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FOR THE CARIBBEAN

Economic Survey of the Caribbean 2017

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UNITED NATIONS



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Abstract

Global Gross Domestic Product (GDP) increased to 3.5 per cent in 2016, creating a prosperous outlook. Such growth reflects a positive contribution from several regions although commodity exporters and advanced economies continue to struggle. On average, advanced economies grew by 1.7 per cent in 2016. However, emerging markets and developing economies' 3.5 per cent economic growth was the larger contribution to global growth.

With regards to the Caribbean region, although the growth performance has been mixed, on average the economies posted an economic growth of 0.7 per cent in 2016. The goods producers achieved -3.1 per cent growth, due to weak commodity prices. While the service producers achieved 2.1 growth. Despite the anemic growth performance, the region managed to decrease its unemployment rate to 11.2 per cent in 2016, relative to the 15.2 per cent experienced in the previous year.

On the whole Caribbean governments continued to prioritize fiscal consolidation to reduce the burden of public debt on economic growth. However, a number of challenges, including weak commodity prices, tepid private investment, and high interest costs continue to limit their ability to achieve the desired consolidation. Following the improvement in 2015, there was fiscal slippage in 2016, with the average deficit for the Caribbean region increasing from 0.1 per cent of GDP to 1.1 per cent of GDP. While the goods producers had a lower deficit of -3.2 percent in 2016 from the -5.4 in the previous year, there was deterioration in the fiscal balance of the service producers from +0.6 percent in 2015 to -0.3 in 2016.

With the increase in the fiscal deficit, the region's public debt increased marginally by 1.9 percentage points in 2016. Growth in the debt was driven mainly by the goods producing economies, as a number of which were challenged by revenue constraints due to low commodity prices. Subsequently, the region debt service payments continue to absorb a significant portion of government revenue, averaging almost 29.5 per cent in 2016.

With regards to fiscal space, the region's fiscal flexibility declined by 4.4 percentage points in 2016. There was a reduction in the fiscal flexibility by 4.4 percent for both the goods and service producing economies.

Monetary policy stances adopted by Caribbean economies in 2016 were largely geared towards fostering economic growth and price stability. To this end, with the exception of Suriname, monetary policy interventions were predominantly accommodative. There was marginal decline in both the average lending rates and deposits rates for the Caribbean over the 2015 to 2016 period. However, there was a miniscule increase in the interest rate spread. Notwithstanding the high financial sector liquidity in the Caribbean, both private and public sector credit as a percentage of GDP declined in 2016. However, there was a moderate increase in the Caribbean's average inflation rate by 2.9 percentage points to 4.2 per cent in 2016.

Turning to the external sector, the average current account balance in the Caribbean remained almost unchanged in 2016, up by 0.5 percentage points to -10.1 per cent of GDP in 2016. The service producers held the lion share of the current account deficit with -12.4 of GDP in 2016. The goods producers also reported a deficit of -5.0 per cent of GDP the same year. Meanwhile, average Foreign Direct Investment (FDI) inflows for the Caribbean fell from 8.2 per cent of GDP in 2015 to 6.8 per cent in 2016. For the goods producers FDI inflows fell from 5.3 per cent of GDP to 3.1 per cent, and for the service producers it fell from 9.3 per cent to 7.8 per cent. For both groups of economies this was the second year of decline, after an increase in 2014.

Due to slight improvement in commodity prices, the terms of trade improved for Caribbean economies in 2016. The goods producers experienced a 3.4 per cent increase, while the service producer incurred a 3.2 per cent increase.

The outlook for 2017 is stronger economic growth, due to marginal improvement in commodity prices relative to 2015 and 2016. The goods producers are expected to grow by 1.8 per cent, while the service producers are expected to grow by 2.3 per cent.

Section I analyses the performance of the Caribbean subregion to the global economy. It provides a comparative analysis of global economic growth, commodity price performance, Caribbean growth performance, and unemployment. This is then followed by a subsection on fiscal policy and public debt. Subsequent subsections elaborate on monetary policy, and the external sector.

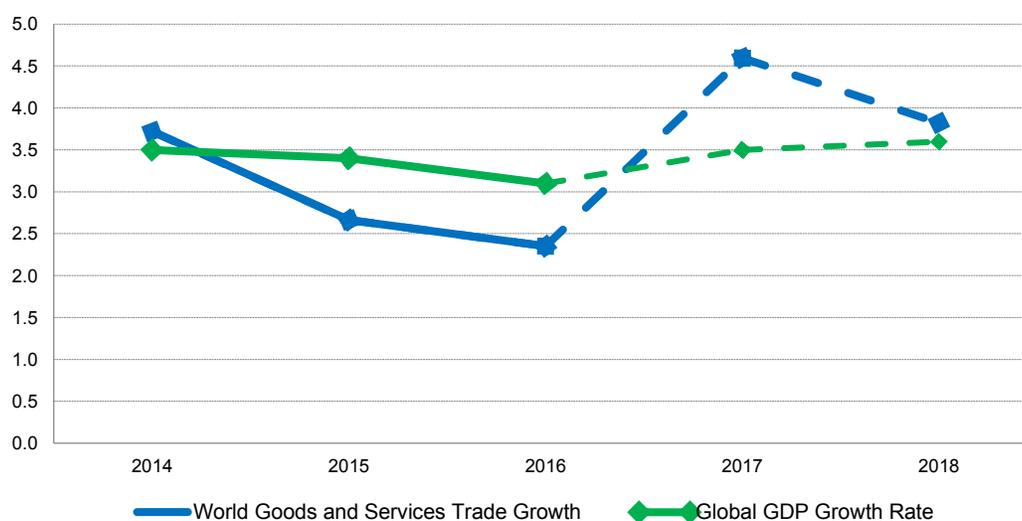
Section II presents country briefs for the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago, together with the member states of the Eastern Caribbean Currency Union (ECCU).

A statistical appendix follows to support the subregional analysis and country briefs.

I. Subregional analysis and performance

There is renewed optimism surrounding global growth as global GDP which was 3.1 per cent in 2015 is expected to increase by 3.5 per cent and 3.6 per cent in 2016 and 2017 respectively. Such growth is expected to reflect a positive contribution from several regions although commodity exporters and advanced economies continue to struggle. This forecast however is modest and does not reflect the kind of robust growth experienced in past decades. Meanwhile world goods and service trade grew from 2.4 per cent in 2015 and is expected to increase to 4.6 per cent in 2017 per cent and 3.8 per cent in 2018.

Figure 1
World trade annual growth and global growth rate, 2014-2018
(percentage)



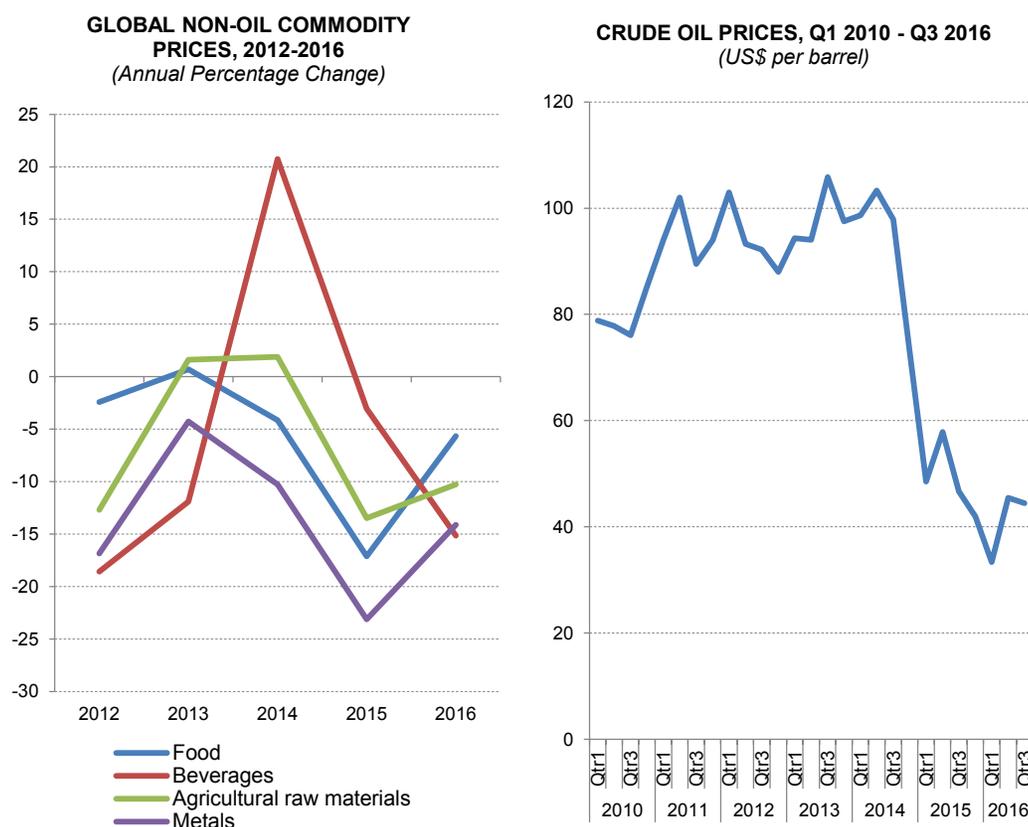
Source: Organization of Economic Co-operation and Development (OECD), Economic Outlook June 2017, and International Monetary Fund, World Economic Outlook Database, April 2017.

There are several downside risks however, including concerns about protectionism stemming from domestic challenges among advanced countries and its negative implications for world trade flows. Among these are the following:

- Interest rate hike in the United States causing an appreciation of the dollar with adverse repercussions for small vulnerable economies
- An undermining of financial regulation in the United States, which could create excessive risk taking and increase the likelihood of future financial crises
- Adverse feedback loops among weak demand, low inflation, weak balance sheets, and low productivity growth in some advanced economies operating with high levels of excess capacity (WEO IMF 2017)

However there were some positive signs for global growth. Among these are the strengthening of commodity prices, arising from the agreement between OPEC and other producers to cut production (figure 2).

Figure 2
Global non-oil commodity prices and crude oil prices

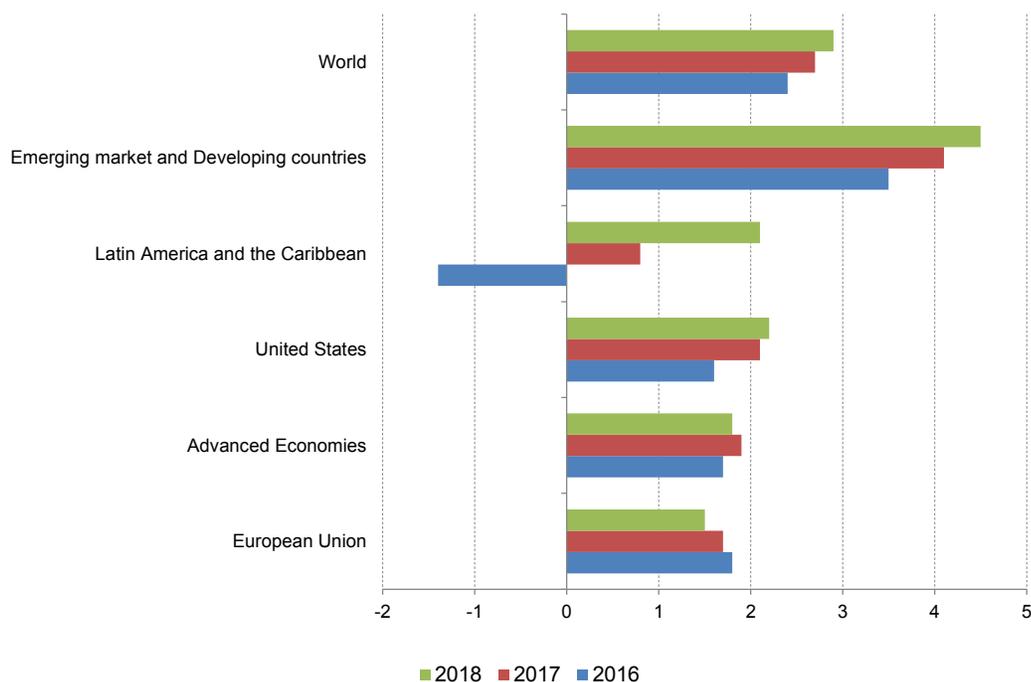


Source: International Monetary Fund, World Economic Outlook Database, April 2016; U.S. Department of Energy Information Administration.

In addition natural gas prices have increased and among non-fuel commodities, metal prices have increased. In the case of agricultural commodities, food prices have also shown some increases. Oil prices are expected to rise to an average of US\$55 a barrel in 2017–18, compared with an average of US\$43 a barrel in 2016. Nonfuel commodity prices, in particular metals, are expected to strengthen in 2017 relative to their 2016 averages as a result of substantial infrastructure spending in China, expectations of fiscal easing in the United States, and a general pickup in global demand (WEO IMF 2017).

Turning to the growth performance and prospects of various regions and countries, advanced economies grew by 1.7 per cent in 2016 and it is anticipated that there will be improvement of 1.9 per cent and 1.8 per cent in 2017 and 2018 respectively. Among the advanced economies, the European Union continues to be challenged, thus while growth was 1.8 per cent in 2016 it is expected to decline to 1.7 per cent and 1.5 per cent in the next two years. It is anticipated that negotiations between Britain and the EU will proceed with some uncertainty and after the settlement there may well be many barriers to trade between the two.

Figure 3
Global economic prospects, 2016-2018
(percentage growth)



Source: Economic Commission for Latin America and the Caribbean, on the basis of United Nations, World Economic Situation and Prospects 2015, and International Monetary Fund, World Economic Outlook Database, April 2016.

The economy of the United States is likely to pick up steam growing from 1.6 per cent in 2016 to 2.1 and 2.2 per cent in 2017 and 2018. There is however peculiar downside risks as the current United States (US) administration may turn further inwards and pursue a strategy of protectionism. In the short run, this may increase growth as import substitution gains ground, but over the medium term lack of global competition will restrain growth. It is also the case that financial deregulation and tax reform in the US could have an impact on global financial markets by encouraging excessive risk taking.

Emerging markets and developing economies continue to make the largest contribution to global growth. They grew at 3.5 per cent in 2016 and it is anticipated that they will expand at 4.1 and 4.5 per cent in 2017 and 2018. These economies are led by China and India with China expected to grow at 6.6 per cent and 6.2 per cent in 2017 and 2018, while India is expected to growth at 7.2 and 7.7 per cent over the same period.

Latin America and the Caribbean has been affected by the severe slump in commodity prices after a period of exceptional growth leading up to and immediately after the global crisis period. The region posted negative growth of -1.4 per cent in 2016 which was exceptional as the other regions showed positive growth. The projections are more optimistic for 2017 and 2018 when growth is expected at 0.8 per cent and 2.1 per cent respectively.

A. Caribbean growth performance and prospects

The overall growth of the Caribbean has been affected by the divergent performance between the commodity producers and the service producing economies¹. The decline in commodity prices has severely affected countries exporting hydrocarbons and related products and non oil commodity products. The commodity producers which experience substantial growth during the period of the last global crisis are now being affected by the downward trend in the commodity price cycle.

Table 1
Caribbean GDP growth rates, 2012-2017
(Percentage)

	2012	2013	2014	2015	2016	2017
Anguilla	-6.3	-0.6	5.1	2.9	5.0	2.7
Antigua and Barbuda	3.8	-0.2	4.6	4.1	4.4	5.0
Bahamas	3.1	0.0	1.0	-1.7	0.0	1.4
Barbados	0.3	-0.1	0.1	1.0	1.6	1.5
Belize	3.7	0.7	4.1	2.9	-0.8	3.2
Dominica	-1.1	0.8	4.2	-1.8	0.9	3.1
Grenada	-1.2	2.4	7.3	6.2	1.9	2.7
Guyana	4.8	5.2	3.8	3.2	3.3	3.8
Jamaica	-0.5	0.2	0.5	0.8	1.4	1.6
Montserrat	3.7	5.1	2.0	0.4	1.2	1.6
Saint Kitts and Nevis	-0.6	6.2	6.0	3.8	3.6	3.5
Saint Lucia	-1.4	0.1	0.4	1.9	0.7	-0.2
Saint Vincent and the Grenadines	1.4	1.8	1.2	1.6	3.0	2.2
Suriname	3.3	2.9	0.4	-2.7	-10.4	-0.2
Trinidad and Tobago	1.3	2.7	-0.6	-0.6	-4.5	0.3
Caribbean	1.0	1.8	2.7	1.5	0.7	2.1
Goods Producers	3.3	2.9	1.9	0.7	-3.1	1.8
Service Producers	0.1	1.4	2.9	1.8	2.1	2.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures. Figures are computed as simple averages.

The growth in the region was 0.7 per cent in 2016 and it is anticipated at 2.1 per cent in 2017. The figure for 2016 was the lowest growth since 2012. Among the goods producers growth was -3.1 per cent in 2016 and is expected at 1.8 per cent in 2017. The decline in growth observed in 2016 was due to the dramatic fall in growth in Trinidad and Tobago (-4.5 per cent) a major hydro carbon producer and Suriname (-10.1 per cent) which is heavily dependent on gold and fuel exports plus the closure of its aluminum plant in 2015. The contraction in government revenue due to the fall in commodity prices has had a negative impact on government investment. The service producers are grew by 2.1 per cent in 2016 and are expected to grow by 2.3 per cent in 2017, however the recent passage of a number of hurricanes in the region will likely affect the performance of the service producers, through a decline in tourism receipts as well as agricultural and manufacturing output in the last quarter.

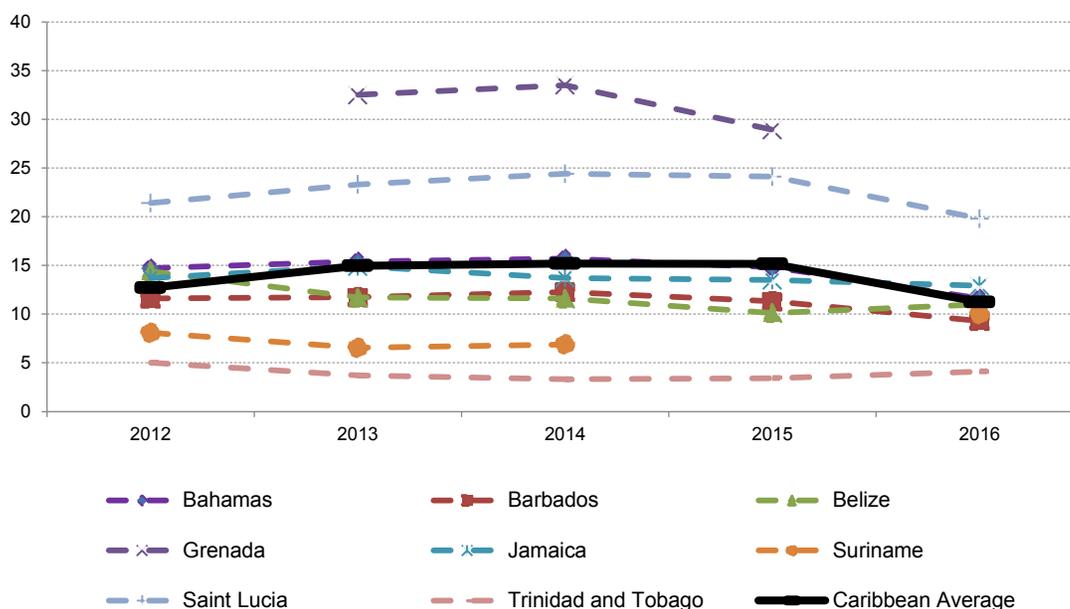
¹ Anguilla, Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

B. Unemployment

The anemic growth performance in the Caribbean impacts the rate at which the economy absorbs labour and it is also possible to have jobless growth. With the slight uptick in growth among some economies unemployment rates have declined slowly. This has happened for all the countries with the exception of Trinidad and Tobago which has been affected by the decline in commodity prices and the subsequent fall in investment within both public and private sectors.

Low growth also affects the duration of unemployment. To illustrate, Parro-Torrado (2014)² concluded from a series of country studies between 2007-2010 that the duration of unemployment was greater than one year for 32 percent of unemployed persons in Saint Kitts and Nevis, 34 percent in Barbados, 48 percent in Grenada and 51 percent in Dominica. Furthermore, the World Bank estimated that Barbadian long-term unemployment increased from 12.6 percent in 2005 to 19.5 percent in 2013. The implication is that long-term unemployment will increase if economic conditions do not improve.

Figure 4
Unemployment rates, 2012-2016
(percentages)



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

The impact of unemployment is not neutral with respect to gender and as countries implement the 2030 Agenda for Sustainable Development this will be a matter of considerable concern. Other related areas are youth unemployment and the issue of decent work. In fact goal 8 of the SDG transformative agenda is committed to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

² Parro-Torrado, M. 2014. "Youth Unemployment in the Caribbean". Caribbean Knowledge Series. Washington D.C.: World Bank.

Table 2
Unemployment rates by sex, 2010-2015

Country	2010		2011		2012		2013		2014		2015	
	Male	Female										
Antigua and Barbuda		-----	11.0	9.4	-----	-----	-----	-----	-----	-----	-----	-----
Bahamas	-----		13.6	13.7	16.0	13.4	16.1	16.3	13.5	15.3	-----	-----
Barbados	10.2	10.3	9.8	12.6	10.9	12.2	11.7	11.5	11.7	12.8	12.3	10.3
Belize	-----		-----		9.1	22.3	6.1	20.2	5.9	19.4	6.8	15.1
Grenada	-----	-----	-----	-----	-----	-----	-----	-----	27.4	30.6	26.0	32.3
Jamaica	9.2	16.2	9.3	16.7	10.3	17.8	11.0	20.0	10.1	18.1	9.9	17.8
Saint Lucia	19.5	22.0	19.2	23.3	19.4	23.6	21.3	25.5	20.9	28.4	21.3	27.4
Saint Vincent and the Grenadines	-----		-----		19.4	24.3	-----	-----	-----	-----	-----	-----
Trinidad and Tobago	5.2	7.0	3.9	6.3	4.1	6.2	3.0	4.6	2.8	4.0	-----	-----

Sources:

Antigua and Barbuda: 2011 Population and Housing Census-Book of Statistical.

Bahamas Statistics Department, The Labour force and its components 2012 -2015. Data for the months of May of each year.

Barbados: Statistical Service. Downloaded from Barbados Central Bank Online Statistics Database, 05 May 2016.

Belize: Statistical Institute of Belize. Rates for April of each year. Population 14 years and over.

Grenada: Central Statistical Office.

Jamaica: STATIN Economic and Social Survey 2010; (2013-2015) Bank of Jamaica, Jamaica in Figures 2015.

Saint Lucia: Central Statistical Office, Labour Force Indicators 1994 – 2014.

Saint Vincent and the Grenadines: 2012 Population and Housing Census Report.

Trinidad and Tobago: Central Statistical Office, Labour Force Indicators.

Data for unemployment rates by gender tend to be spotty, however they do suggest that for most Caribbean countries, female unemployment rates are higher than that of men except for Antigua and Barbuda (2011) and for the Bahamas where the two rates have fluctuated above and below each other. In Jamaica the female unemployment rate is twice as high as the rate for men.

C. Fiscal policy and public debt

This section of the survey analyses recent fiscal developments in Caribbean. The section analyses changes in the fiscal deficit, public debt and debt service payments, in an effort to gauge the extent of the fiscal stress confronting countries, evaluating the extent of the fiscal effort which countries are making to reduce their fiscal deficits and public debt in an effort to achieve fiscal consolidation.

On the whole Caribbean governments continued to prioritize fiscal consolidation to reduce the burden of public debt on economic growth. Nevertheless, the region continues to confront major headwinds to the adjustment process. However, a number of headwinds, including weak commodity prices, tepid private investment that contributed to weak growth and high interest costs limited their ability to achieve the desired consolidation

Following the improvement in 2015, there was fiscal slippage in 2016, with the average deficit for the region increasing from 0.1 per cent of GDP to 1.1 per cent of GDP. The deterioration stemmed from an increase in the deficit in the goods producers and a smaller surplus in the service producers. The higher deficit was led by Montserrat, which reverted to a small deficit owing to normalization of inflows after substantial grant receipts in 2015 that led to a large surplus. Suriname's deficit expanded by 4.9 percentage points as the collapse of commodity prices has precipitated an economic crisis that has led the country to undertake a US \$481million Stand-by Agreement with the IMF. The deficit increased by 3.6 percentage points in Trinidad and Tobago revenues declined sharply due to lower than projected oil prices and tax concessions offered to operators in the oil sector. Government also reduced its expenditure, but this was offset by the plunge in revenues. The deficit rose by 3.0 percentage points in Guyana, underpinned by higher capital spending on projects, including the East Bank and West Demerara Road and the airport modernization project.

Table 3^a
Caribbean central government fiscal expenditure by categories, 2015-2016
(Percentage of GDP)

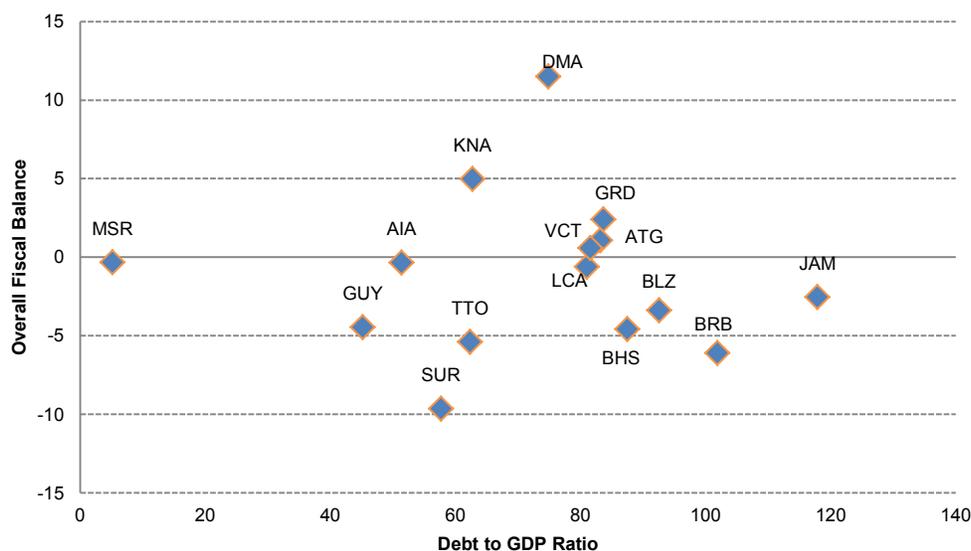
	2011	2012	2013	2014	2015	2016
Anguilla	2.7	1.5	0.7	2.5	0.5	-0.3
Antigua and Barbuda	-5.2	-1.3	-4.5	-2.7	0.1	1.1
Bahamas	-4.1	-4.4	-5.6	-4.5	-4.6	-4.6
Barbados	-7.1	-6.0	-11.1	-8.7	-7.3	-6.1
Belize	-0.8	-0.8	-1.1	-2.9	-8.0	-3.4
Dominica	-8.4	-9.2	-9.4	-1.3	-1.8	11.5
Grenada	-3.2	-5.5	-6.5	-4.1	-1.2	2.4
Guyana	-3.1	-4.7	-4.4	-5.5	-1.4	-4.5
Jamaica	-6.4	-4.1	-0.7	-0.5	4.7	-2.5
Montserrat	7.7	-7.0	-17.0	-6.2	21.6	-0.3
Saint Kitts and Nevis	2.4	11.2	13.2	10.5	6.2	5.0
Saint Lucia	-4.7	-6.5	-6.8	-3.7	-2.4	-0.6
Saint Vincent and the Grenadines	-0.2	0.3	-3.9	-3.2	-2.1	0.6
Suriname	-2.9	-0.1	-2.3	-4.5	-4.7	-9.6
Trinidad and Tobago	-0.7	-1.3	-2.9	-2.6	-1.8	-5.4

Table 3 (concluded)

	2011	2012	2013	2014	2015	2016
Caribbean	-2.3	-2.5	-4.2	-2.5	-0.1	-1.1
Goods Producers	-1.9	-1.7	-2.7	-3.9	-4.0	-5.7
Service Producers	-2.4	-2.8	-4.7	-2.0	1.2	0.6

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

Figure 5
Public debt vs. fiscal balance, 2016
(percentage of GDP)



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

Meanwhile, the deficit contracted by 4.6 percentage points in Belize, owing to the normalisation of spending after the settlement for the nationalisation of the telecommunications company (BTL) and a tapering off of spending on key infrastructure projects. The deficit declined by 1.2 percentage points in Barbados, as the government continued its fiscal consolidation programme. This included a mix of revenue generating measures, including a 2 per cent tax of imports and a Tax Amnesty programme and a BD\$50 million cut in discretionary spending. Nevertheless, the country remains challenged by high interest payments on its past debt.

The higher fiscal deficit in 2016 was driven by a 0.8 percentage points growth in current spending and a 0.1 percentage point increase in interest payments, which offset a 0.9 percentage point decline in capital spending because of their greater weight in total spending. As in previous years, governments continue to make fiscal adjustments by cutting capital spending, despite its avowed growth stimulating effects. This might point to the need for fiscal rules to not only lock-in the deficits to be achieved, but the composition of spending, with a heavier focus being given to cuts in government consumption, rather than investment. There were sizeable cuts in capital spending in Belize, Suriname and Grenada.

1. Fiscal flexibility

The fiscal flexibility index³ is a measure of government's discretionary spending as a proportion of total expenditure. Fiscal flexibility in the region remains limited, this reflects limited government leverage over non-discretionary spending, owing in part to wage commitments, high debt interest obligations and a minimum outlays on transfers and subsidies to maintain social welfare.

After improving in 2015, the region's fiscal flexibility declined by 4.4 percentage points in 2016 (see table below). Despite differences in their fiscal performance, flexibility fell by 4.4 percentage points in both the goods and service producing economies. This underscores the fact that the level of total spending often has no bearing on the composition of spending. Barbados experienced a sharp fall (almost 29 percentage points) in its flexibility indicator, owing mainly to a spike in interest payments on its large public debt. Flexibility contracted by 10 percentage points in Belize, reflecting wage increases and high debt servicing costs. Meanwhile, flexibility improved in Antigua and Barbuda and Dominica, partly linked to lower transfer and subsidies in the former and contained growth in interest payments in the latter.

Table 4
Fiscal flexibility index

	2012	2013	2014	2015	2016 (updated)
Anguilla	26.6	26.5	25.1	26.3	26.2
Antigua and Barbuda	19.4	25.6	22.7	19.6	27.3
Bahamas	37.1	33.3	31.7	33.7	25.0
Barbados	9.7	16.2	21.0	55.0	26.2
Belize	43.7	46.6	48.3	52.5	42.4
Dominica	54.2	52.2	48.6	41.0	50.7
Grenada	34.4	37.3	40.6	43.4	34.7
Guyana	52.9	50.9	49.3	41.4	43.1
Jamaica	9.5	10.8	5.5	7.1	6.6
Montserrat	40.8	55.0	44.7	45.4	46.8
Saint Kitts and Nevis	32.6	42.8	38.5	40.9	31.6
Saint Lucia	37.6	39.5	35.0	35.0	29.2
Saint Vincent and the Grenadines	22.9	33.9	31.5	28.2	22.9
Suriname	44.8	33.3	36.4	36.7	31.5
Trinidad and Tobago	27.8	27.1	26.2	26.2	22.1
Caribbean	32.9	35.4	33.7	35.5	31.1
Goods Producers	42.3	39.5	40.1	39.2	34.8
Service Producers	29.5	33.9	31.4	34.1	29.7

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

³ The fiscal flexibility index is defined as :

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

2. Public debt

The region continues to find it difficult to maintain a consistent path of fiscal consolidation to bring down its high public debt to sustainable levels. Debt performance continues to be affected by trade and growth performance, the difficulty of containing government consumption, especially wage costs and the accumulated debt overhang that leads to persistently high debt servicing costs. Nevertheless, economies such as Jamaica, Grenada; and Saint Kitts and Nevis in past year have made progress under IMF-supported adjustment programmes.

With the increase in the fiscal deficit, the region's public debt increased marginally by 1.9 percentage points in 2016 (see table below). Growth in the debt was driven mainly by the goods producing economies, a number of which faced economic contraction due to low commodity prices and Trinidad and Tobago was also affected by lower productivity from maturing oil and gas fields. The debt of the goods producers rose by 5.8 percentage points to 64.5 per cent of GDP. The impetus came from Trinidad and Tobago, Belize and Suriname whose debt expanded by 11.0, 9.9 and 5.4 percentage points, respectively, since Guyana's debt actually contracted by 3.2 percentage points. The increase in Trinidad and Tobago's debt stemmed from higher borrowing for budget support in the wake of a sharp fall in government revenues. Belize's debt expanded by 9.9 percentage, mainly reflecting domestic borrowing to fund the settlement for the acquisition of Belize Telemedia LTD. This included a BZ\$ 270 million issue of government securities. Meanwhile, higher debt in Suriname reflected the contracting of a US\$235.0 million loan from China for infrastructure development, and a US\$156.7 million loan from the IDB for investment in the energy sector. On the other hand, Guyana's debt fell by 3.2 percentage points on account of a decline in external debt.

By contrast, the marginal, 0.5 percentage point increase in debt in the service producing economies was linked a hike in domestic debt in Anguilla that was linked to the resolution of two indigenous banks. The debt rose by 4.7 and 3.2 percentage points in Saint Lucia and the Bahamas. Higher debt in Saint Lucia was linked to increased borrowing by the Central Government. In the Bahamas, debt was driven partly by borrowing to finance the reconstruction effort after Hurricane Joaquin in 2015 and Hurricane Matthew in 2016. Nevertheless, the Bahamas has substituted external with domestic debt over the years, thereby shielding itself somewhat from foreign interest and exchange rate risks.

In a welcome development, Jamaica's debt contracted by 6.0 percentage points to 117.9 per cent of GDP in 2016. Jamaica has shifted from an Extended Fund Facility (EFF) to a three year Stand by Arrangement (SBA) with the International Monetary Fund (IMF). The country has access to US\$1.6 billion of precautionary resources to bolster confidence in the economy. Nevertheless, the high debt burden remains an important challenge, which is aggravated by the high proportion of debt that is denominated in foreign exchange that subjects the country to higher servicing costs with periodic devaluation of the currency.

Table 5
Caribbean: total public sector debt, 2014-2016
(Percentages of GDP)

	2014			2015			2016		
	Foreign	Domestic	Total	Foreign	Domestic	Total	Foreign	Domestic	Total
Anguilla	22.2	7.9	30.1	20.0	6.4	26.4	18.9	5.8	24.7
Antigua and Barbuda	48.0	51.4	99.5	45.8	56.7	102.5	44.8	43.4	88.2
Bahamas	19.0	55.5	74.5	24.3	61.0	85.3	24.5	59.7	84.2
Barbados	31.2	95.1	126.3	32.7	98.1	130.7	32.4	107.3	139.7
Belize	66.6	11.9	78.5	65.5	10.9	76.5	68.3	14.4	82.7
Dominica	53.9	23.1	77.0	54.2	23.3	77.5	54.3	24.4	78.7
Grenada	67.7	36.5	104.2	64.3	33.1	97.3	61.4	25.9	87.3
Guyana	41.7	16.1	57.8	39.5	12.3	51.9	36.1	12.5	48.6
Jamaica	58.3	73.7	132.0	62.1	67.8	129.8	73.6	52.5	126.2
Montserrat	4.1	0.0	4.2	3.7		3.7	5.5		5.5
Saint Kitts and Nevis	40.7	58.9	99.5	32.8	43.2	76.0	23.1	39.1	62.2
Saint Lucia	36.6	39.9	76.5	37.4	38.8	76.2	34.7	42.8	77.5
Saint Vincent and the Grenadines	49.2	26.7	75.9	52.7	27.0	79.7	50.6	26.5	77.1
Suriname	14.1	14.8	28.9	15.8	11.0	26.8	20.1	20.4	40.5
Trinidad and Tobago	7.0	31.3	38.3	8.6	31.6	40.2	9.2	37.1	46.3
Caribbean	37.3	36.2	73.5	37.3	37.2	72.0	37.2	36.6	71.3
Goods Producers	32.4	18.5	50.9	32.4	16.5	48.8	33.4	21.1	54.5
Service Producers	39.2	42.6	81.8	39.1	45.5	80.5	38.5	42.7	77.4

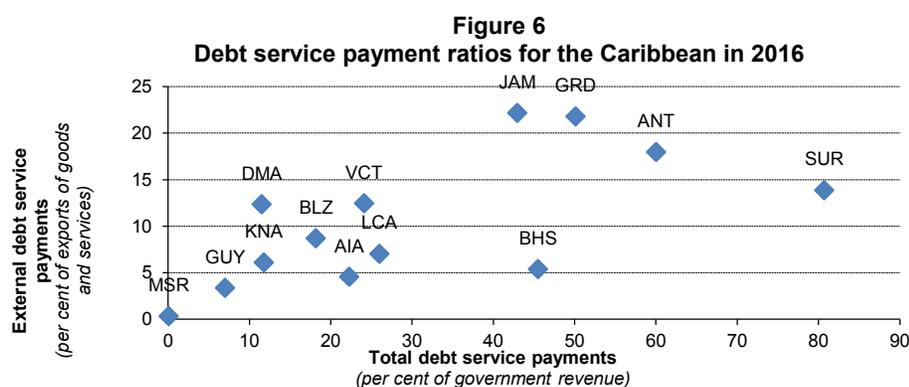
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

3. Debt service payments

Debt servicing costs have remain high across the Caribbean, averaging around 7 per cent of GDP, 27 per cent of government revenue and 9 per cent of exports of goods and services over the last five years. Behind these ratios are the real costs of this massive transfer of resources, measured in limited public investment in critical growth-propelling infrastructure, institutional development; and social welfare programmes that could help to curb crime and deviance.

The region's external debt service ratio declined by 0.9 percentage points in 2016, following a 3.4 percentage point increase in 2015 (see table and chart below). This outturn reflected a 2.7 percentage point fall in the ratio for the service producing economies and was consistent with very marginal

increase in the debt. Jamaica's external debt service ratio contracted by over 40 percentage points, reflecting a return to normal after a large bullet payment in 2015. Nevertheless, at over 22 per cent the ratio is still quite high, leaving the government with limited flexibility in spending. Saint Kitts and Nevis' ratio fell by 12.4 percentage points, associated with the continued impact of the debt restructuring and the decline in government borrowing in 2016. Among the goods producing economies, Suriname's ratio rose by 11 percentage points, reflecting growth in debt and lower commodity export receipts. The ratio for Belize increased by a modest 1.3 percentage points as higher payments were partly offset by an exports of goods and services. Meanwhile, Guyana's debt service payments declined by 4.3 percentage points to 3.3 per cent of exports of goods and services.



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

Debt service payments also continue to absorb a significant portion of government revenue, averaging almost 30 per cent in 2016. There marked improvements in some economies and deterioration in others. In Jamaica, where almost 43 cents of every dollar of government revenue goes to service its debt, the ratio contracted by almost 60 percentage points, as payments reverted to normal after the extraordinary payment in 2016. Meanwhile, in Suriname, the ratio almost doubled to 80.7 per cent, underpinned by the spike in the debt amidst the collapse in government revenues, linked in part to low commodity prices.

Table 6
Debt service payment ratios for the Caribbean, 2011-2015

	External debt service payments(US\$M)					External debt service payments (per cent of exports of goods and services)					Total debt service payments (per cent of revenue)				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Anguilla	2.6	2.6	2.7	3.7	6.7	1.9	1.8	1.9	2.6	4.5	7.8	8.3	7.9	9.2	22.3
Antigua and Barbuda	22.8	27.3	47.7	40.0	111.0	4.2	5.0	8.1	6.6	17.9	34.8	38.8	33.7	43.0	60.0
Bahamas	124.2	117.0	122.5	143.2	165.5	3.4	3.2	3.4	4.4	5.3	38.6	47.3	71.9	39.0	45.5
Barbados	169.5	141.0	145.0	225.3	-	8.7	7.2	7.7	11.5		42.8	49.5	52.5	56.6	
Belize	79.4	116.3	76.4	76.5	84.1	7.7	11.0	7.1	7.4	8.7	20.4	28.5	17.0	17.6	18.2
Dominica	10.9	11.3	14.3	15.5	26.9	6.9	5.8	6.6	7.3	12.3	14.6	12.5	12.5	12.1	11.5
Grenada	38.3	40.7	38.3	40.1	52.5	18.6	19.0	16.4	16.9	21.8	31.1	32.7	32.7	23.9	50.1
Guyana	42.4	45.9	167.5	98.4	53.8	2.5	3.0	12.4	7.6	3.3	8.5	8.4	24.1	13.1	7.0
Jamaica	1 019.1	710.6	960.5	2 721.8	977.5	23.0	16.7	22.4	63.1	22.2	62.5	54.6	51.5	102.8	43.0
Montserrat	0.1	0.1	0.1	0.1	0.1	0.4	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Saint Kitts and Nevis	48.2	15.9	39.4	70.4	24.4	17.3	4.9	10.6	18.5	6.1	27.7	14.6	23.1	25.5	11.8
Saint Lucia	44.2	69.0	44.8	47.2	46.3	7.3	11.4	7.1	7.1	7.0	26.7	36.4	25.0	25.1	26.0
Saint Vincent and the Grenadines	26.9	25.2	22.5	23.3	24.6	14.1	13.9	12.1	12.4	12.4	23.3	25.2	23.0	23.6	24.1
Suriname	58.2	33.5	50.9	53.6	226.2	2.0	1.3	2.2	2.9	13.9	8.7	11.6	10.3	40.5	80.7
Trinidad and Tobago	171.2	312.6	153.4	167.2	199.2	1.2	1.6	1.0	1.4		7.3	9.7	8.8	9.9	13.2
Caribbean	1 858.1	1 668.9	1 885.9	3 726.3	1 998.8	7.9	7.1	8.0	11.3	10.4	23.7	25.2	26.3	29.5	29.5
Goods producers Service producers	351.2	508.2	448.1	395.7	563.3	3.4	4.2	5.7	4.8	8.6	11.2	14.5	15.0	20.3	29.8
	1 506.9	1 160.7	1 437.8	3 330.6	1 435.4	9.6	8.1	8.8	13.7	11.0	28.2	29.1	30.3	32.8	29.4

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

D. Monetary policy, domestic credit and inflation

This sub-section examines the evolution of salient instruments of monetary policy, such as interest rates and money supply, and financial sector performance of Caribbean in 2016. There will also be examination of how regional economies have managed money supply and interest rates to achieve their macro-economic objectives. Although mixed, monetary policy-stances adopted by Caribbean economies in 2016 were largely geared towards fostering economic growth and maintaining price stability. With the notable exception of Suriname, monetary policy interventions were influenced somewhat by relatively low, and in some instances negative, inflation rates.

For instance, the Bank of Guyana continued to play major coordinating and regulatory roles with respect to the country's financial stability framework, and monetary policy in 2016 was focused on maintaining price and exchange rate stability. Notably monetary policy of the Eastern Caribbean Central Bank remained unchanged in 2016, as the ECCB continued to manage its monetary policy around the maintenance of a fixed exchange rate peg and ensuring stability in the financial sector. The ECCB also continued several ongoing initiatives to increase credit to the private sector and stimulate growth within the ECCU.

Similarly, the Central Bank of Barbados held firm with its support of the fixed exchange rate peg which is achieved by maintaining adequate levels of international reserves. However, by the end of 2016 and into the first quarter of 2017, reserves fell to levels equivalent to less than 12 weeks of import cover, which increased pressure on the currency peg.

During the period under review, despite the persistent weakness of the T&T economy, monetary policy in Trinidad and Tobago remained unchanged as the Central Bank of Trinidad and Tobago held its main monetary policy tool, the repo rate, at 4.75 per cent in 2016. It should be recalled that in 2015, in an effort to safeguard against possible capital flight in response to increasing interest rates in the United States, the Central Bank of Trinidad and Tobago increased its repo rate six times. Similarly, in spite of declining economic activity, monetary policy in Belize remained neutral with the Central Bank keeping the reserve requirement for the banking sector unchanged.

On the other hand, in 2016, monetary policy of the Central Bank of Jamaica was accommodative, with the Bank reducing the signal interest rate from 5.25 per cent to 5 per cent in May 2016. This reduction occurred in the context of a generally favourable outlook for lower inflation and an overall improvement in macro-economic performance. While The Bahamas adopted an expansionary monetary policy stance, lowering its policy discount rate from 4.5 per cent to 4.0 per cent in the face of reserve cover averaging 16.8 weeks and no real threat to the exchange rate. The Central Bank of Suriname, however, introduced Treasury Bill auctions as a form of open market operations to complement monetary policy and provide another source of domestic financing.

1. Interest rates

During the period under review, both average commercial bank lending (-0.27 percentage points) and deposit (-1.1 percentage points) rates in the Caribbean declined marginally relative to the previous year 2015. The average interest rate spread marginally increased, year-on-year, from 7.80 per cent in 2015 to 7.84 per cent in 2016. On average, the lending, deposit and interest rate spread all increased for the Caribbean good-producing economies. Belize, Suriname and Trinidad and Tobago all reported increases in both lending and deposit rates in 2016, while commercial bank interest rates remained flat in Guyana in 2016 as the Bank of Guyana persisted with its conservative monetary policy stance, encouraging lending by the commercial banks and sterilizing excess liquidity in the system through the issuance of Treasury Bills.

This notwithstanding, Guyana's Treasury Bill rates generally declined in 2016 with the 91-day rate falling to 1.68 per cent from 1.92 per cent in 2015, while the 364-day rate fell from 2.38 per cent in 2015 to 2.13 per cent. The prime lending rate increased from 12.83 per cent in 2015 to 13 per cent in 2016. It is noteworthy that in the Suriname, the auctioning of Treasury Bills yielded rates of 25 per cent

on three month Treasury Bills, pushing average lending (0.7 percentage points) and deposit (0.8 percentage points) rates upwards. However, given the high rates of inflation generated within the economy, real interest rates in Suriname were negative.

Amongst the services-producing economies, in 2016, the weighted average interest spread contracted by only 0.01 percentage points to 7.83 per cent. Furthermore both lending (-0.24 basis points) and deposit (-0.24 basis points) trended downwards in 2016. It is noteworthy that excess liquidity in the banking system of Barbados increased as cash reserves to domestic deposits rates increased to 17 per cent up from 10.6 per cent in 2015. Consequently, increased liquidity in the banking system led to a 3 basis point fall in deposit interest rates in 2016, and an even sharper decline in lending rates.

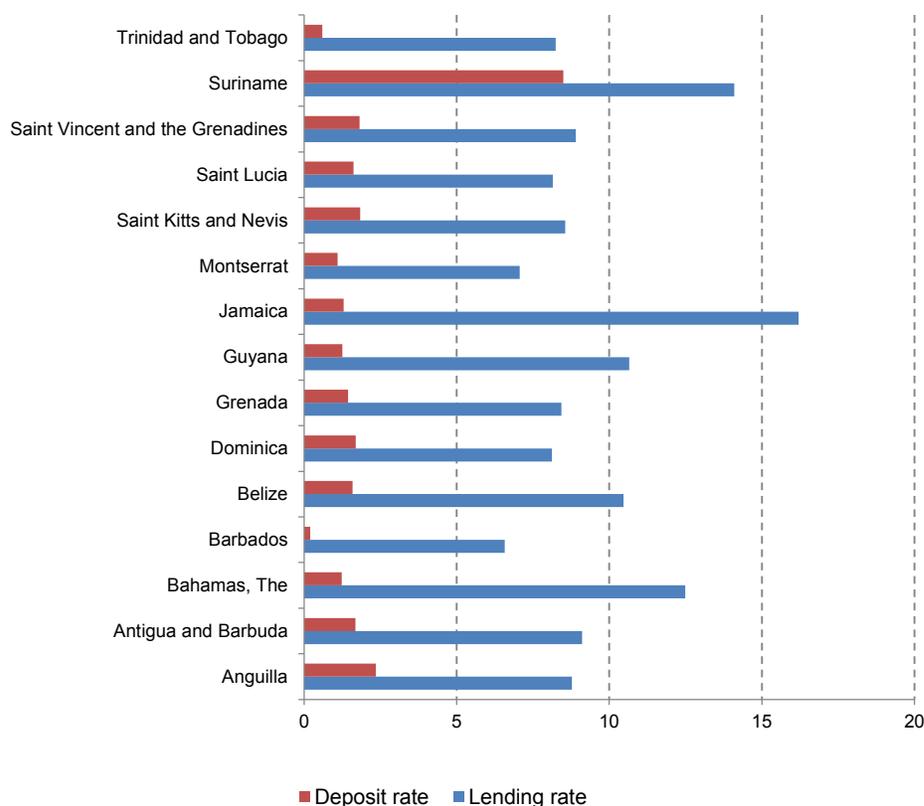
Saint Kitts and Nevis were the only services producers in which commercial bank lending rates increased (0.02 basis points). With specific reference to the ECCU, it should be noted that the reduction of the minimum saving rate (MSR) in May 2015 began to impact lending rates in 2016 (see table 7 and figure 7).

Table 7
Lending rate, deposit rate and spread, 2015-2016
(Percent)

	Lending rate	2015 Deposit rate	Spread	Lending rate	2016 Deposit rate	Spread
Anguilla	9.07	2.65	6.43	8.78	2.35	6.43
Antigua and Barbuda	9.30	2.04	7.27	9.11	1.68	7.43
Bahamas	12.29	1.41	10.88	12.49	1.24	11.25
Barbados	6.77	0.50	6.27	6.58	0.20	6.38
Belize	10.03	1.46	8.57	10.47	1.6	8.88
Dominica	8.43	2.09	6.34	8.12	1.70	6.42
Grenada	8.70	1.57	7.13	8.43	1.44	6.99
Guyana	10.65	1.26	9.39	10.65	1.26	9.39
Jamaica	16.92	1.62	15.30	16.20	1.30	14.90
Montserrat	7.49	1.10	6.39	7.07	1.10	5.97
Saint Kitts and Nevis	8.54	2.05	6.49	8.56	1.85	6.71
Saint Lucia	8.35	1.94	6.41	8.15	1.62	6.53
Saint Vincent and the Grenadines	9.22	1.92	7.30	8.90	1.82	7.09
Suriname	13.40	7.70	5.70	14.10	8.50	5.60
Trinidad and Tobago	7.74	0.56	7.18	8.24	0.60	7.64
Caribbean	9.79	1.99	7.80	9.72	1.88	7.84
Goods Producers	10.45	2.74	7.71	10.87	2.99	7.88
Service Producers	9.55	1.72	7.84	9.31	1.48	7.83

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

Figure 7
Lending rate and deposit rate 2016
 (Percentage)



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

2. Money supply and credit

The focus will now be shifted to a consideration of the trends in monetary aggregates and domestic credit in the Caribbean, and the extent to which these have been influenced by monetary policy. In 2016, across the Caribbean economies the ratio of M1 (narrow money) to GDP trended upwards by 1.7 percentage points. The improvement in the narrow money supply to GDP ratio (2.0 percentage points) was more marked for the services producers when compared to the goods producers (1.1 percentage points). Further, at the aggregate-ECCU level there was also a decline in loans and advances to deposits ratio in 2016, which further reinforced liquidity within the commercial banking system of the ECCU. It is also noteworthy that the Central Bank of Trinidad and Tobago tightened liquidity management in the latter half of 2016; utilizing open market operations to remove TT\$1.2 billion from the financial system in an attempt to reduce foreign exchange pressure.

Notwithstanding the high financial sector liquidity in the Caribbean, both private and public sector credit as a percentage of GDP declined in 2016. There was a steep decline in credit to the public sector in the Caribbean from 2015 to 2016, which was largely driven by the services economies. In addition, the contraction (-9.7 percentage points) in private sector credit was particularly steep for the services-producing economies of the Eastern Caribbean Currency Union (ECCU). The strengthening of lending terms and conditions, as well as prudential requirements may have collectively dampened credit demand in the Union. In Jamaica, however, there was an expansion of credit to the private sector, which was largely indicative of increased economic activity (see table 8).

In contrast, the Caribbean goods producing economies saw a slight uptick in the ratio of domestic credit to the private sector to GDP in 2016 and a 1.9 percentage point increase in domestic credit to the public sector as a percentage of GDP amongst, as Governments sought to increase capital expenditure to stimulate economic activity. More specifically, the slowing of economic activity in Guyana was manifested in a contraction in credit to the private sector as a percentage of GDP. There were large declines in credit to the ‘construction and engineering’ and mining sectors. The latter occurred despite an increase in gold production in 2016. Furthermore, a 38.6 per cent increase in credit to the central government offset a 13.5 per cent increase in deposits of the ‘other public sector’, resulting in a swing in the position of the government from net-depositor to net creditor. Credit to the private sector as a percentage of GDP also fell for Suriname in 2016

Table 8
Money aggregates and domestic credit to the private and public sector, 2015-2016
(Percentage of GDP)

	M1		M2		Domestic credit to the private sector		Domestic credit to the public sector	
	2015	2016	2015	2016	2015	2016	2015	2016
Anguilla	8.1	6.9	37.4	32.3	141.7	70.1	-33.5	-12.5
Antigua and Barbuda	19.0	20.2	74.7	73.8	52.2	48.9	9.3	10.4
Bahamas	22.9	27.2	69.9	107.9	70.9	68.1	30.0	32.6
Barbados	46.4	51.4	108.1	32.3	61.4	59.8	37.1	40.8
Belize	44.4	43.2	83.4	86.7	57.4	59.1	8.9	15.4
Dominica	18.7	21.3	91.0	94.8	55.5	56.3	-10.3	-27.9
Grenada	20.4	21.1	74.3	72.7	58.4	56.4	-8.7	-11.2
Guyana	19.8	20.4	50.9	49.5	32.7	30.9	-1.0	1.0
Jamaica	11.8	11.9	19.2	21.4	21.9	24.0	9.3	6.8
Montserrat	29.8	37.4	147.9	142.5	44.3	48.3	-63.6	-57.1
Saint Kitts and Nevis	26.4	23.4	92.2	85.0	61.2	59.0	-17.6	-23.2
Saint Lucia	19.9	23.1	70.2	75.4	91.2	89.9	-6.6	-7.3
Saint Vincent and the Grenadines	22.0	23.1	69.6	69.2	53.7	52.1	0.0	-1.9
Suriname	29.6	31.6	63.8	74.8	36.9	36.0	16.9	12.4
Trinidad and Tobago	29.4	32.3	57.0	63.1	34.0	37.9	-4.3	-0.7
Caribbean	24.6	26.3	74.0	72.1	58.2	53.1	-2.3	-1.5
Goods Producers	30.8	31.9	63.8	68.5	40.2	41.0	5.1	7.0
Service Producers	22.3	24.3	77.7	73.4	64.8	57.5	-5.0	-4.6
ECCU	20.5	22.1	82.2	80.7	69.8	60.1	-16.4	-16.3

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

3. Inflation

In 2016, inflation across the Caribbean increased by 2.9 percentage points to 4.2 per cent relative to 2015. However, the average rate of inflation falls to 0.7 per cent if Suriname is excluded. In general, for 2016 inflation among the goods producing economies (14.6 per cent) was higher relative to the service producing economies (0.4). However, the rate falls to 1.9 per cent when Suriname is excluded and is primarily driven by marginal increases fuel prices over the course of the year. In the case of Suriname, inflation skyrocketed to 52.4 per cent in 2016 peaking at 79 per cent in November 2016. This was attributable to a combination of the devaluation of the currency in November 2015 and increased cost of utilities. Although inflation is expected to decline in the coming months, it is not expected to fall single

digit levels until 2018. The social impact of high levels of inflation in Suriname has been far reaching, resulting in a reduction in consumer purchasing power and thus, consumption.

The marginal depreciation of the domestic currency, the broadening of the Value added tax (VAT) base from February 2016, and the reduction in the petroleum subsidy from April 2016 all contributed to pushing the rate of inflation in Trinidad and Tobago up 1.6 percentage points to 3.1 per cent at the end of 2016. Guyana, after a year of deflation (-1.8 per cent) in 2015, consumer prices rose (1.4 per cent) again in 2016 largely on account of an uptick in food prices; while higher fuel, rent, clothing, health and education costs resulted in Belize moving from deflationary condition (-1.3 per cent) in 2015 to one of marginal inflation (1.3 per cent) in 2016.

While having mixed effects, soft energy prices contributed to low ECCU-wide inflation in 2016 (1.0 per cent), when compared to price deflation of -1.1 per cent in 2015. Moreover, low food prices were recorded in six ECCU territories, and lower gas and fuel prices in four economies. Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia all experienced deflation in 2016. In Jamaica inflation remained low thorough 2016, ending the year at 1.7 per cent, down from 2.0 percentage point from the previous year. The sharp decline in inflation largely reflected the reduction in international crude oil prices and depressed domestic demand.

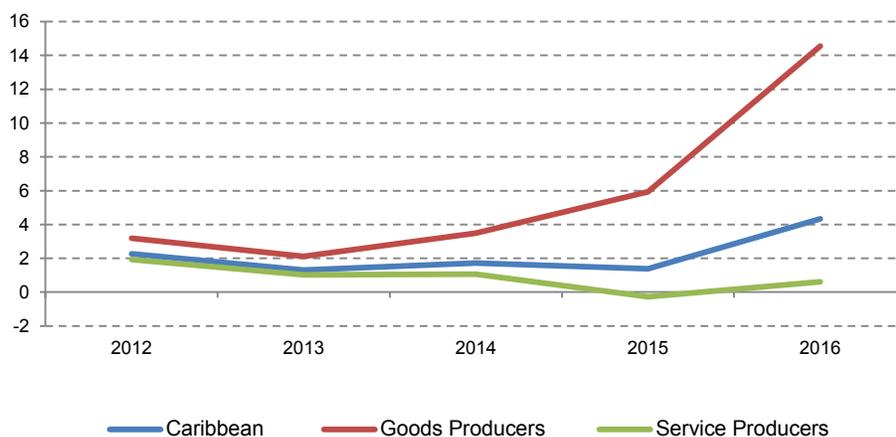
Table 9
Inflation
(Percentage)

	2012	2013	2014	2015	2016
Anguilla	-0.3	0.8	-0.9	-1.7	1.7
Antigua and Barbuda	1.8	1.1	1.3	0.9	-1.1
Bahamas, The	-6.0	0.5	1.2	1.9	-0.3
Barbados	4.5	1.8	1.8	-1.1	1.3
Belize	0.6	1.4	0.4	-1.0	1.3
Dominica	1.3	-0.4	0.5	-0.5	1.6
Grenada	1.8	-1.2	-0.6	1.1	0.9
Guyana	3.5	0.9	1.2	-1.8	1.4
Jamaica	8.0	9.5	6.4	3.7	1.7
Montserrat	3.6	-0.5	-1.0	-0.1	-1.3
Saint Kitts and Nevis	0.5	0.6	-0.5	-2.4	-0.8
Saint Lucia	5.0	-0.7	3.7	-2.6	3.1
Saint Vincent and the Grenadines	1.0	0.0	0.1	-2.1	-0.1
Suriname	1.4	0.6	3.9	25.1	52.4
Trinidad and Tobago	7.2	5.6	8.5	1.5	3.1
Caribbean	2.3	1.3	1.7	1.4	4.3
Goods Producers	3.2	2.1	3.5	5.9	14.6
Service Producers	1.9	1.0	1.1	-0.3	0.6

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

Note: Inflation is the year-on-year change in the CPI from December to December. Barbados inflation data represents the CPI annual average.

Figure 8
Inflation
(Percentage)



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

E. Balance of Payments

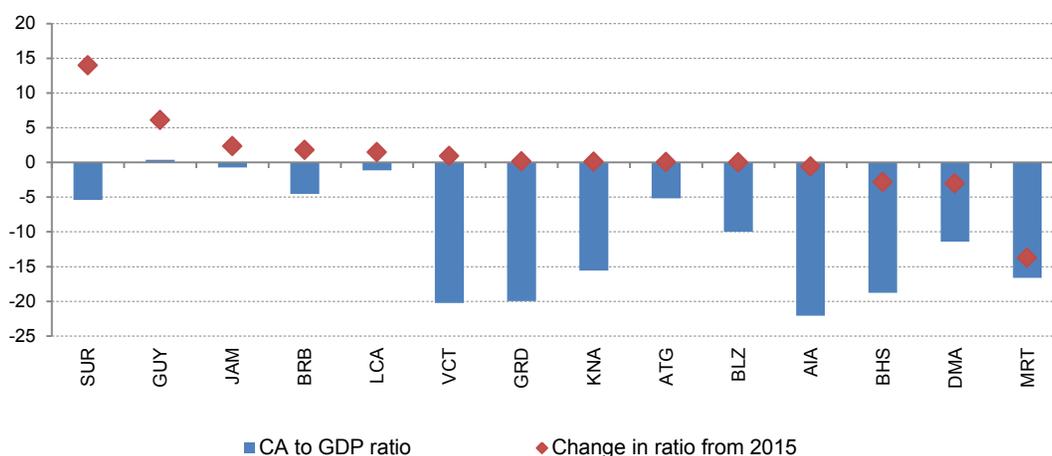
1. Current account

The average current account balance in the Caribbean remained largely unchanged in 2016, moving to -10.8 per cent of GDP from -10.5 per cent of GDP in 2015. However, the average current account deficit of the goods producers narrowed considerably from -8.9 per cent in 2015 to -3.7 per cent in 2016 based on data for only three economies. Current account data for Trinidad was excluded since the Central Bank of Trinidad and Tobago is in the process of revising the Balance of Payments standards. Alternatively, the average current account deficit of the service producers expanded slightly from -11.1 per cent to -12.4 per cent.

In Belize, the current account deficit was unchanged while for both Guyana and Suriname the current account deficit narrowed substantially by 6.1 and 14.0 percentage points, respectively. An increase in Guyanese exports (primarily gold exports) led to a steep contraction in the merchandise goods deficit, which in turn, led to a current account surplus of 0.4 per cent of GDP in 2016 after years of deficits. In the case of Suriname, a 39 per cent reduction in imports coupled with a 12 per cent decline in exports translated to the current account deficit narrowing by 80 per cent in nominal terms relative to the previous year. It was the devaluation of the currency in 2016 that reduced the purchasing power and, in turn, contributed to the contraction in imports.

On the other hand, the minor deterioration of the current account for the service producing economies of the Caribbean was largely due to the expansion of Montserrat's current account deficit, which worsened from -2.8 per cent of GDP to -16.6 per cent. Excluding Montserrat, the overall current account balance among the service producers would have narrowed by 1.1 percentage points.

Figure 9
Current account balance 2016
(Percentages)



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

2. Foreign direct investment

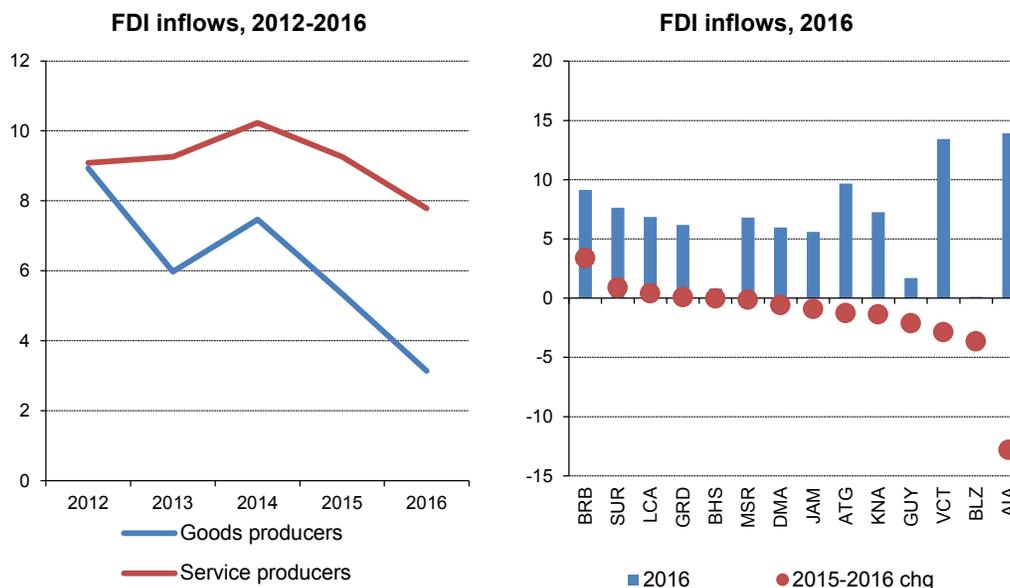
Average FDI inflows for the Caribbean fell from 8.2 per cent of GDP in 2015 to 6.8 per cent in 2016. For the goods producers FDI inflows fell from 5.3 per cent of GDP to 3.1 per cent, and for the service producers it fell from 9.3 per cent to 7.8 per cent. For both groups of economies this was the second year of decline, after an increase in 2014 (see figure 10).

In 2016, only 5 of the 15 economies experienced increases in their FDI inflow ratios, and only 1 of those, Barbados, experienced a change of more than 1 percentage point. Barbados' 3.4 percentage points increase was mainly as a result of investment into tourism related projects. All other economies experienced a decline in their FDI inflow ratios, with Anguilla experiencing the largest drop off (-12.8 percentage points). Despite the large drop, which resulted from a return to trend after two years of elevated inflows due to construction and renovation activity at several hotels, Anguilla still had the highest FDI inflows as a per cent of GDP (13.9 per cent). They were followed by other service producing economies, Saint Vincent and the Grenadines (13.4 per cent), Antigua and Barbuda (9.7 per cent) and Barbados (9.1 per cent).

For the goods producing economies⁴, the performance of FDI inflows was poor. In Belize it fell from 3.7 per cent of GDP in 2015 to less than a percent in 2016. In Guyana it fell to 1.7 per cent from 3.8 per cent in 2015. Only in Suriname did FDI inflows increase, albeit by 0.9 percentage points to 7.6 per cent of GDP. Investment continued to flow to Suriname's Newmont gold mine, which began production in 2016.

⁴ Trinidad and Tobago's central bank is currently revising its balance of payments reporting format and has only limited data for 2016. As such, Trinidad and Tobago was excluded from this analysis.

Figure 10
Foreign direct investment
(Per cent of GDP)

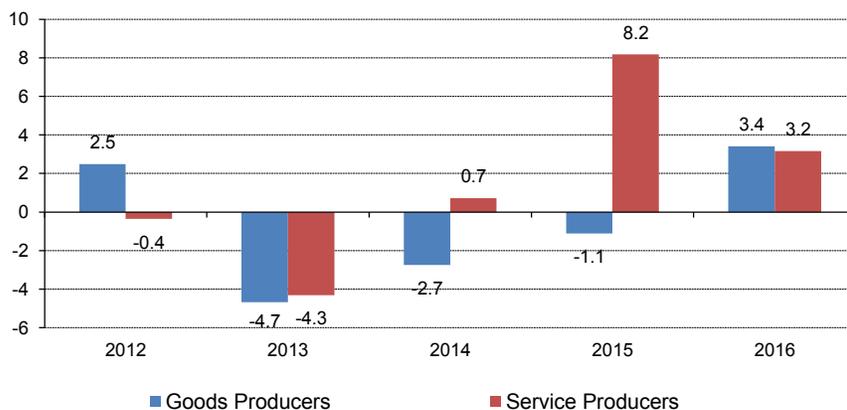


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

3. Terms of trade

The terms of trade index for both the goods and service producing economies increased in 2016, by 3.4 per cent and 3.2 per cent respectively (see figure 11). For the goods producers, this was a return to positive growth after three years of declines. Belize and Guyana both increased by double digits (10.3 per cent and 12.3 per cent respectively), while Suriname increased by 7.6 per cent. Suriname's increase in light of its economic crisis was due to an increase in the price of gold. Although most of the goods producing economies experienced an increase in their terms of trade, Trinidad and Tobago saw a 16.6 per cent decline – it's largest since the global financial crisis – as oil prices remained depressed. .

Figure 11
Terms of trade, 2012-2016
(Percentage change)



Source: The United Nations Conference on Trade and Development Statistical database (UNCTADstat).

For the service producers, the average change in the terms of trade fell by 5 percentage points from 8.2 per cent in 2015. The large increase in 2015 was a result of a 37.6 per cent increase in Saint Lucia's terms of trade. In 2016, Saint Lucia experienced a significant fall off in this value, to 10.8 per cent, but still had the largest increase in its terms of trade among the service producers. Dominica and Barbados had the second and third highest changes among the service producers, 7.4 per cent and 5.5 respectively.

II. Country Briefs

A. Bahamas

1. General characteristics of recent trends

Although economic growth was zero in 2016, this was an improvement on 2015, when output declined by 1.7 per cent, and was achieved even though Hurricane Matthew disrupted activity in the latter part of the year, particularly in some of the Out Islands. The turnaround from negative growth was driven by higher tourist arrivals, although visitor expenditure posted only modest growth. Construction activity remained relatively firm, buoyed by a variety of foreign direct investment-financed projects in tourism and other areas. Meanwhile, activity in the offshore financial services sector remained buoyant. Inflation moderated to 0.8 per cent in 2016 from 2.0 per cent in 2015, influenced by the pass-through effects of low international fuel prices. The rate of unemployment fell from 14.8 per cent to 11.6 per cent due to job growth in tourism and post-hurricane construction. The fiscal position improved in fiscal year 2015/16, with the deficit contracting from 4.4 per cent of GDP to 3.5 per cent of GDP as strong growth in value added tax (VAT) receipts helped to offset rising expenditure. Nevertheless, significant spending in the wake of Hurricane Matthew led to a doubling of the deficit in the first half of financial year 2016/17 relative to the same period of financial year 2015/16, taking it to B\$ 276.9 million.

Monetary policy was expansionary, as the central bank lowered its policy discount rate by 0.5 percentage points to stimulate credit growth in key sectors. The balance-of-payments current account strengthened in 2016, with the deficit narrowing to 12.2 per cent of GDP from 13.6 per cent of GDP in 2015. This was mainly due to insurance inflows after the hurricane and lower payments for fuel.

Economic activity is expected to strengthen in 2017 with growth of 1.4 per cent, fuelled by tourism, construction and buoyant offshore financial services activity. Tourism will be bolstered by the phased opening of the Baha Mar resort. Construction activity will be driven by smaller tourism projects and reconstruction after Hurricane Matthew. Higher growth is expected to lead to an increase in employment and a modest rise in inflation. The fiscal deficit is projected to widen somewhat as higher spending on hurricane-related reconstruction offsets revenue growth. Monetary developments are likely to be marked by continued growth in liquidity, while a modest pick-up in private sector credit is

expected to fund recovery from the hurricane. The balance-of-payments current account deficit is expected to widen marginally as growth in imports for reconstruction offsets improved tourism receipts.

Downside risks to performance include slower than projected growth in the United States, a larger than expected increase in international fuel prices and further delays in fully completing the Baha Mar project.

2. Economic policy

a) Fiscal policy

Fiscal policy was contractionary in financial year 2015/16, with the overall deficit declining by 18.8 per cent in nominal terms to 3.5 per cent of GDP from 4.4 per cent of GDP in financial year 2014/15. Fiscal developments were mainly influenced by measures to strengthen the tax base, particularly receipts from the VAT introduced in 2015. Tax receipts expanded by 13.4 per cent, bolstered by VAT proceeds, which amounted to B\$ 627.9 million after the first full year of implementation, exceeding budgeted projections. Non-tax receipts posted robust growth of 28.1 per cent on account of higher proceeds from fines, forfeits and administrative fees and revenues from a mobile licence auction.

Growth in total expenditure slowed slightly from 7.9 per cent in financial year 2014/15 to 7.5 per cent in 2015/16. Current spending expanded by 17.1 per cent to B\$ 2,004.4 million, boosted by significant growth in transfers and subsidies, higher interest payments on the growing debt stock and increased personal emoluments. However, this was partly offset by a 17.5 per cent reduction in capital spending, reflecting a return to normality after extraordinary outlays for the acquisition of Defence Force vessels in 2015.

Public debt expanded by 2.6 percentage points to 77.9 per cent of GDP in 2016, with both external and domestic debt rising. Nevertheless, the Bahamas remains shielded somewhat from foreign interest and exchange-rate risks, as 72.4 per cent of the debt is denominated in Bahamian dollars. In a welcome development, contingent liabilities declined by 3.5 per cent (B\$ 26.2 million) in 2016.

There was major slippage in fiscal operations during the first half of financial year 2016/17, owing to the exceptional spending and reduced revenues resulting from the effects of Hurricane Matthew. Thus, the overall deficit almost doubled to B\$ 276.9 million, propelled by an 8.1 per cent increase in total expenditure and a 51.1 per cent expansion in capital spending, reflecting outlays on infrastructure rehabilitation, building repairs and coastal protection. At the same time, current revenue contracted by 4.9 per cent (B\$ 39.5 million), as extensions for filing tax returns were granted following the hurricane.

b) Monetary and exchange rate policy

Monetary policy was expansionary in 2016. With international reserves cover averaging 16.8 weeks during the second half of the year and no real threat to the exchange rate, the central bank lowered its policy discount rate to 4.0 per cent from 4.5 per cent. This was aimed at stimulating credit to the housing sector and for commercial activity. In the wake of firm growth in monetary liabilities and weak credit demand, monetary developments were marked by increasing banking sector liquidity in 2016. Total liquidity increased by 2.5 per cent during the year. The broad money supply (M2) expanded by 7.1 per cent, reflecting an increase in saving deposits. Meanwhile, growth in domestic credit was more muted at 1.8 per cent and was driven by lending to the government. Credit to the private sector declined by 2.0 per cent, partly owing to the sale of a portion of one bank's non-performing loan portfolio to a non-bank entity.

Continued high liquidity in the banking system influenced interest rate developments. The weighted average interest rate spread widened by 37 basis points to 11.25 per cent. The weighted average deposit rate fell by 17 basis points, while the loan rate increased by 20 basis points to 12.49 per cent.

c) Other policies

Some key pledges outlined in the newly elected government's manifesto are expected to guide policy. Important among these are continued investment in infrastructure to spur growth and boost employment, a renewed focus on fiscal discipline centred on reform of the budgeting process plus more efficient revenue collection, and the use of public-private partnerships for funding capital projects to reduce

public debt. The government also plans to empower a new class of local entrepreneurs by leveraging the buying power of government and its influence over the private sector.

3. Trends in the principal variables

a) The external sector

The balance-of-payments current account improved in 2016, with the deficit narrowing to 12.2 per cent of GDP from 13.6 per cent of GDP in 2015. This was associated with a contraction in the trade deficit and a significant improvement in the surplus on current transfers. The trade deficit fell by 11.7 per cent to US\$ 2,150.0 million, following an 8.3 per cent decline in 2015. A large factor in this was lower payments for fuel, owing to the fall in international fuel prices. The current transfers surplus was bolstered by reinsurance inflows to settle claims from the hurricane. By contrast, the services account surplus declined by 24.1 per cent (US\$ 389.5 million) because of a drop in net travel receipts following the hurricane and a significant increase in net payments for miscellaneous services.

The income account deficit expanded by 4.6 per cent to US\$ 421.3 million, reflecting interest and dividend payments by commercial banks and non-banks and increased government interest payments because of growth in public debt.

Meanwhile, the capital and financial account surplus, including errors and omissions, declined by 2.4 per cent in 2016. This outturn was associated with an outflow of US\$ 306.3 million on commercial banks' net short-term transactions. In addition, foreign direct investment contracted by 3.1 per cent to US\$ 73.7 million. International reserves increased by 11.3 per cent (US\$ 92 million) to US\$ 904.0 million, enough to cover 16.8 weeks of merchandise imports, as compared to 13.3 per cent in 2015

b) Economic activity

Economic activity improved in 2016, with zero growth as against a decline of 1.7 per cent in 2015. The muted recovery was driven by higher tourist arrivals, leading to a more modest increase in visitor expenditure. Total visitor arrivals rose by 2.5 per cent to 6.26 million. The high-spending air segment increased marginally by 0.1 per cent to 1,391,633 visitors, while cruise passenger arrivals rose by 3.9 per cent to 4.7 million. Construction activity remained buoyant and was mainly driven by foreign investment in a variety of tourism projects, as domestic construction activity remained tepid. Both residential and commercial activity was dampened by the underlying weakness in the economy.

c) Prices, wages and employment

The rate of inflation moderated to 0.8 per cent in 2016 from 2.0 per cent in 2015. The impetus for lower prices came from food and non-alcoholic beverages, whose prices declined by 2.6 per cent after increasing by 8.0 per cent in 2015, and from recreation and culture (-2.7 per cent). In addition, hotel and restaurant prices declined by 5.9 per cent after increasing by 6.3 per cent in 2015. However, housing, water, electricity, gas and other fuel prices rose by 2.0 per cent in line with the upward trend in fuel prices towards the end of the year, since average prices were lower for the first three quarters of the year.

B. Barbados

1. General characteristics of recent trends

Economic growth in the Barbados economy in 2016 was encouraging. Investments in the tourism sector, coupled with positive spillover effects in the construction and wholesale and retail sectors, fuelled GDP growth of 1.6 per cent, up from 1.0 per cent in 2015. Critical downside risks remain, however, including the time it is taking to narrow the fiscal deficit, low international reserves, the scale of financing by the Central Bank of Barbados and the adverse impact on tourist arrivals from the United Kingdom of the depreciating pound in the aftermath of the Brexit vote.

Tourist arrivals rose by 6.3 per cent in 2016 due to double-digit growth in visitors from the United States and Caribbean source markets. This improved performance extended into the first quarter of 2017, when long-stay arrivals were up by 4.4 per cent, with a strong increase in visitors from the United States and Canada relative to the previous period. However, growth in long-stay visitors from the United

Kingdom, Barbados's major source market, slowed in 2016 and turned slightly negative in the first quarter of 2017 as the pound depreciated in the aftermath of the Brexit referendum. While the construction sector was boosted by the completion of tourism projects such as the Sandals Royal resort, it continued to be plagued by delays on other major investment projects. GDP growth for 2017 is projected to be at least 1.5 per cent, supported by the robust tourism sector and progress on delayed tourism-related construction projects.

Barbados's primary challenge is still to reduce the fiscal deficit, which narrowed from 8.2 per cent of GDP in 2015 to 6.1 per cent of GDP in 2016 but remains unsustainably high. The decline can be attributed to a number of revenue-boosting and expenditure-cutting measures introduced in 2016. However, the pace of improvement has continued to be slow, and additional measures were accordingly announced in the budget for fiscal year 2017/18. Public sector debt, which excludes central government debt held by the central bank and the National Insurance Scheme, contracted to 98.5 per cent of GDP in the first quarter of 2017, a drop of 12.3 percentage points on the same period in 2016. However, this decline was largely driven by a build-up of debt at the Central Bank of Barbados and borrowing by the National Insurance Scheme. By the end of the first quarter of 2017, furthermore, the central bank's stock of international reserves had fallen to US\$ 705.4 million, a decline of 25 per cent on the same period in 2016. This represents 10.7 weeks of import cover, which is below the international benchmark of 12 weeks. In this climate of slow progress on the fiscal deficit, high debt, low international reserves and substantial financing from the Central Bank of Barbados, international rating agencies Standard & Poor's and Moody's downgraded the country and its government bond and issuer ratings.

Following deflation of -1.1 per cent in 2015 due to falling global oil prices, the annual inflation rate increased to 1.3 per cent in 2016 because of price rises for food and non-alcoholic beverages and for education. The annual unemployment rate stood at 9.7 per cent at the end of 2016 and is expected to drop below 9 per cent as construction projects advance and election activities pick up.

2. Economic policy

a) Fiscal policy

The principal challenge for the Government of Barbados is to consolidate the fiscal deficit and thence curtail its overreliance on central bank funding. In fiscal year 2016/17, a variety of fiscal adjustment measures were introduced to bolster revenue and curb expenditure. Revenue-raising measures included the introduction of the National Social Responsibility Levy, the imposition of a 2 per cent border tax on the customs value of all imports, an increase in the Bank Asset Tax and a tax amnesty. These measures contributed to a revenue rise of 6.9 per cent or BDS\$ 95.9 million by the end of fiscal year 2016/17 relative to the previous fiscal year, taking total receipts to BDS\$ 2.8 billion or 30.3 per cent of GDP. Expenditure-curbing measures included a BDS\$ 200 million cut in statutory transfers and subsidies and an across-the-board reduction of up to BDS\$ 50 million in discretionary spending. However, any positive impact from these measures was offset by a 10.8 per cent increase in domestic interest payments. Preliminary data indicate that total expenditure increased marginally in fiscal year 2016/17 to BDS\$ 3.1 billion, or 36.4 per cent of GDP. Although the overall fiscal deficit narrowed to 6.1 per cent of GDP in fiscal year 2016/17 from 8.2 per cent of GDP in the previous fiscal year, this was still unsustainably high and, more importantly, above the target of 5.8 per cent of GDP.

In response to the slower than expected decline in the fiscal deficit, further fiscal consolidation measures were announced in the fiscal year 2017/18 budget. On the revenue side, measures included an increase in the National Social Responsibility Levy from 2 per cent to 10 per cent, a 2 per cent commission on foreign-exchange transactions, an increase in the excise tax on petrol and diesel fuel, an extension of the tax amnesty and divestment of the Barbados National Terminal Company Ltd. and Hilton Hotel. Measures geared towards lowering expenditure included an across-the-board 10 per cent spending cut and debt re-profiling of short- and long-term security instruments. It is anticipated that these measures will generate BDS\$ 542 million in savings, which translates to a primary surplus of 7.3 per cent of GDP, implying a significant decrease in the financing required from the Central Bank of Barbados.

Despite a 5.1 percentage point fall in the public sector debt to 103.6 per cent of GDP by the end of 2016 and a further drop to 98.5 per cent by the end of the first quarter of 2017, Barbados's public sector

debt remains among the highest in the Caribbean. The decline was primarily due to increased purchases of debt by the Central Bank of Barbados and the National Insurance Scheme in 2016. Moreover, international rating agency Standard & Poor's downgraded Barbados for the second consecutive year, rating it CCC+/C because of its limited financing alternatives and low international reserves and issuing a negative outlook. Moody's Investors Service also downgraded the government's bond and issuer ratings to Caa3 but maintained a stable outlook. These downgrades by international rating agencies re-emphasize the urgent need to reduce the fiscal deficit in the short to medium term.

b) Monetary and exchange rate policy

The Central Bank of Barbados has continued to hold firm in supporting the fixed exchange-rate peg of US\$ 1 to BDS\$ 2, which requires adequate levels of international reserves to be maintained. However, by the end of 2016 and into the first quarter of 2017, reserves had fallen to levels equivalent to less than 12 weeks of import cover, which has increased pressure on the currency peg. This strain has been further exacerbated by the central bank's contribution to the financing of the fiscal deficit, which increased by 50.1 per cent in fiscal year 2016/17 relative to the previous year, to US\$ 425.9 million. By the end of the first quarter of 2017, furthermore, banks had begun substituting some of their government security holdings for cash at the central bank. This prompted the latter to increase its Barbados dollar securities reserve requirement for commercial banks from 10 per cent to 15 per cent as of June 2017. Consequently, excess liquidity in the banking system increased as the ratio of cash reserves to domestic deposits jumped to 17.0 per cent from 10.6 per cent the previous year.

Domestic deposits grew by 2.0 per cent, but lending to the non-financial private sector remained sluggish. Additionally, the increased liquidity in the banking system led to a sharp fall in deposit interest rates. Preliminary central bank data indicate that as of the close of the first quarter of 2017 the weighted average deposit rate had fallen by 0.25 per cent and the weighted average loan rate was down to 6.7 per cent, while the average three-month treasury bill rate had dropped to 3.1 per cent.

3. Trends in the principal variables

a) The external sector

The Central Bank of Barbados's stock of international reserves has been declining steadily over the last four years and stood at \$705.4 million at the end of the first quarter of 2017, a 25 per cent drop on the same period in 2016. This value represents 10.7 weeks of import cover, which is below the internationally accepted precautionary benchmark of 12 weeks. The central bank has attributed the sizeable fall in reserves to larger than usual net public sector capital outflows. There is an expectation that the sale of government assets, higher inflows associated with public sector projects, the continued strengthening of the tourism sector and the 2 per cent commission on foreign-exchange transactions designed to dampen demand will serve between them to stabilize international reserves by the close of 2017. However, the stability of international reserves in the medium to long term depends heavily on success in reducing the fiscal deficit, which remains the primary factor driving them lower. Furthermore, the weakened British pound poses some downside risk to the stability of reserves, as it may negatively impact tourism-related spending and real estate inflows. In the fiscal year 2017/18 budget, in an effort to stem the demand for foreign exchange, particularly for purchases of consumer durables, the Government of Barbados announced that commission would be payable on all foreign exchange transactions with effect from July 2017.

At the end of 2016, the external current account was estimated to be in deficit by US\$ 207 million (4.5 per cent of GDP). This outturn resulted from a 4.3 per cent increase in export earnings. Moreover, the recent significant increase in the Social Responsibility Levy may serve to lower the import bill, with the potential in turn to further reduce the external current account deficit for the remainder of 2017. The capital and financial account recorded a surplus of US\$ 16.9 million in 2016, a 92.1 per cent decrease on the surplus of US\$ 212.7 million generated in 2015. This steep decline was primarily a consequence of decreased net long-term private sector inflows and increased net public sector outflows. Nevertheless, foreign direct investment inflows in 2016 were up by US\$ 164.3 million or 64.6 per cent on 2015 as a result of strong investment in tourism-related projects.

b) Economic activity

The Barbados economy grew by 1.6 per cent in 2016, as compared to just 1.0 per cent in 2015 and 0.2 per cent in 2014. This expansion in economic activity hinged on investments made to bolster Barbados's competitiveness in the tourism sector, while there was modest growth in non-tradeable sectors such as construction, distribution, wholesale and retail, and financial and other services.

Overall, tourism arrivals grew by 6.3 per cent in 2016, led by growth in the United States and Caribbean source markets of 14.1 per cent and 12.7 per cent, respectively. Growth in visitors from the United Kingdom, Barbados's main tourism source market, slowed to 2.0 per cent, a large drop on the 13.4 per cent growth observed in 2015. Long-stay arrivals were up 4.4 per cent by the end of the first quarter of 2017, driven by increased demand and airlift expansion from the United States and Canada markets, which supported growth of 16.4 per cent and 11.1 per cent, respectively. In contrast, long-stay arrivals from the United Kingdom softened, decreasing by 1.6 per cent in the aftermath of the Brexit referendum and the subsequent depreciation of the pound. The tourism sector is likely to continue to grow for the remainder of 2017 and into the medium term as hotel and airlift capacity increases and new initiatives such as the Kids Stay and Play Free summer campaign boost arrivals from major source markets. However, continued fallout from the Brexit referendum remains a downside risk, with depreciation in the value of the pound leading to reduced spending by United Kingdom visitors. Furthermore, implementation of desired upgrades to the tourism product may be restricted by the government's limited fiscal space.

The positive performance of the tourism sector spilled over into the construction sector, which expanded by 2.5 per cent in 2016 and 2.8 per cent in the first quarter of 2017. Growth in this sector was influenced by various tourism-related commercial projects such as the resort being built by Sandals Royal, the luxury arm of Sandals Resort International, which is scheduled to open by the end of 2017. However, a more robust sectoral performance was thwarted by ongoing delays in major investment projects such as the Hyatt Centric Resort.

International business and financial services activity picked up in 2016 as the number of new licences in the international business sector increased by 7.7 per cent after a sluggish performance in previous years. However, the sector has continued to grapple with reputational issues, exacerbated by continuing Moody's and Standard & Poor's downgrades. Economic performance in other sectors such as manufacturing and agriculture remained subdued in 2016 and into the first quarter of 2017.

The Government of Barbados's stricter fiscal policy is expected to dampen economic growth for the remainder of 2017. However, if planned tourist hotel and other commercial projects can advance and external conditions remain stable, the Barbados economy is forecast to expand by at least 1.5 per cent.

c) Prices, wages and employment

The annual unemployment rate has continued to trend downward since peaking at 12.3 per cent in 2014, falling to 11.3 per cent in 2015 and 9.9 per cent in 2016. Improved performance in the tourism sector coupled with spillover effects in construction and wholesale and retail have supported this decline. An anticipated pick-up in construction activity in 2017 plus the impending elections in 2018 are expected to support a continued fall in the unemployment rate to below 9 per cent by the end of 2017.

The annual inflation rate increased modestly to 1.3 per cent in 2016 following deflation of -1.1 per cent in 2015 due to declining global oil prices. This uptick was partly driven by price increases for food and non-alcoholic beverages and for education and by a small turnaround in global fuel prices. An upward trajectory in the annual inflation rate is expected for the remainder of 2017 as the fuel price increases recently announced in the fiscal year 2017/18 budget take effect.

Public sector wages and salaries remain high despite a marginal year-on-year decline of 1.3 per cent in fiscal year 2016/17. Notwithstanding intensified pressure from trade unions to increase wages, Barbados's limited fiscal space means that these demands are unlikely to be accommodated.

C. Belize

1. General characteristics of recent trends

The Belizean economy experienced a reversal of fortunes in 2016, with growth dropping to -0.8 per cent from 2.9 per cent in 2015. A sharp fall in output in the primary sector, partly due to the effects of flooding and disease in agriculture, offset continued firm growth in the services sector, which was buoyed by dynamism in tourist activity. The average rate of inflation picked up to 0.7 per cent in 2016 following mild deflation in 2015. Despite the slowdown in activity, the unemployment rate declined from 10.1 per cent in 2015 to 9.5 per cent in 2016, underpinned by job growth in tourism and other services. The government secured another restructuring of its external “super bond” debt, whose terms were deemed unsustainable because of the repayment commitments involved and the challenges faced by the economy. Debt restructuring has been combined with fiscal adjustment aimed at medium-term fiscal consolidation. The overall deficit fell to 3.4 per cent of GDP from 7.8 per cent of GDP in calendar year 2015. Monetary developments were marked by strong growth in domestic credit, accounted for by the public sector, as credit to the private sector slowed during the year. The balance-of-payments current account deficit narrowed slightly from 9.9 per cent of GDP in 2015 to 9.4 per cent of GDP in 2016 as higher tourism and reinsurance receipts following Hurricane Earl offset a larger trade deficit.

The economy is projected to post a firm recovery in 2017, expanding by 3.2 per cent. Growth is expected to be propelled by a turnaround in the primary sector, supported by a modest rise in services output. Primary activity is forecast to register dynamic growth of over 8.0 per cent, underpinned by a large increase in sugar cane production, which will be bolstered by expansion at the Santander plant. Banana output is also expected to recover from the adverse effects of flood and hurricane damage in 2016. Higher shrimp production will likewise provide a boost to primary output. The services sector is projected to grow by 2.0 per cent, bolstered by continued growth in tourism due to increased stay-over arrivals and a pick-up in government services following a 3.0 per cent wage increase. By contrast, activity in the secondary sector is expected to decline by some 1.9 per cent, reflecting lower output of petroleum, electricity and citrus juice. Downside risks to the growth forecast could come from lower than projected growth in major markets that include the United States, the impact of natural disasters and the fall-out from derisking, which has led to the loss of correspondent banking relationships between banks in Belize and major international banks, including Bank of America and Commerzbank. This has affected a range of transactions such as remittance and other money transfers, credit card settlements and tourism transactions. Nevertheless, all banks now have at least one correspondent banking relationship, although for some of them this has come at a higher cost.

The fiscal position is expected to continue improving, with the overall deficit contracting from 3.4 per cent of GDP in 2016 to 1.3 per cent of GDP in 2017. Total revenue and grants are expected to increase by 1.0 percentage point to 30.9 per cent of GDP, while total expenditure is projected to decline by 0.7 percentage points to 32.2 per cent of GDP. The current account deficit is expected to widen marginally to 9.7 per cent of GDP because of deterioration in the services surplus, partly on account of a normalization of insurance inflows, which increased in 2016 to compensate for the impact of Hurricane Earl. Developments overall are expected to lead to a decline in international reserves for the third year in a row, leaving them at 3.8 months of merchandise imports.

2. Economic policy

a) Fiscal policy

Economic policy centres on measured medium-term fiscal consolidation to bring down public debt to more sustainable levels. Two key planks of this effort have been the settlements for the nationalization of the telecommunications companies and a further restructuring of super bond debt. The Belize Telemedia Limited (BTL) telecommunications company’s settlement amounted to around BZ\$ 550 million (US\$ 275 million), of which BZ\$ 350 million was paid in 2016, with the remaining BZ\$ 200 million to be paid in the 2017/18 financial year. Belize is expected to avoid principal payments of BZ\$ 55 million per year under the terms of the restructuring, partly because the interest rate on the bond has

been cut by 27 per cent, from 6.77 per cent to 4.94 per cent. As a result, the debt will decline by 25 per cent, with the savings having a net present value of US\$ 85.0 million. However, the government is obliged to seek International Monetary Fund (IMF) assistance if it fails to meet the primary surplus target of 2.0 per cent of GDP for 2018, 2019 and 2020. This could present a challenge given how prone the economy is to economic and weather-related shocks.

Total revenues increased only marginally (0.3 per cent), as overall growth in tax receipts was dampened by lower domestic oil revenues owing to the continued decline in oil production. Tax revenues rose 3.6 per cent, reflecting higher general sales tax, personal income tax and excise duty receipts, but this was outweighed by a 20.9 per cent contraction in non-tax proceeds. Grant receipts and capital revenue were also lower in 2016, contributing to the weakness of revenue growth.

Public debt advanced to 88.6 per cent of GDP, far above the benchmark of around 60 per cent at which studies have shown that debt hurts growth in the Caribbean. Partly because of the limited access to the external market that has resulted from the country's low credit rating, the government relied on domestic borrowing to finance its deficit. Part of this was a BZ\$ 270.0 million issue of new securities to defray the outstanding liabilities for the nationalization of BTL. This led to domestic debt increasing by 51.2 per cent to BZ\$ 747.8 million. Meanwhile, external debt grew by a marginal 1.9 per cent, owing to a sharp (51.4 per cent) fall in disbursements under the PetroCaribe Agreement with the Bolivarian Republic of Venezuela. By contrast, current spending rose by 6.4 per cent (to 27.3 per cent of GDP), propelled especially by a 7.1 per cent rise in wages and salaries following the 3.0 per cent wage increase for civil servants and by higher outlays on goods and services. The budget for 2017/18 targets an overall deficit of 0.18 per cent of GDP, with the government planning to maintain spending on key areas, including road infrastructure, education, health and national security.

b) Monetary and exchange rate policy

Despite the decline in economic activity, monetary policy remained neutral in 2016 against a background of exchange-rate stability. The central bank did not change its reserve requirements for the banking sector. Monetary developments were marked by a deceleration in the growth of broad money (M2) from 7.5 per cent in 2015 to 2.7 per cent in 2016. Net domestic credit expanded by 10.9 per cent, but was mainly driven by lending to the government, as growth in private sector credit slowed to 1.6 per cent, partly as a result of increased loan write-offs to clear the backlog of non-performing loans. Meanwhile, the net foreign assets of the banking system declined by 14.2 per cent, mainly reflecting compensation payments to BTL, reduced inflows from exports and disruptions stemming from the fall-out of correspondent banking challenges. Liquidity in the banking system posted a modest decline as banks increased their holdings of government securities. Partly under the influence of high liquidity, interest rates on new loans declined by 19 basis points, while deposit rates fell by 5 basis points, causing the interest rate spread to narrow by 13 basis points to 7.63 per cent.

c) Other policies

The programme to modernize the financial system in Belize continued in 2016 and 2017. The central bank operationalized the Automated Payment and Securities Settlement System (APSSS) during the year. The system facilitates high-quality and speedy electronic payments. The real-time gross settlement component will allow continuous real-time settlement of large-value transactions, while the Central Securities Depository (CSD) expedites liquidity management and electronic auctions of government securities.

3. Trends in the principal variables

a) The external sector

Belize's external position improved slightly in 2016, with the current account deficit falling from 9.9 per cent of GDP in 2015 to 9.4 per cent of GDP in 2016. This marginal decline in the deficit was due to an increase in the services account surplus because of increased tourism receipts driven by firm growth in arrivals, insurance inflows after Hurricane Earl and higher remittances and official grant receipts. The services account thus helped to offset a widening trade deficit, the result of a sharp fall in exports (17.7 per cent) that more than offset a 4.7 per cent decline in imports. The drop in exports was due to lower volumes or lower prices, or both, for certain commodities. The value of sugar exports contracted by 23.4 per cent to US\$ 51.5 million, owing mainly to a 22.8 per cent decline in the average price, while the

value of banana exports declined by 29.3 per cent to US\$ 34.8 million. Petroleum exports plummeted by 37.7 per cent to US\$ 11.3 million owing to a fall in both volume and the average price of the product.

The capital and financial account surplus contracted by over 50 per cent, meanwhile, mainly as a result of the BTL nationalization payments and lower foreign borrowing by the government. Net foreign direct investment plummeted by 47.2 per cent, from US\$ 64.6 million to US\$ 34.1 million. As a result, net international reserves contracted by 13.8 per cent to 4.5 months of merchandise imports.

b) Economic activity

The economy contracted by 0.8 per cent in 2016 following moderate growth of 2.9 per cent in 2015. The performance downturn stemmed from a large (24.9 per cent) drop in primary sector output, owing to the impact of damage from Hurricane Earl, disease infestation and the closure of operations by a major papaya producer. Output declined across all major export crops except sugar cane. There was a fall in the output of bananas (28.5 per cent) due to the closure of the Meridian Enterprises farms. Citrus production dropped by 22.8 per cent owing to citrus greening and the effects of Hurricane Earl. In the secondary sector, manufacturing value added dropped because of a 14.9 per cent contraction in oil production, which offset increased output in the electricity and water supply and construction sectors. By contrast, the tertiary sector expanded by 3.1 per cent as dynamic (13.2 per cent) growth in overnight visitors lifted tourism activity. Moreover, the opening of the Harvest Caye cruise ship port in November 2016 is expected to boost cruise tourism.

c) Prices, wages and employment

Average inflation increased by 0.7 per cent, reflecting the higher cost of fuel, rent, clothing, health care and education. The rate of unemployment fell from 10.1 per cent in 2015 to 9.5 per cent in 2016 as job growth in services, especially tourism, compensated for an increase in the labour force participation rate.

D. Eastern Caribbean Currency Union (ECCU)

1. General characteristics of recent trends

In 2016, the economy of the Eastern Caribbean Currency Union (ECCU) saw its fifth consecutive year of positive growth. However, the rate of increase in real GDP slowed to 2.7 per cent, from 3.0 per cent in 2015. Economic expansion within the Union was driven by increased value added in the construction, wholesale and retail trade, and hotels and restaurants sectors. There was strong private-sector-led investment in the tourism industry in 2016 and visitor arrivals improved. In particular, Antigua and Barbuda emerged as the fastest-growing economy in the Caribbean, with 4.4 per cent GDP growth. Agricultural output, as well as private and public sector activity is expected to pick up in 2017. Growth in the tourism and construction sectors is projected to remain steady for the next two years, with positive spillovers in ancillary sectors. Collectively, these factors will fuel projected average economic growth of 2.8 per cent across the Union in both 2017 and 2018. All ECCU territories are projected to generate positive growth in 2017.

In terms of sectoral performance, manufacturing declined by over 5 per cent in 2016, largely owing to a fall in demand. Agricultural output was weak as nutmeg production fell in Grenada (by 16.5 per cent), coupled with a decline in banana production in both Dominica and Saint Lucia. However, a major policy shift occurred as ECCU governments increasingly attempted to diversify the inflows of Caribbean Basin Initiative (CBI) programmes towards infrastructure projects and real sector activities such as agro-processing and manufacturing. Antigua and Barbuda, Grenada and Saint Kitts and Nevis used CBI funds to contribute to debt reduction in 2016.

With respect to fiscal performance, there was an improvement in the overall fiscal surplus in 2016 as capital expenditure contracted and the current account surplus quintupled across the Union. Despite the favourable fiscal outturn, the relatively high debt burden of ECCU economies continues to be a major challenge.

The merchandise trade deficit widened by 7.7 per cent in 2016, after narrowing (-5.4 per cent) in 2015, as imports increased and export receipts contracted. Average inflation across the Union remained

low (1.0 per cent), with many economies experiencing price deflation as energy and food prices remained soft in 2016.

2. Economic policy

a) Fiscal policy

Ongoing fiscal consolidation and debt reduction programmes instituted in ECCU economies contributed to the improved fiscal performance of the Union in 2016. More specifically, individual economies sought to grasp the opportunity to adopt policies for safeguarding fiscal and debt sustainability. As a result, at its eighty-fifth meeting, in July 2016, the Monetary Council of the Eastern Caribbean Central Bank (ECCB), agreed on a number of fiscal rules, including interim targets. It also agreed to strengthen the governance framework for citizen-by-investment (CBI) inflows.

Central government fiscal operation in ECCU generated an increased fiscal surplus (after grants) of 2.3 per cent of GDP in 2016, up from 0.2 per cent of GDP the previous year. This improved performance reflected the shift from deficit to surplus positions in Dominica, Grenada and Saint Vincent and the Grenadines, which offset the narrower surpluses generated in Antigua and Barbuda and Saint Kitts and Nevis. Current revenue collection rose by 9.0 per cent to represent 27.5 per cent of GDP, as both tax and non-tax revenue expanded. Concomitantly, capital expenditure was compressed (by 13.0 per cent) to 4.2 per cent of GDP, which was well below the targeted 5.0 per cent–7.0 per cent of GDP range set by the Monetary Council of the Eastern Caribbean Central Bank (ECCB). Capital expenditure was the main casualty of fiscal consolidation efforts in ECCU in 2016. Given the growth-inducing effect of capital spending, particularly in the small economies of ECCU, this trend could dampen economic growth within the Union if it persists.

At the country level, under its three-year Home Grown Structural Adjustment Programme, which commenced in 2014, Grenada passed several legislative reforms in 2016—including the Fiscal Responsibility, Public Debt Management and Public Finance Management Acts—to strengthen its fiscal policy framework and improve its public finance management. In addition, expenditures were kept in check and improved compliance and administration fuelled increased tax revenue collections across all categories.

Similarly, in 2016, Dominica continued its fiscal consolidation efforts with a view to achieving its fiscal targets. In this regard, increased CBI inflows (captured under non-tax revenue) and an expansion of 18.8 million Eastern Caribbean dollars (EC\$) in tax revenue collections underpinned an upward trend in current revenue in 2016. Although this was tempered by an expansion in both current and capital expenditure, Dominica nevertheless generated a fiscal surplus of 11.3 per cent of GDP.

Despite the abolishment of personal income tax from 1 July 2016, Antigua and Barbuda's tax revenue still grew, albeit at a lower rate than in 2015 (2.8 per cent, compared with 9.0 per cent). Tax collection was bolstered by strong receipts from the Antigua and Barbuda Sales tax (ABST), which increased by 8.3 per cent compared to 1.2 per cent the previous year. Meanwhile, a contraction in CBI receipts was the primary driver of a fall in non-tax revenue. This notwithstanding, current revenue declined only marginally, from 21.4 per cent of GDP in 2015 to 20.3 per cent in 2016.

In 2016 Saint Kitts and Nevis continued the implementation of its reform of the Tax Incentive Regime policy and placed ceilings on new debt. During the first six months of 2016, the Government of Grenada passed the Tax Administration Act and completed the restructuring of the Inland Revenue Department.

Saint Lucia, meanwhile, reduced its standard rate of value added tax (VAT) from 15 per cent to 12.5 per cent, with effect from 1 February 2017. The government also approved an amnesty for all tax types including personal property tax, from 1 October 2016 to 28 February 2018. However, the airport development tax was reintroduced from 1 April 2017.

Consistent with the Union's commitment to debt reduction, the stock of outstanding central government debt fell from 69.2 per cent of GDP in 2015 to 68.2 per cent at the end of 2016, led by significant declines in Antigua and Barbuda, Dominica, Grenada and Saint Kitts and Nevis. Grenada accelerated the pace of its debt restructuring in 2016, with the result that its total outstanding public

sector debt fell from 88.1 per cent of GDP in 2015 to 83.4 per cent at the end of 2016 and is forecast to fall to 72 per cent of GDP by end-2017.

b) Monetary policy

The monetary policy of ECCB remained unchanged in 2016, with the continuation of several ongoing initiatives to increase credit to the private sector and stimulate growth within ECCU. Moreover the Bank's policy interventions were pursuant to achieving its broader objectives of ensuring the stability of the exchange rate, foreign-exchange arrangements and the financial sector overall. The reduction of the minimum saving rate (MSR) in May 2015 yielded only a marginal impact on lending rates, suggesting that it has not been as effective as expected as tool of monetary policy.

In its efforts to ensure stability in the banking sector, ECCB provided assistance to commercial banks in establishing a common platform and approach to managing financial, operational, credit and strategic risks.

Through its Monetary Council, ECCB is currently working towards establishing a policy framework for the reform and development of the financial sector in ECCU, which would include the introduction of a partial credit guarantee scheme and legislative reforms to address the insolvency framework, among other things. Furthermore, as at the end of 2016, all ECCU member States had passed the requisite legislation for the establishment of the Eastern Caribbean Asset Management Corporation (ECAMC).

With respect to financial developments within ECCU in 2016, the growth of broad money (M2) slowed to 0.9 per cent, down from 3.9 per cent the previous year. In this regard, a 1.0 per cent contraction in quasi-money over the year, underpinned by reductions in time deposits and foreign-currency deposits by the private sector, was offset by a 7.4 per cent increase in narrow money (M1). However, domestic credit contracted by 8.9 per cent, following an 8.3 per cent fall in 2015. In addition, credit to both the private sector and governments declined in 2016. In the first case, the strengthening of lending terms and conditions, as well as prudential requirements, may have collectively dampened credit demand.

Furthermore, liquidity in the commercial banking system improved in 2016, remaining well above the minimum established by the ECCB prudential guidelines. During the review period, the lowering of the minimum saving rate to 2.0 per cent on 1 May 2015 continued to dampen savings rates more than lending rates, thereby further widening the weighted average interest rate spread.

c) Exchange rate policy

ECCB continued its management of monetary policy around a fixed exchange rate pegged to the United States dollar at a rate of EC\$ 2.70 per US\$ 1. Exchange-rate conditions remained stable in 2016 and the integrity of the fixed exchange rate was not compromised. In this regard, the backing ratio increased marginally relative to the previous year, to 97.09 per cent as at December 2016, remaining well above the statutory and operational benchmarks of 60.0 per cent and 80.0 per cent, respectively. ECCB continued to satisfy its reserve portfolio management objectives of preserving capital and meeting liquidity needs. The duration of the Bank's customized benchmark was rebalanced to two years, in keeping with the risk tolerance prescribed by its Board of Directors. Accordingly, the increase in the value of the Bank's nominal base of foreign reserve assets allowed it to transfer funds from the lower-yielding liquidity tranche to the higher-yielding core tranche of the portfolio.

3. Trends in the principal variables

a) The external sector

Import payments rose by 4.8 per cent, at the same time as export receipts declined by 11.1 per cent, as both re-exports (-8.3 per cent) and domestic exports (-12.8 per cent) contracted. As a result, the merchandise trade deficit widened to EC\$ 6.1 billion in 2016, after narrowing by 5.4 per cent in 2015. The higher imports in the aggregate reflected increased imports of transport equipment and machinery, mainly on the back of an upturn in construction activity. Antigua and Barbuda, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines all experienced increased import payments, while manufacturing exports contracted in Dominica, Saint Lucia and Saint Kitts and Nevis.

An increase in stay-over arrivals, particularly from the United States, fuelled an expansion (10.0 per cent) of gross travel receipts in 2016, with the economies of the Dominica, Saint Vincent and the Grenadines, Saint Lucia and Antigua and Barbuda being the major drivers of this improved outcome.

b) Economic activity

The ECCU economies grew by 2.7 per cent in 2016, down from 3.0 per cent the previous year. However, all member States posted positive growth. Economic expansion within the Union was largely driven by increased value added in construction, primarily due to tourism-related activities in Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia, as well as by the wholesale and retail trade, and hotels and restaurants sectors. Strong investment continued in the tourism industry, where private-sector-led activity trended upwards in 2016. Growth in the construction and tourism sectors is projected to be maintained for the next two years, and agricultural output is expected to strengthen. Consequently, it is projected that average ECCU-wide economic growth will be 2.8 per cent in both 2017 and 2018.

At the country level, economic activity in Antigua and Barbuda increased by 4.4 per cent in 2016, up from 3.8 per cent the previous year, making it the fastest-growing economy in ECCU, and indeed the Caribbean. This quickening of economic expansion has been fuelled by increased economic activity across the hotels and restaurants, construction and wholesale and retail trade sectors. Although at a slower pace than in 2015, Grenada's economy grew by 1.9 per cent in 2016, driven mainly by the construction (7.0 per cent), mining and quarrying (17.5 per cent), tourism¹ (7.5 per cent), and education (2.5 per cent) sectors. The activity in the tourism and construction sectors also generated positive spillover effects in ancillary sectors such as transport, storage and communications (5.9 per cent) and wholesale and retail trade (4.2 per cent). Growth in Saint Kitts and Nevis contracted to 3.6 per cent in 2016, with activity in the construction sector decelerating as both private and public sector investment slowed. There was also a slowdown in the tourism industry.

Saint Lucia made changes to its methodology for calculating GDP, which saw the country achieve 2.1 per cent growth in 2016. Dominica posted 0.9 per cent expansion in 2016, buoyed by increased economic activity in both the construction and agriculture sectors. Positive outturns across all major sectors, excluding manufacturing and fishing, fuelled real GDP growth of 2.4 per cent in Saint Vincent and the Grenadines.

c) Prices, wages and employment

Albeit with mixed effects, soft energy and food prices contributed to low ECCU-wide inflation in 2016. Inflation in ECCU was 1.0 per cent in 2016, compared with deflation of -1.1 per cent in 2015. Lower food prices were recorded in six ECCU territories, and lower gas and fuels prices in four. Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia all experienced deflation in 2016.

Public servants in Dominica and Saint Lucia received no increase in wages or salaries in 2016 and the latter country instituted a wage freeze that year. Grenada, on the other hand, emerged from a three-year wage freeze under its Home Grown Structural Adjustment Programme and awarded incremental payments to public servants. In addition, a number of the country's private sector companies paid bonuses in December 2016. Grenada is also close to completing a wage bill management strategy to address two pressure points on the expenditure side: the sheer size of the wage bill, and the fact that the Fiscal Responsibility Act caps public sector wage bill at 9 per cent of GDP and wage rises at 2 per cent in real terms. Antigua and Barbuda adjusted the salaries of a small share of government employees in 2016.

Unemployment within the Union continues to be a severe challenge. There seems to be a skills mismatch between the graduates of secondary and tertiary learning institutions and the needs of both the public and the private sector. The overall unemployment rate edged down in 2016 in Saint Lucia, by 0.3 percentage points to 21.0 per cent, and in Grenada, to 28.6 per cent (from 29.0 per cent in 2015). However, youth employment was above 40 per cent in both these countries in 2016.

E. Guyana

1. General characteristics of recent trends

Economic growth in Guyana is estimated to have been 3.3 per cent in 2016, up from 3.2 per cent in 2015. A combination of the largest gold declaration of any calendar year in Guyana's producing history and higher international prices boosted growth and exports while masking poor performances in other traditional commodity sectors such as rice, sugar and timber, as the economy continued to undergo structural changes designed to add value to production in these sectors. Indeed, output of those three commodities declined and agriculture's contribution to growth was -2.0 percentage points. The contribution of services (0.4 per cent) and construction (0.6 per cent) was also weak in 2016. The slowdown in the rest of the economy was reflected in the growth of credit to the private sector, which slowed to 2.1 per cent in 2016 from 6.2 per cent in 2015.

The fiscal deficit widened to 4.5 per cent of GDP in 2016 from 1.4 per cent the previous year on account of greater spending on construction and on social welfare, health and education. Increased tax collection was offset by greater transfer payments and employment costs. Guyana's external current account improved from a deficit of 5.7 per cent of GDP in 2015 to a surplus of 0.4 per cent of GDP in 2016 as a result of the increased gold exports. Inward foreign direct investment decreased by 73.7 per cent in 2016 but is expected to rebound in 2017 as inflows into the oil sector increase.

Inflation returned to positive territory in 2016 following a year of deflation in 2015 because of lower fuel prices. The rise was due to higher food inflation, which in turn stemmed from adverse weather conditions leading to shortfalls in agricultural production.

Growth is estimated at 3.8 per cent for 2017, bolstered by continued expansion in the mining sector in combination with recoveries in agriculture and construction.

2. Economic policy

a) Fiscal policy

The overall deficit expanded from 1.4 per cent of GDP in 2015 to 4.5 per cent of GDP in 2016. This worsening of the central government financial situation was attributable to an expansion in capital expenditure to 6.6 per cent of GDP (from 4.7 per cent the previous year) combined with an increase in current expenditure to 23.9 per cent of GDP (from 22.5 per cent in 2015). The deficit was financed by net domestic borrowing of 23.862 billion Guyana dollars (G\$) and net external borrowing of G\$ 7.837 billion.

Current expenditure grew by 15.2 per cent, mainly as a result of a 26.2 per cent increase in transfer payments and a 10.5 per cent increase in personal emoluments. Capital expenditure grew 52.1 per cent because of increased construction spending, while outlays on social welfare, health and education also rose. Major infrastructure projects in 2016 included the East Bank and West Demerara Road, the airport modernization project and the Power Utility Upgrade Programme.

Current revenue also increased, thanks to a 6.2 per cent jump in taxes collected by the Guyana Revenue Authority. Revenue from public sector workers rose because of higher wages and salaries, while receipts from the self-employed expanded as a result of stricter compliance measures. Capital revenue was up because of higher disbursements under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and in the form of non-project grants.

Guyana's central government debt ratio declined modestly in 2016 to 46.6 per cent of GDP from 48.4 per cent of GDP in 2015. The composition of liabilities changed somewhat, as domestic debt increased to 12.8 per cent of GDP from 12.4 per cent in 2015, while external debt decreased slightly to 33.8 per cent of GDP from 36.0 per cent in 2015. The increase in domestic debt was largely a consequence of greater issuance of treasury bills to sterilize excess liquidity in the financial system. A non-negotiable debenture was also issued to the National Insurance Scheme (NIS) to help offset the loss on its investment in the Colonial Life Insurance Company (CLICO).

Higher redemption of 91-day and 364-day bills, compounded by higher yields, led to an increase of 9.8 per cent in total domestic interest charges in 2016. With regard to external debt, there was growth in loan disbursements by the Export-Import Bank of China and the Caribbean Development Bank for the purposes of project financing during the review period. External debt service payments were down by 45.4 per cent from 2015 and represented 3.7 per cent of export earnings and 6.3 per cent of current revenue, well below the liquidity thresholds of 20.0 per cent and 30.0 per cent, respectively.

In 2017, the overall deficit is expected to expand because of continued growth in both current and capital expenditure. The budget for fiscal year 2017 introduced a number of policy measures, resulting among other things in the restructuring of Guyana's tax system, with value added tax (VAT) being reduced to 14 per cent from its previous level of 16 per cent. Whereas electricity and water were formerly zero-rated, VAT will now be charged at 14 per cent on consumption in excess of certain limits. The income tax threshold was raised and the rate lowered to 28 per cent for persons earning G\$ 180,000 a month or less, while a new rate of 40 per cent was applied to individuals earning more than G\$ 2,160,000 per year. Some of the new tax measures have proved to be unpopular with the private sector. The budget announcement also included an increase in the old age pension.

b) Monetary policy

Monetary policy in 2016 continued to be focused on price and exchange-rate stability. Guyana's reserve money grew by 14.8 per cent in 2016. This resulted from a 21.2 per cent increase in liabilities to the commercial banks, which in turn was due to a 23.4 per cent increase in deposits, along with a 9.5 per cent rise in currency in circulation. Growth in insurance premiums, pension funds and deposits underpinned an observed 1.1 per cent increase in the financial resources of non-bank financial institutions in 2016.

The M2 aggregate expanded by 5.0 per cent, owing to a 7.7 per cent increase in net domestic credit. The slowing of economic activity was manifested in the growth of credit to the private sector, which decelerated to 2.1 per cent in 2016 from 6.2 per cent in the previous year. There were large declines (of 15.2 per cent and 6.4 per cent, respectively) in lending to the construction and engineering sector and the "other" sector, while credit to the mining sector fell by 14.8 per cent despite the increase in gold production. The contraction of credit to these sectors offset increases of 13.1 per cent in the other services sector, 8.4 per cent in the personal services sector, 4.0 per cent in the real estate mortgage sector and 7.8 per cent in the manufacturing sector. A 38.6 per cent increase in credit to the central government offset a 13.5 per cent increase in deposits in the "other public sector" category, resulting in a swing in the government's position from net depositor to net creditor.

Treasury bill rates generally declined in 2016, with the 91-day rate falling to 1.68 per cent from 1.92 per cent in 2015, while the 364-day rate dropped from 2.38 per cent to 2.13 per cent. The commercial bank saving rate remained unchanged at 1.26 per cent, while the prime lending rate (simple average) increased from 12.83 per cent in 2015 to 13.0 per cent in 2016.

c) Exchange rate policy

The reference exchange rate against the United States currency remained stable at G\$ 206.5 per United States dollar (US\$) in 2016. A net inflow of foreign exchange into the market, fuelled by an improvement in the balance-of-payments position, is expected to allow this exchange rate to remain stable in 2017. Foreign-exchange inflows are expected to provide adequate import cover in addition to buttressing the exchange rate.

d) Other policies

Guyana made significant strides in strengthening its anti-money laundering (AML)/combating the financing of terrorism (CFT) framework and in closing regulatory and legislative loopholes, with a number of amendments being made to its AML/CFT Act in 2016. With technical assistance from the World Bank, the authorities worked towards upgrading the AML/CFT framework to international standards. Efforts were centred on fully addressing all deficiencies identified by the Financial Action Task Force. During the first half of 2017, the Financial Intelligence Unit spearheaded the completion of the country's first National Risk Assessment and the development of a risk-based assessment Action Plan, which are intended to guide the national anti-money laundering strategy.

However, as a consequence of the derisking being undertaken by many international banks, two Guyanese banks had correspondent banking relationships terminated or restricted.

3. Trends in the principal variables

a) The external sector

Guyana's current account moved into a modest surplus of 0.4 per cent of GDP in 2016, after years in deficit. An increase in exports, led by a 65.8 per cent expansion in gold receipts, sharply lowered the merchandise goods deficit from 10.7 per cent of GDP in 2015 to 0.2 per cent in 2016. Besides gold, rum (7.9 per cent), shrimp (22.1 per cent) and other exports (11.0 per cent) also expanded. However, exports of sugar (-6.4 per cent), rice (-19.0 per cent), bauxite (-11.7 per cent) and timber (-7.5 per cent) all fell in 2016 relative to the previous year. The surplus on current transfers fell from 13.12 per cent of GDP in 2015 to 9.73 per cent in 2016, while the income balance fell from a surplus of 0.8 per cent of GDP to a small deficit of 0.1 per cent of GDP.

Net current transfers decreased by 23.1 per cent to US\$ 320.4 million, reflecting higher outflows in the "other current transfers" category. Inflows of current transfers were also lower at US\$ 592.2 million, down from US\$ 610.9 million in 2015. Inflows of workers' remittances decreased by 9.9 per cent or US\$ 28.9 million to US\$ 264.6 million, while receipts from bank accounts abroad increased by 3.6 per cent or US\$ 9.0 million to US\$ 258.4 million. The main sources of outflows were remittances to bank accounts abroad and workers' remittances, which amounted to US\$ 145.4 million and US\$ 109.4 million, respectively. Profits from the two main large-scale gold mining companies, Troy Resources and Guyana Goldfields, were largely repatriated to their respective head offices in Australia and Canada.

The capital and financial accounts moved into deficit in 2016: the capital account deficit was -0.4 per cent of GDP, while the financial account deficit was -0.85 per cent. This was due in part to lower inflows of foreign direct investment, which decreased by 73.7 per cent in nominal terms, declining from 3.8 per cent of GDP in 2015 to 0.9 per cent of GDP in 2016. There was a slowdown in private sector foreign direct investment. Additionally, a few new companies, inclusive of the two large-scale gold mining companies mentioned above, are now at the production phase. Foreign direct investment inflows are expected to rebound in 2017, going mostly to the nascent oil sector.

The overall balance in 2016 was in deficit by 1.6 per cent of GDP, which is less than the 2015 deficit of 3.4 per cent of GDP. Debt forgiveness exceeded the deficit in the overall balance, allowing international reserves to increase to approximately four months of import cover by the end of 2016.

b) Economic activity

Economic growth in Guyana was 3.3 per cent in 2016, up slightly from 3.2 per cent in 2015, and was driven by a 45.5 per cent expansion in mining and quarrying that offset declines in agriculture, forestry and fishing (production of sugar, rice and timber alike contracted), in the manufacturing sector and in the wholesale and retail industry. This was in stark contrast with 2015, when most industries registered positive growth, with wholesale and retail, bauxite, forestry and fishing being the exceptions. Mining and quarrying contributed a remarkable 5.0 percentage points to economic growth in 2016, offsetting a 2.0 percentage point decline in the agriculture, forestry and fishing sector.

The growth in mining was fuelled by a 9.6 per cent increase in gold prices coupled with a 58.1 per cent increase in gold production from both foreign and domestic companies. The agricultural sector declined for a number of reasons, including poor weather conditions and structural reform measures. Sugar output fell because of an inadequate high-quality cane harvest in the wake of El Niño, rice output because of low international prices and a decline in the area cultivated, also owing to El Niño, and forestry output because of poor market conditions and the downscaling of logging companies. Conversely, the fishing subsector expanded as increased catches of fish and shrimp coincided with higher production of tuna, a species new to the Guyanese market.

Rice and gold production is expected to continue driving growth in 2017. The Ministry of Finance predicts growth of 3.8 per cent in 2017, this being predicated on continued expansion in the mining sector combined with rebounds in the agriculture and construction sectors.

c) Prices, wages and employment

Employment data are available for the public sector in Guyana but not the private sector. Total public sector employment increased by 3.6 per cent in 2016. A 0.7 per cent drop in the payroll at the Guyana Sugar Corporation (GUYSUCO) resulted in a 0.1 per cent decrease in total employment at public corporations. The decline in sugar industry numbers coincided with a period of industrial unrest at GUYSUCO.

After a year of deflation in 2015, consumer prices rose again in 2016. The year-on-year inflation rate in December 2015 was -1.8 per cent, whereas by December of the following year it had increased to 1.4 per cent. The 12-month cumulative inflation rate fluctuated over the course of 2016, from 0.8 per cent in January to 0.3 per cent in February, 1.0 per cent in June, 0.7 per cent in July and 1.4 per cent in December. This pattern largely reflected changes in the main component of the index, namely food. Cumulative 12-month food price inflation also fluctuated over the year, rising from 3.4 per cent in January 2016 to 4.2 per cent in December 2016. The increase in food prices was mainly a result of shortages due to adverse weather conditions, including El Niño. Housing costs moved down over most of the period, as did another component, transport and communications.

F. Jamaica

1. General characteristics of recent trends

On the heels of several quarters of positive growth, the Jamaican economy expanded by 1.4 per cent in 2016, which was an improvement on the 1.0 per cent achieved in 2015. The economy is expected to grow at 1.6 per cent in 2017, assuming robust growth in the agricultural sector and continued improvement in tourism receipts and remittance flows.

Economic policymaking will be influenced by the government's three-year stand-by arrangement with the International Monetary Fund (IMF), which was signed in November 2016. This agreement, which is valued at US\$ 1.64 billion, will replace a US\$ 932 million, four-year extended fund facility signed in May 2013. The government has stated that it intends to treat the stand-by arrangement as precautionary and will thus not make drawdowns unless economic conditions deteriorate sharply. This is largely designed to boost confidence while the fiscal consolidation efforts continue.

The inflation rate was 1.7 per cent in 2016, which is low by historical standards. The central bank has thus adopted a more accommodative monetary policy stance, aiming to boost growth by reducing interest rates and creating more opportunities for interbank borrowing. There may be more scope for further interest rate cuts in 2017, assuming that inflation rates remain relatively low.

The key challenge to the economy continues to be the large debt burden, which is likely to persist for the medium term. At the end of 2016, the debt stock was 2.15 trillion Jamaican dollars (J\$) or 128 per cent of GDP. As a result, the fiscal consolidation programme designed to restrain expenditure and increase revenue is still necessary to stabilize and bring down the debt burden.

After an initial acceleration in depreciation, the Jamaican dollar settled at J\$ 128.44 = US\$1.00, reflecting an annual nominal rate of depreciation of 6.7 per cent. The Bank of Jamaica's strategy is to intervene when there are significant deviations between the two currencies since excessive depreciation gives rise to inflation and greater economic uncertainty.

The current account deficit narrowed to US\$ 103.0 million, or 0.8 per cent of GDP in 2016. This was the fifth consecutive year of improvement and the lowest deficit in 15 years, for which one main reason was the improvement in the services balance. Consequently, gross reserves reached US\$ 3.295 billion, representing 24.7 weeks of projected goods and services imports, at the end of 2016.

2. Economic policy

a) Fiscal policy

Jamaica's medium-term macroeconomic programme and policies are supported by a three-year stand-by arrangement with IMF. The arrangement replaced the extended fund facility that was to conclude in

March 2017. One major change is that the frequency of the formal reviews of the quantitative performance criteria and the structural benchmarks under the stand-by arrangement were adjusted from quarterly to semi-annual. IMF funding under the stand-by arrangement is being treated as precautionary, but it affords the country access to approximately 1.1953 billion of the Fund's special drawing rights (SDR), or 312 per cent of Jamaica's quota in IMF, equivalent to US\$ 1.6 billion, under certain conditions. This is designed to boost confidence and to signal that the fiscal consolidation programmes will continue. The first assessment under the stand-by arrangement for the December 2016 quarter was completed in April 2017, with the economy receiving positive marks. On successful completion of this review, IMF will make approximately SDR 126.0 million (US\$ 170.0 million) available to Jamaica. The remaining funds will become accessible in six tranches upon successful completion of subsequent reviews.

The fiscal performance in fiscal year 2016/17 reflected further expenditure compression and attempts at increasing revenue. Expenditure relative to the budgeted amounts was down in almost all categories and by 0.1 per cent overall. At the same time, capital spending was down by 6.4 per cent relative to budget projections. Overall revenues and grants were up by 1.8 per cent relative to the budget. With respect to taxation, the new government kept its electoral promise to reduce the tax burden to zero for those below the income tax threshold of J\$ 1.5 million a year. This was a two-phase process that began in July 2016 and was completed in March 2017. The measure was paid for by an increase in gas taxes: while it removed over 200,000 individuals from the income tax rolls, the increased fuel tax will affect the poor and will have distributional consequences as a result of the policy shift from direct to indirect taxes.

The public debt overhang remains a significant challenge to the performance of the economy. At end-December 2016, Jamaica's stock of debt was J\$ 2.15 trillion, or 128.0 per cent of GDP, lower than the 131.0 per cent of GDP at the end of 2011. The decline has been slow because of the staggering size of the debt in the context of low growth.

In fiscal year 2016/17, the external debt was projected at 75.6 per cent of GDP, but the foreign-exchange component of the overall debt was more than 50 per cent of GDP. The fact that the external debt is denominated in foreign exchange creates an additional burden with each devaluation of the currency. With respect to debt service, interest payments are projected at 8.3 per cent of GDP, so that total debt service, including interest and amortization, represent a sizeable portion of the budget.

In light of the fiscal adjustment initiatives being undertaken, in the budget for fiscal year 2017/18 the government has increased benefits under the conditional cash transfer programme called Programme of Advancement Through Health and Education (PATH). An additional J\$ 3.68 billion has been allocated for these benefits, bringing the total provision to J\$ 11.47 billion, an increase of 47 per cent over the provision in 2016/17.

b) Monetary policy

In 2016 the central bank, Bank of Jamaica, adopted an accommodative monetary policy, reducing the signal interest rate—the rate payable on its 30-day certificates of deposit—from 5.25 per cent to 5 per cent in May 2016. This reduction occurred in the context of a generally favourable outlook for lower inflation, and an overall improvement in macroeconomic performance. The benchmark rate is likely to remain on hold in the short term, as the central bank should have no need to raise it thanks to recent fiscal consolidation plus the control of inflation. It will likely climb gradually during 2018, however, as fuel-related prices pick up moderately and monetary policy in the United States is tightened.

The rate cut is part of the central bank's plan to switch its benchmark interest rate from the 30-day certificate of deposit rate to an overnight rate during the period 2017-2021, in order to make the monetary policy transmission mechanism more effective. In March 2017, the central bank took the first step in this direction by reducing the overnight lending rate from 7.25 per cent to 7 per cent and increasing the overnight deposit rate from 3 per cent to 4 per cent.

Growth in narrow money (M1J) fell from 20.8 per cent in 2015 to 15.5 per cent in 2016, reflecting a decline in the growth rates of currency in circulation, from 20.8 per cent to 15.4 per cent, and of demand deposits, from 25.9 per cent to 13.3 per cent, between these two years. Meanwhile, growth in

the broad Jamaican dollar money supply (M2J) also declined, from 4.8 per cent in 2015 to 12.3 per cent in 2016.

In 2016, the stock of commercial bank credit to the private sector grew by 14.8 per cent, steeply up on the 9.6 per cent rate posted in 2015, and was largely denominated in Jamaican dollars. Meanwhile, the weighted average lending rate fell marginally, from 16.92 per cent in 2015 to 16.9 per cent in 2016, and the deposit rate fell from 1.64 per cent to 1.34 per cent, causing the interest rate spread to narrow from 15.34 per cent to 14.85 per cent.

Total loans and advances to the private sector expanded by 13.6 per cent in 2016 relative to 9.9 per cent in 2015. The expansion for 2016 reflected an increase in the supply of credit to both businesses (12.6 per cent) and individuals (16.6 per cent). According to the Bank of Jamaica, loans and advances grew 13.4 per cent in the professional and other services segment, 30.89 per cent in the tourism segment, and 11.30 per cent in manufacturing.

With respect to the integrity of the banking system, according to the Bank of Jamaica, deposit-taking institutions were largely resilient to macro prudential stress tests, thanks to their capital position.² This augurs well at this time since the economy seems to be on the upswing.

From the point of view of monetary policy, two important policy shifts are under way. The Bank of Jamaica plans to move towards a transparent and more market-based exchange-rate pricing mechanism through foreign-exchange auctions. This is likely to improve competitiveness in the foreign-exchange market and facilitate the Bank's market-based purchase of international reserves. Secondly, the Bank is seeking to further enhance financial sector supervision, crisis preparedness and the framework for combating money-laundering and terrorism financing.

c) Exchange rate policy

The weighted average selling rate of the Jamaican dollar vis-à-vis the United States dollar closed the last quarter of 2016 at J\$ 128.44 = US\$1.00, reflecting an annual rate of depreciation of 6.7 per cent, compared with 7.7 per cent at the end of the previous year. Net foreign-currency outflows from authorized dealers and bureaux de change increased in the last quarter of 2016, as a result of a net demand for United States dollars to satisfy current account transactions.

The central bank accordingly provided United States dollar liquidity support to the market in the amount of US\$ 97.0 million during the last quarter of 2016, relative to US\$ 250.8 million and US\$ 224.2 million in the second and third quarters, respectively. Despite IMF recommendations that the central bank intervene less frequently in order to build up reserves, the monetary authorities are expected to step up foreign-exchange sales should it be necessary to contain acceleration in currency depreciation, imported inflation or rises in external debt servicing costs.

The slower pace of depreciation and lower inflation has helped to improve Jamaica's competitiveness as measured by the Bank of Jamaica's real exchange rate, and this should help improve the performance of several sectors, including manufacturing.

d) Other policies

In the budget presentation of March 2017, the Minister of Finance pointed out that the new IMF arrangement would benefit a series of reforms by boosting employment and GDP growth; progressively reducing poverty; strengthening the social safety net for the poor; improving public sector efficiency; reallocating public resources to growth-enhancing capital spending; rebalancing taxes from direct to indirect taxes; bolstering the resilience of the financial system; modernizing the monetary policy framework; and building the foundation for an eventual move to inflation targeting, while maintaining exchange-rate flexibility and continuing to build precautionary foreign reserves.

The reforms already enacted —the private and public sector pension reforms, Bank of Jamaica reform to limit lending to the government and reform to the management of public bodies— have already begun to bear fruit as evidenced by an improvement in doing business indicators and in tax collection.

3. Trends in the principal variables

a) The external sector

The data suggest that the current account deficit narrowed by US\$ 327.1 million to US\$ 103.0 million, or 0.8 per cent of GDP, in 2016. This was the result of a significant improvement in the performance of the services sector, including transfers, in turn driven largely by remittance inflows. Interestingly, with respect to goods, the value of both exports and imports fell, by 4.8 per cent and 6.3 per cent, respectively. The reduction in imports was due to a price reduction of mineral fuels which offset increased volume.

Net earnings from services increased by US\$ 153.1 million (17.1 per cent) to US\$ 1.051 billion in 2016. The higher inflows primarily reflected an increase in receipts from travel, thanks to growth of 2.7 per cent in stop-over visitor arrivals, relative to 2015. With larger tourism arrivals anticipated, growth in travel receipts is expected to be higher in 2017.

The deficit on the income balance widened in 2016, largely reflecting the impact of repatriated profits from foreign direct investments, as well as an increase in government interest payments. The overall surplus on the capital account, together with private investment inflows, was more than sufficient to finance the deficit on the current account. Consequently, gross reserves rose to US\$ 3.295 billion, which was equivalent to 24.7 months of projected goods and services imports, well above the 4.5 months suggested by IMF.

b) Economic activity

The Jamaican economy grew by 1.4 per cent in 2016, following an increase of 1.0 per cent in 2015. In the last three quarters of 2016 the growth performance, though uneven, was positive with rates of 1.4 per cent, 2.0 per cent and 1.3 per cent, respectively. The expansion in economic activity over the year was driven largely by an upturn of 3.4 per cent in the goods-producing sector, and 0.8 per cent in the services sector. At the same time, depressed energy prices provided a fillip to growth in light of Jamaica's heavy dependence on imported energy.

Within the goods sector, all subsectors posted positive growth except for mining and quarrying (-3.2 per cent), which were hurt by depressed commodity prices and challenges at the country's largest bauxite plant. The greatest expansion in output was delivered by the agricultural sector (12.8 per cent), which had shown negative growth in 2015. Of the other goods-producing sectors, manufacture and construction posted growth of 0.5 per cent and 0.3 per cent, respectively.

In the case of services, all subsectors, with the exception of producers of government services, posted a decline (0.1 per cent) in 2016. The subsector with the strongest growth was electricity and water supply (4.0 per cent) which has benefited from increased rates recently. Hotels and restaurants grew by 2.2 per cent, which was better than the 1.9 per cent achieved in 2015 and was driven by gains of 2.7 per cent and 5.9 per cent in stop-over visitor arrivals and expenditure, respectively, relative to the previous year. Visitor expenditure was bolstered by improved labour market conditions in major source markets, as well as increases in length of stay.

The outlook for growth in the Jamaican economy continues to be positive, with a projected 1.6 per cent in 2017. This reflects the anticipated impact of improvements in the international economy and in the domestic business environment, including recovery from the supply shocks that affected agriculture in 2015. The Business Confidence Index for December 2016 shows a 15.4 per cent increase over its year-earlier level, marking the best four consecutive quarters recorded in 15 years. In addition, growth in private consumption, which usually represents some 80 per cent-85 per cent of GDP, will likely increase owing to higher remittances and the slowing of the unemployment rate. On the other hand, government consumption will be restrained by the ongoing fiscal consolidation programmes.

c) Prices, wages and employment

Inflation remained low throughout 2016, ending the year at 1.7 per cent. It is expected to pick up to 3.0 per cent on average in 2017, owing to commodity price rises, local-currency depreciation and slightly stronger domestic demand. The sharp decline in inflation largely reflected the reduction in international crude oil prices and depressed domestic demand.

Compensation of employees in the budget for fiscal year 2017/18 was estimated at J\$ 193.2 billion and accounts for 35.6 per cent of the expenditure budget. This covers the cost of wages and salaries, as well as provisions for statutory deductions and the government's contribution to public sector health insurance schemes. The wage and salaries bill came in at J\$ 179.5 billion, a 5.2 per cent increase over the previous year, but the wage-to-GDP ratio edged down from 9.7 per cent in fiscal year 2016/17 to 9.5 per cent in 2017/18.

Labour market conditions improved somewhat in 2016, as the unemployment rate decreased to 12.9 per cent in October 2016 from 13.5 per cent in 2015. The decline in unemployment resulted from the growth in employment outweighing the expansion of the labour force. With the exception of manufacturing, construction and installation, wholesale and retail commerce, hotel and restaurant services, and real estate and rental services, all sectors have all experienced negative growth in employment. In January 2017, the unemployment rate fell to 12.7 per cent relative to 13.3 per cent a year earlier. By age group, overall unemployment in the 20-24 and 25-34 age groups was 42.8 per cent and 28.7 per cent, respectively, in January 2017. By gender, the unemployment rates in these age groups were 33.8 per cent and 22.9 per cent, respectively, for men, and 57.5 per cent and 31.2 per cent, respectively, for women. Clearly, then, female and youth unemployment remain a considerable challenge in Jamaica and will not be substantively addressed without sustained and inclusive economic growth.

G. Suriname

1. General characteristics of recent trends

2016 was a year of difficult adjustments for Suriname as the authorities came to terms with the economic crisis brought on by years of declining commodity prices, which eventually culminated in the cessation of alumina production in late 2015. The Suriname economy contracted by 10.4 per cent in 2016, the largest decline in Latin America and the Caribbean that year, compounding a smaller 2.7 per cent contraction in 2015. This followed average growth of 3.8 per cent over the previous 10 years. The authorities struggled to contain twin fiscal and current account deficits in 2016, and turned to the International Monetary Fund (IMF) for support. Despite mixed progress on economic reforms, the government managed to reduce the fiscal deficit to 7.9 per cent of GDP from 10.2 per cent of GDP in 2015.

To deal with a decline in the country's international reserves, the authorities continued the devaluation process begun in 2015. Suriname moved to a freely floating exchange rate in 2016, and the currency had weakened to 7.45 Surinamese dollars (Sr\$) per United States dollar (US\$) by year end, more than halving in value from the Sr\$ 3.35 per US\$ 1 peg it had maintained from 2011 to November 2015. The devaluation reduced imports and, along with the IMF capital injection, stabilized the fall in international reserves in 2016. The current account deficit also contracted, from 19.6 per cent of GDP to 5.4 per cent of GDP. However, combined with utility rate increases, the devaluation also had the effect of lifting inflation to upwards of 70 per cent: it peaked at 79 per cent in October 2016 and declined slowly thereafter as the devaluation shock began to wear off. Government debt continued increasing, albeit not as steeply as in 2015.

In 2017, Suriname faces the challenge of remaining committed to the IMF programme while dealing with citizen protests. Under the programme, the government plans to introduce a value added tax and vehicle tax and to increase fuel duties, among other things. If the agreement is abandoned, financing from other multilateral sources could disappear. Because of the continued economic instability, growth in 2017 is projected at -0.2 per cent.

2. Economic policy

a) Fiscal policy

The Government of Suriname instituted a number of cost-cutting measures in 2016 in response to the economic crisis, including the phasing out of utility subsidies and a reduction in expenditure. In May 2016, it signed a US\$ 481 million 24-month standby arrangement with the IMF for balance-of-payments support and to aid in the adjustment process. The IMF agreement included several fiscal consolidation

measures and adjustments to the monetary and exchange-rate regimes. While the government implemented a number of these, it partially reversed the electricity price rise and stopped increasing fuel prices following a public outcry.

As a consequence of its fiscal consolidation efforts, the government was able to decrease the fiscal deficit to 7.9 per cent of GDP in 2016 from 10.2 per cent in 2015. This was despite a steep fall in revenue, from 20.4 per cent of GDP in 2015 to 15.0 per cent in 2016, due mainly to a decline in tax receipts from 16.3 per cent to 11.1 per cent of GDP. Government austerity measures resulted in a 7.0 percentage point drop in total expenditure, from 30.0 per cent of GDP in 2015 to 23.0 per cent in 2016. Wages and salaries fell to 7.1 per cent of GDP, 2.1 percentage points down on 2015 and the lowest in five years. The largest percentage point decline among the current expenditure categories was for other goods and services, spending on which decreased from 8.4 per cent of GDP to 4.8 per cent of GDP. Although current expenditure fell as a percentage of GDP, it actually increased in nominal terms, with other goods and services being the only subcategory for which it was down in nominal terms. The declines relative to GDP were due to the large increase in nominal GDP resulting from high inflation over 2016.

The deficit was partially financed through Suriname's first global bond issue, worth US\$ 550 million, with a maturity of 10 years and a yield of 9.25 per cent. The proceeds of the bond were to be used for debt repayments to Petróleos de Venezuela under the PetroCaribe scheme, among other lenders; payment for an equity investment in Suriname Gold Project; lending to the State-owned oil company; and general budgetary purposes.

Total central government debt (defined in accordance with the National Debt Act) increased to 56.8 per cent of GDP from 52.3 per cent in 2015. This was a much smaller increase than the 19.0 percentage point jump from 33.3 per cent in 2014. Some of the new debts incurred in 2016 included US\$ 235 million from China for infrastructure development, loans from Israel and Europe for construction at the Anton de Kom University of Suriname and infrastructure works, and loans from the Islamic Development Bank (ISDB), Caribbean Development Bank (CDB) and Inter-American Development Bank (IDB) for a total of US\$ 156.7 million, some of which is for development of the energy sector.

b) Monetary policy

In 2016, the Central Bank of Suriname introduced Treasury bill auctions as a form of open market operation to complement monetary policy and provide another source of domestic financing. The auctions produced a rate of 25 per cent on three-month Treasury bills. The average lending rate rose from 12.9 per cent in January 2016 to 14.1 per cent in December and continued climbing into 2017, reaching 14.6 per cent in March. The average deposit rate also rose, moving up from 7.7 per cent in January 2016 to 8.5 per cent by the end of the year and 9.1 per cent in March 2017. Notwithstanding these increases, high inflation has kept real interest rates securely in negative territory. Credit to the private sector increased by 27.4 per cent in nominal terms in 2016.

Required reserve ratios were left unchanged in 2016 and 2017 at 35 per cent for Surinamese dollars and 45 per cent for United States dollars. The reserve ratio for euros was cut slightly, from 30 per cent in January 2016 to 28.6 per cent in December 2016 and 27 per cent in April 2017.

In the second quarter of 2016, the Ministry of Finance and the Central Bank of Suriname signed an agreement stating that the central bank would no longer provide the government with advances and that the existing advances must be repaid by the end of June 2016, which in the event they were.

c) Exchange rate policy

In response to the fall in international reserves that had been ongoing since 2012, Suriname began to modify its exchange-rate policy in late 2015, devaluing the currency from a peg of Sr\$ 3.35 per US\$ 1 to Sr\$ 4.04 per US\$ 1. An auction-based foreign-exchange allocation system was introduced in March 2016, and by May 2016 the currency had been allowed to float freely. Following these reforms, the exchange rate quickly weakened to a monthly average of Sr\$ 7.747 per US\$ 1 in September. It then strengthened to 7.261 in October following the issue of the global bond, but has since been weakening steadily, albeit at a slower pace, averaging 7.45 in December 2016 and 7.611 in April 2017.

3. Trends in the principal variables

a) The external sector

In 2016, Suriname's current account deficit narrowed by 80 per cent in nominal terms relative to the previous year. This was due mainly to a 39 per cent reduction in imports, which offset a 12 per cent decline in exports. The devaluation of the currency over the course of the year resulted in a decline in purchasing power that contributed to the contraction in imports. Every category of import declined, with some of the largest falls being in machinery and transport equipment (-48 per cent), manufactured goods (42 per cent) and chemicals and related products (-38 per cent). While most categories of export declined, there were increases in beverages and tobacco, chemicals and related products, and miscellaneous manufactured articles. However, these categories only accounted for 2.1 per cent of total exports. Exports in the category of commodities and transactions n.e.s. plus classification errors, which includes gold, decreased by 14 per cent in 2016, but their share of total exports increased to 73 per cent from 58 per cent in 2015.

As a share of GDP, the current account balance improved to -5.4 per cent from -19.6 per cent the previous year. The goods balance moved from a deficit of 9.1 per cent of GDP to a surplus of 7.0 per cent of GDP, while the services balance worsened slightly from -11.4 per cent of GDP to -12.1 per cent of GDP. The income balance deficit expanded from -0.7 per cent of GDP in 2015 to -3.8 per cent of GDP in 2016, while the current transfers surplus grew from 1.6 per cent of GDP to 3.5 per cent of GDP.

The financial account balance fell from 17.9 per cent of GDP in 2015 to 11 per cent in 2016. Foreign direct investment into the country fell by 20 per cent in nominal terms. International reserves contracted over the first five months of 2016, from US\$ 308.7 million in January to US\$ 212.5 million in May. International reserves almost doubled to US\$ 404.3 million with the disbursement of IMF funds in June 2016 before beginning to slide again, falling to US\$ 350.1 million in September 2016. Since then they have increased somewhat and been more stable, standing at US\$ 381.1 million in December 2016 and a slightly improved US\$ 384.1 million in March 2017.

b) Economic activity

The Planning Office of Suriname estimated economic growth in 2016 to be -10.4 per cent. There were contractions in 9 of the 14 private sector categories, with only the agriculture, hunting and forestry sector, the real estate, renting and business activities sector, the education sector, the health and social work sector and the other community, social and personal services sector experiencing expansions. However, these activities collectively contributed a mere 0.3 percentage points to growth. The largest private sector contributor to the decline was wholesale and retail trade, which fell by 20 per cent in terms of value added and contributed -3.5 percentage points to growth. High inflation rates throughout 2016, stemming from a combination of the currency devaluation shock and increases in utility prices, reduced consumers' purchasing power and thence consumption. Value added shrank by 8 per cent in the construction sector, which contributed -0.5 percentage points to growth.

The government sector as a whole contributed -4.7 percentage points to growth as efforts were made to rein in expenditure. All government sectors contracted in 2016, and the aggregate shrank by 43 per cent.

The Planning Office projects growth in 2017 to be -0.2 per cent. Rebounds in mining and quarrying and in manufacturing (which includes gold production) are expected to be offset by continued contractions in construction and in wholesale and retail trade. The Newmont Suriname gold mine, which was opened in late 2016, is expected to contribute to economic growth in 2017 and beyond.

c) Prices, wages and employment

Following the initial devaluation of the currency in November 2015, year-on-year inflation in Suriname jumped to 20.7 per cent from 4.1 per cent in October. Inflation remained above 25 per cent throughout 2016, rising continuously until it peaked at 79 per cent in October and then falling back to 57.3 per cent in November, one year after the initial devaluation, and then to 49.2 per cent in December and 42 per cent in March 2017. Month-on-month inflation averaged 3.1 per cent from May to October 2016 and 0.8 per cent from November 2016 to March 2017, evincing a decrease in volatility. While inflation is

expected to continue to decline, it is not anticipated that it will return to single digits until 2018, and it may persist at elevated levels for even longer if the government is not able to restrict wage growth.

H. Trinidad and Tobago

1. General characteristics of recent trends

In 2016 Trinidad and Tobago experienced its third consecutive year of negative growth, with a contraction of 2.3 per cent in real terms, coming after rates of -0.6 per cent in 2014 and -0.6 per cent in 2015. This contraction was largely due to the shock that has weighed on the energy sector since 2014: weak energy prices combined with dwindling oil and natural gas production.

By June 2016, Trinidad and Tobago's total exports had fallen to US\$ 4 billion, from US\$ 10.8 billion in 2015. The reduced earnings, as well as energy taxation concessions introduced in 2014, pushed the government's energy taxation revenue down to 6.6 billion Trinidad and Tobago dollars (TT\$) from TT\$ 18.7 billion the previous year. Although the Government of Trinidad and Tobago decreased its total expenditure from TT\$ 59.9 billion to TT\$ 52.2 billion, it still incurred a fiscal deficit of TT\$ 7.3 billion, or 5 per cent of GDP. This was a worsening of the fiscal position, as the initially budgeted deficit was US\$ 2.8 billion, while the deficit for the previous fiscal year was US\$ 2.7 billion (1.8 per cent of GDP).

The government has signaled its intention to achieve a balanced budget by 2020 and limit total public debt to 65 per cent of GDP and, in this regard, has adopted fiscal consolidation measures, including the widening of the VAT base and the reduction of subsidies (for example on gasoline and tertiary education).

Headline inflation stood at 3 per cent in September 2016, compared with 4.7 per cent in September 2015, and 5.7 per cent in September 2014. Core inflation, which excludes food price inflation, measured 2.3 per cent in September 2016, compared with 1.8 per cent in the same month in 2015, and 2 per cent in 2014. The low inflation in the economy reflected slower price rises in general owing to the effects of the recession.

The unemployment rate stood at 4 per cent in September 2016, up from the average rate of 3.5 per cent in 2015. Although jobs have been lost in the energy sector, it employs only an estimated 5 per cent of the labour force. Retrenched workers are likely to seek some form of employment in the informal sector to mitigate their income loss.

2. Economic policy

a) Fiscal policy

The effects of the mid-2014 oil price crash lingered into fiscal year 2015/16. The 2014/15 budget was predicated on an average oil price of US\$ 80 per barrel. This turned out to be an overestimation as West Texas Intermediate (WTI), a benchmark for oil prices in the Western hemisphere, collapsed to US\$ 59.29 per barrel by December 2014. The 2015/16 budget was based on a price of oil of US\$ 45 per barrel. In 2015, WTI averaged US\$ 48 per barrel, while in 2016, it averaged US\$ 43 per barrel.

The lower-than-expected oil prices, declining rates of both crude oil and natural gas production, as well as the concessions offered since 2014 to operators in the oil sector—which allow for the write-off of up to 100 per cent of the cost of capital expenditure on exploration against taxation liability—, caused a significant decline in the government's energy taxation revenue. In fact, revenue from that source declined from TT\$ 28.1 billion in 2014, to TT\$ 18.7 billion in 2015 and TT\$ 6.6 billion in 2016.

Total government revenue fell from TT\$ 58.4 billion in 2014, to TT\$ 57.2 billion in 2015, then TT\$ 44.9 billion in 2016. The government reduced its total expenditure from TT\$ 62.8 billion in 2014 to TT\$ 59.9 billion in 2015, then to TT\$ 52.2 billion in 2016. When viewed against the declining revenue streams, these expenditure cuts were insufficient to balance the budget, resulting in fiscal deficits of - 2.6

per cent, -1.8 per cent and -5.0 per cent of GDP in 2014, 2015, and 2016, respectively. The 2016 deficit far exceeded the projection of -1.8 per cent of GDP made by the government in its 2015/2016 budget.

To make up for weaker revenues, the government withdrew TT\$ 2.5 billion from its Heritage and Stabilization Fund (HSF) during the first half of 2016, using those monies for budgetary support.

The government managed to marginally decrease its public debt. Repayments on contingent debt reduced overall public debt (excluding sterilized debt) from TT\$ 88.3 billion (60 per cent of GDP) at the end of September 2016 to TT\$ 87.4 billion (56.6 per cent of GDP) at year-end. The total debt (including sterilized debt) decreased from 81.4 per cent of GDP (TT \$119.653 billion) to 77.2 per cent of GDP (TT \$119.233 billion).

In 2016, reforms were made to the value added tax (VAT) system, which included a cut in the number of zero-rated products to only a few basic food items, and a reduction in the VAT rate from 15 per cent to 12.5 per cent. The government also decreased its subsidization of gasoline, resulting in an increase in prices at the pump.

In the second half of the 2015/2016 fiscal year, the government moved to increase taxation compliance and collect arrears from companies. It also sought to raise revenue from: (i) the sale of Trinidad Generation Unlimited (TGU), a State-owned electricity operator, and of some Colonial Life Insurance Company Trinidad Ltd (CLICO) ¹ assets; (ii) increased taxes on the gaming, alcohol and tobacco industries; (iii) the introduction of a new 7 per cent tax on online purchases; (iv) a 50 per cent increase in the customs duties and motor vehicle tax (MVT) on luxury vehicles (engines exceeding 1999 cc); and (v) further reduction in the gasoline subsidy, resulting in a 15 per cent increase in its price at the pump.

b) Monetary policy

Despite the persistence of weakness in the economy, the Central Bank of Trinidad and Tobago held its main monetary policy tool, the repo rate, unchanged at 4.75 per cent from January to December 2016. The rate had been raised six times in 2015 to guard against capital flight in response to the anticipated increase in interest rates in the United States.

The weighted average lending rate for commercial banks increased from 8.03 per cent in June 2016 to 8.24 per cent in December 2016. The weighted average deposit rate for commercial banks increased from 0.59 per cent to 0.60 per cent over the same period. Thus, the interest rate spread widened over the second half of 2016, which precipitated a deceleration of private sector lending, with loans by the consolidated financial system increasing by only 3.3 per cent in December 2016, compared with 4.9 per cent a few months earlier in July. Mortgage lending slowed from 7.2 per cent growth in July 2016 to 4.4 per cent in December. Loans to businesses saw weak growth in the first half of 2016, but none at all the second half.

The central bank tightened its liquidity management in the latter half of 2016. It had allowed liquidity to build up in the first half of the year to facilitate domestic government borrowing but, in the second half, it removed TT\$ 1.2 billion from the financial system through open market operations. This allowed the excess liquidity to decline to a daily average of TT\$ 3.4 billion over the second half of 2016 from TT\$ 4.6 billion during the first half.

c) Exchange rate policy

The foreign-exchange market continued to be tight in 2016. Consequently, commercial banks resorted to the rationing of United States currency sales to consumers. Over the first half of 2016, US\$ 2.745 billion was sold to the public by authorized dealers, while US\$ 2.225 billion was purchased. Over the second half of the year, US\$ 3.031 billion was sold, and US\$ 2.063 billion was purchased by authorized dealers. The central bank issued US\$ 1.811 billion to the market over 2016 overall.

The central bank has also allowed the United States dollar exchange rate to depreciate by 5 per cent, from TT\$ 6.45 to US\$ 1 in January 2016 to TT\$ 6.78 to US\$ 1 in December 2016.

d) Other policies

In December 2016, the government signed an agreement with the Government of the Bolivarian Republic of Venezuela for the development of the Dragon Natural Gas Field. Unlike in the case of the

cross-border Loran-Manatee field, on which the two governments signed a unitization agreement in 2015, the Dragon Field lies solely in Venezuelan territorial waters. Each country has agreed to bear its own costs for commercialization. Thus, Trinidad and Tobago will have to finance the construction of the pipeline from the Dragon gas field in Venezuela's Mariscal Sucre region to the Hibiscus platform in Trinidadian waters. Both governments are eager for the project to be implemented and have planned for development works to commence in 2017.

3. Trends in the principal variables

a) The external sector

In the first six months of 2016, Trinidad and Tobago incurred a deficit of US\$ 367.3 million, or 3.3 per cent of GDP, on its external account. The worsening of the external balance was due the decline in energy exports. The current account posted a deficit of US\$ 582.7 million in the first half of 2016, compared with a surplus of US\$ 823.4 million in 2015. Energy exports stood at US\$ 4.702 billion in the first half of 2015, but dwindled to US\$ 3.361 billion in the first half of 2016, owing to the combined effect of weak energy prices and lower energy production in the country.

Net foreign direct investment (FDI) tumbled by 52 per cent in nominal terms, to 2.2 per cent of GDP. FDI inflows fell by 33 per cent as those to the main destination sector, energy, fell by 24 per cent. The financial account registered a net inflow of US\$ 573.0 million in the first six months of 2016, a reversal of the net outflow of US\$ 429.0 million recorded in the first half of 2015.

Despite the weak performance of the energy sector, international reserves remained relatively unchanged. By the end of 2015, they stood at US\$ 9.933 billion, or 11.2 months of import cover. Six months into 2016, international reserves decreased marginally to US\$ 9.565 billion, but still represented 11.3 months of import cover.

b) Economic activity

The economy contracted by 2.3 per cent in 2016. In the last quarter of the year, there was downturn in the energy sector due to the 4.2 per cent decline in crude oil production and the 10.8 per cent drop in natural gas production which were attributable, in turn, to upstream delays by producers in order to facilitate planning and preparation for work to be undertaken in 2017. In the downstream segment of the country's energy value chain, petrochemical producers were hurt by the supply squeeze, directly resulting in reduced petrochemical output for the sector.

There were mixed results in the non-energy sector in 2016. Activity in the construction sector was subdued. There was also a decline in retail sales in the third quarter of 2016. Output was down by 4.3 per cent in the manufacturing and assembly sector, reflecting the closure of operations by Arcelor Mittal in December 2015. However, the finance, insurance and real estate sector expanded 10 per cent, thanks to the increase in commercial banking activity. The agriculture sector recorded a 0.4 per cent growth in output in 2016.

c) Prices, wages and employment

Inflationary pressures were contained during the second half of 2016. Headline inflation stood at 3.1 per cent in December 2016, relatively unchanged from 2.9 per cent in July 2016. Together, the marginal depreciation of the domestic currency, the broadening of the VAT base from February 2016, and the reduction in the petroleum subsidy in April 2016 have contributed to the marginal increase in prices from July to December 2016. Core inflation was relatively unchanged at 2.3 per cent in December 2016, from 2 per cent in both January and July. Food inflation was contained at 6.7 per cent in December 2016, a 0.1 per cent decline from its July 2016 rate.

Unemployment rose from 3.5 per cent in December 2015 to 4 per cent in September 2016, reflecting, among other things, retrenchment in the wholesale and retail trade, restaurants and hotels, construction, agriculture and manufacturing sectors. The number of employed decreased from 621,600 to 613,600 over that period. However, the labour force contracted from 643,900 to 639,200, with a fall in the participation rate from 60.4 per cent in December 2015 to 59.8 per cent in September 2016, which averted a larger rise in the unemployment rate.


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