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This document has been prepared under the supervision of Sheldon McLean, Coordinator of the Economic Development Unit of the Economic Commission for Latin America and the Caribbeann (ECLAC) subregional headquarters for the Caribbean, with the assistance of Michael Hendrickson and Dillon Alleyne, Economic Affairs Officers, Machel Pantin and Nyasha Skerrette, Economic Affairs Assistants, Roberta Doorgadeen, Temporary Research Assistant and Lindy-Ann Edwards-Alleyne, Staff Assistant.

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Abstract

World economic growth was somewhat disappointing in 2015 due to a series of negative shockswhich affected the performance of a number of emerging and advanced economies. Among these were the continuing decline in commodity prices, periods of financial market volatility, lower capital flowsand subdued global trade (World Bank Global Economic Prospects 2016). The Caribbean has been negatively affected by the decline in commodity prices given the weight of such items in the exports of good producing economies. Overall regional growth declined from 2.8 per cent in 2014 to 1.5 per cent in 2015. Growth is expected to increase to 2.6 per cent in 2016.

There has been a convergence in growth among the services and goods producers in the Caribbean, as service producers posted, on average, higher growth rates than the goods producers in 2015 for the first time since 2005. It is projected that this trend will continue in 2016. The service economies of the Caribbean are mainly driven by tourism and foreign direct investment.The improvement in growth especially among the tourism dependent economies has been accompanied by a decline in the unemployment rates, as evidenced in those countries for which data are available. It is to be noted however, that while unemployment rates for the region remain quite high, youth unemployment rates are in all cases much higher than the national average. This has emerged as a structural issue that needs to be urgently addressed.

Caribbean countries continue to focus on putting their fiscal houses in order, adopting consolidation programmes to bring public debt down to manageable levels. Nevertheless, there has been some slippage in 2015, which has largely stemmed from deterioration in performance among the goods producers. A cause for concern is the fact that countries continue to use cuts in capital investment as the main pillar of fiscal adjustment.

Public debt in the Caribbean continues to exceed that of Latin America and indeed other SIDS at similar levels of development. Unsustainable debt therefore remains a serious impediment to economic growth. Moreover, high foreign debt exposes the region to exchange rate risks. Debt service continues to consume a significant share of government revenue in the region, undermining the efforts of countries to upgrade and modernise infrastructure and administrative systems as a platform for robust recovery after the crisis. Fortunately, the Caribbean's debt service to revenues moderated from 25.5 per cent in 2014 to

22.3 per cent in 2015. This improvement was partly linked to buoyant revenues in a number of countries some of which undertook tax reform and improved their revenue administration.

Within the Caribbean, in 2015, the approach to monetary policy was largely accommodative. This was important in promoting economic growth. In 2016, it is also expected that monetary policy accommodation will continue in economies where output gaps are negative. This will be designed to foster infrastructure investment, a necessary antecedent to output growth, in the face of anticipated low long-term real interest rates.

The relatively slow but persistent decline in interest rates observed in some cases can be attributed to attempts to stimulate economic activity in the face of the continued sluggishness of most Caribbean economies. In addition, notwithstanding the overall increase in money supply observed in the Caribbean in 2015, generally, private sector credit growth was sluggish, reflecting slower economic activity.

It is noteworthy that in 2015, inflation continued to be moderated by low international commodity prices for oil and food. The services producing economies, however, experienced price deflation (-0.40 per cent) year-on-year, while average inflation for the goods producers stood at 2.47 per cent. Indeed, the overall performance of the external sector of Caribbean economies deteriorated in 2015 as a result of the continued decline in commodity prices. This reflected negatively on the balance of payments for the goods producing economies while benefiting the service economies, which are oil importers.

Introduction

A. The world economy and its prospects

Overwhelmed by a series of negative shocks which affected the performance of a number of emerging and advanced economies, world economic growth was somewhat disappointing in 2015. Among these downside risk factors were declines in commodity prices, subdued global trade, periods of financial market volatility, and lower capital flows (World Bank Global Economic Prospects 2016). As a result growth in global output in 2015 was 3.1 per cent, falling from 3.4 per cent in 2014, but is expected to improve to 3.6 per cent in 2016.

As part of the global rebalancing, the growth of advanced economies improved from 1.8 per cent in 2014 to 2 per cent in 2015; it is projected to be 2.2 per cent in 2016. There is an expectation that this gradual improvement will continue. Growth in the United States showed some improvement in 2015, even though economic activity is expected to be flat in 2016. More importantly, long awaited interest rate increases are expected by the Federal Reserve in 2016 which will likely motivate reverse capital flows from emerging markets to the United States (see table 1).

The performance of the European Union has begun to show some improvement, with growth of 1.9 per cent posted in 2015 and a similar growth rate is expected in 2016. In respect of emerging and developing economy markets, slowing growth has been largely driven by lower revenue from fuel prices among commodity exporters and the decline in imports from China. The growth of 4 per cent posted in 2015 represented the fifth year of decline for emerging and developing economies, but notwithstanding, they still contribute an estimated 70 per cent to global growth.

In China expansion in GDP was lower in 2015 relative to 2014 and it is projected that growth in 2016 will be yet lower at 6.3 per cent. India in the meantime is likely to grow at 7.5 per cent in 2016 and, unlike China, will maintain some growth momentum.

Table 1
Actual and projected growth rates, 2014-2016

	Actual	Projections	
	2014	2015	2016
World output	3.4	3.1	3.6
Advanced economies	1.8	2.0	2.2
United States	2.4	2.6	2.6
European Union	1.5	1.9	1.9
Emerging and developing economies	4.6	4.0	4.5
India	7.3	7.3	7.5
China	7.3	6.8	6.3
Latin America [a] and the Caribbean	2.9	2.0	2.5

Source: International Monetary Fund (2015), "World Economic Outlook database, October 2015; Latin America and the Caribbean – Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Latin America includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

Lower energy prices have not been matched by increased global demand and this weak global demand is underpinned by the slowdown in investment in the extractive industries in some countries and lower imports in others. Greater policy focus will have to be given to stimulating domestic demand. Policymakers have used the falling oil prices to remove oil subsidies which mean that domestic demand may not be significantly boosted by reduced energy prices.

B. Growth performance in the Caribbean

Growth in Latin America and the Caribbean has been negatively affected by the decline in commodity prices given the weight of such items in exports. Overall regional growth was slightly lower in 2015 relative to 2014 and the region is expected to grow at 2.6 per cent in 2016. Adjustment challenges in Venezuela and Brazil are expected to drive this reduction in the regional average.

Turning to the Caribbean, overall growth fell from 2.8 per cent in 2014 to 1.5 per cent in 2015; however in 2016 growth is projected at 2.6 per cent.

Growth among the services and goods producers in the Caribbean has converged as service producers show some improvement while commodity producers face lower growth rates relative to the immediate post crisis period. The growth rates for both groups of countries were similar in 2015 but in 2016 it is projected that the goods producers will post growth of 2.3 per cent and the service producers 2.7 per cent. The continuing decline in the price of commodities will increase the risk of recession among Caribbean countries that depend heavily on such exports. Meanwhile the service economies which are mainly driven by tourism and financial services may experience an improved economic performance.

Table 2
Latin American and Caribbean GDP growth rates, 2010-2016
(Percentages)

	2010	2011	2012	2013	2014	2015[b]	2016 [c]
Anguilla	-4.4	5.3	-6.1	-0.7	6.4	3.2	2.5
Antigua and Barbuda	-7.1	-1.8	4.0	-0.1	4.3	3.2	3.8
Bahamas	1.5	1.1	1.0	0.7	1.0	1.5	2.4
Barbados	0.3	0.8	0.3	-0.1	0.3	0.5	1.0
Belize	3.1	2.1	4.0	0.7	3.6	1.7	2.7
Dominica	1.1	-0.1	-1.4	-0.9	3.9	-2.7	5.2
Grenada	-0.5	0.8	-1.2	2.4	5.7	3.4	2.4
Guyana	4.4	5.4	4.8	5.2	3.8	2.0	3.4
Jamaica	-1.4	1.3	-0.5	0.2	0.4	1.0	1.5
Montserrat	-2.8	5.5	3.5	2.5	2.4	-1.1	3.5
Saint Kitts and Nevis	-3.2	1.7	-1.2	3.7	6.9	5.2	4.7
Saint Lucia	-1.0	1.2	-1.6	-0.4	0.5	1.3	1.0
Saint Vincent and the Grenadines	-3.4	-0.5	1.2	1.8	0.6	1.0	2.1
Suriname	5.1	5.3	3.0	2.9	3.4	2.2	2.4
Trinidad and Tobago	-0.1	0.0	1.4	1.7	-1.0	0.2	0.6
The Caribbean (15) [a]	-0.6	1.9	0.7	1.3	2.8	1.5	2.6
Service producers[a]	-1.9	1.4	-0.2	0.8	2.9	1.5	2.7
Goods producers[a]	3.1	3.2	3.3	2.6	2.5	1.5	2.3
Latin America (20) [a]	4.7	5.3	3.9	4.6	3.0	2.3	2.4
South America (10) [a]	6.2	5.8	3.7	5.2	2.3	0.9	1.0
Central America (9) [a]	3.0	4.9	4.1	3.8	3.9	3.9	3.9
Mexico	5.2	3.9	4.0	1.4	2.2	2.5	2.6
Latin America and the Caribbean (35) [a]	2.5	3.8	2.5	3.1	2.9	2.0	2.5

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

[a] Regional or producer aggregates are calculated as simple averages.
[b] Preliminary estimates for 2015.
[c] Forecast
Service producers: Anguilla, Antigua and Barbuda, Bahamas, Barbados, Dominica, Grenada, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines.
Goods producers: Belize, Guyana, Suriname, Trinidad and Tobago.
South America: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela.
Central America: Costa Rica, Cuba, Dominican Republic, El Salvador, Guatemala, Haiti, Nicaragua, and Panama.
Latin America: South America, Central America; Mexico.
The Caribbean: Anguilla, Antigua and Barbuda, Bahamas, Barbados Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines Suriname, and Trinidad and Tobago.

Tourism services are an important source of growth for many Caribbean countries and growth in tourist arrivals is likely to be stimulated by lower fuel prices in the airline industry. For the first few months of 2015 however, tourist arrivals have not increased significantly, except in a few cases, notably Montserrat, (7.6 per cent), Barbados (15.3 per cent), Saint Lucia (5.3 per cent), and Jamaica and Antigua and Barbuda (4.2 per cent each, as demonstrated in table 3.

It should also be noted that investment flows to the region are becoming more diverse. Since 2010, the communications sector has attracted the most capital investment, at an estimated US$ 5.9 billion followed by metals (US$ 4.2 billion); real estate (US$ 4 billion); coal, oil and natural gas (US$ 3.5 billion);and finally, hotels and tourism (US$ 3.4 billion), according to FDI Markets, the crossborder investment monitor from the Financial Times.

Table 3
Tourist stop-over arrivals, 2013-2015
(Percentage change)

Destination	2013	2014	2015
Anguilla	6.8	2.7	3.3[a]
Antigua and Barbuda	-1.2	2.5	-4.2[a]
Bahamas	-4.1	4.2	3.0[b]
Barbados	-5.2	2.2	15.3[c]
Belize	6.1	9.2	-1.5[d]
Dominica	-0.9	4.1	-1.3[a]
Grenada	0.9	18.4	4.7[c]
Guyana	11.6	2.9	3.4[a]
Jamaica	1.1	3.6	4.2[a]
Montserrat	-1.5	22.2	-7.6[a]
Saint Lucia	3.9	6.1	5.3[d]
Saint Kitts and Nevis	3.2	3.1	
Saint Vincent and the Grenadines	-3.5	-1.4	-0.1[e]
Suriname	3.8	0.4	1.1[b]
Trinidad and Tobago			9.3[d]

Source: Caribbean Tourism Organisation

[a] Jan to May
[b] Jan to Feb
[c] Jan to Mar
[d] Jan to Jun
[e] Jan to Apr

C. Unemployment in the Caribbean

The improvement in growth especially among the tourism dependent economies has been accompanied by a decline in the unemployment rates for some countries, as evidenced with those for which data are available. As expected, higher rates persist among the tourism dependent economies relative to the goods producers that have only recently begun to face lower growth rates.

Table 4
Unemployment rates, 2009-2015
(Percentages)

	2009	2010	2011	2012	2013	2014	2015
Bahamas	14.2	15.0	15.9	14.7	15.4	15.7	12.0
Barbados	10.0	10.7	11.3	11.6	11.7	13.2	11.9 [c]
Belize	13.1	…	…	15.3	11.7	11.1	10.1
Grenada	…	…	…	…	32.5	33.5	28.9
Jamaica	11.4	12.0	12.6	13.7	15.4	14.2	13.1[b]
Suriname [a]	8.7	7.1	7.5	8.1	6.5	6.9	…
Saint Lucia	18.1	20.6	21.2	21.4	23.3	24.4	25.0
Trinidad and Tobago	5.3	5.9	4.9	5.0	3.7	3.3	3.4[d]
Caribbean	11.5	11.9	12.2	12.8	15.0	15.3	14.9
Goods producers	9.0	6.5	6.2	9.5	7.3	7.1	6.8
Service producers	13.4	14.6	15.3	15.4	16.5	16.9	15.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official data.

[a] Unemployment rate for Paramaribo and Wanica representing 65 per cent of the Suriname population.
[b] 2nd quarter data.
[c] 3rd quarter data.
[d] 1st and 2nd quarter average.
…Data not available

As is shown in table 4, the unemploynment rates fell in the Bahamas from 15.7 per cent in 2014 to 12.0 per cent in 2015, in Barbados from 13.2 per cent in 2014 to to 11.9 per cent in 2015, in Belize from 11.1 per cent in 2014 to 10.1 per cent in 2015, in Grenada from 33.5 per cent in 2014 to 28.9 per cent in 2015 and in Jamaica from 14.2 per cent in 2014 to 13.1 per cent in 2015 Increases have occurred in Saint Lucia and Trinidad and Tobago. It should be noted, however, that while unemployment rates for the region remain quite high, youth unemployment rates are in all cases much higher than the national average.

I. Macroeconomic policy

A. Fiscal policy and public debt

This section analyses the fiscal situation in the Caribbean and evaluates the extent to which countries are moving towards medium to longer-term fiscal consolidation, an objective which most have identified as a policy priority to reduce debt levels.

1. The fiscal balance

Caribbean countries continue to work towards getting their fiscal houses in order by adopting consolidation programmes to bring public debt down to manageable levels. Nevertheless, performance during the first three quarters of the year indicated that there has been some slippage. The overall fiscal deficit increased from 2.1 per cent of GDP in 2014 to 2.5 per cent of GDP in 2015 (see table 5). This stemmed from deterioration in performance among the goods producers, while performance improved marginally among the service economies. The collapse of the commodity super-cycle based on above average prices has affected the goods producers, resulting in higher spending to cushion the downturn in activity. Among the commodity producers, the deficit expanded by 4.3, 3.3 and 2.7 percentage points in Suriname, Belize and Trinidad and Tobago, respectively.

Suriname was buffeted by the sharp fall in oil and gold prices and the shutdown of the Alcoa alumina plant, which resulted in a steep fall in revenues. This was reinforced by high expenditure and an increase in the minimum wage and pensions. Higher deficit spending in Belize was driven by outlays for the government's settlement for the nationalisation of the electricity and telecommunications companies and higher spending during the run-up to the general elections. The higher deficit in Trinidad and Tobago reflected a fall in revenues owing to lower fuel prices and continued high outlays on goods and services and transfers and subsidies. By contrast, the deficit declined by 2.6 percentage points in Guyana reflecting a sharp fall in capital expenditure.

After averaging 3.7 per cent of GDP from 2009 to 2013, the deficit in the service producers fell by 3.4 percentage points year-on-year to 1.5 percent in 2014. In 2015, the deficit fell by 0.2 percentage points to 1.3 percent of GDP. Montserrat, Grenada and Saint Vincent and the Grenadines (9.7, 3.3 and 2.1 percentage points) registered the largest declines in their deficits. The significant improvement in

Montserrat reflected a sharp fall in capital expenditure as some projects were put on hold, while others came to an end. Geothermal exploration was also resumed to resuscitate the country's green energy thrust. Deficit reduction in Grenada was driven by consolidation under its IMF supported adjustment programme. The reduction in the deficit in Saint Lucia stemmed from an increase in revenue collections, partly reflecting improved administration and a marginal decline in current expenditure. Fiscal performance in Saint Vincent and the Grenadines was bolstered by improved tax revenues, partly linked to the 1 per cent rate increase in the customs service charge and reduced capital spending.

A cause for concern is the continuing practice of Caribbean countries to use cuts in capital investment as the main pillar of fiscal adjustment. An examination of the composition of government spending indicated that for the region as a whole, capital spending fell by 1.8 percentage points in 2015 (see table 6 and figure 2). By contrast, current spending declined by 0.7 percentage points, while interest payments remained stable. A combination of factors including citizens' expectations that the state will cushion shocks to their welfare, trade union pressure and a weak private sector response has made it difficult to cut public consumption in the region. As a result retrenchment has tended to fall on capital spending with adverse implications for long-term growth. In 2015, goods and service producers cut capital spending by 1.8 and 1.6 percentage points respectively. Among the goods producers, Guyana and Suriname experienced the largest cuts in capital spending. Public investment in Guyana was affected by implementation delays due to lags in the disbursement of funds for some projects. Meanwhile, Suriname reduced capital spending to contain its growing deficit that was partly caused by lower commodity prices. Some service producers, including Montserrat, St. Vincent and the Grenadines and the Bahamas also pursued consolidation by cutting capital spending.

The fiscal situation is expected to improve in 2016, as countries on IMF and home-grown programmes continue their adjustment and other countries such as Trinidad and Tobago, Suriname and the Bahamas continue their consolidation programmes to reduce their debt burden.

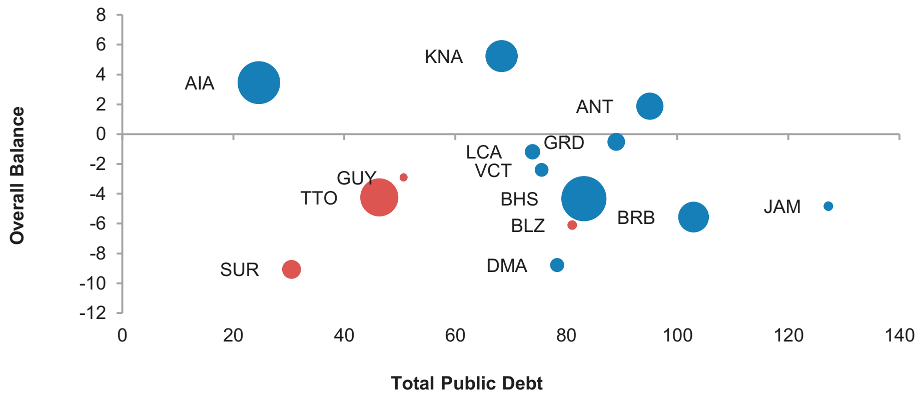
Table 5
Fiscal balance
(Percentages of GDP)

	2010	2011	2012	2013	2014	2015
Anguilla	0.1	2.7	1.5	0.7	2.5	1.1[a]
Antigua and Barbuda	-4.1	-5.2	-1.3	-4.5	-3.3	-1.6[a]
Bahamas	-4.8	-4.1	-6.8	-5.8	-4.8	-4.3
Barbados	-8.7	-4.4	-8.5	-11.0	-6.9	-7.4[b]
Belize	-1.7	-0.8	-0.8	-1.1	-2.7	-6.0
Dominica	-6.1	-8.4	-9.2	-9.5	-2.1	-3.3[a]
Grenada	-2.4	-3.2	-5.5	-6.5	-3.9	-0.7[a]
Guyana	-2.9	-3.1	-4.7	-4.4	-5.5	-3.1
Jamaica	-6.4	-5.9	-4.2	-1.3	4.8	-1.4[c]
Montserrat	2.3	7.7	-6.9	-16.8	-5.8	3.9[a]
Saint Kitts and Nevis	-4.3	2.5	11.2	13.2	9.9	2.5[a]
Saint Lucia	-0.6	-4.6	-6.5	-6.7	-3.0	-1.6[a]
Saint Vincent and the Grenadines	-2.9	-2.7	-2.1	-6.2	-3.9	-1.8[a]
Suriname	-2.9	-0.1	-2.3	-4.5	-4.7	-9.1[d]
Trinidad and Tobago	0.1	-0.7	-1.3	-2.9	-1.6	-4.2
Caribbean	-2.8	-2.0	-3.2	-4.5	-2.1	-2.5
Goods producers	-1.8	-1.2	-2.3	-3.2	-3.6	-5.6
Service producers	-3.2	-2.3	-3.5	-4.9	-1.5	-1.3

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

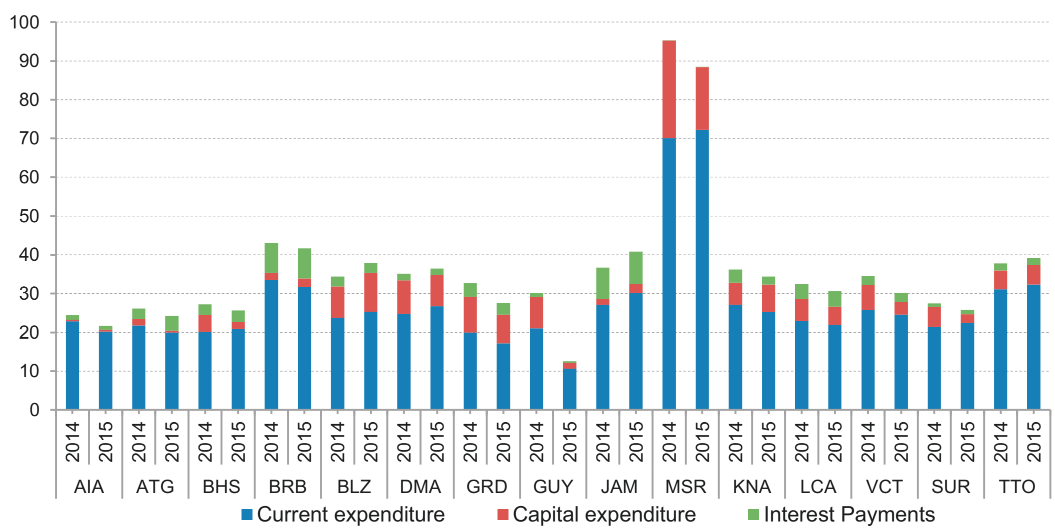
[a] 2015 data: January to September annualized.
[b] 2015 data: April to December annualized.
[c] 2015 data: April to November annualized.
[d] 2015 data: January to October annualized.

Figure 1
Fiscal balance and total public debt for the Caribbean



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

Figure 2
Caribbean central government fiscal expenditure by categories, 2014-2015
(Percentages of GDP)



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

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

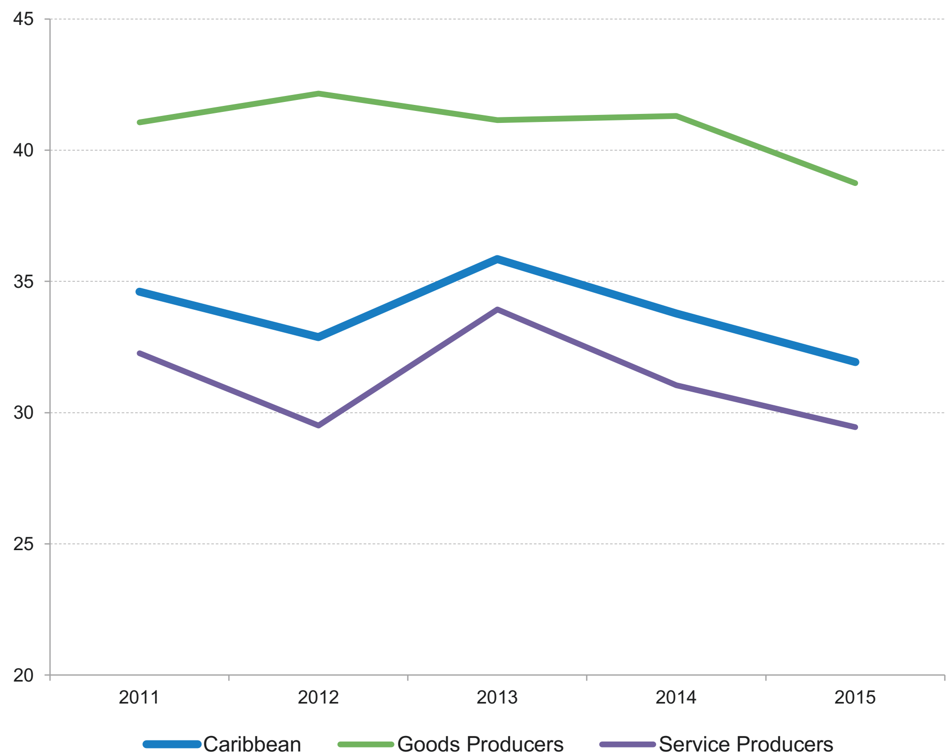
	Current expenditure				Capital expenditure				Interest payments			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
Anguilla	22.3	22.9	22.5	21.6	1.2	1.1	0.4	0.5	1.1	1.2	1.1	1.0
Antigua and Barbuda	20.6	21.6	21.6	19.7	1.3	1.3	1.7	0.5	2.5	2.0	2.7	3.7
Bahamas	18.8	18.9	18.8	18.0	2.8	4.0	4.4	1.8	2.6	2.8	2.7	3.0
Barbados	35.5	35.7	36.7	35.3	1.1	1.9	2.2	1.8	6.6	7.0	7.6	7.8
Belize	23.5	22.9	22.9	24.1	4.1	5.5	8.1	10.0	3.0	1.8	2.5	2.6
Dominica	24.1	25.8	25.3	24.3	12.9	11.8	8.6	8.1	1.6	2.1	1.8	1.7
Grenada	21.2	20.3	20.5	20.4	6.3	6.8	9.2	7.4	3.4	3.1	3.5	3.0
Guyana	19.7	19.9	19.9	20.1	9.5	8.2	8.0	1.5	1.1	1.0	1.0	0.4
Jamaica	27.5	27.6	25.9	25.9	4.2	3.1	1.5	2.2	0.0	0.0	8.1	8.4
Montserrat	65.2	66.0	66.3	69.9	16.2	45.1	25.1	16.2	0.0	0.0	0.0	0.0
Saint Kitts and Nevis	27.7	26.4	26.8	26.2	4.3	6.7	5.6	7.1	5.9	3.8	3.4	2.0
Saint Lucia	23.3	23.5	23.5	23.2	7.7	7.7	5.7	4.7	3.5	3.7	3.8	4.0
Saint Vincent and the Grenadines	26.1	25.2	25.3	26.1	2.5	7.8	6.4	3.3	2.4	2.5	2.3	2.3
Suriname	22.4	23.5	22.7	19.5	4.8	4.5	5.2	2.2	0.9	1.4	0.9	1.2
Trinidad and Tobago	26.9	28.9	28.0	29.6	4.6	5.0	4.8	5.1	1.8	1.6	1.8	1.8
Caribbean	**27.0**	**27.3**	**27.1**	**26.9**	**5.6**	**8.0**	**6.5**	**4.8**	**2.4**	**2.3**	**2.9**	**2.9**
Goods producers	**23.1**	**23.8**	**23.4**	**23.3**	**5.8**	**5.8**	**6.5**	**4.7**	**1.7**	**1.5**	**1.6**	**1.5**
Service producers	**28.4**	**28.6**	**28.5**	**28.3**	**5.5**	**8.8**	**6.4**	**4.9**	**2.7**	**2.6**	**3.4**	**3.4**

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

2. Fiscal flexibility

The fiscal flexibility index[1] points to high levels of fiscal rigidity among Caribbean countries. The index provides a measure of governments' discretionary spending as a fraction of total expenditure. The index has averaged 35 since the crisis, suggesting high levels of non-discretionary spending relative to total expenditure. Indeed Caribbean governments have been locked into a practice of high spending on wages, salaries and debt interest payments, which limits space for public investment in critical areas such as infrastructure, health and human capital upgrading. In 2015, the index worsened by 1.9 percentage points, indicating that despite an improved fiscal balance, flexibility deteriorated (see figure 3 below). The decline in flexibility was highest among the goods producers as they sought to cushion the impact of the fall in commodity prices by maintaining high outlays on goods and services and transfers and subsidies.

Figure 3
Fiscal flexibility index for the Caribbean, 2011-2015



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

3. Public debt

Public debt in the Caribbean continues to exceed that of Latin America and indeed other SIDS at similar levels of development. Unsustainable debt therefore remains an important impediment to economic growth and improved living standards. Moreover, high foreign and domestic debt exposes the region to international interest rate and exchange risks. This is important now that the US Federal Reserve has started to normalise interest rates. Reflecting ongoing fiscal consolidation efforts, Caribbean public debt

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[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.

declined by 1.6 percentage points from 70.3 per cent of GDP in 2014 to 68.7 per cent of GDP in 2015 (see table 7).

In 2015, foreign debt was cut by 1.4 percentage points, while domestic debt contracted by 0.2 percentage points. Weak credit ratings have prevented a number of Caribbean countries from accessing cheaper finance on the international market in a relatively low interest rate environment. The fall in the debt ratio was led by the service-based economies, whose average debt declined by 3.4 percentage points from 78.1 per cent of GDP in 2014 to 74.7 per cent of GDP in 2015. Debt reduction was most pronounced in those economies that were obliged to undertake fiscal adjustment, in the wake of sharp growth in debt prior to and during the recent global crisis. Among these economies, Antigua and Barbuda and Saint Kitts and Nevis have recently completed IMF adjustment programmes and Grenada is currently on an IMF-supported programme, while Barbados continues on a home-grown adjustment programme. As a result public debt fell by 7.7, 6.7, 6.6 and 5.6 percentage points, respectively in these economies.

On the other hand, the debt of the goods producers actually increased by 3.4 percentage points to an average of 52.1 per cent of GDP. The sharp fall in commodity prices has weakened the fiscal position of the goods producers, leading to increased borrowing to fill their budgetary gaps. Public debt increased in Trinidad and Tobago, Belize and Suriname (6.1, 4.6 and 3.8 percentage points resepctively) linked in part to borrowing to make up for the steep fall in oil and other commodity prices.

An important consideration for countries that participate in the PetroCaribe Initiative is the implication for possible modification in the arrangements given the challenges currently being experienced in Venezuela. Given the low fuel price environment, the fallout for countries were this to happen might not be as severe as previously expected. Nevertheless, given very favourable terms of the agreement and the significant fiscal challenges now being experienced by the beneficiaries, any diminution in the terms of the agreement will still have an important impact on these countries.

4. Debt service payments

External debt service payments remain high relative to exports of goods and services and domestic revenue. This underscores the fact that a significant portion of foreign exchange earnings and government revenue still have to be used to defray the costs of debt. The region’s external debt service relative to exports of goods and services increased from 8.2 per cent in 2014 to 13.4 per cent in 2015. The increase in the ratio in the last two years was due in part to some countries finding it more difficult to earn foreign exchange following the fall in commodity prices.

The spike in the external debt service ratio reflected increases in debt service costs in both the services and goods producers, 6.1 and 4.2 percentage points, respectively. The ratio in these economies was heavily influenced by increases of 27.4, 12.0 and 4.4 percentage points in Jamaica, Saint Lucia and Saint Kitts and Nevis, respectively. The substantial increase in Jamaica reflected an unusually large debt service payment during the year. Meanwhile, the increase in Saint Lucia and Saint Kitts and Nevis stemmed from the burden of servicing high debt.

The modest increase in their debt service ratio in the goods producers was led by a 15.5 percentage point rise in Belize, partly associated with higher debt and the start of repayment of the PetroCaribe debt to Venezuela. There were smaller increases in the debt service ratio in Guyana, Trinidad and Tobago and Suriname.

Table 7
Caribbean public sector debt, 2013-2015
(Percentages of GDP)

	2013			2014			2015		
	Foreign	Domestic	Total	Foreign	Domestic	Total	Foreign	Domestic	Total
Anguilla	22.2	7.9	30.1	20.0	6.4	26.4	19.1	5.5	24.6
Antigua and Barbuda	48.0	51.4	99.5	45.8	56.9	102.8	43.6	51.4	95.0
Bahamas	19.1	49.9	69.1	24.9	59.3	84.2	24.3	58.9	83.2
Barbados	36.1	67.6	103.7	37.4	71.2	108.6	31.6	71.3	102.9
Belize	66.6	11.8	78.4	65.6	10.9	76.5	67.4	13.6	81.1
Dominica	53.9	23.1	77.0	52.9	23.4	76.3	53.1	25.3	78.4
Grenada	66.7	35.7	102.4	63.3	32.3	95.6	60.5	28.5	89.0
Guyana	41.7	16.1	57.8	39.6	12.3	51.9	38.9	11.7	50.7
Jamaica	58.3	73.7	132.0	62.1	67.8	129.8	60.7	66.5	127.2
Monsterrat	4.1	0.0	4.2	3.7	-	3.7	3.5	-	3.5
Saint Kitts and Nevis	40.7	58.9	99.5	33.3	41.7	75.1	29.7	38.6	68.4
Saint Lucia	36.6	39.9	76.5	37.5	38.8	76.3	33.0	41.0	73.9
Saint Vincent and the Grenadines	49.2	26.7	75.9	53.0	27.0	80.0	50.2	25.3	75.5
Suriname	14.6	15.3	29.9	15.8	10.9	26.7	17.2	13.3	30.5
Trinidad and Tobago	7.0	31.3	38.3	8.6	31.6	40.2	9.2	37.1	46.3
Caribbean	37.7	34.0	71.6	37.6	32.7	70.3	36.1	32.5	68.7
Goods producers	32.5	18.6	51.1	32.4	16.5	48.8	33.2	18.9	52.1
Service producers	39.5	39.5	79.1	39.4	38.6	78.1	37.2	37.5	74.7

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

Debt service continues to consume a significant portion of government revenue in the region, presenting a challenge to countries' efforts to upgrade and modernise infrastructure and administrative systems to promote a robust recovery following the crisis. Fortunately, however, the Caribbean's debt service to revenues moderated from 25.5 per cent in 2014 to 22.3 per cent in 2015. This improvement was partly linked to buoyant revenues in a number of countries, some of which undertook tax reform and improved revenue administration to boost revenues.

B. Monetary policy, domestic credit and inflation

Within the Caribbean, in 2015, the approach to monetary policy was largely accommodative, and such policy was important in promoting economic growth and stability. This subsection examines monetary policy, related frameworks and the financial sector in the Caribbean.

1. Interest rates

Most countries reduced or held their policy instrument rates steady throughout the year. Moreover, the Eastern Caribbean Currency Union (ECCU) Monetary Council lowered the minimum savings rate on deposits from 3.0 per cent to 2 per cent as of May 1st 2015 to encourage investment. Jamaica lowered its 30 day certificate of deposit rates because of declining inflation expectations, while the Bahamas and Belize kept their rates steady given a lack of pressure on the exchange rate. The Central Bank of Trinidad and Tobago maintained its contractionary stance in 2015, increasing the repo rate by 0.25 percentage points in January, March, May, July and September 2015 to 4.5 per cent in anticipation of the United States Federal Reserve's interest rate increase. The primary reason for the increase was to guard against capital outflows resulting from expected US interest rate increases.

In 2015, the overall annual average deposit (borrowing) rate declined by 0.3 percentage points to 2.4 per cent; and trended downwards by 0.4 percentage points to 2.2 per cent in the services producing economies. Moreover, the annual average deposit rate declined by 0.3 or more percentage points in the Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis and Saint Lucia. The relatively slow but persistent decline of interest rates observed in some cases can be attributable to attempts to stimulate economic activity in the face of the continued sluggishness of most Caribbean economies. Table 8 summarizes lending and deposit rates for 2014 and 2015.

In contrast, deposit rates remained unchanged for Bahamas, Barbados, Guyana and Trinidad and Tobago from 2014 to 2015; and the average deposit rate for the goods producers remained unchanged at 3.0 per cent in 2015 relative to 2014.

Shifting attention to a consideration of lending rates; it is noteworthy that on average lending rates across the Caribbean remained unchanged at 9.8 per cent between December 2014 and December 2015. However, contrasting trends were observed for service and good producers. There was a 0.1 percentage point uptick in lending rates to 9.6 per cent in Service producing economies, while that of good producing economies declined by 0.2 percentage points overall to 10.3 per cent year-on-year as at December 2015.

Individual country results were mixed, with lending rates in Barbados and Jamaica remaining unchanged at the end of 2015 relative to 2014. Year-on-year the Bahamas (0.4 percentage points) and Saint Vincent and the Grenadines (1.3 percentage points) demonstrated the largest uptick in the lending rates to 12.0 percent and 9.2 percent respectively at the end of 2015. Lending rates also increased in Saint Lucia and Suriname. Year-on-year, lending rates fell in all remaining Caribbean economies, with Belize, Montserrat, Dominica and Grenada experiencing the largest declines respectively.

In 2015, many Caribbean economies continued to utlise the interest rate as a policy tool with a view to to maintaining price, monetary and financial stability. This impacted the interest rate spread. Caribbean-wide, year on year the average overall spreads expanded by 0.4 percentage points to 7.4 per cent at the end of December 2015. However, at the end of the review period, there was a 0.5 percentage point uptick in the spread among the service economies. In contrast, year-on-year the goods producers saw a 0.2 percentage point contraction in the average interest rate spread. Year-on-year the interest rate spreads in

Barbados and Suriname (5.1 per cent) remained unchanged relative to 2014. With the exception of Belize and Trinidad and Tobago, all other Caribbean economies saw a year on year increase in the interest rate spread in 2015, with Jamaica, Bahamas and Belize (8.62 per cent) registering the largest spreads.

Table 8
Lending rate, deposit rate and spread, 2014 - 2015
(Annual percentages)

	2014			2015		
	Lending rate	Deposit rate	Spread[a]	Lending rate	Deposit rate	Spread[a]
Anguilla[b]	9.2	3.0	6.3	9.1	2.7	6.39
Antigua and Barbuda[b]	9.5	2.8	6.6	9.4	2.5	6.90
Bahamas[b]	11.6	1.3	10.3	12.0	1.3	10.70
Barbados[b]	8.5	2.5	6.0	8.5	2.5	6.00
Belize[c]	10.7	1.7	8.9	10.1	1.5	8.62
Dominica[b]	8.8	2.8	6.0	8.5	2.3	6.27
Grenada[b]	9.0	2.2	6.8	8.7	1.6	7.14
Guyana[d]	11.0	2.3	8.7	10.8	2.3	8.52
Jamaica[c]	15.0	4.0	11.0	15.0	3.9	11.09
Montserrat[b]	8.1	2.7	5.3	7.7	1.2	6.43
Saint Kitts and Nevis[b]	8.6	2.5	6.1	8.5	2.0	6.51
Saint Lucia[b]	8.5	2.6	5.9	8.7	2.0	6.77
Saint Vincent and the Grenadines[b]	7.9	2.5	5.5	9.2	1.9	7.33
Suriname[e]	12.5	7.4	5.1	12.6	7.5	5.10
Trinidad and Tobago[d]	7.77	0.54	7.23	7.60	0.54	7.06
Caribbean	9.8	2.7	7.0	9.8	2.4	7.4
Goods producers	10.5	3.0	7.5	10.3	3.0	7.3
Service producers	9.5	2.6	6.9	9.6	2.2	7.4

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

[a] Lending rate minus deposit rate.
[b] 2015 data : January to September.
[c] 2015 data : January to November.
[d] 2015 data : January to June.
[e] 2015 data : January to August.

2. Money supply and credit

In considering the monetary policy framework and its impact on monetary aggregates and domestic credit in particular, it is important to note that for the Caribbean, the average ratio of M1 to GDP increased by 0.6 percentage points from 21.5 per cent in 2014 to 22.2 percent in 2015. Notably, with the exception of Guyana, Saint Kitts and Nevis, Saint Vincent and the Grenadines and Trinidad and Tobago, upticks in the ratio of M1 to GDP were observed for all other Caribbean economies in 2015. See table 9 which provides a summary of monetary aggregates and domestic credit for 2014 and 2015.

Sub-regionally, broad money supply (M2), expressed as a percentage of GDP, expanded in both services and goods economies during the period under review. This uptick was primarily fuelled by sharp increases in money supply in Barbados, Suriname and Dominica. This notwithstanding, there was contraction in the several Caribbean economies (Antigua and Barbuda, The Bahamas, Grenada, Guyana, Saint Kitts and Nevis, and Saint Vincent and the Grenadines). These observed changes in money aggregates in many instances were in part indicative of a combination of efforts by monetary authorities to dampen excess liquidity, and to stimulate overall sluggish GDP growth as recovery in the sub-region slowed in 2015.

Indeed, monetary developments in The Bahamas were marked by a build up in bank liquidity amidst higher foreign exchange inflows from the real sector. Consistent with its restrictive monetary stance, the reserve requirement ratio for Suriname dollars remained at 30 per cent until October, and was increased to 35 per cent in November 2015. Notably, however, there was a tightening of monetary policy in both Suriname and Trinidad and Tobago. The Central Bank of Suriname increased the required reserve ratio for domestic currency to mop up excess liquidity.

Table 9
Monetary aggregates and domestic credit to the private and public sector, 2014-2015
(Percentages of GDP)

	M1		M2		Domestic credit to private sector		Domestic credit to public sector	
	2014	2015	2014	2015	2014	2015	2014	2015
Anguilla	6.1	6.7	36.5	36.6	150.6	141.4	-33.8	-35.1
Antigua and Barbuda	19.2	19.7	83.9	83.4	65.3	61.2	13.9	11.8
Bahamas	23.0	23.9	71.8	70.1	74.6	71.2	29.3	30.2
Barbados	n/a	n/a	65.1	107.6	61.9	61.0	29.3	31.6
Belize	38.2	42.6	77.8	81.4	55.9	57.0	5.7	85.6
Dominica	16.6	17.3	85.6	89.9	54.6	55.2	-2.5	-3.2
Grenada	18.9	21.5	78.1	77.6	65.6	62.3	-3.5	-5.1
Guyana	20.7	19.0	51.9	50.8	31.8	31.7	-4.1	-3.9
Jamaica	10.7	10.9	28.9	29.9	21.5	22.1	12.5	8.8
Montserrat	26.8	28.4	137.8	141.5	39.9	41.4	-44.0	-44.9
Saint Kitts and Nevis	25.3	24.5	90.2	87.2	61.0	58.0	-17.0	-16.9
Saint Vincent and the Grenadines	21.6	20.8	67.8	67.5	53.1	52.8	-1.3	-2.0
Suriname	27.0	28.5	55.4	61.5	30.8		8.3	
Trinidad and Tobago	27.3	26.5	49.9	51.8	27.6	30.3	-7.9	-5.9
Caribbean	21.5	21.9	70.0	72.9	61.6	59.9	-2.0	12.2
Goods producers	28.3	28.2	58.7	59.5	38.4	39.7	-2.1	36.8
Service producers	18.8	19.4	74.1	77.7	68.0	65.4	-2.0	5.5

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

Notwithstanding the overall increase in money supply observed in the Caribbean in 2015, generally, private sector credit growth was sluggish, reflecting slower economic activity. Growth in bank liquidity was largely fuelled by a pick-up in real sector activity especially tourism inflows; as well as increased government borrowing. However, there was a concomitant decline (0.7 percentage points to 59.9 per cent) in credit to the private sector as a percentage of GDP. Moreover, year-on-year, in 2015 the Caribbean experienced an increase in public sector credit as governments sought to stimulate the economy.

At the country level, year-on-year in 2015, in Belize the domestic credit increased by due to a rebound in credit to the public sector (i.e.) to finance settlements. Growth in the private sector credit (as a percentage of GDP) remained weak as banks strengthened prudential requirements in an effort to prevent loan default; and the continued uncertainty in the business sector. It is noteworthy that the bulk of private credit went to the sugar subsector.

Turning to Jamaica, during the June 2015 quarter the Bank of Jamaica reduced its 30 day certificate of deposit rate to 5.5 per cent. This policy stance was primarily informed by the significant lowering of inflation expectations as well as the moderation in price increases that resulted mainly from reduced international oil prices. It also signalled the decline in domestic credit to the public sector, year on year in 2015.

The Central Bank of Trinidad and Tobago also absorbed some of the excess liquidity in the banking system. In response to the Central Bank's interventions, interest rates increased and consequently growth in credit to the private sector fell (year-on-year), while lending to consumers remained strong.

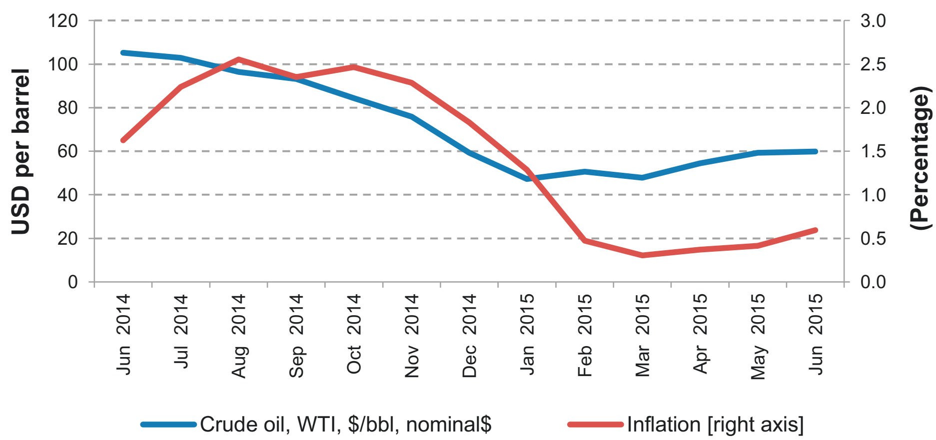
During the period under review, liquidity in the financial sector increased in the Eastern Caribbean Currency Union (ECCU). However, domestic credit contracted, on average, by 4 per cent to $10.9m over the first eight months of 2015. This was primarily due to an average 1 per cent reduction in credit to the private sector, as credit to subsidiaries and affiliates and businesses declined. However, there was an average 3.1 per cent expansion in credit to central governments following an increase in credit from commercial banks.

3. Inflation

Within the Caribbean, in 2015, inflation continued to be moderated by low international commodity prices for oil and food. Given the high degree of dependency of Caribbean economies on imported fossil fuels, the fall in oil prices had a particularly marked effect on service producers, through lower fuel prices. Figure 4 illustrates the close correlation between the price of oil and inflation rates within the Caribbean.

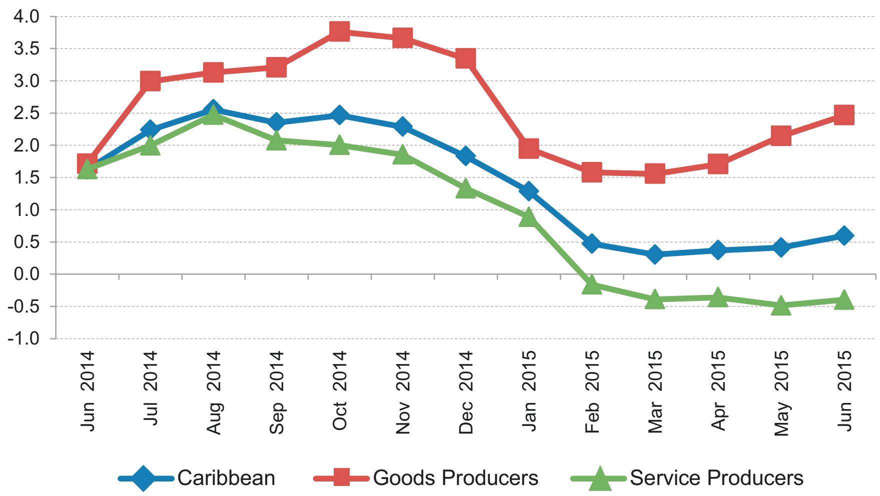
Accordingly, average inflation (year-on-year) fell from 1.62 to 0.60 as at June 2015. The services producing economies, however, experienced price deflation (-0.40 per cent) year-on-year, while average inflation for the goods producers stood at 2.47 per cent (see figure 5). The highest inflation rates were observed in Trinidad and Tobago (5.6 per cent), Suriname (5.2 per cent) and Jamaica (4.37 per cent).

Figure 4
Inflation versus oil price



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and United States Energy Information Administration Open Data Center.

Figure 5
Caribbean inflation rates
(Percentage)



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

II. The external sector

The continued decline in commodity prices resulted in a deterioration in the overall performance of the external sector of Caribbean economies in 2015. This impacted negatively on the balance of payments for the goods producing economies while benefiting the service producing economies. However, as the rate of decline in commodity prices potentially eases in 2016 and governments adjust to lower prices, the impact on the 2016 balance of payments for the Caribbean economies is expected to be less extreme.

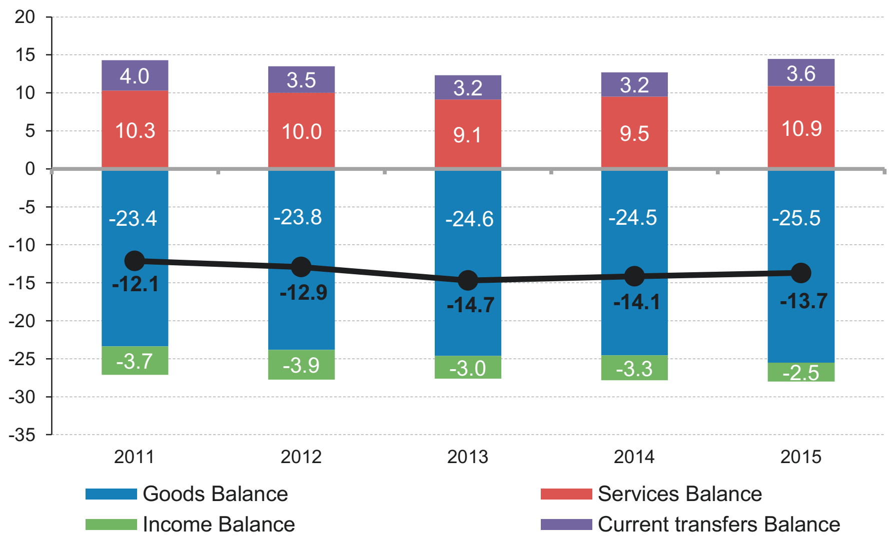
A. Current account

The current account performance for the Caribbean subregion strengthened in 2015, with the deficit marginally narrowing to 13.7 per cent of GDP in 2015, interrupting the broadening trend after the global financial crisis. Contributing to this narrowing of the current account deficit was the expansion in the service trade surplus along with improvements in the income balance. Figure 6 illustrates the positive shift in the performance of the current account balance for the subregion along with its composition over the last five years.

The effects of falling commodity prices negatively impacted the goods trade balance and ultimately the current account balance for goods producing economies, widening to 6.1 per cent of GDP on average. Declines in imports were insufficient to offset the significant declines in exports within economies such as Suriname (declined 6.1 per cent of GDP) and Trinidad and Tobago (declined 9.8 per cent of GDP). As a result, Suriname's current account deficit widened by 5.4 per cent of GDP relative to 2014 while Trinidad and Tobago's surplus declined by 4.6 per cent of GDP. Such declines are expected to extend throughout 2016 as commodity prices are forecasted to maintain their current downward trend. Guyana stands unique among the goods producing economies; an 8 per cent of GDP decline in imports compensated for a concomitant reduction in bauxite and gold output.

Conversely, the current account balance for the service producing economies (narrowed by 1.2 per cent of GDP) was fortified by declining petroleum prices and strengthened receipts from the tourism sector as the economies of major source markets such as the US and UK improved. Excluding the current account deficit of Montserrat (44.9 per cent of GDP), the benefits are even more apparent. All components of the current account balance improved particularly the service trade and current transfers balance. Jamaica and Montserrat were the only service producing economies in which the current account deficit widened marginally.

Figure 6
Composition of current account
(Percentages of GDP)



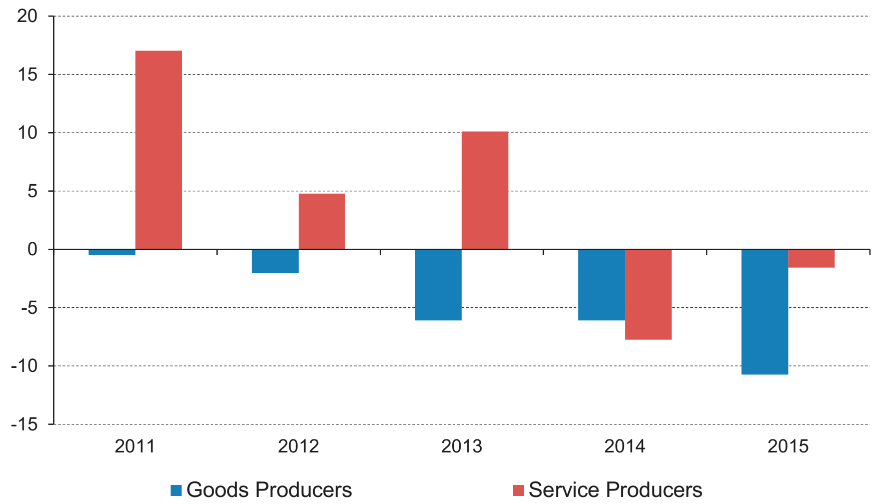
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

B. Terms of trade

The continuing fall in commodity prices over 2015 affected the Caribbean economies in different ways. Five countries, including Barbados and Guyana, experienced an improvement in the terms of trade as a result of decreased energy imports. Most economies experienced deterioration in the terms of trade, but the results were particularly poor for the goods producing economies – the goods producers experienced an average depreciation of 10.7 per cent in the terms of trade, compared to a relatively minor fall of 1.6 per cent in the service producers. The former group includes oil producing Trinidad and Tobago and oil and gold producing Suriname, which suffered declines of 28.1 per cent and 22.0 per cent respectively in their terms of trade.

As commodity prices are expected to remain low in 2016, the terms of trade for the Caribbean are expected to decline further this year. However, given the already depressed levels, the reduction should be less dramatic.

Figure 7
Terms of trade
(Percentage change)

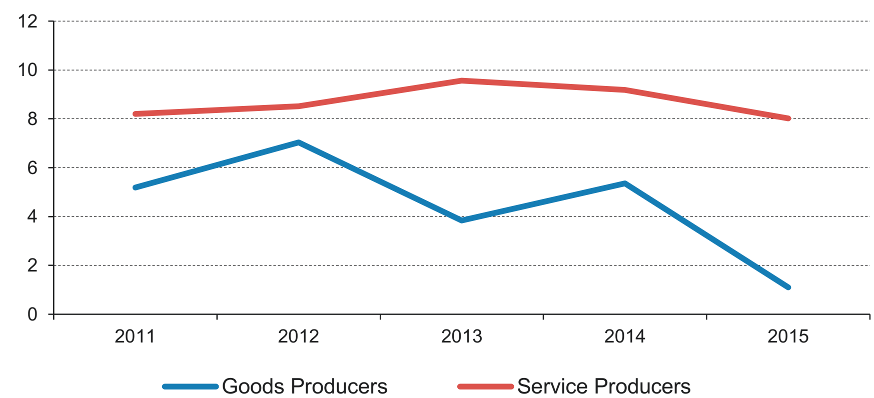


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

C. Foreign direct investment

Average net foreign direct investment (FDI) in the Caribbean fell from 8.2 per cent of GDP in 2014 to 7.2 per cent in 2015. Declines were seen in most countries, with increases recorded only in Grenada, Jamaica, Saint Kitts and Nevis and Saint Lucia. Saint Kitts and Nevis registered the largest improvement in FDI (as a per cent of GDP) in 2015, due mainly to the continued Citizenship by Investment programme. Saint Vincent and the Grenadines had the largest net FDI in 2015 at 16.1 per cent of GDP, despite a drop of 2.8 per cent from the previous year. However, these high levels of FDI were neutralized by high import bills on construction materials for the new international airport, and a resulting high current account deficit.

Figure 8
Foreign direct investment
(Percentages of GDP)



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

D. International reserves

According to available data, the international reserves position across the Caribbean subregion decreased by US$ 674.1 million representing an average of 4.6 months import cover. Given Trinidad and Tobago's sizeable contribution to the subregion's overall international reserves, its US$ 724.6 million decline (3.7 per cent decrease) in those reserves had a substantial impact overall. Despite this fall, import cover for Trinidad and Tobago remained at a safe level of 11.8 months. In contrast, Suriname's gross international reserves fell by US$255.5 million, a 40.8 per cent drop. This considerable fall in reserves prompted the Central Bank to devalue the currency by 20.5 per cent in November, from 3.35 SRD to 4.04 SRD per USD.

Table 10
International reserves, 2014-2015

	Gross international reserves *(millions)*		**Import cover** *(months)*	
	2014	2015	2014	2015
Anguilla	37.70	38.60	2.0	1.9
Antigua and Barbuda	243.00	250.00	3.8	3.9
Bahamas	744.18	803.68	3.4	3.4
Barbados	1 052.40	926.80	3.7	3.5
Belize	484.46	435.73	5.7	5.0
Dominica	99.90	96.40	4.8	5.0
Grenada	1 457.10	1 504.00	4.8	4.6
Guyana	652.20	626.90	3.6	4.0
Jamaica	2 473.01	2 890.45	4.6	5.6
Montserrat	5.2	5.2	1.2	1.2
Saint Kitts and Nevis	318.4	295.8	9.2	8.4
Suriname	625.1	369.6	2.7	2.0
Trinidad and Tobago	11 316.6	10 592.0	12.7	11.8
Caribbean	**19 509.3**	**18 835.2**	**4.8**	**4.6**
Caribbean excl. T&T	**8 192.7**	**8 243.2**	**4.1**	**4.0**
Good producers	**13 078.4**	**12 024.2**	**6.2**	**5.7**
Service producers	**6 430.9**	**6 810.9**	**4.2**	**4.2**

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

Note: Data for ECCU countries are IMF projections for 2015.

III. Conclusion

Average growth in the Caribbean is expected to quicken in 2016, with GDP expansion in the service economies expected to once again outstrip that of the goods producers. It is expected that economic growth among goods producers will continue to be buffeted by low prices of commodity exports while low energy prices and improved tourism demand are expected to be the main growth-drivers of the services-based economies in 2016.

It is anticipated that Caribbean countries will continue to follow fiscal consolidation programmes intended to reduce public debt to manageable levels. In 2016, it is also expected that monetary policy accommodation will continue in economies where output gaps are negative. This will be designed to foster infrastructure investment, a necessary precursor to output growth, in the face of anticipated low long-term real interest rates. However, targeted structural reforms are fundamental to the institution of the necessary structural change. Such reforms will not only go a long way in quickening growth, but will also enhance economic resilience and growth by placing Caribbean economies on a sustainable path towards production and export diversification.

IV. Country notes

A. Bahamas

The economy of the Bahamas continued to recover in 2015, with projected growth of 1.5 per cent, up from 1.0 per cent in 2014. The initial growth estimate of 2.3 per cent had to be revised downward because of repeated delays in the opening of the Baha Mar resort, which was expected to boost tourist arrivals. Nevertheless, growth was bolstered by high-spending stopover visitor arrivals, medium- and small-scale foreign investment projects in tourism and buoyant activity in the offshore financial services sector. The introduction of value added tax (VAT) in 2015 drove up government revenues, offsetting a more muted increase in expenditure. Monetary developments were marked by a build-up in bank liquidity amid higher foreign exchange inflows from the real sector and a decline in credit to the private sector. The balance-of-payments current account deficit contracted in the wake of reduced spending on imports. The economy is projected to grow by 2.4 per cent in 2016, buoyed by continued growth in tourist arrivals, hotel construction and vigorous activity in offshore financial services.

Fiscal consolidation continued to be the policy focus in 2015 in an effort to bring down public debt to sustainable levels and catalyse a return to trend growth. A key pillar of this effort was the introduction of VAT at a rate of 7.5 per cent in January 2015. Other measures included customs modernization, real property tax reform and the establishment of a Central Revenue Authority, all of which sought to strengthen the efficiency and effectiveness of government revenue collection and administration.

The government softened its expansionary stance in 2015, as the fiscal deficit declined from 4.9 per cent of GDP to 2.2 per cent of GDP in the first 11 months of financial year 2014/2015 (July to June). Fiscal performance was boosted by an 18.3 per cent increase in tax revenue, driven by receipts from the newly introduced VAT, which met expectations and amounted to 182.0 million Bahamian dollars (B$). Expenditure grew by a mere 0.3 per cent, as a 6.5 per cent increase in current spending was offset by 32.2 per cent decline in capital expenditure. The sharp fall in capital expenditure reflected a return to normal spending following a spike in 2014, linked to the acquisition of new ships for the Royal Bahamas Defence Force and outlays on public infrastructure. Meanwhile, higher current spending was driven by strong growth in subsidies and transfers, reflecting increased pension payments and outlays for the administration of VAT. The fiscal deficit is projected to narrow further to 1.5 per cent of GDP in 2016 as VAT receipts and the containment of expenditure bolster the consolidation effort.

With no real pressure on the exchange rate, the central bank maintained its neutral monetary stance from the previous year by holding its discount rate at 4.5 per cent. The first quarter of 2015 was marked by strong growth in bank liquidity, fuelled by stronger real sector activity, especially tourism inflows and increased government borrowing. Growth in domestic credit slowed to B$ 123.6 million in the first nine months of 2015 from B$ 158.4 million in the same period in 2014. An expansion in credit to the public sector (B$ 6.4 million) was offset by a decline in credit to the private sector amid continued high unemployment and sluggish consumer demand. Credit quality in the banking system improved in the first quarter of 2015, owing to increased loan write-offs and the boost in economic activity that drove down private sector loan arrears. As a result, non-performing loans contracted by 8.6 per cent to B$ 893.7 million.

The external position of the economy was projected to improve in 2015. The current account deficit narrowed from 15.9 per cent of GDP to 11.6 per cent of GDP year-on-year to June. That improvement stemmed mainly from a sharp decline in payments for construction services (51 per cent) with the winding-down of major investment projects funded through foreign direct investment (FDI) and a 4.8 per cent fall in the merchandise deficit, linked partly to lower international fuel prices. The services surplus expanded by 25.4 per cent, with travel receipts up by 5.4 per cent thanks to increased visitor arrivals. Higher outflows of investment income widened the income account deficit by 22.1 per cent. In a major turnaround, the surplus on the capital and financial account contracted significantly (79.6 per cent), as FDI inflows plummeted to US$ 53.2 million (down 75 per cent) occasioned by lower inflows for the Baha Mar resort. For the first half of 2015, international reserves declined by 6.2 per cent to US$ 953.1 million, covering 18.4 weeks of non-oil merchandise imports, compared with 20.4 weeks in the same period in 2014.

Economic growth stood at 1.5 per cent in 2015, up from 1.0 per cent in 2014, but lower than the initial projection of 2.3 per cent, which had to be revised downward because of the extended delay in the opening of the Baha Mar resort, the dampening effect of VAT on consumer demand and continued high unemployment, among other factors. Growth in 2015 was driven by an increase in high-spending stopover visitor arrivals and buoyant activity in the construction and offshore financial services sectors. Stopover arrivals were boosted by significant marketing efforts, particularly in Grand Bahama, where arrivals rose sharply. For the period January to August 2015, air arrivals increased by 4.0 per cent to 984,309 visitors, while sea arrivals declined by 3.6 per cent. Overall arrivals in 2015 were dragged down by the lower number of visitors to the outer islands, including Long Island and San Salvador, which were hit by Hurricane Joaquin. Construction tapered off following the sharp growth seen in 2014, but remained buoyant, as activity was bolstered by a mix of small and medium-sized FDI-financed projects in the hotel and tourism sector. This helped to partly offset the winding-down of activity on large projects, including the Baha Mar resort.

After spiking in January, inflation eased in the first half of 2015, reflecting the impact of lower international fuel prices. Year-on-year to June 2015, transportation prices decreased by 1.9 per cent (compared with inflation of 3.8 per cent in June 2014) and the Bahamas Electricity Corporation lowered its fuel charge by 24.2 per cent.

Lower fuel and other costs were only partly counterbalanced by higher food and health costs. Unemployment declined from 15.7 per cent in 2014 to 12.0 per cent in 2015. This reflected the hiring of a large number of workers by the Baha Mar resort in anticipation of its opening and the temporary hiring ofworkers for carnival and other cultural events. A number of the Baha Mar employees have subsequently lost their jobs following the postponement of the opening of the resort.

Table 11
Bahamas: main economic indicators, 2013-2015

	2013	2014	2015 [a]
		Annual growth rate	
Gross domestic product	0.0	1	1.5
Per capita gross domestic product	-1.4	-0.4	0.2
Consumer prices	0.8	0.2	2.0 [b]
Money (M1)	5.6	8.4	23.2 [c]
		Annual average percentage	
Urban unemployment rate [d]	15.8	14.8	12 [e]
Central government Overall balance / GDP	-5.7	-3.3	-1.6
Nominal deposit rate	1.7	1.4	1.4 [b]
Nominal lending rate [g]	11.2	11.8	12.3 [h]
		Millions of dollars	
Exports of goods and services	3 626	3 566	…
Imports of goods and services	4 794	4 990	…
Current account balance	-1 494	-1 860	…
Capital and financial balance [i]	1 425	1 906	…
Overall balance	-69	46	…

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

[a] Estimates.
[b] Figures as of August.
[c] Figures as of September.
[d] Includes hidden unemployment.
[e] Figures as of May.
[f] Weighted average of deposit rates.
[g] Weighted average of lending rates.
[h] Figures as of October.
[i] Includes errors and omissions.

B. Barbados

The Barbados economy is expected to grow by 0.5 per cent in 2015, fuelled by a strong performance primarily in the tourism sector, with long-stay arrivals up 14.5 per cent as of September 2015. Value added in the international business and financial services and manufacturing sectors has been stagnant, while construction activity has been weaker than expected. In spite of this slow growth, the fiscal deficit had contracted significantly to an annualized 6.7 per cent of GDP in September and the current account deficit to 5.9 per cent of GDP by the third quarter of 2015. However, gross government debt remains a concern, having increased by 6.8 per cent of GDP year-on-year, while domestic interest payments have risen. Inflation has dropped considerably, standing at 0.8 per cent in September 2015, largely because of falling fuel prices, while unemployment had dipped slightly to 12 per cent. Growth of 1 per cent is forecast for 2016, driven by a continued positive performance in the tourism sector and by private sector commercial investments and hotel construction projects.

The government of Barbados has reaped some rewards from its medium-term fiscal strategy, with the fiscal deficit down from 11.2 per cent of GDP in fiscal year 2013/14 to an annualized 6.7 per cent of GDP as of September 2015. Government revenue was up by BDS$ 50.4 million (4.5 per cent) in September 2015, driven mainly by a BDS$ 99 million increase in property tax receipts (a more than eightfold rise over the April to September 2014 period) and a 24.8 per cent increase in excise tax. This revenue growth was slightly tempered, in particular, by a 51.6 per cent drop in non-tax revenue and a 4.9 per cent fall in value added tax (VAT) receipts as of September 2015. Government current expenditure held fairly steady, with a slight increase of 1.7 per cent year-on-year that was primarily due to a BDS$ 16.8 million rise in domestic interest payments. The large fiscal deficit continues to negatively impact the gross government debt stock, which increased by 6.8 per cent of GDP between September 2014 and September 2015. This increase was driven primarily by increased debt holdings at the Central Bank of Barbados.

The slowdown in the economy is evidenced by the stagnation of domestic lending to the private sector, which was down by 1.9 per cent in September 2015 relative to the end of 2014. The popularity of saving bonds issued by the central bank, along with high liquidity in the banking system, has contributed to high liquidity overall, so that M3 was up by a substantial 65.6 per cent between the end of 2014 and September 2015. Despite this liquidity in the banking system, a fund of US$ 70 million, borrowed from the Inter-American Development Bank, was created by the Barbados government to provide easier access to financing for small and medium-sized businesses for expansion or restructuring, given the limited availability of commercial bank instruments for such businesses. This facility is expected to provide a slight boost to the sluggish Barbadian economy.

Although international reserves (US$ 976.7 million in September) are at their lowest since the2008 global financial crisis, providing 3.6 months of import cover, the Central Bank of Barbados continues to support the country's fixed exchange rate (BDS$ 2 to US$ 1). However, maintenance ofcurrent reserve levels will be highly dependent on continued growth in the major sectors of tourism and international business.

Between September 2014 and September 2015, the current account deficit narrowed considerably from 10.6 per cent of GDP to 5.9 per cent of GDP, mainly due to increased transfers (up 45.9 per cent), recovery in tourism- related inflows (up 5.0 per cent) and increased exports of rum (up 5 per cent) and sugar. Meanwhile, the capital and financial account fell considerably (56.6 per cent) because of a 55.5 per cent decline in long-term capital, the result being a fall in international reserves from US$ 1.052 billion to US$ 976.7 million.

Barbados' economy is expected to experience 0.5 per cent GDP growth in 2015, slightly better than the 0.2 per cent of 2014. This growth has been propelled primarily by the encouraging performance of the tourism sector during the first three quarters of 2015. Long-stay arrivals increased by 14.5 per cent in this period, with most of this growth coming from the major source markets of the United States, Canada and the United Kingdom. However, this improvement was countered by lower than expected construction activity (down 1.7 per cent), with the start of a number of hotel construction projects now deferred to 2016 and a 1.5 per cent decline in manufacturing. Financial services have remained fairly constant, with a small expansion of 0.6 per cent, despite Barbados being blacklisted by several members of the European Union as a noncooperative tax jurisdiction; a charge which the government has been challenging. Growth in all other sectors has been marginal. In the event that commercial projects by the private sector amounting to US$ 50 million receive the necessary approvals and hotel construction projects are jump-started next year, this should result in growth projected at 1 per cent in 2016.

The inflation rate fell gradually to -1.8 per cent by August, the lowest since the 2008 economic crisis. Falling domestic fuel costs and food prices contributed to the substantial decline in inflation. The opening of Sandals Beach Resort in 2015 probably contributed to the dip in unemployment, which fell from 12.4 per cent in September 2014 to 11.9 per cent in September 2015.

Table 12
Barbados: main economic indicators, 2013-2015

	2013	2014	2015 [a]
		Annual growth rate	
Gross domestic product	-0.1	0.2	0.5
Per capita gross domestic product	-0.4	-0.1	0.2
Consumer prices	1.1	2.3	-0.3 [b]
Money (M1)	5.5	9.4	11.3 [c]
Real effective exchange rate [d]	-0.1	-0.5	-2.3 [c]
		Annual average percentage	
Urban unemployment rate [d]	11.6	12.3	11.9
Central government Non-financial public sector Overall balance / GDP	-11.2	-6.9	-8.6
Nominal deposit rate [g]	2.5	2.5	2.5 [c]
Nominal lending rate [h]	8.5	8.5	8.6 [c]
		Millions of Dollars	
Exports of goods and services	…	…	…
Imports of goods and services	…	…	…
Current account balance	-397	-369	…
Capital and financial balance [i]	240	323	…
Overall balance	-157	-46	…

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

[a] Estimates
[b] Figures as of July
[c] Figures as of August.
[d] A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
[e] Figures as of October.
[f] Includes hidden unemployment.
[g] Weighted average of deposit rates.
[h] Weighted average of lending rates.
[i] Includes errors and omissions.

C. Belize

Growth was strong in 2014 at 3.6 per cent, but fell off to 1.7 per cent in 2015. The slowdown stemmed from a decline in primary and secondary activities, only partly offset by increased value added in the tertiary sector. Movement in the services industries drove growth, led in particular by wholesale and retail trade, tourism and real estate, renting and business services, although agricultural production also improved. There was deflation in 2015 as a result of lower international fuel prices and domestic food prices, with consumer prices falling by 0.8 per cent year-on-year in June. Reflecting slippage in efforts at medium-term fiscal consolidation, the fiscal deficit more than doubled to 5.1 per cent of GDP in calendar year 2015 from 3.5 per cent of GDP in 2014. The current account deficit is projected to expand to 9.5 per cent of GDP, with an increase in the merchandise deficit outweighing the improvement in the services account, buoyed by higher tourism inflows. Growth is projected to pick up to 2.7 per cent in 2016 due to a surge in sugar production, supported by banana output and stronger growth in tourism.

Fiscal deficits and unsustainable public debt remain the major policy challenges. The government has pledged itself to medium-term fiscal consolidation. However, this effort was not advanced in calendar year 2015, as fiscal policy was expansionary, with the fiscal deficit increasing to 5.1 per cent of GDP from 3.5 per cent of GDP in 2014. Revenue rose marginally (1.7 per cent), but was outweighed by a 5.7 per cent increase in spending. Expenditure was fuelled mainly by a hike in net lending, which reflected the settlement for the nationalization of Belize Electricity Limited (BEL) and Belize Telemedia Limited (BTL) and higher outlays on wages and salaries, linked to an 8 per cent salary increase. The BEL settlement entailed a payment of US$ 35 million to Fortis Inc., the previous majority shareholder, and a reduction in its equity position to 33 per cent, while US$ 81 million was paid to BTL. The fiscal deficit is projected to return to trend levels of around 2.7 per cent in calendar year 2016, following the exceptional spending of 2015.

With the higher fiscal deficit, central government debt increased marginally from 75.01 per cent of GDP in 2014 to 75.31 per cent of GDP in 2015. The deficit was partly financed by low-cost funding from the Venezuelan PetroCaribe Agreement (VPCA), but these inflows declined in 2015. This points to the need for the government to reduce its dependence on these funds in the future.

Monetary policy remained neutral, with the central bank holding its liquid asset ratio constant at 6.5 per cent, there being no real pressure on the exchange rate. Domestic credit grew strongly (12.1 per cent), but this mainly reflected a rebound in lending to the public sector to finance the settlements to BEL and BTL. Growth in lending to the private sector remained weak at 2.6 per cent, reflecting increased prudential requirements for banks to prevent loan default and continuing business uncertainty. The bulk of private credit went to the sugar subsector.

The current account deficit widened to 9.5 per cent of GDP in 2015 from 8.0 per cent of GDP in 2014. This increase stemmed from a higher visible trade deficit, which offset an improvement in the surplus on the services account. The visible trade deficit expanded by 2.3 percentage points to 22.3 per cent of GDP, reflecting a surge in imports, despite a large decline in fuel payments due to lower international fuel prices. Export receipts declined marginally (by 1.3 per cent) to US$ 580.9 million as lower receipts from petroleum, marine products and citrus juices offset higher earnings from bananas and papaya. The surplus on the services account rose by 2.3 per cent, mainly because of a 2.8 per cent increase in tourism receipts reflecting higher stay-over visitor expenditure. The surplus on the capital and financial account is projected to contract by 47 per cent to US$ 130 million, led by an 18.2 per cent decline in foreign direct investment (FDI) inflows to US$ 113.2 million, after FDI surged in 2014 because of exceptional flows for investment in hotels and real estate. With these developments, international reserves are projected to contract by 10.0 per cent to US$ 435 million, covering 5.0 months of imports. The current account deficit is projected to narrow to 5.1 per cent of GDP in 2016, with export growth reducing the trade deficit.

Economic growth in 2014 was firm at 3.6 per cent, but it slowed to 1.7 per cent in 2015, constrained by weakness in the primary and secondary sectors. A 3.8 per cent increase in value added in agriculture, led by higher output of sugarcane, citrus, bananas and papaya, was offset by lower output in fishing and forestry. Sugarcane output increased by 6.1 per cent and citrus and banana output by 2.0 per cent and 7.0 per cent, respectively. However, output of marine products contracted by 25 per cent, due mainly to a virus outbreak in the shrimp subsector. In the secondary sector, petroleum production continued its secular decline (17.5 per cent), due to the depletion of reserves. This was aggravated by lower output of electricity and water because of a drop in hydroelectricity generation resulting from dry weather conditions, and a 5.7 per cent decline in construction activity, partly due to the winding down of public- sector infrastructure projects. Meanwhile, the services sector was buoyed by 4.8 per cent and 4.7 per cent growth in wholesale and retail trade and in the hotel and restaurant sector, respectively. Wholesale and retail trade was bolstered by higher imports for the export processing zone, while tourism was boosted by increased stay-over visitor arrivals, which offset a fall in cruise passenger arrivals.

There was deflation in 2015, with consumer prices declining by 0.7 per cent year-on-year in June. Lower international fuel prices drove down the costs of transport and housing, water and electricity. This was reinforced by lower prices for food, alcoholic and non-alcoholic beverages and tobacco. Higher employment in the services sector offset job losses in agriculture, causing unemployment to fall to 10.1 per cent from the 11.1 per cent recorded in 2014.

Table 13
Belize: main economic indicators, 2013-2015

	2013	2014	2015 [a]
		Annual growth rate	
Gross domestic product	1.5	3.4	1.7
Per capita gross domestic product	-0.7	1.2	-0.4
Consumer prices	1.6	-0.2	-0.7 [b]
Money (M1)	13.7	14	14.6 [c]
		Annual average percentage	
Urban unemployment rate [d]	13.2	11.6	10.1 [e]
Central government Overall balance / GDP	-1.7	-4.2	-2.5
Nominal deposit rate [f]	2.3	1.8	1.6 [c]
Nominal lending rate [g]	11.5	10.9	10.4 [c]
		Millions of dollars	
Exports of goods and services	1 056	1 083	…
Imports of goods and services	1 084	1 150	…
Current account balance	-73	-136	…
Capital and financial balance [h]	190	221	…
Overall balance	117	85	…

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

[a] Estimates.
[b] Figures as of June.
[c] Figures as of September.
[d] Includes hidden unemployment.
[e] Figures as of April.
[f] Weighted average of deposit rates.
[g] Weighted average of lending rates.
[h] Includes errors and omissions.

D. Eastern Caribbean Currency Union (ECCU)

Overall economic growth in ECCU slowed to 2.2 per cent in 2015 from 3.5 per cent in 2014. However, there was significant heterogeneity in growth among the individual countries. Thus, there was a 2.7 per cent year-on-year contraction in the economy of Dominica due to the effects of Tropical Storm Erika. The other ECCU economies all generated positive economic growth, as output in the construction, hotel and restaurant and agriculture sectors trended upward. Furthermore, a continuation of cross-ECCU fiscal consolidation initiatives resulted in an overall fiscal surplus, with a concomitant decline in the public debt stock. In addition, the merchandise trade deficit narrowed in the first half of 2015, as imports declined by 4.6 per cent and export receipts increased by 16.8 per cent. There was deflation (-1.3 per cent) across ECCU, with price falls across all economies. ECCU growth is projected at 3.3 per cent in 2016, with economic activity in the tourism, construction and agricultural sectors strengthening.

The fiscal performance of ECCU improved over the first half of 2015 relative to the same period in 2014, as a larger fiscal surplus coupled with decreased capital spending led to an overall surplus of

EC$ 57.6 million, against a deficit of EC$ 45.4 million during the first half of 2014. Moreover, the fiscal position of Antigua and Barbuda moved from deficit to surplus as non-tax revenues more than doubled to EC$ 55.3 million because of increased revenues from the Citizen by Investment Programme (CIP), while the central government continued to institute fiscal consolidation measures, including the reining in of concessions. In addition, Saint Lucia and Grenada generated smaller deficits. The improved fiscal performance of the latter was indicative of early gains under the home-grown structural adjustment programme, which are expected to strengthen with the implementation of the fiscal responsibility legislation and the revised legislation on the tax regime approved by Parliament in June 2015.

During the first half of 2015, year-on-year, the average ECCU fiscal current account balance improved from a surplus of EC$ 156 million to one of EC$ 239 million as increased current revenues outstripped current spending growth. Central government revenues rose 5.1 per cent to EC$ 2.1 billion, largely because of an 8.0 per cent increase (EC$ 133.4 million) in tax revenue across all major categories.

The improved fiscal position was accompanied by a 3.0 per cent decline in the total public debt stock of the ECCU member countries, bringing it down to EC$ 12.855 billion by the end of June 2015. This fall in the public debt stock was primarily attributable to an overall contraction in both domestic and external debt. Dominica, however, experienced a marginal increase (2.0 per cent) in total disbursed outstanding public sector debt. More specifically, an 8.9 per cent increase in the domestic stock of central government debt, the result of a rise in commercial bank financing, more than offset a 2.2 per cent contraction in the external debt stock. Notwithstanding, there was a 67.5 per cent increase (to EC$ 720.9 million) in debt service payments across ECCU, as principal payments more than doubled year-on-year.

Financial sector liquidity increased by 3.6 percentage points during the period under review. Further, the decision by the Eastern Caribbean Central Bank Monetary Council to lower the minimum deposit rate on savings to 2.0 per cent from 1 May 2015 had a greater impact on deposit than on lending rates. Thus, the weighted average interest rate spread widened by 21 basis points to 6.54 per cent as the weighted average lending rate across the currency union fell by 0.32 of a percentage point year-on-year to 8.60 per cent and the weighted average deposit rate by 0.53 of a percentage point to 2.05 per cent. However, domestic lending contracted by 4 per cent to EC$ 10.96 million over the first two quarters of 2015 compared with the same period in 2014. This was primarily due to an 8 per cent reduction in lending to the private sector, as business lending declined. However, lending to central government more than doubled, with commercial bank credit increasing by 48.3 per cent.

The merchandise trade deficit narrowed during the first half of 2015 as imports declined by 4.6 per cent or EC$ 156.4 million and export receipts rose by 16.8 per cent to EC$ 591.3 million, which compares with an 8.5 per cent expansion over the first half of 2014. The contraction in import payments was largely driven by a 24.6 per cent drop in the value of fuel imports, while the positive export outcome was underpinned by strong banana production and manufacturing exports in Saint Lucia and Saint Vincent and the Grenadines.

The first half of 2015 saw a quickening in the pace of economic activity in the tourism and agriculture sectors in general, as well as in the manufacturing sector in Grenada, Saint Lucia and Saint Vincent and the Grenadines, with positive growth spillovers in the construction, hotel and restaurant, transportation and communication and wholesale and retail sectors. Moreover, gross travel receipts expanded by 4.8 per cent as economic activity in the tourism industry accelerated during the first six months of 2015, with the number of arrivals increasing by 10 per cent to 2.4 million year-on-year This notwithstanding, stay-over visitor growth slowed to 2.6 per cent from the 6.6 per cent recorded in the first half of 2014. With the exception of Antigua and Barbuda (-3.6 per cent) and Dominica (-0.1 per cent), all ECCU members recorded increases in the number of stay-over arrivals.

Overall economic growth in ECCU slowed to 2.2 per cent in 2015 from 3.5 per cent in 2014. There was significant heterogeneity in growth between individual countries. The fall-off in overall economic activity in ECCU was largely precipitated by the 2.7 per cent contraction in the Dominican economy due to the impact of Tropical Storm Erika. All the other ECCU economies generated positive economic growth. ECCU economic output is forecast to expand by 3.3 per cent in 2016, with economic activity in the tourism, construction and agricultural sectors strengthening and the Dominican economy returning to positive growth.

There was deflation in the ECCU during the first six months of 2015, with a 1.3 per cent decline in the consumer price index (CPI) across all economies of the currency union, compared with a 1.1 per cent increase over the same period of 2014. Falling food and oil prices were the main drivers of the decline in the CPI. Official unemployment statistics for ECCU are for the most part unavailable. Notwithstanding, the unemployment rate in Saint Lucia is estimated at 25 per cent, with youth unemployment (ages 15 to 24) of 43 per cent and female unemployment of 27.5 per cent as of the end of June 2015. These figures represent declines on year- earlier figures of 25.4 per cent, 46.3 per cent and 28.9 per cent, respectively. For Grenada, the overall unemployment rate dropped from 33.5 per cent to 28.9 per cent year on year. Similarly, youth unemployment (ages 15 to 24) fell from 55.6 per cent to 45.3 per cent. At the end of June 2015, employment among women stood at 30.6 per cent.

Table 14
Eastern Caribbean Currency Union[a]: main economic indicators, 2013-2015

	2013	2014	2015 [b]
		Annual growth rate	
Gross domestic product	1.4	3.5	2.2
Consumer prices	-0.3	0.7	-1.1 [c]
Money (M1)	5.6	8.5	8.3 [d]
		Annual average percentage	
Central government Overall balance / GDP	-3.4	-1.3	-2.1
Nominal deposit rate [d]	2.9	2.6	2.2 [e]
Nominal lending rate [d]	8.9	9.0	8.7 [e]
		Millions of dollars	
Exports of goods and services	2 038	2 108	2 187
Imports of goods and services	2 923	2 901	2 956
Current account balance	-886	-794	-776
Capital and financial balance [f]	979	1 082	776
Overall balance	93	287	…

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

[a] Refers to six countries: Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.
[b] Estimates.
[c] Figures as of June.
[d] Weighted average rate.
[e] Figures as of September.
[f] Includes errors and omissions.

E. Guyana

Economic growth slowed to 0.7 per cent in the first half of 2015, from 3.2 per cent in the first six months of 2014. This can be attributed largely to declines in bauxite and gold output and in construction activity, in the wake of an appreciable fall in public sector spending. Real output is projected to expand by 2.0 per cent in 2015 (compared with 4.5 per cent in 2014), as increased government spending is expected to have positive spillover effects on the construction sector and the operational efficiency of gold production is improved in the second half of 2015. The central government posted a wider overall surplus thanks to a higher current account surplus and lower capital account deficit. Guyana's debt burden eased during the first half of 2015. GDP growth is expected to rise to 3.4 per cent in 2016 on the back of increased public sector investment and the strong performance of the mining, agriculture, manufacturing and services sectors.

Guyana's fiscal performance improved in the first half of 2015, compared with the same period in 2014, as the central government generated a 230 per cent increase, equivalent to 9.735 billion Guyanese dollars (G$), in the overall surplus. The current balance surplus expanded by 15.8 per cent year-on-year to stand at G$ 20.247 billion at the end of June 2015. This expansion was largely attributable to the 5.5 per cent (G$ 4.110 billion) increase in current revenue, which was driven by higher receipts by the Customs and Trade Administration and Internal Revenue Department. The hike in current revenue more than offset the 2.4 per cent (G$ 1.352 billion) increase in current expenditure. The capital account deficit contracted by 52.6 per cent as capital expenditure fell by 52.3 per cent (G$ 6.977 billion).

In order to achieve its priority monetary policy goal of maintaining a stable exchange rate, the Bank of Guyana maintained a somewhat tight stance in the first half of 2015. Monetary policy remained largely focused on price stability, maintaining adequate liquidity in the system and facilitating economic growth. The auctioning of treasury bills in the primary open market continued to be the main instrument of monetary policy. Gross foreign reserves of the Bank of Guyana were down from US$ 665.6 million at the end of December 2014 to US$ 626.9 million at the end of June 2015, which was nevertheless equivalent to 4.0 months import cover, owing to lower fuel and food import costs.

Increases in currency in circulation (11.3 per cent) and time deposits (10.6 per cent) fuelled a year-on-year expansion (11 per cent) in the money supply (M1) to G$ 123.038 billion at the end of June 2015. There was a similar upward trend (4.9 per cent) in broad money in the first half of 2015. Private sector credit (G$ 205.166 billion) rose by 7.7 per cent year-on-year in the first half of 2015, owing to increased credit to the real estate mortgage, agriculture and construction and engineering sectors.

Both the domestic (13.1 per cent) and external (0.5 per cent) debt stock declined year-on-year at the end of June 2015; with the latter being attributable to smaller drawdowns under the PetroCaribe initiative. Consequently, the total debt stock stood at 50.7 per cent of GDP at end of June 2015, down from 53.6 per cent of GDP at the end of June 2014.

Despite slight fluctuations due to demand and supply pressures, the exchange rate remained unchanged at G$ 206.50 to the United States dollar in 2015. However, as a consequence of reduced trade, there was a 4.7 per cent contraction in foreign exchange market transactions, which stood at US$ 3.0 billion at the end of June 2015. The central bank sold an estimated US$ 0.7 million to the commercial banks in the first half of 2015.

The overall balance-of-payments deficit narrowed from US$ 93.0 million in June 2014 to US$58.1 million in June 2015. This deficit was financed primarily through a drawdown on the gross foreign reserves of the Bank of Guyana. The current account deficit contracted by 43.5 per cent year-on-year to US$ 121.2 million as a result of the decline in the import bill, owing primarily to soft fuel and food prices, and a narrower net services deficit.

As a result of a decline in disbursements to the non-financial public sector, the capital account surplus shrank by 74.5 per cent, from US$ 80.7 million in the first half of 2014 to US$ 20.5 million in the same period of 2015. Grant flows under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative decreased by G$ 508 million; and no grants were forthcoming under the Multilateral Debt Relief Initiative (MDRI) at the end of June 2015.

Guyana currently faces the challenge of maintaining the high levels of economic growth achieved in recent years, in the face of low commodity prices. Economic growth slowed to 0.7 per cent in the first half of 2015, from 3.2 per cent in the first six months of 2014. This can be attributed largely to declines in bauxite and gold output and in construction activity. Real output is projected to be 2.0 per cent for 2015 (down from 4.5 per cent in 2014) as increased government spending in the second half of the year is expected to have a strong positive spillover on construction activity and the agriculture, services and manufacturing sectors continue to perform strongly. Moreover, the government is continuing to take concrete steps to diversify the economy and move up value chains.

With specific reference to real sector activity, output declined in construction (-13.2 per cent), forestry (-24.5 per cent) and mining and quarrying (-17.4 per cent) year-on-year in June 2015, while growth in agriculture slowed from 11.2 per cent to 4.2 per cent. Nevertheless, favourable weather conditions drove up rice production by15.3 per cent and sugar output by 1.6 per cent in the first half of 2015 relative to the corresponding period in 2014. Furthermore, higher value added in the rice and sugar subsectors, as well increased production of alcoholic beverages, aerated drinks, juices and cereals, resulted in a 7.1 per cent expansion of the manufacturing sector (compared with 11.2 per cent for the first half of 2014). Broad-based expansion across all other services subsectors, offset the poor performance of the construction industry. The services sector grew by 2.5 per cent year-on-year in 2015 and is poised to become a major growth pole for the Guyanese economy.

The rate of price deflation stood at 0.2 per cent in the first half of 2015 (compared with 0.3 per cent at the end of June 2014), owing largely to soft fuel and food prices and subdued domestic demand. Food prices dropped by 1.8 per cent, transport and communications by 2.4 per cent, furniture by 2.8 per cent and education services by 4.7 per cent. Inflation is set to be 0.5 per cent at the end of 2015 as seasonal demand is expected to place upward pressure on the prices of food and semi-durables.

Table 15
Guyana: main economic indicators, 2013-2015

	2013	2014	2015 [a]
		Annual growth rate	
Gross domestic product	5.2	3.8	2
Per capita Gross domestic product	4.9	3.5	1.6
Consumer prices	0.9	1.2	-0.2 [b]
Money (M1)	6.7	10.1	9.7 [c]
		Annual average percentage	
Central government Overall balance / GDP	-4.4	-5.5	-3.3
Nominal deposit rate [d]	1.4	1.3	1.3 [c]
Nominal lending rate [e]	12.1	11.1	10.8 [f]
		Millions of dollars	
Exports of goods and services	1 541	…	…
Imports of goods and services	2 348	…	…
Current account balance	-426	…	…
Capital and financial balance [g]	475	…	…
Overall balance	49	…	…

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

[a] Estimates.
[b] Figures as of June.
[c] Figures as of September.
[d] Small savings rate.
[e] Prime lending rate.
f Figures as of October.
[g] Includes errors and omissions.

F. Jamaica

The Jamaican economy posted year-on-year growth of 0.4 per cent and 0.6 per cent in the first two quarters of 2015, respectively. GDP growth of 1 per cent is projected for 2015 and 1.5 per cent for 2016, owing to an upturn in agriculture and manufacturing, and a steady increase in tourism receipts. Inflation is expected to reach 6.5 per cent in 2015, providing that there is no significant depreciation in the exchange rate. Ongoing structural reforms are expected to boost investor confidence and a recent World Bank report suggests that Jamaica has significantly improved its ranking in the Doing Business Index. Nevertheless, the debt burden remains heavy and expenditure will continue to be compressed as part of the government's fiscal consolidation efforts.

The fiscal challenge is the government's primary concern as it seeks to control the public finances. In August 2015, the International Monetary Fund (IMF) concluded its ninth review under the Extended Fund Facility (EFF) arrangement and confirmed that the country had successfully met a number of quarterly quantitative targets and structural benchmarks. This triggered a US$ 39.7 million disbursement in September 2015, giving a total amount of US$ 670 million received to date to shore up the public finances and the balance of payments. As part of the fiscal adjustment, efforts have been made to curb expenditure. For the first half of the 2015/16 financial year, expenditure was 5.7 per cent below budget and revenue was 0.2 per cent over budget. Capital expenditure presented the largest reduction relative to budget at 33.7 per cent. From April to September, the overall balance was -0.2 per cent and the primary balance was 6 per cent of GDP.

The main challenge facing Jamaica is the debt overhang, which is expected to stand at 130 per cent of GDP at the end of fiscal year 2015/16 and at 128 per cent of GDP at the end of 2016/17. In 2015/16 both domestic and external debt each accounted for some 60 per cent of GDP and total debt servicing absorbed 18.4 per cent of GDP. The government has been leveraging the low interest rates in the international markets to reduce its debt service costs, for example, it issued US$ 2 billion in bonds in July 2015. The government used US$ 1.5 billion of that issue to repurchase a portion of its PetroCaribe debt at a 54 per cent discount, which helped to reduce the debt burden and lengthen the payback period. However, despite these and other measures, without some debt relief, the debt overhang will remain large in the medium term owing to low growth and constrained domestic demand.

At the end of June 2015, the monthly average exchange rate of the Jamaican dollar (J$) against the United States dollar was J$ 116.52 = US$ 1, reflecting annual depreciation of 4.4 per cent. Since then the Jamaican dollar has weakened more slowly, reaching an exchange rate of J$ 119.52 = US$ 1 in October, which is 3.6 per cent lower than its January average. The pace of depreciation slowed progressively as demand pressures in the foreign exchange market were tempered by the policy decision to intervene in the market, with Bank of Jamaica net sales amounting to US$ 84.9 million in the second quarter. A further small nominal depreciation is expected by year-end 2015, followed by a steady weakening to J$ 122.8 = US$ 1 by the end of 2016. While this may improve competitiveness to some extent, especially in the light of falling oil prices, continued depreciation could pass through to inflation in the medium term and encourage a stronger demand for wage increases. An accommodating monetary policy was adopted in 2015 and the Bank of Jamaica reduced its 30-day certificate of deposit to 5.5 per cent in the second quarter. This stance was taken following the significant lowering of inflation expectations and the slowdown in price increases that resulted mainly from reduced international oil prices. Annual loans and advances to the private sector grew by 5 per cent year-on-year in March 2015, up slightly on the year-earlier figure. In March 2015, the average lending rate was 14.99 per cent and the deposit rate was 1.44 per cent. Gross reserves reached US$ 2.9 billion in September 2015, up from US$ 2.2 billion in January, as the Bank of Jamaica took advantage of the stronger Jamaican dollar and US$ 500 million from its international bond issue in August to boost reserves. The target under the EFF arrangement is to extend import cover to 4.5 months by March 2017.

With respect to the external sector, the current account deficit narrowed to 8 per cent of GDP in 2014, owing largely to import compression, and is expected to narrow further in 2015, bolstered by higher prices for alumina and bauxite (Jamaica's main export commodities) and tourism receipts. On the import side, domestic demand will remain sluggish, curbing growth in import spending. Further improvement is expected in 2016, owing primarily to lower global oil prices and rising workers' remittances. Remittances were up by 4 per cent in the first half of 2015 as the United States and the United Kingdom —the main destination markets of Jamaican workers— posted stronger performances.

Year-on-year GDP growth stood at 0.4 per cent and 0.6 per cent in the first two quarters of 2015, respectively. With some improvement in manufacturing, agriculture and tourism, GDP growth of 1 per cent is projected for the end for 2015 and 1.5 per cent for 2016. The performance of manufacturing remained relatively flat in the first half of the year compared with the same period in 2014. However, the sector showed some signs of improvement in the second quarter, despite the decline in oil prices and depreciating exchange rate.

The inflation rate was 6.4 per cent in 2014. Headline inflation was 4.4 per cent at the end of June 2015, compared with 4.0 per cent at the end of the preceding quarter. Drought hit the agriculture sector, driving up food prices and exacerbating inflationary pressures. In the light of constrained domestic demand and low oil prices, inflation is projected to end 2015 at 6.5 per cent, providing that there is no significant depreciation in the exchange rate.

Table 16
Jamaica: main economic indicators, 2013-2015

	2013	2014	2015 [a]
		Annual growth rate	
Gross domestic product	0.5	0.7	1
Per capita gross domestic product	0.2	0.3	0.6
Consumer prices	9.7	6.2	3.5 [b]
Money (M1)	5.9	5	14.7 [c]
Real effective exchange rate [d]	4.6	3.6	-2.0 [e]
		Annual average percentage	
Open urban unemployment rate	10.3	9.4	9.6 [f]
Central government			
Overall balance / GDP	-0.6	-0.5	-0.3
Nominal deposit rate [h]	1.6	1.3	1.4 [g]
Nominal lending rate [i]	16.3	15.1	15 [b]
		Millions of dollars	
Exports of goods and services	4 247	4 279	…
Imports of goods and services	7 510	7 344	…
Current account balance	-1 320	-1 160	…
Capital and financial balance [j]	1 140	1 960	…
Overall balance	-179	800	…

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

[a] Estimates.
[b] Figures as of August.
[c] Figures as of September.
[d] A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
[e] Figures as of October.
[f] Figures as of July.
[g] Figures as of June.
[h] Average rate for saving deposits.
[i] Average lending rate.
[j] Includes errors and omissions.

The government signed a new wage agreement with the Jamaica Confederation of Trade Unions (JCTU) and the Jamaica Teachers' Association for the 2015-2017 fiscal period. Discussions continue with other groups as the government strives to ensure that public sector wages contribute to the aim of reducing the wage bill to 9 per cent of GDP in fiscal year 2016/17 and to maintain the public debt-to-GDP ratio on a downward path over the medium term.

The unemployment rate has fallen gradually from 14.2 per cent in January 2015 to 13.1 per cent in July. For men, the rate declined from 10.7 per cent to 9.3 per cent and for women from 18.5 per cent to 17.7 per cent over that period. Further declines can be expected if domestic activity picks up and external demand becomes more robust.

G. Suriname

Growth in Suriname is estimated at 2.2 per cent for 2015, on the basis of increased oil production offsetting the decline in bauxite production and commodity prices. The closure of the Suralco alumina refinery in November will have an impact on the employment situation. Growth in 2016 is projected to be 2.4 per cent, as production from the oil refinery and the opening of the new gold mine in the fourth quarter will give the economy a boost. The effects of falling oil, gold and aluminum prices have been felt in the fiscal and external sectors: the fiscal deficit for 2015 is estimated to have widened to 7.8 per cent of GDP and international reserves have continued to decline, which resulted in a 20.5 per cent year-on-year devaluation of the Surinamese dollar in November 2015.

From January to August 2015, total government revenue fell by 19 per cent compared with the year-earlier period. While there was a small increase in indirect taxes, direct taxes and non-tax revenue fell by 28 per cent and 38 per cent, respectively. Total expenditure, by contrast, was down by just 0.2 per cent. This decrease is attributable solely to a 41 per cent cut in capital expenditure, as all other components of expenditure expanded – the most significant of which was a 12 per cent increase in the wages and salaries component. The fiscal deficit as at August 2015 was already 5 per cent of estimated GDP for 2015; a deficit of 7.8 per cent of GDP is projected for the year. Ahead of fiscal year 2016, the government has introduced some austerity measures, including a drastic reduction in energy and water subsidies and a new tax on vehicle fuels. For the next year, the government has set itself the aim of a fiscal deficit of 2.4 per cent of GDP, to be achieved through major cuts in capital and recurrent expenditure.

Monetary policy has remained restrictive in 2015, aimed at containing inflation and keeping the economy stable. The foreign currency reserve requirement ratios for United States dollars and euros remained fairly constant over the first nine months of 2015, at just over 45 per cent and 31 per cent respectively. The reserve requirement ratio for Surinamese dollars (Sr$) remained at 30 per cent until October, before being raised to 35 per cent in November 2015. Lending to the private sector grew by 7.2 per cent from December 2014 to September 2015, slightly over the 6 per cent growth measured in 2014. Despite the expansion of credit, monetary aggregates M1 and M2 fell by 6.6 per cent and 0.4 per cent, respectively, from December 2014 to September 2015.

International reserves declined from US$ 1.008 billion and six months of import cover in 2012 to US$ 625.1 million at the end of 2014. Reserves have continued to shrink in 2015, and stood at US$ 370 million in October, equivalent to 2.2 months of import cover. This dramatic fall prompted the central bank to devalue the currency in November, from Sr$ 3.35 to Sr$ 4.04 to the United States dollar, an increase of 20.5 per cent.

Suriname's external accounts position has continued to deteriorate as commodity prices fall. Aluminum and gold prices are at their lowest since 2009 and 2010, respectively. Over the first half of 2015 the current account recorded a deficit of 6.5 per cent of full-year GDP. The main culprit was the deteriorating goods balance, which was 2.6 per cent of GDP in deficit over the first six months of 2015, compared with a surplus of 2.6 per cent of GDP in 2014. The goods balance was last in deficit for a full year in 2005. The overall balance posted a deficit of 2.1 per cent of GDP for the first half of 2015, while the financial account balance recorded a surplus of 5.9 per cent of GDP over the same period. Notably, the balance between inward and outward foreign direct investment was negative, with outflows exceeding inflows by US$ 30.7 million; this figure, however, did not include the investment coming into the Surgold gold mine.

Despite tumbling commodity prices, economic growth in Suriname for 2015 is estimated at 2.2 per cent, up from the 1.8 per cent measured last year. The opening of the State Oil Company's new refinery in the first half of 2015 was delayed, but its impact on the manufacturing sector in 2015 will be small. The construction sector saw the largest increase (7.8 per cent), as in the previous two years, with continued activity at the new Surgold gold mine and the new oil refinery. The growth prospects for the future are slightly muted, as commodity prices show no sign of rising, and the Suralco alumina refinery was shut down in November. Nevertheless, the new oil refinery will provide a fillip to economic growth and should reduce import demand. In addition, the Surgold mine is due to open in late 2016, but its full effect will not be apparent until 2017. Economic growth is therefore projected to be 2.4 per cent in 2016. Inflation in Suriname remained relatively low in 2015. The year-on-year change in the consumer price index was 2.3 per cent in January 2015 and rose to 5.2 per cent in June, before falling to 4.3 per cent by September. Among the subsectors with positive price changes, inflation was highest in the food and non-alcoholic beverages subsector, and lowest in the alcoholic beverages and tobacco subsector. The transportation subsector actually showed strong deflation throughout the first nine months of 2015, from 18 per cent in January to -9.1 per cent in September.

The unemployment rate for the two most populous districts in Suriname, Paramaribo and Wanica, edged up from 6.5 per cent in 2013 to 6.9 per cent in 2014. Unemployment is expected to have fallen in the first half of 2015, but is likely to rise over the second half of 2015 and in 2016 as the impact of the economic slowdown and the closure of the Suralco refinery begins to be felt.

Table 17
Suriname: main economic indicators, 2013-2015

	2013	2014	2015 [a]
		Annual growth rate	
Gross domestic product	2.9	1.8	2.2
Per capita gross domestic product	1.9	0.9	1.3
Consumer prices	0.6	3.9	4.1 [b]
Money (M1)	11.3	5.4	-6.8 [c]
		Annual average percentage	
Central government Overall balance / GDP	-5.9	-5.4	-7.8
Nominal deposit rate [d]	7.1	7.4	7.5 [b]
Nominal lending rate [e]	12	12.3	12.5 [b]
		Millions of dollars	
Exports of goods and services	2 567	2 351	...
Imports of goods and services	2 709	2 748	…
Current account balance	-198	-386	…
Capital and financial balance [f]	47	236	…
Overall balance	-151	-150	…

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

[a] Estimates.
[b] Figures as of October.
[c] Figures as of September.
[d] Average deposit rates.
[e] Average bank lending rate in local currency.
[f] Includes errors and omissions.

H. Trinidad and Tobago

Economic growth in Trinidad and Tobago is projected at 0.2 per cent in 2015, representing an improvement over the recently revised estimate of 1 per cent negative growth for 2014. The fall in oil and gas prices, combined with maintenance shutdowns in the upstream gas sector, contributed to a major contraction in the energy sector, which was offset by an expansion in the non-energy sector, resulting in the positive, albeit marginal, growth estimate for 2015. The economy is expected to grow by 0.6 per cent in 2016, owing to continued soft oil prices and natural gas curtailments. Lower oil prices have hit the real, fiscal and external sectors of the economy. Reduced fiscal revenues drove up the government deficit from 2.5 per cent in the 2014 fiscal year to 4.2 per cent of GDP in the 2015 fiscal year. As foreign exchange inflows declined, the central bank sold almost US$ 2.5 billion to authorized dealers between January and October 2015; however, foreign exchange reserves remain high. Inflation decreased from 7.5 per cent in January 2015 to 4.5 per cent in August 2015, and unemployment, though still very low, rose from 3.1 per cent in the first quarter of 2014 to 3.7 per cent in the first quarter of 2015.

As oil prices fell in the first half of fiscal 2015, the government lowered expenditure to reduce the impact on the fiscal deficit. According to the most recently revised figures, a government deficit of 4.2 per cent of GDP is projected for fiscal 2015. Total revenue and grants are expected to drop by 6.2 per cent, as energy sector revenues plummet by 30 per cent; while total expenditure is expected to decline by just 1.6 per cent. With respect to current expenditure, interest payments were down by 5 per cent and transfers and subsidies by 9 per cent, while expenditure on goods and services increased by 8 per cent and wages and salaries by 20 per cent, owing mainly to increased salaries and the payment of arrears following the conclusion of new collective agreements. Capital expenditure fell by 0.8 per cent in fiscal 2015, with a 14 per cent decrease in the Infrastructure Development Fund offsetting an 18 per cent increase in the Public Sector Investment Programme. Despite facing the challenge of containing the deficit as revenues plunge, the new government, which was elected in September, has projected a budget deficit of 1.7 per cent of GDP for the 2016 fiscal year.

The central bank maintained its contractionary stance in the first half of 2015, raising the repo rate by 0.25 percentage points in January, March, May, July and September 2015. It has since held steady at 4.5 per cent. The primary reason for these increases was to guard against capital outflows resulting from expected interest rate hikes in the United States. The central bank absorbed some of the excess liquidity in the banking system and, as a result, commercial banks average excess reserves fell from 7.0 billion Trinidad and Tobago dollars (TT$) in the first half of 2014 to TT$ 3.7 billion in the first half of 2015. As a consequence of the central bank's actions, interest rates have gone up. The commercial bank average basic prime lending rate increased from 7.69 per cent in October 2014 to 8.70 per cent in October 2015, and the Mortgage Market Reference Rate rose from 2.25 per cent at the start of the year to 2.5 per cent in June 2015, and is expected to rise to 2.75 per cent in December. Growth in credit to the private sector fell from 6.81 per cent at the start of the year to 5.75 per cent year-on-year in September 2015, while lending to consumers remained strong, growing by 8.08 per cent year-on-year in September, up from 7.89 per cent in January.

For the second year in a row, the foreign exchange market was tight, as business owners and private individuals were frustrated by United States dollar shortages at different points in the year. To satisfy the excess demand and to maintain a stable exchange rate, the central bank sold United States dollars to authorized dealers throughout the year, including a record injection of US$ 400 million in January, which was surpassed by an even larger injection of US$ 695 million in October. At the end of October, following special directives from the new Minister of Finance, the central bank re-established the original foreign exchange distribution system that had been changed in early 2014. Foreign exchange reserves remain high, and were equivalent to just under one year of imports at the end of October 2015. The overall balance-of-payments deficit stood at 2.3 per cent of annual GDP in the first quarter of 2015, compared with a surplus of 0.1 per cent in the first quarter of 2014. The current account posted a surplus of 0.1 per cent of GDP for the same period, up from a deficit of 1.3 per cent of GDP in the first quarter of 2014, reflecting a narrowing of the investment income account deficit. As a result of the lower energy exports, the merchandise trade account surplus narrowed from 0.7 per cent of GDP in the first quarter of 2014 to 0.1 per cent of GDP in the first quarter of 2015. The slump in the energy sector was accompanied by a decline in non-energy exports due to limited economic activity in destination markets such as the Caribbean Community (CARICOM).

The balance on the capital and financial account almost doubled in the first quarter of 2015, to 3.2 per cent of GDP, from 1.7 per cent of GDP in the first quarter a year earlier. Net foreign direct investment increased from 1.1 per cent of GDP in the first quarter of 2014 to 1.6 per cent of GDP in the first quarter of 2015, owing primarily to higher inter-company debt transactions.

Table 18
Trinidad and Tobago: main economic indicators, 2013-2015

	2013	2014	2015 [a]
		Annual growth rate	
Gross domestic product	2.3	-1	0.2
Per capita gross domestic product	1.8	-1.5	-0.2
Consumer prices	5.6	8.5	4.8 [b]
Money (M1)	19.2	19.8	2.7 [b]
Real effective exchange rate [c]	-3.6	-4.4	-7.3 [d]
		Annual average percentage	
Urban unemployment rate	3.6	3.3	3.7 [e]
Central government Overall balance / GDP	-3.0	-2.5	-4.2
Nominal deposit rate [f]	0.2	0.2	0.2 [b]
Nominal lending rate [g]	7.5	7.7	8.2 [d]
		Millions of dollars	
Exports of goods and services	18 071	15 999	…
Imports of goods and services	13 901	12 266	…
Current account balance	1 920	1 637	…
Capital and financial balance [h]	-1 133	-307	…
Overall balance	786	1 330	…

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

[a] Estimates.
[b] Figures as of September.
[c] A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
[d] Figures as of October.
[e] Figures as of March.
[f] Ordinary savings rate.
[g] Prime lending rate.
[h] Includes errors and omissions.

The impact of the fall in international oil prices in 2014 is still being calculated. The Central Statistical Office has revised its economic growth figure for 2014 from positive growth of 1.9 per cent to a contraction of 1 per cent. According to projections, the economy will grow by 0.2 per cent in 2015. The energy sector experienced its second consecutive year of negative growth —the fourth of the last five— owing to the low oil prices and reduced natural gas production by upstream gas producers. The upstream gas industry was once again affected by shutdowns for major maintenance and upgrading work, which led to a drop in natural gas use for Liquefied Natural Gas (LNG) production, ammonia and methanol production, power generation and steel manufacturing. The non-energy sector has been Trinidad and Tobago's engine of growth for the last five years and is expected to record growth of 2.3 per cent in 2015, propelled especially by the services sector, which was, in turn, driven by strong growth in the finance, insurance and real estate subsector. Construction and quarrying were up by 3.4 per cent, thanks to increased implementation of government projects in the lead-up to the September general election and continued private sector construction. Manufacturing exports to the CARICOM market are expected to increase in 2016, on the back of higher growth in the Caribbean. However, oil prices are expected to remain below US$ 60 a barrel and curtailments in natural gas production are expected to continue in the short term. Economic growth of 0.6 per cent is therefore projected for 2016.

The national inflation rate (year-on-year) showed little volatility in 2015, falling from 7.5 per cent in January 2015 to 3.2 per cent in October 2015. The inflation rate echoed the trend of its main subcomponent, food inflation, which fell from 14.6 per cent in January to 6.1 per cent in October. Core inflation held below 2 per cent for the first nine months of 2015, fluctuating between 1.5 per cent and 1.9 per cent, before rising to 2.4 per cent in October.

Despite negative growth in 2014 and minimal growth projected for 2015, unemployment remains very low, though it did rise gradually in 2014, from 3.1 per cent in the first quarter to 3.3 per cent in the fourth quarter. In the first quarter of 2015 it was estimated at 3.7 per cent. The sector with the highest unemployment rate in the first quarter of 2015 (other than the "not stated" sector, which had 7.1 per cent unemployment) was petroleum and gas, with 6.5 per cent unemployment.

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