2016 ECONOMIC REVIEW

2017 FORECAST

CARIBBEAN DEVELOPMENT BANK

Mission

CDB intends to be the leading catalyst for development resources into the Region, working in an efficient, responsive and collaborative manner with our Borrowing Member Countries (BMCs) and other development partners, towards the systematic reduction of poverty in their countries through social and economic development.

CDB Member Countries

Borrowing Member Countries (BMCs)

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

Other Regional

Brazil	Mexico
Colombia	Venezuela

Non-regional

Canada	Italy
China	United Kingdom
Germany	

Overview

Caribbean economies experienced another challenging year in 2016. Economic performance in the larger commodity-producing countries was driven by the slow recovery of international commodity prices from their 2015 lows. The service-based economies fared better, where tourism and construction activities continued to grow. In addition, low oil prices helped improve the current accounts of the balance of payments in many borrowing member countries (BMCs). However, natural disasters affected a number of countries—most significantly, Haiti. The loss of correspondent banking relationships (CBRs) in some countries continued to be problematic in 2016, increasing the costs of transactions, and threatening BMCs' ability to trade with the outside world. BMCs' debt dynamics were mixed in 2016, with some countries reducing their debt-to-GDP ratios via consolidation measures, while others faced an acceleration in their debt-to-GDP ratio to a worrying extent.

As Chart 1 shows, CDB's BMCs' real GDP growth underperformed when compared with other country groups. Since 2010, annual growth has averaged 0.8%[1]; while in other small states, growth averaged 4.7%. Much of this growth differential reflects a higher level of export diversification among other small states, underpinned by greater competitiveness.

Chart 1: Growth (%) in Real Output, 2006-2016

Source: International Monetary Fund (IMF), CDB

[1] Regional real GDP growth was estimated at 1.2% when Trinidad and Tobago (which makes up about one third of BMCs' total GDP) was excluded.

Individual BMC Performance in 2016

The Region's five major commodity exporters - Belize, Guyana, Haiti, Suriname and Trinidad and Tobago - experienced weaker performance in 2016 than in 2015. Most significantly, Trinidad and Tobago's economy contracted by 5%, as output in the petroleum and hydrocarbon industries declined by 12.6%, mainly because of the effects of maturing oil and gas fields, ongoing major maintenance and overhaul activity, and weak prices. In addition, production of petrochemicals fell by 4.7%, while the manufacturing and services sectors also reported declines.

In Guyana, the economy grew by 2.6%, compared with 3.2% in 2015. Gold production rose significantly due to rising prices, incentives for small-scale miners, and the opening of a mine in late 2015. Bauxite production was also up. However, rice and sugar production fell, partly due to drought early in the year, as did manufacturing output. In Belize, drought also affected the agriculture sector, with citrus, bananas and papaya production declining. In the fisheries industry, shrimp production fell as a result of disease. With reserves exhausted, oil production slowed. No further exploration is currently planned. On the upside, tourism grew, driven by increases in the number of overnight and cruise-ship visitors. Overall, the economy contracted by an estimated 1.2%, compared with 2.9% growth in 2015. The economic contraction in Suriname worsened to an estimated 9% in 2016, following a 2.7% reduction in 2015. This was attributed to the closure of the alumina refinery in late 2015, as well as a reduction in oil production. Severely impacted by Hurricane Matthew in early October 2016, Haiti's real growth rate slowed to 1.1%. Hurricane Matthew caused approximately $1.9 billion in infrastructure damages and affected more than 1.1mn people.

Regional tourism activity improved in 2016, spurred by improved marketing campaigns and discretionary income in the major tourism-source markets, reflecting improved employment conditions and low inflation. Most destinations recorded increases in total visitor arrivals, although the number of overnight visitors grew at a slower rate of 1.7% compared with 4% in 2015.

Antigua and Barbuda, and the Turks and Caicos Islands (TCI), experienced growth of more than 4% as a result of the recovery in the tourism sector. Following two years of contraction, The Bahamas recorded modest growth of 0.3% in 2016, impacted in part by the effects of Hurricane Matthew. In Saint Lucia, tourist arrivals fell on account of a temporary reduction in hotel room stock, but increased construction activity helped to offset this decline. The Barbados economy grew by 1.6% (compared with just 0.9% in 2015), based on a rise in long-stay arrivals of nearly 6% attributed to additional airlift, the refurbishing and expansion of the hotel room stock, and the 50th Anniversary of Independence celebrations. In Jamaica, both overnight and cruise-ship visitor numbers rose. This coincided with growth in the agriculture, construction and manufacturing sectors.

Table 1: Growth (%) in Real Output, 2012-2016*

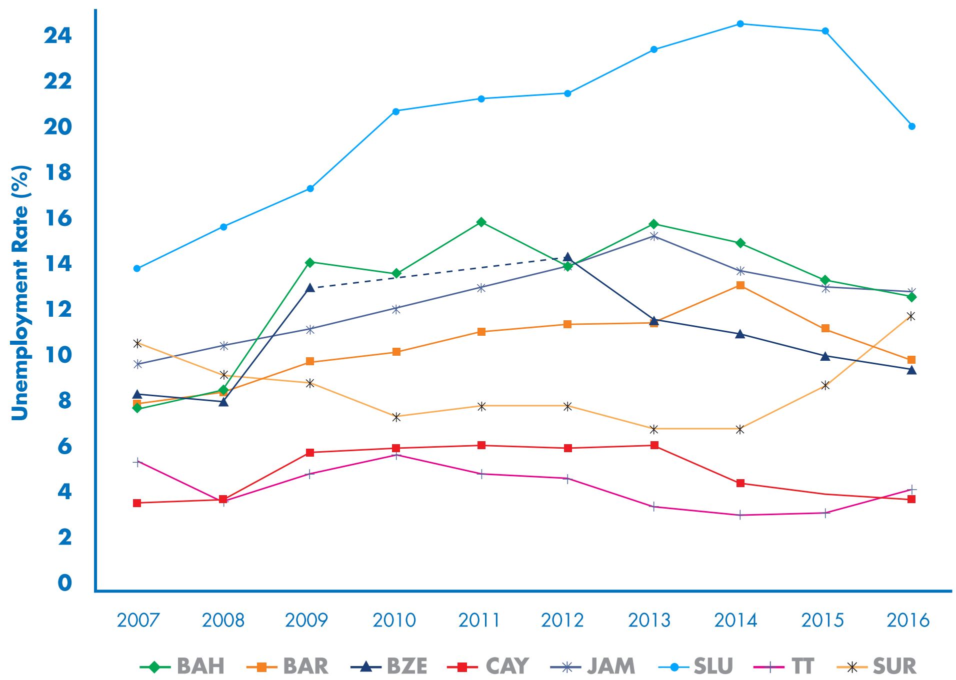
BMC	Weight (2015)	2012	2013	2014	2015	2016
ANG	0.40%	-1.9	0.5	5.6	2.8	3.8
ANT	1.77%	3.4	1.5	4.7	4.1	4.4
BAH	12.05%	3.1	0.0	-0.5	-1.7	0.3
BAR	6.45%	0.3	-0.1	0.2	0.9	1.6
BZE	2.24%	3.7	1.3	4.1	2.9	-1.2
BVI	1.34%	-4.6	-0.3	-0.3	0.9	2.2
CAY	4.94%	1.2	1.2	2.2	2.8	3.2
DOM	0.73%	-0.8	1.9	3.7	-1.8	0.9
GRE	1.12%	-1.2	2.4	7.3	6.2	3.2
GUY	3.16%	4.8	5.2	3.8	3.2	2.6
HAI	7.95%	2.9	4.2	2.8	1.2	1.1
JAM	17.68%	-0.5	0.2	0.5	0.9	1.7
MON	0.09%	3.5	2.0	3.7	-1.4	1.2
SKN	1.03%	-0.9	6.2	6.1	5.0	2.8
SLU	1.64%	-1.4	0.1	0.4	1.9	0.0
SVG	0.97%	1.3	2.5	0.2	0.6	2.8
SUR	4.68%	3.1	2.8	1.8	-2.7	-9.0
TT	30.65%	1.3	2.3	-1.0	-2.1	-5.0
TCI	1.11%	-2.5	1.3	4.6	5.1	4.4
All		1.2	1.4	1.5	0.4	-0.9
All ex TT		1.2	1.3	1.3	0.6	0.8

Sources: National Statistics Offices, Central Banks and CDB
**Data for 2016 are preliminary estimates*

Employment and Prices

Double-digit unemployment across the majority of the BMCs remains an area of concern for the Region. In Saint Lucia, increased construction activity helped the overall unemployment rate to fall to 20% from 24.1% in 2015. Similarly, The Bahamas, Barbados, Belize and Jamaica also reported declines. However, unemployment increased in Suriname and Trinidad and Tobago. In addition to the data in Chart 2, recent labour force surveys revealed high levels of unemployment in Grenada (28.6% in 2016) and St. Vincent and the Grenadines (25.1% in 2015).

Chart 2: Annual Average / Mid-year Unemployment Rates, 2007-2016



Sources: National Statistics Offices, Central Banks
Notes: Rates for Cayman Islands, Saint Lucia and Trinidad and Tobago are as at mid-year. Rates for The Bahamas, Barbados, Belize, Jamaica and Suriname are annual averages.

Deflation persisted in Anguilla, Antigua and Barbuda, Cayman Islands, Dominica, and St. Vincent and the Grenadines; while inflation picked up elsewhere, as international commodity prices recovered slightly following their steep decline in 2015. In Trinidad and Tobago, inflation at the end of October was 2% (down from 2.4% the previous October), tempered by low aggregate demand. On one hand, in Jamaica, the end-December 2016 inflation rate of 1.7% was the lowest recorded since 1967. Suriname, on the other hand, witnessed inflation in excess of 60% by the end of December 2016 due to the exchange rate adjustments and depreciation. Drought conditions caused inflation to increase in Belize, Guyana and Haiti.

External Performance

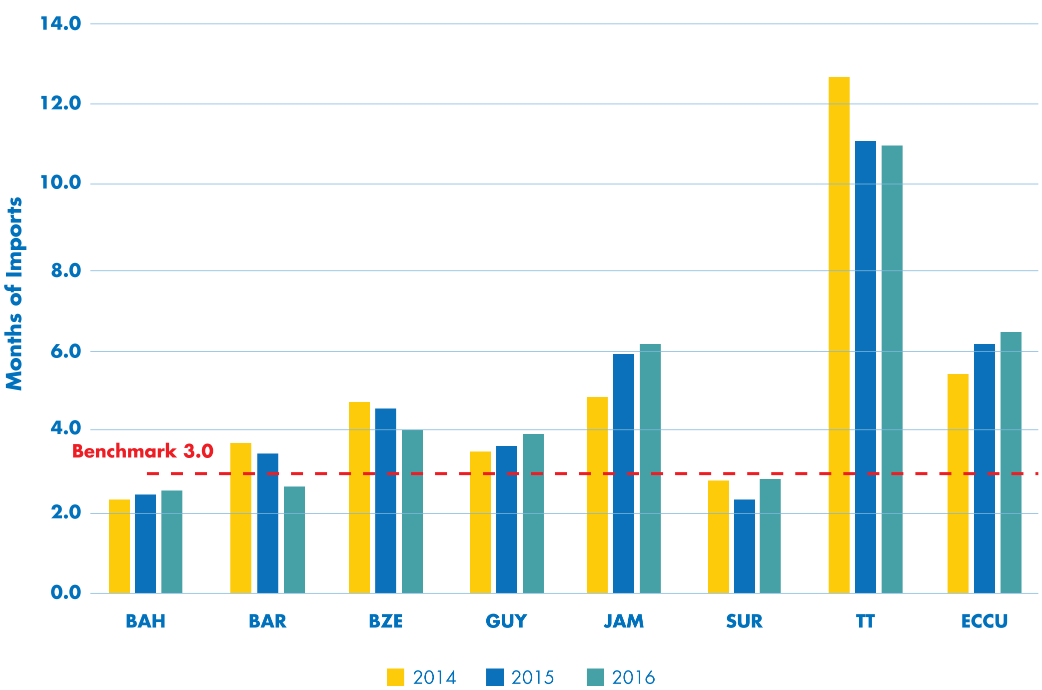
Trade performance in the BMCs was once again dominated by weak commodity prices. Trinidad and Tobago, the Region's largest oil and gas exporter, experienced a deterioration in its current account deficit, despite slight weakening in the exchange rate. However, increased foreign direct investment (FDI) helped bring about an improvement in the overall balance of payments.

Belize's current account deficit worsened due to the sharp decline in oil exports, along with a reduction in agricultural products. Suriname's current account deficit stabilised as imports fell on account of the exchange rate depreciation, amid a reduction in commodity exports. In contrast, Guyana's current account deficit improved following an increase in gold exports that was accompanied by a fall in overall imports.

Many of the non-oil-producing BMCs experienced reductions in their current account deficits. Lower fuel prices and positive tourism performance contributed to reduced current account deficits in Barbados, Grenada, Jamaica, and St. Vincent and the Grenadines. These factors also helped keep the current account deficit stable in St. Kitts and Nevis, where inflows from the Citizenship by Investment (CBI) programme fell. In The Bahamas, the current account deficit widened, as the slight improvement in travel credits was offset by a deterioration in the goods balance.

These flows had implications for the stock position of foreign reserves across BMCs. The reserves position improved in Guyana, Jamaica and the Eastern Caribbean Currency Union (ECCU) member countries. More significantly, foreign reserves in The Bahamas, Barbados and Suriname were below the global benchmark of three months of import cover.

Chart 3: Foreign Reserves (in months of imports)



Source: Caribbean Central Banks Statistical and Monetary Reports, 2016

Monetary Developments and Financial Stability

The nominal growth of the monetary bases across the BMCs slowed, on average, relative to 2015, reflective of the benign inflationary environment and weak economic growth. On balance, credit growth remained sluggish in the midst of weak growth expectations. Jamaica was the exception to this trend. Buoyant household and private sector credit growth of 16.0% and 14.8% respectively was underpinned by an easing of credit conditions in Jamaica. Conversely, in the ECCU area, credit did not increase. This was in spite of the lowering of the minimum savings rate, which was intended to reduce costs to the banks, and therefore encourage them to lend. Continuing its downward spiral, credit declined by 8.3% in 2016

The regional banking system showed improved resilience in 2016, with satisfactory capitalisation (capital adequacy ratios above prudential guidelines) and marginal profitability. However, vulnerabilities persist across BMCs, with high but declining levels of non-performing loans. The loss of CBRs posed a threat to the viability of several domestic banks, amidst tighter lending conditions and increased oversight for anti-money laundering and combating the financing of terrorism (AML/CFT).

Fiscal Performance and Debt

High and/or rising levels of indebtedness remain a challenge for many BMCs, with increasing debt service payments crowding out productive expenditure that is critically needed to stimulate growth. Table 2 shows debt-to-GDP ratios fell in five BMCs as at the end of 2016. Grenada and Jamaica benefited from reform programmes that are being implemented with support from the CDB, IMF and other international financial institutions and donors. Both countries recorded primary surpluses in 2016; and, in Grenada's case, its first overall fiscal surplus in a decade. Their tax and non-tax revenues rose, while expenditures, including the wage bill, were contained. In November, Moody's upgraded Jamaica's sovereign credit rating to B3 from Caa2. Jamaica replaced its IMF Extended Fund Facility (EFF) with a three-year precautionary Stand By Arrangement (SBA), signaling its intention for continued fiscal reform. Similarly, Grenada met all of the targets under the IMF Extended Credit Facility (ECF), with improved revenue performance and falling public debt-to-GDP reflective of enhanced revenue administration and continued debt restructuring with creditors.

The debt burden also fell in St. Kitts and Nevis owing to scheduled principal repayments and lower interest costs, against a backdrop of lower government revenues (including from CBI). In Antigua and Barbuda, proceeds from its Citizenship by Investment Programme (CIP) enabled the debt-to-GDP ratio to fall. The debt-to-GDP ratio fell in Guyana, due to continued economic growth; and also in the Cayman Islands and TCI, where actual debt levels fell.

Elsewhere, debt-to-GDP ratios increased. In Suriname, the IMF SBA approved in May 2016 supported fiscal adjustment that had begun in late 2015. However, following the implementation of some planned reforms, progress slowed. For example, the growth in revenues was constrained by the freezing of fuel pump prices and partial reversal of the increase in electricity tariffs. The fiscal deficit fell in comparison to the previous year, but not enough to prevent public debt worsening.

In Anguilla, where a small fiscal surplus was recorded, the main reason for additional debt was to fund its bank resolution programme. In Barbados and The Bahamas, fiscal deficits fell because capital expenditure was reduced to accommodate rising current expenditure.

In Barbados, interest payments and the public-sector wage bill accounted for 47% of total spending in the first nine months of financial year (FY) 2016/2017. Revenue collections in the same period fell, set against a background of weak domestic demand and erosion of the revenue base. In The Bahamas, recovery expenditure following Hurricane Matthew was estimated to cost 7% of GDP.

Belize recorded a small primary surplus in 2016, on account of a reduction in capital expenditure. However, the debt-to-GDP ratio rose as a result of a one-off payment associated with a nationalised utility. With concerns about financing future expenditure, Belize approached creditors to renegotiate the terms of its commercial external debt. This prompted a credit downgrade by Standard and Poor's to CCC+ from B-.

Table 2: Debt/GDP Ratio 2015-2016

	2015	2016	Change in %	Primary Balance (% of GDP)	Real GDP growth
BAR	140.4	145.3	4.9	0.1	1.6
JAM	124.8	120.3	-4.5	7.0	1.7
ANT	99.1	93.6	-5.5	7.0	4.4
BZE	81.9	90.0	8.1	-1.2	-1.2
GRE	94.3	89.2	-5.1	3.5	3.2
DOM	85.5	87.7	2.2	0.0	0.9
SLU	77.0	81.1	4.1	2.8	0.0
SKN	70.7	67.2	-3.5	1.9	2.8
BAH	64.4	65.9	1.5	-0.2	0.3
TT	52.1	56.6	4.5	-9.4	-5.0
SUR	43.5	52.0	8.5	-5.3	-9.0
GUY	48.6	46.4	-2.2	-2.9	2.6
ANG	24.6	44.3	19.7	3.3	3.8
HAI	30.1	33.6	3.5	-1.0	1.1

Sources: IMF World Economic Outlook Database, CDB estimates

Outlook

The IMF is forecasting that global growth will pick up again in 2017 to 3.4% from 3.1% in 2016, of which contrasting growth paths are forecast for the BMCs' major trading partners - the United States (1.9%), the United Kingdom (0.8%), Canada (1.5%), the Eurozone (1.6%) and China (6.4%). Risks to the global forecast are tilted on the downside in terms of the policy uncertainties surrounding the United States' recently elected government; slowing productivity growth in the advanced economies and the likely volatility in capital flows and cost of borrowing surrounding the normalisation of U.S. interest rates; and a slowdown in China that is more severe than expected.

At the regional level, an economic recovery of 1.7% is projected for 2017. This is predicated on a return to positive growth in Trinidad and Tobago. Notwithstanding, the risks to the outlook are tilted on the downside. Domestic headwinds to growth reside with the legacy effects of the Zika virus (although no longer an international epidemic) in redirecting tourist arrivals away from the Region; and the loss of CBRs, which will affect financial stability. In addition, there are the perennial risks of natural disasters and other weather-related challenges.

CDB is projecting growth in all of its BMCs in 2017 (see Chart 4). Trinidad and Tobago's economic recovery to 1.0% real GDP growth will be driven by improvements in energy prices; investments slated for energy projects; and higher natural gas output. The performance of Guyana and Suriname is expected to improve in 2017, commensurate with a gradual recovery in commodity prices. In Belize, recovery in agriculture and fisheries is expected. Real GDP growth is projected to range from 0.4% in Suriname to 3.5% in Guyana, where increased gold output and recovery in the agriculture and forestry sectors are expected.

In the tourism-dependent economies, real GDP growth is projected to range from 0.9% in The Bahamas to 4.3% in TCI, driven largely by increased tourist arrivals and buoyant investment in infrastructure projects. Improvements in the agriculture sector are projected for Grenada and Jamaica.

Chart 4: GDP Growth 2016 and 2017

	ANG	ANT	BAH	BAR	BZE	BVI	CAY	DOM	GRE	GUY	HAI	JAM	MON	SKN	SLU	SVG	SUR	TT	TCI
2016	3.8	4.4	0.3	1.6	-1.2	2.2	3.2	0.9	3.2	2.6	1.1	1.7	1.2	2.8	0.0	2.8	-9.0	-5.0	4.4
2017	2.9	3.2	0.9	1.8	2.2	2.3	3.2	1.7	2.7	3.5	2.8	2.0	1.5	3.5	1.0	2.5	0.4	1.0	4.3

Source: CDB estimates

Policy Discussion

There are a number of key imperatives. Chief among these is the need to intensify policy actions aimed at generating sustainable and more inclusive economic growth. The economies must be environmentally sustainable and adaptable to climate change. Additionally, they must provide, especially for young people, employment opportunities that reflect the changing way in which the world is working; by, for example, being complimentary to automation and artificial intelligence.

To achieve this shift requires an action plan that promotes regional participation in the global supply chains and increased employment opportunities. Policymakers must tackle the obstacles to growth by improving the doing-business environment; enabling better access to financing for Micro, Small and Medium Enterprises (MSMEs); and implementing labour market reforms, including making it easier for young people and women to work in all sectors. All of these measures would increase productivity and enhance competiveness.

The benefits of positive growth outcomes should be enjoyed by all, and everyone should be able to contribute to this growth. This can be achieved through targeting the SDGs. The Region needs improvements in social development in the areas of quality education and good housing. There need to be policies and institutions that can quickly and accurately target where support is needed, and be able to continuously evaluate and improve their performance to help achieve the desired outcomes.

Economic stability is a precondition for breaking out of the unhappy cycle of high debt and low growth. There is plenty of evidence to suggest that a high debt burden compromises a country's economic stability, its economic growth agenda and government's ability to support social programmes. With limited resources available to achieve desired outcomes, fiscal discipline is crucial to restoring and supporting economic stability. With that in mind, it is necessary to have in place robust institutions and frameworks to manage public finances. Expenditure reforms should include adoption of fiscal rules (as was done recently in Grenada); closer monitoring and streamlining of state-owned enterprises and parastatal companies to limit transfers; and better targeting to reduce subsidies. Revenue reforms should have the objective of ensuring that revenue systems are simple, equitable, generate sufficient revenue to finance government operations, and promote economic efficiency. In relation to promoting economic efficiency, revenue systems have to be configured to facilitate trade and competitiveness.

Public debt management systems also need to be improved, including the implementation of debt management strategies that focus on minimising cost and risks. Additionally, given the vulnerabilities to natural disasters and how these have contributed to debt accumulation, it is important for countries to use revenue windfalls to set up contingency funds or sovereign wealth funds to build greater economic and social resilience. By their very nature, these windfalls are not permanent, so they should be used to create buffers that will be needed to protect the economies when they are no longer there.

There are some structural reforms that can be readily undertaken to enhance inclusive growth. Such reforms should help businesses to grow, reduce barriers to trade and strengthen the financial sector. By introducing and then widening the scope of its credit bureau, Guyana has started to address the problem of access to finance for MSMEs. This was one reason why Guyana rose from 140 to 124 in the latest World Bank Doing Business ranking. Jamaica remains the highest ranked BMC, at 67 of 190 countries. In recent years, Jamaica has implemented a number of reforms aimed specifically at facilitating business, including making it easier to register property; reducing port transit times through information technology improvements; improving ease of tax filing through the use of e-filing; improving access to credit by creating a framework for private credit bureaus; and widening the range of assets that can be used as collateral. Such measures could potentially help Jamaica reach permanently higher levels of growth in the medium to long term.

The Region should also allow for increased use of public private partnerships (PPP), to help unlock value from underutilised assets. Reforms should facilitate and promote green energy production, provide incentives for raising capital, for example, on the junior stock exchange markets, and enhancing venture capital ecosystems. Efforts can also be made to engage the Region's vast diaspora in the growth agenda.

A significant platform for consistent positive growth outcomes is good governance. A well-functioning system can effect change through open and enlightened policymaking, a professional and accountable bureaucracy, and a strong civil society participating in public affairs. Systems of government should be transparent, and foster inclusion, security and growth. Moreover, government operations and resources should be managed in such a way to ensure good value for money.

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