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SUMMARY

CARIBBEAN REGION QUARTERLY BULLETIN

Being the first Quarterly Bulletin in 2015, this issue departs from its usual format of recent developments and analytical reports on specific topics for each country. Instead, we take a step back and look at the major developments in the world economy and the Caribbean in 2014. In addition, we explore possible major developments in the world economy and how they might impact the Caribbean in 2015.

SELECTED INDICATORS 2014	Real Growth Rate	Annual Inflation (%, end of period)	General Government Primary Balance (% of GDP)	General Government Overall Balance (% of GDP)	Current Account Balance (% of GDP)	General Government Debt (% of GDP)
1) High-debt countries						
Jamaica	0.4	4.7	7.5	-0.4	-5.3	140.5
Barbados	0.3	1.7	-2.3	-10.4	-9.0	99.2
2) Medium-debt countries						
The Bahamas	1.9	1.0	-5.4	-7.6	-14.9	56.1
Trinidad & Tobago	0.8	8.5	-0.6	-2.3	11.5	39.9
3) Low-debt or FSO countries						
Suriname	4.0	3.7	-2.8	-3.7	-4.5	33.8
Guyana	3.8	5.0	-1.5	-4.9	-15.8	57.4
Caribbean average	**1.9**	**4.1**	**-0.8**	**-4.0**	**-6.3**	**71.1**

Note: For Guyana, most debt is on concessional terms. FSO = Fund for Special Operations.

Source: World Economic Outlook, October 2013.

Summary by Country

The Bahamas made important progress in 2014. In spite of challenges, growth accelerated in 2014 and the fiscal accounts improved. At the same time, unemployment remained high and Moody's downgraded The Bahamas' credit rating. Based on strong tourism, growth is projected to increase to over 2 percent for 2015. The introduction of the VAT in addition to the expected stronger economic performance should bode well for the fiscal outlook of the country. Finally, the external situation should improve if oil prices remain subdued.

2014 was a challenging year for ***Barbados***, with real output growth at 0.3 percent, stagnant tourism arrivals, and fiscal austerity measures under the government's consolidation program. Barbados' medium-term growth outlook remains modest with the International Monetary Fund forecast suggesting growth of 0.5 percent for 2015 and 1.5 percent for 2016. However, Barbados will benefit from lower oil prices and the increase in airlift from the main markets—namely the United States and Canada. In addition, the government of Barbados estimates around US$150 million in private tourism sector construction for 2015.

In 2014, economic growth in **Guyana** was lower-than-expected at 3.8 percent owing to lower prices for key export commodities: rice, gold, and sugar. Parliament was suspended in November 2014 and economic confidence is expected to remain low until elections in May 2015, However, Guyana's outlook remains positive because of continued expansion of the services sector, driven primarily by robust construction activity, and the commissioning of large-scale gold mines.

Jamaica's outlook continues to improve despite ongoing challenges. The economy has grown 0.9 percent in FY2013/14 but is expected to grow only around 0.5 percent in the current fiscal year FY2014/15 because of the negative effects on agriculture of a severe drought in mid-2014. However, with a potential for lower oil prices over an extended period of time and a strong recovery in main trading partners, the outlook remains positive and risks to the upside have increased.

In spite of a slowdown, **Suriname's** macroeconomic indicators remain strong with 2014 real GDP growth expected at 3.1 percent and inflation at 3.9 percent. In line with the outlook for commodity prices, growth in 2015 is expected at 3 percent, below its historical average of 4.4 percent. Suriname will hold elections in May 2015.

Trinidad and Tobago's 2014 real growth was revised downward from 2.5 percent to 0.8 percent due to the fall in energy prices. 2015 could remain challenging as the low energy prices combined with uncertainty in major world economies could negatively impact the country.

Economic growth in the **Eastern Caribbean Countries** in 2014 benefited from increased tourism arrivals, a trend that is expected to continue into 2015. At the same time, banana exports continued to decline in 2014. The OECS countries overall are expected to benefit from lower oil prices. However, some OECS members depend on the special terms for oil shipments under the PetroCaribe agreement, which has become more risky as oil prices remain low.

Special Country Reports: Outlook for 2015

In the special report, we take stock of major developments that started in 2014 and explore how they might influence the development of the Caribbean in 2015.

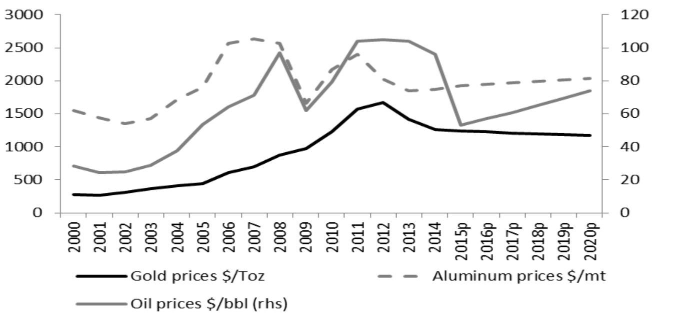
Regional Report: Outlook for 2015

The end of the commodity supercycle and the fall in oil prices led to a slowdown in Suriname, Guyana, and especially Trinidad and Tobago towards the second half of 2014. At the same time, economic performance in the three tourism dependent countries was still weak as they continued recovery from the effects of the world economic crisis. This trend is expected to continue in 2015; commodity-dependent countries will not be able to continue their economic growth rates of the last few years and need to adjust their fiscal and external accounts to avoid building up vulnerabilities. The three tourism-dependent countries should benefit from lower commodity prices and the continued recovery of some of the major economies. At the same time, they have to continue the economic reforms that they started in 2013 and 2014.

Introduction

The year 2014 brought several developments that affected the Caribbean, including a continued acceleration of the U.S. economy, a marked slowdown of some major emerging markets, especially Brazil but also China, tensions in Russia over Ukraine as well as ongoing and increased tensions in the Middle East. The second half of the year was also marked by the Ebola outbreak in West Africa and the fear of a human tragedy spreading around the world. Uncertainty in the world economy remained, especially in Europe, which continued to face a very slow recovery that could be worsened by political challenges in some of their member countries. Reflecting the still weak economic situation, historically low interest rates continued in all major economies with the Eurozone also adopting quantitative easing. All of this coincided with the likely end of the commodity supercycle and a collapse of oil prices (Figure 1).

Figure 1. Commodity Prices, 2000–20



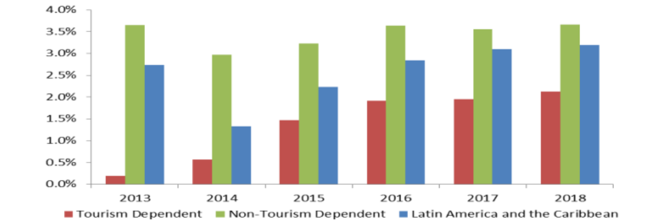
Source: World Bank.

Some of these developments will continue to affect the world and the Caribbean in 2015. We will explore those that we think will be the major influences for the Caribbean. However, given the dependence of the Caribbean on imported energy, the biggest influence in 2015 is probably the lower oil price.

The Caribbean in 2014

Developments in the Caribbean in 2014 mirrored the world economy. Commodity exporters were still experiencing a period of substantive and consistent economic growth. However, the end of the commodity supercycle led to a slowdown in economic activity in Guyana, Suriname, and Trinidad and Tobago toward the second half of 2014. At the same time, economic performance in tourism-dependent countries was anemic as they grappled with the recovery from the world economic crisis (Figure 2). Several years of recession had led to a fall of per capita GDP, higher debt levels, and lower external and fiscal buffers. However, the pick-up in the United States and other major economies started to have positive effects on tourist arrivals. In addition, the rapid fall of oil prices toward the end of 2014 improved the performance of inflation and the external current account.

Figure 2. Real GDP Growth in the Caribbean and Latin America, 2013–18



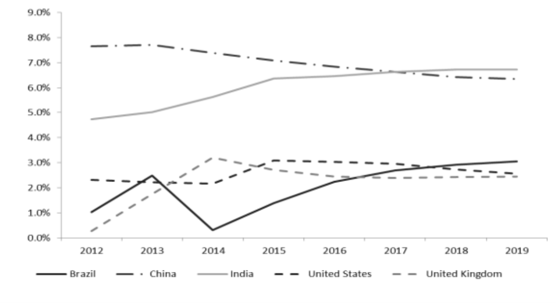
Source: IMF October 2015 World Economic Outlook.

Shapers of 2015

World Economy

Divergence and volatility will play a major role for the world economy in 2015. Some economies are projected to continue their recovery—most notably the United States, the United Kingdom, and India, whereas Europe and some emerging markets are likely to continue to experience weak growth and volatility (Figure 3). At the same time, the world economy remains vulnerable to shocks, including a further worsening of political tensions, for instance in the Middle East and Russia, uncertainty of the shape of the European Monetary Union, and strong reductions in economic growth in major economies such as Brazil, China, and Japan. Extreme events cannot be excluded; for example, it has become possible that Greece could exit the European Monetary Union (see section on Grexit).

Figure 3. Real GDP Growth 2012–19 for Major Economies



Source: IMF October 2015 World Economic Outlook.

These developments will influence the Caribbean in different ways. Countries with a strong dependence on the United States and/or the United Kingdom—most notably Jamaica, Barbados, and The Bahamas—should benefit from tailwinds of the U.S. and U.K. recovery. At the same time, these three countries should also benefit from improved terms of trade as the general weakness of the world economy should keep commodity prices down. However, it also implies that efforts to diversify trading partners might be slowed, reinforcing the dependence of Caribbean countries on a few markets.

The situation is different for commodity producers, including Trinidad and Tobago, which is highly dependent on oil and gas exports. A further, sharp slowdown in demand from major markets such as Brazil, China, and Europe would have deteriorating effects on all commodity prices, including for aluminum, gold, and energy (see section on oil prices).

Bauxite might experience a revival in the Caribbean. International metal prices are expected to remain low in 2015; this year, aluminum and gold in particular are estimated to sustain levels similar to 2014 on account of increased supply given higher reinvestments by producers. The relatively constant prices in 2015 should keep export returns stable for CCB countries that produce bauxite (Guyana, Jamaica and Suriname) and gold (Guyana and Suriname). However, a downside risk for prices on metals would be a sharp economic slowdown of China, which accounts for almost half of world metal demand. Even though this risk has increased, the probability remains low, supporting expectations for stable or slightly increasing metal prices in 2015.

Oil: How Low Can You Go?

Like any other good, the price of oil is determined by the interaction of supply and demand. However, because energy is so central and because fossil fuels are still the main source of it, there are important characteristics of the market that can lead to unforeseeable price behavior. Until recently, a major characteristic of the supply side was the dominance and influence on prices of the Organization of Oil Producing and Exporting Countries (OPEC). In the past, OPEC adjusted its output to keep a low floor on oil prices. While the increase in supply, mostly from the United States, led to a typical decrease in oil prices, expectations about future oil prices changed drastically when Saudi Arabia announced it would not curb output to support prices. The argument was that if OPEC reduces its output, other suppliers will benefit at their expense. As such, it seems OPEC is willing to face lower oil prices until supply by other producers, including US shale oil producers, decreases, either because they reach a new agreement on output or because new investment in explorations slows, decreasing output, especially for high cost producers.

The change in stance of OPEC has led to a drastic decline in oil prices. From a high of US$108 per barrel in June 2014, West Texas Intermediate (WTI) oil dropped to below $45 in January 2015. It is now vacillating but given uncertainty in both demand and supply, the short to medium-term evolution of the price of oil remains uncertain. Forward prices indicate an increase of oil prices within the next 2 years to between US$50 to US$60, but some observers forecast lower oil prices. In contrast, supply disruption in politically unstable countries or a renewed agreement by major oil producers to cut supply can lead to a much faster increase.

Other than Trinidad and Tobago, all CCB countries are net energy importers that should benefit from lower oil prices. The current accounts in these countries will improve as will the purchasing power of households and the production cost for companies. The year 2015 will bring a special opportunity to these countries, as part of the savings can be invested to reduce the dependence on imported energy. Given the volatility and potential for rapid increases, the fall of prices should be treated as temporary, an opportunity for saving or investing the windfall and using hedges to lock in lower oil prices. In addition, the lower prices would be a good moment to introduce smart taxation of fuel and/or a reduction of subsidies, which could have positive impacts on revenues and fiscal sustainability.

The opportunities offered by lower energy prices can be lost. The positive welfare effects from the lower energy prices can lead to increased demand for energy and increased imports of other goods, compensating the positive effects from the lower energy bill. In addition, the incentives for investments in more efficient energy projects and renewable energy solutions have decreased. However, oil prices will remain volatile and more than likely, increase in the medium to long term.

The first Caribbean–United States Energy Summit, held in Washington, DC, on January 26, 2015, could help support energy security and renewable energy in the Caribbean. With the goal of promoting Caribbean energy security, the summit discussed how to improve regional governance, how to access to financing, and donor coordination for the Caribbean energy sector. In this respect, the Government of Trinidad and Tobago signed a Memorandum of Understanding (MOU) with the IDB in February 2015 for the establishment of a Multi Donor Energy Facility. The aim of the facility is to promote energy security in the Caribbean. The Caribbean would greatly benefit from diversifying fuel supply, including renewable sources, such as solar and wind energy.

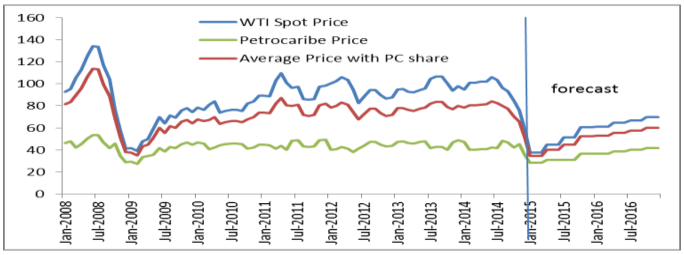
Oil: Venezuela and PetroCaribe

Venezuela is important in the Caribbean because it provides oil at advantageous conditions to members of the PetroCaribe agreement. Venezuela has one of the highest oil reserves in the world, but insufficient investment and old extraction techniques make it a high cost producer. At the

same time, Venezuelan oil exports constitute 95 percent of its exports and are responsible for almost half of its revenues. As such, the fall in oil prices has caused enormous strain on an already weak economy. The situation has re-opened questions about the sustainability of subsidized oil through the PetroCaribe agreement to Caribbean and Central American countries .

The deferred payment for part of the oil that is provided under the PetroCaribe agreement has become important in a number of countries as it reduces the the balance of payments financing need, since part of the oil is financed by credit, thus reducing the need for foreign exchange to pay for it. The deferred payment portion of the oil import bill under PetroCaribe increases as the price of oil goes up. As such, support through PetroCaribe will be lower in 2015 than in 2014 even without a modification of the program. However, over the past 4 years, PetroCaribe only satisfied between 25 and 36 percent of petroleum demand. As such, the average price for total petroleum that countries use from PetroCaribe and the spot market (red line in Figure 4) was substantially higher than the price PetroCaribe offers (green line Figure 4). The declining dependence on PetroCaribe is also clear keeping in mind that the current and projected WTI spot prices are below the averages prices paid over the last 4 years.[1] At the same time, the lower deferred payment also implies that the PetroCaribe agreement becomes less costly for Venezuela.

Figure 4. WTI Spot Price, PetroCaribe Price, and Average Price



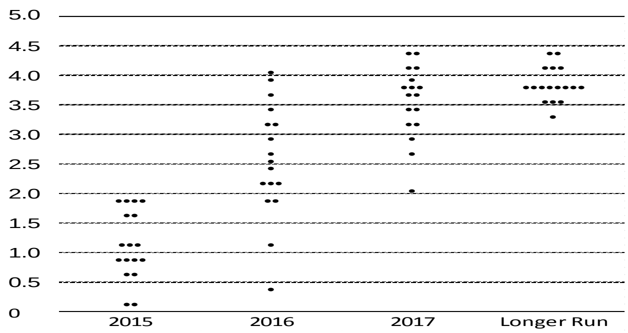
Source: Thomson Reuters and own calculations.

Oil: Deflating Adjustments

Several countries in the region can expect to have lower inflation because of the fall in oil prices. This is good news in many ways as inflation disproportionally affects poorer households and can create uncertainty. Inflation also erodes competitiveness if it is not accompanied by adjustments in the exchange rate. However, inflation also facilitates economic adjustments as it diminishes the real value of debt, public sector salaries, pension obligations, and other liabilities. With falling prices, the real value of such obligations increases, leading to a need to adjust the economic programs.

Monetary Normalization

Figure 5. Federal Open Market Committee Member Target Fed Rate Expectations



Source: Federal Open Market Committee December 16–17 Minutes.
Note: Dots represent the expected Fed target rate by one member of the Federal Open Market Committee.

As economic developments diverge internationally, so do exchange rates and monetary policy. Interest rates are likely to remain at low levels during 2015 but they might start to increase towards the end of 2015 in the United States, with the majority of the Federal Open Market Committee members expecting an increase (Figure 5). For 2017 and the longer run, the median expectations of the committee members are 3.75 percent. Similarly, given the strength of the U.S. economy, an appreciation of the U.S. dollar against other currencies is possible. Higher U.S. dollar interest rates could increase borrowing costs for Caribbean countries even though the effects should be muted. International bonds are not an important source of financing for countries other than Jamaica. In addition, interest rates for IDB Caribbean department (CCB) countries are higher than U.S. interest rates because they include a risk premium Future interest rate and thus depend on the risk rating and the U.S. benchmark rates. However, higher U.S. Federal Reserve rates could also put pressure on domestic interest rates and exchange rates, especially for countries with a fixed exchange rate, which would need to adjust domestic interest rates.

Grexit and Other Black Swans

Uncertainty in Europe will most likely remain important for the world economy over 2015. Following the victory of Syriza, different options are possible for Greece and Europe, including an exit of Greece from the European Monetary Union with potentially dramatic effects. Observers expect that the

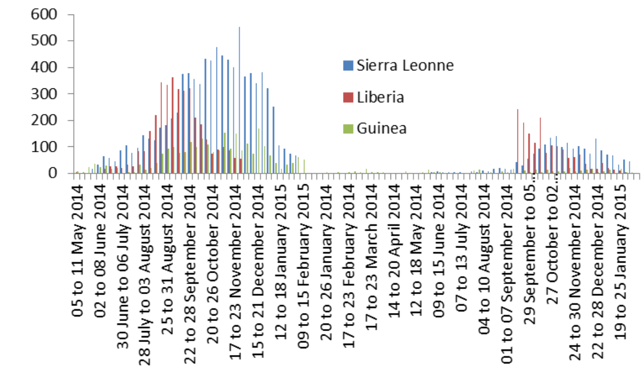
[1] From 2010 to 2014, the average price paid for oil including the PetroCaribe support was around US$75.

European Union is better prepared today than it was in 2012 for a Grexit, but contagion of other countries cannot be excluded. Most observers expect continued compromises that will delay major decisions, not least because other countries such as Spain might also ask for a reversal of its adjustment program if Greece is successful in its demands for a substantial reversal of their adjustment program.

Ebola Gone?

The year 2014 was also marked by the biggest Ebola outbreak in history. The easy transmission and high mortality make the disease a catastrophic risk for countries all around the globe. In addition, the economic impact could be felt even in countries that are not directly affected (tourism in Africa fell even in countries that are far away from the three most affected countries). Luckily, the rate of new cases started to decline rapidly toward the end of 2014.

Figure 6. Weekly New Ebola Cases, by Country, May 4, 2014–January 25, 2015



Source: World Health Organization.

While the danger of a renewed outbreak is not over, important lessons for its containment have been learned. However, given the decreased attention the outbreak receives, it is important to continue to be vigilant and invest in total containment. (Figure 6).

Chikungunya broke out in several Caribbean countries in 2014.[2] Outbreaks cannot be excluded as the disease has become endemic to the region, which could negatively affect tourism.

[2] Chickungunya is a mosquitoes-transmitted virus infection that is characterized by sudden onset fever, accompanied by disabling arthralgia and a skin rash. The signs of the disease generally fade after a few days, but in some cases may persist for several months, particularly regarding rheumatological manifestations

Hola Cuba

The opening of Cuba should not affect the region too strongly in the short term, but it is clear that a strong competitor is in the making. The emergence of Cuba as a new tourism powerhouse, with potential to grab a large share of the U.S. market will present aggressive competition for other tourist destinations in the Caribbean. This industrywide shock has the potential to alter the equilibrium in the tourism market in the Caribbean, and with unrestricted access to a new larger market for U.S. tourists, new trends in regional travel and consumption patterns will emerge. The impact would not be limited to tourism, since Cuba could also become a competitor for shipping, logistics and U.S. investments in general.

The Caribbean has traditionally had strong ties with Cuba. In spite of increased competition, the region stands to gain from normal US/Cuba relations as it opens new markets and the potential for economic integration and political collaborations. The countries should seek avenues for collaboration early and integrate their own markets and business with the Cuban economy.

Conclusion

The world economy has been marked by divergence in 2014. While some economies have continued their recovery and have accelerated growth, others are still fighting the longer term effects from the world economic downturn. In addition, the year 2014 also experienced falls in major commodity prices, especially in oil.

We expect this development to continue in 2015. Economic growth in commodity exporters will remain subdued, albeit at higher levels, and these countries will need to adjust to fewer exports and revenues to avoid the build-up of renewed vulnerabilities. Conversely, commodity and energy importers will benefit from less pressure on the current account from commodity imports. In addition, lower commodity prices should keep inflation subdued and lead to increases in disposable incomes.

Risks remain important in 2015. Economic shocks cannot be excluded in 2015, especially considering the weakness of Brazil, China, Europe, and other major economies. Geopolitical tensions also remain important, including in the Middle East and Ukraine. Oil prices could increase quickly should supply or demand change faster than expected. In addition, a modification of the PetroCaribe agreement would have important consequences for Jamaica, Guyana and several OECS countries. As such, careful macroeconomic management and the continued increase of buffers remain the main policy objectives for Caribbean countries in 2015.

Main Developments in 2014

The Bahamian economy made significant progress in 2014. Even though challenges remain, growth is recovering and the fiscal accounts are stabilizing. At the same time, unemployment remains high and further reforms are required.

Economic growth accelerated in 2014. Driven by tourism, The Bahamas is expected to have grown 2.3 percent in 2014, compared to 0.7 percent the year before. Total tourist arrivals to the country for the first ten months of the year grew by 3.5 percent to 5.1 million versus 4.9 million visitors for the corresponding period in 2013, due to a rebound in air arrivals. Sea arrivals continue to draw the bulk of total arrivals, advancing by 3.2 percent for the period under review.

The fiscal accounts show signs of consolidation. The overall deficit contracted in 2014 due to higher revenue collections, alongside cuts in expenditures. Meanwhile, during the month of November, external reserves contracted due to the seasonal drawdown as a result of increased domestic demand. Reserves stood at B$744.09 million at end-November 2014.

In 2014, the Moody's rating agency downgraded The Bahamas' credit rating, but reversed their outlook to stable. The downgrade was issued because of (a) the continued deterioration of the government's balance sheet, with debt and interest burdens that now exceed those of most Baa-rated peers; and (b) the subdued economic growth, which has been an important factor in the weakening of the government's balance sheet. However, the stable outlook (a change from the negative outlook given previously), reflects a wavering level of confidence in the GoBH's fiscal consolidation plan, despite slippages. At present, the country's rating with S&P is BBB/A2 (two notches above 'junk' status), while the Moody's rating now stands at Baa2.

Unemployment in the country remained elevated, reaching a high of 15.7 percent in November 2014. Unemployment in New Providence rose from 15 percent to 16 percent and from 14.7 percent to 18.6 in Grand Bahama. The November Labor Survey indicates that increases in labor force participation were also responsible for the increase, as there was an increase in both the employed and the unemployed labor force. The labor force is almost equally distributed by gender. The youth unemployment component remained relatively unchanged at 31 percent versus 30.7 percent in May last year.

Inflation in The Bahamas remained low. Inflation in The Bahamas is the lowest in the region, standing at 1.2 percent at the end of 2014, benefiting from the declines in prices on the global oil market. Consequently, the fuel charge by the Bahamas Electricity Company (BEC) fell by 3.6 percent on a monthly basis to 26.71¢ per kilowatt (kWh), but increased by 5.6 percent compared to last year.

> ### Highlights
>
> Unemployment in the country remains at double digit levels at 15.7% in November.
>
> The fiscal deficit contracted in 2014 to less than 5%, due to increased fee collections and high cuts in expenditure.
>
> The continued recovery of some of The Bahamas' main markets together with lower energy prices bode well for the country's outlook in 2015.

The current account deficit remained high, albeit improved over 2013. The current account has widened rapidly over the past 10 years. Changes in the import bill, specifically related to higher oil imports and construction related imports, have led to a widened current account deficit from about 10 percent in the pre-crisis years to 19.6 percent in 2013. However, estimates indicate a reduction to 15.4 percent in 2014.

The fiscal accounts are showing signs of improvement, but the country's debt levels remain a concern. For the past six months of FY2013/14, the fiscal deficit narrowed to 4.3 percent in (Figure E). Over the past year, the GoBH increased fees for business and professional services and scaled back expenditure on the public service, leading to marginal increases in revenue and declines in total expenditure. The fast increase in the debt-to-GDP, now standing at over 60 percent (Figure A), has been noted as a major vulnerability by the ratings agencies that closely monitor the progress made under the country's Medium Term Fiscal Consolidation Plan initiated by the government in May 2013. The plan has set targets to reduce recurrent outlays and increase revenue, while targeting an execution rate of 3% of GDP. In this way, the Government expects to run fiscal surpluses by FY 2016/17. The January 1, 2015 implementation of the VAT is an important policy to begin to address the consistent shortfall in revenue versus expenditure levels (see section on VAT).

Outlook for 2015

On February 11, 2015 the mid-term budget was presented to Parliament outlining the current state of the Bahamian economy and the expectations for 2015. Growth prospects are expected to increase to 2.3 percent based on the improvements in the US economy. Following several years of subdued growth, resulting in projected output of 1.2 percent in 2014, growth prospects are supported by expected gains from the opening of

the Baha Mar Hotel & Casino, as well as other large scale capital investments in the Family Islands and improvements in the fiscal accounts in the country.

The impending restructuring of the Bahamas Electricity Corporation (BEC) is anticipated in 2015. The restructuring is expected to result in lower costs of energy for the private sector and consumers alike. Furthermore, the country is expected to benefit from the decline in oil prices, which will have positive effects on the fiscal and current balances, alongside lower inflation in the country. Currently, the average energy cost in The Bahamas is one of the highest in Latin America and the Caribbean (US$0.40-US$0.44 per kWh), and continues to be a major constraint to growth (the GoBH does not explicitly subsidize energy consumption).[1] The objectives of the restructuring include creating efficiencies to significantly reduce energy costs, increased energy security, environmental responsibility and increased competitiveness. Completion of this process is imminent.

The Baha Mar Hotel & Casino is expected to open in May 2015 with prospects of increased arrivals from Asia. Delayed from December 2014, the March 2015 opening of the Baha Mar should bring more tourists from Asia, Latin America and the United States. Marketing efforts are targeting both business- and family-oriented travelers to the resort. Baha Mar is expected to add 2,200 rooms to the country's room stock of over 14,000.

The external position is poised to improve, given the lower commodity prices. The reduction of the current account balance should continue in 2015. Downward movements in international commodity prices are beneficial for the current account, as oil imports account for roughly one third of the trade balance. Tourism is also expected to grow, as the recovery in some major economies coincides with the opening of the Baha Mar resort.

The GoBH commits to global standards on automatic tax information exchanges. The regulatory framework for the offshore financial sector was recently enhanced as The Bahamas executed a Model I Intergovernmental Agreement (IGA) with the US government to implement the Foreign Account Tax Compliance Act (FACTA) in November 2014. Meanwhile, developments in the onshore sector reveal stubbornly high non-performing loans (over 16 percent) that continue to plague the banking system. However, the authorities continue to monitor credit risks, provisioning levels and assess the adequacy of its overall financial supervision.

Improved revenue collection through the new VAT should address persistent fiscal deficits and concerns raised by credit rating agencies. The first month of implementation was expected to be challenging, but yielded a promising level of revenue from customs collections (US$10M). The GoBH targeted US$15M in monthly VAT collections to meet their annual target of US$180M in additional revenue. Should this continue, the GoBH is likely to make substantial progress under its medium term fiscal consolidation plan.

Models of Fiscal Responsibility legislation are being reviewed for a suitable fiscal framework for The Bahamas. After much public debate on the need for a fiscal responsibility law to encompass legislative backing to fiscal targets in The Bahamas, the government announced that it is producing a study to analyze the more appropriate model for such a law in the country. This analysis is expected to be completed at the end of 2015.

Unemployment is expected to decline in 2015 onward. A significant number of jobs are expected as a result of the opening of Baha Mar in March 2015, reducing the currently high unemployment levels. Furthermore, it is also anticipated that increased employment opportunities would emerge across several major islands in the archipelago, as a result of other hotel and capital investment projects in various Family Islands.

Conclusion

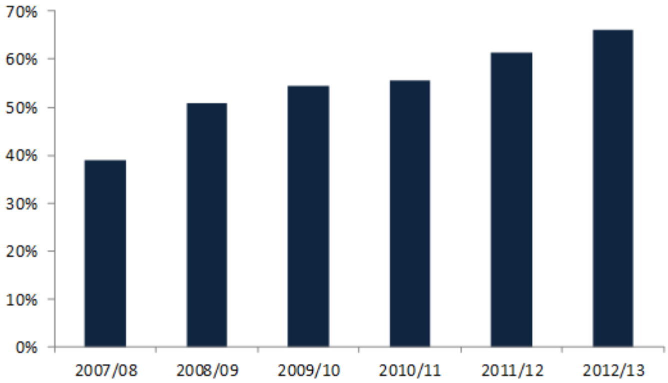
The Bahamian economy continued its recovery from the world economic recession in 2014, albeit at a slow pace. As a result, the country is currently faced with significant difficulties. An increasing Debt-to-GDP ratio, sluggish growth as well as recurring fiscal deficits have hurt the country's credit rating. At the same time, steps are being taken by the government and other major stakeholders to rectify these problems. The VAT will bring in badly needed revenue, while talks are ensuing regarding fiscal responsibility legislation. Finally capital investment into the tourism sector is expected to relieve unemployment in the country. Although the outlook remains uncertain, there are signs for cautious optimism in 2015.

High-Frequency Macroeconomic Indicators	Last data	Period	Prior data	Period
Annual GDP growth (%)	0.7	2013	1.8	2012
Tourism arrivals (annual % change)	3.5	Dec-14	3.5	Dec-13
Exports (12-month growth)	-0.02	Q3 2014	27.3	Q2 2013
Imports (12-month growth)	-0.1	Q3 2014	5.5	Q2 2013
Private sector credit growth (%)	-1.9	Nov-14	-0.9	Jul-14
Inflation	0.4	Oct-15	0.4	Apr-14
Exchange rate (end of period)	1.00	Jun-14	1.00	May-13
Unemployment rate (%)	15.7	Dec-13	14.3	May-14

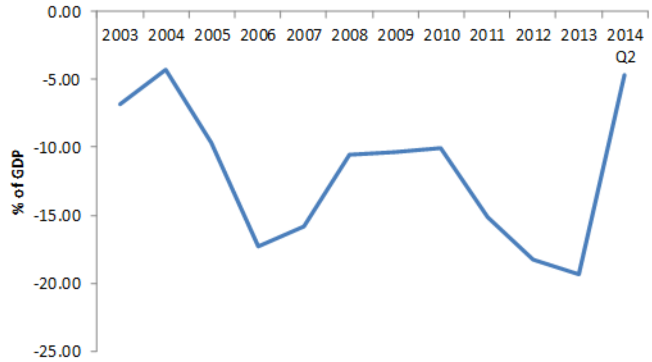
Source: Central Bank of The Bahamas

[1] Electricity services in The Bahamas are shared between two companies, the BEC and the Grand Bahama Power Company. The GB Power Company is a vertically integrated, private service provider in Freeport, Grand. They are exploring currently the possibility of switching to liquefied natural gas (LNG) for its Grand Bahama customers. Meanwhile, for the past 18 months, the GoBH in conjunction with the Grand Bahama Port Authority (GBPA) have been working to extend the provisions under the Hawksbill Creek Agreement (HCA) – an agreement which established the Freeport area as a duty free concessionary city in the 1950s and is set to expire in August 2015.

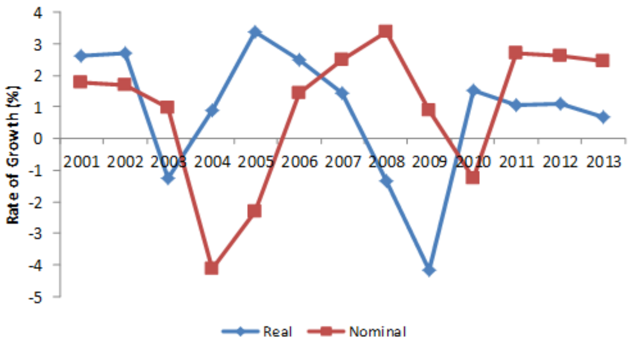
Debt has been rising since the Great Recession...
Figure A: Total Debt/GDP, 2007/08-2012/13



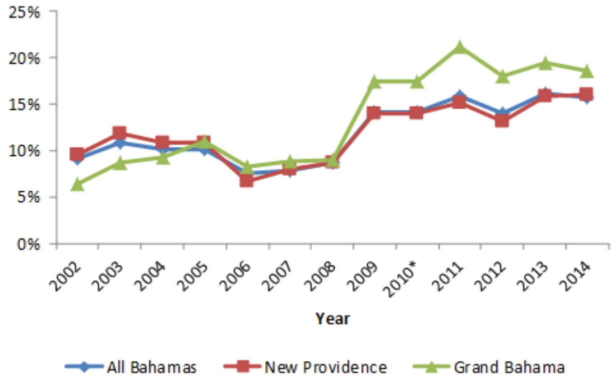
and current account deficits remain large.
Figure B: Current Account, 2003-2014 Q1



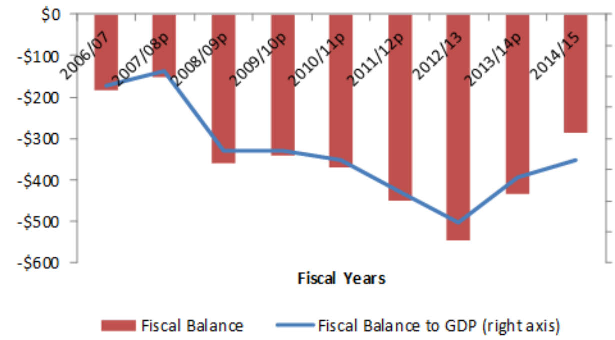
Growth has been recovering...
Figure C: Real and Nominal GDP Growth over Time



but not enough to stop the increase in unemployment.
Figure D: The Bahamas – Unemployment Rates (2000-2014)



Fiscal deficits are now improving...
Figure E: Fiscal Balance, 2006/07-2014/15



Inflation is low in comparison to regional countries
Figure F: Annual Inflation, 2004-2016

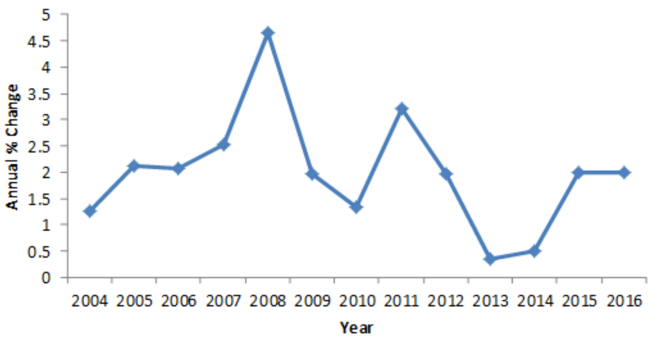


Table 1: Selected Indicators (2009-2014)

	2009	2010	2011	2012	2013	2014 (F)
(Annual percentage changes, unless otherwise indicated)						
Real Sector - Department of Statistics/IMF						
Real GDP	-4.2	1.5	1.1	1.0	0.7	1.2
Nominal GDP	-5.2	1.1	0.3	3.6	2.5	5.4
Inflation (end of period) - Central Bank	1.3	1.4	3.2	1.9	0.4	2.0
External Sector - IMF						
Exports of goods and services	-9.3	-6.2	1.6	16.0	2.1	3.1
Imports of goods and services	-20.2	2.9	-1.0	9.4	2.4	3.7
Current account (percentage of GDP)	-10.3	-10.1	-15.3	-18.4	-19.6	-14.7
FDI (percentage of GDP)	9.6	12.2	12.3	7.1	n.a.	n.a.
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)						
Central Government - Ministry of Finance	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Revenue and grants	16.5	16.6	18.3	18.1	16.4	17.1
of which: tax revenue	14.4	16.4	16.2	14.9	15.9	16.9
Recurrent Revenue	n.a.	n.a.	17.9	16.6	17.4	19.4
Total Expenditure	21.0	20.9	22.9	23.7	23.0	22.3
Recurrent Expenditure	n.a.	n.a.	20.4	20.0	20.1	19.9
Current Expenditure	18.1	19.3	19.7	19.0	19.7	19
Capital Expenditure			4.9	4.2	3.4	3
Primary balance	-0.9	-1.0	-3.3	-4.1	-2.4	0.4
Overall balance	-4.4	-3.2	-5.6	-6.5	-5.1	-2.4
Consolidated NFPS balance						
Debt Indicators - IMF & Ministry of Finance						
Central Government Debt - Min of Finance	42.5	47.2	48.8	53.1	59.0	63.0
Central government debt over revenues - IMF (aligned with MTFP)	20.4	4.5	8.1	4.0	n.a	n.a.
External public debt (end of period) - IMF	9.8	11.6	13.2	17.8	17.8	19.7
External debt service as percentage of exports of goods and services - IMF	24.7	11.1	8.0	7.4	11.3	4.9

Source: Central Bank of The Bahamas; International Monetary Fund World Economic Outlook, January 2015

Main Developments in 2014

It was a challenging year for Barbados, with real output growth at 0.3 percent, stagnant tourism arrivals, and austerity under the government's fiscal consolidation program. Evidence of the challenges to macroeconomic stability was the country's downgrade of sovereign rating in December 2014 by Standard & Poor's. The 19-month fiscal adjustment program introduced new tax measures and retrenched around 10 percent of public sector workers. A weaker domestic demand and moderation in international fuel prices led to an improvement in the current account and trade balance and eased pressure on reserves. New tax incentives were granted to the hotel industry in an attempt to boost private investment and economic activity over the medium term. Inflation closed the year at 1.7 percent.

Weak performance in the tourism sector has been constraining growth. The main driver of growth in Barbados is taking a hit from lower external demand. It directly contributes around 12 percent of GDP through hotels and restaurants, but indirectly contributes over 40 percent and impacts the demand of the non-tourism sectors, such as construction, manufacturing, and services. At the end of 2014, long-stay tourist arrivals recovered across the Caribbean, but less so in Barbados where they grew by 1 percent (See Figure 1). Overall, tourist figures remained stagnant and spending per visitor marginally rose 1 percent. Although arrivals from the United Kingdom grew 10 percent in 2014, the number of visitors from Canada dropped by 4 percent, the United States by 3 percent, Trinidad and Tobago by 12 percent, and other CARICOM countries by 9 percent.

The implementation deadline of the Government's fiscal consolidation program was extended to March 2016 allowing more time to carry out measures to reduce the transfers to state-owned enterprises. Launched in August 2013, and expected to close by March 2015, the adjustment focused on achieving one third of its savings through new tax measures and two thirds from austerity measures which public sector retrenchment, lower subsidies and transfers. As of December 2014, the cumulative impact from fiscal consolidation at 2.2 to 2.3 percent of GDP was below the target of 5.7 to 6 percent. This led to the announcement of a new fiscal deficit target of 7.2 percent of GDP to close FY2014/15, and higher than the earlier aim at 6.6 percent of GDP.

Standard & Poor's downgraded Barbados' long-term credit rating in December 2014 from BB- to B with a negative outlook. Since 2011, this is the fourth in a series of downgrades that have increased country risk. The Sagicor Group recently announced the relocation of its headquarters from Barbados because of the knock-on effect that risk is having on its member firms Sagicor Life and Sagicor Finance Limited. If more companies follow, this may affect the real economy.

Highlights

Lower international fuel prices will benefit Barbados' public finances, external accounts, contribute to growth, and help contain inflation.

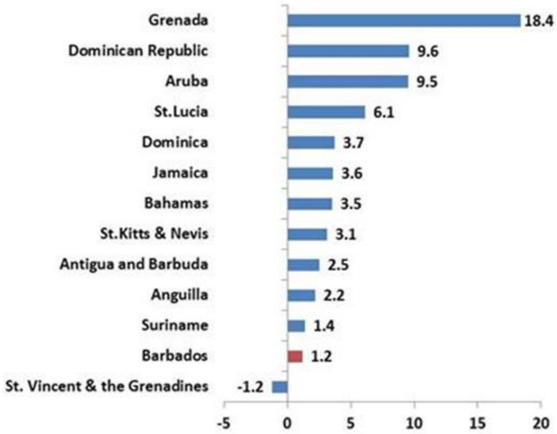
The results of the fiscal consolidation program were close to 2.3 percent of GDP by December 2014.

The country's growth trajectory over the medium term would be subject to sustaining a tighter fiscal stance.

Barbados strengthened the regulatory framework of its international business and financial services sector signing the Foreign Account Tax Compliant Act and new double taxation and tax information exchange agreements.

Barbados strengthened the supervision and regulatory framework of its international business and financial services sector. In November 2014, it signed an agreement with the United States to improve international tax compliance and to implement the Foreign Account Tax Compliance Act (FACTA). In addition, Barbados signed Double Taxation Agreements with Singapore and Malta, and Tax Information Exchange Agreements with Denmark, the Faroe Islands, and Greenland. Colombia removed Barbados from their "tax haven" list after the two countries agreed to sign a tax information exchange agreement. A double taxation agreement was also signed with Rwanda in a move to strengthen investment and diplomatic ties and greater trade opportunities with Africa.

Figure 1: Growth of Tourism Arrivals 2014 (%)



Source: Caribbean Tourism Organization

Outlook for 2015

Barbados' medium-term growth outlook is modest. The Central Bank of Barbados estimates that real output would increase by 2 percent in 2015, driven by tourism and construction, with an indirect impact on the wholesale, retail, and the business services sectors. A more conservative forecast suggests growth could reach 0.5 percent for 2015 and 1.5 percent for 2016.[1] The economic recovery in the United States and the increase in airlift from the main markets—namely the United States and Canada—would benefit the tourism industry. In addition, the Government of Barbados estimates private tourism sector investment for 2015 could reach US$150 million. However, macroeconomic instability and public debt levels would continue to challenge growth.

Barbados' growth trajectory over the medium term would depend largely on sustaining a tighter fiscal stance. A combination of ongoing and new adjustment policies could achieve the primary surpluses required to stabilize public debt levels. Higher country risk and subsequent sovereign rating downgrades would affect the real economy and employment.

The European Union will disburse EUR 15.6 million in budget support under the Human Resource Development Program. This represents the third tranche of an overall contribution of EUR 59.5 million to the sector. The program aims to build human capital over the medium term to develop a workforce that is more aligned with the needs of the private sector.

As a net oil importer, Barbados' public finances and the economy would benefit from reduced international oil prices. Low fuel prices would have a positive effect on external accounts. While fuel and electricity prices are not subsidized, a lower gasoline and diesel fuel bill would reduce the burden on the budget from transfers and energy prices for consumers. Lower oil prices would improve the financial position of the Barbados National Oil Company, and the Transport Board, which combined account for 2.7 percent of GDP in transfers. Currently, fuel represents over 22 percent of total imports and around 8.3 percent of GDP (2013). This would ease pressure on the demand for dollars, on the exchange rate, and contribute to the stability of foreign reserves.

Lower energy prices would be beneficial for the private sector. With lower domestic costs for transportation and electricity, the private sector would receive a competitiveness boost, as electricity costs are ranked by firms as one of the main constraints to doing business. The agriculture sector and the sugar cane/rum industry would welcome the lower fertilizer costs. Over the long term, sustained lower fuel prices could be a disincentive for future oil and gas exploration in Barbados.

Inflation is projected to remain low at around 2–3 percent over the medium term. The lower international commodity prices would have a moderating effect on inflation. At the same time, the recovery in domestic demand would be gradual. With weak economic conditions and fiscal consolidation, unemployment rates would likely remain at the two-digit level. It would take a toll on household consumption. These forces at play would help keep inflation in check.

The decision of Massy Holdings Limited to delist from the Barbados Stock Exchange (BSE) would reduce the bourse's market capitalization. Shareholders of Massy Holdings Limited approved at their Annual Meeting in February 2015 the voluntary delisting from the Barbados Stock Exchange. The move was justified on the basis of the low level of trading of their shares, the costs associated with the cross-listing of shares in Barbados and in the Trinidad Stock Exchange, and the price differential between both bourses. Massy is important for the Barbados Stock Exchange, which has 20 listings, and represents close to 25 percent of its market capitalization (composite). It is also the largest regional cross-listing company in terms of market value. Massy will continue to maintain its listing on the Trinidad and Tobago Stock Exchange.

The Bank of Nova Scotia moved its shareholding from Trinidad and Tobago and Jamaica to a subsidiary in Barbados. The Bank of Nova Scotia (BNS) transferred in the Trinidad Stock Exchange 51% of its shares in Scotiabank Trinidad (SBTT) to its holding based in Barbados, the Scotiabank Caribbean Holdings Limited (SCHL). At the same time, it transferred 72% of its shares in Scotia Group Jamaica (SGJL) in the Jamaica Stock Exchange to its holding based in Barbados. The move would strengthen its management of regional operations in the Caribbean.

The financial sector remains robust, highly liquid and well-capitalized despite macroeconomic risk. Barbados' banking system could likely withstand shocks and enjoys capital adequacy ratios above the Central Bank's minimum requirement of 8 percent. However, credit growth and profitability would remain dampened. Non-performing loans are high at 12.2% in September 2014 and are likely to remain at the two-digit level over the medium term.

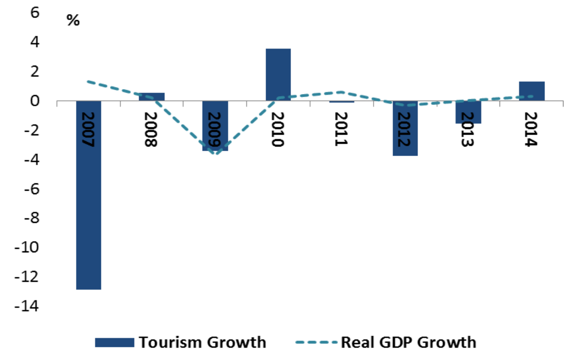
High-Frequency Macroeconomic Indicators	Last Data	Period	Prior Data	Period
Annual GDP growth (%)	0.3	Dec-14	0.0	Sep-14
Tourism arrivals (annual % change)	1.3	Dec-14	0.1	Sep-14
Nonperforming loans (%)	12.2	Sep-14	12.0	Jun-14
BoP current account(% of GDP)	-9.0	Dec-14	-8.3	Sep-14
Foreign Exchange Reserves cover,weeks	14.6	Dec-14	14.7	Sep-14
Inflation	1.7	Oct-14	1.7	Sep-14
Unemployment rate (%)	12.5	Sep-14	13.2	Jun-14

Source: Central Bank of Barbados

[1] International Monetary Fund, World Economic Outlook, 2014

Growth is constrained by a weak tourism sector

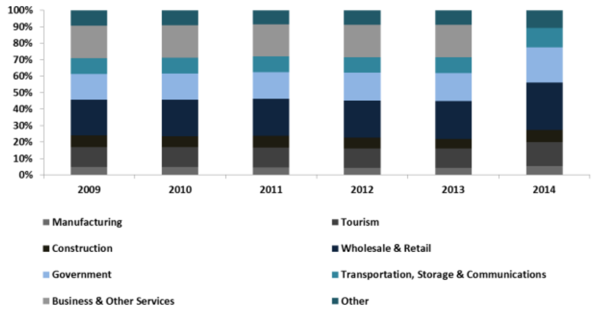
Figure A. Real Growth and Tourism Growth



Source: Central Bank of Barbados

… which is the driver of growth

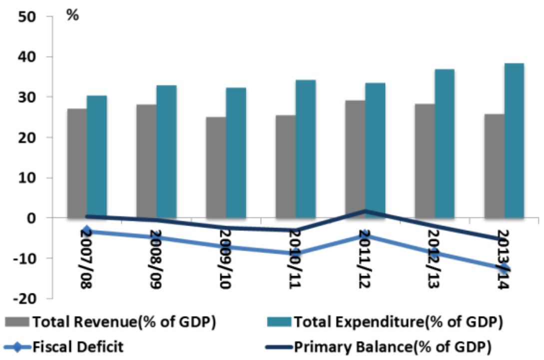
Figure B. Contribution to GDP, (in % of GDP)



Source: Central Bank of Barbados

High spending, declining revenues, and large fiscal deficits

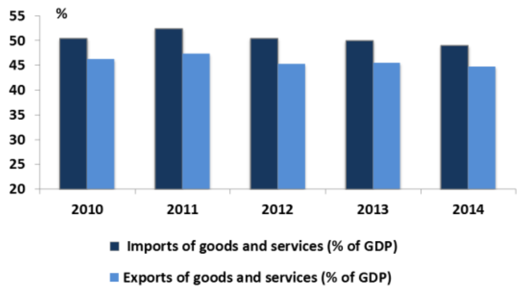
Figure C. Revenues and Expenditures, (% of GDP)



Sources: Accountant General, Ministry of Finance and Central Bank of Barbados

… with high imports and underperforming exports…

Figure D. Exports & Imports (% of GDP)

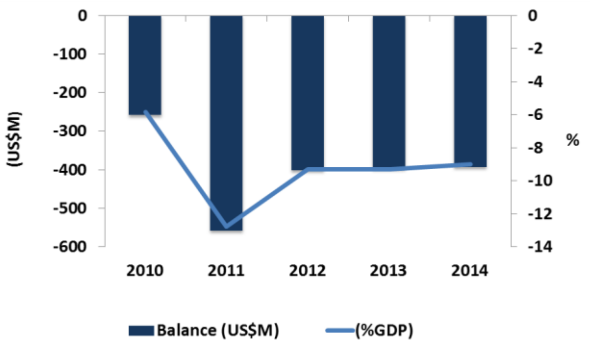


Source: Central Bank of Barbados

Source: Central Bank of Barbados

…are leading to large the current account deficits

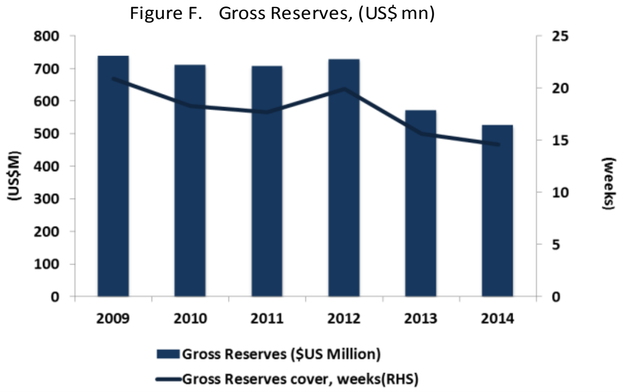
Figure E. Current Account Balance (% of GDP)



Source: Central Bank of Barbados

…and pressuring reserves.

Figure F. Gross Reserves, (US$ mn)



Source: Central Bank of Barbados

	2009	2010	2011	2012	2013	2014(p)
(Annual percentage changes, unless otherwise indicated)						
Real Sector						
Real GDP	-3.7	0.2	0.6	-0.3	0.0	0.3
Nominal GDP	0.2	-3.4	-2.0	-1.0	-0.8	1.7
Inflation (end of period)	3.6	5.8	9.4	4.5	1.8	1.7
Unemployment	10.0	10.3	11.2	11.5	11.6	12.5
External Sector						
Exports of goods and services (% change)	-17.2	7.9	0.4	-5.3	-0.3	0.2
Imports of goods and services (% change)	-19.7	9.5	1.9	-4.8	-1.7	-0.2
Current account (% of GDP)	-6.8	-5.8	-12.8	-9.3	-9.3	-9.0
International reserves (USD mill)	738.7	711.9	707.4	728.9	572.1	526.1
International reserves cover (weeks)	20.9	18.3	17.7	19.9	15.6	14.6
(In % of GDP, unless otherwise indicated, on a fiscal year basis)						
Public Sector						
Total revenue	25.2	25.6	29.3	28.5	25.9	25.2
Total expenditure	32.5	34.4	33.7	37.1	38.4	35.6
Central government primary balance	-2.5	-3.0	1.6	-2.0	-5.4	-2.3
Central government overall balance	-7.2	-8.7	-4.4	-8.6	-12.5	-10.4
Debt Indicators						
General government debt	63.0	71.8	78.0	83.9	96.4	99.2
General government debt(inclusive of NIS holdings)	83.3	96.7	105.3	114.1	130.0	133.4
Central government debt over revenues	249.6	280.0	266.5	294.7	371.7	393.9
External debt service as % of exports of goods and services	6.4	10.5	6.9	7.3	7.7	7.1

Source: Central Bank of Barbados; International Monetary Fund, World Economic Outlook, January 2015

Highlights

Guyana, despite its many challenges, continues to outstrip its regional counterparts in economic performance and relative external stability.

The concentration of the economy on several volatile commodities—most notably gold—remains the major risk.

Authorities should bolster efforts to increase competitiveness of value-added products and further diversify the economy's productive base, while limiting environmental degradation.

Main Developments in 2014

Guyana's performance in 2014 was mixed in light of challenges from commodity price swings. In 2014, economic growth was lower-than-expected at 3.8 percent owing to lower prices for key export commodities—rice, gold, and sugar. In contrast, timber and bauxite prices rose, and—barring production challenges—the favorable price outlook for these two commodities are likely to cushion the slump in export revenues in 2015. Inflation remained low at 1.2 percent in 2014 (compared with 0.9 percent in 2013).

Fiscal deficit widens. In 2014, the fiscal deficit is expected to rise to 5.7 percent of GDP, compared to with 4.6 percent of GDP in 2013. Despite commendable revenue growth, the fiscal account continues to be burdened by increases public sector wage bill, transfers payments, and government goods and services purchases. Furthermore, the expanse of the Government of Guyana's (GoG's) public sector investment projects continues to dampen fiscal consolidation efforts.

Overall total export earnings fell, but lower prices did not mean lower production in all cases. Rice set a new production record, with a harvest 627,463 tons compared to with 535,000 in the previous year, even though the milled price of white rice declined from $565 in 2013 to $411 per ton in 2014. More than 514,000 tons were exported, but a fair share went to the Venezuela market under the rice-for-oil debt compensation scheme at above above-market valuation, stimulating rice production.

Sugar turnaround met by price decline. Sugar production has met its production target of 216,000 tons compared with 186,500 tons in the previous year, due to favorable weather and improvements in field operations. However, prices declined by US$0.03 per pound over the course of the year and should remain between US$0.15 and US$0.18, which is below production cost. As such, Guyana's largest employer is expected to remain unprofitable.

Gold slump remains a damper on production, but outlook shows signs of recovery. The most notable price decline (12 percent) occurred in the gold sector, with prices falling from $1,344 per ounce in December 2013 to $1,180 in December 2014. Gold declarations fell from 481,087 to 187,000 ounces. The contraction reflected both a 30 percent price decline from 2012 and precautionary hoarding by miners and traders to stem losses. Authorities have promised to take steps to ensure the viability of small scale gold mining by possibly offering tax incentives on new investment and lowering import duties. Meanwhile, investment in two large-scale mines moves apace.

Guyana did not benefit from price rebound in bauxite because of operational overhaul. While bauxite prices were improving, the quantity extracted declined in response to operational and cost of production factors. As a result, bauxite exports earning declined.

Expansion of the timber and log operations. Timber production (sawn logs and round log) in 2014 increased by 40 percent and world prices for tropical non-coniferous species climbed. As a result, timber exports values went up from $38.5 to $51.2 million. Minister of Natural Resources Robert Persaud stated that the perception of the timber industry being associated with mass deforestation has slowed progress in a sector that has realized only 35% percent of its annual allowable sustainable harvest. Currently, Guyana is harvesting only 700 thousand cubic meters of the 1.2 million allowed by law.

Despite lower fuel bill, the import bill is expected to grow as capital goods and related parts and accessories dominate. Over the past 5 years, import demand spurred by private and public investment activity has driven the expansion of other import categories such as capital goods (machinery and equipment) and intermediate goods (parts and accessories). The significant private and public investment outlays anticipated over the medium term is expected to see infrastructure projects as the main catalyst for import growth and deteriorating trade balance.

2014 was marked by a prolonged political impasse, which culminated in a call for early elections on January 20, 2015. A political impasse developed between the majority Opposition in Parliament and the standing minority government that led to a suspension of Parliament on November 10, 2014. On January 20th, the President set May 11th as the date for General Elections. Dissolution of both the Parliament and the Government occurred on February 28th.

Outlook for 2015

Economic confidence is likely to remain low until after the elections and a number of expansions and improvements may be postponed until the second half of the year. Nevertheless, Guyana's outlook remains positive because of the continued

expansion of the services sector, driven primarily by robust construction activity and the commissioning of large-scale mines that is expected to profitably extract gold even at low prices.

Oil price fall helps. On January 20, the state-owned gasoline retailer, Guyana Oil, reduced prices at the pump by 30 percent. On February 10, Guyana Power and Light, the state-owned utility company, reduced electrical tariffs by 10 percent effective March. Both measures will benefit consumers. The dramatic drop in the price of imported oil helps relieve financial pressure on Guyana Power and Light, which has been suppressing end-user tariffs and depending on massive transfers from the Central Government. The favorable movement in prices, however, should not delay action to aggressively diversify the energy matrix to include renewables, increase energy efficiency in businesses and homes, and to reduce the technical and commercial losses at Guyana Power and Light that are still very high at 30 percent, above international engineering benchmarks of lowest attainable losses that range from 5 to 6 percent. In Latin America and the Caribbean, the best performers are Chile, Peru, Costa Rica, Barbados, Trinidad and Tobago, and Suriname with loss ratios less than 10.

The Government of Guyana revamps policies in lieu of potential oil discovery. The National Upstream Oil & Gas Policy was launched on January 21, 2015. The new policy, which seeks to establish a strong and sustainable private sector-led oil and gas industry, was implemented by the Ministry of Natural Resources and Environment at a National Stakeholders Forum in Georgetown. The policy was developed in conjunction with the Guyana Geology and Mines Commission. The Governance and Natural Resources Advisory Services Division of the Commonwealth Secretariat provided technical assistance. Nonetheless, offshore oil exploration poses risks because of Venezuela disputes ownership of some of the territorial waters off Guyana.

Guyana nears EITI membership. Guyana is taking steps to advance its Extractive Industries Transparency Initiative (EITI) membership. In countries that are EITI-compliant, companies must make public what they pay to governments, and governments are likewise required to reveal what they receive, with the goal of building trust and accountability among companies, countries, and citizens. Consulting firm Moore Stephens International is advising Guyana as it seeks to achieve this status.

Gold sector to maintain strong foreign direct investment flows. Amid political tensions in Europe over Greece, gold prices surged to US$1,300 per ounce on the world market in mid-January 2015 but has since fallen to $1200 as of late March. End of year gold futures indicate a narrow range with a high of $1207 and a low of $1201. This moderation in price is expected to encourage medium-scale investment, as well as the advancement of two large-scale mines.

Guyana's tourism drive underscored by heavy investments. With the upgrade of the US$130M Cheddi Jagan International Airport progressing, Guyana is preparing to attract larger aircrafts. Meanwhile, in 2015, the Guyana Tourism Authority is anticipating a 15 percent increase in arrivals in light of developments such as the completion of the five-star 197-room Marriot and the start of a 163-room Sun and Sand Hotel in Liliendaal, which will help to improve Guyana's international reputation.

Sugar and rice investments continue. Even though sugar production cost in the next 3 years is projected to remain above world prices at US$0.26 per pound, the Government of Guyana's 2015 target will be significantly higher as Guyana strives toward reaching 400,000-ton production by 2020. Meanwhile, the government will use a US$7.5M loan from the Caribbean Development Bank to enhance sugar production on a number of estates. In the case of rice, Guyana is struggling to reduce cost of production, which at present is averaging higher than world price. The introduction of higher yielding rice varieties and differentiated premium price varieties (eg. aromatic basmati) is part of the strategy to make the country more competitive in rice, especially given the uncertainties surrounding whether PetroCaribe rice for oil debt compensation will continue beyond 2015–2016. The Minister of Agriculture set the national rice production target to be 618,000 tons, less than last year's production largely based on concern for finding new export markets. Nicaragua, Chile and several West African countries are being cultivated as new markets.

Chinese entering fisheries sector. The Chinese company Fuzhou Hongdong Pelagic Fishery Ltd is seeking to obtain 30 fishing licenses and make an investment of US$70 m in the country. The company plans to start a vertically integrated operation that would include 30 fishing vessels, a cold storage and ice producing facility, and a fish processing plant. Guyanese fishermen are expressing concern, fearing a foreign takeover of the industry, and a disruption in the management of highly depleted commercial fishing stocks. The fisheries sector faces issues with enforcement of regulations.

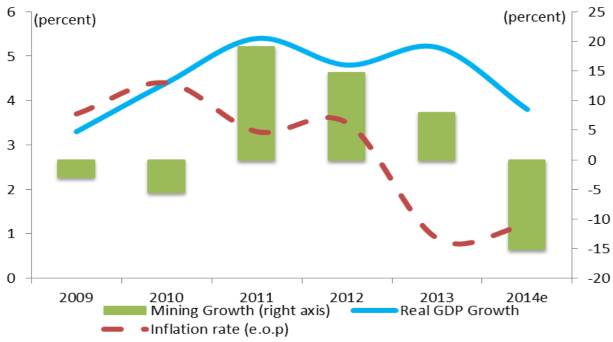
High-Frequency Macroeconomic Indicators

	Last data	Period	Prior data	Period
Annual GDP growth (%)	5.2	2013	4.8	2012
Exports (12-month growth)	-2.8	2013	23.6	2012
Imports (12-month growth)	-7.5	2013	11.6	2012
Private sector credit growth (%)	14.5	2013	24.7	2012
Inflation	0.9	2013	3.5	2012
Exchange rate (end of period)	206.3	2013	204.8	2012

Source: Central Bank of Guyana, January 2015

Low gold prices stymied mining activity and subdued economic growth…

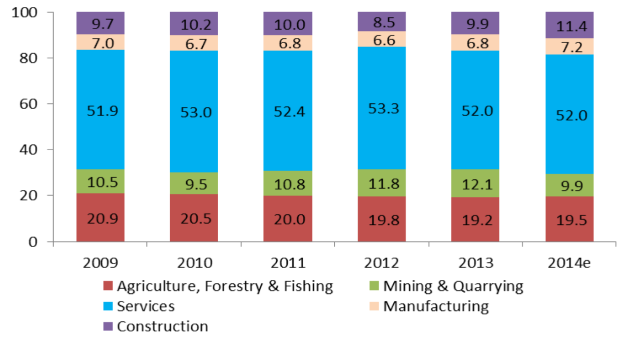
Figure A. Real GDP and Mining Activity Growth



Source: Bank of Guyana and International Monetary Fund.

…However, economic growth continues to be buoyed by Agriculture, through rice, and robust construction activity

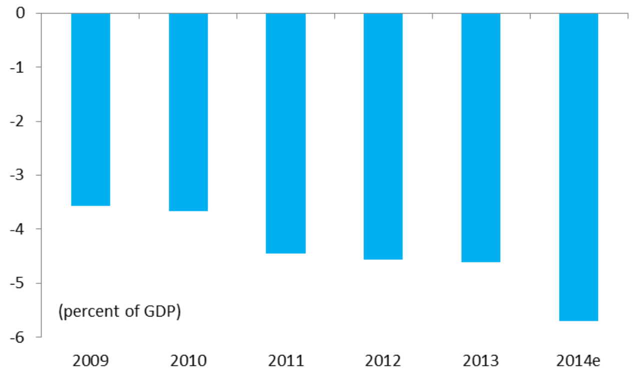
Figure B. Contribution to GDP (in % of GDP)



Source: Bank of Guyana and International Monetary Fund.

Meanwhile, fiscal spending continues to outstrips revenue

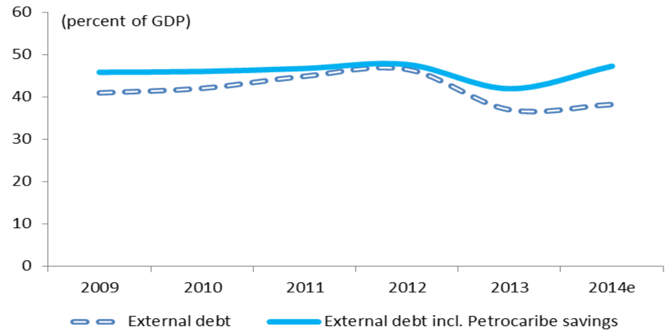
Figure C. Fiscal Deficit



Source: Bank of Guyana and International Monetary Fund.

…but external debt remains well managed

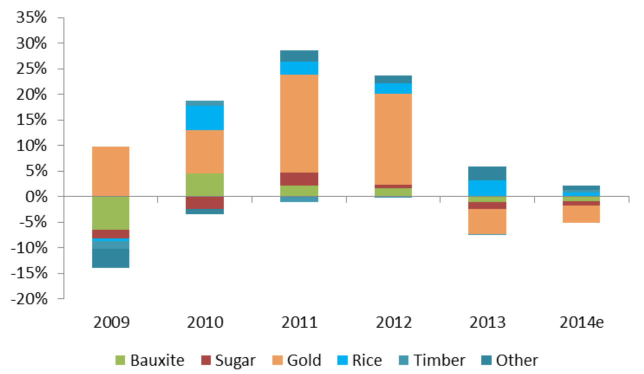
Figure D. External Debt



Source: Bank of Guyana and International Monetary Fund.

Underperforming exports…

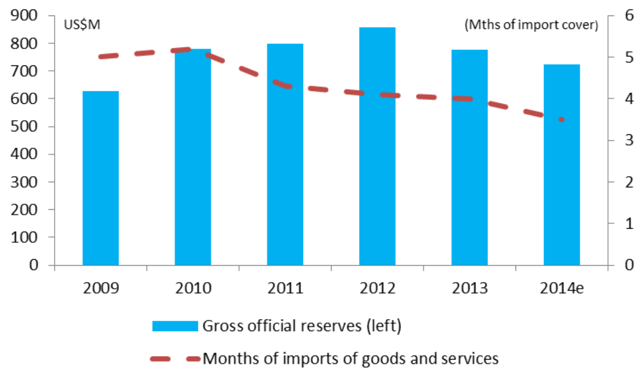
Figure E. Decomposition of Export Growth (year-on-year)



Source: Bank of Guyana and International Monetary Fund.

…mounts pressure on reserves

Figure F. International Reserves



Source: Bank of Guyana and International Monetary Fund.

Guyana: Selected Indicators

	2010	2011	2012	2013	2014 (F)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	4.4	5.4	4.8	5.2	3.8
Nominal GDP (GYD millions)	400922	460108	511337	n.a.	n.a.
Inflation (end of period)	4.5	3.3	3.5	0.9	5.0
External Sector					
Exports of goods and services	14.6	25.8	20.1	-10.7	n.a
Imports of goods and services	17.9	25.1	14.4	-7.0	n.a.
Current account (percentage of GDP)	-10.7	-16.4	-15.7	-14.2	-15.4
Remittances (percentage of GDP)	18.8	18.3	16.7	11.7	12.8
FDI (percentage of GDP)	9.9	9.9	10.8	7.3	10.6
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central Government					
Revenue and grants	26.0	26.5	27.9	22.1	26.7
Current expenditure	18.8	19.8	21.1	19.8	21.8
Capital expenditure and net lending	7.2	6.7	11.1	8.2	13.13
Overall balance	-2.9	-3.2	-4.7	-4.4	-4.9
Debt Indicators					
Central government debt	68.0	69.3	72.1	57.4	n.a.
Central government debt over revenues	261.7	261.6	n.a.	n.a.	n.a.
External public debt (end of period)	46.1	48.6	54.2	41.5	44.8
External debt service as percentage of exports of goods and services	2.6	3.0	n.a.	n.a.	n.a.

Note: FDI= foreign direct investment; (F) Forecasts numbers for 2014.

Source: Central Bank of Guyana, International Monetary Fund World Economic Outlook, April 2013.

JAMAICA — THE NEW YEAR: LOOKING BACK, LOOKING FORWARD

Main Developments in 2014

The Jamaican economy made major strides in 2014. Jamaica continued to perform strongly under the International Monetary Fund (IMF)-supported Extended Fund Facility (EFF), reaching the sixth review of Jamaica's IMF-supported program under the EFF in December 2014. According to the IMF, the program is on track and policy implementation remains strong.

Confidence in the stabilization has increased. In 2014, Fitch followed Standard and Poor's and Moody's in upgrading the credit rating of Jamaica's debt based on the stabilization since the beginning of the EFF. In addition, all credit rating agencies currently have a positive outlook on Jamaica.[1] Domestically, investor and consumer confidence has also improved albeit from low levels.

2014 Growth projection had to be revised downward. FY2014/15 economic growth projections of 1.4 percent have been revised downward to between 0.5 and 1 percent because of adverse effects on agriculture of a severe drought in mid-2014. However, agriculture rebounded as the drought affected mostly short-term crops. The recovery of agriculture should lead to stronger than expected growth in FY2015/16 (see section on 2015 outlook).

Jamaica has benefited from strong tourism receipts and remittances inflows in 2014. As a share of GDP, gross remittances' inflows are expected to have been at its highest level ever in 2014. Similarly, tourism receipts as a share of GDP reached the highest level since 2009. Besides the increase in the US$ value of remittances and tourism receipts, the real depreciation that Jamaica experienced in 2013 and, partly, 2014 is responsible for the strong increase (Figure B) as it decreased the US$ value of GDP.

Jamaica reestablished access to international financial markets. In July 2014, Jamaica issued a US$800 million international bond. The offer was substantially oversubscribed and resulted in a record low yield for Jamaican debt. Similarly, the government of Jamaica global bonds have been rallying with the EMBI spread declining by 150 basis points over the past 12 months.

The domestic debt market remained frozen during 2014. Following the NDX, domestic demand for government of Jamaica securities completely dried up. In addition, a restart of trading comprises risks for the domestic sector as a move in interest rates would force holders of government of Jamaica securities to reprise the securities they hold. If demand is low and requires high interest rates, this could lead to important book losses for financial institutions.

[1] Current ratings are B, Caa3 and B- for S&P, Moody's and Fitch.

Highlights

Jamaica made major strides in 2014 and is poised to take advantage of several international developments.

On the basis of the growth acceleration in the United States and the recent fall in oil prices, downside risks have decreased in 2015.

Overall, the structural adjustment program continues to benefit from strong support. However, the slow economic recovery could challenge support going forward and deepen reform fatigue. In addition, some reforms are likely to face resistance, namely public sector rationalization and a cap on the public sector wage bill at 9 percent of GDP.

Jamaica moved up in the ranking of the Doing Business Indicators. Mostly driven by improvements in Getting Credit, Jamaica moved up 27 ranks to 58th out of 184 countries. Jamaica also moved up eight places to 86 out of 146 countries on the Global Competitiveness Index. Given the state of reforms in the area of insolvency, business registration and construction approvals, Jamaica could make further gains in the Doing Business ranking for next year. However, further reforms to tackle the low competitiveness, including reforms which help to reduce energy costs, will be necessary to accelerate growth.

Outlook for 2015

Jamaica is poised to take advantage of international developments in 2015. The fall in energy prices is a major windfall. Jamaica's electricity prices are high by international comparison. The dependence on imported energy is a major risk for the current account and inflation is highly dependent on oil prices. The fall in oil prices has noticeable impact on the current account, production costs of businesses and on disposable income of households.

The lower electricity prices are a welcome relief for the private sector and consumers. GDP growth should benefit from higher domestic demand and increased exports. The higher purchasing power of domestic consumers will increase demand for imports, hampering the positive effect for GDP, but at least a part of the higher consumption should be domestic as Jamaican producers have become more competitive through the real depreciation of the currency over the past 2 years. The fall in oil prices should further improve the competitiveness of domestic firms. Further reforms of the business environment should also lead to more competitive domestic production.

The lower oil price offers the opportunity to modify energy policy in Jamaica for the long-term. The authorities are in negotiations for a hedge against increases in oil prices above a certain level.

The hedge should thus protect the gains from the lower oil prices in the short term. Investment projects for a modernization of energy production, using new technologies and switching from diesel to natural gas should allow for low energy prices going forward. The recent announcement of the USA to allow LNG exports to Jamaica can be important in this respect.

The current account is poised to overperform. The current account deficit has decreased from a recent high of –13.5 percent in 2011/12 to around –6 percent in 2014/15. Projections indicate that the current account in FY2015/16 could fall to as low as 4 percent of GDP (Figure E). Early in the program the correction of the current account was caused by strong tourism and remittances, the weak demand for imports in light of the fiscal consolidation and weak domestic economy, which was exacerbated by the real deprecation of the Jamaican dollar. However, lower oil prices have become an important factor as they strongly compress the goods deficit a major reason for Jamaica's systematic current account deficits.

The relationship with Venezuela under the petrocaribe agreement could fundamentally change in 2015. Like the Dominican Republic, Jamaica announced it is actively pursuing options for a potential debt buyback from Venezuela. Under the deal, a global bond would be used to buy the outstanding PetroCaribe debt at a discount. Even under lower oil prices, Jamaica still benefits from the PetroCaribe agreement but the share of deferred payment depends on the price of oil. As such, Jamaica is less dependent on the agreement under lower oil prices and the credit available to the Petrocaribe Development Fund for on-lending also decreases.

Jamaica will benefit from the economic growth acceleration in North America. The United States is Jamaica's main trading partner, residence of the majority of tourists and home to the majority of migrants who send remittances. The acceleration in growth and the decline in unemployment in the United States will benefit remittances and tourism, each one corresponding to around 15 percent of Jamaica's GDP. Canada and the United Kingdom are the other main trading partners, both of which are projected to perform well economically.

A possible increase in US interest rates should have a muted impact on Jamaica. Despite the improvements in investor sentiment, Jamaican bonds still yield 480 basis points (4.8 percent) over comparable US treasury bonds despite its downward trend. A continued commitment to the EFF should lead to a decrease in that spread, which would compensate for higher benchmark interest rates. Domestic interest rates should also remain contained as lower inflation would allow for an easing of monetary policy. Low domestic interest rates are important for Jamaica to accelerate credit growth, which has remained muted. In addition, low domestic benchmark interest rates would be beneficial as they would lead to higher book values of government of Jamaica securities, thus strengthen the balance sheets of financial institutions that are major holders of these securities.

Jamaica's debt-to-GDP should approach 130 percent by the end of 2015. With a primary surplus of 7.5 percent, stronger growth and depreciation in line with inflation differentials (i.e. keeping the real exchange rate constant), debt-to-GDP should continue its downward trend in 2015. On the basis of the assumptions of the government of Jamaica's macroeconomic framework and the EFF, debt-to-GDP is still projected to reach around 100 percent by March 2020 compared with 146.6 in Mach 2013 (Figure D). Subsequently, the recently introduced fiscal rule targets a debt to GDP ratio of 60 percent by 2026.

Conclusion

Jamaica is no stranger to economic uncertainty and crisis. However, the country managed to perform strongly in a challenging economic adjustment program in 2014. For 2015, Jamaica's macroeconomic outlook remains stable as some risks have declined. Different international developments could benefit Jamaica in 2015, most notably the fall in oil prices, which can substantially benefit the external situation of Jamaica. It should also boost available spending of households and reduce production costs for Jamaican companies.

In addition, Jamaica should be able to take advantage of the growth momentum of the US economy. Exports, tourism, and remittances are all poised to benefit in 2015.

While these developments have improved confidence, challenges remain. A sustainable trajectory for public wages and pensions, two main areas of reforms for the remainder of the EFF, will be required for long-term sustainability and to create fiscal space for capital investment. In addition, growth will be central to the program and the well-being of Jamaicans and the country remains vulnerable to external, natural and economic shocks. However, because of the possibility of continuing low oil prices and strong economic performance of Jamaica's main trading partners, downside risks have decreased.

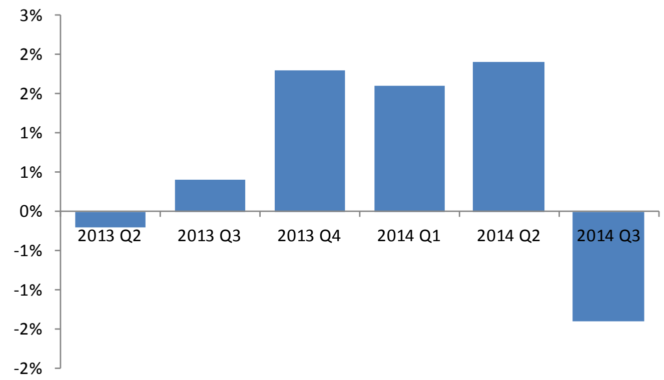
High Frequency Macroeconomic Indicators	Last data	Period	Prior data	Period
Real GDP Growth (y/y)	-1.4	2014 Q3	1.9	2014 Q2
Inflation (y/y)	5.3	Jan-15	6.4	Dec-14
Net international Reserves (US Mil)	1785.3	Jan-15	2001.1	Dec-14
Exchange Rate (end of period)	112.8	Jan-14	112.2	Dec-14
Unemployment Rate (%)	14.2	Oct-14	13.9	Jul-14

Source: Bank of Jamaica, International Monetary Fund, and Statistical Institute of Jamaica.

A Snapshot of Jamaica's Economy

Growth is recovering …

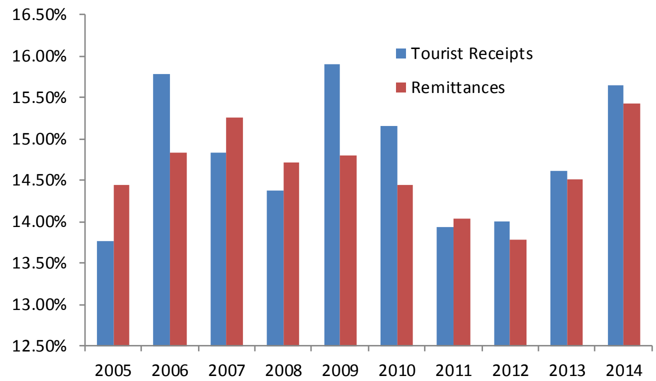
Figure A. Quarterly Growth at Constant Prices



Source: Statistical Institute of Jamaica (STATIN)

…supported by tourism and remittances.

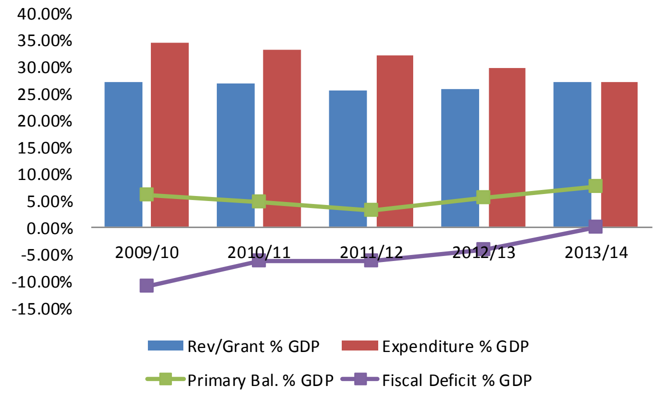
Figure B. Tourism and Remittances (% of GDP)



Source: Bank of Jamaica

The fiscal adjustment has been maintained…

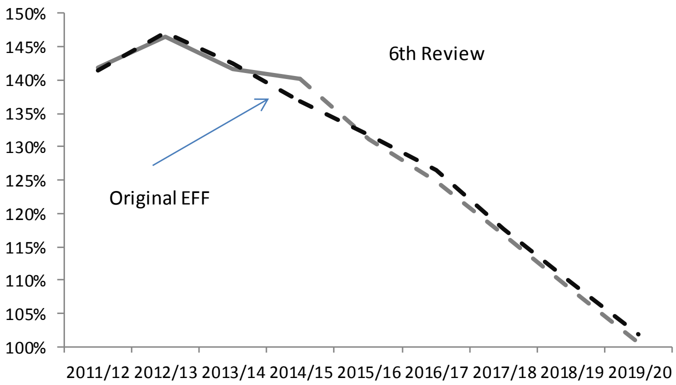
Figure C. Revenues and Expenditures (% of GDP)



Source: International Monetary Fund.

… which should bring down debt.

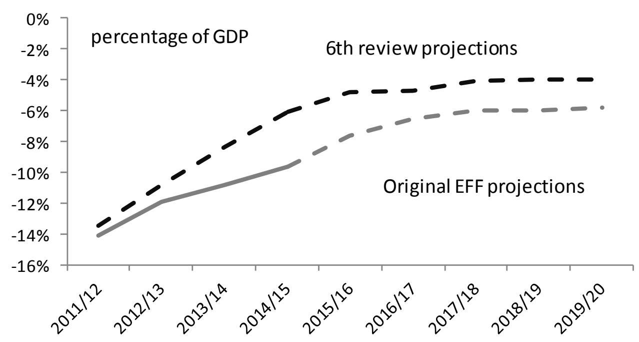
Figure D. Debt-to GDP 2011/12 - 2019/20



Source: International Monetary Fund.

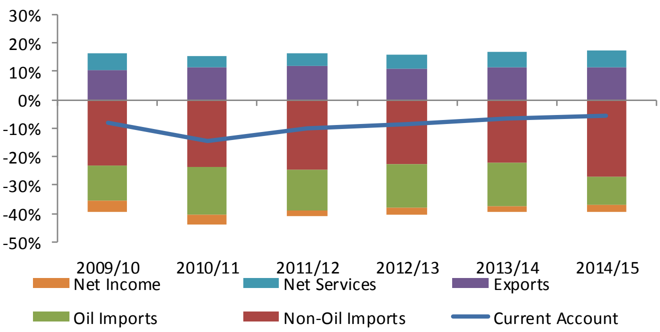
The current account is expected to overperform…

Figure E. Current Account Balance (% of GDP)



…especially with lower oil prices.

Figure F Current Account Contributions (% of GDP)



	2010/11	2011/12	2012/13	2013/14	2014/15 (P)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	-0.6	0.9	-0.7	0.9	0.4
Nominal GDP	7.8	7.5	6.1	10.4	7.8
Inflation (end of period)	7.8	7.3	9.1	8.3	4.7
Exchange rate (end of period)	85.7	87.3	98.9	109.6	117.0
External Sector					
Exports of goods and services (yoy, %)	0.8	13.0	3.5	3.5	-5.0
Tourism receipts (yoy, %)	2.0	1.1	1.5	0.9	10.7
Imports of goods and services (yoy, %)	6.8	13.5	0.4	0.4	-7.3
Current account (percentage of GDP)	-9.0	-14.9	-11.5	-9.5	-5.3
Treasury bill rate (percent, end of period)	6.5	6.2	5.8	8.0	8.0
(In percentage of GDP, unless otherwise indicated, on a calendar year basis)					
Central Government					
Revenue and grants	26.8	25.6	25.8	26.9	26.6
Budgetary expenditure	33.2	32.0	29.9	26.8	27.0
Primary balance	4.5	3.2	5.4	7.5	7.7
Budget balance	-6.3	-6.4	-4.1	0.1	-0.4
Public sector balance	-6.9	-6.4	-4.2	0.1	-0.4
Debt Indicators					
Public sector debt	141.3	143.7	146.4	140.2	140.5
Public sector debt over revenues	536.1	563.7	n.a.	516.4	528.2
Foreign currency public debt (end of period)	83.3	81.4	76.0	76.4	59.5
External interest payments as percentage of exports of goods and services	11.5	10.4	-	-	-
International Reserves					
Net international reserves (USD Mill)	2553	1777	884	1303	1884
Gross international reserves (weeks of good and services imports)	23.4	17.8	<12	14.4	16.93

Note: (P) Projections for 2014/15
Source: Ministry of Finance and Planning, Bank of Jamaica, Statistical Institute of Jamaica, International Monetary Fund and own calculations.

Quarterly Bulletin March 2015

SURINAME

AN UPWARD BATTLE GIVEN LOWER COMMODITY PRICES

Macroeconomic Highlights From 2014

Suriname braved the effect of lower oil prices in the latter half of 2014, to end the year with growth rates remaining above regional averages. Economic growth is expected to slow to around 3 percent over 2013, compared with historical averages of 4.4 percent since 2000. The government was able to tighten its current expenditure, which improved the fiscal balance. However, data to December 2014 indicate slippages on the current account balance, which still suggests high liquidity in the economy. The government of Suriname stayed committed to its social policy program despite the impact of falling commodity prices on revenues and an unexpected energy crisis.

The fiscal balance improved in 2014 but is still below internationally accepted level of −3 percent of GDP. The overall fiscal deficit to GDP for 2014 was about 5 percent, a decline of 1.8 percentage points of GDP. Revenues fell in nominal terms because some planned investments are still to materialize and commodity export prices continued below historical averages of the previous 5 years. Statistics on total revenues from the mining industries for 2014 are not yet available but are expected to be lower than in 2013, when revenues already fell by 24.6 percent compared with 2012. In response to reduced revenues, the government exercised some financial prudence on the current expenditure side in 2014, which fell by 12 percent. The weak fiscal balance and higher debt levels exuded some pressure on the country's credit rating agency resulting in Moody's revising Suriname's outlook from positive to stable in February. The Chinese credit rating agency, Dagong, also assigned a stable rating.

The current account weakened in 2014, and reserves fell by 20 percent at the end of 2014. The current account balance to GDP deteriorated by 3.5 percentage points in 2014 to −7.7 percent as the value of gold exports declined, while imports was driven by large investment projects in the public and private sectors. Accordingly, international reserves have come under pressure and stood at US$621.8M (approximately 3 months of imports) at the end of 2014 and was sufficient to cover short-term liabilities. The authorities tightened fiscal and monetary policy to avoid intensifying any risks associated with the fall in reserves.

Monthly annualized inflation remained low in 2014 at 3.9 percent, with core inflation reaching −0.1 percent. The consumer price index is sensitive to developments in global food and fuel prices, which account for about 50 percent of the consumer price basket in Suriname and explains approximately 37 percent of headline inflation over the year.

Highlights

Economic growth is expected to slow in 2015 given downward trend in commodity prices.

National elections will be contested on May 25, 2015.

Macroeconomic fundamentals should remain stable in 2015, but there are some downside risks.

The authorities expanded its social program in 2014 by passing the social legislation act. Suriname's parliament passed a minimum wage law for the first time, as well as laws for a national medical insurance scheme and a pension scheme. Starting on January 1, 2015, the official hourly minimum wage will be US$1.28 (US$256.12 monthly). The administration announced that there will be a gradual adjustment of the rate every year until 2017.[1] The gradual increase in the rate should help ease the transition for low wage enterprises.

Suriname experienced an energy crisis in mid-2014. While supply was constrained by lower-than-expected rainfall and a hydro turbine out of service, the electricity transmission network was not yet upgraded to deliver the recently increased generation capacity. In response to the escalating crisis, the government adopted rotational load shedding techniques and promoted the conservation of energy in its various offices. By the end of the year, the country was able to satisfy its energy needs.

2014 Developments with the International Community

The IDB remained the main multilateral lending partner in Suriname. The Bank supported development policies and increased its portfolio with loans to the energy sector and private sector development. For the year, a total of US$48.7 was disbursed on new and existing loans and technical co-operations in relation to energy, private sector, transport, water, education and housing.

The IMF released its 2014 Staff Consultation report in October. The report encouraged the authorities to continue implementing policies to reverse the fiscal and external deterioration, strengthen their institutions, and promote diversification. Suriname also conducted its first Financial Sector Assessment Program report.

[1] The minimum rate is expected to be US$1.56 in 2016 and US$1.83 in 2017; these figures are based on the estimated US$366.56 per month needed for a family of four to survive.

SURINAME

AN UPWARD BATTLE GIVEN LOWER COMMODITY PRICES

The World Bank launched its first Country Partnership Strategy with Suriname in 30 years. The Country Partnership Strategy will cover the period 2015–18 with the focus on achieving sustainable economic growth through greater social inclusiveness and economic diversification. The financial envelope of US$60 million will target business climate improvement, enhancing best practices for transparency, and reducing vulnerability to climate change.

What to Expect in 2015

National Elections are to be held on May 25, 2015. A number of political parties are expected to form coalitions. Candidates are vying for 51 seats in the National Assembly, where the members are elected through an open-list proportional representation system. National Assembly members elect the president and vice president to serve a 5-year term. With already falling government revenues from lower returns in the extractive industry and budgeted election spending of US$25.4 million (0.4 percent of GDP), it could be more difficult for the government to contain the fiscal deficit in 2015 to less than its outcome in the previous year.

International commodity prices are projected to remain low, and this is expected to slow economic growth in Suriname to below its past decade average growth rate of 4.4 percent. In Suriname, production levels in the main gold company and the state-owned oil company, Staatsolie, are highly influenced by international prices. Given that profitability is reduced from the lower value per output, capital investment is expected to be scaled back and in some cases postponed. Major investments are expected by American gold multinational Newmont Mining Corporation (an injection of at least US$200 million in 2015) and the operation of a new refinery by Staatsolie in 2015. Given these investments, economic growth is estimated at around 3 percent in 2015.

If oil prices remain below US$50 per barrel through to 2015, revenues from Staatsolie could fall by 50 percent with respect to 2014. An improvement in the fiscal position is also limited somewhat by gold price fluctuations. While fiscal accounts will continue to be affected by the falling commodity prices, government expenditure is likely to fall from lower prices for goods and services and a reduction in transfer payment for the subsidization of the operation shortfalls of the electricity company, EnergieBedrijven Suriname (EBS). Higher electricity tariffs expected to be implemented in 2015 should reflect EBS's cost price and subsequently lower government transfers to the company. The revenue falloff is anticipated to outweigh any expenditure gains and result in a weakened fiscal outcome.

The downward revision in commodity prices should contribute to an increase in the debt stock. The debt-to-GDP ratio in 2015 is likely to increase by 3 percentage points from 26.1 percent in 2014. However, debt will remain within sustainable levels and amongst the lowest in the Latin American and Caribbean region.

The external position in 2015 should weaken given reduced export value. The reserve level is anticipated to remain low, but adequate to meet short-term liabilities. Any significant delay in the expected mining investments and increased economic uncertainty could add pressure to the exchange rate peg. The spread between the official exchange rate and the parallel market rate was estimated to be around 10 percent in February 2015.

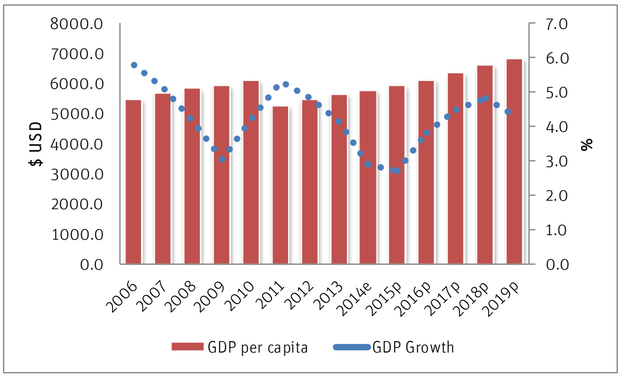
Suriname is expected to start benefiting from its deal with Petro Caribe as rice farmers prepare to export their produce to Venezuela and receive higher prices than on the world market. The drop in oil prices is expected to negatively impact Venezuela's fiscal accounts and could jeopardize the Petro Caribe deal with Caribbean countries. Given that Suriname has budgeted only US$2.5 million from this arrangement, if Petro Caribe were to discontinue, the impact on the economy will be negligible.

Inflation should remain low in 2015, while unemployment may increase slightly from the estimated 8.9 percent in 2014. Headline inflation is mostly explained by food and nonalcoholic beverages. With lower energy prices, global food prices are expected to remain unchanged. However, with reduced investments by mining companies in Suriname given lower returns, cost-reducing measures would be adopted. This could result in reduced job creation.

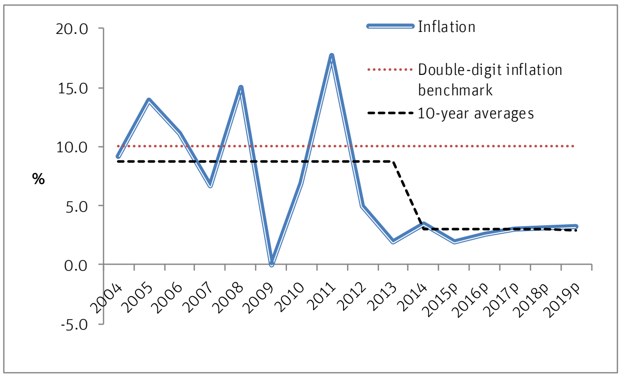
Macroeconomic fundamentals can be affected by downside risks. Growth is expected to be driven by the anticipated large mining investments. Given that Suriname's economic growth is quite responsive to changes in commodity prices, economic diversification to non-mining sectors would mitigate the sensitivity to commodity price changes. During the campaigning period for the general elections, policy reform is likely to be delayed, while other downside risks include weak GDP growth in the euro area, reduced domestic economic activity, and an under-developed government securities market.

Suriname's Macroeconomic Snapshot

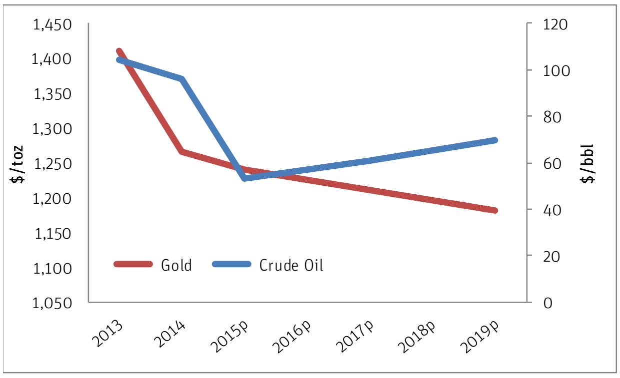
a. Economic growth remains one of the highest in the LAC region ...



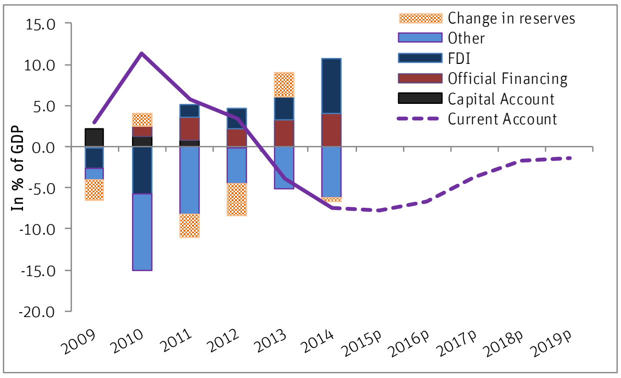
b. ... and inflation continues to remain low.



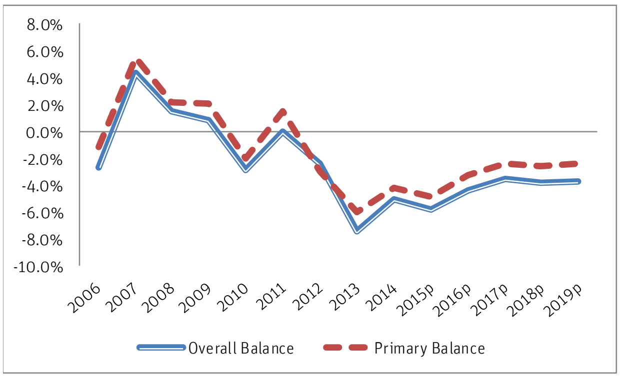
c. Commodity prices have declined, although crude oil prices are expected to pick up slighly in the medium term, ...



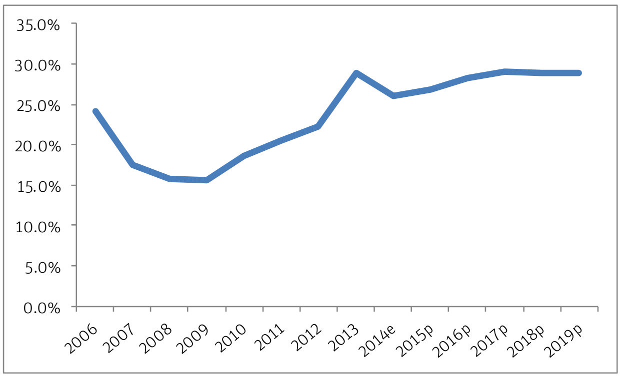
d. ... this resulted in a weakening of the external balance.



e. The fiscal balance improved in 2014 given a reduction in current expenditure.



f. Cental government debt doubled since 2009, although it remains low.



Sources: CBvS; IMF; World Bank's Commodity Markets Outlook (January 2015); IDB

Suriname: Selected Indicators

	2011	2012	2013	2014*
(Annual percentage changes, unless otherwise indicated)				
Real Sector				
Real GDP	5.3	4.8	4.1	2.9
Nominal GDP	18.9	11.7	4.4	4.2
Inflation (end of period)	15.3	4.3	0.6	3.4
Exchange Rates (end of period)	3.35	3.35	3.35	3.35
(In percent of GDP, unless otherwise indicated, on a calendar year basis)				
External Sector				
Exports of goods and services	61.6	59.4	51.0	44.9
Imports of goods and services	-51.4	-45.3	-53.8	-52.5
Current Account	5.8	3.4	-3.9	-7.4
Gross International Reserves (USD Mill)	816.9	1008.4	775.4	621.8
Savings and Investment				
Private Sector Balance	5.2	7.4	2.9	n.a
Public Sector Balance	0.5	-4.0	-6.8	n.a
Savings	5.4	0.6	-2.3	n.a
Investment	4.9	4.6	4.5	n.a
Foreign Savings	-5.8	-3.4	3.9	n.a
Central Government				
Revenue and Grants	27.0	25.9	23.8	22.1
Total Expenditure	26.5	29.9	30.6	27.1
Primary Balance	1.5	-3.0	-5.4	-4.2
Overall Balance	0.5	-4.0	-6.8	-5.1
Debt Indicators				
Total Public Sector Debt (international definition)	25.6	26.4	33.6	26.1
Total Public Sector Debt (national definition)**	26.8	27.1	34.5	32.8
Public Sector Debt over Revenues	73.3	84.9	127.6	150.4
External debt as percent of exports of goods and services	49.5	49.5	66.0	35.4

Sources: Central Bank of Suriname; IMF; IDB

Notes:
* Provisional
** The national definition of debt is broader than the international definition. It allows the full approved amount of financing commitments to be counted as debt rather than only disbursed amounts

TRINIDAD AND TOBAGO

Uncertainty in the face of lower energy prices

Quarterly Bulletin March 2015

Highlights

The recent decline in energy prices represents a major challenge for growth in the short term.

Political parties are gearing up for general elections in 2015.

The Initial Public Offering of an energy firm is expected to be launched 2015.

The unemployment rate has declined to a record low of 3.1 percent in first quarter of 2014.

Main Developments in 2014

Economic growth was pulled down by a contraction in the energy sector in 2014. GDP growth for 2014 was forecasted to be 2.5 percent, but because of a decline in energy output of 1.5 percent for the first three quarters of 2014 together with a drop in oil prices in the last quarter, growth is expected to come in significantly below the initial projection, at about 0.8 percent. Energy output is expected to be slighter higher in 2015 due to the start-up of BGTT's Starfish well and with no carry-over of maintenance-related activity expected in early 2015.

The non-energy sector continued to display moderate growth. Construction, distribution, and finance sectors supported the non-energy sector growth in 2014. In addition, private sector lending expanded amid low interest rates, high liquidity, and cautiously optimistic sentiment in the business community. Consumer confidence was mildly pessimistic in 2014, according to the Central Bank. In this context, consumer loans increased during the year and averaged at 7.5 percent.

Trinidad and Tobago has made good progress in 2014. The country has moved up in the ease of doing business rankings and the government has continued to build on these successes to encourage private sector growth. The government advanced legislation to strengthen the financial sector framework. Reforms have been introduced to address issues relating to public procurement, bankruptcy and insolvency, and amendments to legislation in the securities industry. The government has also committed to reintroducing the Insurance Bill to Parliament in 2015 and developing a new Credit Union Bill. However, more reforms are needed to improve efficiency in the public sector and address the shortcomings at the Central Statistical Office.

Foreign exchange shortages persisted throughout 2014. The business sector experienced shortages of US dollars during 2014, which affected their ability to pay foreign suppliers for imported goods. The reduced supply of US dollars to the market was largely attributed to the slowdown in the energy sector during the year which contributed to more frequent shortfalls in market. Energy sector companies account for on average 75 percent of total foreign exchange supply to the market.

The government presented the biggest budget on record for FY2015 and recorded a better than anticipated budgetary outturn for FY2014. The government recorded a fiscal deficit of 1.5 percent of GDP in FY2014, lower than the projected 3.6 percent. According to the Central Bank, this improvement was mainly due to increased capital revenue in the form of dividends from the National Gas Company of Trinidad and Tobago. The budgeted expenditures and revenues for FY2015 were based on oil and gas price assumptions of US$80 per barrel and US$2.75 per mmbtu, respectively. However, as oil prices plummeted, these assumptions were revised down to an oil price of US$45 per barrel and a gas price of US$2.25 per mmbtu. Although the revised assumptions would lead to a shortfall in revenue of TT$7.5 billion, the government intends to return to the original budgeted fiscal deficit of 2.3 percent of GDP through cutbacks in expenditure and savings on fuel subsidy. Additionally, because of the fall in oil prices, no transfers to the Heritage and Stabilization Fund will be made in FY2015. A small surplus of TT$328.4 million was realized in the first quarter of FY2015 due to lower than projected expenditures.

Outlook for 2015

The recent decline in energy prices and a precarious global outlook presents a major challenge for growth in the short term. The external outlook for 2015 is one of uncertainty as the Chinese economy has slowed, European countries are on the brink of deflating, and the uncertain impact of shale gas on the energy industry may have a long-lasting effect on energy prices. There is little optimism that oil prices will rebound in the short term. Some analysts have projected recovery over the medium term, but with a low chance that prices will return to the elevated levels observed in the past years. Whatever the scenario, depressed oil prices—coupled with falling crude oil production and possible capital expenditure cuts—can compromise the country's growth prospect. On the upside, the construction of the Neal and Massy Mitsubishi dimethyl ether (DME) and methanol plants can provide a boost to the downstream energy sector. DME has applications in transportation fuel (a replacement for diesel), power generation and is considered to be environmentally friendly. In the first phase, the project is expected to produce one million metric tonnes of methanol and one hundred thousand tonnes of DME per year. Other projects in phase two could lead to the

development of downstream industries in plastics manufacturing, polyester fiber and automotive coolants.

The country's external position is likely to weaken in 2015. Trinidad and Tobago is a small open economy with a high dependence on imports. Foreign exchange is thus essential to meeting not only demand from the public but also the needs of the business community. Foreign exchange shortages experienced in the past few years can worsen in 2015. In anticipation of this situation, the Central Bank has injected US$400 million into the market, an amount equivalent to 24 percent of the previous year's total injection. The Central Bank has assured more frequent and sizable injections during the year. Although the country has a hefty stock of international reserves, some caution should be exercised when drawing down reserves, especially in a context of uncertainty in energy markets. The balance of payments can be affected as the terms of trade decline with falling oil prices.

The fiscal impact may be tempered by expenditure cutbacks and savings on fuel subsidy. The government has announced that it will maintain the budgeted deficit in 2015 despite a shortfall in revenues of TT$7.5 billion. The reduction in expenditure, which includes reducing spending and cutbacks from selected government ministries, are being finalized. While this approach may hold for the short term, further adjustments to the composition of government's expenditure would be necessary to restore fiscal balance and robust growth in the medium term.

Monetary policy is steadily moving away from its accommodative stance. The Central Bank increased the repo rate from 2.75 to 3.75 in the past 8 months. Higher domestic interest rates are important as inflation has increased in the past year and with the economy approaching full capacity. In addition, higher interest rates can slow aggregate demand and imports in the coming months, which could help ease demand pressures for foreign exchange. The main challenge, however, is that excess liquidity and a weak monetary transmission mechanism may complicate the tightening process.

The Initial Public Offering of an energy firm is expected to come to market in 2015. The National Gas Company of Trinidad and Tobago Limited (NGC) is set to launch an IPO for the sale of shares of Trinidad and Tobago LNG NGL Limited which is a wholly owned subsidiary of NGC that holds 39 percent shareholding in Phoenix Park Gas Processors Limited (PPGPL). The government anticipates that the proceeds from this IPO would help to ease some fiscal pressures for the economy in 2015.

A Multi-Donor Energy Facility for Caribbean Sustainability was proposed by the Prime Minister of Trinidad and Tobago at the First Caribbean Energy Security Summit in Washington, DC. The aim of the fund is to transform the energy matrix in the Caribbean. The target fund under discussion with the IDB is US $1 billion, with comprehensive international participation being a trigger for Trinidad and Tobago's commitment.

Political parties are gearing up for general elections. The election is expected to be held before September 2015. The main opposition party has begun to screen candidates and the incumbent ruling Peoples Partnership coalition is expected to do the same in coming months.

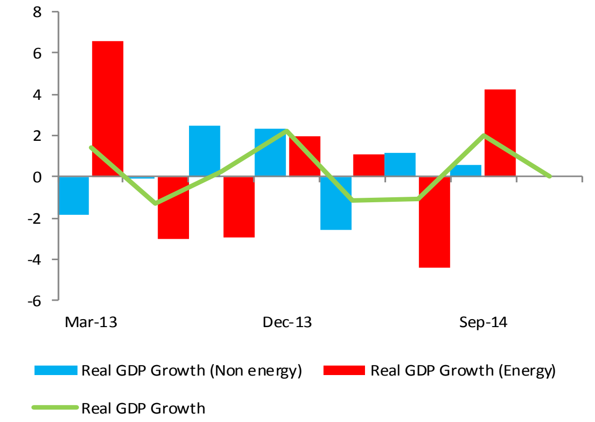
Conclusion

Falling energy prices and a precarious outlook for the global economy pose some downside risks 2015. The Central Bank has forecasted a modest real GDP growth rate of 1.5 percent for 2015 on the basis of a recovery of the energy sector. However, the extent of the impact of recent changes in energy prices depends on how long—and how low—oil prices fall. Thus, if energy prices remain depressed over a prolonged period of time, government may not be able to support high levels of expenditure as it did in the past.

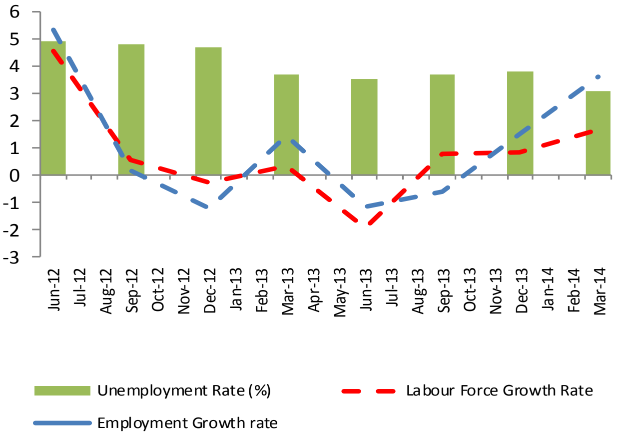
While the authorities have signaled their intention to reduce expenditures on transfers and subsidies, slow implementation continues to retard tangible results. Previous budgets have outlined measures to reduce the dependence on the fuel subsidy by promoting the use of Compressed Natural Gas (CNG), hybrid and electric vehicles, but these are yet to yield tangible results. In addition, the Government has indicated that they would engage the World Bank to undertake a detailed review of social programs to ensure that they become more efficient and effective. While these are noteworthy, moving forward, a greater effort has to be placed on repositioning fiscal policy to strengthen the non-energy sector which is an essential ingredient to placing the economy on a sustainable growth path.

High-Frequency Macroeconomic Indicators				
	Last data	Period	Prior data	Period
Annual GDP growth (%)	1.9	Q3 2014	0.2	Q2 2014
Exports (12-month growth)	-11.1	Q2 2014	-7.4	Q1 2014
Imports (12-month growth)	-6.7	Q2 2014	2.1	Q1 2014
Private sector credit growth (%)	6.7	Jan-Sep 2014	3.2	Jan-Sep 2013
Inflation (% yoy change)	9.0	Nov-14	9.0	Oct-14
Exchange rate (end of period)	6.36	Dec-14	6.34	Nov-14
Unemployment rate (%)	3.1	Mar-14	3.8	Dec-13

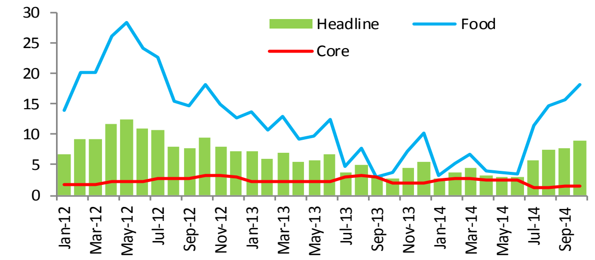
Real economic activity driven mainly by the nonenergy sector



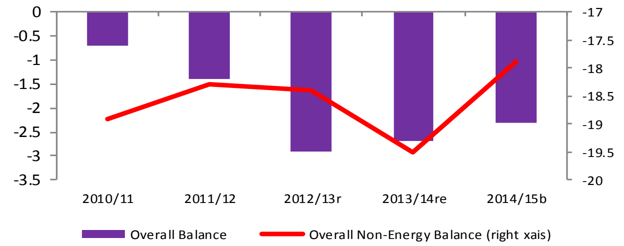
Unemployment continues to decline



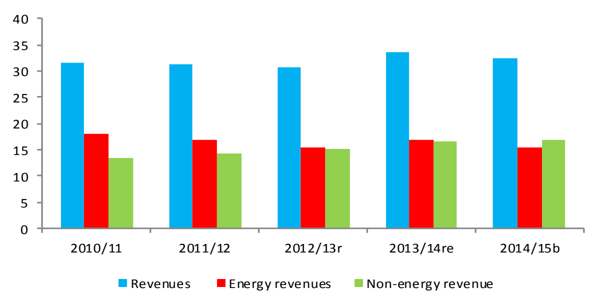
...while food inflation has gained momentum



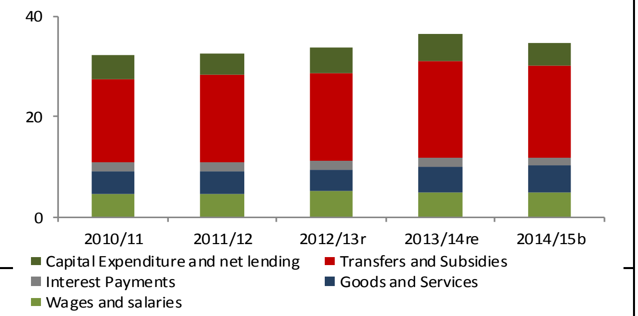
The public sector's fiscal position has been in deficit in recent years



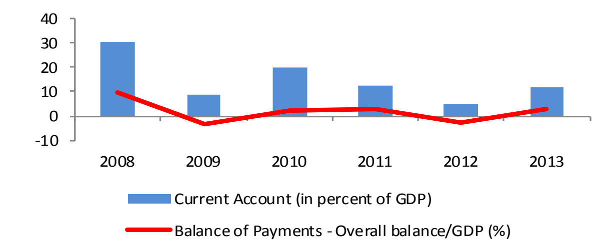
While energy revenue weakened



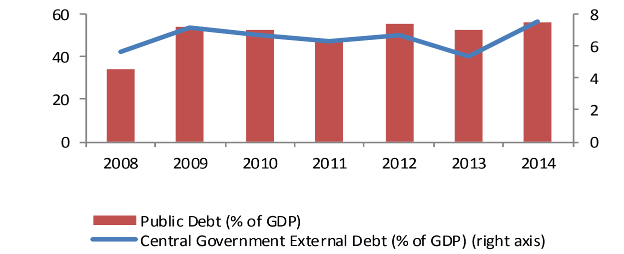
expenditures are increasingly driven by subsidies and transfers..



Current Account Surplus has rebounded ...



External Debt has increased slightly ...



Source: The Central Bank of Trinidad and Tobago.

Trinidad and Tobago: Selected Indicators

	2009	2010	2011	2012	2014 (P)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	-4.4	0.2	-2.6	1.2	0.8
Nominal GDP	-31.3	7.4	13.6	2.1	7.4
Inflation (end of period)	1.3	13.4	5.3	7.2	8.5
External Sector					
Exports of goods and services*	-50.5	21.9	33.0	-13.1	-1.6
of which: oil and natural gas*	-51.8	18.8	34.7	-16.8	-18.2
Imports of goods and services*	-27.1	-6.8	46.2	-4.7	-2.1
Current account (percentage of GDP)	8.5	20.2	12.3	3.9e	10.0e
FDI (percentage of GDP)	3.7	2.7	3.3	3.2	3.8
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central Government**					
Revenue and grants	29.0	34.1	32.6	32.3	32.3
of which: energy revenues	14.3	17.6	18.8	17.4	15.5
Current expenditure	27.7	28.9	28.6	29.1	30.3
Capital expenditure and net lending	6.3	5.0	4.8	4.6	4.4
Primary balance	-2.3	2.7	1.2	0.8	-0.7
Overall balance	-5.0	0.1	-0.8	-1.4	-2.3
Consolidate NFPS balance (incl. CLICO)	-9.0	-3.9	0.0	-0.3	-1.2
Debt Indicators					
Public sector debt^	30.6	35.5	33.4	38.7	39.9
Public sector debt over revenues	105.5	104.1	102.5	122.8	111.5
External public debt (end of period)	7.7	6.7	6.4	6.7	7.3
External debt service as percentage of exports of goods and services	3.70	1.10	0.80	0.90	0.9

Notes: * refers to annual change in value (USD Million); ** 2013 refers to October 2012-September 2013; ^ Non Financial Public Sector Debt. Excludes debt issued for sterilization and since 2012 it includes debt increase due to issue to CLICO debt holders. FDI= foreign direct investment; NFPS= Non-Financial Public Sector. (P) Provisional numbers for 2013.

Source: Central Bank of Trinidad and Tobago, International Monetary Fund 2013 Article IV Press Release, IMF World Economic Outlook, April 2013.

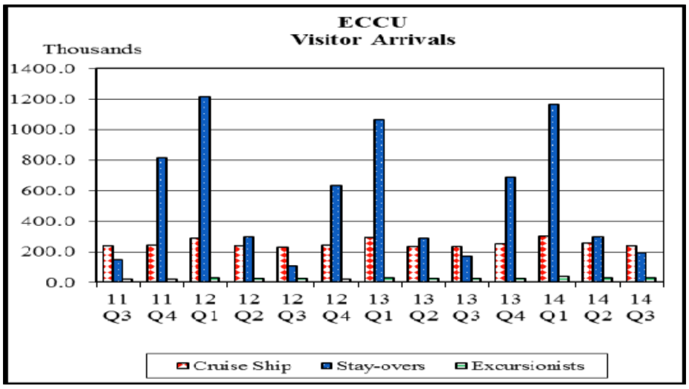
Main Developments in 2014

Economic activity in the Eastern Caribbean Currency Union (ECCU) expanded during the first three quarters of 2014 compared to the same period in 2013, according to the Eastern Caribbean Central Bank's Economic and Financial Review (EFR) for September 2014.

Most member states saw growth with the exception of St. Lucia and St. Vincent and the Grenadines. Growth was driven by stronger tourist arrivals (Figure 1). The hotels and restaurants, transport, storage and communications, and agriculture sectors were dynamic, while contraction was evident in the construction, wholesale, and retail and manufacturing sectors. In St. Lucia, an increase in tourism arrivals was offset by contractions in construction, distribution, and manufacturing. A tropical storm also had an adverse impact on agriculture. In St. Vincent and the Grenadines, the agriculture and construction sectors declined and the country did not see the growth in tourist arrivals reported across other Caribbean islands. While visitors decreased by 1.2 percent in 2014, tourism demand has remained sluggish since the 2009 downturn. The investment on its new airport, currently under construction, aims to provide greater connectivity and reverse this trend by attracting more visitors. Unemployment for the ECCU countries remains high at 20 percent, a reflection that generating jobs remains a challenge.

OECS countries are still recovering from the financial crisis. Member countries were severely affected by financial contagion from the collapse of the Trinidad and Tobago based CLICO Financial group. At the same time, Antigua and Barbuda's financial sector showed vulnerability with the failure of two local banks and one offshore banking institution, which had an adverse effect across the ECCU currency union. The OECS WTO members, which include Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines, have since consolidated their onshore and offshore sectors into one single entity barring domestic banks, and have strengthened regulation and oversight arrangements by the Eastern Caribbean Central Bank.

Figure 1. Total Visitor Arrivals to the ECCU

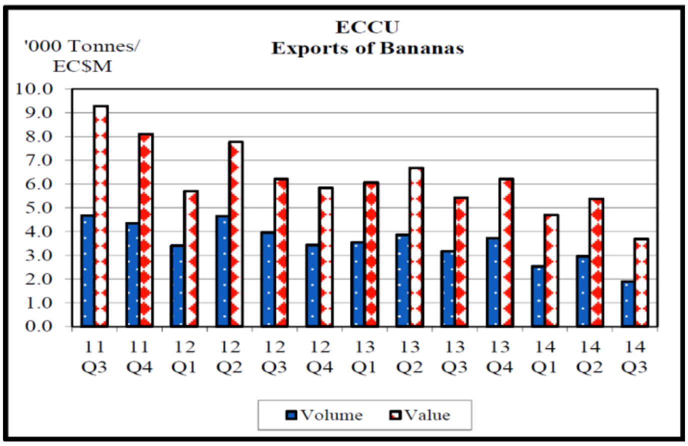


Source: Eastern Caribbean Central Bank Economic and Financial Review, September 2014.

The tourism industry continues its recovery since the 2008 recession. Overall cruise passenger arrivals, which account for 62.3 percent of total arrivals, expanded by 8.8 percent (year-on-year) to 1.7 million and a 2.4 percent increase in the number of cruise ship calls. Overall stopover arrivals expanded 5.6 percent (year-on-year) to 0.8 million, reflecting growth in all member states except St. Vincent and the Grenadines.

Banana production continued its decline as a result of adverse weather conditions and slow recovery from the Black Sigatoga disease (Figure 2). Overall, banana output contracted by about 28 percent (year-on-year), resulting in a 24.3 percent drop in export revenue. However, this was offset by production of other crops, like nutmeg, cocoa, which led to an overall expansion of the agriculture sector.

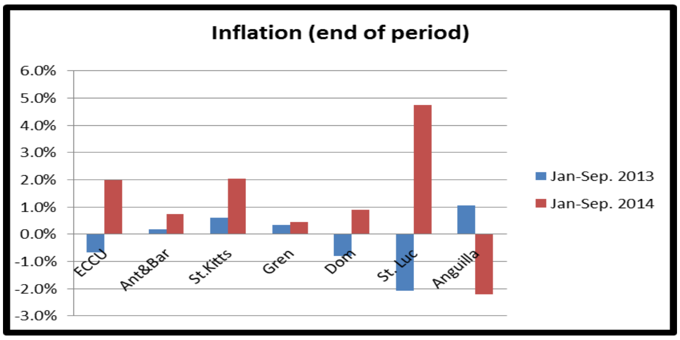
Figure 2. Banana Exports from the ECCU



Source: Eastern Caribbean Central Bank Economic and Financial Review, September 2014.

Inflation has been contained with consumer prices increasing by an average of 2 percent during the first 9 months of 2014, compared with deflation of 0.7 percent for the same period in 2013. St. Lucia experienced the highest inflation, with consumer prices increasing by 4.75 percent in the first 9 months of 2014 (see Figure 3). Key drivers of inflation in St. Lucia included food and non-alcoholic beverages, which saw a 4.3% increase, and housing utilities and gas that saw a 4.2% increase.
The decision to remove subsidies for basic food items may have contributed the above average inflation.

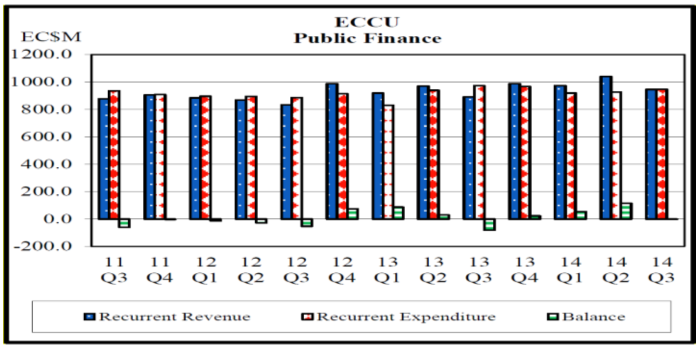
Figure 3. Inflation in the ECCU



Source: Eastern Caribbean Central Bank Economic and Financial Review, September 2014.

Higher revenue inflows and lower capital spending led to a roughly 50 percent narrower fiscal deficit at ECD143.6MM (or US$53.2 MM). The primary balance reverted to a surplus position of ECD216.8 million (**or US$ 80.33 million)** (Figure 4). Despite these positive developments, the level of total public sector debt expanded by 0.4 percent year-to-date in September 2014 to just over ECD13.1 billion. Central government domestic debt grew by 4.2 percent and external debt by 1.1 percent, tempered by an almost 12 percent decline in public corporations' debt stock.

Figure 4. Overall Fiscal Balance in the ECCU



Source: Eastern Caribbean Central Bank Economic and Financial Review, September 2014.

Domestic credit continued to contract by 4.7 percent during the first nine months of 2014, up from 2.9 percent during the same period in 2013, as net credit to both the private and public sectors declined.

Outlook for 2015

The Eastern Caribbean Central Bank forecasts economic performance to improve in 2015, given positive developments in the major sectors of the economy, primarily hotels and restaurants, transport, storage and communications, and agriculture, but tempered by the ongoing contraction in construction and wholesale and retail trade.

Recovery in the largest tourism source markets for the ECCU would benefit the region. Economic recovery in the United States and the United Kingdom along with increased airlift and room stock are likely to support greater travel to the region, with longer stays and higher spending. Room stocks are increasing with the (re)opening of the Sandals Resort in Grenada and various projects in St. Kitts and Nevis. Airlift is increasing with a new Delta Airlines route from Atlanta to Grenada and British Airways' announcement of additional flights to Antigua and Barbuda over the summer of 2015.

Non-banana agricultural production is expected to improve. Output in the manufacturing sector is likely to remain subdued, whereas activity in transport, storage, and communications would see a positive impact from stronger tourism activity.

The ECCU will benefit from lower international fuel prices. The drop in oil prices is benefitting the countries of the OECS even with the respective decline in PetroCaribe support. The drop in oil prices reduced the fuel import bill and contributed to lower current account balances. or those member countries of PetroCaribe (Antigua, Dominica, Grenada, St. Kitts and Nevis and St. Vincent and the Grenadines) , there will be less support from the arrangement and the favorable financing terms, but the net impact will be positive. (See Figure 5) The private sector would benefit from greater disposable income, lower input costs, and greater profits. Countries that have built greater buffers will be in a better position to adjust public finances to these changes, like St Kitts and Nevis, while those with less fiscal space may see an impact on public finances, like Dominica and Grenada.

Upon successful completion of the review, a tranche of SDR 2 million was made available to the government of Grenada.

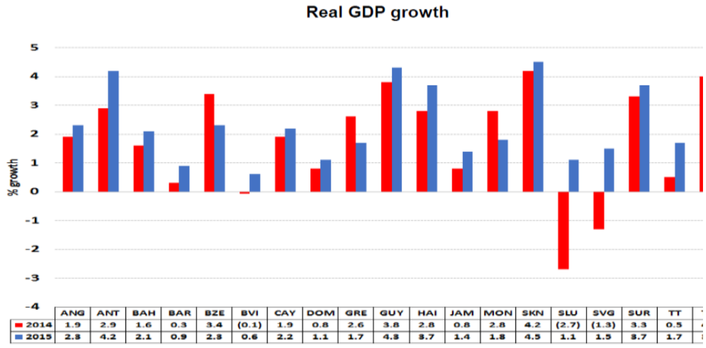
Figure 5. Impact of change in oil Prices with PetroCaribe.

Contingent Fiscal Effort in 2015 (Percent of GDP)				
Petrocaribe:	Continues			Stops
	Decrease in oil Trade Deficit (A)	Decrease in petrocaribe Financing (B)	Improvement in External Position (A-B)	
Antigua	5.1	1.3	3.8	3.1
Dominica	2.2	0.4	1.8	0.6
Grenada	3.1	0.8	2.3	1.7
St. Kitts & Nevis	1.9	0.7	1.2	0.5
St. Lucia	1.5	0	1.5	1.5
St. Vincent & Grenadines	1.8	0.7	1.1	0.4

Source: IMF Estimates

The Caribbean Development Bank recently issued its projections for the Caribbean, expecting positive growth for all member countries. As such, CDB expects that economic output will expand in 2015. Barbados, St Lucia and Dominica will see positive growth, but on the lower side close to 1%. The weak demand for tourism services in these countries would contain growth, which would be offset by greater private economic activity as a result of lower fuel prices. (Figure 6)

Figure 6. Caribbean Development Bank Growth Projections, 2014 and 2015



Source: CDB – 2014 latest estimates, 2015 projections

The IMF and OECS member countries

In June 2014, the International Monetary Fund approved a home-grown reform program in Grenada. The IMF reports that the pace of recovery is stronger than anticipated, with projected growth of more than 2 percent in 2014–15. Grenada has exceeded the programs' target for reduction of the primary fiscal deficit, with the country successfully completing the first review under the Extended Credit Facility in December 2014.

Countries implementing citizenship-by-investment programs are benefitting from higher public sector investment and FDI. In St Kitts and Nevis strong inflows under the program have led to expansion in construction and growth. This could improve the growth outlook for Antigua & Barbuda and Dominica. Both are currently implementing new citizenship programs and could see increases in private inflows during the year.

St. Kitts and Nevis successfully completed the ninth and final review under a 36 month Stand-By Arrangement in September 2014. The IMF reported that the country made substantial progress from its initial crisis position in 2010. Growth recovered after a four-year contraction and by January 2015, St Kitts paid ahead of schedule 26% of its obligations to the IMF. The prepayment brought public debt to 80% of GDP, which is a significant improvement when compared to levels at around 159.3 of GDP (2010) prior to the adjustment program. The result of both policy efforts and strong inflows under the Citizenship program improved the fiscal balance from a 7.6 percent deficit to a surplus of 12.3 percent of GDP during 2010-13.

OECS countries with elections in the near future include St. Lucia, whose next election is constitutionally due in November 2016 and St. Vincent and the Grenadines, whose next election is due in December 2015. The elections in St. Kitts are still awaiting results amidst allegations of irregularities.

Conclusions

The OECS countries face challenges in 2015. These include high unemployment, declining agricultural output for some countries, and high levels of public debt. However, there is cause for cautious optimism as the tourism industry would continue to recover. Being net energy importers, the OECS countries could also benefit from continued lower oil prices. Furthermore, OECS countries have indicated a willingness to undertake strong macroeconomic reforms, and are undergoing adjustment programs that could unlock future growth, bring fiscal sustainability over the medium term, and improve the competitiveness of the private sector.

IDB Inter-American Development Bank

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