilitated more investments in infrastructure, business-process outsourcing, tourism and agro-processing.

3.2 INFLATION

Most of the Caribbean economies continued to experience relatively low inflationary pressures, with Suriname being the exception (Figure 3). The regional weighted average inflation rate increased from 4.2 per cent in 2015 to 5.9 per cent in 2016, this was reflective of the higher inflation rates in the commodity-based economies. The weighted average inflation rate of the commodity-based economies increased from 7.2 per cent in 2015 to 10.6 per cent in 2016 largely because of domestic developments in Suriname. In contrast, service-based economies recorded a decrease in their weighted average inflation rate over the same period from 2.5 to 0.8 per cent. The weighted average inflation rate for the service-based economies was reflective of low commodity prices.

Figure 3: Average Inflation Rate (%) for Caribbean Economies



Source: National Central Bank of countries (March 2017)

Suriname's average inflation rate more than doubled in 2016, increasing from 25.1 per cent in 2015 to 52.4 per cent. In early 2016, the government entered into a US$481 million stand-by arrangement with the IMF where combinations of the programme's conditions and domestic measures impacted heavily on the economy. The devaluation of the Suriname dollar and the transition to a floating exchange rate exacerbated the recession while the decision to decrease certain subsidies such as housing and utilities all contributed to the high level of inflation in 2016.

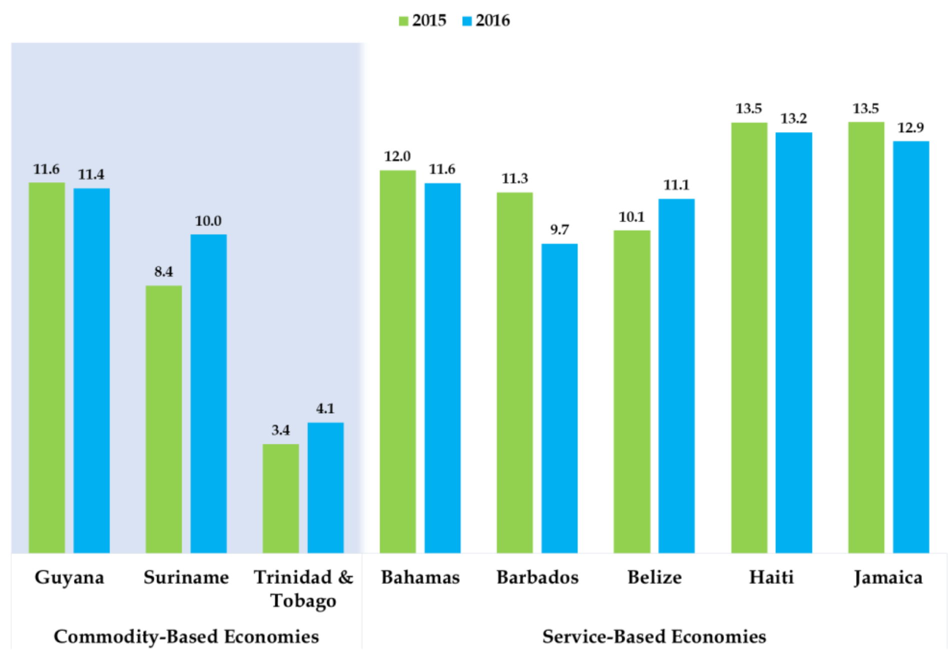
Guyana also experienced an increase in inflationary pressures in 2016, moving from deflation in 2015 with its average inflation rate of minus two per cent to 0.6 per cent. Inflationary pressures in Guyana were due to rising prices for fruits, vegetables and spices. Trinidad and Tobago was the only commodity-based economy to register a decline in its average inflation rate moving from 4.7 per cent in 2015 to 3.1 per cent in 2016 where rising food prices were tempered by deflation in the housing market.

Among the service-based economies, The Bahamas experienced the largest decrease in inflation followed by Jamaica. A reduction in housing, water, gas, electricity and other fuel prices resulted in The Bahamas' average inflation rate declining from 1.9 per cent in 2015 to -0.1 per cent in 2016. Inflation in Jamaica was the lowest since 1964, with its reported average inflation rate of 1.7 per cent in 2016. This decline in Jamaica's average inflation rate was reflective of weak domestic demand, favourable weather conditions and declining inflation expectations. Haiti's inflation rate increased significantly moving from 11.3 per cent in 2015 to 13.9 per cent in 2016, due to the impact of exchange rate depreciation as well as the continuous economic instability stemming from political uncertainty. Belize's higher inflation rate of 0.7 per cent in 2016 was due to a rise in the price of fuel and housing. While Barbados's higher inflation rate in 2016 was due to increases in the price of food and non-alcoholic beverages.

3.3 LABOUR MARKETS

The labour markets of Caribbean economies continue to be affected by the slowdown in regional economic activity. The average rate of unemployment for the region for which data was available (Figure 4) remained relatively unchanged, having moved from 10.5 per cent in 2015 to 10.6 per cent in 2016. Commodity-producers average unemployment rate moved to 8.5 per cent in 2016 from the 7.8 per cent recorded in 2015. In contrast, the service-based economies registered lower levels of unemployment in 2016 with an average unemployment rate of 11.8 per cent compared with 12.1 per cent in 2015.

FIGURE 4: UNEMPLOYMENT RATES (%) FOR CARIBBEAN ECONOMIES



Source: World Bank (2017), National Central Bank of countries (April 2017)

The commodity-based economies of Suriname and Trinidad and Tobago reported higher unemployment rates in 2016 because of the global decline in commodity prices, lower output and shortages within the energy sector. Trinidad and Tobago's rate was also impacted by maintenance shutdowns in the energy sector and related spill-overs to non-energy sectors. Guyana's unemployment rate in 2016 was reflective of a modest increase in employment in the mining sector. The unemployment rate of Guyana moved from 11.6 per cent in 2015 to 11.4 per cent in 2016.

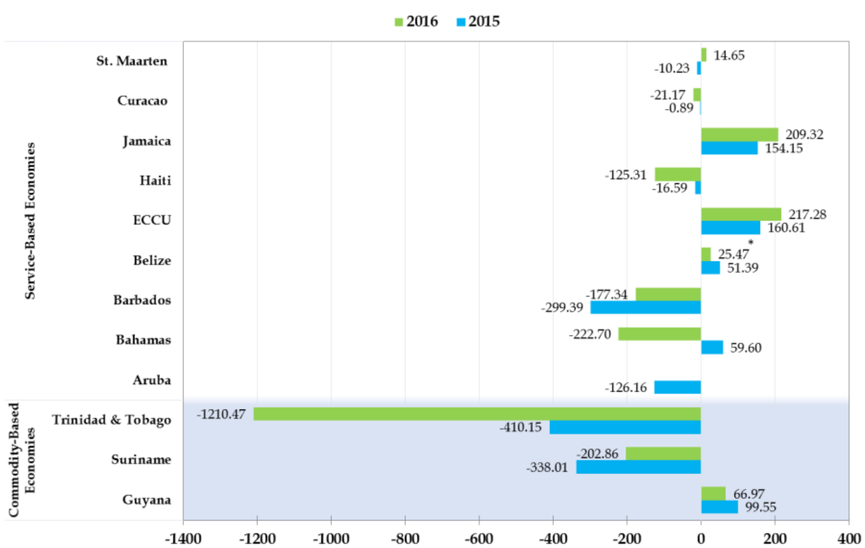
In contrast, all the service-based economies for which data was available, except Belize, registered lower levels of unemployment in 2016. Barbados improved the most with its unemployment rate decreasing from 11.3 per cent in 2015 to 9.7 per cent. Developments in the tourism sector boosted employment and helped propel a recovery in the construction sector as well as the accommodation and food services sectors. The Bahamas' unemployment rate also declined from 12 per cent in 2015 to 11.6 per cent in 2016 as construction jobs grew following damage caused by Hurricane Matthew. However, Belize's recorded a marginal increase in unemployment as the rate rose from 10.1 in 2015 to 11.1 per cent in 2016. This was attributed to commercial job losses in aquaculture and agriculture since these two sectors were highly affected by the country's economic downturn.

3.4 Fiscal Accounts

3.4.1 Current Fiscal Accounts

In spite of fiscal consolidation efforts in most Caribbean economies, fiscal deficits were still prevalent (Figure 5). The combined current fiscal account for the region experienced a significant widening of its deficit from US$545 million in 2015 to US$1,426.2 million in 2016. Both the commodity-based and service-based economies reported a deterioration in their combined current account deficits. The combined current fiscal account for the commodity-based economies reported a deficit widening of 107.6 per cent, with its deficit increasing from US$648.6 million in 2015 to US$1,346.1 million in 2016. This was due to the slowdown in economic activity and low commodity prices in 2016 which resulted in notable declines in government revenue. The service-based economies also experienced a worsening of their combined current fiscal account in 2016, moving from a reported surplus of US$98.9 million in 2015 to a deficit of US$79.8 million. This was due to low levels of economic activity in some of the service-based economies resulting in declines in current revenue.

FIGURE 5 : CURRENT FISCAL BALANCE (US$M) FOR CARICOM ECONOMIES



Source: National Central Bank of countries (April 2017)
* : Data as at Spetember 2016

Figure 6: Current Revenue (US$M) and Percent Change of Current Revenue (2016/2015) for CARICOM Economies

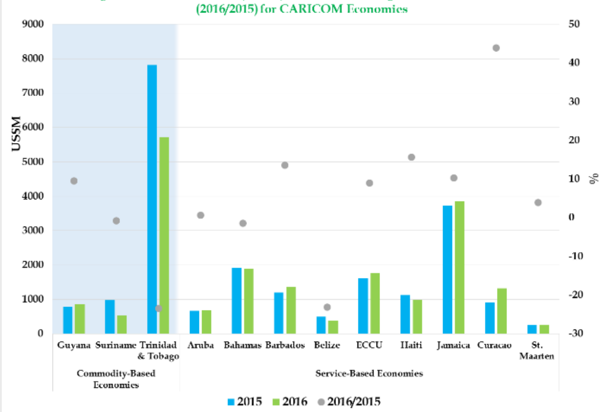
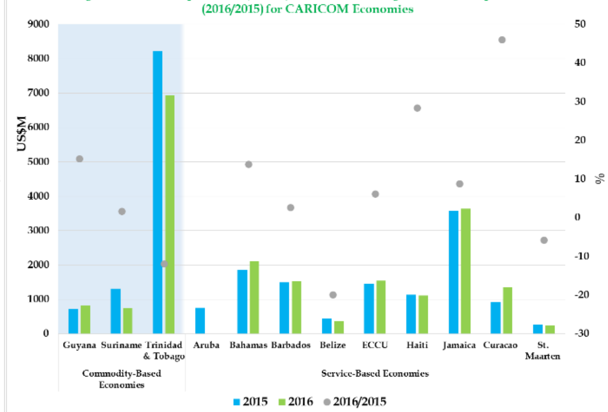


Figure 7: Current Expenditure (US$M) and Percent Change of Current Expenditure (2016/2015) for CARICOM Economies



Low commodity prices in 2016 reduced revenues in commodity-based economies by 52.7 per cent (Figures 6). The combined current expenditure for the commodity-based economies also declined in 2016, decreasing from US$10,257.7 million in 2015 to US$8,495.7 million in 2016 as government instituted measures to restrict their level of spending (Figure 7). Guyana and Trinidad and Tobago both experienced a worsening of their current fiscal account balance in 2016 when compared to 2015 because the decline in current revenue outpaced the decline in current expenditure. The combined current fiscal deficit for the commodity-based economies was heavily influenced by the reported 208.7 per cent widening of the current fiscal deficit in Trinidad and Tobago (Figure 5). Suriname was the only commodity-based economy to report an improvement in its current fiscal account with a narrowing of its current fiscal deficit in 2016 by 40 per cent when compared to 2015. This was due in large part to the imposition of a tight fiscal stance[1] by the government involving the removal of subsidies and transfers and a devaluation of the currency in March 2016.

Increases in current revenue were lower (4.9 per cent) than increases in current expenditure (6.8 per cent) for the service-based economies in 2016 when compared to 2015 (Figure 6 and 7). The service-based economies' current revenues increased because of the implementation of new taxes in some cases and lower energy costs. The increase in the current expenditure for the service-based economies was due mainly to increased wages and salaries. The performances of the current fiscal account balance of the individual service-based economies were mixed in 2016 (Figure 5). The Bahamas, Belize, Haiti and Curacao all experienced a deterioration in their current fiscal account in 2016, when compared to their 2015 balance, with only Belize maintaining a current fiscal surplus.

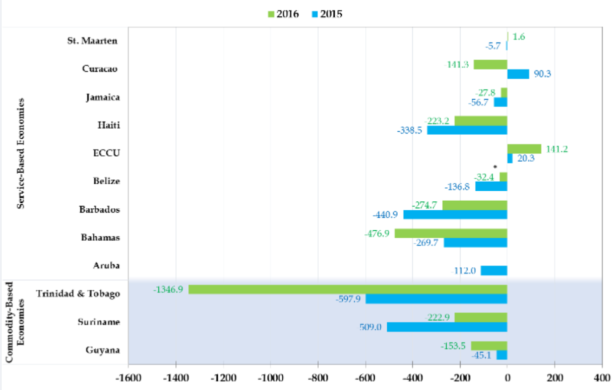
3.4.2 Overall Fiscal Account

The overall fiscal stance of the Caribbean region deteriorated in 2016 (Figures 8 and 9), with economies experiencing a decline in their total revenue, while their total expenditure either remained the same or declined. The Caribbean region's combined overall fiscal account deficit widened by 14.8 per cent in 2016 when compared to 2015. This was due largely to a 50 per

[1] This was in part due to the Standby Agreement Suriname signed with the International Monetary Fund in May 2016.

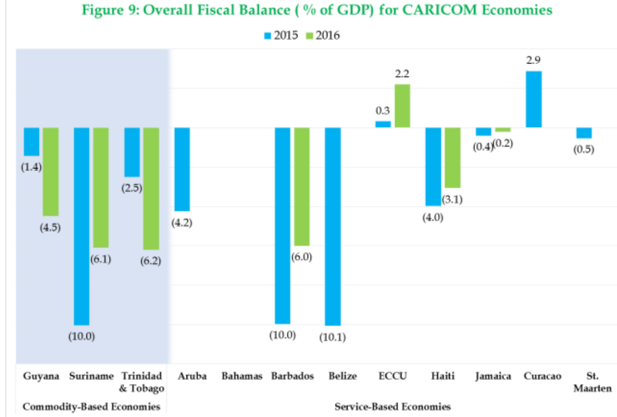
cent increase in the commodity-based economies' combined overall fiscal deficit in 2016. The service-based economies experienced a narrowing of their combined overall fiscal account deficit by 17.4 per cent in 2016.

FIGURE 8 : OVERALL FISCAL BALANCE (US$M) FOR CARICOM ECONOMIES



Source: National Central Bank of countries (April 2017)
Notes : * : Data as at September 2016

Figure 9: Overall Fiscal Balance (% of GDP) for CARICOM Economies



Source: National Central Bank of countries (April 2017)

Suriname was the only commodity-based economy to experience a narrowing of its overall fiscal deficit of 20.7 per cent in 2016. In Guyana the overall fiscal deficit was driven by an increase in current expenditure for wages and salaries, as capital expenditure was relatively unchanged; while, in Trinidad and Tobago it was due to lower revenue receipts.

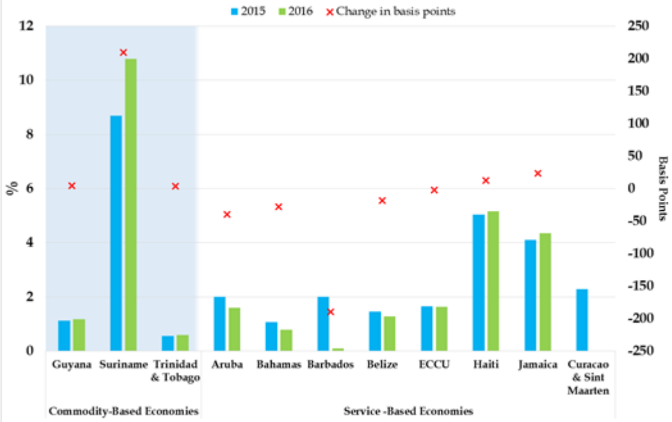
The ECCU was the only service-based economy to report a notable overall fiscal surplus for 2016. This was driven from increased revenues from the citizenship-by-investment programme in ECCU member countries. The other service-based economies all reported improvements in their overall fiscal account in 2016 relative to 2015 except The Bahamas and Curacao. The Bahamas reported a widening of its overall fiscal deficit from US$269.7 million in 2015 to US$476.9 million in 2016. This was partly attributed to a rise in unplanned hurricane recovery-related spending and disrupted revenue collections following Hurricane Matthew in October 2016.

3.5 BANKING AND FINANCE

3.5.1 Interest Rates

Interest rates were relatively muted except in Suriname where the monetary authorities sought to tighten policy to deal with inflationary pressures driven by exchange rate developments. In contrast, interest rate generally fell off in their service-based counterparts due in large part to low credit demand. The regional weighted average three-month commercial bank deposit rate declined from 2.11 per cent in 2015 to 1.97 per cent in 2016. The commodity-based economies experienced an increase in the commercial bank weighted average three-month deposit rate while the service-based economies experienced a decline.

FIGURE 10 : CARICOM ECONOMIES - COMMERCIAL BANK AVERAGE 3-MONTH DEPOSIT RATE



Source: National Central Bank of countries (April 2017)

FIGURE 11: CARICOM ECONOMIES - COMMERCIAL BANK WEIGHTED AVERAGE LOAN RATE

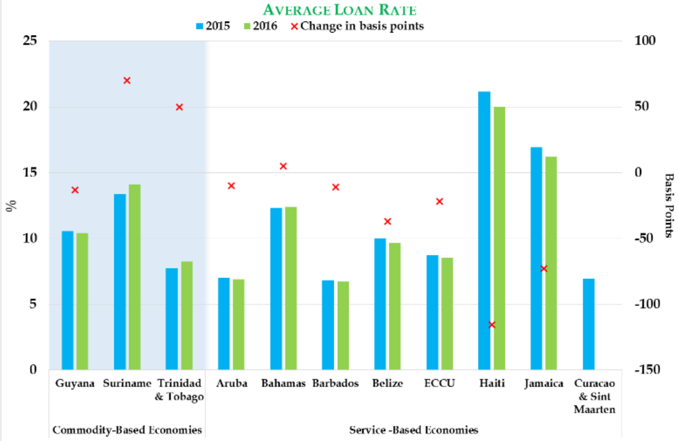


FIGURE 12: CARICOM ECONOMIES - COMMERCIAL BANK INTEREST RATE SPREADS

Source: National Central Bank of countries (April 2017)

Barbados experienced the largest decline in the average three-month deposit rate in 2016 due to the removal of the 2.5 per cent minimum interest rate by the Central Bank of Barbados in April 2015, (Figure 10). This resulted in Barbados's average three-month deposit rate declining from two per cent in 2015 to 0.1 per cent in 2016.

The region's weighted average[2] commercial banks loan rate declined by 18.23 basis points when compared to its 2015 level (Figure 11). The service-based economies weighted average loan rate declined from 11.92 per cent in 2015 to 11.48 per cent in 2016 while the commodity-based economies weighted average loan rate increased from 8.98 per cent in 2015 to 9.19 per cent in 2016. This increase was due in large part to higher commercial banks loan rates in Suriname and Trinidad and Tobago. The increase in the repo rate by the Central Bank of Trinidad and Tobago in December 2015 was the main reason for this increase.

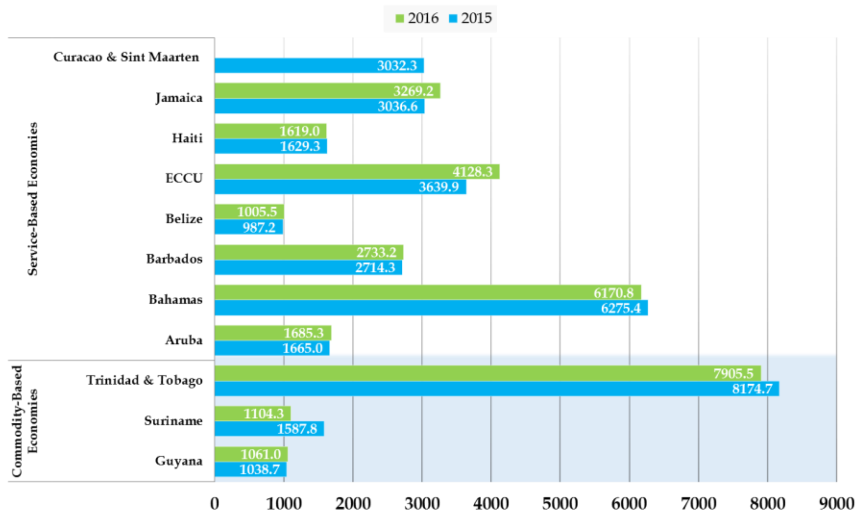
The average interest rate spread for the Caribbean remained relatively unchanged from 8.75 per cent in 2015 to 8.71 per cent in 2016 (Figure 12). The interest rate spread for the commodity-based economies widened, moving from 7.38 per cent in 2015 to 7.49 per cent in 2016. However, the interest rate spread in service-based economies narrowed from 9.47 per cent in 2015 to 9.36 per cent in 2016.

[2] The weighted average commercial banks weighted loan rate was weighted by the Total Loans at Commercial banks.

3.5.2 Commercial Bank Performance

The banking sector in the Caribbean continues to be influenced by the low and uncertain growth prospects of the region. Total private sector credit for the region remained relatively unchanged in 2016, moving from US$30,748.87 million in 2015 to US$30,682.1 million in 2016. The commodity-based economies experienced a decline of 6.8 per cent in total private sector credit, while the service-based economies reported an increase of 3.3 per cent in 2016 over their 2015 values (Figure 13).

Figure 13: Total Domestic Credit to Private Sector from Banks in CARICOM Economies (US$M)



Source: National Central Bank of countries (April 2017)

Guyana was the only commodity-based economy to experience an expansion in total domestic credit to private sector in 2016, with a modest increase of two per cent in its total domestic credit to private sector over its 2015 value.

In the case of Jamaica, the increase in private sector credit from the commercial banks was due to the decline in government borrowing from the banks, thereby freeing resources for banks to lend to the private sector. The Bahamas and Haiti were the only service-based economies to experience a decline in their total domestic credit to the private sector over the review period.

Total regional deposits of commercial banks increased by 1.5 per cent in 2016 while total loans declined by 5.6 per cent, leading to higher excess liquidity (Figures 14 and 15). The commodity-based economies reported a 2.2 per cent decline in the combined total deposit of commercial banks in 2016. This was heavily influenced by a significant decline of 16.5 per cent in the deposits of commercial banks in Suriname. The low interest rate on deposits and the depreciation of the exchange rate resulted in significant losses to local deposits holders in 2016.

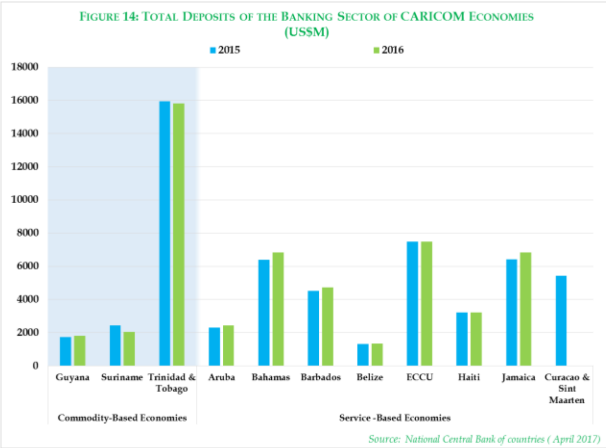


FIGURE 14: TOTAL DEPOSITS OF THE BANKING SECTOR OF CARICOM ECONOMIES (US$M)

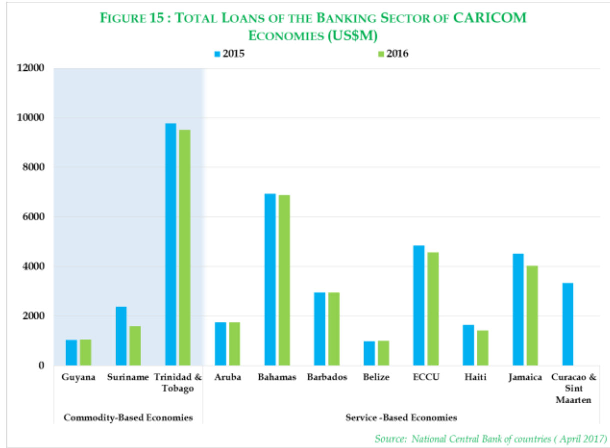


FIGURE 15 : TOTAL LOANS OF THE BANKING SECTOR OF CARICOM ECONOMIES (US$M)

Lending conditions of commercial banks continue to be stringent which translated to a decline in loans for both the service-based economies and commodity-based economies of 7.7 per cent and 4.4 per cent, respectively. Guyana was the only commodity-based economy to report an increase of 2.2 per cent in loans from commercial banks in 2016 when compared to 2015. Aruba and Belize were the only service-based economies to report minimal increases in loans in 2016 relative to 2015.

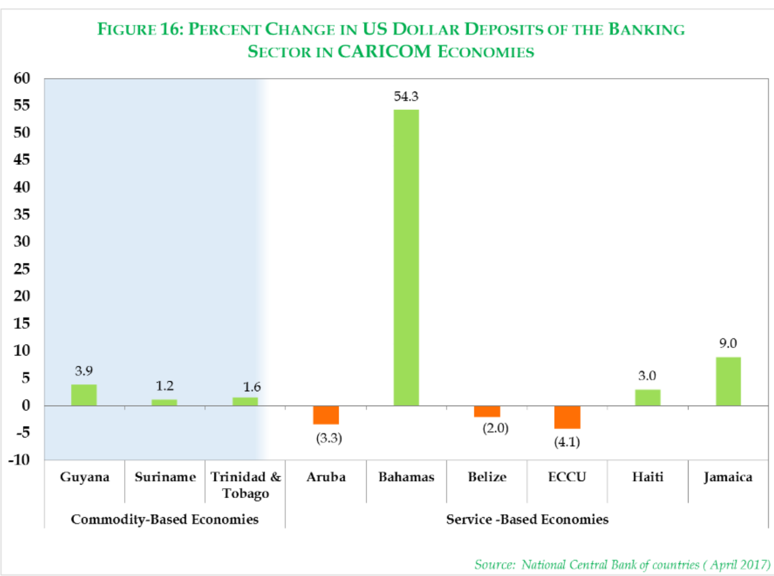


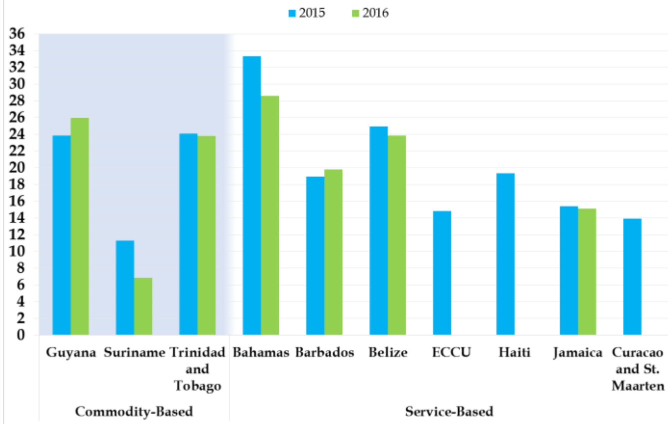
FIGURE 16: PERCENT CHANGE IN US DOLLAR DEPOSITS OF THE BANKING SECTOR IN CARICOM ECONOMIES

The demand for US dollars in the Caribbean continued to be high in 2016. US dollar deposits at commercial banks for the region increased by four per cent, from US$11,656.4 million in 2015 to US$12,108.1 million in 2016 (Figure 16). The commodity-based economies' total US dollar deposits at commercial banks increased by 1.5 per cent in 2016 to US$5,262.4 million from US$5,182.2 million in 2015. The service-based economies also reported an increase of 5.7 per cent in their total US dollar deposits at commercial banks, increasing from US$6776.6 million in 2015 to US$7174.2 million in 2016. This increase in US dollar deposits for the service-based economies was influenced mainly by the significant increase of 54.5 per cent in US dollar deposits for The Bahamas in 2016. Re-insurance inflows from individuals and businesses claiming damage from Hurricane Matthew and a resumption of inflows to a major investment project resulted in the increase in US dollar deposit in The Bahamas from US$194.1 million in 2015 to US$299.5 million in 2016. All the commodity-based economies reported increases in their US dollar deposits (Figure 16).

3.5.3 Banking System – Core Financial Soundness Indicators

The performance of the weighted average[3] of the four core Financial Soundness Indicators (FSIs) for 2016 reveals that the banking system within the Caribbean region remains well capitalised and relatively profitable in comparison to 2015. The FSIs for service-based economies were generally stronger than the commodity-based counterparts in 2016.

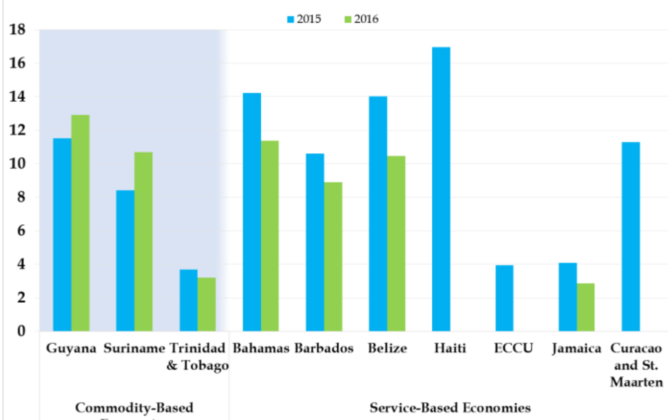
FIGURE 17: REGULATORY CAPITAL TO RISK WEIGHTED ASSETS (%)- BANKING SYSTEM OF CARICOM ECONOMIES



Source: National Central Bank of countries (April 2017)

The region's banking system remained well capitalised in 2016, in spite of a decline in its weighted average Capital to Risk Weighted Assets ratio (CRWAR) from 24 per cent in 2015 to 22.8 per cent in 2016. The commodity-based economies weighted average CRWAR remained relatively unchanged declining from 22.6 per cent in 2015 to 22.4 per cent in 2016. The service-based economies, for which data were available saw their weighted average CRWAR decline from 24.7 per cent in 2015 to 23.2 per cent in 2016.

FIGURE 18: NON-PERFORMING LOANS TO TOTAL LOANS (%) - BANKING SYSTEM OF CARICOM ECONOMIES



Source: National Central Bank of countries (April 2017)

Reflective of the increased scrutiny by commercial banks in issuing loans, the weighted average of the Non-Performing Loan (NPL) ratio of the Caribbean region banking system declined from 9.9 per cent in 2015 to seven per cent in 2016. This decline was influenced by the reported decline in the NPL ratio in both the commodity-based economies and the service-based economies. The weighted average NPL ratio of the service-based economies for which data was available declined from 12.2 per cent in 2015 to 8.7 per cent in 2016, while the commodity-based economies reported a decline in the weighted average NPL ratio from 4.9 per cent in 2015 to 4.8 per cent in 2016. Of the three commodity-based economies, Suriname reported the most significant increase in its NPL ratio from 8.4 per cent in 2015 to 11.1 per cent in 2016. Suriname's current recessionary environment and its currency depreciation has weakened bank, corporates and household balance sheets, thereby created strains in the banking system.

[3] The weighted averages of the four core Financial Soundness Indicators: Capital to Risk Weighted Assets ratio, Non-Performing Loans to Total Loans ratio, Return on Asset and Return on Equity are weighted by Assets of the Banking System.

Profitability of the banking sector in the Caribbean improved in 2016. The weighted average Return on Assets (ROA) and Return on Equity (ROE) both improved in the review period (Figures 19 and 20). The weighted average of the ROA ratio of the Caribbean region increased from two per cent in 2015 to 2.4 per cent in 2016, while the weighted average ROE increased from 12.2 per cent in 2015 to 17.2 per cent in 2016. The region's banking profitability was influenced by higher profitability amongst service-based economies. The weighted average ROA of the service-based economies for which data was available increased from 1.6 per cent in 2015 to two per cent in 2016, while the ROE improved from 8.9 per cent in 2015 to 15.3 per cent in 2016. The commodity-based economies' profitability ratios remained relatively unchanged. Their weighted average ROA moved from 2.8 per cent in 2015 to 2.7 per cent in 2016, while the weighted average of its ROE was 18.9 per cent in 2016 compared to 18.4 in 2015. Suriname was the main contributor to the decline in average profitability of the banking sector in commodity-based economies.

FIGURE 19: RETURN ON ASSETS(%) - BANKING SYSTEM FOR CARICOM ECONOMIES

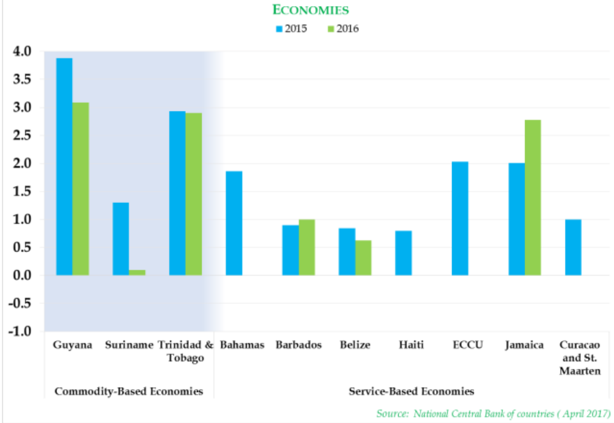
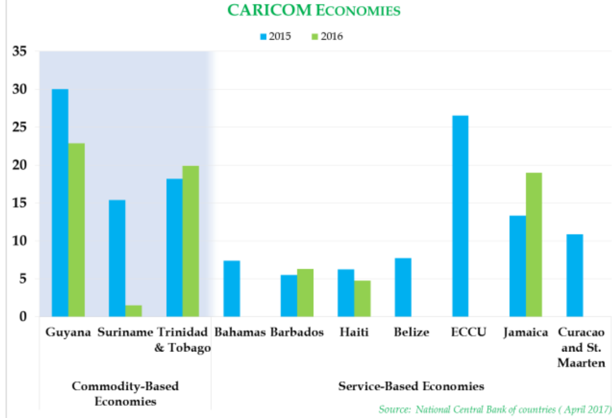


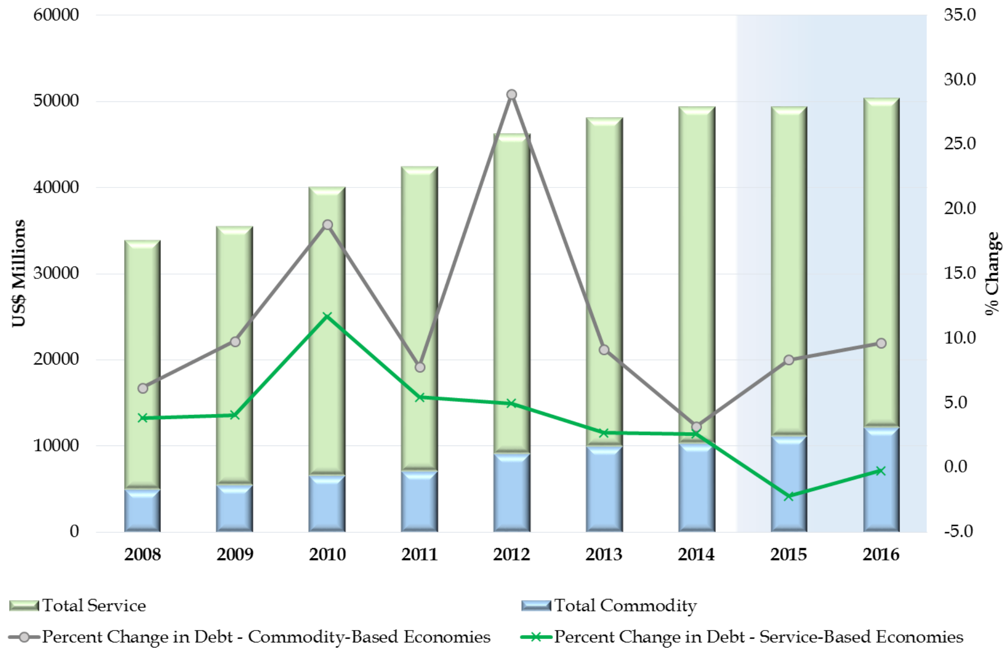
FIGURE 20: RETURN ON EQUITY (%) - BANKING SYSTEM FOR CARICOM ECONOMIES



3.6 PUBLIC DEBT

Caribbean economies continued to struggle with relatively high levels of debt in 2016 (Figure 21). The total debt stock for the region increased by two per cent, moving from US$49,257.5 million in 2015 to US$50,352 million in 2016. The service-based economies' total debt stock declined minimally by 0.24 per cent while commodity-based economies' debt stock increased by 9.6 per cent in 2016 relative to 2015 as a result of the decline in energy prices and the need for governments to borrow to finance their budget deficits. Total debt increased by 4.4 per cent in Guyana and 25.7 per cent in Trinidad and Tobago. The increase in total debt in Guyana was due to the increase in their domestic debt stock from an increase in the issuance of treasury bills to sterilise the excess liquidity within their financial systems. Trinidad and Tobago's higher debt level was driven by increases in both its domestic and international bonds geared towards providing budget support.

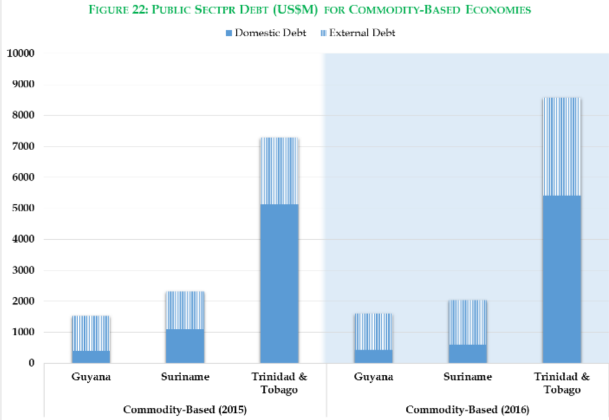
Figure 21: Total Public Debt of Caribbean Economies



Source: National Central Banks of Countries, April 2017

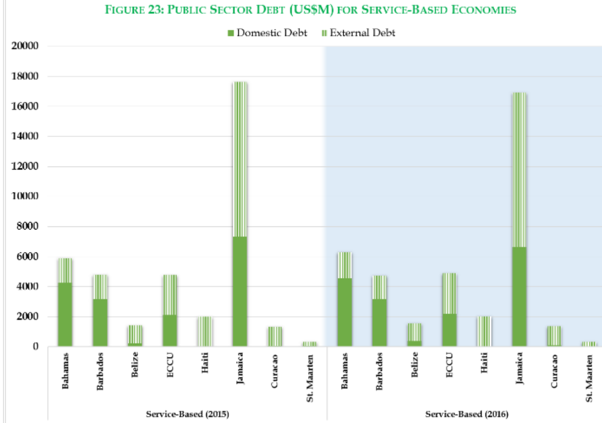
Jamaica and Sint Maarten experienced lower levels of debt in 2016 while the other service-based economies experienced higher levels of debt. These increases ranged from 0.9 per cent (Haiti) to 10.5 per cent (Belize). Belize's higher level of total debt in 2016 was due to the increase of 51.2 per cent in domestic debt. The Central Government relied heavily on domestic financing, issuing BZ$270 million worth of new securities to cover some of the outstanding liabilities for the Belize Telemedia Limited nationalization and other budgetary obligations.

Figure 22: Public Sectpr Debt (US$M) for Commodity-Based Economies



Source: National Central Bank of countries (April 2017)

Figure 23: Public Sector Debt (US$M) for Service-Based Economies



Source: National Central Bank of countries (April 2017)

In terms of outstanding external debt, the commodity-based economies' external debt increased by 27.6 per cent and the service-based economies by 0.4 per cent over the review period. External debt increased in all economies in the review period, except for Barbados and Jamaica. Jamaica's decline of 0.7 per cent is attributed to an IMF-backed programme—the Extended Fund Facility (EFF) that is aimed at sending public debt on a downward path.

The total domestic debt for the commodity-based economies decreased by 2.6 per cent in 2016 over the 2015 value, while the service-based economies reported a slight increase of one per cent for the same review period. Guyana and Trinidad and Tobago experienced increases in their domestic debt, with Suriname being the only commodity-based economy to report a decline of 45.6 per cent. Suriname's decline in domestic debt was due to an adjustment plan undertaken in 2015 with the government cutting the budget deficit by reining in spending, phasing out electricity subsidies and curbing monetary financing.

3.7 INTERNATIONAL TRADE

3.7.1 Balance of Trade

The combined regional balance of trade for the Caribbean region recorded a deficit of US$5,915.4 million in 2016[4] but this represented a 61 per cent narrowing of the trade deficit, when compared to the. Commodity-based economies reported a combined balance of trade surplus of US$81.2 million in 2016, a notable increase from a reported deficit of US$5,366.1 million in 2015. The balance of trade surplus for the commodity-based economies was due to fluctuating commodity prices, particularly oil prices. Additionally, the service-based economies also reported an improvement of 5.2 per cent in the combined balance of trade deficit in 2016 relative to the previous year. The service-based economies reported an improvement in their combined balance of trade deficit because the uptick in the tourism sector allowed for gradual growth to be achieved in 2016.

TABLE 2: BALANCE OF TRADE OF CARIBBEAN ECONOMIES

Caribbean Economies		Total Exports (US$M)		Total Imports (US$M)		Balance of Trade (US$M)		Per cent change 2016/2015		
		2015	2016	2015	2016	2015	2016	Total Exports	Total Imports	Balance of Trade
Commodity-Based Economies	Guyana	1151.3	1440.6	-1491.6	1447.8	-947.4	-7.2	25.1	-197.1	-99.2
	Suriname	1652.3	1447.1	-2027.6	1244.4	-6949.2	202.7	-12.4	-161.4	-102.9
	Trinidad and Tobago	11132	4309.3*	8601.5	4423.6*	2530.5	-114.3*	-61.3*	-48.6*	-104.5*
Service-Based Economies	Aruba	2439.6*	1784.8*	2132.9*	1490.5*	306.6*	294.3*	-26.8*	-30.1*	-4.0*
	Bahamas	34160.	3374.2	4231.6	4295.7	-815.6	-921.5	-1.2	1.5	13.0
	Barbados	1954.0	2082.1	2333.4	2286.6	-379.5	-204.5	6.6	-51.4*	-57.6*
	Belize	537.9	415.9	1050.8	985.0	-512.9	-569.1	-22.6	-2.0	-46.1
	ECCU	385.0	342.1	2489.4	2608.2	-2104.4	-2266.1	-11.1	4.8	7.7
	Haiti	1029.9	1001.6	3445.3	3223.4	-2415.4	-2221.8	-2.8	-6.4	-8.0
	Jamaica	1261.1	1194.9*	4414.4	4168.5*	-3153.3	-2973.6*	-5.2*	-5.6*	-5.7*
	Curacao	1980.1	1346.5*	2439.2	1680.3*	-459.1	-333.8*	-32.0*	-31.1*	-27.3*
	Sint Maarten	1259.1	866.7*	1169.0	849.5*	90.1	17.2	-31.2*	-27.3*	-80.9*

Source: National Central Banks of the countries (April 2017)
*Notes: * represents : Aruba, Curacao, Jamaica, Sint Maarten 2016 data is for Jan-Sept and Trinidad and Tobago 2016 data is for Jan-June*

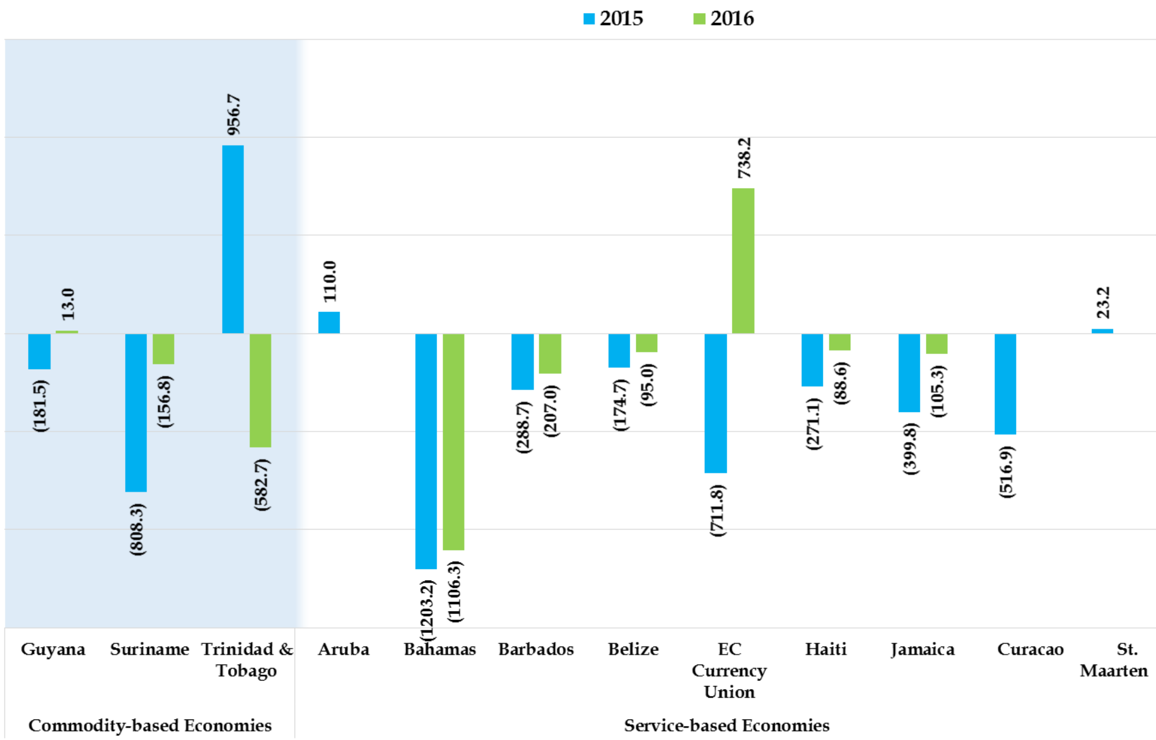
[4] Data for Aruba, Curacao, Jamaica and Sint Maarten was available for Jan-Sept 2016 and Barbados 2016 data was available for Jan-Mar 2016.

3.7.2 External Current Account

Available data for the external current account in 2016 show that the Caribbean region experienced a deficit of US$1,590.5 million. This represented an improvement in the region's external competitiveness when compared to the reported regional deficit of US$3,456.2 in 2015 (Figure 24). The combined external current account deficit of the commodity-based economies widened from US$33 million in 2015 to US$726.5 million in 2016. In contrast, the service-based economies registered a narrowing of their combined external current account deficit from US$3,423.2 million in 2015 to US$864 million[5] in 2016.

Trinidad and Tobago current account deteriorated significantly from a surplus of US$956.7 million in 2015 to a deficit of US$582.7[6] million in 2016. This was due to sharp declines in productivity within the energy and non-energy sectors resulting in lower exports. Growth in tourism receipts and the construction sector were the common causes of the surplus experienced in the service-based economies. The most notable improvement was for the ECCU with its current account deficit of US$711.8 million in 2015 moving to a surplus of US$738.2 million in 2016.

FIGURE 24: EXTERNAL CURRENT ACCOUNT (USM$) FOR CARIBBEAN ECONOMIES



Source: National Central Bank of Countries, April 2017

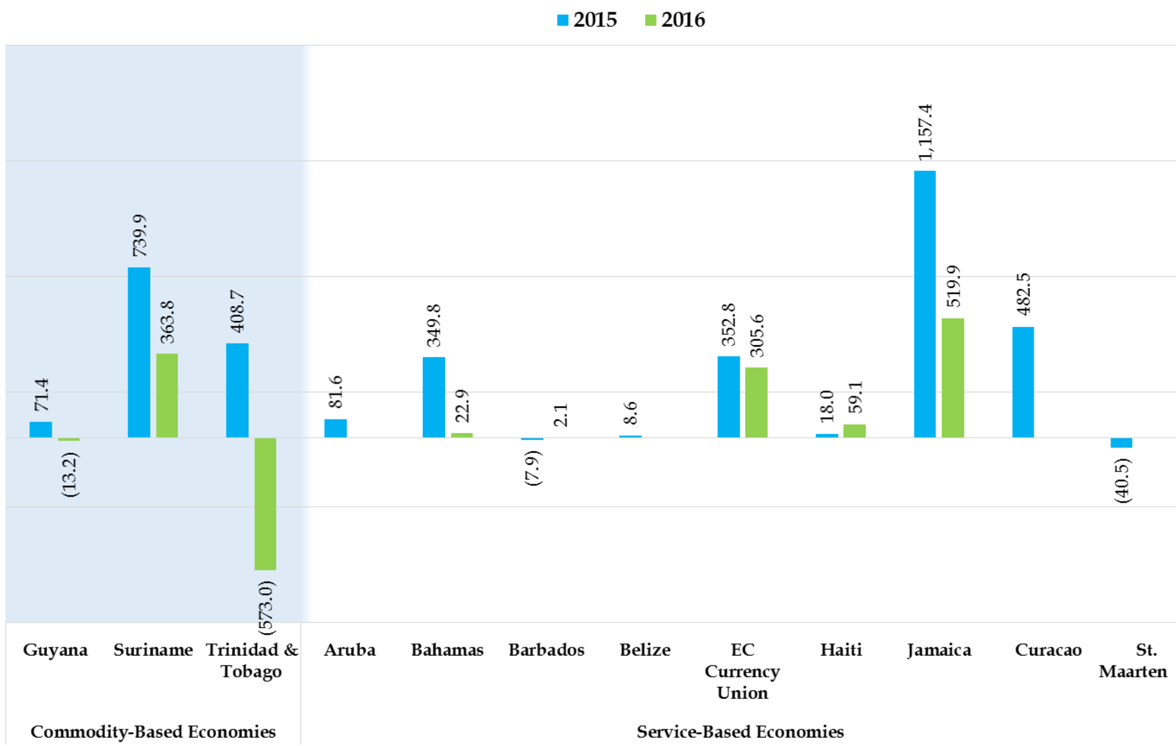
Note: Trindad and Tobago 2016 data is for Jan - June

[5] External Current Account for 2016 missing for Aruba, Curacao and Sint Maarten.
[6] Trinidad and Tobago data for External Current Account in 2016 is for Jan-June.

3.7.3 External Capital Account

The net outflow of the combined external capital account of the Caribbean region narrowed from US$3,623 million in 2015 to US$687.2 million in 2016. The commodity-based economies experienced a net inflow of US$224.2 million in 2016 as opposed to the net outflow of US$1220 million reported in the previous year. The net inflow of the commodity-based economies suggests that their economies are either investing more heavily abroad or there is capital flight occurring. The service-based economies for which data were available recorded a narrowing of their combined external current account net outflow from US$2,403 million in 2015 to US$909.6 million in 2016 (Figure 25).

FIGURE 25 : EXTERNAL CAPITAL ACCOUNT (US$M) FOR CARIBBEAN ECONOMIES



Source: National Central Bank of Countries, April 2017

Note: Trinidad and Tobago 2016 is for Jan - June

Trinidad and Tobago experienced the most notable decline in 2016, with a reported net inflow of US$573 million relative to its reported net outflow US$408.9 million in 2015. In terms of the net foreign investments for Caribbean economies, data was lacking for most countries for the year 2016. For the economies that reported data (Table 3) it is seen that there was a decline in foreign direct investment (FDI) and portfolio investment. A significant decline in portfolio investments was recorded in Trinidad and Tobago, moving from net outflow of US$870.2 million in 2015 to a net inflow of US$383.1 million in 2016. This was due mainly to the issuance of external bonds and a drawdown in the sovereign wealth fund.

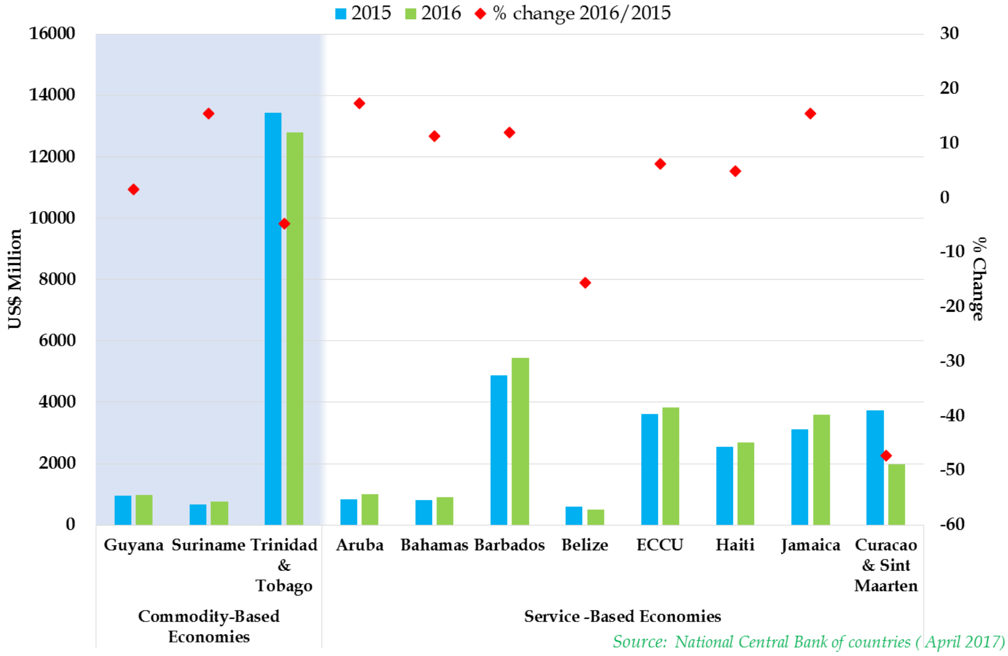
TABLE 3: NET FOREIGN INVESTMENTS FOR CARIBBEAN ECONOMIES

Caribbean Economies		Foreign Direct Investment (US$M)		Portfolio Investment (US$M)	
		2015	2016	2015	2016
Commodity-Based Economies	Guyana	121.7	32	n.a.	n.a.
	Trinidad & Tobago	-253.4	-205.6*	870.2	-382.1*
Service-Based Economies	Aruba	-38.4	n.a.	60.8	n.a.
	Bahamas	250.3	163.3	-12.5	-21.7
	Belize	-58.6	-28.0	n.a.	n.a.
	ECCU	620.5	550.9	-36.2	6.5
	Jamaica	890.8	552.2*	-344.7	-382.1*

*Source: National Central Banks of the Countries; Note: * - Jamaica 2016 data is for Jan-Sept and Trinidad and Tobago 2016 data is for Jan-June.*

3.7.4 International Reserves

FIGURE 26: TOTAL GROSS INTERNATIONAL RESERVES FOR CARIBBEAN ECONOMIES (MONETARY AUTHORITIES AND COMMERCIAL BANKS)



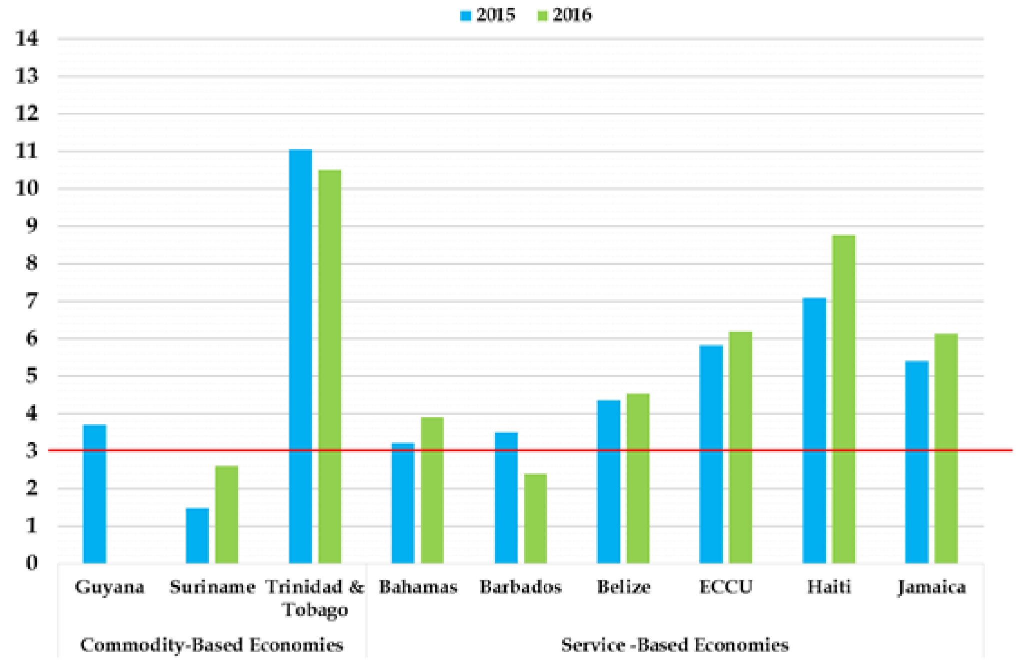
Source: National Central Bank of countries (April 2017)

Note: Data not available for 2016 for Curacao and Sint Maarten for the Reserves at Commercial Banks.

The total gross international reserves for Caribbean economies declined by 2.1 per cent in 2016 relative to 2015. Commodity-based economies reported a 3.4 per cent decline in combined total gross reserves while the service-based economies' experienced a decline of 1.1 per cent. The lower level of total gross reserves for the commodity-based economies was influenced by the 4.7 per cent decline in total gross reserves in Trinidad and Tobago. The decline in the sale and purchase of foreign exchange and lower receipts from the energy sector were the main reasons for this decline. With respect to the service-based economies, all countries except Belize experienced an increase in total gross reserves. Belize reported a 14.8 per cent decline in its reserves was due to their merchandise trade deficit and higher profit outflows.

All Caribbean economies had import cover ratios for above the three-months benchmark in 2016 except Suriname and Barbados.

FIGURE 27 : IMPORT COVER RATIO (MONTHS) FOR CARICOM ECONOMIES



Source: National Central Bank of Countries as at April 2017

4.0 ECONOMIC PROSPECTS 2017/2018

The prospects for growth in the Caribbean hinge not only on international developments but also on the inherent structural macroeconomic vulnerabilities of these countries and policy responses. Factors such as the growth performance of important trading partners and commodity price trends 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.

The improvements in the global economic situation since the fourth quarter of 2016, particularly in the positive developments in the US is one of the most important factors impacting on the outlook for Caribbean economies. Overall, the IMF indicates that the region grew by -0.7 per cent in 2016 down from the 0.6 percent recorded in 2015. The average growth for the region is, however, expected to improve to 1.6 percent in 2017, strengthening further to 2.4 percent in 2018 (Table 4). The weaker than expected growth in 2016 was caused by unexpected weakness in the US economy in the first half of 2016 which negatively affected the tourism dependent economies. Continuing low commodity prices and supply challenges also negatively affected Suriname and Trinidad and Tobago.

TABLE 4: CARIBBEAN GROWTH PROSPECTS

Country	Actual			Projections	
	2014	2015	2016	2017	2018
Bahamas, The	-0.5	-1.7	0.0	1.4	2.2
Barbados	0.2	0.9	1.6	1.7	1.8
Belize	4.1	1.0	-1.0	3.0	2.3
ECCU	3.7	2.4	2.1	2.4	2.4
Guyana	3.8	3.2	3.3	3.5	3.6
Haiti	2.8	1.2	1.4	1.0	3.0
Jamaica	0.5	0.9	1.5	2.0	2.4
Suriname	1.8	-0.3	-10.5	-1.2	0.8
Trinidad and Tobago	-1.0	-2.1	-5.1	0.3	3.4
Service Based Economies	1.8	0.8	1.0	1.9	2.3
Commodity Based Economies	1.6	0.3	-4.1	0.9	2.6
Regional Average	1.7	0.6	-0.7	1.6	2.4

Source: Regional Central Banks and IMF, Global Economic Prospects, April 2017.

The expected partial recovery in commodity prices and improvements in the supply side of the energy sector are expected to help improve growth outcomes amongst commodity-based producers while the continued strength in the US economy is expected to also benefit service-based economies in 2016 and 2017. Over the next two years, commodity based economies are expected to grow by 0.9 per cent in 2017 rising to 2.6 percent in 2018 while service based economies are expected to grow by 1.9 and 2.3 percent over the corresponding period. These average performances, however, masks significant differences in performance between 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.

It should also be noted that there are significant downside risks attached to this outlook. The normalising of the US relationship with Cuba is likely to 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 have disrupted traditional correspondent banking relationships and could lead to more significant problems with international trade and investment if not addressed as a matter of priority. Any unexpected slowdown in the US 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. Higher levels of non-performing loans in some jurisdictions is a major drag on growth which implies the need for stronger macro-prudential frameworks. More importantly, even though growth is expected to improve over the next two years, most countries would still record growth that is too low to meet their developmental needs. In this context, the emphasis has to be on addressing structural impediments which hamper the productive capacity of countries. Well targeted infrastructure development, a focus on the efficiency of government expenditure rather than on expenditure cuts and other supply friendly fiscal measures in countries which still have fiscal space would be important components of this strategy. Where appropriate, commodity exporters could allow more exchange rate flexibility to help with the adjustment process. A range of actions is also required in connected areas such as the improvement of the business environment, increasing labour productivity and improving the efficiency of the public sector. The region also needs to strengthen further the institutional, 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.