



2015

ECONOMIC REVIEW

2016

FORECAST





CARIBBEAN DEVELOPMENT BANK

PURPOSE

"The purpose of the Bank shall be to contribute to the harmonious economic growth and development of the member countries of the Caribbean (hereinafter called the Region) and to promote economic cooperation and integration among them, having special and urgent regard to the less developed members of the Region"

Article 1 - agreement Establishing the Caribbean Development Bank

MISSION STATEMENT

CDB's Mission is to be the leading catalyst in the reduction of poverty through the inclusive and sustainable development of our BMCs' by mobilising development resources in an efficient, responsive and collaborative manner with accountability, integrity and excellence.

CDB's MEMBERS

Regional BMCs

 Anguilla	 Guyana
 Antigua and Barbuda	 Jamaica
 The Bahamas	 Haiti
 Barbados	 Montserrat
 Belize	 Saint Kitts and Nevis
 British Virgin Islands	 Saint Lucia
 Cayman Islands	 Saint Vincent and the Grenadines
 Dominica	 Suriname
 Grenada	 Trinidad and Tobago
 Turks and Caicos Islands	

Other Regional

 Brazil	 Mexico
 Colombia	 Venezuela

Non-regional

 Canada	 Italy
 China	 United Kingdom
 Germany	

OVERVIEW

The Caribbean economy experienced a difficult year in 2015, on the back of difficulties in the global economy. Global economic growth fell from 3.4% in 2014 to 3.1%. The main reason was the slowdown in China, which along with other events kept commodity prices low, impacting exporters of those products. Growth in the United States, United Kingdom and Canada was revised down during the year, with only the US showing higher growth than in 2014^{1,2}. Being small open economies, Caribbean countries were not immune from these effects. The commodity producing countries saw sharp falls in growth. On the other hand, for those economies reliant on tourism, it was a relatively good year.

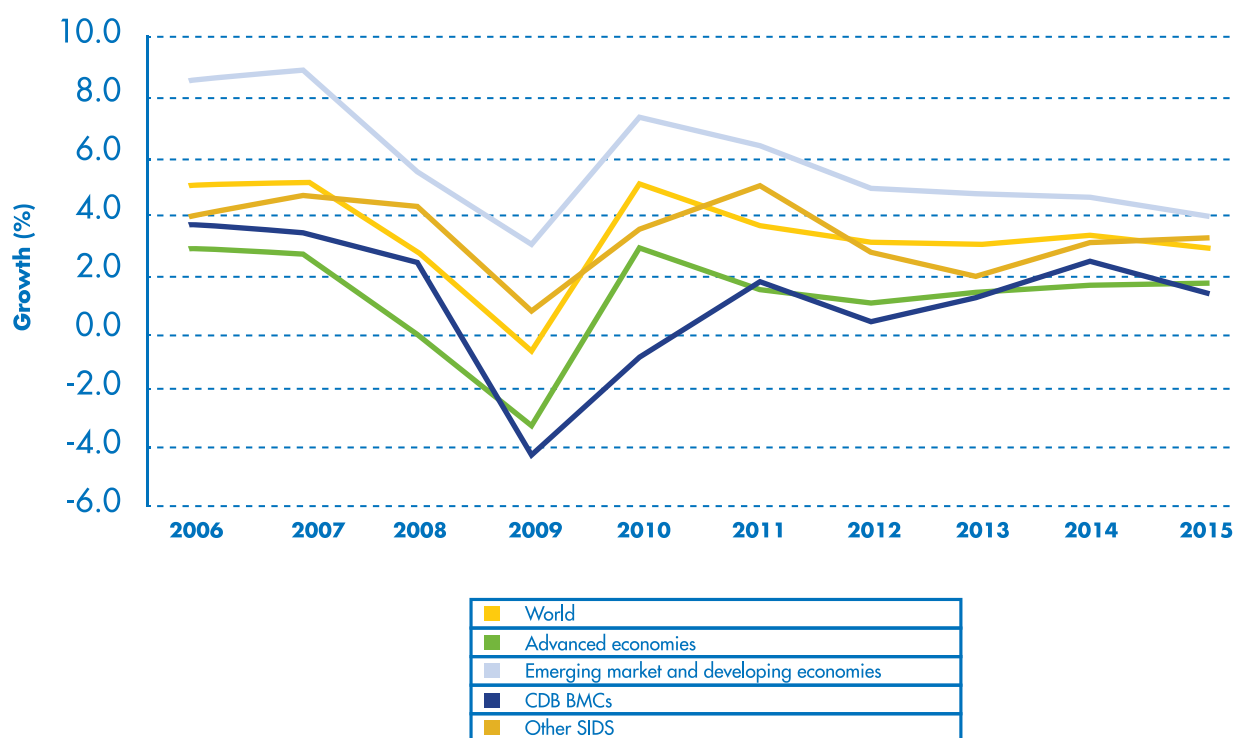
As well as heavy reliance on overseas markets, 2015 demonstrated other characteristics of the Region, such as vulnerability. Natural disasters in Dominica and The Bahamas caused significant damage, and set back economic growth. Weather events (particularly drought) also affected agricultural production.

The reliance of the Region on Correspondent Banking Relationships (CBRs) with overseas banks was brought into focus, as the number of CBRs fell, threatening some BMCs' financial systems and real economies.

As Figure 1 below shows, CDB's BMCs have started to recover from the Great Recession, recording positive growth every year since 2011. However growth has consistently lagged behind the rest of the world. Since 2009 BMCs have grown on average 1.2% per year, compared to 3.7% globally, 1.8% in advanced economies, and 3.3% in other small island developing states (SIDS)³.

Clearly, the Region's vulnerability has had an adverse impact on sustainable growth; and this needs to be addressed. However, vulnerability does not explain the difference in the growth rates with other SIDS, some of which face similar vulnerabilities. A major explanatory factor is low productivity, and with it lack of competitiveness, in the Region. Productivity rates need to improve, because of its positive correlation with economic growth. The World Bank's annual Doing Business Survey

Figure 1: Growth (%) in Real Output, 2006-2015*



Source: IMF, CDB

¹ In April 2015 the IMF World Economic Outlook forecast that economic growth in 2015 would be 3.1% in the US, 2.7% in the UK, and 2.2% in Canada. By January 2016 the corresponding estimates were 2.5%, 2.2% and 1.2%.

² In 2014 economic growth was 2.4% in the US, 2.9% in the UK, and 2.5% in Canada.

³ Average unweighted growth since 2009. Source: IMF WEO Database, CDB estimates.

identifies some key measures that could help improve productivity. In the 2016 Report only two BMCs (Jamaica and The Bahamas) are ranked higher than last year; and only Jamaica and St. Lucia are in the top half of 182 countries assessed. The survey is quite clear why BMCs rank where they do, taking into account metrics such as time and cost to start a business; ease of getting construction permits; ease of trading across borders; ease of paying taxes; getting electricity; registering property; among other metrics that potentially affect productivity. CDB's 2016 research programme will help address some of these issues, by looking at measures to help micro, small and medium enterprises (MSMEs), and easing the cost and time associated with importing and exporting through improvements in port operations.

INDIVIDUAL BMC PERFORMANCE IN 2015

Falling commodity prices dominated the fortunes of the Region's five major commodity exporters, all of which grew less than in 2014⁴. Significantly, Trinidad and Tobago grew by just 0.2%. The main reason was decline in output of the petroleum industry, where falling oil prices caused a cutback in some exploratory activities; some oil and gas fields matured; and there were prolonged periods of maintenance activity. Liquefied natural gas (LNG) output also fell. Meanwhile, output from agriculture, manufacturing and the services sectors rose. In Guyana, the first half of 2015 saw significant contractions in gold and bauxite production, due to falling prices, plus a drop in construction activity. Activity rebounded after June, partially due to a new gold mine coming on stream. Rice and sugar production grew, driving an increase in manufacturing. Suriname's mining sector, which accounts for 30% of GDP, was affected by low commodity prices, such that a major alumina refinery was closed due to unfavourable market conditions. Agricultural production remained weak, as moko disease affected nearly 2,000 hectares of commercial banana plantations.

In Haiti, drought caused a decline in agricultural production. Manufacturing, especially apparel (supported by two US Programmes), grew strongly; but construction growth slowed following a decline in donor support for post-earthquake reconstruction and an increase in civil unrest.

In Belize, crop production and livestock farming increased, while wood output and shrimp production fell. Manufacturing production fell, mainly due to a fall

in petroleum extraction as oil prices kept falling.

Natural disasters caused significant damage to local communities in Dominica and The Bahamas. In August Tropical Storm Erika produced heavy rainfall, causing intense and rapid flooding in Dominica. There were a number of deaths and injuries, displacement of households, and significant damage to physical and social infrastructure. Damage and losses were estimated at USD 483 mn, or 90% of Dominica's GDP. Productive sectors such as agriculture and tourism were also adversely affected.

In September, Hurricane Joaquin struck the south eastern family islands of The Bahamas. As well as causing USD 105 mn (1.2% of GDP) in damage, the effects of Joaquin slowed GDP growth by 0.11%.

Recovery in the regional tourism market continued in 2015. Most destinations saw increases in visitor arrivals, and many saw increases in the more lucrative stay-over visitors. Tourism-related construction accompanied these positive trends. The positive impacts of tourism on economic growth were felt most keenly in the smaller, more tourism-dependent economies. Grenada, St. Kitts and Nevis and the Turks and Caicos Islands (TCI) each experienced growth of more than 4%. In The Bahamas, on the other hand, overall tourist numbers fell despite stay-over visitor arrivals being up. Growth was also limited by cessation of construction activity at a mega resort before completion. This was due to bankruptcy; and subsequent legal proceedings are yet to be settled.

Barbados grew by 0.5% despite an impressive increase in total visitor arrivals of nearly 15%. This was due to the low increase in value added (0.9%) from tourism, combined with lower output from construction, manufacturing and agriculture, the latter because of drought. Drought also affected agriculture in Jamaica, although this sector still contributed to growth, along with manufacturing (especially recovery in petroleum refinery production; and food and beverages).

Figure 2 summarises economic growth in each of CDB's BMCs since 2011.

⁴BMCs for which commodity sectors represent more than 25% of output: Belize, Guyana, Haiti, Suriname and Trinidad and Tobago.

Figure 2: Growth (%) in Real Output, 2011-2015*

BMC	Weight	2011	2012	2013	2014	2015
ANG	0.4%	(1.5)	(1.8)	0.3	6.2	1.8
ANT	1.5%	(1.9)	3.6	(0.2)	4.2	1.8
BAH	10.1%	1.6	1.8	0.0	1.0	1.0
BAR	5.1%	0.6	0.3	(0.1)	0.2	0.5
BZE	2.0%	2.1	3.8	0.8	3.6	2.0
BVI	1.1%	0.6	(1.0)	(0.8)	0.5	2.0
CAY	4.1%	0.9	1.6	1.4	(1.3)	1.7
DOM	0.6%	1.3	(0.4)	0.6	1.1	(3.0)
GRE	1.1%	0.1	(0.6)	3.2	5.7	5.1
GUY	3.7%	5.4	4.8	5.2	3.8	3.0
HAI	10.2%	5.5	2.9	4.2	2.8	1.7
JAM	16.5%	(1.4)	(0.5)	1.0	0.5	1.0
MON	0.1%	6.2	1.6	2.3	2.4	(1.1)
SKN	1.0%	(1.9)	(0.9)	6.2	6.9	5.2
SLU	1.7%	1.3	(1.3)	(1.9)	(0.7)	1.6
SVG	0.9%	0.2	1.1	2.3	(0.2)	1.3
SUR	6.1%	5.3	3.0	2.8	1.8	0.1
TT	32.9%	(1.2)	0.3	2.3	1.9	0.2
TCI	1.0%	4.7	(4.2)	1.3	4.6	4.1
Weighted Average		1.6	1.2	1.5	1.6	1.0
Weighted (without TT)		2.2	1.2	1.4	1.5	1.4
Simple Average		1.5	0.7	1.6	2.4	1.6

Sources: National Statistics Offices, Central Banks and CDB

*Data for 2008-14 are official data, while data for 2015 are preliminary CDB estimates

EMPLOYMENT AND PRICES

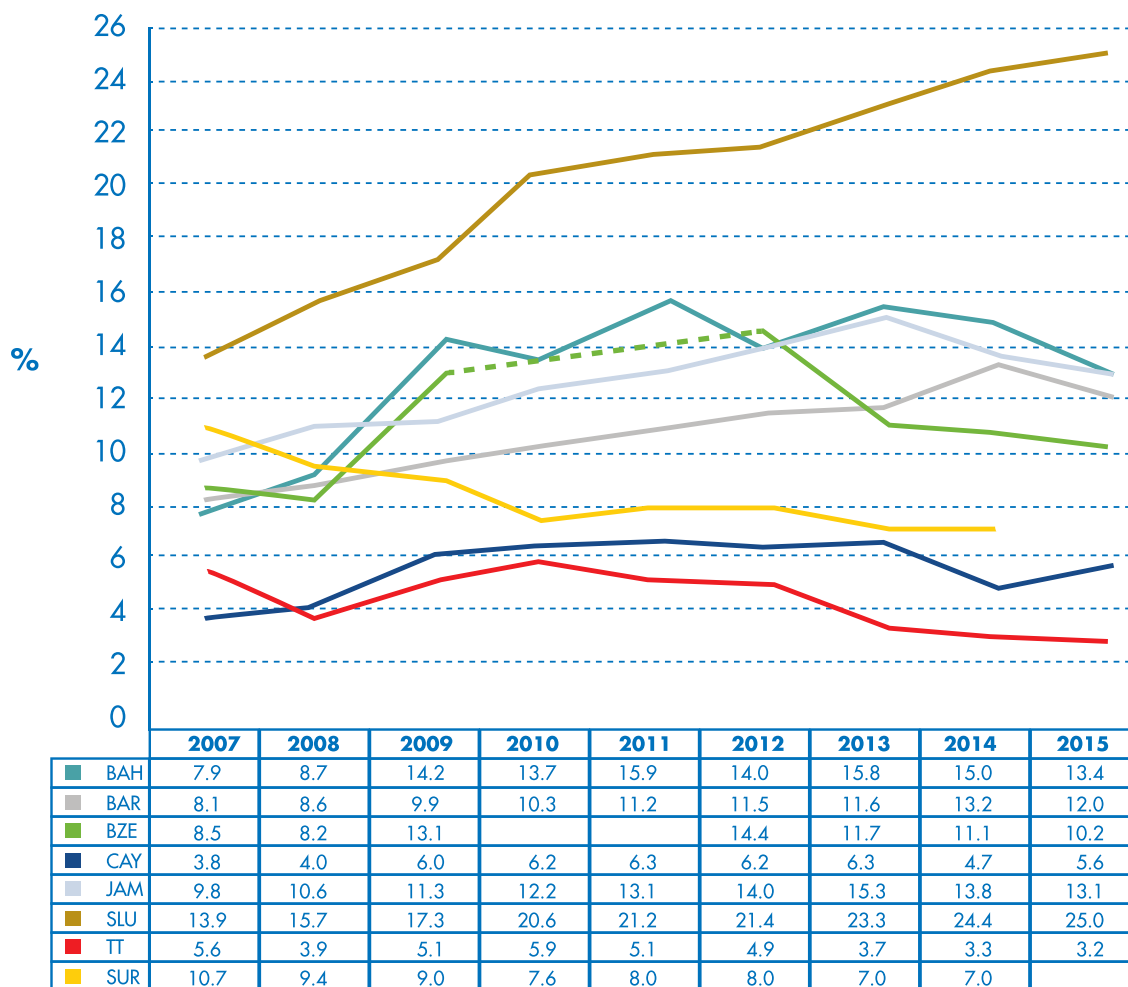
Unemployment remains a concern across much of the Region. Youth unemployment, according to CDB research completed in 2015, is among the highest in the world. Many of the BMCs for which 2015 labour force data are available (see Figure 3) continued to experience double-digit unemployment rates. In St. Lucia, despite recent economic growth and a number of targeted government programmes, unemployment fell only slightly to 24.1%. Unemployment fell in Jamaica in line with the economic recovery; in Belize thanks to increased activity in agriculture and construction; and also in Barbados.

In The Bahamas, the 2015 average rate was also lower than in 2014, although this average masks the 2,000 layoffs from the mega resort.

In Trinidad and Tobago, unemployment fell in the first half of the year, but rose in the second half as the economy slowed. In Suriname, unemployment is estimated to have risen, due to job losses in mining and agriculture. Other BMCs reporting unemployment rates were TCI (11%, well down from 17% in 2012) and Grenada (30.4%).

Inflation fell throughout the Region, with a few exceptions – The Bahamas (due to the introduction of VAT in January); Haiti (drought and devaluation); and Suriname (heavy rainfall and devaluation). Elsewhere the impact of lower global commodity prices, especially crude oil, fed through to more moderate domestic price rises. Notably,

Figure 3: Annual Average / Mid-year Unemployment Rates, 2007-15



Sources: National Statistics Offices, Central Banks

Notes: Rates for Cayman Islands, St. Lucia and Trinidad and Tobago are as at mid-year. Rates for Barbados, Belize, The Bahamas, Jamaica and Suriname are annual averages.

a number of BMCs (Anguilla, Cayman Islands, Barbados, Belize, Guyana and St. Vincent and The Grenadines) actually experienced deflation. This can negatively impact economic growth because consumption decisions are delayed in the expectation that prices will fall in the future, so impacting business profits and investment. Deflation can also negatively impact debt dynamics, because it increases the real value of debt held.



EXTERNAL PERFORMANCE

Trade performance in the BMCs was dominated by effects of the falling price of crude oil, and to a lesser extent the prices of other commodities. Trinidad and Tobago, the Region's largest oil and gas exporter, saw its trade surplus in 2014 become a deficit in 2015. Suriname's deficit widened on the back of weaker oil and gold prices. These movements also lowered the value of Guyana's exports; but with its import bill falling, the trade deficit narrowed.

The non-oil producing BMCs saw reductions in their import bills. Jamaica experienced an improvement in its trade deficit, despite exports also declining. Here and elsewhere (Barbados, St. Lucia, TCI), increased receipts from tourism helped improved external current account balances. In addition, inflows of remittances grew by 2% across the Region.

Consequently, foreign exchange reserves rose in The Bahamas, the Eastern Caribbean Currency Union (ECCU), and Jamaica, but fell in Barbados, Trinidad and Tobago, Belize, Guyana, Haiti and Suriname. Most BMCs continued to hold reserves in excess of the international 3-month benchmark. However, this is not the case in Suriname, where the authorities are discussing with the IMF the possibility of support for their economic reform programme to help strengthen the level of international reserves and pave the way for the economy to achieve sustained growth. CDB and other development partners will also be providing assistance to Suriname.

MONETARY DEVELOPMENTS AND FINANCIAL STABILITY

As drops in commodity prices lowered inflation expectations, central banks were able to lower interest rates in an effort to encourage growth through increased investment and consumption. However, this measure did not feed through to higher lending. Instead, banking system liquidity increased as credit growth remained weak, reflecting ongoing lack of confidence in the private sector and the paying down of previous debts. In Trinidad and Tobago monetary policy was tightened in anticipation of rising US interest rates. Nevertheless, domestic interest rates remained low, although credit demand did not grow significantly.

In most BMCs the Banking systems are sound, with

institutions adequately capitalised and with sufficient indicators of financial soundness. Shares of non-performing loans (NPLs) fell in 2015, although not yet far enough. In the ECCU, the banking system remains stable but fragile. NPLs remain elevated, and some national banks have weak capital positions. During the year, the Eastern Caribbean Central Bank (ECCB) advanced its work towards the orderly resolution of banks under conservatorship, resolving one bank in Antigua and Barbuda. A 2015 regional asset quality review (AQR) will inform the design of a regional strategy to address capital deficiencies. Separately, the lowering of the minimum savings floor was a measure to reduce costs to banks. Within the ECCU there should be a strengthened and more rigorous regulatory regime, with the enactment of new banking legislation in 2015. All these measures should boost confidence in the financial sector.

FISCAL PERFORMANCE AND DEBT

High levels of indebtedness remain a problem in the Region, since they limit fiscal space for governments to stimulate economic activity. However, in 2015 nearly all the highly indebted BMCs (those with debt greater than 60% of GDP) were able to limit the addition in indebtedness by reducing their fiscal deficits; and some even managed to reduce the debt burden. Figure 4 below shows changes in BMCs' debt burden over the last three years.

In Jamaica, the public finances continued to improve under the country's IMF Extended Fund Facility (EFF), and public debt as a share of GDP is expected to be 124.8% by the end of 2015/16, compared with 146.5% in 2012/13. The small overall deficit in 2014/15 compared favourably with that before the programme; and in the first few months of 2015/16, the deficit was lower than forecast. Lower interest payments following a recent restructuring helped to improve the primary balance, and in a further restructuring exercise, Jamaica bought back its outstanding PetroCaribe debt, thus reducing the net present value (NPV) of the country's debt.

The debt burden fell again in Grenada and St. Kitts and Nevis. Grenada, currently undergoing an IMF programme, is estimated to have recorded a first primary surplus (2.1% of GDP) in over ten years. Debt restructuring negotiations were successfully completed in November 2015, with half of the 50% principal haircut

Figure 4: Change in Debt/GDP Ratio 2013-2015 and Debt/GDP Ratio, 2015

BMC	CHANGE IN DEBT/GDP RATIO			DEBT/GDP RATIO 2015
	2013	2014	2015	
BAR	-4.8	4.8	4.0	131
JAM	-5.7	-4.0	-10.9	125
GRE	1.0	-3.0	-2.5	104
ANT	8.0	-0.9	8.3	103
BZE	1.7	-2.0	3.2	80
DOM	-1.3	0.4	4.7	79
SVG	2.0	4.2	-2.9	76
SLU	2.7	-0.9	1.2	75
BAH	5.7	7.7	0.2	70
SKN	-36.5	-21.8	-14.9	64
SUR	8.4	-2.0	15.9	50
GUY	-5.7	-6.2	3.2	49
TT	-1.1	2.5	6.1	46
HAI	4.9	5.2	-0.2	26

Sources: IMF World Economic Outlook Database, CDB estimates.

on negotiated external bonds implemented already, and the remaining half to be implemented upon review of the IMF programme in 2017. St. Kitts and Nevis continued to pay down debt early. Citizenship by Investment (CBI) revenues and increased corporation tax receipts cushioned the revenue loss from the widening of VAT and customs duties exemptions.

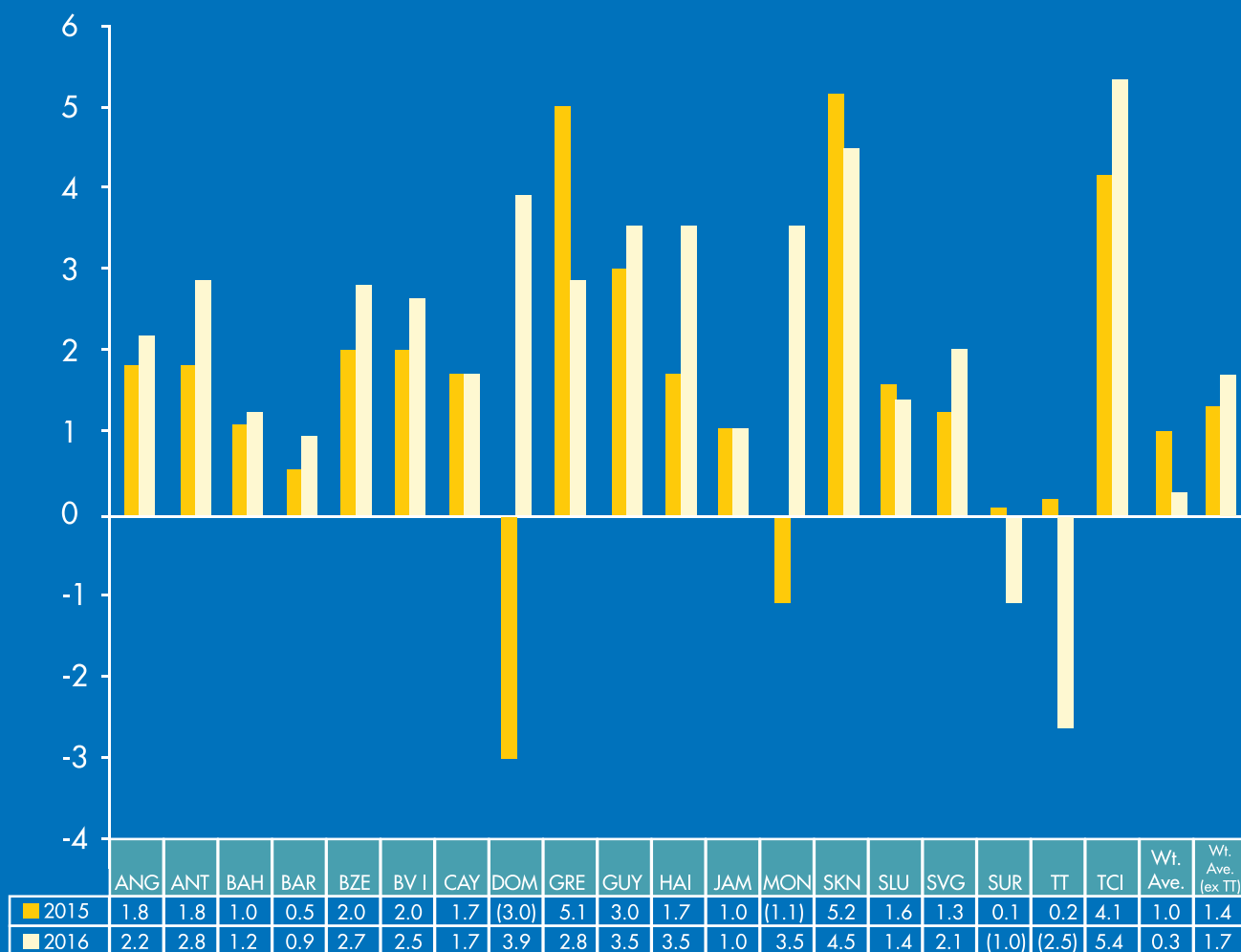
Debt/GDP ratios increased in The Bahamas, Barbados, Dominica, St Lucia, Antigua and Barbuda, and Belize. The main reason for additional debt in Antigua and Barbuda was the cost of the bank resolution. These BMCs managed to increase revenues, largely thanks to the widening of tax bases; higher tax rates; and improved tax administration (The Bahamas, Barbados, Grenada, St. Lucia, Antigua and Barbuda). Most significantly, a new VAT regime was successfully introduced in The Bahamas in January. Revenues from CBI programmes contributed to recurrent revenue in Antigua and Barbuda; Grenada and Dominica, as well as St. Kitts and Nevis.

Expenditure increased in some of these BMCs, partly due to unanticipated operating and capital expenditure following natural disasters (Dominica, The Bahamas). Expenditure also rose in St. Kitts and Nevis, mainly driven by higher expenditure on wages, and on goods and services. Conversely expenditure fell in Barbados, St. Lucia, Grenada, and St. Vincent and The Grenadines, all partly due to reduced public sector expenditure from wage or employment freezes, and lower capital expenditure.

OUTLOOK

The recovery remains fragile. Economic growth in 2015 did not keep up with 2014 growth, and forecasts for 2016 are subject to significant uncertainty. Consideration of the outlook for such small open economies must include what is happening elsewhere in the world. A number of

Figure 5: Regional Growth (%) Estimates for 2015 and Projections for 2016



Source: CDB

interlinked developments have caused the IMF and more recently the OECD to recently downgrade their global growth forecasts for 2016. These developments include the slowdown in China, persistently low commodity prices and their implications for producers and consumers, and the likelihood and timing of tighter monetary policy in the United States.

There may also be some uncertainty in the UK and the Eurozone, as citizens of the former vote in a referendum on whether to stay in the European Union. The IMF is also more pessimistic about some emerging markets, like Brazil and Venezuela, which BMCs have been targeting to diversify their markets.

Additional concerns for the Region are the Zika virus and further reduction in CBRs. Zika is potentially a concern for tourists and for residents alike, in both the short and longer terms. The Caribbean Tourism Organization (CTO) expects stay-over arrivals to increase by between 4.5% and 5.5% in 2016, on the back of a 7% increase

in 2015.

CBRs play a key role in the global and regional financial ecosystem, facilitating payments of remittances, invoices and other cross border transactions, including credit card payments by tourists. A recent World Bank survey found that the Caribbean seems to be the region most affected by the decline in CBRs. This could significantly affect the Region's population and businesses.

In addition, consideration must be given to the perennial risks of natural disasters and other weather-related challenges, such as those witnessed in Dominica and The Bahamas in 2015.

Slower growth predicted for 2016

Given the substantial downside risks, CDB is currently projecting growth in all of its BMCs in 2016 (see Figure 5), with the exceptions of Trinidad and Tobago and Suriname. Average Regional growth is expected to be just 0.3%. Not including Trinidad and Tobago, the expected

average growth is 1.7%.

Trinidad and Tobago is the BMC most exposed to the pervading global trends. Low petroleum industry production and product prices are expected to continue. As well as restricting future economic growth, the government's revenue receipts will be affected, in turn impacting the country's future public sector investment. Therefore, economic growth is expected to contract by 2.5%.

Low commodity prices will also affect Suriname, which is likely to face a period of fiscal consolidation, which could constrain domestic demand and also slow credit growth. CDB estimates that the economy will decline by 1.0%.

Growth is expected in Guyana as the price of gold rises, combined with continued mining activity. Public investment should also increase. Haiti, having been granted an extended credit facility by the IMF in 2015, is expected to grow by 3.5%, based on remittance-funded consumption, construction and textile manufacturing.

Assuming no significant downturn in the global economy and particularly in source markets, growth is expected to exceed 4% in both TCI and St. Kitts and Nevis, as tourism and related investment remain buoyant. Tourism growth and related construction activity will also drive growth in Antigua and Barbuda, Grenada, British Virgin Islands (BVI), Anguilla, St. Vincent and The Grenadines, Cayman Islands, St. Lucia, The Bahamas and Barbados. Dominica's growth will be driven by increases in construction, and wholesale and retail activity as the rebuilding effort following Tropical Storm Erika progresses. In Montserrat growth will be largely driven by public infrastructure investment.

CDB expects growth in Jamaica to be about 1%, based on robust tourism activity and increased aluminium production, although output growth of some export crops could fall as prices stay low. Investor confidence is expected to increase as a result of reduced inflationary expectations, and an improved business environment manifested by the improvement of port efficiency; initiatives resulting in lower electricity prices; improved access to finance for small businesses; and a quicker construction approval process.

Time To D.E.C.I.D.E.

These growth rates are insufficient to address regional concerns about employment, equality and poverty reduction. Higher rates of economic growth are needed, as well as other measures.

CDB believes that its BMCs need to be **Dynamic**,

Export oriented, Competitive, Inclusive, Diverse and Environmentally resilient economies (D.E.C.I.D.E.), in order to achieve rates of economic growth on a par with other developing countries. Key drivers include:

- Private sector-led growth;
- An educated and flexible work force;
- Regional integration to maximise the gains;
- Governments acting as facilitators and efficient regulators;
- Energy security.

The foregoing recognise the role of government as a facilitator rather than a driver of growth. Additionally, public sector activity is being limited by a lack of fiscal space. CDB suggests thirteen policy actions to help improve productivity.

1. We need a strategy that will allow us to take advantage of innovation.
2. Doing business reforms: we need to improve the Investment Climate, making it easier for private sector to thrive.
3. Labor Market Reforms: increased flexibility, freedom of movement, participation and productivity.
4. Human Capital Development: investment in quality education for all, with emphasis on science, technology, engineering and mathematics (STEM).
5. Fiscal Consolidation: adoption of Fiscal Rules, increase efficiency of revenue collection and expenditure, prioritise capital investment, reform of subsidies.
6. Fiscal buffers: improve the level of national savings to be able to better absorb the impact of economic and other shocks on the economy.
7. Energy reform: we need improvements in the regulatory environment in order to foster energy security.
8. Policy environment that assists Micro, Small and Medium Enterprises (MSMEs), such as better access to credit.
9. Targeted and affordable social protection; this is applicable to social safety nets, transfers and subsidies.
10. Maximise regional integration and take advantage of free trade agreements such as Economic Partnership agreements (EPAs), and seek new agreements.
11. Improve Regional Transport and Logistics: increase



efficiency of movement of people and goods across the Region. them towards D.E.C.I.D.E.

- 12.** Mandate building and infrastructure codes to improve resilience.
- 13.** Measures required to minimise the spread of new diseases.

The Bank anticipates slower recovery in 2016, and is mindful of the various global and regional risks. However, the measures identified above could make a significant contribution to stimulating higher rates of economic growth that are sustainable and inclusive, and help to reduce unemployment, inequality and poverty. The measures would help BMCs to diversify their economies and reduce their vulnerability to outside influences. CDB's 2016 research programme will identify potential solutions for BMCs in adopting these measures. The research will address poverty; helping MSMEs; and easing the cost and time associated with importing and exporting through improvements in port operations. In addition, CDB will continue to work with its BMCs to address the other measures identified, helping





CARIBBEAN DEVELOPMENT BANK

P.O. Box 408, Wilkey, St Michael

Barbados BB11000

T: (246) 431-1600

F: (246) 426-7269

www.caribank.org

