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



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# Abstract

The Caribbean recorded economic growth of only 0.8 per cent in 2016 but growth is expected to rebound to 2.4 per cent in 2017.The poor performance observed in 2016 was primarily due to a 3.7 percent contraction in the goods producing economies, which were hard hit by the decline in commodity prices in general and hydrocarbons in particular. Suriname (-10.4), Trinidad and Tobago (-4.5) and Belize (-2.4) all posted negative growth with the exception of Guyana (2.4 per cent). In contrast, the service producers grew by 2.5 per cent on the heels of a stronger tourism performance and more robust growth in the main tourism markets. Within the subregion, growth in tourist arrivals in 2016 was 4.2 per cent which was greater than the global average of 3.9 per cent. In addition, visitor expenditure was also up 3.5 per cent.

Despite lower economic growth, there has been a marginal improvement in employment, with overall unemployment rate of the Caribbean declining from 15.3 per cent in 2015 to 14.8 per cent in 2016. The only countries for which the unemployment rate increased were the Bahamas, Jamaica, and Trinidad and Tobago. Interestingly, reflecting the continuing decline in oil revenue and its impact on the hydrocarbon sector and government expenditure, the unemployment rate for Trinidad and Tobago has been at its highest since 2013.

In 2016, Caribbean economies continued to focus on fiscal consolidation programmes designed to lock-in tax, expenditure and administrative reforms that are deemed necessary to achieve a fiscal stability, and to reduce the adverse effect of high debt on growth. This notwithstanding, in 2016 the average fiscal deficit of the region increased slighlty by 0.1 percentage points, while public debt rose by 1.9 percentage points. Fiscal rigidity increased in 2016 when compared to the previous year, with the fiscal flexibility index falling by 3.0 percentage points.

Furthermore, the subregion's public debt to GDP ratio increased by 2.0 percentage points to 70.7 per cent of GDP in 2016, although this was marginally lower than the average for the last five years. The goods producers posted a larger increase (3.2 percentage points), compared with 1.4 percentage points growth in the service producers. Growth in debt in the goods producers was led by Trinidad and Tobago (12.1 percentage points), while the modest increase in the debt in the service producers mainly reflected a sharp spike in debt in Anguilla, and higher debt in Grenada and the Bahamas. Regionally, the debt service burden declined in 2016, as the total debt service payments

relative to government revenue fell by 0.7 percentage points. This notwithstanding, debt service payments continue to absorb a significant portion of government revenue in the region, limiting the resources available for undertaking necessary infrastructural and social spending.

It is noteworthy that across the Caribbean, commercial bank lending rates remained flat (at an average 9.9 percent) in 2016, while deposit rates declined by 0.2 percentage points to 2.0 percent. However, there was a slight uptick in lending rates among the goods producing countries, while lending rates in the services economies declined slightly.

In considering monetary aggregates, in the Caribbean, the average ratio of M1 (narrow money) to GDP increased by 0.6 percentage points from 23.0 per cent in 2015 to 23.6 percent in 2016. Notably, however there was a 0.5 percentage point contraction in the narrow money to GDP ratio among Caribbean goods producers in 2016. Sub-regionally, broad money supply (M2), expressed as a percentage of GDP, expanded in both services and goods economies during the period under review. These observed changes in money aggregates in many instances were in part indicative of a combination of efforts by monetary authorities to dampen excess liquidity in some instances, and to stimulate GDP growth particularly in the goods producing economies, as overall sub-regional economic growth slowed in 2016. Despite the overall increase in money supply, private sector credit as a percentage of GDP contracted sharply reflecting considerably slower economic activity. In addition, among the goods producers there was an increase in public sector credit as governments sought to stimulate the economy.

In 2016, inflation (4.9 percent) in the Caribbean continued to be moderated by low international commodity prices, with soft, albeit increasing oil and food prices having a particularly marked effect on service producers. The highest inflation rates were observed in Trinidad and Tobago (2.6 per cent), and Suriname (77.1 per cent). When the effect of Suriname (77.1 percent) is removed, however, the region shows an overall decline in prices (-0.3 per cent).

With regard to the external sector, high current account deficits continue to plague the economies of the Caribbean, with the deficit on the current account widening moderately to 11.1 per cent of regional GDP (US$ 66.1 billion) in 2016 relative to the 10.5 per cent of GDP (US$ 63.5 billion) in the previous year. All components of the current account contributed to the slight widening observed in 2016. Further, in 2014 and 2015 the average terms of trade for both Caribbean goods producers and service producers decreased by more than 5 per cent. In 2016 there was a moderate improvement, as the service producers terms of trade average decreased by just 1 per cent, and the goods producers managed to increase their terms of trade by 3.6 per cent. Moreover, among the goods producers Guyana experienced increased exports and decreased imports, while Suriname saw a large decrease in imports, as inflation resulted in reduced purchasing power. A significant reduction in export value in Belize and Trinidad and Tobago (due to reduced output and low commodity prices) led to a decline in their terms of trade.

Average foreign direct investment (FDI) inflows to the Caribbean, as a share of GDP, decreased from 7.8 per cent in 2015 to 6.4 per cent in 2016. Suriname has attracted investment in its Newmont gold mine which opened at the end of 2016, and Trinidad and Tobago saw continued investment in its petroleum sector together with increased inflows into other sectors. Belize and Guyana both experienced declines in FDI inflows. Inflows to the service producing economies also fell from 9.2 per cent to 8.1 per cent. Anguilla recorded the highest FDI inflows as a share of GDP in the Caribbean with 13.9 per cent of GDP, followed by Saint Vincent and the Grenadines with 13.6 per cent.

There are several downside risks to the relatively optimistic forecast for economic growth in the Caribbean for 2017. These include the uncertainty in respect of U.S trade, immigration and economic policy; the continued threat of de-risking by international correspondent Banks; the region’s debt burden; and relatively low commodity prices.

# Introduction

## A. The world economy and its prospects

Global economic growth is set to rebound in 2017 after a disappointing performance in 2016. Global growth of 3.1 per cent in 2016 was among the slowest since the global crisis of 2008-2009. This was due to a lackluster performance in the advanced economies including the United States and the European Union in 2016, together with marginal growth among emerging and developing economies. World output is expected to expand by 3.4 per cent, driven by emerging economies, which are forecasted to grow at 4.6 per cent and the advanced economies at 1.8 per cent. India and China continued to be major growth poles among the emerging economies although growing at lower rates than in recent years. Both economies are expected to post broadly similar growth rates in 2017 as they did in 2016.

An indication of the slowdown in the global economy is gleaned from the performance of global trade volume. Global trade volumes are growing even less than the global economy, at just 1.7 per cent in 2106, down from 2.3 per cent in 2015. As a result, world output growth will exceed world trade growth in the 2015-2016 biennium for the first time in 15 years[1]. Among the factors leading to this sluggish trade activity are the following: diminished global demand, a heavy fall in investment and stalled growth in global value chains following a rapid expansion in earlier periods[2].

Despite the optimistic forecast for 2017 there are a number of downside risks. There are concerns that the President of the United States may encourage a return to trade protectionism and this could affect negatively United States economic expansion. In addition, oil and other commodity prices could remain depressed, curtailing investment among oil producing countries. Investment flows to emerging economies could also stagnate. Prices fell most heavily for energy products in 2016 (-16 per cent), followed by minerals and metals (-4 per cent). Agricultural products posted a slight rise in prices over the year (3 per cent). Commodity prices are projected to rise by 8 per cent on average in 2017, led by energy products.

1 This is with the exception of 2009, at the height of the economic and financial crisis.
2 See Preliminary Overview of the economies of Latin America and the Caribbean.

**Table 1**
**Actual and projected growth rates 2015 – 2017**
*(Percentages)*

| | Actual | Projections | |
|---|---|---|---|
| | 2015 | 2016 | 2017 |
| World output | 3.2 | 3.1 | 3.4 |
| Advanced economies[a] | 2.1 | 1.6 | 1.8 |
| United States | 2.6 | 1.6 | 2.2 |
| European Union[b] | 2.3 | 1.9 | 1.7 |
| Emerging and developing economies[c] | 4.0 | 4.2 | 4.6 |
| India | 7.6 | 7.6 | 7.6 |
| China | 6.9 | 6.6 | 6.2 |
| Latin America[d] and the Caribbean | 2.0 | 1.3 | 2.4 |

Source: International Monetary Fund (IMF) (2015), "World Economic Outlook database, October 2016; Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Advanced Economies include Australia, Austria, Belgium, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Macao SAR, Malta, Netherlands, New Zealand, Norway, Portugal, Puerto Rico, San Marino, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Taiwan Province of China, United Kingdom, and United States.
[b] European Union includes Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Romania, and United Kingdom.
[c] Latin America includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.
[d] Emerging and Developing economies composed of 152 countries defined in the IMF World Economic Outlook database, October 2016.

# B. Growth performance in the Caribbean

The performance of the Caribbean has continued to be lackluster with growth at only 0.8 per cent in 2016 but this is expected to pick up in 2017 as growth is projected at 2.4 per cent. The poor performance in 2016 was due to the divergence in outcome between the goods and the service producing economies. The goods producers, which were hard, hit by the decline in commodity prices in general and hydrocarbons in particular, posted a decline of 3.7 per cent while the service producers grew by 2.5 per cent on the heels of a stronger tourism performance and more robust growth outcome in the main tourism markets. (Table 2 refers). Within the former group Suriname (-10.4), Trinidad and Tobago (-4.5) and Belize (-2.4) all posted negative growth with the exception of Guyana (2.4 per cent). The dramatic decline for Suriname has been due to softening of oil and precious metal prices. All the other economies which are mainly service producers showed positive growth in 2016.

**Table 2**
**Latin American and Caribbean GDP growth rates, 2011-2017**
*(Percentages)*

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016[p] | 2017[f] |
|---|---|---|---|---|---|---|---|
| Anguilla | 4.1 | -6.3 | -0.6 | 5.1 | 2.9 | 4.8 | 3.1 |
| Antigua and Barbuda | -1.8 | 3.8 | -0.2 | 4.6 | 4.1 | 4.2 | 2.9 |
| Bahamas | 0.6 | 3.1 | 0.0 | -0.5 | -1.7 | 0.0 | 1.0 |
| Barbados | 0.8 | 0.3 | -0.1 | 0.2 | 0.9 | 1.4 | 1.9 |
| Belize | 2.1 | 3.7 | 1.3 | 4.1 | 1.2 | -2.4 | 3.7 |
| Dominica | -0.2 | -1.1 | 0.8 | 4.2 | -1.8 | 1.0 | 3.2 |

Table 2 (concluded)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016[p] | 2017[f] |
|---|---|---|---|---|---|---|---|
| Grenada | 0.8 | -1.2 | 2.4 | 7.3 | 6.2 | 2.9 | 2.6 |
| Guyana | 5.4 | 4.8 | 5.2 | 3.8 | 3.2 | 2.6 | 3.8 |
| Jamaica | 1.4 | -0.5 | 0.2 | 0.5 | 0.8 | 1.1 | 1.2 |
| Montserrat | 5.5 | 3.7 | 5.1 | 2.0 | 0.4 | 3.1 | 1.6 |
| Saint Kitts and Nevis | 2.4 | -0.6 | 6.2 | 6.0 | 3.8 | 3.7 | 5.3 |
| Saint Lucia | 0.2 | -1.4 | 0.1 | 0.4 | 1.9 | 2.1 | 2.2 |
| Saint Vincent and the Grenadines | -0.4 | 1.4 | 1.8 | 1.2 | 1.6 | 2.8 | 2.3 |
| Suriname | 4.2 | 2.2 | 2.9 | 0.2 | -2.4 | -10.4 | 0.8 |
| Trinidad and Tobago | -0.3 | 1.3 | 2.7 | -0.6 | -0.6 | -4.5 | 0.5 |
| **The Caribbean (15)[a]** | **1.7** | **0.9** | **1.8** | **2.6** | **1.4** | **0.8** | **2.4** |
| **Service producers[a]** | **1.2** | **0.1** | **1.4** | **2.8** | **1.7** | **2.5** | **2.5** |
| **Goods producers[a]** | **2.9** | **3.0** | **3.0** | **1.9** | **0.3** | **-3.7** | **2.2** |
| **Latin America (20)[a]** | **5.2** | **3.8** | **4.3** | **2.8** | **2.5** | **1.6** | **2.5** |
| South America (10)[a] | **5.5** | **3.5** | **5.2** | **2.0** | **1.1** | **-0.1** | **1.6** |
| Central America (9)[a] | **4.9** | **4.2** | **3.7** | **3.8** | **4.2** | **3.5** | **3.5** |
| **Latin America and the Caribbean (35)[a]** | **3.7** | **2.6** | **3.3** | **2.7** | **2.0** | **1.3** | **2.4** |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Regional or producer aggregates are calculated as simple averages.
[p] Preliminary estimates.
[f] Forecast.
*Service producers*: Anguilla, Antigua and Barbuda, Bahamas, Barbados, Dominica, Grenada, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.
*Goods Producers*: Belize, Guyana, Suriname and Trinidad and Tobago.
*South America*: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela.
*Central America*: Costa Rica, Cuba, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Panama.
*Latin America*: South America, Central America and Mexico.
*The Caribbean*: Anguilla, Antigua and Barbuda, Bahamas, Barbados Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines Suriname, and Trinidad and Tobago.

The tourism sector continues to be the major source of growth for a number of Caribbean countries. According to the Caribbean Tourism Organization (CTO) growth in tourist arrivals in 2016 was 4.2 per cent which exceeded the global average of 3.9 per cent. Arrivals in the main source market, the United States, posted growth of 3.5 per cent but an even better performance was posted by the European market which was led by strong increases from Germany (8.2 per cent) and the United Kingdom (4.1 per cent). It is to be noted that visitor expenditure was also up 3.5 per cent in 2016.

As the table 3 shows however, the performance of visitor expenditure was uneven across the region with Barbados, Dominica, Grenada and Suriname experiencing a decline in the percentage change in expenditure between 2015 and 2016. Regarding the outlook for 2017, the CTO predicts increases of between 2.5 and 3.5 percent in long-stay arrivals and increases of between 1.5 percent and 2.5 percent in cruise passenger arrivals.

A strong performance in the tourism sector will help shore up growth for the service producers in 2017, however uncertainty in the United States arising from a new policy focus of the Trump administration, including changes to immigration laws and fiduciary rules, may affect investment flows to the region. Policy uncertainty may also dampen tourism related travel. While the projections for tourist arrivals to the region are positive, the emergence of Cuba as a fresh destination may be a downside risk.

**Table 3**
**Visitor expenditure (foreign spending), 2012-2016**
*(Percent change)*

| | Percent Change | | | | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016* |
| Anguilla | 1.3 | 7.5 | 1.3 | 1.5 | 2.8 |
| Antigua and Barbuda | -1.3 | -6.9 | 0.4 | -2.5 | 3.5 |
| Bahamas | 6 | -3.5 | 7.3 | 0.8 | 3 |
| Barbados | -0.5 | 4.4 | 3.2 | 4.5 | -2.4 |
| Belize | 0.6 | 0.7 | 0.8 | 0.8 | 0.8 |
| Dominica | -24.2 | 24.5 | 22.5 | 11.8 | -4.1 |
| Grenada | -0.5 | -0.5 | 7.7 | 9.9 | -2.5 |
| Guyana | -36.2 | 20.6 | 1.9 | 2.3 | 2.6 |
| Jamaica | -0.5 | 4.1 | 10.9 | 6.8 | 1.9 |
| Saint Lucia | 2.4 | 3.3 | -1 | 8.6 | 3.9 |
| Saint Kitts and Nevis | -2.3 | 8.5 | 9.6 | 1.9 | 0.8 |
| Saint Vincent and the Grenadines | 0.2 | -1.4 | 0.6 | 9.4 | 0.6 |
| Suriname | 3 | 14.5 | 8.3 | 0.7 | -1.1 |
| Trinidad and Tobago | 6.3 | 7.7 | 4.6 | 4.7 | 0.4 |

Source: World Travel and Tourism Council.
* Estimate.

## C. Unemployment

Despite the contraction in growth, there was a marginal improvement in employment. The overall unemployment rate of the Caribbean declined from 15.3 per cent in 2015 to 14.8 per cent in 2016 and this overall decline reflected lower unemployment among both the goods producers (from 7.1 per cent to 6.8) and service producers (16.9 per cent to 15.3 per cent) over the same period. In fact the decline occurred among most of the countries in the table below.

The only countries for which the unemployment rate increased were the Bahamas, Jamaica, and Trinidad and Tobago. Interestingly the unemployment rate for Trinidad and Tobago, a goods producer has been the highest since 2013 and reflects the continuing decline in oil revenue and its impact on the hydrocarbon sector and government expenditure.

**Table 4**
**Unemployment rates, 2010-2016**
*(Percentages)*

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Bahamas[c] | 15.0 | 15.9 | 14.7 | 15.4 | 15.7 | 12.0 | 12.7 |
| Barbados[d] | 10.7 | 11.3 | 11.6 | 11.7 | 13.2 | 11.9 | 10.2 |
| Belize | ... | … | 15.3 | 11.7 | 11.1 | 10.1 | 8.0 |
| Grenada | … | … | … | 32.5 | 33.5 | 28.9 | 28.6 |
| Jamaica[b] | 12.0 | 12.6 | 13.7 | 15.4 | 14.2 | 13.1 | 13.7 |
| Suriname[a] | 7.1 | 7.5 | 8.1 | 6.5 | 6.9 | … | … |
| Saint Lucia | 20.6 | 21.2 | 21.4 | 23.3 | 24.4 | 24.1 | 21.2 |
| Trinidad and Tobago | 5.9 | 5.1 | 4.9 | 3.7 | 3.3 | 3.4 | 4.1 |
| **Caribbean** | **9.6** | **11.9** | **12.3** | **12.8** | **15.0** | **15.3** | **14.8** |
| **Goods producers** | **8.0** | **6.5** | **6.3** | **9.4** | **7.3** | **7.1** | **6.8** |
| **Service producers** | **10.8** | **14.6** | **15.3** | **15.4** | **16.5** | **16.9** | **15.3** |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official data.
[a] Unemployment rate for Paramaribo and Wanica representing 65 per cent of the Suriname's population.
[b] 1st quarter for 2016.
[c] 2nd quarter average for 2016.
[d] 3rd quarter average for 2016.
… Data not available.

# I. Macroeconomic policy

## A. Fiscal policy and public debt

This section analyses the fiscal performance of the Caribbean economies. The aim is to examine the extent to which the countries are achieving fiscal consolidation that would enable them to reduce their public debt to sustainable levels over the medium to longer-term.

### 1. The fiscal balance

As in the previous year, fiscal policy has continued to focus on consolidation to reduce the adverse effect of high debt on growth. Consolidation has been promoted both under the auspices of IMF-supported and home-grown adjustment programmes in some Caribbean economies. These explicit programmes have been designed to lock-in the revenue, expenditure and administrative reforms that are deemed necessary to achieve a sustainable fiscal position. Indeed, in recent years, both Jamaica and Grenada have introduced fiscal rules to provide targets and guidelines to maintain fiscal stability.

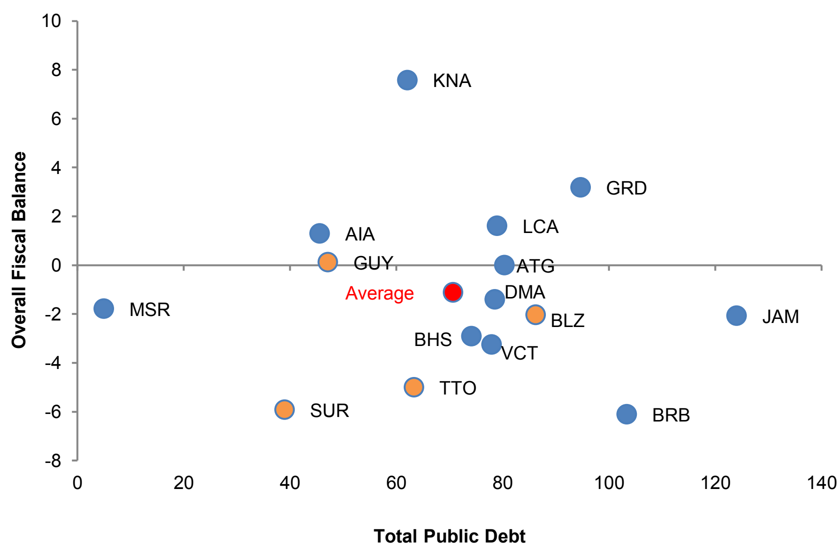
Despite a commitment to fiscal stability, the region did not make much progress with regard to fiscal consolidation in 2016. The average fiscal deficit of the region increased slightly by 0.1 percentage points, while public debt rose by 1.9 percentage points (see figure 1 below). The fiscal deficit declined by 2.2 percentage points among the goods producers, but worsened by 0.9 percentage points among the services producers. The deterioration observed among the service producers reflected a sharp reversal of the large surplus in Montserrat in 2015 to a small deficit in 2016, in line with reduced grants from the UK government for budget support and capital works. Among the other service producers, the deficit increased by 0.4 percentage points in St. Vincent and the Grenadines. The deficit swung from 1.5 per cent of GDP to a surplus of 3.2 per cent of GDP in Grenada as the IMF supported adjustment programme led to measures to curb spending and increase revenues. Revenues were bolstered by a pickup in economic activity and the application of the VAT to commercial banks' service charges. (See figure 1).

Meanwhile, despite operating under a new IMF-supported Extended Fund Facility Jamaica's fiscal deficit increased by 1.8 percentage points. Nevertheless, the country was able to meet its fiscal and other targets under the agreement. The government has negotiated a new three-year Standby Agreement with the Fund with financing of US$1.64 billion to support its reform and adjustment programme, especially to revive growth, create jobs, reduce poverty and insure against external economic shocks and natural disasters. This should provide a platform for maintaining the reform programme over the medium to longer-term.

On the other hand, the reduction in the deficit in the goods producers was led by a 5.9 percentage point decline in Belize, mainly reflecting a sharp fall in spending that was linked to lower capital expenditure with the winding down of infrastructure projects, including construction of roads and bridges. This was reinforced by firm growth in receipts from the general sales tax (GST). The deficit fell by 4.7 percentage points in Suriname as the government reined in spending in the wake of the recession. Suriname entered into a Standby Arrangement with the Fund in May 2016 with financing of around US$478 million, aimed at restoring internal and external balance following the fall in the prices of its major commodity exports,including oil, gold and alumina. Trinidad and Tobago's fiscal deficit expanded by 3.2 percentage points in 2016. The deficit was driven by lower international fuel prices as a result of a sharp fall in revenue from the energy sector and this more than offset higher non-tax receipts. The government has implemented a range of measures to deal with the decline in revenues, including tax measures, which are expected to bolster revenues and help reduce the deficit.

There were declines in current and capital expenditure (1.5 and 1.2 percentage points, respectively) in the Caribbean in 2016, while average growth in interest payments remained at 2.8 per cent of GDP (see table 5).

**Figure 1**
**Fiscal balance and total public debt for the Caribbean, 2016**
*(Per cent of GDP)*




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

**Table 5**
**Fiscal expenditure by category, 2013-2016**
*(Per cent of GDP)*

| | Current expenditure | | | | Capital expenditure | | | | Interest Payments | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| Anguilla | 23.1 | 21.2 | 21.3 | 20.1 | 1.1 | 0.4 | 0.9 | 0.5 | 1.2 | 1.1 | 1.0 | 1.1 |
| Antigua and Barbuda | 21.7 | 20.9 | 20.6 | 22.6 | 1.3 | 1.6 | 1.4 | 1.6 | 2.1 | 2.6 | 2.8 | 2.4 |
| Bahamas | 18.9 | 20.1 | 20.9 | 19.4 | 4.0 | 4.4 | 1.8 | 2.1 | 2.8 | 2.7 | 3.0 | 3.1 |
| Barbados | 35.7 | 33.5 | 33.9 | 30.9 | 1.9 | 2.2 | 2.6 | 2.1 | 7.0 | 7.6 | 7.5 | 7.8 |
| Belize | 22.9 | 23.8 | 25.9 | 27.5 | 5.5 | 8.2 | 11.8 | 5.6 | 1.8 | 2.5 | 2.6 | 2.7 |
| Dominica | 25.7 | 24.6 | 26.9 | 27.1 | 11.7 | 8.5 | 5.9 | 11.3 | 2.0 | 1.7 | 1.8 | 2.0 |
| Grenada | 20.3 | 20.0 | 17.6 | 20.1 | 6.8 | 9.1 | 8.4 | 3.1 | 3.1 | 3.5 | 3.4 | 2.7 |
| Guyana | 19.9 | 21.0 | 22.6 | 23.3 | 8.2 | 8.0 | 4.7 | 4.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Jamaica | 25.9 | 25.6 | 26.1 | 27.3 | 3.1 | 1.5 | 2.0 | 1.9 | 8.4 | 8.1 | 7.7 | 8.3 |
| Montserrat | 67.1 | 74.0 | 75.5 | 65.5 | 45.8 | 26.5 | 16.5 | 11.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Saint Kitts and Nevis | 26.3 | 27.2 | 28.0 | 24.8 | 6.6 | 5.6 | 6.0 | 3.6 | 3.8 | 3.4 | 2.0 | 1.7 |
| Saint Lucia | 23.8 | 23.6 | 23.0 | 23.0 | 7.8 | 5.7 | 5.7 | 4.1 | 3.8 | 3.9 | 3.8 | 3.9 |
| Saint Vincent and the Grenadines | 25.2 | 25.9 | 25.7 | 25.7 | 7.8 | 6.4 | 5.0 | 6.5 | 2.5 | 2.3 | 2.2 | 2.1 |
| Suriname | 23.4 | 21.2 | 27.4 | 17.1 | 4.5 | 5.2 | 2.6 | 1.8 | 1.3 | 0.9 | 1.5 | 1.4 |
| Trinidad and Tobago | 29.1 | 32.3 | 33.8 | 32.3 | 5.0 | 5.0 | 4.9 | 3.2 | 1.7 | 1.9 | 2.2 | 2.1 |
| **Caribbean** | **27.3** | **27.7** | **28.6** | **27.1** | **8.1** | **6.6** | **5.3** | **4.2** | **2.8** | **2.9** | **2.8** | **2.8** |
| **Goods producers** | **23.8** | **24.6** | **27.4** | **25.0** | **5.8** | **6.6** | **6.0** | **3.7** | **1.4** | **1.6** | **1.8** | **1.8** |
| **Service producers** | **28.5** | **28.8** | **29.0** | **27.9** | **8.9** | **6.5** | **5.1** | **4.4** | **3.3** | **3.4** | **3.2** | **3.2** |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
Note: 2016 data annualized. Where calendar years were unavailable fiscal year data was used.

## 2. Fiscal flexibility

The fiscal flexibility index[3] is an indicator of the fiscal space available to the government, i.e. the size of government spending that can be characterized as discretionary. It measures discretionary spending as a proportion of total expenditure. The low average fiscal flexibility index of just over 33 relative to the maximum value of 100, during the last five years, indicates the high level of fiscal rigidity in the region. Rigidity reflects key factors including the high cost of public administration in small economies, including repeat infrastructure spending in multi-islands states such as the Bahamas, pressures brought to bear by trade unions for wage increases and large subventions to loss-making public corporations.[4] Fiscal rigidity was higher in 2016 than in 2015, with the flexibility index falling by 3.0 percentage points (see table 6). In keeping with the reversal of fortunes in the goods producing economies stemming from the decline in commodity prices, flexibility declined by 7.3 percentage points in these economies, relative to a modest decline of 1.4 percentage points in the service producers.

**Table 6**
**Fiscal flexibility index, 2012-2016**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Anguilla | 26.6 | 26.5 | 25.1 | 26.3 | 24.6 |
| Antigua and Barbuda | 19.4 | 25.6 | 22.7 | 19.6 | 27.8 |
| Bahamas | 37.1 | 33.3 | 31.7 | 33.7 | 23.2 |
| Barbados | 9.7 | 16.2 | 21.0 | 55.0 | 50.4 |
| Belize | 43.7 | 46.6 | 48.3 | 52.5 | 43.5 |
| Dominica | 54.2 | 52.2 | 48.6 | 41.0 | 50.7 |
| Grenada | 34.4 | 37.3 | 40.6 | 43.4 | 30.9 |
| Guyana | 34.4 | 37.3 | 41.4 | 43.4 | |
| Jamaica | 9.5 | 10.8 | 5.5 | 7.1 | 6.6 |
| Montserrat | 40.8 | 55.0 | 44.7 | 33.5 | 40.3 |
| Saint Kitts and Nevis | 32.6 | 42.8 | 38.5 | 40.9 | 29.0 |
| Saint Lucia | 37.6 | 39.5 | 35.0 | 35.0 | 31.1 |
| Saint Vincent and the Grenadines | 22.9 | 33.9 | 31.5 | 28.2 | 33.3 |
| Suriname | 44.8 | 33.3 | 36.4 | 36.7 | 30.8 |
| Trinidad and Tobago | 27.8 | 27.1 | 26.2 | 26.2 | 22.9 |
| **Caribbean** | **31.7** | **34.5** | **33.1** | **34.8** | **31.8** |
| **Goods producers** | **37.7** | **36.1** | **38.1** | **39.7** | **32.4** |
| **Service producers** | **29.5** | **33.9** | **31.4** | **33.1** | **31.6** |

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

## 3. Public debt

High debt remains the main challenge to long-term growth in the region. The region's public debt to GDP ratio increased by 2.0 percentage points to 70.7 per cent of GDP in 2016 (see table 7 below). This

3 The fiscal flexibility index is defined as:
FFI = (1-NDE/TGE)*100, where NDE is non-discretionary expenditure, defined as outlays on wages and salaries, transfers and interest payments and TGE is total government expenditure. The maximum 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.

4 See Samuel, Wendell (undated ). "Challenges of Fiscal Consolidation and Debt Reduction in the Caribbean", IMF.

ratio was only slightly lower than the average for the last five years. The goods producers posted a larger increase (3.2 percentage points), compared with 1.4 percentage points growth in the debt burden of the service producers. Growth in debt among the goods producers was led by Trinidad and Tobago (12.1 percentage points) as the government tried to stimulate activity against a backdrop of negative growth. Nevertheless, most of the increase in debt stemmed from domestic borrowing. This reduced the risks from exchange rate depreciation and higher future international interest rates.

Public debt expanded by 5.9 percentage points in Belize, reflecting domestic borrowing to settle the nationalisation of Belize Telemedia Limited. Meanwhile, Suriname and Guyana registered reductions in their debt to GDP ratios by 3.8 and 1.3 percentage points respectively. Debt reduction in Suriname was linked to a large expansion in nominal GDP due to inflation, which led to a fall in the debt to GDP ratio[5]. Guyana's public debt contracted due to reduced borrowing from the Inter-American Development Bank and the cessation of credit under the PetroCaribe Arrangement and the Guyana-Venezuela Rice Trade Agreement (GVRTA).

The modest increase in the debt among the service producers was largely linked to higher debt in Anguilla, Grenada and the Bahamas. Anguilla's debt almost doubled between December 2015 and September 2016, as a result of the government's bailout of the National Bank of Anguilla Ltd and the Caribbean Commercial Bank (Anguilla) Ltd.

### 4. Debt service payments

In a welcome development, debt service burden declined in 2016. Total debt service payments to GDP contracted by 1.5 percentage points, reflecting a 2.9 percentage points decline in the service producers, which offset a 0.5 percentage point increase in the goods producing economies. Meanwhile, the external debt service ratio declined by 2.1 percentage points to 9.0 per cent of exports of goods and services. This was underpinned by a sharp fall in external debt service payments, partly due to the impact of lower international interest rates on external debt servicing costs. The largest decline in the ratio was registered by Jamaica, which experienced a normalisation of external debt service payments in 2016, following balloon payments in 2015. The external debt servicing ratio fell by 6.4 percentage points in St. Kitts and Nevis, in line with the reduction in public debt. Meanwhile, the external debt service ratio rose by 11.7 percentage points in Belize, partly due to higher interest payments on restructured super bond debt. (See table 7).

Debt service payments continue to absorb a significant portion of government revenue in the region, thereby limiting the space for undertaking necessary infrastructure and social spending. However, the total debt service payments relative to government revenue declined by 0.7 percentage points in 2016. This stemmed from a 3.6 percentage point decline in the ratio in the service producers that offset the 12.3 percentage point increase in the goods producers. (Table 8 refers). Jamaica's ratio contracted after the spike in 2015, but there was a sharp (51 percentage point) increase in Suriname, reflecting the carry-over effect of the spike in public debt in 2015.

[5] The government reduced subsidies on electricity and water and customs duties and the fuel tax was increased. Nevertheless, the freezing of the fuel price increase and the partial reduction in the earlier electricity price increase meant that government savings were not as high as they could have been. Government also plans to introduce a value added tax (VAT) in 2018, which is expected to boost revenue collections.

**Table 7**
**Total public debt, 2012-2016**
*(Per cent of GDP)*

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Anguilla | 30.9 | 30.4 | 26.4 | 24.6 | 45.6 |
| Antigua and Barbuda | 86.5 | 99.9 | 98.5 | 84.4 | 80.3 |
| Bahamas | 71.9 | 71.9 | 71.9 | 71.9 | 74.1 |
| Barbados | 108.5 | 108.5 | 108.5 | 108.5 | 103.3 |
| Belize | 76.8 | 78.4 | 76.5 | 80.3 | 86.2 |
| Dominica | 77.6 | 76.7 | 75.8 | 78.3 | 78.5 |
| Grenada | 101.4 | 102.4 | 95.6 | 86.8 | 94.6 |
| Guyana | 63.7 | 57.8 | 51.9 | 48.4 | 47.1 |
| Jamaica | 131.7 | 132.0 | 129.8 | 126.2 | 124.0 |
| Montserrat | 4.4 | 4.3 | 3.9 | 5.7 | 4.9 |
| Saint Kitts and Nevis | 137.4 | 99.4 | 75.4 | 65.5 | 62.1 |
| Saint Lucia | 74.4 | 77.4 | 77.3 | 77.8 | 79.0 |
| Saint Vincent and the Grenadines | 72.8 | 75.8 | 80.2 | 78.5 | 77.9 |
| Suriname | 21.6 | 29.8 | 26.6 | 42.8 | 39.0 |
| Trinidad and Tobago | 38.8 | 38.3 | 41.9 | 51.2 | 63.3 |
| **Caribbean** | **73.2** | **72.2** | **69.3** | **68.7** | **70.7** |
| **Goods** | **50.2** | **51.1** | **49.2** | **55.7** | **58.9** |
| **Service producers** | **81.6** | **79.9** | **76.7** | **73.5** | **74.9** |

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

## B. Monetary policy, domestic credit and inflation

In 2015 in the Caribbean there was a mixed approach to monetary policy-setting, with many economies adopting unique stances considered necessary to either address shocks which impacted on economic performance to stimulate output growth, or ensure economic stability. Policy interventions were made in an environment of largely low inflation and generally increasing budgetary deficits. This subsection will specifically examine key elements of monetary policy, as they relate to interest rates, money supply, credit, and inflation.

### 1. Interest rates

Across the Caribbean, commercial bank lending rates remained flat (at an average 9.9 percent) in 2016, while deposit rates declined by 0.2 percentage points to 2.0 percent. However, there was a slight uptick in lending rates in the goods producing countries, while lending rates in the services economies contracted slightly. (Table 9 refers). An examination of the extent to which monetary policy interventions, prevailing liquidity conditions and the nature of economic activity may have influenced these observed trends will be undertaken below.

**Table 8**
**External debt service payments and debt service ratios, 2012-2016**

| | External debt service payments *(millions of dollars)*[a] | | | | | External debt service payments (per cent of exports of goods and services)[b] | | | | | Total debt services payments (per cent of government revenue)[b] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 4.6 | 7.8 | 8.3 | 7.9 | 9.2 | 21.0 |
| Antigua and Barbuda | 22.8 | 27.3 | 47.7 | 40.0 | 48.7 | 4.2 | 5.0 | 8.1 | 6.6 | 7.9 | 34.8 | 38.8 | 33.7 | 43.0 | 46.5 |
| Bahamas | 124.2 | 117.0 | 122.5 | 143.2 | 167.6 | 3.4 | 3.2 | 3.4 | 4.4 | 5.4 | 40.0 | 47.4 | 70.7 | 39.0 | 43.4 |
| Barbados | 169.5 | 141.0 | 145.0 | 225.3 | | 8.9 | 7.4 | 7.8 | 11.7 | | 42.8 | 49.5 | 50.4 | 57.0 | |
| Belize | 79.4 | 116.3 | 76.4 | 76.5 | 84.1 | 7.7 | 11.0 | 7.1 | 7.4 | 19.1 | 20.4 | 28.5 | 17.0 | 17.6 | 17.7 |
| Dominica | 10.9 | 11.3 | 14.3 | 15.4 | 20.4 | 6.9 | 5.8 | 6.6 | 7.3 | 9.3 | 14.6 | 12.5 | 12.4 | 12.1 | 8.1 |
| Grenada | 38.3 | 40.7 | 38.3 | 40.1 | 42.2 | 18.6 | 19.0 | 16.4 | 16.9 | 17.5 | 31.1 | 32.7 | 32.7 | 23.9 | 23.0 |
| Guyana | 42.4 | 45.9 | 167.5 | 98.4 | 54.2 | 2.5 | 3.0 | 12.4 | 7.6 | 3.6 | 8.5 | 8.4 | 24.1 | 13.1 | 7.3 |
| Jamaica | 1 019.1 | 710.6 | 960.5 | 2 721.8 | 908.4 | 23.0 | 16.7 | 22.3 | 64.7 | 21.8 | 62.5 | 54.6 | 51.5 | 102.8 | 83.6 |
| 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 | 49.3 | 26.3 | 17.3 | 4.9 | 10.6 | 13.0 | 6.5 | 27.7 | 14.6 | 23.1 | 19.2 | 12.8 |
| Saint Lucia | 44.2 | 69.0 | 44.8 | 47.2 | 44.9 | 7.3 | 11.4 | 7.1 | 7.1 | 6.8 | 26.7 | 36.4 | 25.0 | 25.1 | 25.7 |
| Saint Vincent and the Grenadines | 26.9 | 25.2 | 22.5 | 23.3 | 19.4 | 14.1 | 13.9 | 12.1 | 12.4 | 9.8 | 23.3 | 25.2 | 23.9 | 24.4 | 23.0 |
| Suriname | 58.2 | 33.5 | 50.9 | 53.6 | 170.0 | 2.0 | 1.3 | 2.2 | 2.9 | 11.4 | 8.7 | 11.6 | 10.3 | 40.5 | 91.8 |
| Trinidad and Tobago | 171.2 | 312.6 | 153.4 | 167.2 | 199.2 | 1.2 | 1.6 | 1.0 | 1.4 | 2.2 | 7.3 | 9.7 | 8.8 | 9.9 | 13.2 |
| **Caribbean** | **1 858.1** | **1 668.9** | **1 885.8** | **3 705.1** | **1 792.2** | **8.0** | **7.1** | **8.0** | **11.1** | **9.0** | **23.8** | **25.2** | **26.1** | **29.1** | **29.8** |
| **Goods producers** | **351.2** | **508.2** | **448.1** | **395.7** | **507.5** | **3.4** | **4.2** | **5.7** | **4.8** | **9.0** | **11.2** | **14.5** | **15.0** | **20.3** | **32.5** |
| **Service producers** | **1 506.9** | **1 160.7** | **1 437.7** | **3 309.4** | **1 284.6** | **9.6** | **8.1** | **8.8** | **13.4** | **9.0** | **28.3** | **29.1** | **30.1** | **32.3** | **28.7** |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Aggregate measures are sums.
[b] Aggregate measures are averages.
Note: 2016 data annualized.

Despite relatively weak economic growth in 2016, the effect of monetary policy in the ECCU, Belize, Barbados and The Bahamas, was largely neutral. In the ECCU, while the minimum savings rate (MSR) remained unchanged at 2.0 per cent in 2016, the reduction in the MSR from 3.0 per cent, which took effect in May 1, 2015, placed downward pressure on savings rates, amidst rising lending rates. Accordingly, during 2016, the ECCU-wide weighted average lending rate increased. More specifically, Anguilla, Antigua and Barbuda, Dominica, Saint Kitts and Nevis, Saint Vincent and the Grenadines all saw a widening of the interest rate spread in 2016 (see table 9). In spite of negative growth, the Central Bank of Belize maintained its neutral monetary stance, resisting temptation to alter its policy rate in an attempt to generate credit demand or stimulate output growth.

In turn, despite the Central Bank of Barbados ceasing to set the minimum savings rate on deposits, in April of 2015, the wedge between deposit and loan rates widened 0.1 per cent in 2016, as lending rates remained flat (at 6.8 per cent) and deposit interest rates fell. Further, notwithstanding the sluggishness of the domestic economy, the Central Bank of Bahamas has continued to hold its policy discount rate constant at 4.5 per cent.

In contrast, the Bank of Guyana continued to adopt a conservative approach to monetary policy-setting during 2016, encouraging the commercial banks to lend, while sterilizing excess liquidity in the system. As a consequence, savings deposit rates remained flat as lending rates saw an uptick of 0.1 percentage points. In the case of Jamaica, monetary policy in 2016 was accommodating; the Bank of Jamaica (BOJ) cut its 30 day certificate of deposit from 5.25 per cent to 5 per cent.This policy move was influenced by the significant lowering of inflation expectations as well as the moderation in price increases that resulted mainly from reduced international oil prices. This had a dampening effect on both lending and deposit rates. This notwithstanding the interest rate spread increased in 2016 as the deposit rates contracted at a relatively faster rate than lending rates.

Given the contraction in economic activity in 2016, the Central Bank of Trinidad and Tobago kept the Repo rate at the 4.75 per cent set in December 2015. This was in contrast to the approach adopted in 2015 where the Bank raised the Repo rate on several occassions. There was however a lag in the monetary policy transmission, as commercial banks' average lending rates declined over the course of 2015, then increased by 0.3 percentage points in 2016. This lag may be attributed to the excess liquidity (i.e. local currency and instruments) in the banking system, furnishing commercial banks with sufficient resources for on-lending, thereby obviating the need to access the Central Banks' Repo facilities. In 2016, the Central Bank of Suriname on the other hand, introduced Treasury bill auctions in a move towards more open market operations while providing an alternative source of domestic financing. Consequently, there was an uptick in both average lending and deposit rates over the year.

**Table 9**
**Lending rate, deposit rate and spread, 2015-2016**
*(Percentages)*

| | 2015 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Lending rate | Deposit rate | Spread[a] | Lending rate | Deposit rate | Spread[a] |
| Anguilla[b] | 9.1 | 2.8 | 6.3 | 10.0 | 2.5 | 7.5 |
| Antigua and Barbuda[b] | 9.8 | 2.5 | 7.3 | 9.7 | 2.0 | 7.7 |
| Bahamas[e] | 12.4 | 1.4 | 11.0 | 12.3 | 1.2 | 11.0 |
| Barbados[b] | 6.8 | 0.4 | 6.4 | 6.8 | 0.3 | 6.5 |
| Belize[d] | 10.3 | 1.9 | 8.4 | 10.0 | 1.5 | 8.5 |
| Dominica[b] | 8.6 | 2.5 | 6.1 | 8.3 | 1.9 | 6.3 |
| Grenada[b] | 8.8 | 1.8 | 7.0 | 8.5 | 1.5 | 7.0 |
| Guyana[c] | 10.7 | 1.3 | 9.4 | 10.8 | 1.3 | 9.5 |
| Jamaica[d] | 17.2 | 2.6 | 14.6 | 16.9 | 1.6 | 15.3 |
| Montserrat[b] | 7.9 | 1.4 | 6.5 | 7.3 | 1.1 | 6.1 |

Table 9 (concluded)

| | 2015 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Lending rate | Deposit rate | Spread[a] | Lending rate | Deposit rate | Spread[a] |
| Saint Kitts and Nevis[b] | 8.5 | 2.1 | 6.4 | 8.4 | 1.9 | 6.5 |
| Saint Lucia[b] | 8.5 | 2.2 | 6.4 | 8.2 | 1.8 | 6.4 |
| Saint Vincent and the Grenadines[b] | 9.3 | 2.1 | 7.2 | 9.1 | 1.9 | 7.3 |
| Suriname[d] | 13.4 | 7.7 | 5.7 | 14.2 | 8.4 | 5.8 |
| Trinidad and Tobago[d] | 7.7 | 0.6 | 7.2 | 8.0 | 0.6 | 7.4 |
| **Caribbean** | **9.9** | **2.2** | **7.7** | **9.9** | **2.0** | **7.9** |
| **Goods producers** | **10.5** | **2.9** | **7.7** | **10.7** | **3.0** | **7.8** |
| **Service producers** | **9.7** | **2.0** | **7.7** | **9.6** | **1.6** | **8.0** |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Lending rate minus deposit rate.
[b] 2015 data:January to November.
[c] 2015 data: January to June.
[d] 2015 data: January to August.

## 2. Money supply and credit

This subsection of the report will succinctly explore the extent to which monetary policy in the Caribbean impacted monetary aggregates and domestic credit in particular, in 2016. In respect of the former, the average ratio of M1 (narrow money) to GDP increased by 0.6 percentage points in 2016. Notably, however there was a 0.5 percentage point contraction in the narrow money to GDP ratio among Caribbean goods producers in 2016. (Table 10 refers). Broad money supply (M2), expressed as a percentage of GDP, expanded in both services and goods economies during the period under review. These observed changes in money aggregates in many instances were in part indicative of a combination of efforts by monetary authorities to dampen excess liquidity in some instances, and in others to stimulate GDP growth particularly in the goods producing economies, as economic growth slowed in 2016.

Despite the overall increase in money supply observed in the Caribbean in 2016, generally, private sector credit as a percentage of GDP contracted sharply (8.2 percentage points) and by 3.1 per cent overall, reflecting considerably slower economic activity. In addition, among the goods producers there was an increase in public sector credit as governments sought to stimulate the economy. It is interesting to examine these dynamics at the country level. For example, at the ECCU-aggregate level, financial sector liquidity continued to be high in 2016. The significant decline in loans and advances to deposits ratio over the same period is indicative of the increased liquidity within the commercial banking system of the ECCU. During the period under review, monetary developments in The Bahamas were conditioned by increased banking sector liquidity (as the narrow money to GDP ratio increased 2.6 percentage points), which was fuelled by government foreign currency borrowings and inflows from the tourism and other productive sectors, which was coupled with slowing credit demand. With regard to the latter, debt leveraging, improved prudential lending practices and high unemployment have collectively dampened private credit demand, with domestic credit to the private sector to GDP ratio falling by 2.0 percentage points to 68.9 per cent in 2016.

Notably, among the Caribbean goods producers in 2016, the Bank of Guyana (BOG) sought to sterilize excess liquidity from the system by rolling over matured T-bills and the 91 day T-bills were moved from the consolidated to the sterilization fund. Accordingly, both the narrow and broad money to GDP ratios contracted in 2016, the latter by 1.8 percentage points. However, Guyana saw an expansion in reserve money in 2016, as net foreign assets increased. Despite the high liquidity, and the BOG encouraging lending to the private sector, the domestic credit to the private sector to GDP ratio contracted by 15.2 percentage points. This decline in private sector lending was partially attributed to the commercial banking sector's continued demonstration of some measure of risk aversion. Contracting economic activity in Belize led to a decline in both broad money supply and private sector credit in 2016. In respect of the latter it is also important to note that banks in Belize continued to strengthen their prudential requirements in 2016. However domestic credit to the government expanded on account of the issuance of treasury notes to clear contingent liabilities associated with the settlement with Belize Telemedia Limited (BTL).

There was some measure of credit expansion in Jamaica in 2016, which was reflective of increased economic activity, as domestic credit to the private sector experienced a slight uptick.

As a consequence of its deepening recession in 2016, due to the fall in commodity prices, the government of Suriname entered into a US$481 million standby arrangement with the IMF, and secured a SRD$1.8 billion loan from the Islamic Development Bank to assist in financing infrastructure and energy projects over the next three years. They also launched a US$550 million 10-year bond, and introduced Treasury bill auctions, which collectively contributed to an upswing in banking sector liquidity. Treasury bill auctions also underpinned an increase in domestic credit to the public sector in Suriname in 2016.

**Table 10**
**Monetary aggregates and domestic credit to the private and public sector, 2015-2016**
*(Per cent 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 | 6.7 | 124.4 | 106.9 | 108.2 | 64.4 | -33.5 | -6.3 |
| Antigua and Barbuda | 19.0 | 19.3 | 84.7 | 81.0 | 52.2 | 49.3 | 9.3 | 9.8 |
| Bahamas | 23.4 | 26.0 | 69.9 | 70.6 | 70.9 | 68.9 | 30.0 | 30.0 |
| Barbados | n/a | n/a | 65.1 | 107.6 | 61.9 | 61.0 | 29.3 | 31.6 |
| Belize | 44.4 | 42.9 | 83.4 | 86.5 | 57.4 | 59.0 | 8.9 | 15.7 |
| Dominica | 17.6 | 20.9 | 92.1 | 97.9 | 55.1 | 57.4 | -5.1 | -26.2 |
| Grenada | 20.4 | 23.0 | 79.9 | 87.1 | 58.4 | 63.7 | -8.7 | -11.4 |
| Guyana | 19.8 | 18.9 | 50.9 | 49.1 | 32.7 | 31.3 | -1.0 | -2.0 |
| Jamaica | 12.0 | 10.2 | 19.6 | 21.1 | 22.3 | 22.4 | 9.5 | 5.5 |
| Montserrat | 29.8 | 34.8 | 153.2 | 143.9 | 44.3 | 47.3 | -63.6 | -45.8 |
| Saint Kitts and Nevis | 26.4 | 23.3 | 128.0 | 117.6 | 61.2 | 58.3 | -17.6 | -22.9 |
| Saint Lucia | 19.9 | 21.8 | 79.1 | 82.4 | 91.2 | 9.3 | -6.6 | -6.6 |
| Saint Vincent and the Grenadines | 22.0 | 22.6 | 74.1 | 73.1 | 53.7 | 52.9 | -25.2 | -1.1 |
| Suriname | 29.6 | 28.8 | 63.8 | 70.3 | 36.7 | 35.2 | 16.9 | 13.5 |
| Trinidad and Tobago | 29.4 | 30.6 | 57.0 | 61.2 | 34.0 | 36.9 | -4.5 | -4.7 |
| **Caribbean** | **23.0** | **23.6** | **81.7** | **83.8** | **56.0** | **47.8** | **-4.1** | **-1.4** |
| **Goods producers** | **30.8** | **30.3** | **63.8** | **66.8** | **40.2** | **40.6** | **5.1** | **5.6** |
| **Service producers** | **19.9** | **20.9** | **88.2** | **89.9** | **61.8** | **50.4** | **-7.5** | **-4.0** |

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

## 3. Inflation

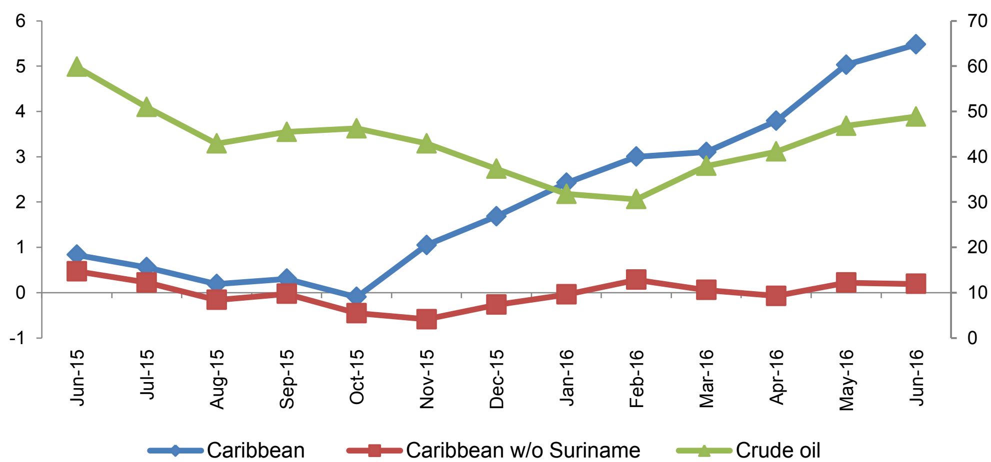
In 2016, inflation in the Caribbean continued to be moderated by low international commodity prices, with soft, albeit increasing oil and food prices having a particularly marked effect on service producers. In this regard, it should be noted that while average inflation in the Caribbean stood at 4.9 per cent in

2016, when the effect of Suriname is removed, the region is shown to experience deflation of (-0.3 per cent). Figure 2 illustrates the close correlation between the price of oil and inflation rates within the Caribbean.

Average inflation (year-on-year) increased from 1.45 per cent to 2.21 per cent as at June 2016. The services producing economies, however, experienced price deflation (-0.27 per cent) year-on-year, while average inflation for the goods producers stood at 14.42 per cent (see table 11). The highest inflation rates were observed in Trinidad and Tobago (2.6 per cent), and Suriname (77.1 per cent). Despite the increase in energy prices during the second quarter of 2016, the price deflation (-1.0 per cent) observed within the ECCU, was largely underpinned by the impact of historically low fuel costs, on the overall fall in consumer prices. Similarly, price deflation (-0.3 per cent) in the Bahamas was influenced by declining costs of housing, water, gas, electricity and transportation; and prices in Barbados (-1.2 per cent) continued to fall in the wake of persistently weak global fuel prices.

Shifting to a consideration to the goods producers, inflation in Belize was 0.4 per cent due to higher fuel prices due to increased taxes as well as food items such as meat, bread and fresh vegetables, while in Jamaica inflationary pressures diminished due to softer demand and lower commodity prices. In addition, largely propelled by rising food prices, inflation in Trinidad and Tobago increased to 2.6 per cent in 2016. It is noteworthy that spiralling price increases in the aftermath of the devaluation of the local currency against the US dollar led to 77.1 per cent inflation in Suriname. The removal of government subsidies led to housing and utilities showing the largest price increases.

**Figure 2**
**Caribbean inflation rates, June 2015-June 2016**
*(Year-on-year percentage change)*




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

**Table 11**
**Caribbean inflation rates, June 2015-June 2016**
*(Year-on-year percentage change)*

| | Caribbean | Goods producers | Service producers | Caribbean w/o Suriname | Crude oil prices |
|---|---|---|---|---|---|
| June 2015 | 0.83 | 2.47 | 0.11 | 0.47 | 59.83 |
| July 2015 | 0.56 | 5.10 | 0.01 | 0.22 | 50.93 |
| August 2015 | 0.19 | 4.20 | -0.34 | -0.16 | 42.89 |
| September 2015 | 0.30 | 4.60 | -0.24 | -0.03 | 45.47 |
| October 2015 | -0.10 | 3.70 | -0.55 | -0.46 | 46.25 |

Table 11 (concluded)

| | Caribbean | Goods producers | Service producers | Caribbean w/o Suriname | Crude oil prices |
|---|---|---|---|---|---|
| November 2015 | 1.05 | 11.05 | -0.42 | -0.59 | 42.92 |
| December 2015 | 1.68 | 13.30 | -0.04 | -0.27 | 37.33 |
| January 2016 | 2.42 | 15.95 | -0.21 | -0.04 | 31.78 |
| February 2016 | 3.00 | 18.15 | 0.07 | 0.28 | 30.62 |
| March-16 | 3.10 | 19.95 | -0.33 | 0.06 | 37.96 |
| April 2016 | 3.79 | 24.90 | -0.54 | -0.08 | 41.13 |
| May 2016 | 5.03 | 30.65 | -0.39 | 0.22 | 46.8 |
| June 2016 | 5.48 | 33.50 | -0.58 | 0.19 | 48.84 |
| Average | 2.21 | 14.42 | -0.27 | -0.01 | 43.29 |

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

# II. The external sector

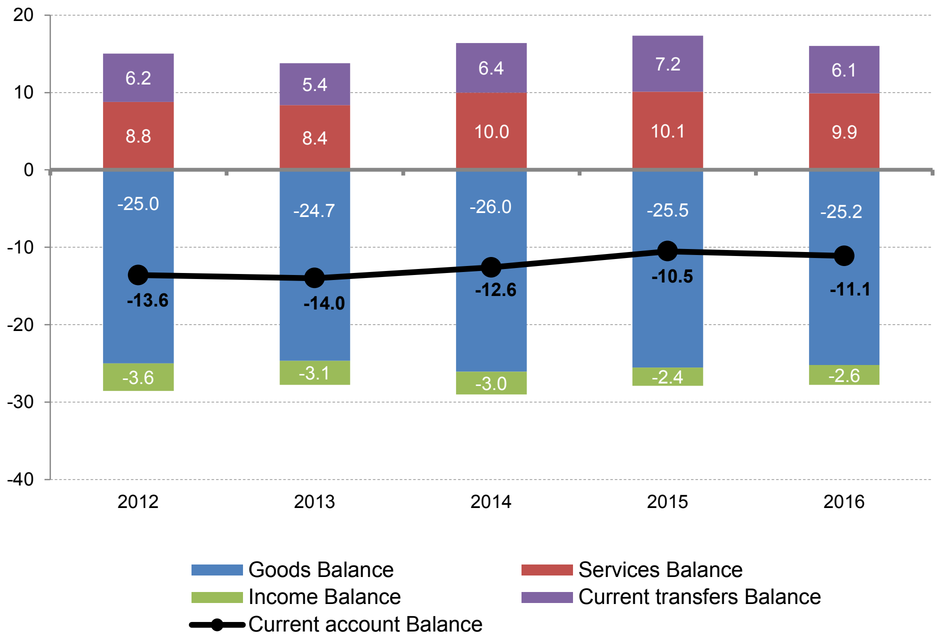
## A. Current account

Large current account deficits continue to plague the economies of the Caribbean. The deficit on the current account widened moderately to 11.1 per cent of regional GDP (US$ 66.1 billion) in 2016 relative to the 10.5 per cent of GDP (US$ 63.5 billion) in the previous year (see figure 3). Overall, all components of the current account contributed to the slight widening observed in 2016. However, a 1.5 percentage point decline in current transfers particularly among the service producing economies was the main factor lending to the decline observed (primarily in Montserrat).

Among the goods producing economies, the current account deficit narrowed to 6.7 per cent of GDP in 2016 compared to 9.1 per cent of GDP in 2015. Driving this improvement in the current account balance was the Surinamese economy with a current account deficit that sharply narrowed by 10.4 percentage points to 9.2 per cent of GDP coupled with the Guyanese economy which in 2016 reported the only current account surplus (2 per cent of GDP) among the 15 member States. For Suriname, the narrowing was driven primarily by a nearly 37 per cent decline in imports attributed to the devaluation of the Suriname dollar. In the case of Guyana, improvements in the current account position stemmed from a significantly lower merchandize trade deficit as a consequence of higher export earnings and a lower import bill. In contrast, Trinidad and Tobago, once one of the few economies reporting relatively steady current account surpluses in the recent past, reported a substantial widening of its current account deficit by 9 percentage points to 10.1 per cent of GDP as a result of weakened exports. Lower oil and gas prices continue to negatively impact exports and in turn the goods balance of the balance of payments.

Conversely, the current account deficit of the service producing economies which has fluctuated over the last five years, widened slightly to 12.7 per cent of GDP in 2016 after narrowing to 11.1 per cent of GDP in 2015. The primary contributor to this decline was a 15.3 percentage point drop in current transfers in Montserrat. Furthermore, Anguilla, Grenada, and Saint Vincent and the Grenadines continue to post remarkably high current account deficits, usually over 20 per cent of GDP. Certainly these countries will benefit from greater reduction in their import bills, strengthened exports and the implementation of policies to boost the service balance.

**Figure 3**
**Composition of current account, 2012-2016**
*(Per cent of GDP)*



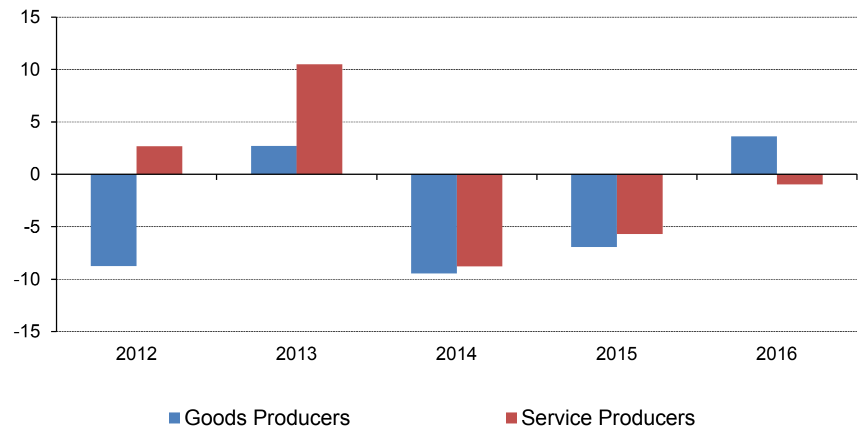

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

## B. Terms of trade

In 2014 and 2015 the average terms of trade for both Caribbean goods producers and service producers decreased by more than 5 per cent. In 2016 there was a moderate improvement, as the service producers' terms of trade average decreased by just 1 per cent, and the goods producers managed to increase their terms of trade by 3.6 per cent. (See figure 4). Of the 10 service producing countries, in 2016[6] six experienced positive or no growth in their terms of trade: Antigua and Barbuda, Grenada, Jamaica, Montserrat, Saint Kitts and Nevis and Saint Vincent and the Grenadines. The observed turnaround in the goods producers resulted from increases of 24.8 per cent and 24.5 per cent in Guyana and Suriname respectively, offsetting declines of 14.5 per cent and 20.3 per cent in Belize and Trinidad and Tobago. A significant decline in export value in Belize and Trinidad and Tobago (due to reduced output and low commodity prices) was responsible for the contraction in their terms of trade.

[6] There was no data for Barbados in 2016.

**Figure 4**
**Terms of trade, 2012-2016**
*(Percentage change)*



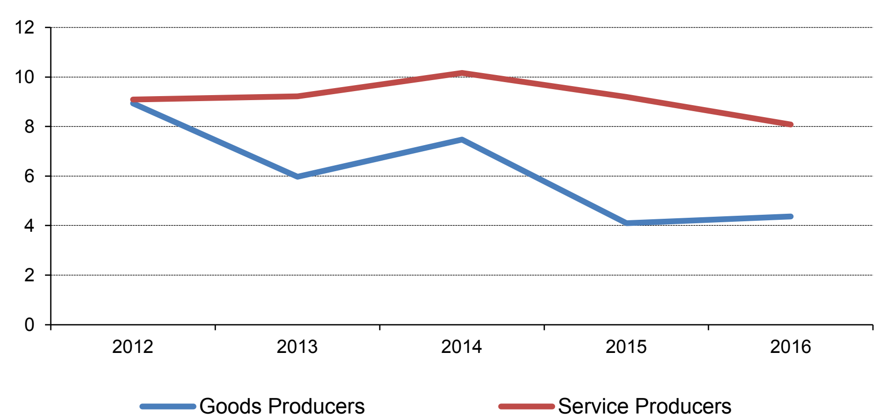

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

## C. Foreign direct investment

Average foreign direct investment (FDI) inflows to the Caribbean, as a share of GDP, decreased from 7.8 per cent in 2015 to 6.4 per cent in 2016. (Figure 5 refers). FDI inflows into the goods producing economies increased slightly from 4.1 per cent to 4.4 per cent in 2016; this increase was driven by larger inflows in Suriname and Trinidad and Tobago, despite the economic difficulties in both countries. Suriname had sustained investment into the Newmont gold mine which opened at the end of 2016, and Trinidad and Tobago saw continued investment in its petroleum sector and increased inflows into other sectors. Belize and Guyana both experienced declines in FDI inflows.

Inflows to the service producing economies fell from 9.2 per cent to 8.1 per cent. There were declines in most economies in this group, and an especially large fall in Anguilla as FDI returned to trend after two years of elevated inflows due to construction and renovation activity at several hotels. However, Anguilla still recorded the highest FDI inflows as a share of GDP in the Caribbean with 13.9 per cent of GDP, followed by Saint Vincent and the Grenadines with 13.6 per cent.

**Figure 5**
**Foreign direct investment, 2012-2016**
*(Per cent of GDP)*




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

# III. Conclusion

Caribbean economies are projected to grow by an average of 2.4 per cent in 2017. This rebound is essentially predicated on the recovery of the Caribbean goods producers coupled with quickening growth among the service economies mainly through increased tourism activity. However, there are several downside risks to the relaitively optimistic forecast for economic growth in the Caribbean for 2017. These include uncertainty in respect of U.S trade, immigation and economic policy; the continued threat of de-risking by international correspondent banks; the region's debt burden; and relatively low commodity prices.

Looking forward therefore, it is essential that the Caribbean seek to reduce its debt burden so as to free up resources necessary for the modernization of trade-related production and facilitation infrastructure. It is also imperative that regional economies engage in an accelerated national and regional programme of economic diversification. As a corollary, human capital development geared towards enhancing productivity, which simultaneously seeks to strengthen backward and forward linkages between sectors, is crucial. In this regard, it is important to ensure that, horizontally across Caribbean economies, the requisite facilitatory environment to foster private sector investment in new foreign exchange earning industries, particularly in the areas where the region has emerging comparative advantage is provided. These would include areas such as light manufacturing; creative industries; green industries; ICT; agro-industry; and the maritime (for example yachting, ship building & ship repair) sectors. Such a policy framework is essential if the region is to effectively harness the opportunities for intra-industry, intra-regional trade, thus moving the Caribbean closer to the regionalization of production and the creation of regional value chains and so allowing the region to return to pre-financial crisis growth levels once more.

# IV. Country notes

## A. Bahamas

The economy of the Bahamas was initially projected to recover in 2016 with growth of 0.5 per cent, as compared to a contraction of 1.7 per cent in 2015. However, the aftermath of Hurricane Matthew, which hit the Bahamas in October 2016, means that growth is now projected at 0 per cent. Apart from the hurricane, growth was held back by the continued delay in the opening of the Baha Mar resort, which affected stopover visitor arrivals, spending and employment. Activity in the construction sector remained sluggish, owing mainly to weak domestic private-sector activity. The fiscal deficit contracted from 4.4 per cent of GDP in fiscal year 2014/15 to 3.0 per cent of GDP in 2015/16, reflecting continued strong growth in revenues, which were bolstered by value added tax (VAT) receipts, and slower expenditure growth. Monetary developments included growth in banking-sector liquidity, underpinned by government borrowing and inflows from tourism and other production sectors. The current account deficit of the balance of payments was projected to widen in 2016 relative to 2015, owing to growth in imports and reduced exports following Hurricane Matthew. The economy is expected to rebound in 2017, with growth of 1.0 per cent driven by increased tourism activity and a pick-up in construction, especially with the likely restart of the Baha Mar project.

Economic policy has focused on phasing in fiscal consolidation to achieve sustainable public debt, while at the same time nurturing recovery in economic growth. With VAT bolstering revenues, attention has been paid to modernizing the tax administration system. This includes modernization of the Customs division, including introduction of an online payment system and property tax computer-assisted mass appraisal (CAMA) software to facilitate increased collection. Nevertheless, short-term progress will be impeded by the impact of Hurricane Matthew, which has led to higher government spending than budgeted.

The fiscal position improved in fiscal year 2015/16, with the overall deficit narrowing to 3.0 per cent of GDP from 4.4 per cent of GDP in 2014/15. This performance reflected dynamic growth of 11.0 per cent in revenues, surpassing the 3.3 per cent increase in expenditure. Tax receipts expanded by 13.2 per cent, underpinned by dynamic growth in VAT receipts. VAT proceeds were over 600 million Bahamian dollars (B$) in 2015/16, exceeding government expectations. Expenditure growth was constrained by a 37.2 per cent decline in capital spending, representing a return to trend following the one-off purchase of seagoing vessels for the Royal Bahamas Defence Force and the tapering off of expenditure on infrastructure projects. The fiscal consolidation effort is expected to continue in 2016/17, with the deficit contracting further to 1.1 per cent of GDP. Central government debt increased from 71.9 per cent of GDP in the second quarter of 2015 to 74.0 per cent of GDP in the same period of 2016.

Monetary policy remained neutral despite the sluggish economic activity, with the central bank holding its policy discount rate unchanged at 4.5 per cent. Liquidity in the banking system continued to grow, owing to the government's foreign-currency borrowing, tourism receipts and sluggish credit demand. Excess reserves expanded by B$ 250.0 million during the first quarter, reversing a B$ 50.5 million contraction in 2015. Meanwhile, growth in domestic credit slowed from B$ 123.6 million in 2015 to B$ 113.5 million in 2016 as a B$ 30.4 million decline in private credit was accompanied by a B$ 22.6 million tapering of growth in credit to the government. Lending to the private sector has continued to be dampened by debt deleveraging, improved prudential lending practices at banks and high unemployment. Indeed, private credit has grown at a meagre 0.2 per cent a year since the global crisis.

The balance of payments current account deficit narrowed from16.8 per cent of GDP in the first half of 2015 to 9.3 per cent of GDP for the first half of 2016. The trade deficit narrowed by 30.2 per cent, owing to a 27.5 per cent decline in imports, reflecting a sharp fall in payments for oil due to lower international fuel prices and reduced imports of construction materials with the winding down of major projects. The services surplus contracted by 11.7 per cent in line with a major reversal of government transactions from a net inflow to a substantial net outflow and lower tourism receipts, partly due to lower average visitor expenditure. The income account deficit narrowed, owing to lower outflows for compensation of employers and investment income. The current account deficit is projected to widen from 15.9 per cent of GDP in 2015 to 18.8 per cent of GDP in 2016 because of a pick-up in imports, especially of building materials and equipment, and lower exports after Hurricane Matthew in October. The services surplus is also projected to contract owing to a decline in tourism receipts caused by the loss of hotel business.

Economic growth is expected to be flat in 2016. Hurricane Matthew has dampened economic activity, and the previous growth projection of 0.5 per cent has been reduced to 0 per cent. The economy was experiencing a mild recovery before the hurricane. In the tourism sector, high-spending stopover arrivals increased by 2.7 per cent to over 1 million visitors in the first seven months of 2016, and cruise passenger arrivals were up by 1.5 per cent to 2.8 million visitors. Nevertheless, average room revenues slipped compared with the same period in 2015, although the larger number of visitors was expected to lead to higher total expenditure. Overall losses in the tourism sector from the hurricane were estimated at B$ 59.6 million, and this is expected to limit the recovery in the sector in 2016 and the early part of 2017. Construction activity picked up during the first half of the year, with building starts in New Providence and Grand Bahama increasing by 21 per cent in number to 127 and by 7.6 per cent in value. Construction is expected to strengthen in 2017 with the restart of the Baha Mar project.

Inflation moderated from 1.4 per cent year on year to June 2015 to 0.6 per cent for the same period of 2016. This outcome was strongly influenced by a 2.7 per cent decline in the costs of housing, water, gas and electricity, which account for one third of the overall index, and a 5.4 per cent reduction in transportation costs. These costs were favourably affected by lower international fuel prices. Although energy prices increased in the second quarter of 2016, with the average prices of petrol and diesel rising by 6.8 per cent and 2.7 per cent year on year, respectively, prices were still lower than in 2015. The unemployment rate increased from 12.0 per cent in May 2015 to 12.7 per cent in May 2016. The continued delay in the opening of the Baha Mar resort dampened job growth in the tourism sector. Nevertheless, the unemployment rate in that sector fell from 14.8 per cent in November 2015 to 12.7 per cent in May 2016, reflecting a higher number of seasonal jobs associated with the carnival and other cultural events.

**Table 12**
**Bahamas: main economic indicators, 2014-2016**

| | 2014 | 2015 | 2016[a] |
|---|---|---|---|
| | *(annual percentage growth rates)* | | |
| GDP | -0.5 | -1.7 | 0.0 |
| GDP per capita | -1.9 | -2.9 | -1.2 |
| Variation in consumer prices | 0.2 | 2.0 | -0.3[b] |
| Money (M1) | 8.4 | 18.7 | 3.8[b] |
| | *(annual average percentages)* | | |
| Unemployment[c] | 14.8 | 13.4 | 12.7[d] |
| Central Government Overall Balance/GDP[c] | -6.5 | -4.3 | -2.9 |
| Nominal deposit rate[e] | 1.7 | 1.4 | 1.06[f] |
| Nominal lending rate[g] | 11.1 | 11.8 | 13.07[f] |
| | *(millions of dollars)* | | |
| Exports of goods and services[e] | 3 551 | 3 264 | 849 |
| Imports of goods and services[e] | 5 041 | 4 224 | 835 |
| Current account balance | -1 928.0 | -1 409 | -83 |
| Capital and financial account[h] | -9 | -65 | 410 |
| Overall balance | 474 | 1 113 | -181 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Figures as of June.
[c] Includes hidden unemployment.
[d] Figures as of May.
[e] Weighted average of deposit rates.
[f] Figures as of September.
[g] Weighted average of lending rates.
[h] Includes errors and omissions.

## B. Barbados

For the second consecutive year, Barbados recorded positive economic growth in 2016, expected to be 1.4 per cent of GDP. This was driven by a solid performance in the tourism sector, which grew by 3 per cent in the first three quarters of 2016. Long-stay arrivals increased by 5.7 per cent, with growth up in the major source markets, which also helped fuel a recovery in construction sector activity. This progress was reflected in a lower unemployment rate of 10.2 per cent by September 2016. The current account deficit of the balance of payments also narrowed, to 2.4 per cent of GDP, owing to increased exports and low imports. Nevertheless, the fiscal deficit remains high at an estimated 6.4 per cent of GDP. This, coupled with the high gross government debt stock 107.7 per cent of GDP and increasing domestic interest payments, is a matter of ongoing concern for the Government of Barbados. Weak commodity prices continue to push consumer prices downward, with inflation of -1.2 per cent. Growth in 2017 is projected at 1.9 per cent, underpinned by continued growth in the tourism and construction sectors.

The government's fiscal consolidation efforts have been slow to yield the expected results. The Central Bank of Barbados projects the fiscal deficit for fiscal year 2016/17 to be 6.1 per cent of GDP (down from original estimates of over 8 per cent of GDP), which is a smaller deficit than the 7.5 per cent of GDP posted in fiscal year 2015/16, but still in excess of sustainable levels. In the recent budget, the government outlined a number of fiscal adjustment measures aimed at boosting revenues and containing expenditure. The new measures, which are expected to lower the deficit to 5.8 per cent of GDP by the end of fiscal year 2016/17, include the National Social Responsibility Levy, a 2 per cent border tax on the customs value of all imports, an increase in the Bank Asset Tax, and a tax amnesty. The sale of Barbados National Oil Terminal Ltd. is also expected to contribute the expansion in revenue. Measures on the expenditure side consist of a cut of 200 million Barbados dollars (BDS$) in statutory transfers and subsidies, along with an across-the-board reduction of up to BDS$ 50 million in discretionary spending.

However, concerns persist regarding whether these initiatives are sufficient to contain or reduce the gross government debt stock from its current 107.7 per cent of GDP. As a consequence, another international rating agency, Standard & Poor's, downgraded Barbadian bonds from B to B-, as well as citing the outlook as negative, on the basis of the persistent financing of the government's deficit by the Central Bank of Barbados.

The Government of Barbados' ongoing cash flow needs stemming from its fiscal constraints continue to be financed by the Central Bank of Barbados, which created BDS $114 million in the first half of fiscal year 2016/17 for this purpose. As a result, the central bank has struggled to narrow the spread between the United States and Barbadian treasury bills, which currently stands at 2.81 percentage points. In turn, despite removal of the minimum deposit interest rate stipulation, the gap between deposit rates and loan rates widened by 0.5 percentage points on average as commercial banks lowered the former more than the latter.

International reserves stood at US$ 900.3 million at September 2016, representing 14 weeks of import cover, slightly above the minimum threshold of sustainability. However, the Central Bank of Barbados maintains its commitment to the fixed exchange rate peg. Fiscal consolidation measures proposed towards the end of the year are expected to bolster the stock of foreign reserves.

A number of important medium-term measures were outlined in the 2016/17 budget, aimed at stimulating economic growth, generating foreign-exchange flows and spurring employment. These initiatives include the creation of new duty-free zones, amendment of the Tourism Development Act to permit eligible property owners to access tax benefits for multi-year refurbishment and renovation projects, and the use of resources from the Industrial Credit Fund to set up a special fund that will support a blend of grants and soft loans to finance existing small and medium- sized enterprises and business start-ups. The overall deficit of the balance of payments fell to US$ 13.4 million, or 0.4 per cent of GDP, for the first three quarters of 2016, down from US$ 37.4 million, or 1.1 per cent of GDP, in the year-earlier period. Although low oil prices have kept import values down, the narrowing of the current account deficit (by 3.7 percentage points) to 2.4 per cent of GDP was driven chiefly by a 2.1 percentage point rise in exports. Furthermore, private long-term investment flows increased by 0.8 percentage points to 7.7 per cent of GDP.

Economic activity in the Barbadian economy appears to have picked up for the second consecutive year after a period of weak economic growth. GDP growth is expected to have expanded by 1.4 per cent in 2016, up from 0.9 per cent in 2015 and the highest figure since the global financial and economic crisis of 2008-2009. This growth hinged primarily on the buoyant tourism sector, which grew by 3 per cent in the first three quarters of 2016, coupled with a 5 per cent rebound in the construction sector. In this same period, overall long-stay arrivals increased by 5.7 per cent, albeit not as vigorously as the 14.5 per cent increase recorded in 2015. Growth in major source markets was positive, with arrivals up by 11 per cent from the United States, 13 per cent from the Caribbean Community (CARICOM) and 3 per cent from the United Kingdom. The construction sector benefited from such activities as the Sandals expansion project in 2016. Although the finance and services sector rebounded by 3 per cent, the international business and financial services sector remained stagnant, with new business licenses declining by 7.5 per cent. Value added in other sectors was marginal. GDP growth in 2017 is projected at 1.9 per cent, on the basis of a sustained positive performance in the tourism and construction sectors as airlift capacity increases and delayed hotel infrastructural projects move ahead.

Prices continued to fall as a consequence of persistently weak global fuel prices. In March 2016, inflation stood at -1.4 per cent, down by 2.4 percentage points year on year. Prices are, however, expected to increase by late 2016 as increases in the rate of VAT and the National Social Responsibility

Levy take effect. Growth in the tourism sector, with spillovers in construction, translated into a second year's decline in the unemployment rate, to an average of 10.2 per cent over the first three quarters of 2016, compared to 11.9 per cent in the prior-year period.

**Table 13**
**Barbados: main economic indicators, 2014-2016**

| | 2014 | 2015 | 2016[a] |
|---|---|---|---|
| | | *(annual growth rate)* | |
| Gross domestic product | 0.2 | 0.5 | 1.4 |
| Per capita gross domestic product | -0.1 | 0.2 | 1.1 |
| Consumer prices | 2.3 | -2.5 | 1.3 [b] |
| Money (M1) | 9.4 | 14.1 | 18.2[c] |
| Real effective exchange rate[d] | 0.4 | -0.5 | -1.2[e] |
| | | *(annual average percentage)* | |
| Urban unemployment rate[f] | 12.3 | 11.9 | 9.3[g] |
| Non-financial public sector overall balance / GDP | -6.9 | -7.5 | -8.7 |
| Nominal deposit rate [h] | 2.5 | 1.3 | 0.4[e] |
| Nominal lending rate [i] | 7 | 6.9 | 6.7[e] |
| | | *(millions of dollars)* | |
| Exports of goods and services | 1 895 | 1 927 | ... |
| Imports of goods and services | 2 115 | 2 032 | … |
| Current account balance | -431 | -315 | ... |
| Capital and financial balance [j] | 386 | 252 | ... |
| Overall balance | -46 | -63 | … |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Figures as of May.
[c] Figures as of June.
[d] A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
[e] Figure for September.
[f] Includes hidden unemployment.
[g] Figure refers to first quarter.
[h] Weighted average of deposit rates.
[I] Weighted.

## C. Belize

The economy experienced a reversal of fortunes in 2016, with growth of 1.2 per cent in 2015 giving way to a contraction of 2.4 per cent. This performance was influenced by contractions of over 29 per cent and 0.2 per cent in the primary and secondary sectors, respectively, offsetting growth of 1.5 per cent in the tertiary sector. Inflation will reach an estimated 1.2 per cent for the year, reversing the deflation (-0.9 per cent) of 2015. The government achieved a measure of fiscal consolidation in 2016, with the fiscal deficit contracting to 2.0 per cent of GDP from 7.9 per cent of GDP in calendar year 2015. The external payments situation improved marginally, as the current account deficit narrowed to 9.6 per cent of GDP from 9.7 per cent in 2015, with firm growth in tourism receipts helping to offset a larger trade deficit. Economic growth is projected to recover strongly to 3.7 per cent in 2017, bolstered by a resurgence in agriculture, especially sugar and banana production, and a continued firm expansion (5.6 per cent) in tourism, all offsetting a 1.4 per cent decline in the secondary sector, which will be constrained by lower petroleum production and sluggish construction activity.

Economic policy in 2016 focused on completing the settlement of the debt from the nationalization of Belize Telemedia Limited (BTL) as part of the overall fiscal consolidation programme. The final settlement was valued at US$ 194 million, which exceeded the expectations of the authorities. Half of this (US$ 97 million) was paid in 2016. The government wound down its capital works programme to facilitate the fiscal consolidation effort. This in part reflects the difficulty of cutting some recurrent spending components that are effectively non-discretionary.

The fiscal deficit contracted to 2.0 per cent of GDP in calendar year 2016, despite a portion of the BTL settlement being paid then, from 7.9 per cent of GDP in 2015. Total revenue expanded by 3.8 per cent and total expenditure declined by 12.8 per cent, the result being a substantial contraction in the overall deficit in nominal terms. Revenues were bolstered by a 5.6 per cent increase in tax receipts, mainly due to higher proceeds from excise duties and the general sales tax (GST). The fall in outgoings stemmed primarily from cuts to capital expenditure and net lending, reflecting the winding down of infrastructure projects that included road works in Belize City and a number of bridges and highways. The fiscal deficit is projected to widen to 3.1 per cent of GDP in 2017, driven by higher spending associated with a 3.0 per cent wage increase and wage rises. Year-end central government debt is projected to rise significantly, propelled by higher domestic borrowing

Despite negative growth, monetary policy remained neutral in 2016, as the central bank did not change its policy rate to stimulate credit demand and economic activity. The liquid asset ratio was thus kept constant at 6.5 per cent. The broad money supply (M2) was projected to decline by 0.7 per cent owing to a slowdown in credit to the private sector in the wake of the contraction in activity. Nevertheless, credit to central government expanded by 66.9 per cent, reflecting a 225.0 million Belizean dollar (BZ$) issue of Treasury notes to defray the BTL settlement. The net foreign assets of the central bank are projected to decline by BZ$ 290.1 million to BZ$ 592.4 million, owing to the payments for the BTL settlement and lower disbursements of Venezuelan PetroCaribe Agreement (VPCA) funds.

Belize's external position improved marginally in 2016, with the current account deficit declining to 9.6 per cent of GDP from 9.7 per cent in 2015. This was achieved through growth in services exports, which offset the increase in the trade deficit. The services surplus expanded by 29.0 per cent in line with growth in tourism receipts that was driven by higher stay-over arrivals and spending. However, the trade deficit widened by US$ 58.0 million, reflecting a drop in exports of agricultural products and petroleum that outstripped a 4.0 per cent decline in imports due in part to the decline in activity. The deficit on the income account expanded by 20.9 per cent, driven by higher profit repatriations from the tourism sector. The capital and financial account surplus contracted by over 78 per cent to US$ 34.1 million, reflecting a steep fall in foreign direct investment. International reserves shrank by 33.5 per cent to US$ 290.4 million, enough to cover 3.5 months of imports, down from 5.0 months in 2015. The current account deficit is expected to improve further to 8.9 per cent of GDP in 2017, with steady growth in tourism receipts offsetting higher trade and income deficits.

The economy shrank by 2.4 per cent in 2016, following growth of 1.2 per cent in 2015. This reflected contractions in the primary and secondary sectors that offset growth in the tertiary sector. The economy shrank by 1.5 per cent in the first semester, and this continued into the second semester. Output in the agricultural sector plummeted owing to a 30 per cent decline in banana production and a more than 70 per cent fall in papaya production. The drop in banana production was due to the closure of the Meridian group of farms, which accounted for over 16 per cent of the total area cultivated in 2015. Citrus output was projected to decline by 16.3 per cent, partly reflecting the impact of citrus greening disease. By contrast, sugarcane deliveries expanded by 13.1 per cent as production returned to the full crop cycle after delays in harvesting over the previous two years. Petroleum output plummeted by 16.7 per cent, reflecting reduced production from the Spanish Lookout field. Meanwhile, tourism value added expanded by 8.4 per cent, boosted by strong growth in high-spending stay-over arrivals.

It is estimated that inflation will reach 1.2 per cent in 2016, owing to higher fuel prices and the higher costs of some basic food items, including meat, bread and fresh vegetables. The unemployment rate fell from 10.1 per cent in April 2015 to 8.0 per cent in April 2016, the first single-digit rate in a decade. Some 8,773 jobs were added to the labour force during the year, while the median monthly employee wage remained constant at BZ$ 1,131.

**Table 14**
**Belize: main economic indicators, 2014-2016**

| | 2014 | 2015 | 2016[a] |
|---|---|---|---|
| | | *(annual growth rate)* | |
| Gross domestic product | 4.1 | 1.2 | -2.4 |
| Per capita gross domestic product | 1.9 | -1 | -4.4 |
| Consumer prices | -0.2 | -0.6 | 0.7[b] |
| Money (M1) | 14 | 14.6 | 15.1[c] |
| | | *(annual average percentage)* | |
| Urban unemployment rate[d] | 11.6 | 10.1 | 8.0[e] |
| Central government Overall balance / GDP | -3.8 | -7.3 | -1.7 |
| Nominal deposit rate[f] | 1.8 | 1.6 | 1.3[b] |
| Nominal lending rate[g] | 10.9 | 10.3 | 9.9[b] |
| | | *(millions of dollars)* | |
| Exports of goods and services | 1 083 | 1 034 | … |
| Imports of goods and services | 1 150 | 1 183 | … |
| Current account balance | -136 | -175 | ... |
| Capital and financial balance[h] | 221 | 71 | ... |
| Overall balance | 85 | -104 | ... |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Figures as of September.
[c] Figures as of July.
[d] Includes hidden unemployment.
[e] Figures as of April.
[f] Weighted average of deposit rates.
[g] Weighted average of lending rates.
[h] Includes errors and omissions.

## D. Eastern Caribbean Currency Union (ECCU)

The ECCU economies are projected to grow by an average of 2.8 per cent in 2016 (up from 2.7 per cent the previous year) and 3.1 per cent in 2017[7]. The economic expansion observed in 2016 was primarily driven by tourism-related construction, particularly projects in Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia, and by the hotels and restaurants and agricultural sectors. More specifically, the Antigua and Barbuda economy is projected to expand by 4.2 per cent in 2016, following an equally strong performance (4.1 per cent) in 2015. Economic growth in Saint Kitts and Nevis is set to decline marginally to 3.7 per cent in 2016, due to a slowing of tourism and construction activity. The Grenadian economy is projected to expand by 2.9 per cent in 2016, as compared to 6.2 per cent in 2015, since the pace of economic activity slowed across the major sectors, with agricultural output expected to decline by 10 per cent and manufacturing output to remain flat. The overall fiscal surplus generated by ECCU is

[7] Refers to a simple average of growth rates across the six ECCU members which are members of the Economic Commission for Latin America and the Caribbean (ECLAC).

set to increase in 2016. Price deflation (-1.0 per cent) is forecast for end- 2016, with falling fuel costs having driven a decline in overall consumer prices.

There were no major upsets in fiscal policy across the ECCU economies during the first half of 2016, as the currency union's fiscal performance improved relative to the same period the previous year. However, it is noteworthy that the Government of Grenada passed the Tax Administration Act and completed the restructuring of the Inland Revenue Department during the semester. ECCU generated an aggregate fiscal surplus of 162.2 million East Caribbean dollars (EC$), as compared to a surplus of EC$ 33.9 million during the first half of 2015. This improved fiscal outturn was driven by a combination of a contraction in capital expenditure and an increased current account surplus across ECCU. Moreover, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines all generated increased fiscal surpluses during the first six months of 2016 relative to the same period the previous year.

In Saint Kitts and Nevis, the larger overall fiscal surplus (after grants) was helped by a fall in capital expenditure. This offset a contraction in current revenue, as inflows from the Citizen by Investment (CBI) programme began to decline during the first half of 2016, a development attributed to competition from similar programmes offered by other ECCU member States, while value added tax (VAT) revenue also fell because a waiver was introduced for food items. CBI inflows were EC$ 147 million by September 2016, as compared to EC$ 204 million by the same month in 2015. Primarily owing to increased revenues, Grenada and Saint Lucia both moved from an overall fiscal deficit during the first six months of 2015 to a surplus over the same period in 2016. Grenada in particular managed to meet the IMF programme requirement of raising its primary surplus to 3.5 per cent of GDP. Furthermore, Grenada's current account position also improved to such an extent that its government no longer had to rely upon overdraft facilities, despite restarting bond payments and exiting the wage freeze arrangement.

In aggregate, the ECCU current account surplus expanded to EC$ 306.1 million during the first six months of 2016 from EC$ 231.4 million over the same period in 2015. This improvement in current operations was fuelled by an increase in current revenue that outstripped the rise in current expenditure during the first half of 2016. In particular, Saint Lucia's current account surplus doubled to EC$ 102.4 million thanks to an uptick in current revenue coupled with a decline in current spending.

However, Saint Lucia is set to reduce its standard rate of VAT from the current 15 per cent to 12.5 per cent by 1 February 2017. The government has also approved an amnesty for all tax types, including personal property tax, from 1 October 2016 to 28 February 2018. To mitigate the impact of the loss of revenue, the airport development tax will be reintroduced with effect from 1 April 2017, but it is unlikely that this and other planned revenue-generating measures will entirely offset the loss of revenue from the VAT reduction and the tax amnesty in the short-term.

The ECCU economies largely continued with their debt consolidation and debt reduction initiatives during 2016 as they sought to move towards the objective of achieving a debt-to-GDP ratio of 60 per cent by 2030. Notwithstanding, the ECCU-wide debt stock trended upward (2.0 per cent) during the first six months of 2016. By the end of June 2016, total disbursed outstanding public- sector debt stood at EC$ 13.14 billion. This growth was fuelled by an expansion (2.5 per cent) in the outstanding debt of central governments as they increased borrowings both domestically and externally to cover capital expenditure.

At the country level, the total public debt of Saint Kitts and Nevis moved in the opposite direction, falling to EC$ 1.540 billion by the end of June 2016 from EC$ 1.763 billion at the end of June 2015. This contraction in the debt stock can be attributed to gains from the debt restructuring exercise undertaken between 2011 and 2014, to the debt-for-land swap of 2013, and to the capping of new debt. Scheduled amortization payments and a partial overdraft repayment collectively underpinned the marginal (0.4 per cent) decline in the total outstanding public debt of Saint Vincent and the Grenadines to EC$ 1.603 billion during the first half of2016.

At the aggregate level, financial-sector liquidity within ECCU remained high during the first six months of 2016. The ratio of loans and advances to deposits fell from 64.8 to 61.7 over the same period, which is indicative of the increase in liquidity within the commercial banking system. Despite the high liquidity, private-sector lending contracted 4.5 per cent in the first half of the year. This reflected declines across sectors, particularly in construction and tourism. Furthermore, the minimum deposit rate on savings (MSR) was cut from 3.0 per cent to 2.0 per cent. This reduction took effect on 1 May 2015 and placed downward pressure on saving rates even as lending rates were rising.

The construction, tourism, manufacturing, wholesale and retail sectors continued to be the largest contributors to GDP in ECCU during the first half of 2016. Private-sector tourism-related projects (particularly in Antigua and Barbuda, Dominica, Grenada and Saint Vincent and the Grenadines) drove increased activity in the construction sector relative to the same period the previous year. Public-sector construction activity, on the other hand, was more subdued and focused on plugging infrastructure gaps in the form of roads, bridges and the like.

There was also a weakening of tourism activity within ECCU during the first six months of 2016 relative to the same period of 2015, with total visitor arrivals contracting by 2.8 per cent despite an increase in stay-over arrivals, as growing global economic uncertainty seemingly had a negative impact on all other subcategories of visitors, including cruise ship arrivals. Unsurprisingly, the slowing of tourism activity dampened that of the wholesale and retail sector, the transport, storage and communication sector and the real-estate sector. Agricultural output expanded, but manufacturing activity declined as weakening global aggregate demand impacted negatively on Saint Kitts and Nevis's exports of manufactures.

At the aggregate level, soft oil prices were a factor in the price deflation (-0.9 per cent) observed during the first half of 2016. While generally improving, relatively high unemployment levels continued to be a structural challenge for the ECCU economies during the same period.

**Table 15**
**Eastern Caribbean Currency Union[a]: main economic indicators, 2014-2016**

| | 2014 | 2015 | 2016[b] |
|---|---|---|---|
| | *(annual growth rate)* | | |
| Gross domestic product | 3.7 | 3 | 2.8 |
| Consumer prices | 0.8 | -0.9 | -0.9[c] |
| Money (M1) | 8.5 | 7.5 | 8.8[d] |
| | *(annual average percentage)* | | |
| Central government overall balance / GDP | -1.3 | -0.1 | -0.6 |
| Nominal deposit rate[d] | 2.6 | 2.1 | 1.8[e] |
| Nominal lending rate[d] | 9 | 12 | 8.6[e] |
| | *(millions of dollars)* | | |
| Exports of goods and services | 2 232 | 2 282 | 2 339 |
| Imports of goods and services | 3 003 | 2 957 | 3 018 |
| Current account balance | -738 | -641 | -652 |
| Capital and financial balance | 990 | 767 | 652 |
| Overall balance | 252 | 126 | … |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Refers to six countries: Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.
[b] Estimates.
[c] Figures as of June.
[d] Weighted average rate.
[e] Figures as of September.
[f] Includes errors and omissions.

# E. Guyana

A confluence of factors, including a weakening of global aggregate demand, flat domestic demand, lower commodity prices and unfavourable weather conditions, impacted negatively on the performance of the Guyanese economy in 2016, with agricultural and manufacturing output both declining. Accordingly, economic growth is projected to slow to 2.6 per cent for the year overall, down from 3.0 per cent in 2015. The mining sector and, to a lesser extent, construction and activities in the other services sectors (tourism, hotels and restaurants) are expected to fuel growth.

The overall fiscal deficit is expected to widen to 33.166 billion Guyana dollars (G$) in 2016 (from G$9.319 billion in 2015), owing to a lowering of the current account surplus and an accompanying increase in the capital account deficit. Led by a moderate increase in food and fuel prices during the months of May and June 2016, as well as increased consumption spending during the last quarter of 2016 —on the back of a public sector wage hike in October 2016—, inflation is forecast to be 1.3 per cent in2016.

Increased current and capital expenditures led to a massive 94.1 per cent year-on-year contraction in the overall fiscal surplus (from G$ 13.960 billion to G$ 818 million during the first half of 2016, as the government's capital expenditure was less constrained during the first half of 2016, showing an 89.4 per cent increase over the same period in 2015. The East Bank and West Demerara road expansion projects, the Cheddi Jagan International Airport (CJIA) modernization, the power utility upgrade programme, and the maintenance and expansion of the country's e-government network, were major infrastructure projects contributing to the capital expenditure surge.

The current account surplus for January to June stood at G$ 9.5 billion, owing to a 31.6 per cent increase in current expenditure, fuelled by increased transfer payments and public sector wage costs. Concomitantly, there was a 9.7 per cent rise in current revenue (to G$ 85.9 billion) relative to the same period in 2015, as tax revenue collections (9.7 per cent), rents and royalties receipts all increased.

Increased tax revenues were driven largely by improved personal income tax collection, as a result of increased wages and salaries to public servants agreed upon in the second half of 2015, and tighter compliance measures targeting the self-employed that were instituted by the Guyana Revenue Authority. In addition, rents and royalties were buoyed by a combination of an expansion in gold production and increased collection efforts during the first six months of2016.

Domestic public debt remained at a sustainable level as the government continued to adhere to its debt management strategy. Over the first half of June 2016, the country's total public debt increased by 1 per cent relative to the half-year position of the previous year. Guyana's domestic debt stock increased by 11.3 per cent (to G$ 84.4 billion) as inventories of outstanding 91-day and 182-day treasury bills (T-bills) rose by 12 per cent (to G$ 8.2 billion).

In contrast, at the end of June 2016, Guyana's external public debt was down by 2.7 per cent relative to end-June 2015, owing to lower disbursements from the Inter-American Development Bank (IDB), the cessation of credit under the PetroCaribe arrangement and the Guyana-Venezuela Rice Trade Agreement in June 2015, and the completion of the Export-Import Bank of China fund E-Government Project. External debt service payments contracted as a consequence of lower principal payments to bilateral creditors.

The Bank of Guyana continued to adopt a conservative approach to monetary policy setting during the first half of 2016, encouraging commercial banks to lend while sterilizing excess liquidity in the system. Matured T-bills were rolled over and 91-day T-bills were moved from the consolidated fund to the sterilization fund. During the first half of 2016, reserve money expanded by 3.2 per cent as net foreign assets increased. In contrast, broad money contracted (by 0.1 per cent) due to a fall in net domestic credit, as net credit to the public and private sectors declined by 117.0 per cent and 0.6 per cent, respectively. There were significant declines in credit to the distribution, construction, agriculture and mining sectors.

During the first half of 2016, Guyana made significant strides in strengthening its anti-money laundering framework, as well as regulatory and legislative gaps. However, as a consequence of the de-risking being undertaken by many international banks, two Guyanese Banks had correspondent banking relations (CBRs) terminated or restricted.

Abundant financial sector liquidity and marginal interbank borrowing further stabilized the position of the central bank. The exchange rate is expected to remain at G$ 206.5 to the United States dollar through to the end of 2016, as commercial banks continue to manage their buying and selling rates and imports contract, which has had a stabilizing effect on the value of the Guyanese currency.

Year-on-year, the overall balance-of-payments position improved considerably during the first half of 2016, moving from a deficit of US$ 58.1 million to a surplus of US$ 12.1 million. Gross international reserves rose from US$ 594.7 million at end-December 2015 to US$ 633.3 million at end-June 2016, before falling back slightly to US$ 610.4 million at end-September 2016. The main driver of the improved current account position was a significantly lower merchandise trade deficit as a result of higher export earnings and a lower import bill. However, the fallback in gross international reserves from June to September hints at a slippage in the overall balance-of-payments position. Thanks to a 29.1 per cent improvement in export earnings and a 10.1 per cent decline in imports, the merchandise trade deficit narrowed by 92.4 per cent. Lower foreign direct investment and disbursements to the non-financial public sector widened the capital account deficit.

Real GDP expanded by 2.0 per cent year-on-year during the first half of 2016, compared to 0.9 per cent at end- June 2015. This gain was driven by increased output in the mining and quarrying sector (65.7 per cent), where there was a 94.3 per cent expansion in gold declarations and a 1.8 per cent increase in bauxite production. However, output contractions were recorded in the rice industry (-26.2 per cent), sugar (-30 per cent), forestry (-16.0 per cent) and manufacturing (-14.1 per cent). Economic activity was down in the construction sector, by 7.5 per cent, and in wholesale and retail trade, by 11.3 per cent, owing to flat domestic demand. Buoyed by activities related to the Golden Jubilee celebrations in May 2016, other services posted 10 per cent growth. However, during the second half of 2016, economic activity in the services sector grew at a slower pace, which dampened the estimated whole year growth outlook to 2.6 per cent.

Mild deflation (-1.8 per cent) in 2015 was followed by moderate inflation (0.9 per cent year-on-year) at end- September 2016, which was influenced by rising food and fuel prices during May and June 2016.

Public sector employment climbed just 0.2 per cent, year-to-date, as at end-June 2016. This lacklustre performance suggests that public sector wage growth may be having a negative effect on employment generation. Employment creation was even weaker in the private sector.

**Table 16**
**Guyana: main economic indicators, 2014-2016**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| | *(annual growth rates)* | | |
| Gross domestic product | 3.8 | 3 | 2.6 |
| Per capita gross domestic product | 3.5 | 2.6 | 2.1 |
| Consumer prices | 1.2 | -1.8 | 0.9[b] |
| Money (M1) | 10.1 | 7.9 | 5.5[c] |
| | *(annual average percentage)* | | |
| Central government Overall balance / GDP | -5.5 | -1.4 | -4.6 |
| Nominal deposit rate[d] | 1.3 | 1.3 | 10.8[b] |

Table 16 (concluded)

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| | *(millions of dollars)* | | |
| Exports of goods and services | 1 348 | 1 313 | … |
| Imports of goods and services | 2 217 | 1 898 | … |
| Current account balance | -385 | -144 | 0 |
| Capital and financial balance[f] | 408 | 169 | 0 |
| Overall balance | 22 | 25 | 0 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Figures as of September.
[c] Figures as of August.
[d] Small savings rate.
[e] Prime lending rate.
[f] Includes errors and omissions.

## F. Jamaica

The Jamaican economy posted growth rates of 0.9 per cent, 1.1 per cent and 2.2 per cent in the first three quarters of 2016, respectively, and it is projected that growth will be 1.1 per cent in 2016 and 1.2 per cent in 2017. The implication is of a gradual strengthening in growth, largely owing to the negotiation of a precautionary agreement between the government and the International Monetary Fund. The new agreement will be supported by a 36-month stand- by arrangement with the International Monetary Fund (IMF) that will allow the government to access SDR 1.2 billion and will replace the current extended fund facility (EFF). The Jamaican authorities have indicated that they intend to treat the stand-by arrangement as precautionary, i.e. effectively as an insurance policy against unforeseen economic shocks that are beyond the country's control. Inflation is likely to be no more than 4 per cent in 2016 providing there are no adverse movements in the exchange rate. The ongoing structural reforms under the EFF, which expires in April next year, are expected to improve investor confidence, and in its thirteenth review the IMF praised the government for sticking to the programme, while warning that significant downside risks remained.

Fiscal challenges continue to be the biggest concern for the government as Jamaica seeks to control its public finances. At the end of September 2015, the IMF reported the successful completion of the ninth review, with the programme remaining on track thanks to expenditure restraint and tax increases of some 0.6 per cent of GDP in 2015/16. Interestingly, the IMF revised the primary balance target downward by J$ 5.3 billion to facilitate greater public investment. In September 2016, after the thirteenth review of the EFF, the IMF confirmed that the country had successfully met a number of quarterly quantitative targets and structural benchmarks. This will trigger the release of US$ 39.6 million, which will shore up both the public finances and the balance of payments. Looking at fiscal operations for fiscal year 2015/16, total expenditure was below budget by 2.5 per cent (J$ 258 billion), while recurrent and capital expenditure were below the budget targets by 0.2 per cent and 26.4 per cent, respectively.

General elections were held on 25 February 2016 and a new government was installed in March. One campaign pledge was to take people earning less than J$ 1.5 million a year out of income tax. This was done in two phases at a fiscal cost of 1 per cent of GDP and reflects a policy shift from direct to indirect taxes.

The main challenge facing Jamaica is its debt overhang, which stood at 124 per cent of GDP in fiscal year 2015/16 and is projected at 119 per cent of GDP for 2017/18. In 2015/16, external debt was some 76.8 per cent of GDP. Meanwhile, interest costs were 7.7 per cent of GDP, which was a decline from 8.1 per cent in the previous fiscal year. The government has been leveraging low interest rates in international markets to reduce debt service costs[8]. A high proportion of Jamaica's debt, some 60 per cent, is denominated in foreign currency, which implies additional risks arising from exchange-rate depreciation. In addition, some 34.6 per cent of total debt is subject to variable interest rates. The long-anticipated increase in United States interest rates will adversely affect debt repayment costs. The fiscal deficit was 0.3 per cent of GDP in the 2015/16 fiscal year, with a primary surplus of 7.4 per cent of GDP helping to reduce the heavy public debt burden.

The exchange rate of the Jamaican dollar depreciated by 5 per cent in nominal terms in 2015, and the trend continued in 2016. By late September the rate was J$ 127.5 per US$ 1. Further deterioration is expected by the end of 2017, although the pace of devaluation has slowed as demand pressures in the foreign-exchange market have been tempered by Bank of Jamaica net sales. The central bank has shown willingness to intervene to contain faster depreciation, thereby curbing imported inflation and increases in external debt servicing costs (external debt is 59 per cent of total public debt). However factors such as severe weather (causing imports to rise) and commodity price swings could cause the rate of depreciation to accelerate. While the depreciation of the currency may be improving competitiveness[9] especially in light of falling oil prices, continued weakening will begin to affect inflation and contribute to stronger demand for wage increases.

Monetary policy in 2016 was accommodative, and the Bank of Jamaica cut its 30-day certificate of deposit rate from 5.25 per cent to 5 per cent. This policy move was due to a significant lowering of inflation expectations and a moderation of price increases that resulted mainly from lower international oil prices. Credit to the private sector grew by 9.6 per cent in 2015, up on the 4.8 per cent rise of 2014. There was some improvement in credit expansion in 2016, since annual growth in lending to the private sector was 14.8 per cent at the end of June, as compared to 11.0 per cent at the end of March, reflecting increased economic activity. Meanwhile, the weighted average local deposit interest rate fell to 1.62 per cent from 2.64 per cent in 2014, while the average lending rate fell to 16.92 per cent from 17.18 per cent in 2014.

As of June 2016, net international reserves remained strong at US$ 2.26 billion. Gross reserves stood at US$ 2.4 billion in December 2015, representing 23.5 weeks of projected goods and services imports. The decline thereafter was due to increased imports.

Economic growth rates in the first three quarters of 2016 were 0.9 per cent, 1.1 per cent and 2.2 per cent, respectively. The largest contributor to growth in the first quarter was the service sector, followed by the goods-producing sector. Within the latter, mining and quarrying declined by 0.8 per cent, reflecting lower commodity prices. Results in the second quarter were driven by increases in real value added in both the goods-producing and service industries, with growth of 2.3 per cent and 0.8 per cent, respectively. With some improvement in agriculture and tourism, growth is projected at 1.1 per cent by the end of 2016 and 1.2 per cent in 2017. Remittance flows have also been improving due to better economic performance in the United States and United Kingdom. Interestingly, the performance of the manufacturing sector (1.1 per cent) has been far from stellar despite the improvement in competitiveness resulting from the depreciating exchange rate.

The inflation rate in 2015 was 3.7 per cent, and by end-September 2016 headline inflation was 1.8 per cent. A rate of 3.8 per cent is projected for the whole of 2016. Inflationary pressure has eased due to softer demand at both the domestic and international levels and lower commodity prices.

Wage restraint has been an important part of the agreement with the IMF under the EFF arrangement, and real wages declined by 0.2 per cent in 2015 following a contraction of 3.4 per cent in 2014. It is important to note that the government finalized negotiations with about 92 per cent of public

[8] As an example the government issued US$2bn in bonds in July 2015 and from this issue $US1.5b was issued to repurchase a portion of the PertoCaribe debt at a 54 per cent discount and this helped to reduce the debt burden and lengthen the payback period . Despite these and other measures, without some debt relief, the debt overhang will remainhigh in the medium term given low growth and constrained domestic demand.

[9] There are limits to which devaluation can improve competiveness in a small open economy.

sector employees for a projected 4 per cent wage increase in 2015/16. The target for the wage bill is 9 per cent GDP in fiscal year 2016/17, and the government is committed to keeping the ratio of public debt to GDP on a downward path over the medium term.

The unemployment rate fell gradually from 14.2 per cent in January 2015 to 13.7 per cent in July 2016. The decline in unemployment from 2014 onward was the outcome of 1.0 per cent growth in employment outweighing an expansion of 0.7 per cent in the labour force. There was also a decline of 0.1 per cent in the job- seeking rate relative to the previous year.

The male jobless rate was 9.6 per cent and the female rate 18.4 per cent as of July 2016. Unemployment will only decline significantly when there is improved domestic activity and robust external demand. Meanwhile, youth unemployment continues to be a serious challenge. The overall unemployment rate in the 20-29 age group was 29.2 per cent in July 2016, with male and female rates of 23.9 per cent and 35.7 per cent, respectively.

**Table 17**
**Jamaica: main economic indicators, 2014-2016**

| | 2014 | 2015 | 2016[a] |
|---|---|---|---|
| | *(annual growth rate)* | | |
| Gross domestic product | 0.7 | 1.0 | 1.1 |
| Per capita gross domestic product | 0.3 | 0.6 | 0.7 |
| Consumer prices | 6.2 | 3.7 | 1.8[b] |
| Money (M1) | 5.0 | 15.7 | 18.0[c] |
| Real effective exchange rate[d] | 9.4 | 7.8 | 5.2[b] |
| | *(annual average percentage)* | | |
| Open urban unemployment rate | 13.7 | 13.5 | 13.3[e] |
| Central government Overall balance/GDP | -0.5 | -0.3 | -1.0 |
| Nominal deposit rate[f] | 2.2 | 1.9 | 1.4[b] |
| Nominal lending rate[g] | 17.2 | 17.0 | 16.6[b] |
| | *(millions of dollars)* | | |
| Exports of goods and services | 4 401 | 4 318 | 4 158 |
| Imports of goods and services | 7 452 | 6 571 | 6 516 |
| Current account balance | -1 114 | -395 | -303 |
| Capital and financial balance[h] | -1 588 | 882 | 520 |
| Overall balance | 246 | 828 | 197 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Figures as of September.
[c] Figures as of July.
[d] A negative rate indicates an appreciation of the currency in real terms. Refers to the mondial real effective exchange rate.
[e] Figures as of average from January to September.
[f] Average rate for saving deposits.
[g] Average lending rate.
[h] Includes errors and omissions.

## G. Suriname

Suriname's recession deepened in 2016, with economic growth estimated at -10.4 per cent, down from -2.7 per cent in 2015. As a result of falling commodity prices over the past few years, Suriname's economy struggled to maintain growth, and international reserves fell to critically low levels. In response, the government implemented adjustment measures and entered into a US$ 481 million stand-by arrangement with the International Monetary Fund (IMF) in early 2016.

Certain conditions in the agreement, combined with domestic measures, impacted several sectors of the economy. The transition to a floating exchange rate and the reduction of a number of subsidies resulted in inflation soaring to over 70 per cent and the money supply increasing.

Declining revenue from commodity exports placed a strain on the government's budget in 2016. Over the first half of the year, total revenue was 14 per cent lower than in the first half of 2015 and 28 per cent lower than in the first half of 2014. Total expenditure over the first six months of 2016, meanwhile, was 5.9 per cent less than in the first half of 2015 and 0.1 per cent higher than in the same period of 2014. The annualized 2016 fiscal deficit is estimated at 5.9 per cent of GDP, though the budget contains a larger estimate of -7.7 per cent of GDP[10].

After the worsening performance of the economy resulted in a double-digit fiscal deficit in 2015, the government embarked on an austerity programme to rein in spending, reducing electricity and water subsidies. Customs duties and the fuel tax were increased in 2016, and the government also plans to implement a value added tax in the near future. In addition to the IMF stand-by agreement, a US$ 1.8 billion loan from the Islamic Development Bank will be used to finance infrastructure and energy projects between 2016 and 2018.

The reserve requirement ratios for Surinamese dollars (Sr$), United States dollars and Euros remained fairly constant at 35 per cent, 45 per cent and 30 per cent, respectively, over the course of 2016. The Central Bank of Suriname introduced Treasury bill auctions as a form of open market operation to implement monetary policy and provide another source of domestic financing. Average lending and deposit rates rose slightly over the year.

In late 2015, the pressures on the Surinamese dollar caused the central bank to abandon the fixed exchange rate that it had maintained at Sr$ 3.35 per US$ 1 since 2011. The currency was first devalued by 20.5 per cent in November 2015. In March 2016, an auction-based foreign-exchange allocation system was introduced, and in May the switch to a completely free-floating exchange-rate system was made. The exchange rate has weakened steadily since then, with the selling price of the Surinamese dollar at the time of writing being SR$ 7.345 to US$ 1.

Suriname's current account deficit over the first six months of 2016 contracted by 63 per cent from the same period in 2015. The goods balance moved from deficit to a slight surplus, as a 39.7 per cent decrease in imports outweighed a 29.3 per cent fall in exports. The services deficit also contracted, mainly on account of a large decrease in transportation debits. An improvement in the transfers balance likewise contributed to the decline in the current account deficit. The annualized current account deficit in 2016 is estimated to have been 8.5 per cent of GDP, compared to 19.6 per cent in 2015.

International reserves fell to US$ 212.5 million or 0.9 months' import cover in May 2016 from US$ 330.2 million or 1.5 months' import cover in December 2015. The disbursement of funds by the IMF pushed reserves up to US$ 404.3 million, or 1.8 months' import cover, in June, but they had fallen to US$ 350.1 million or 1.6 months' import cover by September.

Suriname's economy moved even deeper into recession, with GDP growth estimated at -10.4 per cent in 2016. The main contributor to this contraction was the public administration subsector, which shrank by 38 per cent and contributed -4.5 per cent to growth. The performance of the wholesale and retail trade sector was another major factor, with a 20 per cent decline contributing -3.5 percentage points to the contraction. The skyrocketing inflation following the devaluation of the Surinamese dollar led to shrinking real incomes for consumers, and consequently reduced consumption. Manufacturing and construction were also among the larger negative contributors to the growth rate.

In October 2016, the Newmont Suriname gold mine opened. Output from this mine, which is partly owned by the State oil company, is expected to contribute to economic recovery in 2017 and beyond. Growth is estimated at 0.8 per cent for 2017.

10 Nominal GDP was 45 per cent higher in 2016 than in 2015 because of the steep price increases.

Inflation has been climbing steadily in Suriname since the currency was floated. It first jumped to 20.7 per cent (year on year) in November 2015, following the first devaluation, and has been increasing ever since. From 29.5 per cent in January 2016, it had risen to 77.1 per cent by September. The largest increase among the consumer sub indices was for housing and utilities, owing to the removal of government subsidies. The inflation rate should start to fall in 2017 once the effect of the devaluation shock wears off.

The latest official unemployment rate (for the administrative areas of Paramaribo and Wanica) was an estimated 6.9 per cent in 2014. Given the economic downturn, this number is expected to have risen.

**Table 18**
**Suriname: main economic indicators, 2014-2016**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| | *(annual percentage growth rates)* | | |
| GDP | 0.4 | -2.7 | -10.4 |
| GDP per capita | -0.6 | -3.6 | -11.3 |
| Variation in consumer prices | 3.9 | 25.1 | 77.1[a] |
| Money (M1) | 4.1 | 5.9 | 32.5[b] |
| | *(annual average percentages)* | | |
| Unemployment[c] | 6.9 | - | - |
| Central Government overall balance/GDP | -5.7 | -10.6 | -5.9[c] |
| Nominal deposit rate | 7.4 | 7.7 | 8.4[a] |
| Nominal lending rate | 12.5 | 13.4 | 14.2[a] |
| | *(millions of dollars)* | | |
| Exports of goods and services | 2 145.3 | 1 652.3 | |
| Imports of goods and services | -2 012.3 | -2 027.6 | |
| Current account balance | -415.5 | -808.3 | |
| Capital and financial account | 688.00 | 739.91 | |
| Overall balance | -150.2 | -265.8 | |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Sept 2016.
[b] 2015 to August 2016.
[c] Jan-Jun annualized.

# H. Trinidad and Tobago

Trinidad and Tobago's economy is projected to have shrunk by 4.5 per cent in 2016, following contractions of 0.6 per cent and 0.5 per cent in 2014 and 2015, respectively. Continued natural gas supply shortages, maintenance shutdowns and weak energy prices contributed to the energy sector's deterioration, while linkages with that sector pulled down the non-energy sector. The current account deficit widened as a result of reduced goods exports, while foreign direct investment saw a modest recovery. The government's fiscal deficit expanded to 4.2 per cent of GDP. In response, the government made several adjustments to compensate for lost energy revenues, including several new tax initiatives. In monetary policy, the central bank repo rate was left unchanged in 2016 and the exchange rate against the United States dollar was allowed to weaken. Unemployment rose to 4.4 per cent in the second quarter of the year as the slowdown took hold.

In fiscal year 2015/2016, the Government of Trinidad and Tobago ran an estimated deficit of 4.2 per cent of GDP, an increase on the 1.5 per cent deficit of fiscal 2014/2015. The deficit was originally estimated at 1.8 per cent of GDP but worsened because of lower energy revenue. While the government managed to increase non-tax revenue by 18 per cent (largely as a result of repayment of past lending), tax revenue fell by 31 per cent because of a 90.3 per cent drop in the contribution from oil companies.

The budget for fiscal 2016/2017, which is based on an estimated oil price of US$ 48 per barrel and a gas price of US$2.25 per MMBtu, predicts a deficit of 3.9 per cent of GDP. Since energy revenues are expected to remain flat, the government has implemented several measures to increase revenue from other sources. Among other things, a previously proposed property tax is being reinstated, a new income tax bracket and a 7 per cent tax on online shopping have been established, and the diesel fuel subsidy has been abolished. The budgeted deficit will be financed through borrowing, about three quarters of which will come from domestic sources.

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As a result of the contracting economy, in 2016 the Central Bank of Trinidad and Tobago kept the repo rate at 4.75 per cent, where it had been since December 2015. Although the Bank raised this rate several times over 2015, commercial banks' average lending rates declined over the year before increasing by 0.29 percentage points from December 2015 to June 2016. This lag in monetary policy transmission may be due to the banks being supplied with enough resources from excess liquidity in the banking system without having to access central bank repo facilities. Credit to the privatesectorgrewbyjust1.2 per cent from December 2015 to August 2016, down from 7.3 per cent and 6.1 per cent at the end of 2014 and 2015, respectively.

The central bank allowed the exchange rate to slowly depreciate after maintaining a quasi-peg for about 20 years. The official United States dollar selling rate weakened by 6.1 per cent between October 2015 and October 2016, from TT$ 6.3627 to TT$ 6.7507 per US$ 1. As a result of the slowdown in the economy, the central bank sold 44 per cent less foreign exchange to authorized dealers between January and October 2016 than in the same period the previous year. However, foreign exchange remains scarce, and many banks have resorted to rationing United States dollars to customers.

The current account deficit over the first six months of 2016 was 280.8 per cent up on the same period in 2015, while the annualized deficit deteriorated to an estimated -10.2 per cent of GDP from -0.9 per cent in 2015. The main reason for this increase was a goods trade deficit of an annualized -3.8 per cent of GDP, the first negative goods trade balance since 1998. The financial account balance is estimated to have moved up from 10.6 per cent of GDP in 2015 to 15.7 per cent in 2016, as foreign direct investment inflows (mostly into the energy sector, as several energy firms have continued to invest in new wells) rose from 2.0 per cent to 6.1 per cent of GDP and commercial banks reduced their holdings of foreign assets.

ECLAC projects a contraction of 4.5 per cent in the economy of Trinidad and Tobago in 2016, the third consecutive year of negative growth. The main contributor to this contraction will have been the energy sector, shrinking by a projected 9.6 per cent. Despite a moderate increase in oil prices over the first half of 2016, Trinidad and Tobago's energy sector was constrained by reduced supply. In addition to the long-term trend of decreasing production from mature reservoirs, output was also restricted when two major producers halted operations to prepare two new oil fields for production.

The non-energy sector is projected to shrink by 1.8 per cent, the first fall in over five years. The impaired performance of the energy sector has split over into the non-energy sector, while reduced government spending has limited the demand for non-energy services. The manufacturing sector is projected to contract by 5.7 per cent, the agriculture sector by 6 per cent and the service sector by 1.2 per cent. There are a few bright spots in the service sector, with the transport, storage and communication subsector and the finance, insurance and real estate subsector projected to grow by 2.1 per cent and 3.7 per cent, respectively. In 2017, natural gas output from two new fields should increase the supply for downstream production and the government should raise capital expenditure, leading to estimated growth of 0.5 per cent.

Inflation in Trinidad and Tobago fluctuated slightly over the first nine months of 2016, but remained below 4 per cent, with a rate of 2.4 per cent in January 2016 rising to 3.0 per cent by September. The largest price increases were seen in the food subcategory, where inflation peaked at 9.9 per cent in April before gradually falling to 6.1 per cent by September. Food price increases were countered by deflation in the housing market, as the housing index recorded negative growth from April (-0.4 per cent) to September (-0.6 per cent).

The effect of the economic slowdown has been manifested in the economy's labour force statistics. The unemployment rate rose from 3.5 per cent in the fourth quarter of 2015 to 3.8 per cent in the first quarter of 2016 and then to 4.4 per cent in the second quarter. Labour market statistics varied by industry; unemployment in the oil and gas sector, which had increased to 8.3 per cent by the fourth quarter of 2015, fell to 3.1 per cent in the second quarter of 2016, largely because of workers leaving the sector. In the most recent estimate, unemployment was highest in the construction sector (8.6 per cent) and lowest in the agriculture sector (1.0 per cent).

**Table 19**
**Trinidad and Tobago: main economic indicators, 2014-2016**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| | *(annual percentage growth rates)* | | |
| Gross domestic product growth (per cent) | -0.6 | -0.5 | -4.5 |
| Per capita gross domestic product growth (per cent) | -1.0 | -0.9 | -4.9 |
| Consumer prices (per cent) | 8.5 | 1.5 | 3.0[a] |
| Money (M1) (per cent) | 18.9 | -7.3 | -2.9[b] |
| | *(annual average percentages)* | | |
| Central government overall balance /GDP | -2.6 | -1.8 | -5.2 |
| Nominal deposit rate | 0.54 | 0.56 | 0.59[c] |
| Nominal lending rate | 7.77 | 7.74 | 8.03[c] |
| | *(millions of dollars)* | | |
| Exports of goods | 14 566 | 10 804 | |
| Imports of goods | -11 276 | -9 474 | |
| Current account balance | 378 | -224 | |
| Financial account | 2 041 | 2 499 | |
| Overall balance | 1 330 | -1 529 | |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] September 2016.
[b] Dec2015 to Aug 2016.
[c] June 2016.

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