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Balancing economic recovery and high debt in the Caribbean

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Abstract

The survey provides an overview of the economic performance for 2014 of the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, Trinidad and Tobago plus the eight member states of the Eastern Caribbean Currency Union (ECCU) and the outlook for 2015. Data were collected from a review of reports from national governments and through interviews with government officials in each of the countries analyzed.

The regional economy is projected to experience marginally slow growth of 2.1 per cent in 2015 relative to 2.3 per cent in 2014. This is partly influenced by weak growth in major export markets and anemic domestic demand. Growth among the service producers will be driven by continued recovery in tourism, fuelled in part by lower fuel prices. The fiscal position is expected to be influenced by further consolidation to bring down debt levels, especially as adjustment programmes take hold in some of the most indebted countries. Meanwhile, the current account deficit is expected to widen owing to reduced exports, influenced in part by oil and gas exports.

The major challenge continues to be the huge debt burden facing a number of Caribbean Member States. ECLAC has been developing a proposal aimed at debt relief in order to create fiscal space for member states and to enhance growth.

Introduction

The economic recovery in the Caribbean strengthened in 2014. The average growth rates were 2.3 per cent from 1.3 per cent in 2013. The pickup in activity was driven by the continuing rebound in tourism and construction, which offset the impact of softer commodity prices on growth among commodity producers. It is anticipated that improved performance in major export markets such as the United States and Europe will continue to be a central underpinning of the economic performance of the Caribbean in 2015.

The fiscal position improved in 2014 as the deficit declined by half to 2.1 per cent of GDP from 4.5 per cent of GDP in 2013. This performance was influenced by a major fiscal consolidation effort in the service-based economies, which was aimed at reducing their debt burden. This was spearheaded by adjustment programmes in Jamaica, Grenada and Barbados. However, the deficit increased marginally in the goods-based economies amidst the pickup in economic activity. Public debt contracted somewhat, but remained at an unsustainable level of 70.7 per cent on average in 2014. The exceptions included Trinidad and Tobago, Suriname and Guyana.

Monetary developments continue to be marked by weak private credit demand (up by only 0.8 per cent), associated with sluggish private investment. There was a spike in credit to the public sector, but there are concerns about the efficiency of the related public investment. Moreover, non-performing loans which had increased owing to the spill-over effects of the global financial crisis have continued to trend downwards.

The external current account deficit contracted marginally to 14 per cent of GDP in 2014, reflecting higher tourism receipts and the benefit of lower fuel prices for most economies, except for Trinidad and Tobago. Nevertheless, foreign direct investment (FDI), a crucial source of financing of Greenfield investments and technical know-how, contracted from 8.4 per cent of GDP to 7.6 per cent of GDP. In addition, declining commodity prices led to some convergence in the current account between the goods and service producers.

The regional economy is projected to grow marginally in 2015 with growth of 2.1 per cent relative to 2.3 per cent in 2014. Growth among the service producers will be driven by continuing recovery in tourism fuelled in part by lower fuel prices and projected strong economic performance of major source markets. Meanwhile, a continuing weakness in oil prices, will adversely affect growth prospects in Trinidad and Tobago. The fiscal position is expected to be influenced by further consolidation geared towards reducing debt levels, especially as adjustment programmes take hold in some of the most indebted countries. Meanwhile, the current account deficit is expected to widen in the wake of reduced exports, influenced in part by lower (value) oil and gas exports.

Improved growth in 2014 was disappointing not as job-creating as one would have expected it to be. The rate of unemployment fell only marginally to 15.9 per cent in 2014 from 16.2 per cent in 2013. Moreover, youth unemployment, averaging around 25 per cent remains a major concern. Inflation (end of year) increased from 1.4 per cent to 2.0 per cent, reflecting higher domestic demand and non-fuel commodity prices. Inflation was higher in the goods producers (3.8 per cent) relative to 2.1 per cent in the service producers, reflecting both higher demand and exchange rate effects in the former. Trinidad and Tobago (8.5 per cent), Jamaica (6.4 per cent) and St. Lucia (3.7 per cent) registered the highest rates of inflation. Trinidad and Tobago was impacted by a spike in food prices during the second half of the year.

Despite the welcome recovery in the Caribbean, underlying structural constraints remain, which could hinder growth. A key challenge is the decline in investment during the period after the global crisis. Within the Caribbean, domestic investment has fallen from 28 per cent of GDP before to 23 per cent of GDP after the crisis in the service-based economies and remained stagnant at around 22 per cent of GDP in the goods-based economies. This is an important cause for concern given the critical role investment plays in driving growth and development. An important constraint in this regard is the weakness of private investment. Careful analysis to identify the requisite institutional, fiscal incentive regime and other reforms is therefore necessary to encourage the private sector to invest in new productive activity, as well as retool existing industries so as to increase competitiveness.

In recognition of the financial constraints facing a number of businesses and considering the wider impact of the significant debt overhang in the subregion, ECLAC has proposed a debt relief strategy to help stimulate growth in Caribbean small island states (SIDS). The strategy centers on debt for climate change swaps.

Debt relief at this time is deemed crucial for the sustainable development of Caribbean economies, as the fiscal adjustment to achieve debt sustainability by the region would be very large and costly in terms of growth. In addition, much of the growth in debt has stemmed from external economic and environmental shocks, rather than fiscal imprudence and the region has limited access to concessional external finance.

Section I of this survey analyses the impact of the global economy on the Caribbean subregion. It also provides a comparative analysis of GDP, unemployment and sectoral growth and composition. This is followed by subsections on fiscal policy and public debt, monetary policy, domestic credit and inflation and the balance of payments.

Section II presents country briefs for the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago, together with an assessment of the eight member states of the Eastern Caribbean Currency Union (ECCU). A statistical appendix follows, which supports the subregional analysis.

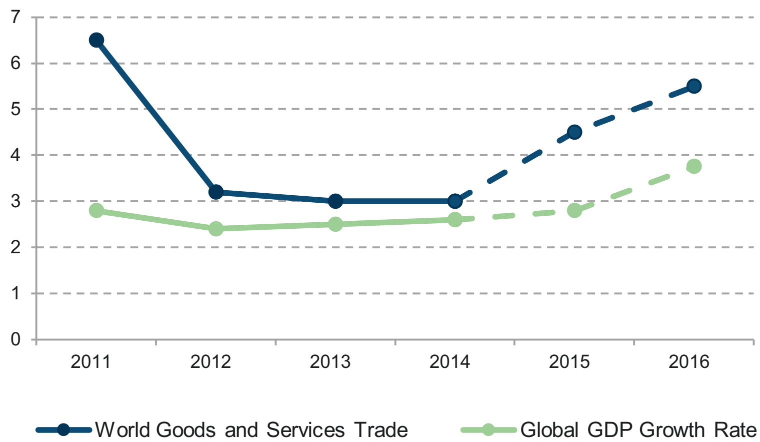
I. Subregional analysis

Challenges in the latter part of 2014 and early 2015 led to a downward revision of the initial forecast of a buouyant world economy (ECLAC 2015). The IMF (WEO April 2015) suggests that the aftermath of the financial and the Euro Area crises is still visible in many economies as high debt and weak Banks still affect spending. Further, low growth has contributed to a slowing of the process of deleveraging. There was also stagnation in growth of global goods and services trade between 2013 and 2014 (see figure 1). However in 2015 it is projected that global trade will increase from 3 to 4.5 per cent an expansion of 2.5 per cent. In addition the projection is that for 2016, growth in world trade will be 5.5 per cent. If this performance is realised it would be significant since world goods and services have not grown by as much as 5 per cent since 2011. The world economy grew marginally in 2014 relative to 2013 and the projection for 2015 is 2.8 per cent growth.

Turning to a consideration of the major regions, the developed countries grew by 1.6 per cent in 2014 and the expectation is that these economies will perform better in 2015 and 2016. Within this group of countries, economic growth in the United States is expected to strengthen throughout to 2016; while it is projected that the European Union will continue to struggle, realizing relatively lower rates of economic growth than the developed country averages in 2015 and 2016. More specifically, the United States economy expanded by 2.4 per cent in 2014; growth is expected to improve to 2.8 per cent in 2015 and 3.1 per cent in 2016.

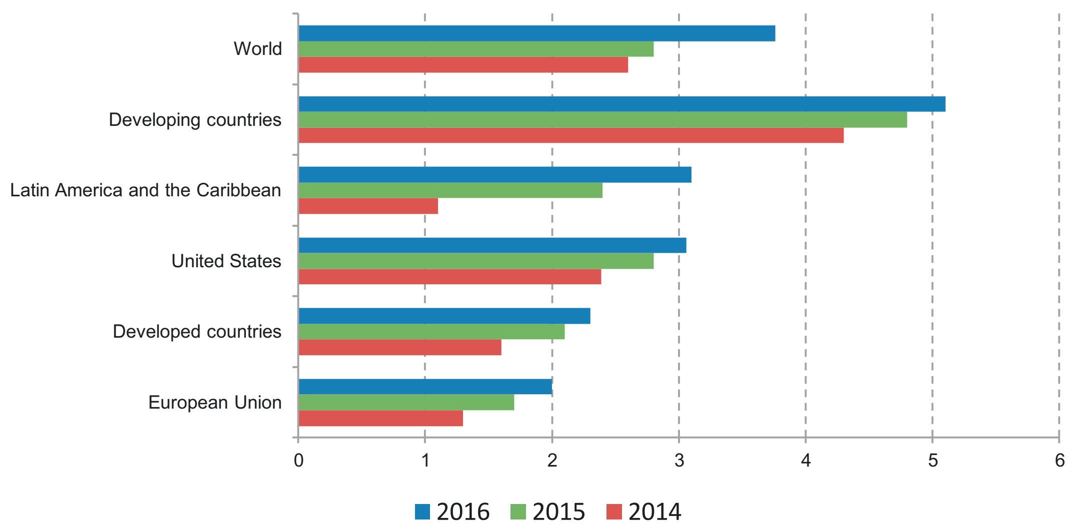
The European Union on the other hand grew by 1.3 per cent in 2014 and is expected to expand by a mere 1.7 per cent in 2015 with a projection of 2 per cent in 2016 (figure 2 refers). The slow but improving European performance has been attributed to, inter alia, the depreciation of the Euro against the US dollar linked to monetary expansion, and falling energy costs which would have collectively increased competitiveness. This notwithstanding, the downside risks are linked to the Greek liquidity crisis as well as unattended structural problems arising from the global crisis, such as the need to address non performing loans. Improved economic performances in both the United States and the European Union augur well for the Caribbean since increased incomes in these key markets usually have the knock-on effect of generating increased demand for the subregion's tourism exports.

Figure 1
World Trade Annual Growth and Global rate, 2011-2016
(Percentages)



Source: Organization of Economic Co-operation and Development (OECD), Economic Outlook Volume 2014 Issue 1 – 94, World Economic Situation and Prospects 2015 and International Monetary Fund, World Economic Outlook Database, 2015.

Figure 2
Global Economic Prospects
(Percentages growth)

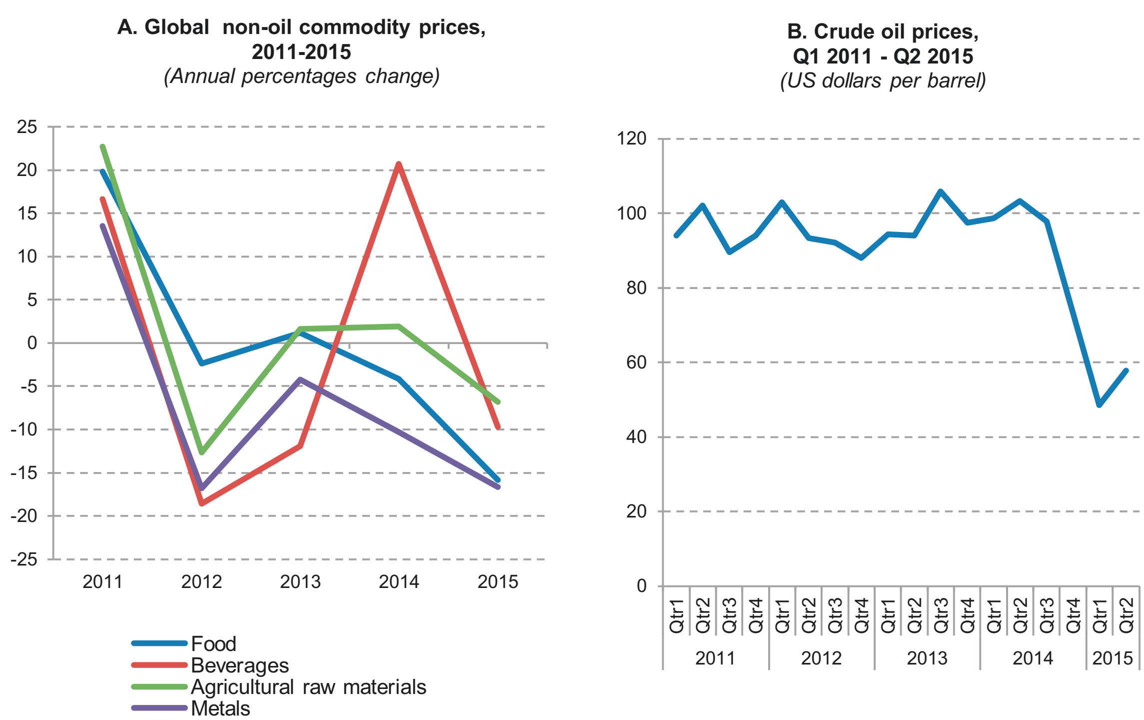


Source: Economic Commission for Latin America and the Caribbean, on the basis of United Nations, World Economic Situation and Prospects 2015, and International Monetary Fund, World Economic Outlook Database, 2015.

As part of global rebalancing it is expected that growth rates will converge between the developed and developing countries in the medium term. The developing countries grew at relatively the same rate in 2013 as in 2014 (4.3 per cent). In 2016 the economies of developing countries are expected to grow by 5.1 per cent, which is much lower than rates posted during the global crisis. The Chinese economy, which was central to the positive perfomance of developing countries, during the crisis, is expected to grow at lower rates in the medium term.The Chinese economy grew at 7.4 per cent in 2013, and is expected to grow only at 7 per cent in 2015.Meanwhile, the India economy grew at 7.2 per cent in 2014 and is expected to grow at 7.6 per cent in 2015, therby surpassing the Chinese growth rate.

The performance of Latin America and the Caribbean has been uneven during the post crisis period. The end of the commodity super cycle is likely to cause growth rates of commodity producers to decline and while commodity prices may increase over the medium term these economies may not attain rates of growth experienced before the global crisis (see figure 3). Growth in Latin America and the Caribbean was 1.1 per cent in 2014 and this is expected to rise to 2.4 per cent in 2015 and slightly higher to 3.1 in 2016.

Figure 3
Global non-oil commodity prices and crude oil prices



Source: International Monetary Fund, World Economic Outlook Database, April 2015; U.S. Department of Energy Information Administration.

The process of global rebalancing is being hastened by the dramatic decline in commodity prices including that of crude oil prices. Consequently, this has had the effect of improving the competiveness of oil importers when compared to oil exporters through lowering of import costs. The downward trend in prices was observed in both metal and agricultural commodity prices since early 2011and after some improvement in 2013 the decline has continued. The cumulative decline in prices between January 2011 and May 2015 for both metals and commodity prices was 39 per cent and 29 per cent respectively. Among the leading factors fuelling the softening of commodity prices are the fall off in global demand for those commodities due to the slowdown in the Chinese economy and existing stockpiles of inventories in light of the investment in natural resources during the price boom. With respect to oil prices, the emergence of the United States as a major exporter due to shale exploration has helped to depress prices. This has also helped to offset the decline in production that resulted from geopolitical conflicts in North Africa and the Middle East.

A. Caribbean growth

The overall growth performance of the Caribbean has improved from 0.8 per cent in 2012 and 1.3 per cent in 2013 to 2.3 per cent in 2014. However, economic activity in the Caribbean is expected to expand by only 2.1 per cent in 2015. The wedge in economic growth traditionally observed between goods-based and services-based economies in the Caribbean is likely to shrink as the rate of growth of the goods producers slows and that of the services producers improves in the short to medium term. In 2014 the goods producers grew by 3per cent while the service producers grew by 2 per cent.

In 2015 the gaps between the two groups of countries is likely to be reduced. In 2014 all the countries in the Caribbean experienced positive growth except for Saint Lucia (-1.6) and Saint Vincent and the Grenadines (-0.5), Interestingly, Saint Kitts and Nevis (6.3 per cent), a service based economy, experienced the largest growth rate.

Table 1
Caribbean: GDP Growth Rates, 2010-2015[a]
(Percentages)

	2010	2011	2012	2013	2014	2015
Anguilla	-4.3	4.9	-6.0	-1.1	3.1	1.4
Antigua and Barbuda	-7.1	-1.8	4.0	-0.1	3.2	5.4
Bahamas	1.5	1.1	1.0	0.7	1.0	2.0
Barbados	0.3	0.8	0.3	-0.1	0.2	1.5
Belize	3.1	2.1	4.0	0.7	3.6	2.5
Dominica	1.1	-0.1	-1.4	-0.9	2.4	0.9
Grenada	-0.5	0.8	-1.2	2.4	3.8	1.3
Guyana	4.4	5.4	4.8	5.2	3.9	4.5
Jamaica	-1.4	1.3	-0.5	0.2	0.4	1.1
Montserrat	-2.8	5.5	3.5	2.0	3.7	1.2
Saint Kitts and Nevis	-3.2	1.7	-1.2	3.7	6.3	4.6
Saint Lucia	-1.0	1.2	-1.6	-0.4	-1.6	0.3
Saint Vincent and the Grenadines	-3.4	-0.5	1.2	1.8	-0.5	0.8
Suriname	5.1	5.3	3.0	2.9	3.4	3.0
Trinidad and Tobago	-0.1	0.0	1.4	1.7	0.9	1.0
Caribbean	**-0.6**	**1.8**	**0.8**	**1.3**	**2.3**	**2.1**
Goods Producers	**3.1**	**3.2**	**3.3**	**2.6**	**3.0**	**2.8**
Service Producers	**-1.9**	**1.4**	**-0.2**	**0.8**	**2.0**	**1.9**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Figures are computed as simple averages.

An examination of table 2, which shows the sectoral composition of GDP, sectoral growth and the contribution to growth for Caribbean economies, reveals a distinct divergence in the performance of the services and goods producers. On the other hand, for the goods producers, agriculture, mining and oil and manufacturing contribute larger shares to GDP. Moreover, for the goods producers, sectoral growth in 2014 was positive for all sectors except mining and oil (-3.0 per cent) which reflected the decline in commodity prices. In contrast, the service based economies experienced positive growth in all sectors with the exception of manufacturing and construction.

Table 2
Caribbean: Sectoral Composition[a], Growth rates and Contribution, 2013 and 2014
(Percentages)

	Year	Agriculture	Mining and Oil	Manufacturing	Construction	Services
			Sector Share of GDP			
Goods Producers	2013	11.1	14.4	13.2	5.7	55.6
	2014	11.2	13.8	13.2	6.1	55.7
Service Producers	2013	3.9	0.7	7.0	7.4	81.0
	2014	3.9	0.7	6.9	7.2	81.3
			Sectoral Growth			
Goods Producers	2013	1.0	0.9	0.6	8.9	3.2
	2014	2.6	-3.0	4.2	6.7	2.5
Service Producers	2013	-1.5	11.2	-1.9	4.7	0.6
	2014	2.0	8.7	-0.5	-1.5	2.3
			Contribution to GDP Growth			
Service Producers	2013	0.0	0.1	-0.1	0.3	0.5
	2014	0.1	0.1	0.0	0.0	1.9
Goods Producers	2013	0.0	0.3	-0.2	0.7	1.8
	2014	0.4	-0.3	0.3	0.6	1.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Sectors are defined using the International Standard Industrial Classification of all Economic Activities (ISIC). Manufacturing includes all manufacturing beside petroleum products and electricity, gas and water productions. Services include wholesale and retail trade, transportation, accommodation and food services, communication, financial and other services, as well as taxes on products less subsidies and less FISM and any statistical discrepancies.

It is also noteworthy that among both goods and service producers the services sector made the largest contribution to growth. This was reflective of the increase in tourist arrivals and a consequent improvement in the performance of tourism- related services.

B. Unemployment

The lack of robust growth continues to impact unemployment rates in the Caribbean. While data are not available for all countries the trend is likely to be similar for the region as a whole. Saint Lucia, whose unemployment rates have risen consistently since 2010, lies at one extremity, with unemployment rates which range from 20.6 per cent in 2010 to 24.4 per cent in 2014. At the lower end is Trinidad and Tobago with rates of 3.7 per cent in 2013 and 3.5 per cent in 2014.It has been observed however that while the labour market in Trinidad and Tobago has benefited from the expansion due to the commodity boom current labour market performance may also be distorted by a high level of disguised employment due to heavy involvement of government ion the labour market.

Suriname has an unemployment rate of 8.9 per cent in 2014, having experienced improved employment since 2012, while Jamaica has posted higher rates of unemployment relative to 2010. Belize appears to have reduced its unemployment rates from 15.3 per cent in 2012 to 11.1 per cent in 2014. The results generally suggest that service based economies of the Caribbean have been less able to reduce their unemployment rates, which may be attributed to the lower growth rates and sectoral underperformance.

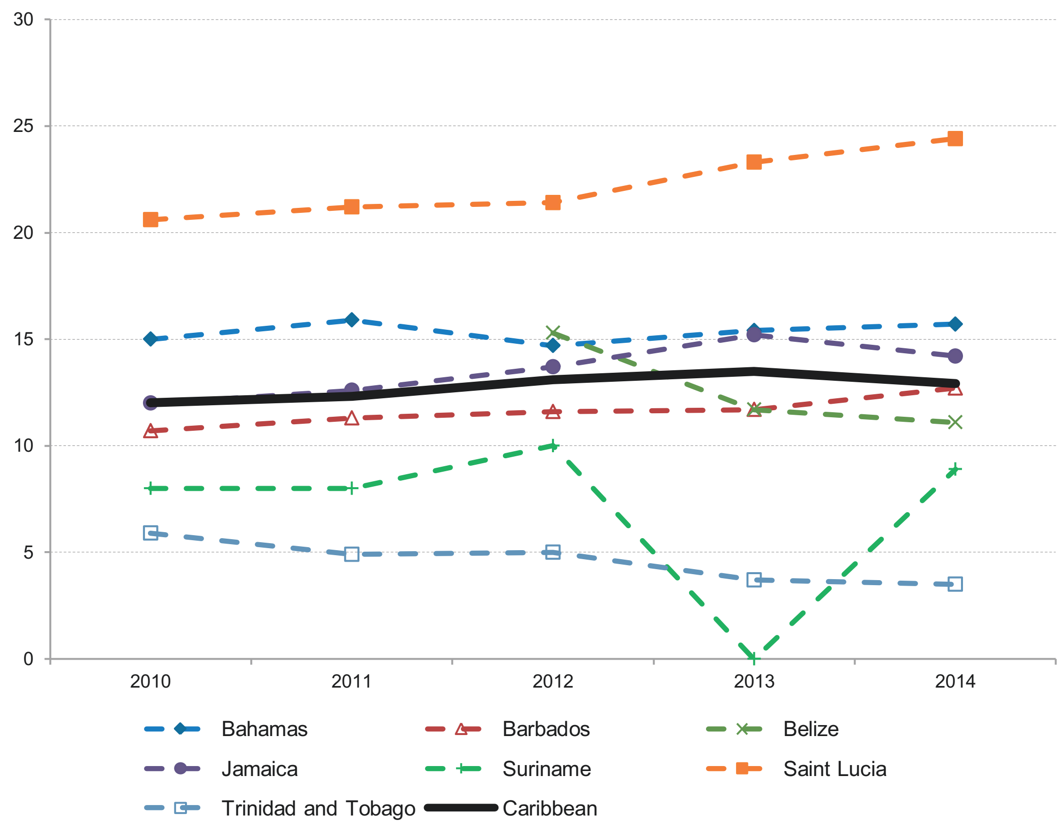
Table 3
Unemployment Rates [a]
(Percentages)

	2010	2011	2012	2013	2014
Bahamas	15.0	15.9	14.7	15.4[a]	15.7
Barbados	10.7	11.3	11.6	11.7	12.7
Belize	…	…	15.3	11.7	11.1
Jamaica	12.0	12.6	13.7	15.2	14.2[b]
Suriname	8.0	8.0	10.0	…	8.9
Saint Lucia	20.6	21.2	21.4	23.3	24.4
Trinidad and Tobago	5.9	4.9	5.0	3.7	3.5[c]
Caribbean Average	**12.0**	**12.3**	**13.1**	**13.5**	**12.9**

Source: Caribbean Centre for Money and Finance and the Economic Commission for Latin America and the Caribbean (ECLAC), on basis of official figures.

[a] November 2013.
[b] December 2014.
[c] Second quarter 2014.

Figure 4
Unemployment rate, 2010-2014
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

C. Fiscal policy and public debt

This section of the Survey examines fiscal performance of Caribbean economies. There is a dedicated focus on the evolution of the deficit, debt and debt service payments in an effort to assess the extent to which the countries are achieving success at fiscal consolidation in the aftermath of the global crisis.

Fiscal imbalances and unsustainable public debt remain the most important macroeconomic challenge confronting Caribbean economies. The regional average fiscal deficit halved from 4.5 per cent of GDP in 2013 to 2.1 per cent of GDP in 2014 (see table 4 and figure 5 below). This marked a significant turnaround among the service producers, where the deficit dipped to 1.6 per cent of GDP in 2014 from 4.9 per cent in the previous year. Montserrat recorded a substantial decline in its fiscal deficit from 16.8 per cent of GDP in 2013 to 5.8 per cent of GDP in 2014, as the government reduced capital spending, due to a fall in grant receipts, following the spike in expenditure in 2013. Consolidation was facilitated by home-grown or IMF-based adjustment programmes in a number of other service producers, including Jamaica, Grenada and Barbados, leading to improved positions. Jamaica experienced a reversal from a deficit of 1.3 per cent in 2013 to a surplus of 4.8 per cent of GDP in 2014, while in Grenada and Barbados the deficit contracted by 2.64 and 24 percentage points, respectively. Among the goods producing economies, the deficit declined by 1.3 percentage points to 1.5 per cent of GDP in Trinidad and Tobago, reflecting larger than expected revenues growth in the non-energy sector that offset higher expenditure. Meanwhile, the deficit increased in Guyana and Belize, owing mainly to growth in recurrent and capital spending respectively.

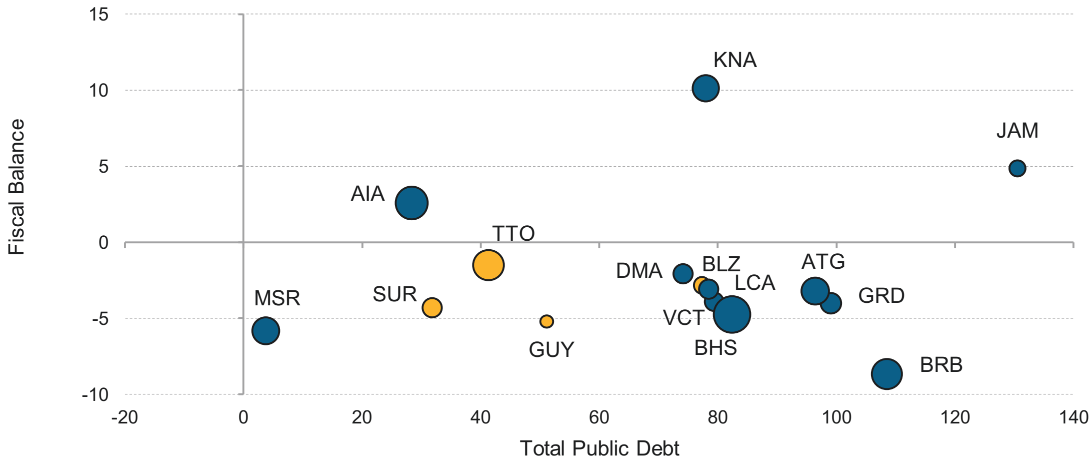
Table 4 [a]
Fiscal balance

	2009	2010	2011	2012	2013	2014
Anguilla	-8.5	0.1	2.7	1.5	0.6	2.6
Antigua and Barbuda	-11.0	-1.4	-5.2	-1.3	-4.5	-3.2
Bahamas	-5.2	-4.8	-4.1	-6.8	-5.8	-4.7
Barbados	-8.4	-7.2	-7.1	-6.0	-11.1	-8.7
Belize	-2.9	-1.7	-0.8	-0.8	-1.1	-2.8
Dominica	-2.0	-6.1	-8.3	-8.7	-9.3	-2.1
Grenada	-4.9	-2.4	-3.2	-5.5	-6.6	-4.0
Guyana	-3.7	-2.9	-3.1	-4.7	-4.4	-5.2
Jamaica	-11.4	-6.4	-5.9	-4.2	-1.3	4.8
Montserrat	3.7	2.3	7.7	-6.9	-16.8	-5.8
Saint Kitts and Nevis	-1.0	-4.3	2.5	11.2	13.5	10.1
Saint Lucia	-2.1	-0.6	-4.6	-6.5	-6.7	-3.1
Saint Vincent and the Grenadines	-1.7	-2.9	-2.7	-2.1	-6.2	-3.9
Suriname	0.8	-2.9	-0.1	-2.3	-4.4	-4.3
Trinidad and Tobago	-5.5	0.1	-0.7	-1.4	-2.8	-1.5
Caribbean	**-4.2**	**-2.7**	**-2.2**	**-3.0**	**-4.5**	**-2.1**
Goods Producers	**-2.8**	**-1.8**	**-1.2**	**-2.3**	**-3.2**	**-3.5**
Service Producers	**-4.8**	**-3.1**	**-2.6**	**-3.2**	**-4.9**	**-1.6**

Source: Caribbean Centre for Money and Finance and the Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Simple average.

Figure 5 [a]
Fiscal balance and total public debt for Caribbean Countries, 2014



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Aggregates are calculated as simple average.

Overall, the consolidation effort was marked by reductions in both current and capital spending. Current expenditure declined from 27.1 per cent of GDP in 2013 to 26.9 per cent of GDP in 2014 across the region (see table 5 and figure 6 below). The larger contraction in the deficit occurred among the goods-based economies (1.1 percentage points) to 23.3 per cent of GDP. This decline stemmed partly from adjustment among the goods producers to compensate for reduced commodity prices. Capital spending, which has averaged 6.3 per cent of GDP from 2011 to 2014 and stood at 7.4 percent of GDP in 2014, fell by 1.2 percentage points to 6.2 per cent of GDP in 2014. It is also important to note that the services producing economies cut both current and capital spending as part of their consolidation effort. Meanwhile, goods producers were able to maintain capital spending as they were in a more favourable position. Indicative of the high debt problem, especially among service producers, interest payment ratios remained relatively stable in 2014; representing 2.9 percent of GDP Caribbean-wide and 3.4 percent of GDP for services based economies specifically.

Table 5 [a]

Caribbean: central government fiscal expenditure by categories

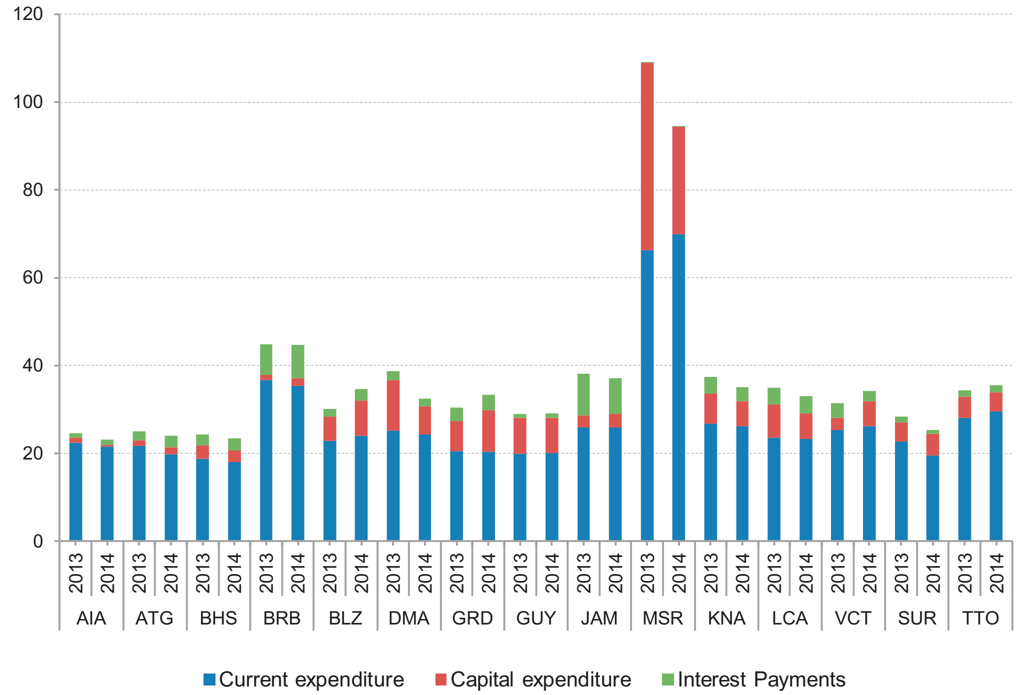
(Percentages of GDP)

	Current expenditure				Capital expenditure				Interest			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Anguilla	21.8	22.2	22.5	21.6	1.2	1.2	1.0	0.4	1.1	1.0	1.1	1.2
Antigua and Barbuda	23.4	20.6	21.6	19.7	1.3	0.6	1.3	1.6	2.5	2.5	2.0	2.6
Bahamas	19.7	19.5	18.8	18.0	2.8	3.0	3.1	2.7	2.6	2.3	2.4	2.6
Barbados	33.8	33.2	36.7	35.3	1.1	1.0	1.2	1.8	6.0	6.5	7.0	7.5
Belize	24.1	23.5	22.9	24.1	4.1	5.1	5.5	8.0	3.5	3.0	1.8	2.6
Dominica	23.9	22.8	25.3	24.3	12.9	12.1	11.5	6.3	1.8	1.5	2.0	1.8
Grenada	20.0	21.2	20.5	20.4	6.3	5.0	6.8	9.4	2.5	3.4	3.1	3.6
Guyana	19.1	19.7	19.9	20.1	9.5	9.7	8.2	8.0	1.5	1.1	1.0	1.0
Jamaica	28.1	27.5	25.9	25.9	4.2	3.9	2.8	3.1	11.0	9.7	9.5	8.2
Montserrat	54.2	65.4	66.3	69.9	16.2	23.0	42.7	24.5	0.0	0.0	0.0	0.0
Saint Kitts and Nevis	30.3	27.7	26.8	26.2	4.3	3.7	6.7	5.7	6.4	5.9	3.9	3.2
Saint Lucia	21.4	23.5	23.5	23.2	7.7	6.9	7.7	5.9	2.9	3.5	3.7	3.9
Saint Vincent and the Grenadines	27.1	26.1	25.3	26.1	2.5	2.6	2.8	5.8	4.1	3.8	3.4	2.3
Suriname	19.7	22.3	22.7	19.5	4.8	4.4	4.3	4.9	1.0	0.9	1.3	0.9
Trinidad and Tobago	26.6	28.1	28.0	29.6	4.6	4.4	4.8	4.3	1.9	1.9	1.6	1.6
Caribbean	**26.2**	**26.9**	**27.1**	**26.9**	**5.6**	**5.8**	**7.4**	**6.2**	**3.3**	**3.1**	**2.9**	**2.9**
Goods producers	**22.4**	**23.4**	**23.4**	**23.3**	**5.8**	**5.9**	**5.7**	**6.3**	**2.0**	**1.7**	**1.4**	**1.5**
Service producers	**27.6**	**28.1**	**28.5**	**28.3**	**5.5**	**5.7**	**8.0**	**6.1**	**3.7**	**3.6**	**3.5**	**3.4**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Simple Average

Figure 6
Caribbean: central government fiscal expenditure by categories
(Percentages of GDP)



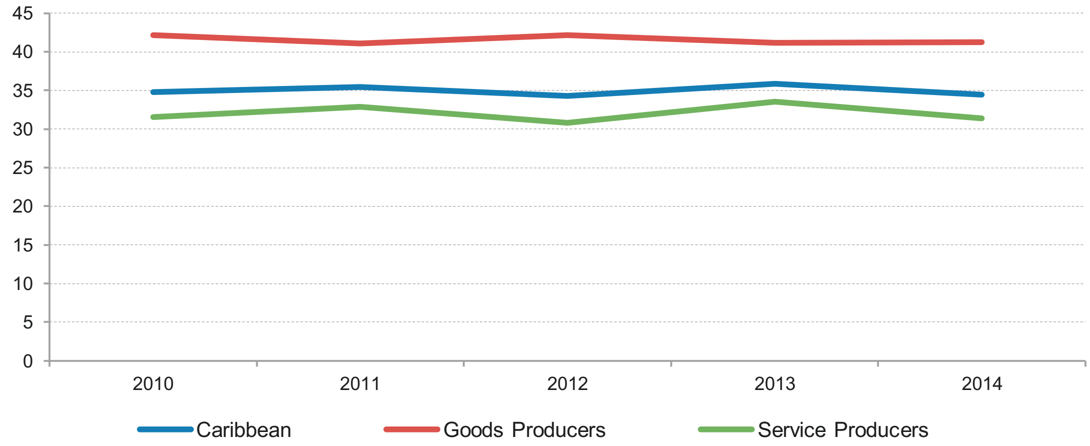
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

1. Fiscal flexibility

The fiscal flexibility index[1] highlights the limited fiscal space that Caribbean economies have on average. The index measures discretionary government spending as a proportion of total spending. Despite the lower fiscal deficit in 2014, flexibility for the Caribbean declined by 1.5 percentage points to 34.4 per cent (see figure 7 below). This stemmed from reduced flexibility in the service producers, where non-discretionary expenditure, especially interest payments, owing to high debt, remains high. This has led to reduced capital spending, with expenditure in this area declining by 2.5 percentage points to 6.2 per cent of GDP in the service producers. Continued adjustment based on lower capital spending could reduce future growth in these economies. In contrast, flexibility declined slightly (0.1 percentage points) in the goods-based economies, reflecting lower non-discretionary spending, thereby providing greater room for capital expenditure. The largest decline in fiscal space occurred in Dominica (7.5 percentage points) and Saint Lucia (4.4 percentage points), while the largest increases were observed in Grenada and Suriname. However, flexibility in Suriname was expected to decline by late 2014 and into 2015 as a result of supplementary appropriation of funds partly to finance election spending.

[1] The fiscal.l flexibility index is defined as :
FFI = (1-NDE/TGE)*100, NDE is non-discretionary expenditure defined as outlays on wages and salaries, transfers and interest payments and TGE is total government expenditure. The maximum value of the uncorrected index is 100, reflecting total fiscal flexibility. IMF (2012) "The Challenges of Fiscal Consolidation and Debt Reduction in the Caribbean", Amo-Yartey et.al, Working Paper WP/12/276.

Figure 7
Fiscal flexibility in Caribbean economies by economic structure



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

2. Public debt

Regional public debt has declined slowly, after sharp growth during the global crisis. With reduced deficit spending in 2014, public debt declined marginally from 72 per cent of GDP in 2013 to 70.7 per cent of GDP. The average debt of the service producers, which is 27.7 percentage points greater than the goods producers, moderated to 78.1 per cent of GDP in 2014, from 79.2 per cent of GDP in 2013. Similarly, the debt of the goods producers declined from 52.1 per cent of GDP to 50.4 per cent of GDP. Debt reduction was led by Saint Kitts and Nevis, whose debt contracted by 24 percentage points, reflecting the continued impact of fiscal consolidation and significant debt write-off under the restructuring programme. Guyana (6.7 percentage points), Grenada (4.2 percentage points) and Suriname (2.7 percentage points) also recorded a reduction in their debt in 2014. Guyana's improvement stemmed from reduced credit under the PetroCaribe Agreement and lower disbursements from the Inter-American Development Bank. Meanwhile, lower debt in Grenada was linked to the decline in the deficit under the IMF adjustment programme. Meanwhile in 2014, debt contracted in Suriname, due to reduced domestic borrowing. However, significant borrowing in the first quarter of 2015, suggests that the gains could be quickly reversed. Jamaica's debt also declined due to acquiring low cost goods to pay down the debt owed to PetroCaribe.

Table 6
Caribbean: public sector debt, 2012-2014
(Percentages of GDP)

	2012			2013			2014		
	Foreign	Domestic	Total	Foreign	Domestic	Total	Foreign	Domestic	Total
Anguilla	22.6	7.9	30.4	22.3	7.9	30.2	21.4	6.9	28.3
Antigua and Barbuda	36.9	50.4	87.3	43.7	51.4	95.1	40.4	56.0	96.4
Bahamas	18.0	47.6	65.5	19.4	50.6	70.0	23.6	58.8	82.4
Barbados	34.1	62.1	96.2	36.9	69.1	105.9	37.4	71.1	108.5
Belize	64.4	12.4	76.8	66.7	11.9	78.5	66.3	11.1	77.3
Dominica	51.0	22.2	73.3	52.9	22.6	75.5	51.6	22.5	74.1
Grenada	66.9	34.5	101.4	67.3	36.0	103.3	65.5	33.5	99.1
Guyana	47.6	16.0	63.7	41.7	16.1	57.8	38.0	13.1	51.1
Jamaica	55.7	75.6	131.3	58.2	73.7	131.9	62.7	67.8	130.5
Montserrat	4.3	0.1	4.3	4.2	0.0	4.2	3.7	-	3.7
Saint Kitts and Nevis	43.3	94.6	137.9	41.3	60.8	102.1	34.1	43.9	78.0
Saint Lucia	33.4	40.9	74.2	36.5	39.8	76.4	38.6	39.9	78.4
Saint Vincent and the Grenadines	47.4	25.2	72.6	49.3	26.8	76.1	52.3	27.0	79.4
Suriname	16.4	10.7	27.1	18.8	15.7	34.6	20.0	11.8	31.8
Trinidad and Tobago	6.7	34.4	41.1	5.2	32.4	37.6	7.2	34.1	41.3
Caribbean	**36.6**	**35.6**	**72.2**	**37.6**	**34.3**	**72.0**	**37.5**	**33.2**	**70.7**
Goods Producers	**33.8**	**18.4**	**52.2**	**33.1**	**19.0**	**52.1**	**32.9**	**17.5**	**50.4**
Service Producers	**37.6**	**41.9**	**79.5**	**39.3**	**39.9**	**79.2**	**39.2**	**38.9**	**78.1**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

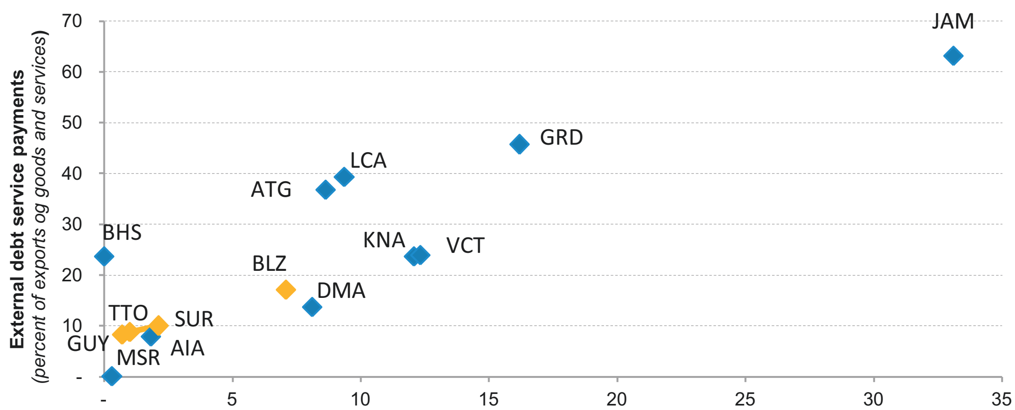
On the other hand, debt to GDP ratios increased in the Bahamas, Trinidad and Tobago and Saint Vincent and the Grenadines by 12.3, 3.7 and 3.3 percentage points respectively. The significant slippage in debt sustainability observed for the Bahamas resulted from increased government borrowing to finance development programmes, including infrastructure and agriculture development. Saint Vincent and the Grenadines contracted further debt to undertake rehabilitation and reconstruction works following the late 2013 weather event. The deteriorating fiscal and debt situation led to countries including the Bahamas, Barbados and Saint Vincent and the Grenadines being downgraded by rating agencies in 2014.

3. Debt service payments

Debt servicing costs reflect the direct impact of the debt on development, owing to the high opportunity cost in terms of potential projects that could have been financed by these funds. The external debt service ratio increased marginally from 7.6 per cent of exports of goods and services in 2013 to 8.0 per cent in 2014 (see figure 8 and table 7 below). The debt service ratio was higher in the service producers (up 9 basis points) to 10 per cent of exports of goods and services, as the ratio for the goods producers declined from 3.6 per cent to 2.7 per cent. The largest increases in external debt service payments were in the most highly indebted countries, including St. Kitts and Nevis (6.9 percentage points), Jamaica (6.8 percentage points) and Antigua and Barbuda (3.7 percentage points).

Debt service absorbed a marginally higher share of government revenue (23 per cent) in 2014 relative 22.8 per cent in 2013. While already being high, the ratio for the service based economies increased by a further 1.8 percentage points in 2014 to 27.8 per cent. This was indicative of an increase in debt service payments alongside stagnant growth in revenues. In contrast the position of the goods based economies in this regard improved in 2014 with their debt service ratio falling by almost 4 percentage points to 11.1 per cent of revenue. Although countries faced varying costs of burdens, it is worth noting that Jamaica and Saint Lucia are particularly challenged with debt servicing costs absorbing over 63 per cent of revenue in the case of the former and almost 40 per cent for the latter.

Figure 8
Debt service payment ratios for the Caribbean
(Percentages of Government revenue)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on basis of official figures.

D. Monetary policy, domestic credit and inflation

In 2014, monetary policy continued to play a key role in ensuring macroeconomic stability and growth; largely complementing fiscal consolidation and debt reduction programmes instituted in many subregional economies. Most Caribbean economies continued to adopt a generally neutral monetary stance in 2014.

Table 7
Debt service payment ratios for the Caribbean

	Current expenditure				Capital expenditure				Interest			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Anguilla	21.8	22.2	22.5	21.6	1.2	1.2	1.0	0.4	1.1	1.0	1.1	1.2
Antigua and Barbuda	23.4	20.6	21.6	19.7	1.3	0.6	1.3	1.6	2.5	2.5	2.0	2.6
Bahamas	19.7	19.5	18.8	18.0	2.8	3.0	3.1	2.7	2.6	2.3	2.4	2.6
Barbados	33.8	33.2	36.7	35.3	1.1	1.0	1.2	1.8	6.0	6.5	7.0	7.5
Belize	24.1	23.5	22.9	24.1	4.1	5.1	5.5	8.0	3.5	3.0	1.8	2.6
Dominica	23.9	22.8	25.3	24.3	12.9	12.1	11.5	6.3	1.8	1.5	2.0	1.8
Grenada	20.0	21.2	20.5	20.4	6.3	5.0	6.8	9.4	2.5	3.4	3.1	3.6
Guyana	19.1	19.7	19.9	20.1	9.5	9.7	8.2	8.0	1.5	1.1	1.0	1.0
Jamaica	28.1	27.5	25.9	25.9	4.2	3.9	2.8	3.1	11.0	9.7	9.5	8.2
Montserrat	54.2	65.4	66.3	69.9	16.2	23.0	42.7	24.5	0.0	0.0	0.0	0.0
Saint Kitts and Nevis	30.3	27.7	26.8	26.2	4.3	3.7	6.7	5.7	6.4	5.9	3.9	3.2
Saint Lucia	21.4	23.5	23.5	23.2	7.7	6.9	7.7	5.9	2.9	3.5	3.7	3.9
Saint Vincent and the Grenadines	27.1	26.1	25.3	26.1	2.5	2.6	2.8	5.8	4.1	3.8	3.4	2.3
Suriname	19.7	22.3	22.7	19.5	4.8	4.4	4.3	4.9	1.0	0.9	1.3	0.9
Trinidad and Tobago	26.6	28.1	28.0	29.6	4.6	4.4	4.8	4.3	1.9	1.9	1.6	1.6
Caribbean	**26.2**	**26.9**	**27.1**	**26.9**	**5.6**	**5.8**	**7.4**	**6.2**	**3.3**	**3.1**	**2.9**	**2.9**
Goods producers	**22.4**	**23.4**	**23.4**	**23.3**	**5.8**	**5.9**	**5.7**	**6.3**	**2.0**	**1.7**	**1.4**	**1.5**
Service producers	**27.6**	**28.1**	**28.5**	**28.3**	**5.5**	**5.7**	**8.0**	**6.1**	**3.7**	**3.6**	**3.5**	**3.4**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

1. Interest rates

Overall, deposit rates contracted slightly (0.6 percentage points), with marginal declines and increases recorded for individual countries. For example, Jamaica (0.97), Suriname (0.2) and Montserrat (0.12), each registered increases of less than one percentage point in 2014, while the remaining economies reported decreases in the order of less than 0.5 percentage points.

On average, lending rates demonstrated a more distinct downward trend (0.19 percentage points), declining for most countries, with Saint Vincent and the Grenadines (16 per cent), Guyana (10 per cent), Trinidad and Tobago (9 per cent) registering the largest contractions. Dominica (2.2 per cent or 0.2 percentage points) and Saint Kitts and Nevis (2.1 per cent) registered smaller declines. The largest upticks in lending rates were reported in The Bahamas (6 per cent) and Suriname (4 per cent). As a result, interest rate spreads remained largely unchanged with Jamaica, Guyana and The Bahamas maintaining the largest spreads in 2014. For the remaining economies, the spread ranged from 5.5 percentage points for Saint Vincent and the Grenadines to 8.9 percentage points for Belize. Table 8 summarizes lending and deposit rates for 2013 and 2014.

Table 8
Lending rate, deposit rate and spread, 2013-2014
(Percentages)

	2013			2014		
	Lending rate	Deposit rate	Spread	Lending rate	Deposit rate	Spread
Anguilla	9.17	3.31	5.86	9.25	2.97	6.28
Antigua and Barbuda	9.47	2.93	6.54	9.45	2.81	6.65
Bahamas	11.10	1.68	9.42	11.80	1.40	10.40
Barbados	8.55	2.51	6.04	8.58	2.50	6.08
Belize	11.12	2.17	8.95	11.12	2.17	8.95
Dominica	8.96	3.02	5.94	8.76	2.80	5.96
Grenada	9.10	2.46	6.64	9.01	2.23	6.78
Guyana	12.30	1.33	10.97	11.01	1.26	9.75
Jamaica	17.49	2.04	15.45	17.18	3.01	14.17
Montserrat	8.02	1.83	6.19	8.05	1.95	6.11
Saint Kitts and Nevis	8.81	3.01	5.80	8.62	2.49	6.13
Saint Lucia	8.41	2.79	5.62	8.50	2.58	5.93
Saint Vincent and the Grenadines	9.41	2.65	6.76	7.92	2.46	5.45
Suriname	12.00	7.20	4.80	12.50	7.40	5.10
Trinidad and Tobago	8.51	0.56	7.95	7.77	0.54	7.23
Caribbean	**10.16**	**2.63**	**7.53**	**9.97**	**2.57**	**7.40**
Goods Producers	**10.98**	**2.82**	**8.17**	**10.60**	**2.84**	**7.76**
Service Producers	**9.86**	**2.57**	**7.30**	**9.74**	**2.47**	**7.27**

Source: Economic Commission for Latin America and the Caribbean on basis of official figures, International Monetary Fund.

2. Money supply and credit

In examining changes in monetary aggregates, it is noteworthy that the share of narrow money (M1) increased slightly on average for most countries with the exception of Montserrat, Guyana and Suriname. The largest increase in M1 as a percentage of GDP was registered in Belize, The Bahamas, Saint Vincent and the Grenadines and Grenada. Trinidad and Tobago also recorded an increase of 1.7

percentage points, while the increase for the remaining countries was less than 1per cent. It is also interesting to note that within the Caribbean, money supply (M2) has trended upwards during the post-crisis period, with broad money supply as a percentage of GDP increasing steadily since 2010 reaching 74.7 per cent in 2014 (see table 9).

This suggests that the share of production-related transactions by quasi money has been increasing. Generally, within the Caribbean the money supply (M2) to GDP ratio has been higher for services economies, and this trend continued in 2014. This suggests that for the services based Caribbean economies, where (M2)/GDP stood at 81.2 per cent in 2014, bank credit remains the leading source of private sector financing.

Table 9
Monetary aggregates and domestic credit to the private and public sector, 2013-2014
(Percentages of GDP)

	M1		M2		Domestic Credit to the Private Sector		Domestic Credit to the Public Sector	
	2013	2014	2013	2014	2013	2014	2013	2014
Anguilla	5.5	6.2	35.9	37.2	168.5	153.4	-33.8	-34.4
Antigua and Barbuda	18.4	18.5	82.6	80.8	70.0	62.8	12.8	13.4
Bahamas	22.3	26.0	75.2	74.5	78.7	74.1	28.8	29.1
Barbados	38.0	39.0	105.6	103.4	65.9	61.8	28.5	29.3
Belize	34.5	38.7	76.2	78.6	56.5	56.5	1.2	0.6
Dominica	15.3	16.2	81.4	83.5	56.7	53.2	-4.9	-2.5
Grenada	16.9	19.6	81.7	80.7	75.4	67.8	-0.2	-3.7
Guyana	18.3	17.3	51.0	49.5	30.1	30.3	-5.9	-3.9
Jamaica	10.4	10.8	18.7	18.4	22.3	21.8	9.3	12.6
Montserrat	33.0	26.7	172.8	182.6	41.1	39.8	-47.1	-43.9
Saint Kitts and Nevis	24.9	25.9	93.6	92.3	93.8	97.8	-39.6	-52.8
Saint Lucia	19.3	20.3	74.4	71.7	112.3	102.5	-2.1	-5.4
Saint Vincent and the Grenadines	19.3	21.7	63.3	67.9	54.0	53.1	-2.5	-1.3
Suriname	25.5	24.7	51.6	50.6	27.8	28.2	3.8	7.5
Trinidad and Tobago	22.8	24.5	43.9	48.4	25.6	26.9	-5.8	-6.4
Caribbean	21.6	22.4	73.9	74.7	65.3	62.0	-3.8	-4.1
Goods Producers	25.3	26.3	55.7	56.8	35.0	35.5	-1.7	-0.5
Service Producers	20.3	21.0	80.5	81.2	76.3	71.6	-4.6	-5.4

Source: Economic Commission for Latin America and the Caribbean on the basis of official figures.

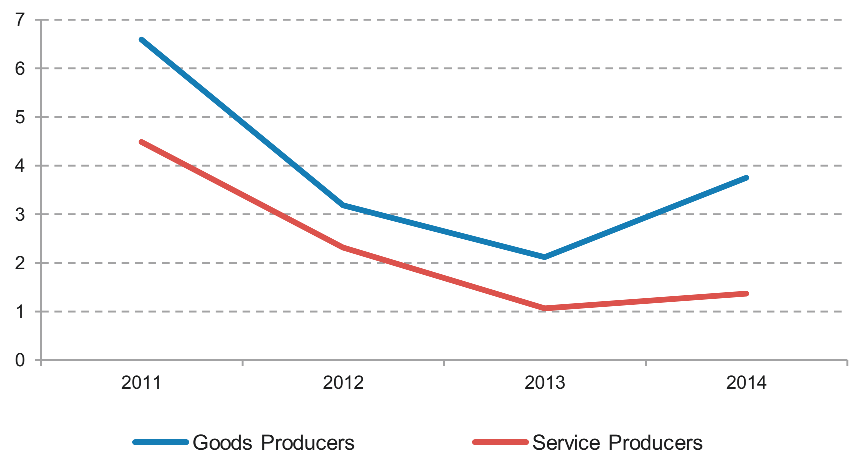
With the exception of Trinidad and Tobago, Saint Kitts and Nevis, Suriname and Guyana domestic credit to the private sector as a percentage of GDP declined in Caribbean economies; contracting by 3.3 percentage points to 62.0 per cent overall. The largest decline in credit to the private sector was reported for Antigua and Barbuda (10.3 per cent), Grenada (10.1 per cent) and Anguilla (9 per cent). Trinidad and Tobago and Saint Kitts and Nevis showed the largest improvement, with upticks of 5.1 per cent and 4.3 per cent, respectively.

The general decline in private sector credit observed in many Caribbean countries, particularly in the services-based economies, is largely indicative of the inability of the domestic private sector to absorb excess liquidity in the financial system into export generating productive activities. In contrast, domestic credit to the public sector as a percentage of GDP contracted further in 2014, declining by 0.3 per cent of GDP for the sub-region between 2013 and 2014. Notable declines were observed for Saint Lucia and Grenada, and noteworthy improvements were registered for Suriname, Jamaica and Montserrat. The overall limited movement in this area is reflective ongoing fiscal consolidation programmes being instituted in many subregional economies.

3. Inflation

Inflation rates in the Caribbean picked up slightly in 2014, after showing a strongly downward trend since 2011. More specifically, at the subregional level, inflation increased by 0.6 percentage points to 2.0 per cent in 2014. This notwithstanding, for the most part low oil and commodities prices as well as weak domestic demand assisted in keeping inflation in the services economies low (1.4 per cent), relative to the goods producers (3.8 per cent) in 2014 (figure 9 refers).

Figure 9
Inflation
(Percentages)



Source: Economic Commission for Latin America and the Caribbean on the basis of official figures.

Although Saint Lucia and Suriname registered the largest increase in 2014, inflation rates have remained below 5 percent (see table 10). In the case of Suriname, the rise in inflation was mainly due to rebounding consumer demand and wage increases. Jamaica registered the largest decrease in inflation, which was due to depressed commodity prices, including oil, and weaker domestic demand. In the case of Trinidad and Tobago, food inflation has typically been the primary driver of increasing prices, as such a spike in food prices during the third quarter of 2014 underpinned an acceleration in headline inflation which increased by 2.9 percentage points in 2014.

Table 10
Inflation, 2013-2014
(Percentages)

	2011	2012	2013	2014
Anguilla	4.4	-0.3	0.8	-0.9
Antigua and Barbuda	4.0	1.8	1.1	1.3
Bahamas	3.2	0.7	0.8	0.9
Barbados	9.6	2.4	1.1	2.3
Belize	2.5	0.6	1.4	1.4
Dominica	1.9	1.3	-0.4	1.0
Grenada	3.5	1.8	-1.2	-0.6
Guyana	3.3	3.5	0.9	1.2
Jamaica	6.0	8.0	9.5	6.4
Montserrat	4.4	3.6	-0.5	-1.0
Saint Kitts and Nevis	2.8	0.1	0.4	2.0
Saint Lucia	4.8	5.0	-0.7	3.7
Saint Vincent and the Grenadines	4.7	1.0	na	0.1
Suriname	15.3	1.4	0.6	3.9
Trinidad and Tobago	5.3	7.2	5.6	8.5
Caribbean	**5.0**	**2.5**	**1.4**	**2.0**
Goods Producers	**6.6**	**3.2**	**2.1**	**3.8**
Service Producers	**4.5**	**2.3**	**1.1**	**1.4**

Source: Economic Commission for Latin America and the Caribbean on the basis of official figures.

E. Balance of payments

The performance of the external sector of Caribbean economies improved moderately in 2015. Lower commodity prices negatively affected some goods producers but had a positive impact on the service-producing economies of the region. A modest recovery in the tourism sector also benefited the region.

The current account is expected to continue to improve for service producers in 2015, due to low commodity prices and continued world economic recovery. Goods producers will also benefit from a healthier world economy, but persistent low commodity prices could mean deterioration in their current accounts.

On average, economies in the subregion showed slight improvements in their current accounts in 2014 compared to 2013. The deterioration in the current accounts of goods producers (see table 11) was more than offset by an improvement in the current accounts of service producers.

Imports decreased for goods-producing economies, from an average of 62.3 per cent of GDP in 2013 to 57.2 per cent of GDP in 2014. However, this was more than offset by a decrease in export receipts, from 111.3 per cent to 97.8 per cent. Moreover, Trinidad and Tobago continues to be the only country in the subregion with a current account surplus, though the continued dip in petroleum prices kept this surplus at levels much lower than it was in recent years. Suriname, which in 2013 had a current account deficit for the first time since 2006, recorded a deeper deficit in 2014, largely due to lower prices of gold and oil. Belize saw its worst current account deficit in recent years, in part due to decrease in the prices of its primary exports, sugar, bananas and citrus. Guyana, unique among the goods producers, saw an improvement in its current account, primarily because of lower imports but partly due to higher prices for bauxite and alumina. These higher prices for bauxite and alumina also benefited Jamaica, which is usually considered primarily a services-based economy.

1. Current account

Table 11
Current account balance
(Percentages of GDP)

	2010	2011	2012	2013	2014
Anguilla	-18.9	-12.6	-19.1	-17.2	-17.6
Antigua and Barbuda	-14.7	-10.4	-14.6	-14.6	-14.2
Bahamas	-10.1	-15.2	-18.5	-18.0	-21.7
Barbados	-5.8	-12.8	-9.3	-9.3	-8.5
Belize	-3.3	-1.1	-2.5	-4.5	-8.0
Dominica	-16.5	-14.0	-17.7	-13.1	-12.7
Grenada	-26.4	-26.6	-24.2	-26.5	-19.1
Guyana	-11.0	-14.4	-12.9	-15.3	-11.5
Jamaica	-7.1	-14.6	-12.9	-9.2	-8.4
Montserrat	-35.1	-15.8	-21.5	-48.2	-44.3
Saint Kitts and Nevis	-19.9	-15.1	-9.0	-6.2	-6.5
Saint Lucia	-16.3	-18.8	-13.6	-11.2	-6.9
Saint Vincent and the Grenadines	-30.6	-29.4	-27.6	-31.0	-29.6
Suriname	15.1	5.8	3.3	-3.8	-6.9
Trinidad and Tobago	19.8	11.9	3.4	6.7	6.4
Goods producers	5.2	0.5	-2.2	-4.2	-5.0
Service producers	-18.3	-16.8	-17.1	-18.6	-17.2
Caribbean	-12.0	-12.2	-13.1	-14.8	-14.0

Source: Economic Commission for Latin America and the Caribbean on the basis of official figures.

Service producers saw, on average, modest reductions in their current account deficits. This is primarily due to lower expenditure on imports, arising from continued low prices for fuel and agricultural imports. Total exports decreased slightly for service providers, but exports receipts from services increased, reflecting an increase in receipts from tourism. This improvement in tourism is, in part, due to recent investments in the tourist sector and to world economic recovery, particularly in major source markets such as the United States, Canada and the United Kingdom.

2. Financial and capital accounts

Table 12 shows net foreign direct investment (FDI) for the region. FDI is typically volatile, and these investment levels fluctuated substantially for several economies in the region from 2013 to 2014. Goods-based economies, on average, saw a modest increase in FDI, due to increases for Belize, Guyana and Trinidad and Tobago arising largely from investment in extractive industries. On average, service producers saw a modest drop in FDI from 2013. Grenada experienced the most marked change in FDI inflows, as its FDI inflows decreased from a spike in 2013 due to the large investment from Sandals Resorts in that year. Average FDI inflows decreased for the subregion as a whole.

Table 12
Net foreign direct investment
(Percentages of GDP)

	2010	2011	2012	2013	2014
Anguilla	4.2	13.2	15.3	14.5	12.7
Antigua and Barbuda	8.5	5.8	11.0	7.9	12.7
Bahamas	11.1	8.4	6.6	4.8	3.1
Barbados	6.5	8.8	10.1	0.1	0.0
Belize	6.9	6.9	14.0	6.7	10.3
Dominica	4.9	2.8	5.6	4.7	6.2
Grenada	7.8	5.5	3.9	13.5	4.5
Guyana	8.8	9.6	10.3	7.2	7.9
Jamaica	1.3	1.1	3.1	3.8	4.2
Montserrat	6.4	3.9	4.1	6.2	10.2
Saint Kitts and Nevis	16.8	15.1	14.8	17.6	14.1
Saint Lucia	9.7	6.5	5.9	7.4	5.8
Saint Vincent and the Grenadines	14.2	12.1	16.7	23.4	20.3
Suriname	-5.7	1.6	2.5	2.6	0.1
Trinidad and Tobago	2.6	3.7	3.7	-0.3	1.6
Goods producers	3.1	5.4	7.6	4.0	5.0
Service producers	8.3	7.6	8.8	9.5	8.5
Caribbean	6.9	7.0	8.5	8.0	7.6

Source: Economic Commission for Latin America and the Caribbean on the basis of official figures.

Table 13 shows financial and capital accounts balances for Caribbean economies, excluding net FDI. These lower values reflect increased debt service payment and reduced borrowing, as evidenced by the slightly reduced average debt burden of Caribbean countries in 2014. Jamaica, in particular, showed a very large financial and capital accounts deficit as it continues to reduce its debt burden under an IMF Extended Fund Facility programme.

Table 13
Financial and capital accounts balance[a]
(Percentage of GDP)

	2010	2011	2012	2013	2014
Anguilla	17.3	0.5	6.7	3.3	5.0
Antigua and Barbuda	8.1	7.7	3.6	10.0	6.4
Bahamas	3.5	4.1	9.3	7.0	13.2
Barbados	-0.8	3.5	-6.6	5.2	6.9
Belize	-4.8	-4.0	-8.2	-12.7	-17.9
Dominica	12.9	14.6	12.2	5.7	8.8
Grenada	16.9	21.3	17.7	14.2	14.8
Guyana	17.7	16.4	14.9	10.0	3.8

Table 13 (concluded)

	2010	2011	2012	2013	2014
Jamaica	4.4	9.6	-0.4	-9.8	-17.0
Montserrat	29.2	22.1	26.7	58.6	35.4
Saint Kitts and Nevis	11.0	10.4	-0.5	-3.7	-1.3
Saint Lucia	7.3	12.4	9.7	1.6	4.6
Saint Vincent and the Grenadines	19.4	14.1	13.7	12.3	12.9
Suriname	-4.6	-2.8	4.9	4.1	7.4
Trinidad and Tobago	-23.7	-9.9	-8.2	7.6	1.8
Goods producers	-3.8	-0.1	0.9	2.2	-1.2
Service producers	11.7	10.9	8.4	9.5	8.2
Caribbean	7.6	8.0	6.4	7.6	5.7

Source: Economic Commission for Latin America and the Caribbean on the basis of official figures.

[a] Excludes net foreign direct investment.

3. International reserves

International reserve positions in Caribbean countries improved on average in 2014, despite reduced net capital inflows for the region. This increase was largely driven by improvements in the service-producing economies, which benefited from lower current account deficits. For goods producers, outcomes were mixed, with Guyana and Suriname forced to draw down reserves to compensate for lower prices for their exports. Table 14 shows international reserves in terms of months of import cover[2].

Table 14
International reserves
(Months of import cover)

	2010	2011	2012	2013	2014
Antigua and Barbuda	2.4	2.8	2.8	3.4	4.9
Bahamas	3.3	3.0	2.1	2.0	2.1
Barbados	1.7	1.5	1.7	1.3	1.2
Belize	3.2	3.0	3.5	4.5	5.1
Dominica	3.5	3.7	4.6	4.3	4.9
Grenada	3.8	3.7	3.6	4.3	5.1
Guyana	8.7	4.4	4.1	4.0	3.6
Jamaica	4.7	3.5	3.0	2.9	4.0
St. Kitts and Nevis	5.5	7.8	9.0	9.5	9.7
St. Lucia	3.1	3.1	3.7	3.1	4.4
St. Vincent and the Grenadines	3.5	2.9	3.3	3.9	4.6
Suriname	5.0	4.4	4.7	3.4	2.7
Trinidad and Tobago	16.9	8.5	8.5	9.2	11.7
Goods producers	8.5	5.1	5.2	5.3	5.8
Service producers	8.4	5.2	5.3	5.4	6.6
Caribbean	5.0	4.0	4.2	4.3	4.9

Source: Economic Commission for Latin America and the Caribbean on the basis of official figures.

2 Imported cover is total foreign reserves divided by average monthly imports of goods and services.

II. Country briefs

A. Bahamas

1. General characteristics of recent trends

The Bahamian economy registered a slight recovery in 2014, with growth of 1.0 per cent, compared with zero growth in 2013. Growth was driven by tourism, especially high-value-added stopover arrivals and foreign direct investment-related construction projects. A modest improvement was observed in the offshore financial services sector. Inflation (December-December) rose slightly from 0.8 per cent in 2013 to 0.9 per cent in 2014, mainly reflecting higher prices for clothing and footwear, and furnishings, household equipment and household maintenance, which were offset by the fall in fuel prices. Despite improved activity, unemployment increased marginally from 15.4 per cent to 15.7 per cent year on year in November 2014.

Economic policy continues to focus on paced fiscal consolidation and nurturing the fledgling economic recovery. The fiscal deficit narrowed from 6.6 per cent of GDP in fiscal year 2012/2013 to 4.3 per cent of GDP in fiscal year 2013/2014 as a result of a 2.6 per cent increase in revenue and a 4.7 per cent reduction in expenditure. The fiscal consolidation effort has been spearheaded by the introduction of a 7.5 per cent value added tax (VAT) in January 2015. This is expected to generate substantial additional revenue in the medium term and, together with property and other tax reforms, will significantly boost revenues. The revenue effort is to be supplemented by improved controls on spending, although there has been some fiscal slippage in the first half of fiscal year 2014/2015. Efforts have also been made to attract high-end hotels, to promote incentives for youth entrepreneurship in services, to launch a major drive in agriculture on the largest island, Andros, and to upgrade growth-inducing public infrastructure.

Monetary conditions remained stable with high liquidity in the banking sector amid declining demand for credit, reflecting weak investor sentiment given the fragile economic recovery.

The external imbalance worsened as the current account deficit widened from 17.7 per cent of GDP in 2013 to 21.9 per cent of GDP in 2014, reflecting a higher merchandise trade deficit due to increased imports of construction materials, a smaller surplus in the services account and a larger deficit on the income account.

The economic recovery is expected to strengthen in 2015, with growth projected at 2.0 per cent. The impetus for higher growth will come from continued dynamism in high-value-added stopover tourist arrivals. Tourism will be supported by robust construction activity linked to smaller, boutique hotel properties and buoyancy in the offshore financial services sector. However, the board of directors of the long-delayed Baha Mar resort filed for chapter 11 bankruptcy in late June, which is expected to dampen tourism activity somewhat and poses a downside risk to the 2.0 per cent growth forecast. Despite the recovery, gains in employment are expected to be weak, and the rate of unemployment is expected to remain at around 15 per cent. Inflation will edge up as the impact of the value added tax (VAT) is passed through to consumers. Government revenues will be bolstered by VAT and measures to contain spending will bring the fiscal deficit down to 3.3 per cent of GDP in fiscal year 2014/2015. The current account deficit is expected to narrow thanks to higher tourism receipts, lower payments for construction services with the winding down of Baha Mar, and lower oil prices. Meanwhile, foreign direct investment (FDI) is expected to taper off with reduced inflows for smaller hotel projects.

2. Economic policy

a) Fiscal policy

The government has at last taken a decisive step on the road to fiscal consolidation with the implementation of the 7.5 per cent VAT in January 2015. This will be buttressed by property tax reform, improved revenue administration and collections, and measures to contain government consumption expenditure. With the combination of fiscal adjustment and growth in the economy, the government hopes to bring the deficit down to around 2 per cent of GDP by 2016/2017.

The fiscal situation was on the right track in fiscal year 2013/2014 (July-June), with the overall deficit narrowing to 4.3 per cent of GDP from 6.6 per cent of GDP in 2012/2013. This improvement stemmed from growth in revenues and lower expenditure. Revenues rose by 2.6 per cent, boosted by higher tax receipts, especially from business and professional licence fees, which jumped by 53.0 per cent to 64 million Bahamian dollars (B$), following the introduction of a broader fee schedule for firms and higher fees for international banks and trust companies. Receipts corresponding to other miscellaneous taxes, including property and gaming taxes, increased sharply to stand at B$ 37.7 million. Non-tax revenues expanded by 45.3 per cent to B$ 201.9 million, 26.7 per cent more than the budgeted amount. These receipts were bolstered by a new customs service fee regime and increased intake from fines and dividends.

Expenditure declined by 4.7 per cent as both current and capital outlays decreased in fiscal year 2013/2014. Current spending, which represents over 83 per cent of total expenditure, was down by 2.6 per cent, reflecting lower government consumption, including reduced wage and salary payments and outlays on goods and services. Meanwhile, debt servicing costs went up by 8.5 per cent in line with the new debts incurred. The deficit was financed from a mix of domestic and foreign sources. These included domestic short-term advances and long-term bonds of B$ 144 million and B$ 115 million, respectively, and a foreign bond of US$ 300 million.

Public debt expanded from 66.2 per cent of GDP in 2013 to 73.3 per cent of GDP in 2014. This included an almost 8 per cent (B$ 53 million) increase in contingent liabilities. Debt service costs doubled to B$ 349.8 million.

However, the fiscal situation worsened during the first half of fiscal year 2014/2015, with the deficit widening by B$ 48.6 million to 5.8 per cent of GDP. Total expenditure increased by 8.4 per cent to B$ 943.6 million, offsetting the 3.7 per cent growth in revenues. Current expenditure was up by 6.0 per cent, owing to increased transfers and subsidies and a 10 per cent rise in interest payments, mainly reflecting external interest payments. A 22.8 per cent increase in capital spending was linked primarily to the acquisition of new ships for the Royal Bahamas Defence Force. Nevertheless, the newly implemented VAT, along with property and other tax reforms, will boost revenues, and the fiscal deficit is projected to narrow to 3.0 per cent of GDP in fiscal year 2014/2015.

Recent budget estimates for fiscal year 2015/2016 indicate the government's intention to step up the consolidation effort. Revenues are projected at 26.27 per cent of GDP and expenditure at 26.31 per cent, which would result in a negligible fiscal deficit of 0.1 per cent of GDP.

b) Monetary and exchange rate policy

In the absence of any real pressure on the exchange rate, monetary policy remained neutral in 2014. The Central Bank of the Bahamas held its benchmark discount rate at 4.5 per cent and the commercial bank prime lending rate held steady at 4.75 per cent. Amid high unemployment and deleveraging by banks, owing to high non-performing loans, domestic credit contracted by 1.0 per cent in 2014, reversing the 3.1 per cent growth seen in 2013. This was due primarily to a sharp slowdown in credit to the public sector, associated with the government's repayment of debt to the banking sector. Private sector credit, which has grown in only one of the past five years, declined by 2.8 per cent in 2014, following a rescue effort involving the transfer of B$ 100 million from the Bank of the Bahamas to a government special purpose vehicle, and also owing to continued weak business confidence.

The broad money supply (M2) increased by 2.3 per cent in 2014, following the 0.7 per cent contraction in 2013. This largely reflected dynamic growth in demand deposits (21.6 per cent), due in part to the reclassification of some balances. Meanwhile, savings and time deposits contracted by 4.2 per cent and 5.7 per cent, respectively, as interest rates on these deposits declined.

The weighted average interest rate spread widened by 97 basis points to 10.39 per cent. Influenced by surplus liquidity, the deposit rate fell by 26 basis points to 1.42 per cent, while the loan rate rose by 71 basis points to 11.81 per cent.

Although the weak recovery provided limited scope for improving banking sector credit quality, private sector loan arrears contracted due to the government bailout of the Bank of the Bahamas. Growth in non-performing loans slowed significantly to stand at 16.1 per cent of private sector loans. The Central Bank of the Bahamas continued its heightened monitoring and prudential oversight of banks, including stress testing to assess risks to the sector.

c) Other policies

The Bahamian government is launching a major thrust in agriculture on Andros, the largest island in the chain. The aim is to strengthen the diversification effort, reduce the country's dependence on food imports and increase the use of local food crops and meat in the tourism sector. A sum of B$ 20 million has been allocated for the development of the Bahamas Agriculture and Marine Science Institute in North Andros.

Foreseeing a higher electricity demand and in a bid to raise the sector's efficiency, the government has granted a United States firm, Power Secure, a management contract to operate the Bahamas Electricity Corporation (BEC). The aim is to secure a 30 per cent reduction in electricity rates through increased efficiency in the running of the company.

3. Trends in the principal variables

a) The external sector

After declining by under 1 percentage point to 17.7 per cent of GDP in 2013, the current account deficit expanded to 21.9 per cent of GDP in 2014. The larger imbalance stemmed from a worsening of all the main sub- accounts. The merchandise trade deficit widened by 9.5 per cent, owing to a spike in the importation of construction materials and equipment for hotel construction. Meanwhile, payments for fuel imports contracted by 13.1 per cent, in line with plummeting international fuel prices.

In a reversal of the established trend, the services account surplus declined by 4.4 per cent to US$ 997 million. The 3.7 per cent increase in tourism receipts, linked to an ongoing recovery in the sector, was surpassed by a 33 per cent jump in net payments for construction services, relating mainly to the mega hotel resort.

The deficit on the income account expanded by over 32 per cent, owing to a sharp rise in outflows of investment income, notably from commercial banks, and higher interest payments on external public debt.

Meanwhile, the capital and financial account surplus, including errors and omissions, expanded by 33 per cent to US$ 1.906 billion. This partly reflected loan financing for the mega tourism resort and capital inflows from the government's US$ 100 million international bond placement, which offset capital outflows by commercial banks. Net FDI flows contracted by 34 per cent to US$ 251.3 million, reflecting a sharp fall in real estate purchases and net equity investments. International reserves declined by 6.2 per cent to US$ 788 million in 2014 but increased in terms of merchandise import cover from 11.4 weeks in 2013 to 11.6 weeks.

b) Economic activity

The economy posted modest positive growth of 1.0 per cent in 2014, compared with zero growth in 2013. This nascent recovery was driven by tourism and dynamic construction activity. Real output in the hotel and restaurant sector was up by 1.1 per cent, compared with a decline of 1.8 per cent in 2013. The rally in tourism was propelled by a 4.2 per cent rise in high-value-added stopover arrivals, supported by a 2.0 per cent increase in cruise ship passenger arrivals. Stopover arrivals were boosted by the recovery in the United States and the public-private incentive programme, which is attractive to visitors. Arrivals also benefited from the hosting of the World Relays of the International Association of Athletics Federations (IAAF) in May 2014. The performance of the hotel sector improved with the rebound in stopover arrivals. The average occupancy rate climbed by 4.5 percentage points to 56.9 per cent and total room revenue increased by 3.3 per cent, but the average daily room rate declined by 3.9 per cent to B$ 197.0.

Growth in construction picked up to 17.3 per cent, spearheaded by the Baha Mar resort and smaller hotels, including the Albany and Cotton Bay Development, and other construction. Private residential construction was dampened by persistently high unemployment, tighter bank lending conditions and the weakness of the recovery. Value added in the offshore financial services sector was expected to have improved somewhat owing to strong growth in the fiduciary subsector.

Indications are that the economy may have grown modestly in the first quarter of 2015. Even though total visitor arrivals contracted by 8.0 per cent, high-value-added air arrivals rose by 5.8 per cent and were expected to offset the 12.7 per cent fall in sea arrivals. The first quarter growth may be attributable to construction and buoyant activity in the offshore financial services sector.

Growth is expected to firm to 2.0 per cent in 2015 on the back of a continued rise in stopover arrivals and FDI-based hotel construction activity. This will be supported by an improvement in the offshore financial services sector, due to aggressive marketing in Latin America and other regions.

c) Prices, wages and unemployment

Inflation rose slightly from 0.8 per cent in 2013 to 0.9 per cent in 2014 (December-December). Higher prices were led by clothing and footwear (4.7 per cent), alcoholic beverages and narcotics (3.0 per cent) and recreation and culture (2.7 per cent). Nevertheless, prices benefited from the plunge in international fuel prices, which resulted in lower fuel charges by the Bahamas Electricity Cooperation.

Wages remained stable in 2014, as the government continued to grapple with the growing fiscal imbalance and rising debt levels. The rate of unemployment increased marginally from 15.4 per cent in 2013 to 15.7 per cent in 2014 (November-November) and the unemployed labour force grew by 104 persons to 31,540. High, above-trend unemployment is expected to remain a problem for some time, until the recovery in activity strengthens and business confidence improves as businesses eliminate debt overhang.

B. Barbados

1. General characteristics of recent trends

Barbados has continued to pursue a private sector-driven growth and development strategy, focusing on export-led growth, economic diversification and the institution of regulatory reforms geared towards enhancing business facilitation. The Government of Barbados has also persisted with its home- grown structural adjustment programme in an effort to tackle the fiscal deficit and high debt burden, which, among other things, have constrained growth. Accordingly, the economy has begun to exhibit signs of a recovery with real output expanding by 0.2 per cent in 2014, following a 0.1 per cent contraction in 2013. The rally continued into the first quarter of 2015, with economy-wide growth estimated at just under 1 per cent, supported by a 4 per cent uptick in tourism output. In this regard, more robust economic growth in the United States and increased passenger seating capacity on flights from North America and the United Kingdom underpinned the 12 per cent increase in long-stay arrivals during the first quarter of 2015.

The government's ongoing fiscal consolidation programme, high fiscal deficit and large public debt, along with the underperformance of key segments of the economy, remain central challenges to achieving more robust growth in the medium term. The fiscal deficit stood at 7.2 per cent of GDP for fiscal year 2014/2015[1] down from 11.3 per cent in the previous fiscal year, but higher than the original target of 6.6 per cent of GDP. The fiscal deficit continued to be financed domestically. A marginal primary surplus of BDS$ 37 million was generated at the end of March 2015. In addition, a combination of weaker domestic demand and lower international fuel prices improved the current account balance and eased foreign reserve pressures. International reserves also expanded by BDS$ 83 million in fiscal year 2014/2015, largely owing to grant funding receipts and increased capital inflows.

Low oil and commodity prices and weak domestic demand have also helped keep inflation in check at 1.9 per cent in 2014. The forecast is for inflation to remain at around 2 per cent in 2015. The short-term policy focus for Barbados continues to be on achieving debt sustainability, increasing productivity and boosting employment creation. The last two of these goals are inextricably linked to the performance of the tourism sector. Growth is projected to stand at 1.5 per cent in 2015, with a further expansion to 2.0 per cent in 2016.

2. Economic policy

a) Fiscal policy

Notwithstanding the government's ongoing fiscal consolidation programme, the fiscal deficit stood at 7.2 per cent of GDP at the end of fiscal year 2014/2015, representing a 4.1 percentage-point contraction from the previous fiscal year. This, however, was higher than the original target of 6.6 per cent of GDP. Total revenue expanded by a mere 6.8 per cent year-on-year. Direct taxes (up by 17.5 per cent) and indirect taxes (up by 3 per cent) were the principal drivers of the higher revenue. In addition, other tax revenues, such as the consolidation tax, the municipal tax and the asset tax on financial institutions, which were introduced in August 2013 as part of the fiscal reform process, collectively yielded an estimated BDS$ 83 million during fiscal year 2014/2015. Furthermore, the establishment of the Barbados Revenue Authority strengthened revenue collection.

Conversely, current expenditure contracted by 2.7 per cent compared with the previous fiscal year to stand at BDS$ 2.9 billion in fiscal 2014/2015. As a consequence of the retrenchment of 3,000 public sector workers during the first quarter of 2014, expenditures on public sector wages and salaries fell by 8.0 per cent in fiscal year 2014/2015 compared with fiscal year 2013/2014. Transfers and subsidies also contracted by 14.0 per cent. These were the major contributors to the BDS$ 326 million in fiscal savings recorded during fiscal year 2014/2015.

Barbados sought to finance the BDS$ 633 million fiscal deficit registered at the end of March 2015 through a drawdown from government deposits with the domestic commercial banking system (BDS$ 238 million), the National Insurance Scheme (BDS$ 57 million), private non-bank financial institutions and the Central Bank of Barbados (BDS$ 341 million). At the end of March 2015, the gross public sector debt-to-GDP ratio increased by 2.3 percentage points, year-on-year, to 111 per cent.

Fiscal consolidation efforts kept government expenditure at 36.1 per cent of GDP in fiscal year 2014/2015, down from 38.5 per cent in fiscal year 2013/2014. A rise in interest payments from 26.1 per cent to 26.8 per cent of revenue was the most significant change between these two periods. A primary surplus of 1.0 per cent of GDP was generated in fiscal year 2014/2015.

b) Monetary and exchange rate policy

Barbados has a fixed exchange rate of BDS$ 2 to the United States dollar, which the monetary authority supports by maintaining adequate international reserves. Depressed oil prices, a rebound in the tourism industry, the government's fiscal consolidation programme and increased capital inflows jointly contributed to the stabilization of foreign reserves during fiscal year 2014/2015. At the end of March 2015, reserves stood at an estimated US$ 565 million or 16 weeks of import cover.

In 2014, the Treasury bill rate continued to be the benchmark used to signal the intended direction of interest rates to the market. Other policy instruments such as the discount rate (7 per cent), securities reserve requirement (10 per cent) and cash reserve requirements (5 per cent for domestic deposits and 7 per cent for foreign deposits) were unaltered. However, in April 2015, the Central Bank of Barbados removed the minimum savings rate on deposits at commercial banks as the Central Bank's intervention in the Treasury bill auction market was thought to provide sufficient guidance on interest rates. Deposits to the banking system declined by 1.0 per cent year-on-year as of September 2014, since all depositor categories, with the exception of business firms and private individuals, contracted. The non-performing loans ratio increased by 0.2 of a percentage point year-on-year to 11.5 per cent at the end of 2014.

c) Other Policies

Further medium-term policy actions are contemplated with a view to diversifying the tourism sector; facilitating international business and finance; developing the education services sector; expanding alternative energy; and strengthening the legislative and institutional framework. In the case of tourism, work is ongoing to further establish the country as a high-end, inspirational destination. The visitor experience continues to be improved through the incorporation of cultural products and services, as well as the development of newer tourism niches in ecotourism and sports. A considerable effort is also being made to attract more visitors from newer source markets, including South America and the wider Caribbean.

Improving business facilitation services has also been identified as an economic stimulus measure for boosting international business and finance over the short to medium term. In addition, Barbados and the United States established an agreement to improve international tax compliance in November 2014 and implemented the Foreign Account Tax Compliance Act (FATCA).

Moreover, further expansion of the alternative energy sector is expected to reduce the country's dependence on fossil fuels, which currently weighs heavily on the balance of payments. Lastly, institutional reforms such as the establishment of the Barbados Revenue Authority in 2014 and the planned restructuring of the offices of the Parliamentary Council and the Solicitor General should help to spur growth in Barbados over the short to medium term.

3. Trends of the principal variables

a) External Sector

At the sectoral level, output within the tourism sector, which is the primary driver of economic growth, increased by 1.5 per cent in 2014, with long-stay arrivals expanding by 2.0 per cent. The staging of special sporting events and festivals and the establishment of charter services from Manchester have been key drivers of renewed growth (10.2 per cent) in arrivals from the United Kingdom market. Tourist arrivals from Germany and the rest of Europe were also up by 15.3 per cent and 5.7 per cent, respectively. However, the cessation of direct flights from New York led to a 1.9 per cent decline in tourist arrivals from the United States. Arrivals from Canada and from members of the Caribbean Community (CARICOM) also fell by 2.1 per cent and 8.8 per cent, respectively.

Most of the other key segments of the economy expanded in 2014 year-on-year, albeit only marginally in some instances: rum and other beverages (0.6 per cent), food (1.1 per cent), sugar (0.6 per cent) and other agriculture (3.7 per cent). Output from tradable sectors remained the same (0.0 per cent) in 2014, whereas a slight uptick was observed in construction (1 per cent). Domestic goods exports increased by 3.8 per cent to BDS$ 1.57 billion, with substantial gains in electrical components (24.8 per cent) and chemicals (7.2 per cent).

b) Economic growth

The Barbadian economy grew by 0.2 per cent in 2014 and its overall output is projected to expand by 1.5 per cent in 2015, on the back of a buoyant tourism industry and projected private sector investments worth BDS$ 700 million. In the first quarter of 2015, economy-wide growth was estimated at just below 1 per cent. More robust economic growth in the United States and increased passenger seating capacity on flights from North America and the United Kingdom underpinned the 12 per cent increase in long-stay arrivals during the first quarter of 2015. Increases were also observed in arrivals from traditional markets such as Canada (28 per cent), the United States (24 per cent), the United Kingdom (9 per cent) and CARICOM (8 per cent), as well as from non- traditional sources such as Brazil (14 per cent) and Germany (10 per cent).

The sluggish performance of the Barbados economy may be attributed, in part, to inherent structural deficiencies that undermine labour productivity, export competitiveness and connectivity. These will need to be remedied if the country is to return to pre-2008 growth levels. Nevertheless, the recovery in major source markets, particularly Europe and the United States, coupled with increased private investment in the tourism industry and tourism-related projects generated by new tax incentive legislation, the Tourism Industry Relief Fund and the Enterprise Relief Fund, should provide a sustainable platform for economic recovery in the short to medium term.

The focus on fiscal consolidation, debt reduction, economic diversification and trade-led growth has begun to deliver gains. However, the ability of this small open economy to step up economic growth will depend on its success in implementing structural transformation and in maintaining the competitiveness of its tourism, agriculture and manufacturing sectors in the global economy, and, in particular, with its specific source and exports markets. This is crucial since it will need to generate an average primary surplus of about 4 per cent of GDP if it is to reduce its debt-to-GDP ratio to 91 per cent by 2020.

c) Inflation, wages and employment

Unemployment stood at 12.7% at the end of 2014, up by 1.1 percentage points year-on-year, as the public sector retrenchment programme commenced during the first quarter of 2014. Lacklustre domestic demand and declining international commodity prices have placed downward pressure on prices. At the end of 2014, the 12-month moving average rate of inflation stood at 1.9%, rising by 0.1 of a percentage point, year on year. Inflation is expected to remain at around 2% in 2015.

The unit labour cost increased by an estimated 2% annually from 2009 to 2013. However, the government's two-year wage freeze implemented in 2013, along with relatively sluggish economic conditions, are likely to stabilize wage growth over the short term.

C. Belize

1. General characteristics of recent trends

The economy recovered in 2014 with growth increasing to 3.6 per cent from 1.5 per cent in 2013. Growth was driven by increased dynamism in export agriculture, tourism and distribution and a rebound in government services. This more than offset the decline in manufacturing and petroleum output. Despite increased activity inflation remained steady at 1.4 per cent in 2014, partly reflecting the moderating effect of the fall in international fuel prices. However, higher demand led to a modest fall in the rate of unemployment from 11.7 per cent in 2013 to 11.1 per cent in 2014.

The fiscal imbalance and debt overhang will remain a serious challenge in Belize over the medium to long term. Although revenue growth has been fairly robust over the past five years (except for flat growth in 2013), a widening fiscal deficit underscores the need for a phased adjustment in government spending, particularly consumption expenditure, to drive the fiscal consolidation effort. The wage increase of over 4.0 per cent in 2014, following 6.0 per cent in 2013, will hold current expenditure at high levels in the medium term and limit the prospects for consolidation. Nevertheless, the PetroCaribe Agreement has provided the government with significant financing space. It has borrowed BZ$ 286 million under the agreement and has drawn down more than BZ$ 126 million. This fund has been used mainly to finance infrastructure projects, including roads and bridges in Belize City and other districts, to capitalize the Belize National Bank to the tune of BZ$ 30 million and to support social assistance programmes. Analysts have argued that a portion of the funds could have been used to pay off some of the more expensive external debt in order to improve the country's debt dynamics.

Fiscal policy remained expansionary in 2014, with the overall deficit more than doubling to 2.8 per cent of GDP from 1.1 per cent of GDP in 2013. With the upturn in activity, revenues increased by 12 per cent, bolstered by higher tax and non-tax receipts from the shipping and international business companies registries; however, this increase in revenue was outweighed by an 18 per cent expansion in expenditure. The current account deficit almost doubled from 4.5 per cent of GDP in 2013 to 8.0 per cent of GDP in 2014. The growing imbalance stemmed from a significant widening of the trade deficit and profit repatriations, which counterbalanced the tourism-led improvement in the services account.

Indications are that the economy slowed in the first quarter of 2015 as a result of a 0.3 per cent fall in air passenger arrivals, a slowdown in growth in cruise passenger arrivals and lower sugarcane and oil production, which offset the more than doubling of citrus output.

Growth in the economy is projected to slow to 2.5 per cent in 2015. The impetus for growth is expected to come from a surge in agriculture value added and moderate growth in tourism, which will offset weakness in manufacturing and the decline in oil output. Sugarcane output is projected to record a modest improvement as production returns for the full crop cycle, and citrus and banana production are also expected to be higher. Similarly, stay-over tourist arrivals are projected to increase by 5.0 per cent, underpinned by the recovery in major markets. Nevertheless, given the mediocre first quarter performance, actual growth may be less than 5.0 per cent. Adverse weather conditions and higher international fuel prices pose downside risks to this growth projection. Inflation is forecast to exceed the 2014 rate of 1.4 per cent, owing to upward pressure on international fuel prices. The March Budget Address projected a fiscal deficit of 2.5 per cent for fiscal year 2015/2016, down from 4.1 per cent in the previous fiscal year. Total expenditure is expected to decline marginally as the government winds down capital spending, while revenue is projected to show a modest increase, in line with continued growth in activity. The current account deficit is projected to contract from 8.0 per cent in 2014 to 7.0 per cent in 2015, due to lower oil prices and higher receipts from tourism.

2. Economic policy

a) Fiscal policy

Fiscal policy was expansionary in 2014, and the deficit more than doubled to 2.8 per cent of GDP (compared with 1.1 per cent of GDP in 2013), reflecting sizeable investments in capital infrastructure, particularly road networks, to provide a platform for future growth. Major outlays were made available for the construction of roads in Belize City and other districts, the Chetumal Street Bridge in Belize City and sporting facilities. These, along with a 4.0 per cent rise in the wages of public officers and teachers and a sharp increase in interest payments, due to higher debt, pushed up expenditure by 18 per cent. Moreover, the government has earmarked half of the revenues collected between fiscal year 2014/2015 and fiscal year 2016/2017 for wage increases for public employees. This, among other factors, could derail the fiscal consolidation effort.

Revenues expanded by 12.2 per cent, the largest increase since the crisis, buoyed by an 8.5 per cent rise in tax receipts and a 10.1 per cent spike in non-tax proceeds. Although receipts from petroleum taxes plummeted with the steep decline in domestic oil production, these losses were offset by higher receipts from the shipping and international business registries.

The expanded fiscal deficit contributed to the 3.0 per cent growth in public debt in nominal terms, while the debt-to-GDP ratio contracted by 1.2 percentage points to 77.3 per cent of GDP, thanks to robust GDP growth in 2014. The government has been able to finance a significant portion of its operations on concessionary terms of 1 per cent interest per annum and a repayment term of 25 years using funds available under the PetroCaribe Agreement. It has been argued that these funds could also contribute to much needed fiscal consolidation if the government were to draw on them to pay down part of its more expensive external superbond debt.

The recent budget projects a cut in the deficit from 4.1 per cent in fiscal year 2014/2015 to 2.5 per cent in 2015/2016, predicated on 2 per cent growth in revenues and a 3.0 per cent decline in expenditure. The government plans to reduce capital spending as substantial outlays in the past three years have helped to upgrade public infrastructure. Nevertheless, with the escalation in current costs, stemming in part from higher wage payments, the government will be hard-pressed to meet the fiscal target

b) Monetary and exchange rate policy

Monetary policy remained neutral in 2014 and the central bank held its policy rate constant, despite the expansion in imports occasioned by the recovery. Bolstered by the growth in activity, domestic credit increased by 3.6 per cent, the strongest growth in the past five years. Growth in credit to the private sector almost doubled to 4.7 per cent, reflecting increased lending to the sugar industry, real estate and construction. The government-owned National Bank of Belize, which provides mainly mortgage loans, increased its loan portfolio by BZ$ 20 million in 2014 to BZ$ 40 million. The broad money supply (M2) expanded by 7.9 per cent, following anaemic growth of 1.4 per cent in 2013. The money supply was boosted by export receipts in line with growth in major sectors and official inflows from the PetroCaribe fund and other creditors.

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In a welcome turnaround, all domestic banks were able to meet the enhanced loan loss provisioning stipulated by the central bank in 2014. During the year, non-performing loans amounting to BZ$ 22.0 million were written off. As a result, the non-performing loan ratio fell from 8.8 per cent in 2013 to 7.0 per cent in 2014.

Banks continued to build up significant liquidity during 2014. The weighted average interest rate on new loans fell by 12 basis points to 9.89 per cent but this fall was outweighed by the 84 basis-point decline in interest rates on new deposits to 2.1 per cent. As a result, the interest rate spread widened by 72 basis points to 7.8 per cent.

c) Other policies

The government is moving to fully implement programme budgeting in fiscal year 2015/2016. This would entail a clearer focus on purpose, priorities and results of expenditure with the aim of improving efficiency and effectiveness and value for money in spending. Nevertheless, this system reform needs to be complemented with effective measures to rein in spending and contain the public debt. For instance, the government has capitalized the National Bank of Belize to the tune of BZ$ 40 million from the PetroCaribe fund to provide mortgage lending to public servants, teachers and other low-income earners. However, the authorities may need to enforce strict prudential standards in order to avoid the financial difficulties due to non-repayment of loans with which State banks often have to contend.

In order to protect small borrowers, the central bank issued a practice direction to local banks stating that the latter should provide full disclosure of their treatment of interest and other charges on consumer loans.

3. Trends in the principal variables

a) The external sector

Stronger growth fuelled an expansion in imports, which, along with higher profit repatriations by foreign-owned businesses, led to a significant widening of the current account deficit from 4.5 per cent of GDP in 2013 to 8.0 per cent of GDP in 2014. The trade deficit increased significantly owing to 5.6 per cent growth in imports and a 3.3 per cent decline in exports. Export receipts were adversely affected by reduced earnings from the oil sector, the citrus industry and the commercial free zone. Imports were driven by consumer goods and capital goods, including equipment for construction projects.

The surplus on the services account expanded by 11.8 per cent thanks to strong tourism receipts, which reflected dynamic growth in stay-over arrivals. This offset the higher net payments for transportation services. The capital and financial account surplus expanded by 33 per cent to US$ 114.8 million, boosted by a 53 per cent increase in foreign direct investment (FDI) to US$ 141 million, directed mainly to tourism and real estate activities. This was complemented by significant financial inflows, including loans from the PetroCaribe fund. Overall developments led to an expansion in international reserves by 20 per cent to US$ 487 million, or 5.7 months of import cover.

The current account is projected to narrow from 8.0 per cent of GDP to 7.0 per cent of GDP in 2015. Reduced oil prices in the first half of 2015 should lead to a lower trade deficit and, together with marketing and promotion, should contribute to growth in stay-over tourist arrivals and earnings. Meanwhile, the capital and financial account surplus is expected to contract due to reduced inflows of FDI, capital grants and borrowing from the PetroCaribe programme. Nevertheless, the surplus will cover the current account deficit and lead to modest growth in international reserves.

b) Economic activity

Economic activity picked up in 2014 with growth of 3.6 per cent, compared with 1.5 per cent in 2013. The growth impetus came from export agriculture, tourism and electricity generation. Agricultural production was boosted by favourable weather during the second half of the year. Sugarcane production expanded by 10.8 per cent, despite the late start to the crop season. Banana production rose by 4.0 per cent to 5.7 million boxes and citrus output was up marginally at 4.7 million boxes. Output in the fisheries subsector was dampened by lower production of lobster and conch. The services sector grew by 2.2 per cent, owing to dynamic growth in tourist arrivals, especially high value added stay-over visitors, whose numbers increased by 9.2 per cent to 321,220 persons. Belize benefited from increased air lift, due in part to aggressive marketing by the Belize Tourism Board and also higher investment in product development under the Sustainable Tourism Project. Cruise passenger arrivals rose by 42.9 per cent to 968,131 persons, reflecting the variety of the product offering and a shift in cruise ship tourism from the Mediterranean to the Caribbean.

Oil production continued its secular decline, with output down by 18.9 per cent to 0.6 million barrels. Indeed, the less productive Never Delay field was withdrawn from production during the last quarter of 2014 because of low productivity and the impact of the fall in international oil prices.

c) Prices, wages and employment

Inflation remained steady at 1.4 per cent in 2014, as the fall in international fuel prices offset price rises in some sectors due to higher domestic demand. As activity picked up, the unemployment rate decreased slightly from 11.7 per cent in 2013 to 11.1 per cent in 2014. Average employment rose by 3.6 per cent to 134,554 persons in 2014, a more robust improvement than in 2013. Wages increased in 2014 with the 6.0 per cent rise in the salaries of public servants and teachers.

D. Eastern Caribbean Currency Union (ECCU)

1. General characteristics of recent trends

Economic activity in the Eastern Caribbean Currency Union (ECCU) territories expanded by an estimated 1.3 per cent in 2014, up from 1.1 per cent in 2013. Indeed, output picked up in a number of ECCU member States, namely, Anguilla, Antigua and Barbuda, Grenada, Montserrat and Saint Kitts and Nevis. Output increased only marginally in Dominica and contracted in both Saint Lucia and Saint Vincent and the Grenadines. This improved economic performance was driven mainly by growth in the tourism sector and its spillover effects into related sectors, including food service, transportation, communications and agriculture. The growth in tourism, especially in stay-over visitors, reflects the continued economic recovery in the main tourism markets as well as increased airlift from these sources. It is projected that economic activity in ECCU will expand by 2.3 per cent in 2015.

Current revenue in ECCU rose by 6.2 per cent in 2014, to stand at 4.006 billion Eastern Caribbean Dollars (EC$) or 24.8 per cent of GDP. Increases were generated from both tax and non-tax sources, the main tax categories being income and profits, domestic goods and services, and international trade and transactions. Much of this gain was due to more efficient collection of sales tax and property tax. Current expenditure in the ECCU member States increased marginally (2 per cent) year on year to EC$ 3.771 billion in 2014. Increases were incurred mainly under transfers and subsidies and interest payments.

Official unemployment statistics are for the most part unavailable, except in the cases of Saint Lucia and Grenada. Available data for these two islands probably reflect the general problem of high unemployment, particularly among young people. The unemployment rate in Saint Lucia is estimated at 23 per cent and youth unemployment stands at 39 per cent. The situation is more acute, though improving, in Grenada, where unemployment in 2014 was estimated at 32.5 per cent, down from 33.5 per cent in 2013. Youth unemployment also improved from 55.6 per cent in 2013 to 45.4 per cent in 2014, with unemployment among women estimated at 31.5 per cent.

Prices in 2014 were estimated to have increased marginally across the Currency Union. Following deflation of 0.2 per cent in 2013, average inflation across ECCU was estimated to be 1.5 per cent in 2014. Most of the member countries showed low positive inflation rates, with the exception of Grenada, which experienced deflation of 1.8 per cent in 2014. Saint Lucia posted the highest rate of inflation (3.7 per cent) among ECCU economies in 2014.

2. Economic policy

a) Fiscal policy

The fiscal performance of ECCU in 2014 was more favourable than in 2013. Almost all member countries experienced an overall improvement in their fiscal position. The overall fiscal deficit of ECCU contracted from 3.4 per cent of GDP (EC$ 523.8 million) in 2013 to 1.2 per cent of GDP (EC$ 186.8 million) in 2014, reflecting higher earnings and lower public capital expenditure. The decline in capital expenditure within the Union may be largely attributed to the reduction in capital expenditure in Dominica and Saint Lucia. In keeping with the improved fiscal position, a primary surplus of EC$ 285.3 million was recorded for the year, compared with a deficit of EC$ 86.0 million in 2013

Central governments posted a surplus of 1.5 per cent of GDP in 2014, up from 0.5 per cent in 2013. The Union's public sector debt, which accounts for 87.3 per cent of total debt, stood at EC$

13.176 billion at the end of 2014, representing an increase of 0.8 per cent over the previous year. However, the debt to GDP ratio improved, declining from 84.5 per cent in 2013 to 81.5 per cent in 2014. The countries where public sector debt increased were Antigua and Barbuda, Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines. The largest increase (5.8 per cent or EC$ 177.6 million), incurred by Antigua and Barbuda, related mainly to the financing of domestic corporations.

In order to tackle the high debt and fiscal imbalances run up by member States prior to 2013, ECCU adopted the Eight-Point Stabilization and Growth Plan as the basis for restructuring their economies and stimulating sustained growth over the short to medium term. This approach of fiscal consolidation was designed to reduce fiscal deficits and public debt by meeting annual targets set by the Eastern Caribbean Central Bank (ECCB). Throughout the period under review, the Central Bank, guided by the imperatives of the Stabilization and Growth Plan, continued to support ECCU member governments' fiscal reform and debt management efforts.

The Stabilization and Growth Plan has impacted positively on revenues. Both tax and non-tax revenues increased in 2014. Value added tax, sales tax and property tax accounted for the most significant gains in tax revenue. The primary balance was in surplus towards the end of 2014, reversing the deficit recorded in 2013. Constrained by the policy of fiscal consolidation, the public sector debt stock showed only a marginal increase over the 2013 level.

b) Monetary policy

The Eastern Caribbean Central Bank (ECCB) is responsible for the design and implementation of monetary policy in ECCU. Its functions include regulating the availability of money and credit and promoting and maintaining monetary stability. With respect to monetary stability, the Bank focuses on supporting the value of the regional currency, in terms of preserving its purchasing power. Given the small size and openness of the ECCU economies, the Bank has pursued price stability through the maintenance of a fixed exchange rate (linked to the United States dollar).

In regulating the availability of money and credit, ECCB is constrained by the underdeveloped nature of the financial markets in the region. Thus, it is unable to influence interest rates or to control the availability of money and credit through market mechanisms. In practice, interest rates in the Currency Union are set at the discretion of the commercial banks except for the minimum rate payable on savings deposits, which is regulated by ECCB.

At the end of 2014, the total money supply (M1) in the ECCU countries stood at EC$ 3.189 billion, which represents an increase of 10.7 per cent over the level at the end of 2013. Money liabilities (M2) totalled EC$ 14.811 billion at the end of 2014, an increase of 5.9 per cent over 2013. In 2014, the domestic credit stock among ECCU Member States declined by 6.5 per cent. The reduction in domestic credit applied to borrowing by both the private and the public sector; in the case of the former, the decline related mainly to loans for businesses. Net domestic credit to central governments contracted by 34.1 per cent year on year in 2014 and the subdued investment climate resulted in a 35.6 per cent fall in credit to non-bank financial institutions. On a per sector basis, the declines were as follows: agriculture and fisheries: 17.2 per cent; construction: 12.3 per cent; manufacturing: 10.1 per cent; and tourism: 9.0 per cent.

c) Other policies

While ECCU is slowly emerging from its recession, which ended in 2012, its growth rates are not currently high enough to be able to reduce debt or increase employment levels. Economies such as Antigua and Barbuda, Grenada, Saint Kitts and Nevis and Saint Lucia are therefore continuing to emphasize State-assisted social protection and unemployment relief programmes. With regard to progress towards meeting the requirements of the United States Foreign Tax Compliance Act (FATCA), the ECCU member States passed the Foreign Account Tax Compliance Act (United States) Implementation and Enforcement Bill 2014, which legalized the disclosure of customer information to the United States Internal Revenue Service.

3. Trends in the principal variables

a) The external sector

The balance-of-payments current account deficit narrowed from 17.1 per cent of GDP in 2013 to 14.4 per cent of GDP in 2014 and reflects a reduction in payments for manufactured goods, fuels and food. Lower imports were recorded for Grenada, Montserrat, Saint Lucia and Saint Vincent and the Grenadines. The movement in merchandise trade in 2015, in particular that observed in the first two quarters of the year, is likely to result in a much lower reduction in the current account balance as any further softening of global prices for merchandise items and energy is likely to be modest.

b) Economic activity

The structure of the economies of the ECCU member States reveals a strong dependence on the services sector, particularly tourism, catering to both stay-over and cruise ship visitors. During 2014, the region saw an increase in tourist arrivals, particularly stay-over visitors, compared with a decline in 2013. This trend is likely to continue in 2015 as conditions improve in major markets: the United States, the United Kingdom and Canada.

While bananas were once the main agricultural crop and export from the region (mainly the Windward Islands: Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines), production continued to slump in 2014. Banana production is estimated to have declined by approximately 30 per cent owing to the Black Sigatoka disease and unfavourable weather conditions. The ECCU member States have, however, recorded an increase in non-banana agriculture, namely, food crops and vegetables. The outlook for 2015 is for a modest improvement in non-banana production but there is no prospect of an early recovery in the production of bananas.

Output in the manufacturing sector remained largely unchanged in 2014 compared with 2013. The expectation is that modest improvements, if any, are likely in 2015 as the domestic economy in the member States continues to improve.

Growth prospects for ECCU in 2015 are for a slight improvement over the 1.3 per cent recorded in 2014 on the back of the performance of the major economic driver, the tourism sector, which reflects more positive economic projections for the region’s major markets as well increasing airlift to the region.

c) Prices, wages and employment

Consumer prices rose by 1.5 per cent in 2014 following a decrease (of 0.2 per cent) in 2013. The main categories contributing to inflation were clothing and footwear, fuel and light, food and utilities. This trend of modest price inflation is likely to continue in 2015 as member States’ economies are projected to grow marginally.

Official unemployment statistics are for the most part unavailable, except in the case of Saint Lucia and Grenada. Unemployment tends to be high in the ECCU countries, particularly among young people. While attempts are being made to remedy the situation, the prospects, if any, for short-term improvements in employment in 2015 are not bright.

E. Guyana

1. General characteristics of recent trends

The Guyanese economy expanded by 3.9 per cent in 2014, down from growth of 5.2 per cent in 2013. Fiscal policy remained expansionary, widening the government deficit, which is expected to increase further in 2015. Government expenditure grew, owing in part to wage increases for government workers. Monetary policy remains focused on continuing to control inflation, which was low at 1.2 per cent in 2014.

Guyana posted a narrower capital account deficit, a smaller current account surplus and a marginally lower balance-of-payments deficit overall in 2014. The supply of foreign exchange tightened slightly and the country also reduced its levels of both domestic and external debt.

The government has had difficulties in implementing its agenda since the opposition gained control of parliament in 2011. This agenda included regulatory reforms, in particular anti-money-laundering legislation, and progress on infrastructure projects, such as the planned Amaila Falls hydroelectric plant. In May 2015, the opposition coalition won both the general and regional elections. Because the government is now in transition, it is difficult to predict with any certainty what policies it will adopt for 2015.

The economy is projected to grow by 4.5 per cent in 2015, buoyed by a strong performance in agriculture, forestry, fishing and services. Low fuel prices will continue to benefit the economy but weak prices for the country's mining outputs will have an adverse effect.

2. Economic policy

a) Fiscal policy

Central government revenue was up by 6.7 per cent to 22.9 per cent of GDP in 2014, on the back of higher tax and customs receipts. However, revenue was still 13.4 per cent below the government's optimistic target. In terms of direct tax revenue, corporate income tax and personal income tax yielded increases of 12.4 per cent and 17.8 per cent, respectively, while withholding tax and property tax fell by 11.8 per cent, and 7.1 per cent, respectively. Indirect tax revenue from the Customs and Trade Administration grew by 5.8 per cent, reflecting higher receipts from value added tax, excise taxes and import duties and lower takings from environmental taxes and export duties.

Total expenditure grew by 9.7 per cent to 21.0 per cent of GDP in 2014, owing primarily to higher transfer payments (including education subventions, grants and scholarships, and subsidies and contributions) and wage costs. Employment costs rose by 9.9 per cent, reflecting wage increases for public workers. Pension expenses also rose by 5.8 per cent.

In 2014, the central government deficit widened by 28.7 per cent to stand at US$ 168.5 million, equivalent to 5.5 per cent of GDP. This was largely due to higher current expenditure and lower capital revenue. However, the deficit of non-financial public enterprises decreased owing to lower current and capital expenditure. The net result was a larger government deficit, which was financed by borrowing from external and domestic sources.

The government is expected to maintain an expansionary fiscal policy. Current revenue and current expenditure will both be higher in 2015, and projected increases in capital expenditure are expected to inflate the central government deficit.

The economy posted a balance-of-payments deficit, in spite of debt forgiveness. Nonetheless, the stock of domestic debt shrank by 20.6 per cent, while the stock of external debt diminished by 2.3 per cent. A total of 83.5 per cent of existing bonded debt is held by commercial banks. Interest charges on domestic debt fell by 11.7 per cent in 2014. The decline in external debt reflects a reduction in credit under the PetroCaribe agreement and lower disbursements from the Inter-American Development Bank. External debt service payments swelled by 10.9 per cent to US$ 51 million, equivalent to 4.4 per cent of export earnings. Total debt at the end of 2014 was equivalent to 51.2 per cent of GDP.

The government benefited from US$ 52 million of debt relief under the Heavily Indebted Poor Countries Initiative but expects both domestic debt volume and domestic service payments to increase in 2015.

b) Monetary policy

Monetary policy remains disciplined and focused on keeping inflation low. Open market operations are still the primary method of controlling the money supply, supplemented by the purchase and sale of foreign currency. The reserve requirement has remained unchanged since 2002 at around 12 per cent of GDP.

The government continues to provide the liquidity needed to satisfy the demand for money, in a context of steady economic growth. In 2014, narrow money (M1) grew by 13.9 per cent, and broad money (M2) by 5.2 per cent. Guyana is largely a cash-based economy and increases in GDP therefore translate readily into stronger demand for currency. Net government purchases of treasury bills amounted to G$ 20.3 billion (US$ 98.3 million, or 3.2 per cent of GDP).

Net domestic credit through the banking system expanded by 25.1 per cent. Credit to the private sector was up by 9.1 per cent, compared with the 14.5 per cent growth in 2013; credit increased to all sectors except the agriculture and personal sectors. The services, construction and engineering, real estate mortgage and manufacturing sectors posted record high credit growth rates. Net credit to the central government soared by 69.9 per cent, while net credit to public enterprises declined by 7.5 per cent. Commercial bank interest rates trended downward, while interest rate spreads remained wide.

c) Exchange rate policy

Demand for foreign currency increased in 2014, resulting in net sales of the Guyana dollar. In line with recent trends, the Guyana dollar continued to depreciate modestly against the United States dollar (0.12 per cent in 2014), resulting in a rate of G$ 206.50 to the United States dollar, with an average market spread of 1.7 per cent. Balances in foreign currency accounts increased by 22 per cent to US$ 2.45 billion. Total foreign currency transactions increased by 4.6 per cent compared with 2013. In 2015, the exchange rate is expected to hold steady owing to lower oil prices and a resultant decrease in the demand for foreign currency.

d) Other policies

As a result of conflict between the government and the opposition, several pieces of key legislation were not passed in 2014. The most important of these is the anti-money-laundering and countering the financing of terrorism bill. As the only Caribbean country not to pass this bill, Guyana was blacklisted by the Caribbean Financial Action Task Force (CFATF) and this may inhibit Guyana’s integration into international financial markets. This situation may improve with the recent change in government.

3. Trends of the principal variables

a) External sector

The merchandise trade deficit expanded by 22.4 per cent in 2014 owing to a decrease in export receipts, particularly from gold, sugar and bauxite. Nonetheless, the current account deficit decreased by 18 per cent to US$ 371.2 million, or 12.0 per cent of GDP, owing mainly to lower imports, especially imports of services, and larger inflows of transfers such as remittances, as conditions in the source countries (especially the United States) improved.

The capital and financial account surplus contracted by 33.1 per cent due largely to a decline in disbursements to the non-financial sector and, in particular, lower capital inflows to the non-financial public sector. Most components of the capital and financial accounts worsened, notably flows of portfolio and non-portfolio assets. However, foreign direct investment (FDI) increased by 19.3 per cent to US$ 255.2 million, or 8.3 per cent of GDP. Most FDI is channelled into the mining, tourism and telecommunications sectors (including business process outsourcing).

Overall, the balance-of-payments deficit shrank marginally from US$ 119.5 million in 2013 to US$ 116.4 million (3.8 per cent of GDP) in 2014. This deficit was financed by foreign reserves and through exceptional financing from the Ministry of Finance. The balance-of-payments deficit is projected to shrink further in 2015, owing to lower import costs and increased capital inflows.

Guyana’s foreign reserves contracted slightly as demand for foreign currency to finance imports and other payments increased. At the end of 2014, Guyana’s international reserves were equivalent to 3.6 months of import cover.

b) Economic activity

Real GDP grew by 3.9 per cent in 2014, compared with 5.2 per cent in 2013. This continued robust (albeit slower) growth reflected higher output in the sugar, rice, forestry, manufacturing and services sectors.

Receipts from agriculture grew by 7.4 per cent, thanks to favourable weather conditions and improvements in production. Sugar continues to recover after the disappointment caused by years of production problems and industrial unrest; output increased by 18.3 per cent in 2014, although receipts decreased, reflecting lower prices. As a result of problems in design and construction, the Skeldon sugar factory continues to perform below expectations. Plans to revitalize the sugar industry include improving production capacity, lowering costs, diversifying markets (most sugar is currently exported to other Caribbean countries and to the United Kingdom) and diversifying products (for example, producing alcohol for cleaning).

Rice output reached a new peak, increasing by a dramatic 18.6 per cent, as a result of private sector investment in machinery and equipment, additional land for cultivation, improved seed varieties and more efficient government research and extension services.

Fishing plummeted by 25.0 per cent, owing to piracy and overfishing. The livestock industry showed marginal growth, while the forestry industry grew robustly thanks to favourable weather conditions and stronger demand for wood products.

Receipts from mining, particularly gold and bauxite, declined by 11.5 per cent in 2014 due to lower production and lower commodity prices. However, gold production should increase substantially in 2015 as several major investments in gold mines begin to bear fruit. These investments are expected to have positive spillover benefits in the form of employment, human capital-building, higher demand for support goods and services and technology transfer. Nonetheless, the livelihoods of small- and medium-scale gold miners may be threatened by the fall in gold prices. The diamond industry surged by 56.3 per cent in response to a rise in international diamond prices.

Manufacturing expanded strongly (by 5.5 per cent), owing largely to increased production of alcoholic beverages and pharmaceuticals. The services sector grew by 5.6 per cent, driven by improved performance in construction, transportation and storage, information and communications, financial and insurance and real estate activities. In particular, construction recorded 18.0 per cent growth, fuelled by strong private expenditure on housing and commercial projects, while transportation and storage expanded by 14.4 per cent Wholesale and retail trade activities diminished by 3.0 per cent.

Although Guyana is not a tourism-based economy, the sector should see a boost from the long-awaited opening of the Marriott Hotel in Georgetown in 2014. In 2015, the Ministry of Tourism, Industry and Commerce was split into the Ministry of Tourism and the Ministry of Business and Investment, reflecting plans to enhance the tourism infrastructure in Guyana in coming years.

Oil reserves, discovered in Guyana's territorial waters in early 2015, may represent a further opportunity for Guyana to boost its GDP and diversify its economy.

Growth in 2015 is projected to be 4.5 per cent, underpinned by broad-based improvements in key sectors of the economy, including sugar, rice, forestry, fishing and services. Continued low fuel costs should also favour development. However, the mining sector in Guyana may continue to suffer if commodity prices remain low.

c) Prices, wages and unemployment

The inflation rate stood at 1.2 per cent in 2014, reflecting a moderate rise of 2.1 per cent in the food price index. Total monthly inflation ranged from 0.7 per cent to 1.2 per cent, and trended upward through the year. Inflationary pressures were insignificant owing to weaker commodity prices, stable interest and exchange rates and low inflation expectations, in line with the rates recorded in previous years. In 2015, inflation is projected to rise to 2.0 per cent, again driven by higher food prices.

In the public sector, employment increased by 3.4 per cent, mostly due to a 7.7 per cent increase in employment in core civil services. Public sector wages were increased by 5 per cent for persons earning more than G$ 50,000 (US$ 242.13) per month and by 8 per cent for those earning less than this amount. The public sector minimum wage was therefore raised by 8 per cent to US$ 206.79

per month. No official data are available on overall unemployment, but given the robust economic growth, this indicator may well have decreased.

F. Jamaica

1. General characteristics of recent trends

The Jamaican economy recorded growth of 0.4 per cent in 2014. Positive results in the first two quarters of 2014 (growth of 1.6 per cent and 1.2 per cent, respectively) were succeeded by a poor performance during the second half of the year. GDP growth stood at 0.3 per cent in the first quarter of 2015, with a 0.6 per cent increase in services but a 0.7 per cent decline in the goods-producing sector. The economy is expected to grow by 1.1 per cent in 2015 with an improvement in bauxite exports, higher tourism receipts, continued flows of remittances, which boost domestic demand, and an upturn in agriculture.

Fiscal consolidation will remain the focus of economic policy in 2015, within the context of the 48-month Extended Fund Facility (EFF) which was signed with the International Monetary Fund (IMF) in May 2013. The agreement, worth US$ 932 million, was accompanied by pledges of US$ 510 million each from the World Bank and the Inter-American Development Bank (IDB). In 2014 alone, loans of US$ 224 million and US$ 312 million were approved by the World Bank and IDB, respectively, upon completion of the IMF reviews. In March 2015, the country underwent a seventh successful quarterly review. This will help to boost domestic private sector confidence and attract the interest of international investors.

The key challenge to the economy continues to be the heavy debt burden, currently equivalent to 132.5 per cent of GDP, and likely to remain in excess of 100 per cent until 2020. This, of necessity, will require continued monitoring of expenditure and increases in tax revenue.

The Jamaican dollar (J$) continued to depreciate throughout 2014, but strengthened slightly against the United States dollar from J$ 115.5 in January 2015 to J$ 114.5 in April 2015. With oil prices on the decline and subdued domestic demand, inflation remained on the low side, at around 6.4 per cent, in 2014 and diminished over the first four months of 2015. By the end of the year, it should be below 6 per cent.

On the external front, the current account balance deteriorated by US$ 159.9 million in 2014, to stand at US$ 1.160 billion or 8% of GDP. Indeed, the decline in exports had outpaced the fall in imports and commodity prices, resulting in a higher trade deficit. Net international reserves amounted to US$ 2.0 billion or 18.4 weeks of import cover at the end of 2014, strengthened by the US$ 800 million Eurobond issuance of July 2014.

2. Economic policy

a) Fiscal Policy

The fiscal situation continues to be a challenge, but has improved as the government has been complying strictly with its IMF obligations under the EFF. In March 2015, IMF completed the seventh review and released US$ 39 million, which brought total disbursements to US$ 591 million. The budget of fiscal year 2015/2016 attests to the government’s adherence to its tight fiscal policy stance. Expenditure is projected to be J$ 665.5 billion, including debt servicing of J$ 310 billion or 46.5 per cent of total expenditure. Emphasis is placed on wage restraint as public sector wages and salaries represented 55 per cent of non-debt expenditure. Capital expenditure was squeezed in the adjustment process and amounted to just J$ 30.5 billion or 4 per cent of the overall budget. Although the budget was crafted to reflect the need for a primary surplus of about 7.5 per cent, as set out in the EFF, this will be difficult in the context of slow growth.

The performance of fiscal year 2014/2015 resulted in the first fiscal surplus in 20 years, at 0.1 per cent of GDP, reflecting the lower expenditure and higher revenue. Overall expenditure was 4.5 per cent below initial budget projections, with the sharpest decline occurring in interest payments. Capital spending was 33 per cent below the budget. On the revenue side, overall revenues and grants came in 3.8 per cent below the initial budget. The primary surplus also fell short of the budget, but still met the IMF target of 7.6 per cent of GDP.

The public debt overhang remains a significant challenge to the performance of the economy. The debt stood at J$ 2.038 trillion at the end of 2014, which was 4.8 per cent above the 2013 figure, reflecting an expansion in both domestic and external debt. This level represented 132.8 per cent of GDP and is projected to remain in excess of 100 per cent by 2020 in line with the EFF arrangements. The external debt, which stood at US$ 8.659 billion in 2014, increased owing to new borrowing of some US$ 800 million from the international capital market, US$ 206.8 million from IMF for balance-of-payments support and a further US$ 25 million from the Caribbean Development Bank (CDB), as part of policy-based loans. This increase was, however, offset by some repayments. In fiscal year 2013/2014, the external debt was equivalent to 45 per cent of GDP, but the foreign-exchange component of the overall debt amounted to 58.7 per cent of GDP. Considering that the external debt is mostly denominated in foreign currencies, devaluation would create an additional burden. With respect to debt service, the Bank of Jamaica reported that the ratio of external debt service to exports increased from 29.0 per cent at the end of 2013 to 37.4 per cent at the end of 2014, owing mainly to higher external amortization payments.

In order to lock in the gains of fiscal consolidation, a number of policies are being pursued to bring down the debt to acceptable levels. On the fiscal side, the reforms include the government's adoption of a legally binding rule to ensure a sustainable overall balance, the introduction of a five-year public sector investment programme, which began in fiscal year 2013/2014, and the review of public sector remuneration to help inform policy reforms.

With respect to taxation, the granting of waivers is to be restrained, avenues for charitable contribution will be harmonized and waivers for such contributions will be discontinued. The objective is to reduce the number of loopholes in the country's tax legislation. A number of administrative tax reforms are being envisaged, including an expansion of staff in the tax offices in order to monitor compliance and obtain more information on taxpayers.

b) Monetary Policy

With the exchange rate stabilized and inflation under control, the Bank of Jamaica has maintained its 30-day certificate of deposit rate at 5.75 per cent since February 2013.

The money supply (M1) grew by 4.2 per cent in 2013 and by 12.4 per cent in 2014. Currency in the hands of the public expanded by 7.1 per cent and 8.4 per cent, respectively, in 2013 and 2014, while demand deposits grew by 1.7 per cent and 16.4 per cent. The weighted average local deposit rate rose from 2.04 per cent in 2012 to 3.01 per cent in 2014, while the lending rate fell from 17.5 per cent in 2013 to 17.18 per cent in 2014. This reduction in the interest rate followed lower average rates within the framework of the National Debt Exchange.

Credit to the private sector grew by 16.3 per cent in 2013 and was dominated by Jamaican dollar transactions. In 2014, it grew by only 4.8 per cent. Loans and advances, the largest component of private sector credit, expanded by 5.53 per cent, following 18.3 per cent growth in 2013. This slowing credit growth reflects a moderation of both business and personal loans and was felt across most sectors. The stock of loans to businesses increased by 4.5 per cent in 2014, following a 12 per cent expansion in 2013. Despite this slow growth, there were positive signs in some sectors, including agriculture and fishing (14.6 per cent), distribution (11.6 per cent), professional and other services (8.6 per cent) and tourism (7.95 per cent).

At the end of 2014, the quality of the commercial bank loan portfolio improved in relation to 2013. The ratio of non-performing loans to total loans fell to 4.9 per cent in 2014, compared with 5.4 per cent in 2013. According to the Bank of Jamaica, the improvements in the commercial banks' business loans portfolio reflected loan write-offs and net repayment of past-due loans by some sectors.

c) Exchange-rate policy

The pace of currency depreciation slowed to 7.8 per cent in 2014, after the 13.3 per cent depreciation recorded in 2013. The weighted average selling rate against the United States dollar was J$ 104.26 at the end of 2013 and J$ 114.66 at the end of 2014. Several factors explain the slower pace of depreciation: a successful Eurobond issue in July 2014, which suggested confidence regarding future prospects, and the decline in the net demand for foreign exchange to meet current account transactions, especially those arising from lower fuel imports. According to the central bank, remittance inflows were particularly strong (up by 7.4%) in late 2014. Overall, net private capital flows were sufficient to cover current account transactions.

While depreciation may increase competitiveness in some sectors, it placed pressure on the Bank of Jamaica to intervene to prevent a rapid deterioration of the currency. Given the weak domestic and external demand, the value of the Jamaican dollar may slip further by the end of 2015, to about J$ 118 to the United States dollar, but this also depends on the ability of the economy to meet IMF targets.

d) Other policies

Both fiscal and macroeconomic policies are guided by the EFF under IMF. A number of fiscal, administrative and monetary measures have been introduced so far. In particular fiscal rules have been developed to strengthen the role of the auditor general and the Parliament with a view to promoting greater fiscal transparency. In addition, the amendments to the Financial Administration and Audit Act and the Public Bodies Management and Accountability Act have strengthened the rules governing budget preparation and approval.

From the point of view of the banking sector, the Bank of Jamaica introduced a new standing liquidity facility to help deposit-taking institutions meet their overnight cash demands. In addition, the Bank has been gradually lifting the cap on investment in foreign securities by security dealers and collective investment schemes. A new bill, currently being prepared by the Chief Parliamentary Counsel, seeks to amalgamate the provisions of the Banking Act, the Financial Institutions Act and the Bank of Jamaica (Building Societies) Regulations into a single piece of legislation. This bill is expected to include amendments that will give the Bank more supervisory responsibilities over deposit-taking institutions.

Other reforms being pursued include the following: the establishment of the Economic Programme Oversight Committee (EPOC), a public-private sector group to monitor and report publicly on progress under the EFF; and legislative reforms which cover the new Insolvency Act, a new electricity bill, a new procurement bill, and a new customs bill.

The government has also strengthened the administrative powers of Tax Administration Jamaica and introduced an electronic platform for the payment of taxes. In addition, business registration has been streamlined and a 90-day timeframe has been instituted for development approvals. The operations of the Jamaica Customs have also been upgraded. Other changes include a new Fiscal Incentives Act, which introduces employee tax credits to relieve the investor of the potential cost of statutory deductions and provides for more generous capital depreciation allowances to amortize the value of the investment over the realistic life of the investment.

Policy space is, however, seriously restricted by the weak, albeit improving, domestic and international demand and by the heavy fiscal burden.

3. Trends of the principal variables

a) The external sector

Data for 2014 indicate that the current account balance deteriorated by US$ 159.9 million to stand at US$ 1.160 billion or 8 per cent of GDP. The main factor in this deterioration was the higher trade deficit, as the 5 per cent decline in exports outweighed the benefits that would otherwise have derived from the fall in imports and in commodity prices.

The services balance reflected positive growth due to improvements in travel receipts and remittance flows from abroad. Net earnings were up by 7.6 per cent at US$ 665.4 million in 2014, owing largely to remittances and increased travel receipts with higher-than-average expenditure per person. The higher remittances were linked to the improved economic performance of the United States economy. Overall, the deficit on the goods and services balance was US$ 80.4 million in 2014, implying that, while some adjustment to the current account balance has been taking place, it occurred at a time of lower economic activity.

At the end of December 2014, net international reserves totalled US$ 2.0 billion, an increase of US$ 953.3 million over the 2013 year-end figure. This represented 18.4 weeks of goods and services imports. It is important to note, however, that these reserves were boosted by the US$ 800 million bond issue in July 2014. Net international reserves swelled further during the first five months of 2015 to stand at US$ 2.4 billion, or 20.8 weeks of import cover, following the disbursement of funds by IMF and loans from multilateral agencies.

b) Economic activity

The Jamaican economy grew by 0.4 per cent in 2014, compared with 0.6 per cent in 2013. The slow growth was attributable to negative results in the second half of 2014 following a positive performance in the first half. Growth was mostly driven by international demand as domestic demand remained lacklustre. In sectoral terms, growth was positive in the goods sector except for agriculture, which declined by 4 per cent, manufacturing (down by 1.2 per cent) and electricity, gas and water (also down by 1.2 per cent). Construction grew by 1.4 per cent, and mining and quarrying posted growth of 0.9 per cent.The services sector showed positive growth in all subsectors except for producers of government services, which recorded a decrease of 0.2 per cent. The higher cost of services, combined with drought conditions, may have led to reduced demand for water.

The economy grew by 0.3 per cent in the first quarter of 2015, reflecting 0.6 per cent growth in the services sector but a 0.7 per cent decline in the goods-producing sector. Within the goods sector, all subsectors, other than mining and quarrying (up 0.2 per cent) and construction (up 1.4 per cent), posted negative growth, with the largest decline occurring in manufacturing (-3.1 per cent). By contrast, the results were mostly positive for the services sector during the first quarter of 2015, especially for the tourism subsector, which is the principal foreign- exchange earner and the leading employer. Outputs for hotels and restaurants were up by 4 per cent year-on- year, total arrivals increased by 9.9 per cent and visitor expenditure rose by 5.2 per cent.

For the rest of 2015, while manufacturing will continue to show little improvement, tourism is expected to expand as demand from the United States and Europe improves and as Jamaica diversifies its markets. Stronger aluminium prices would encourage growth in mining output and also attract new investment; increased capacity utilization and a rally in crude bauxite production during the first quarter of 2015 already point to a trend in this direction.

Agriculture is expected to recover later in the year as the weather-related shocks that had adversely affected agricultural output (down 0.5 per cent) in the first quarter of 2015 are likely to be short-lived. Lastly, construction will be driven by the government’s Major Infrastructure Development Programme, which includes road improvements. The economy is expected to grow by 1.1 per cent in 2015 as confidence in the economy is restored.

c) Prices, wages and employment

Inflation as measured by the point-to-point change in the all Jamaica consumer price index was 6.4 per cent in 2014, down from 9.5 per cent in 2013 and 8.0 per cent in 2012, marking the third consecutive year of single- digit inflation. The slowing pace of inflation was observed against the background of lower electricity and transport costs, due to plummeting oil prices and weaker domestic demand.

Consumer prices declined for the fourth consecutive month in February 2015, bringing 12-month cumulative inflation down to 4.5 per cent. With depressed commodity prices, the rate of inflation is projected at 5 per cent for 2015, close to the historically low rate of 4.4 per cent, recorded 43 years ago.

The Wage Restraint Agreement signed with the unions in March 2013 covers 82 per cent of the public sector (well in excess of the prior action threshold of 70 per cent under the EFF). This Agreement is expected to contribute to the achievement of the government's wage target of 9.0 per cent of GDP by March 2016. The annual targets for fiscal years 2013/2014 and 2014/2015 were 10.6 per cent and 9.7 per cent, respectively. The reduction in the wage bill has been further supported by a wage freeze for the period 2012-2015, a commitment to rule out net hiring of workers over the medium-term and to fill only critical vacancies.

The estimated public sector wage bill for fiscal year 2014/2015 was J$ 165.2 billion, up from J$ 157.3 billion in fiscal year 2013/2014. This amount accounts for some 55 per cent of the non-debt recurrent budget and includes: back-pay owed to selected public sector workers; new pay rates for correctional officers and medical doctors; the 2.5 per cent annual performance increment; the final one-off payment owed to public sectors workers under the 2012-2015 heads of agreement; and amounts for new wage settlements.

In light of the weak growth conditions, the unemployment rate remained constant at 14.2 per cent between October 2014 and January 2015, but marked an increase over the rate of 13.8 per cent registered in July 2014. The male unemployment rate rose from 9.9 per cent in October 2014 to 10.7 per cent in January 2015, while the female unemployment rate fell from 19.4 per cent to 18.5 per cent as about 6,000 jobs were added. Meanwhile, the overall unemployment rate for the 20-24 age group was 33 per cent in January 2015; for men, it was 29.4 per cent and, for women, 37.5 per cent. Thus, while overall unemployment rates are high, they are much worse for young people. In recognition of this challenge, the government has implemented the Jamaica Emergency Employment Programme (JEEP), which is estimated, according to the recent budget, to have provided employment for more than 50,000 Jamaicans at an approximate cost of J$ 8 billion. Given the current economic challenges, the unemployment rate is expected to remain high for some time.

G. Suriname

1. General characteristics of recent trends

Economic growth was estimated at 3.4 per cent in 2014, up from 2.9 per cent in 2013. Low inflation over the year resulted in higher real income, which in turn drove domestic consumption. Inflation rose from 0.6 per cent at the end of 2013 to 3.9 per cent at the end of 2014.

The fiscal deficit in 2014 was equivalent to 5.3 per cent of GDP, slightly lower than the 2013 deficit of 5.9 per cent. A reduction in revenues was offset by lower recurrent expenditure. The government's recent expansionary policy has not greatly affected the public debt, which remains relatively low at 33 per cent of GDP.

The effects of falling commodity prices have been felt throughout the economy. Aluminium and gold prices are down by 20 per cent and 25 per cent from 2011, respectively. As a result, Suriname's balance-of- payments position continues to deteriorate. The current account balance fell into deficit at 3.7 per cent of GDP in 2013, and this deficit almost doubled in size to 7.0 per cent of GDP in 2014. Foreign-exchange earnings slumped by more than 50 per cent in 2014 compared with the previous year.

Growth in 2015 is projected to stand at 3.0 per cent, on the basis of increased government consumption and public investment in the run-up to the general elections and a contraction in the mining sector due to soft commodity prices.

2. Economic policy

a) Fiscal policy

Despite Suriname's expansionary fiscal stance, the fiscal deficit is estimated to have narrowed slightly from 5.9 per cent of GDP in 2013 to 5.3 per cent in 2014. A 5.3 per cent contraction in total revenue was outweighed by a sharper fall in expenditure. However, while all current expenditure categories diminished, capital expenditure expanded by 18 per cent, mainly due to the construction of the Carolina Bridge in the district of Para.

This expansionary fiscal stance continued into the first quarter of 2015. Total expenditure grew by 30 per cent (quarter-on-quarter), while total revenue fell by 7.9 per cent, resulting in a 250 per cent expansion of the fiscal deficit for the corresponding quarter. The largest increase was seen in expenditure on goods and services (160 per cent), perhaps associated with the May general election. Increased spending should result in a larger fiscal deficit and higher debt service payments for the whole year.

In 2015, the Surinamese government plans to purchase the bauxite refining operations of the Suriname Aluminium Company (Suralco) from its parent company, Aluminum Company of America (ALCOA). The gradual fall in aluminium prices over the years and the glut in supply have prompted ALCOA to reduce its smelting and refining capacity worldwide. Its departure this year will end an almost 100-year relationship with Suriname. While the government will gain valuable assets and ensure the aluminium sector's continued presence in the economy, it is also entering an industry currently characterized by excess capacity and low demand growth. A key asset that the government will acquire is the Suralco power plant, from which the country currently purchases power. This should prove to be a major cost-cutting move, given the recent rise in electricity demand in Suriname and the fact that the country currently spends over US$ 170 million annually on purchases of electricity from the Suralco plant.

Public debt remains relatively low in Suriname, at 33.1 per cent of GDP in 2014. External debt expanded from 19 per cent in 2013 to 21 per cent in 2014, while domestic debt fell from 15.7 per cent to 12.3 per cent over the same period. While debt levels are still below the debt ceiling, persistent fiscal deficits and government borrowing will put pressure on authorities to keep the debt levels from ballooning. In the first quarter of 2015, new loans were signed amounting to US$ 85.9 million: US$ 21.9 million from the Caribbean Development Bank (CDB) for education, US$ 50 million from Republic Bank of Trinidad and Tobago for budgetary support and US$ 14 million from the French Development Agency (AFD) for a water supply project.

b) Monetary policy

Monetary policy was somewhat expansionary in 2014. With no open market instruments, the main monetary policy tool for the central bank is the reserve requirements for Suriname dollar and foreign currency deposits. In 2013 the CBvS raised the reserve requirement ratio for local and foreign currency both by 5 percentage points, to 30per cent and 50 per cent respectively. In the second half of 2014, the central bank decreased the required reserve ratio for foreign currency deposits to 45per cent due to a release in import pressure as total imports declined in 2014. The US exchange rate has remained steady at 3.35 SRD per USD.

The M1 money supply increased by 4.12 per cent in 2014 and early estimates indicate that M1 has decreased 6.7per cent from December 2014 to March 2015.

Interest rates increased slightly in 2014: the average lending rate increased from 12.0 per cent in 2013 to 12.5 per cent in 2014, while the average deposit rate increased from 7.2per cent to 7.4 per cent in 2014. The rates have changed only slightly in the first quarter of 2015, as the average lending rate fell by one percentage point and the average deposit rate increased by one percentage point by March 2015.

Domestic credit grew by 26 per cent from 2013 to 2014. Credit to the primary and secondary sectors grew by 17.67 per cent; credit to the mining sub-sector grew by 29.2 per cent, while the largest change of 38.6 per cent was in credit to the construction subsector. Credit to all other sectors grew by 27.9 per cent; the subsector of credit to the government grew by 135 per cent, its largest increase since 2010. From December 2014 to March 2015 total credit, credit to primary and secondary sectors and credit to other sectors all grew by around 3.9 per cent.

c) Exchange rate policy

In March 2015, the Central Bank of Suriname arranged a bilateral currency swap with the People's Bank of China, in which it exchanged S$ 520 million for 1 billion yuan. Transactions between the two countries were previously conducted through third-party currencies, such as the

United Statesdollar. The burgeoning trade between China and Suriname prompted this arrangement as a means of cutting transaction costs and supporting the financial stability of the Central Bank of Suriname.

d) Other policies

The World Bank Group has launched a country partnership strategy for Suriname for 2015-2018. The partnership aims to assist Suriname in its efforts at economic diversification and social inclusiveness through a lending programme of about US$ 60 million. The main areas of development will be improving the business climate; promoting transparency, benefit sharing and good practices in dealing with the environmental and social impact of the extractive industries; reducing vulnerability to climate-change- related floods; and enhancing data collection and analysis capacity for poverty and gender statistics.

During the second half of 2014, in keeping with its five-year development plan, the government instituted a social insurance system, consisting of three elements: a newly introduced minimum wage, general pensions and basic health insurance. All were approved in September 2014. The local private sector has criticized the timing of the move and suggested that the policies would be easier to bear if they had not been introduced all together.

3. Trends of the principal variables

a) External sector

In 2013, Suriname recorded its first current account deficit in eight years. This deficit was equivalent to 3.7 per cent of GDP, but by 2014 had expanded to 7.0 per cent of GDP. The goods trade balance fell from US$ 787 million in 2011 to US$ 133 million in 2014. Declining commodity prices are to blame: aluminium prices have dropped by 20 per cent since 2011, while gold prices have deteriorated steadily since 2012. At US$ 1,227 per troy ounce in February 2015, gold is down by 5.5 per cent from the same month in 2014 and by 30 per cent from October 2012. For the year 2014, foreign-exchange earnings slumped by an estimated 55 per cent.

The current account deficits over the last two years have eroded international reserves, which decreased from US$ 1.008 billion or 4.5 months of import cover in 2012 to US$ 625.1 million or 3.5 months of import cover in 2014. The decline has continued into 2015, with international reserves shrinking to US$ 493.6 million at the end of March 2015.

Foreign direct investment, while positive from 2011 to 2013, fell to just US$ 4.2 million in 2014. Iamgold Corporation, the majority owner of the Rosebel Gold Mine, is cutting back its operations and has no new investment planned for 2015 or 2016. Major projects being constructed this year include the Kaloti Suriname Mint House, a gold refinery to be operated as a public-private partnership between the Government of Suriname and Kaloti Precious Metals of Dubai. Another notable project launched in 2014 was the factory opened by Broad Homes Industrial International Co. of China. The Broad Homes factory aims to produce prefabricated houses for domestic consumption and export to the Caribbean Community (CARICOM) and Latin America.

b) Economic growth

Official estimates from the General Bureau of Statistics of Suriname put growth at 2.9 per cent in 2013. The Planning Office estimates that the economy rebounded in 2014, with growth of 3.4 per cent, led by an expansion in wholesale and retail trade of 5.39 per cent[2]. While this is an improvement, growth is still lower than the rates of 5 per cent and above registered in the middle of the past decade.

The growth in wholesale and retail trade is due to higher private consumption fuelled by rising real incomes. Other sectors that showed strong growth in 2014 were agriculture (3.6 per cent), transport, storage and communications (4.9 per cent), financial intermediation, real estate, rentals and business (5.3 per cent) and construction (5.8 per cent). The mining sector registered virtually zero growth in 2014, as falling commodity prices constrained the sector’s contribution to the economy.

The Economic Commission for Latin America and the Caribbean projects growth of 3.0 per cent for 2015. This is based on continued growth in the strong sectors of 2014, tempered by a contraction in mining. The government’s stated areas of focus for 2015 and the coming years are agriculture, forestry, education, tourism and energy, but emphasis will continue to be placed on mining. Other prospects for the future include the construction of a second gold mine, currently being developed jointly by the Surinamese government and Newmont Mining Corporation, an American entity. This new mine should give a fillip to the mining sector once production starts at the end of 2016, but with gold prices currently depressed, the company's future profitability is uncertain.

c) Prices, wages and employment

Inflation remained low in 2014, as it had since 2012. The year-end inflation rate was 3.9 per cent —up from 0.6 per cent at the end of 2013 as deflationary pressures eased. The increase was mainly due to rebounding consumer demand and wage increases; the categories food and non-alcoholic beverages and recreation, culture and education saw the greatest year-on-year increases: 8.7 per cent and 8.5 per cent, respectively. Deflation of 10.2 per cent was observed in the transportation subsector.

Inflation abated slightly in the first quarter of 2015, measuring 2.7 per cent year-on-year in March 2015. The two categories showing the greatest change in March were clothing and footwear, and recreation, culture and education. Transportation prices continued to fall, with a deflation rate of 12.7 per cent.

The minimum wage was introduced in January 2015, the first stage of a phased increase set to be introduced over the next three years. Labour force data are lagged, and the most recent figures are for 2012; in that year unemployment was 10 per cent, up from 8 per cent in 2010 and 2011. Unemployment is unlikely to have risen by much, if at all, in the years that followed as the economy has continued to grow steadily.

H. Trinidad and Tobago

1. General characteristics of recent trends

Economic growth was estimated at 0.9 per cent in 2014, down 1 percentage point from early estimates, owing to maintenance shutdowns in the energy sector in the first half of the year, which counterbalanced continued growth in the non-energy sector. Growth is projected at 1.0 per cent for 2015 as an increase in domestic production is expected to be offset by lower prices and potential maintenance shutdowns in the energy sector and continued, albeit more moderate, growth in the non-energy sector.

Inflation remained low over the first half of 2014, but rose in the second, driven by soaring food prices. Year-on-year headline inflation stood at 8.5 per cent in December 2014, but eased to 5.8 per cent by April 2015, even with a rebased retail price index (RPI), as food price increases tapered off.

In fiscal year 2013/2014, the government deficit contracted to an estimated 1.5 per cent of GDP as higher revenue outweighed increased expenditure. With the slump in oil prices, the government faces a challenge in managing the expected reduced revenues and in maintaining expenditure on capital and social programmes. Total public debt remained relatively low at 40.2 per cent of GDP at year-end 2014.

The current account balance in 2014 fell to 5.8 per cent of GDP from 7.0 per cnet in the previous year, as both energy and non-energy exports contracted. Trinidad and Tobago posted positive net foreign direct investment (FDI) inflows of 1.2 per cent of GDP in 2014, compared with negative inflows of 0.2 per cent in 2013.

2. Economic policy

a) Fiscal policy

Fiscal policy remained expansionary in fiscal year 2013/2014[1]. For the period, the government recorded an overall fiscal deficit of 1.5 per cent of GDP, narrowing from 2.9 per cent in fiscal year 2012/2013. The deficit was also about 57 per cent lower than the figure originally budgeted for, thanks to higher-than-expected revenue from the non-energy sector, which grew by 10.2 per cent. In late fiscal year 2013/2014, current and capital expenditure increased by 6.2 per cent from the government's initial allocations following the passing of the Finance (Supplementary Appropriation) Bill, 2014. Some 42 per cent of this increase was allocated to the payment of adjusted salaries, cost of living allowances and arrears, while another 42 per cent went towards capital projects. Provisional data indicate that the government made no transfers to the Heritage and Stabilization Fund in 2014. Total public-sector debt (excluding all debt sterilized at the Central Bank) stood at 40.2 per cent of GDP at the end of 2014; external debt was equivalent to 7.1 per cent of GDP.

For fiscal year 2014/2015 the government initially projected a fiscal deficit of 2.3 per cent of GDP, based on an average oil price of US$ 80 per barrel and a gas price of US$ 2.75 per MMBtu. However, in response to the drop in oil prices, the government revised its budget, basing it on a crude oil price of US$ 45 per barrel and a natural gas price of US$ 2.25 per MMBtu. The government also announced plans to review its investment programme with the aim of reducing expenditure, indicating that the cuts would come from infrastructure projects (none were specified) and from expenditure on non-critical goods and services. Among the major infrastructure projects planned for fiscal year 2014/2015 are a port in south- east Trinidad, a children's hospital and a national oncology centre.

Over the first three months of fiscal year 2014/2015 (October to December 2014), the central government recorded a surplus of TT$ 328.4 million, down by 92 per cent from the year-earlier period as non- tax revenue slumped. However, the large drop was in fact attributable to the fact that the central government had received a large one-off dividend payment of TT$ 3.2 billion from the National Gas Company of Trinidad and Tobago in the same period in 2013. Capital revenue also decreased, while tax collection increased.

The fiscal situation in Trinidad and Tobago has affected the country's standing in international markets. In early 2015, the international credit rating agency Moody's downgraded the government bond rating and issuer rating to Baa2 from Baa1. The reasons given for the downgrade were: persistent fiscal deficits since 2009; the fall in oil prices and lack of diversification in the economy to offset its impact; a deficiency in the quality of economic statistics; and weak macroeconomic institutional capacity, reflected in the absence of a medium-term fiscal framework or debt-management strategy.

b) Monetary policy

The Central Bank of Trinidad and Tobago shifted to a contractionary monetary policy stance in late 2014. The Bank has raised its repo rate five times from 2.75 per cent to 4.00 per cent between September 2014 and June 2015. The rate had been held at 2.75 per cent since September 2012. There were three main factors that prompted the increase in the repo rate. First, the Central Bank wishes to maintain a positive differential between Trinidad and Tobago Treasury bonds and United States Treasury bonds in order to curb portfolio capital flows out of Trinidad and Tobago following the United States Federal Reserve's withdrawal of quantitative easing in October 2014 and the expectation that it will gradually increase its policy interest rates from the second half of 2015. Second, prices soared during the second half of 2014, with inflation peaking at 9 per cent in November, driven by steeper prices for domestic fruits and vegetables, which were in short supply. This prompted the Central Bank of Trinidad and Tobago to note that the economy was approaching full capacity in January 2015. Although inflation dropped to 6.1 per cent in February, the Central Bank expects it to rise over the rest of the year. Third, the energy sector posted growth in the second half of 2014 and the non-energy sector showed steady growth throughout the year. Both sectors are expected to expand in 2015.

As the repo rate was raised, the median commercial bank prime lending rate increased by 0.24 percentage points to 7.75 per cent at the end of 2014, but the commercial bank weighted average loan rate decreased to 8.03 per cent in September, down from 8.28 per cent in March 2014. The spread between Trinidad and Tobago and United States 10-year Treasury rates widened from 0.38 percentage points in October 2014 to 0.64 percentage points in mid-March 2015.

The Central Bank's open market operations managed to rein in some of the excess liquidity in the system in the second half of 2014, much of which came from central government operations.

c) Exchange-rate policy

The business sector in Trinidad and Tobago was constrained by tightness in the foreign-exchange market in 2014. In the first half of the year, some commercial banks rationed their sales of United States dollars to customers. Over the year, authorized dealers of foreign exchange purchased US$ 5.5 billion from the public and sold US$ 7.0 billion to the public. The Central Bank intervened and sold US$ 1.7 billion to authorized dealers: US$ 0.69 billion in the first half of the year and US$ 1.0 billion in the second. These actions resulted in a slight currency appreciation against the United States dollar, from TT$ 6.4597 to the United States dollar in June 2014 to TT$ 6.3839 to the United States dollar in December 2014.

3. Trends of the principal variables

a) External sector

Preliminary reports indicate that in 2014, Trinidad and Tobago's balance of payments recorded an overall surplus of US$ 1.3 billion (4.7 per cent of GDP) —almost double the overall balance of US$ 786 million (2.9 per cent of GDP) in 2013. The current account balance for 2014 was estimated at US$ 1.6 billion (5.8 per cent of GDP), down slightly from US$ 1.9 billion (7.0 per cent of GDP) the previous year. This reduction reflected primarily the weaker goods balance, which, in turn, was attributable to the decline in energy exports in the first half of the year following stoppages for maintenance works in the sector and to a contraction in non- energy exports due to sluggish consumption in the main Caribbean Community (CARICOM) markets. Imports fell slightly, in line with a decrease in energy imports.

Net FDI inflows turned from negative in 2013 (US$ 66.2 million, equivalent to 0.2 per cent of GDP) to positive in 2014, rising to US$ 339 million (1.2 per cent of GDP), reflecting US$ 1.05 billion in direct investments abroad, and US$ 1.39 billion into the economy - mostly from reinvestments by energy companies and intercompany debt transactions. There was also a net outflow from commercial banks as they increased their foreign exchange holdings.Gross official reserves grew from US$ 10.0 billion or 12 months of import cover in December 2013 to US$ 11.3 billion or 12.7 months of import cover at the end of 2014.

While no data are available as yet for 2015, non-energy sector exports to the service-producing economies of CARICOM should improve in 2015, as a result of more robust growth in those markets and lower oil prices. The size of energy exports will depend on whether new maintenance activities are scheduled for the new year and on international oil prices, which have remained depressed into 2015.

b) Economic growth

Trinidad and Tobago continued along a positive growth path in 2014, albeit at a slower pace than before, attaining GDP growth of 0.9 per cent, according to calculations by the Economic Commission for Latin America and the Caribbean (ECLAC). The non-energy sector continues to be the main driver with four quarters of positive growth (year-on-year), ranging from 1.6 per cent[2] to 4.6 per cent. This sector's expansion of 1.6 per cent in the third quarter of 2014 was, however, the lowest in any quarter since the second quarter of 2012. Growth in the first half of the year was supported by expansion in the construction, distribution and finance subsectors. In the second half, agriculture and construction posted the sharpest growth. Higher production of cement and other construction-related products led expansion in the manufacturing sector in 2014.

Growth in the energy sector, on the other hand, was negative over most of the year. Hampered by maintenance shutdowns in the first half of the year, the sector contracted by 2.9 per cent and 4.9 per cent (year-on- year) in the first and second quarters, respectively, but recovered somewhat in the second half, posting growth of 2.8 per cent in the third quarter, only to contract again in the fourth quarter by 3.4 per cent, no doubt as a result of the fall in oil prices in the second half of the year. The rise of American shale oil producers boosted international supply and depressed prices. Prices slumped further when, in late 2014, contrary to usual practice, the Organization of Petroleum Exporting Companies (OPEC) refused to cut its output to keep prices up. Oil companies therefore continued to expand their operations in late 2014. BP Trinidad and Tobago had begun construction on its Juniper plant in the fourth quarter of

2013, and British Gas of Trinidad and Tobago (BGTT) (soon to be acquired by Royal Dutch Shell) began receiving gas from its Starfish field on the east coast of Trinidad. These new investments are designed to ensure that the companies secure enough supply to negotiate with Atlantic LNG when the next round of contract bidding takes places in 2017-2019.

Petrochemical production was also down in late 2014. Nitrogenous fertilizer production declined marginally in the second half of 2014, owing to maintenance shutdowns in several plants in September 2014. The effect of the decrease in production was offset by higher ammonia and urea prices in the second half of the year as fertilizer demand increased after the harsh winter across North America in early 2014. Methanol production was hampered by reduced natural gas supplies, resulting from maintenance of offshore gas platforms, and falling international prices over the second half of the year.

ECLAC projects growth of 1.0 per cent for 2015. This outlook is based on expectations of steady growth in the non-energy sector and persistent low-to-zero growth in the energy sector due to reduced oil prices and the likelihood of further maintenance shutdowns.

c) Inflation, wages and employment

Unemployment in Trinidad and Tobago, which has been below 5 per cent since 2012, fell to a historic low of 3.1 per cent in the first quarter of 2014, before increasing slightly to 3.5 per cent in the second quarter. The sectors with the highest unemployment rates were construction and other mining and quarrying. The lowest unemployment rates were observed in sectors such as agriculture, forestry and fishing; transport, storage and communications; and finance, insurance, real estate and business services. Between the second quarter of 2013 and the second quarter of 2014, 15,800 persons entered the labour force and 15,500 jobs were created.

The improvement in the unemployment statistics reflects the changes in gender balance taking place in the local job market. Unemployment in Trinidad and Tobago has been falling since the early 1990s. Concomitant with this fall, the gap between male and female unemployment has narrowed steadily, from 7.7 percentage points in 1991 to 0.7 percentage points in the first quarter of 2014.

Headline inflation remained fairly low over the first half of 2014 (between 2.9 per cent and 4.5 per cent), reflecting continued subdued food inflation. Typically the driver of price increases, food inflation had remained below 11 per cent since June 2013, but spiked in the second half of 2014, moving from 3.5 per cent in June 2014 to 18.2 per cent in October. The rise in food prices pushed headline inflation up to 9.0 per cent by October 2014. Prices cooled during the last two months of 2014, and headline and food inflation fell slightly to 8.5 per cent and 16.7 per cent, respectively, in December 2014.

In May 2015, the Central Bank of Trinidad and Tobago rebased the retail price index (RPI) to reflect more current consumption patterns, adopting January 2015 as its base period. Under this new RPI, inflation continued to subside: headline inflation declined from 7.5 per cent in January 2015 to 5.8 per cent in April 2015 and food inflation fell from 14.6 per cent to 9.1 per cent over the same period. Core inflation remained low, rising slightly from 1.5 per cent between January and March 2015 to 1.8 per cent in April 2015.

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