



# 2014 Caribbean Economic Review & Outlook for 2015



## PURPOSE

“The purpose of the Bank shall be to contribute to the harmonious economic growth and development of the member countries of the Caribbean (hereinafter called the region) and to promote economic cooperation and integration among them, having special and urgent regard to the less developed members of the region”

*Article 1 – Agreement Establishing the Caribbean Development Bank*

## MISSION STATEMENT

CDB’s Mission is to be the leading catalyst in the reduction of poverty through the inclusive and sustainable development of our BMCs by mobilising development resources in an efficient, responsive and collaborative manner with accountability, integrity and excellence.

## CDB's MEMBERS

### Regional BMCs

 Anguilla	 Guyana
 Antigua and Barbuda	 Jamaica
 The Bahamas	 Haiti
 Barbados	 Montserrat
 Belize	 St. Kitts & Nevis
 British Virgin Islands	 St. Lucia
 Cayman Islands	 St. Vincent and the Grenadines
 Dominica	 Suriname
 Grenada	 Trinidad & Tobago
 Turks & Caicos Islands	

### Other Regional

 Colombia	 Venezuela
 Mexico	

### Non-regional

 Canada	 Italy
 China	 United Kingdom
 Germany	



# International Context

## The World economy continued its gradual recovery, while inflation slowed further.

Global economic output expanded by an estimated 3.3% in 2014, the same as in 2013, according to the January 2015 update to the International Monetary Fund (IMF) World Economic Outlook. Growth continued to be driven by emerging and developing economies, especially China and India, but there were some improvements among advanced economies as well.

Growth in the United States (US) increased from 2.2% in 2013 to 2.4% and, as an upshot, unemployment fell, while inflation remained low.

The combined Euro area experienced a return to positive growth (0.8%), although within this Germany grew by 1.5%, while Italy continued to contract, by 0.4%. Domestic demand continued to increase in advanced economies, where unemployment rates fell – even in the Euro Area, although this was still higher than other advanced economies, reflecting uncertainty about the future of the single currency and fear of deflation.

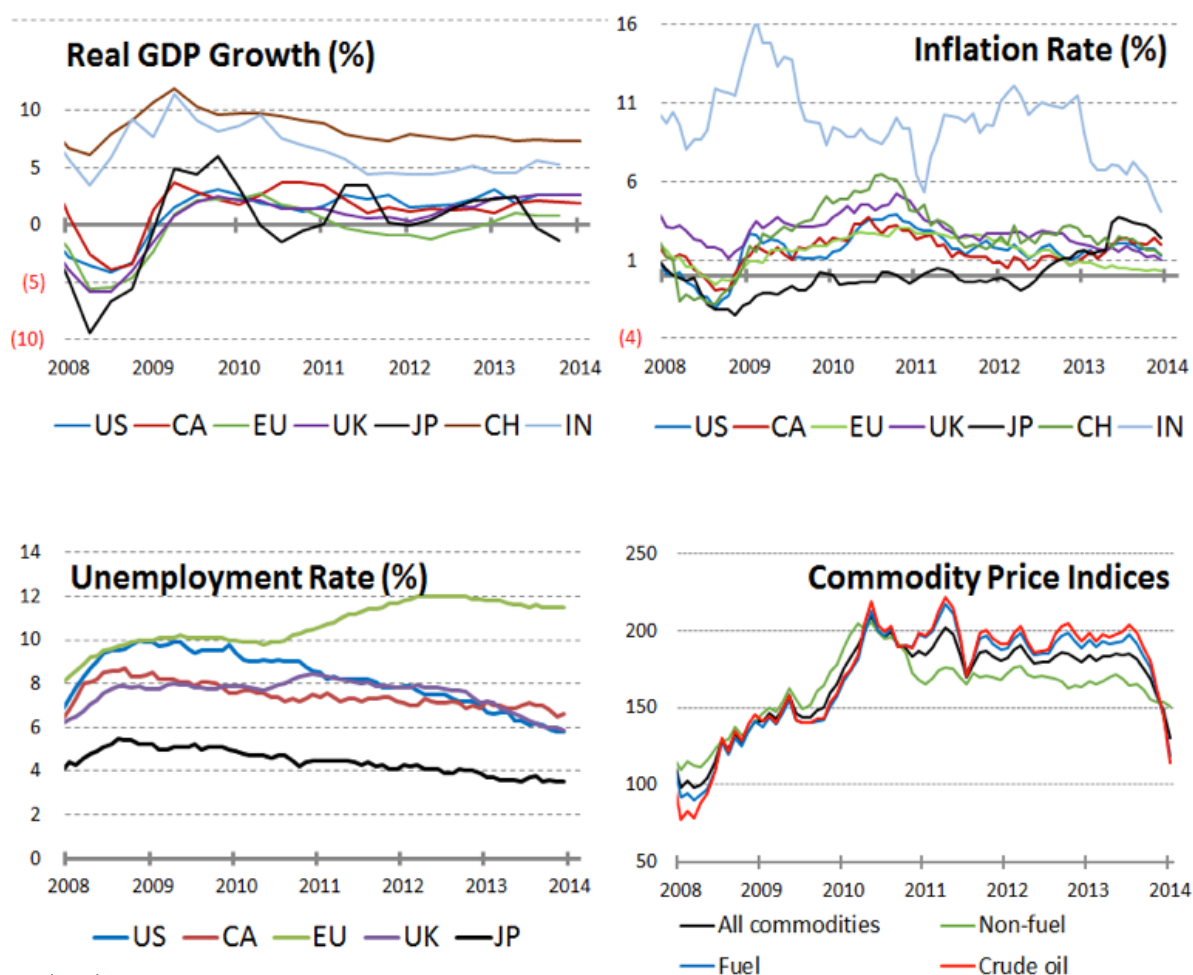
Inflationary pressures remained low globally, driven by falls in commodity prices, especially the 40% fall in the price of crude oil during the year. Monetary policy in advanced economies

therefore remained largely accommodative. The US Federal Reserve ended its quantitative easing programme in October, but interest rates were kept low there and elsewhere, including in the United Kingdom. Figure 1 presents growth, unemployment and inflation rates for advanced economies, which are the major trading partners of CDB's borrowing member countries (BMCs), as well as trends in international commodity prices.





Figure 1: Key Global Macroeconomic Indicators



# Regional Economic Developments



## OVERALL GROWTH PERFORMANCE

**Preliminary estimates indicate that the regional recovery continued in 2014, with 16 of CDB's 19 BMCs expanding during the year, driven mainly by tourism and construction services.**

As seen in Figure 2, the fastest growth rates were estimated for the more tourism-dependent economies; while some large commodity exporters were also able to grow quite rapidly, this was primarily services-led.

St. Kitts and Nevis and the Turks and Caicos Islands (TCI) each experienced accelerated growth of around 4%, based on the strengthening recovery in tourism and continued investment inflows for mainly tourism and real estate-related construction.

Meanwhile, despite declines in mining and quarrying output in Belize, Guyana and Suriname, all three recorded growth rates in excess of 3%, led by construction and other services. Also primarily a commodity exporter, Haiti's growth performance fell slightly below this level, mainly due to a large drought-related contraction in agricultural output, but was similarly boosted by ongoing post-earthquake reconstruction and, to a lesser extent, tourism.

Moderate gains (between 1 and 3%) in services-dependent Anguilla, Antigua and Barbuda, The Bahamas, Cayman Islands, Grenada and Montserrat were likewise linked to the

general improvement in tourism and, for all except Grenada, construction. Relatively modest increases of just under 1% were estimated for Dominica and Jamaica, but these nevertheless represented improvements when compared with 2013. In these two economies, which are somewhat more diversified than other regional tourism destinations, with relatively large commodity export sectors (21 and 22%, respectively, of GDP), expansions in tourism and construction outweighed declines in manufacturing and slowdowns in mining and quarrying, as well as a slight contraction in agriculture for Dominica.





Figure 2: Growth (%) in Real Output, 2008-2014\*

BMC	Weight	2008	2009	2010	2011	2012	2013	2014
ANG	0.4%						0.4	1.9
ANT	1.7%						1.8	2.9
BAH	12.6%						1.9	1.6
BAR	6.5%						0.2	0.3
BZE	2.2%						1.5	3.4
BVI	1.4%						(0.0)	(0.1)
CAY	4.9%						1.5	1.9
DOM	0.7%						(0.6)	0.8
GRE	1.1%						3.1	2.6
GUY	3.0%						5.2	3.8
HAI	7.2%						4.2	2.8
JAM	17.9%						0.2	0.8
MON	0.1%						2.3	2.8
SKN	0.9%						1.9	4.2
SLU	1.7%						(2.3)	(2.7)
SVG	1.0%						2.4	(1.3)
SUR	4.9%						2.9	3.3
TT	30.9%						2.1	0.5
TCI	1.0%						3.0	4.0
<b>Weighted Average</b>		<b>1.1</b>	<b>(3.6)</b>	<b>(0.5)</b>	<b>0.5</b>	<b>0.8</b>	<b>1.7</b>	<b>1.3</b>
<b>Simple Average</b>		<b>1.8</b>	<b>(4.5)</b>	<b>(1.1)</b>	<b>1.5</b>	<b>0.7</b>	<b>1.7</b>	<b>1.8</b>

Sources: national statistics offices, central banks and CDB

\*Data for 2008-13 are official data provided by BMCs, while data for 2014 are preliminary CDB estimates





However, there were a few exceptions to the ongoing strengthening of the recovery in the Region. Most notably, Trinidad and Tobago, which accounts for nearly a third of the Region's total GDP and therefore weighs heavily on overall regional growth, slowed considerably to record modest growth in 2014. Operational challenges and the significant drop in oil prices during the year suppressed petroleum output, driving a decline in the mining and quarrying sector.

In a few other BMCs, continued underperformance in key sectors contributed to flat or declining economic activity.

Barbados and the British Virgin Islands (BVI) stagnated for the seventh consecutive year in 2014. Marginal growth was estimated for Barbados, as weak performances in tourism, international business and construction scarcely compensated for declines in manufacturing and agriculture.

Preliminary estimates of a slight contraction in economic activity in BVI were based on indications of a significant decline in construction, as well as moderate downturns in other major sectors including international business, which outweighed relatively strong growth in tourism.

Meanwhile, sizeable economic contractions in St. Lucia and St. Vincent and the Grenadines in 2014 partly reflected the impact of the so-called Christmas Eve Trough just before the start of the year, which exacerbated pre-existing, chronic weaknesses in critical sectors. In St. Lucia, the impact of the storm on agriculture, together with a continuation of declines in construction, distribution and manufacturing observed in most years since 2009, offset relatively strong growth in tourism.

On the other hand, manufacturing provided the main positive impetus in St. Vincent and the Grenadines, as agriculture contracted sharply due to the storm and drought impacts in

the second half of the year, while tourism continued its secular downtrend of recent years and construction declined.

Overall, the Bank's preliminary estimate of growth in real Gross Domestic Product (GDP) for the Region in 2014 was 1.3%. While this was lower than the revised<sup>1</sup> figure of 1.7% for 2013, this was mainly due to the critical supply challenges and sharper-than-expected drop in prices of key commodities, which constrained performances among the Region's 5 major commodity exporters<sup>2</sup>. The latter remained the principal contributors to overall growth, owing to their generally greater weighting in regional GDP.

## SECTORAL PERFORMANCE

**The ongoing recovery in tourism appears to have strengthened in 2014, with almost all regional destinations recording increased visitor arrivals.**

As both regional and extra-regional source markets continued to recover, and with improved airlift capacity and intensified marketing by BMCs, stay-over arrivals increased across most of the destinations for which data were available. However, the high cost of intra-regional travel and ongoing challenges in regional air carrier operations continued to weigh on outturns in destinations like Barbados and St. Vincent and the Grenadines that depend heavily on the regional market. In effect, as shown in Figure 3a, St. Vincent and the Grenadines was the only BMC reporting a decline, while most other destinations reported higher growth in arrivals than in 2013.

Figure 3a: Growth (%) in Stay-Over Arrivals 2008-2014\*

BMC	2008	2009	2010	2011	2012	2013	2014	Data to
ANG							2.2	Nov
ANT							2.5	
BAH							3.5	Jul
BAR							0.2	Nov
BZE							9.2	
BVI							3.0	Nov
CAY							10.8	
DOM							3.7	
GRE							18.4	
GUY							n.a.	n.a.
HAI	n.a.	n.a.	n.a.	n.a.	n.a.		10.8	
JAM							3.6	
MON							13.5	Oct
SKN							3.1	Aug
SLU							6.1	
SVG							(1.2)	Nov
SUR			n.a.				1.4	Jul
TCI	n.a.	n.a.	n.a.	n.a.	n.a.		40.6	Nov

Sources: Caribbean Tourism Organisation \*2014 figures are as at month indicated.

<sup>1</sup> Preliminary estimate in CDB's 2014 Annual Report was 1.5%.

<sup>2</sup> The BMCs classified as commodity exporters are those for which agriculture, mining and quarrying and manufacturing represent more than 25% of overall GDP: Belize, Guyana, Haiti, Suriname and Trinidad and Tobago.

Figure 3b: Growth (%) in Cruise Passenger Arrivals 2008-2014\*

BMC	2008	2009	2010	2011	2012	2013	2014	Data to
ANT						(6.1)	(2.2)	
BAH						6.2	2.9	Oct
BAR						10.2	(2.3)	Nov
BZE						5.7	42.9	
BVI						(5.9)	1.4	Nov
CAY						(8.7)	17.0	
DOM						(13.4)	24.3	
GRE						(18.7)	19.2	
HAI	n.a.	n.a.				5.5	2.9	
JAM						(2.4)	12.5	
SKN						9.4	16.9	Aug
SLU						3.9	8.0	
SVG						7.8	6.3	Nov
TCI	n.a.	n.a.	n.a.	n.a.	n.a.	15.1	24.8	

Sources: Caribbean Tourism Organisation  
 \*2014 figures are as at month indicated.

Data on cruise passenger arrivals (see Figure 3b) also provided supporting evidence of a strengthening recovery in tourism activity in the Region, with most destinations reporting significant improvements as cruise operators shifted itineraries from the Mediterranean to the Caribbean in 2014.

Given that the stay-over segment of the industry is the major contributor to value-added in most BMCs, and consistent with these figures, tourism output is estimated to have increased in all BMCs except St. Vincent and the Grenadines, although Barbados' performance was also relatively weak.

**The continued expansion in construction activity in most BMCs was primarily led by the private sector.** Much of it related to tourism and other commercial development, particularly in Anguilla, Antigua and Barbuda, The Bahamas, Belize, Guyana, St. Kitts and Nevis and TCI, and it was mainly driven by foreign direct investment (FDI) inflows, which were strongly influenced by the Citizenship by Investment (CBI) programme in the case of St. Kitts and Nevis.

In Trinidad and Tobago there was significant domestic private sector investment in commercial developments, including several hotel and shopping centres. Anguilla, Belize and Guyana saw continued solid growth in residential building as well.

Growth in construction was also stimulated by public sector capital investment in several BMCs, including, Belize, Dominica, Guyana, Haiti, Suriname and Trinidad and Tobago. In some cases this was boosted by unanticipated reconstruction work following weather-related challenges and/or pre-election spending, for example in Belize, Dominica and Trinidad and Tobago.

Conversely, for the few BMCs that experienced relatively low growth and/or notable growth decelerations or declines in overall economic activity, weak construction outturns were a major contributory factor. In turn, the underperformances in construction reflected fiscal constraints and poor public sector project implementation, as well as generally depressed

economic conditions.

**There were mixed performances in manufacturing, with three of the top five manufacturers in the Region showing moderate-to-strong growth and two declining.** Trinidad and Tobago accounts for over 60% of the regional manufacturing sector. Solid expansion in the non-petroleum segment of the sector was boosted by the economic recovery in the rest of the Region, which heightened demand for its export products, including food, beverages, chemicals and especially cement, consistent with the uptrend in construction.

Haiti and Guyana were the other two major manufacturers that posted growth. In Haiti this was primarily driven by continued growth in the export of apparel to the United States facilitated by special trade preferences under US laws, namely the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act (as amended in 2008) and the 2010 Haiti Economic Lift Programme (HELP) Act.

In Guyana, manufacturing growth was led by a significant rebound in sugar production, as well moderate increases in rice milling and various aspects of light manufacturing.

However, Jamaica and Suriname, the second and third-largest manufacturers in the Region, respectively, both recorded declines in manufacturing that were linked to the general downturn in mining activity.

For Jamaica this was largely on account of a reduction in refining of (imported) petroleum, while in the case of Suriname this was mainly related to a reduction in gold processing.

**Outturns also varied widely in agriculture, as some of the major agro-producers experienced robust growth, whereas adverse weather conditions and crop disease negatively affected others.**

Agriculture in Guyana, which represents over 20% of that country's GDP and makes up more than 10% of total regional production in the sector, recorded the highest rate of expansion.

Moreover growth accelerated, with rice production levels increasing moderately yet continuing to set new records, while sugarcane output recovered firmly enough to meet production targets after an extended slump, as chronic operational challenges eased.

Belize, where agriculture is also a significant component of overall output, likewise had a relatively strong outturn, despite declining output of bananas and papayas. This was driven by significant rebounds in sugarcane (reflecting more favourable weather conditions than in 2013 and an extended sugar crop period) and citrus, together with increased output in livestock, fishing and forestry.

Jamaica notably accounts for more than a quarter of regional production in the sector, although agriculture is only 8% of its fairly diversified economy; sectoral activity rallied in 2014 following a drought-related contraction in 2013. On the other hand, Haiti, which produces nearly a third of the Region's agricultural output, and where agriculture accounts for just below a fifth of total GDP, saw a moderate decline in agriculture due primarily to drought impacts.

Agriculture also remains a mainstay of economic activity in Dominica and Suriname. Black Sigatoka leaf spot disease continued to affect the banana industry in Dominica, leading to a small decrease in overall agriculture, while in Suriname, the sector is estimated to have recovered partially from a precipitate decline in 2013, posting a marginal decrease in 2014 based on the privatisation of banana production at the beginning of the year.

**Further declines in international commodity prices in 2014 caused mining and quarrying output to fall or slow among the main producers.** Continued declines in petroleum extraction were estimated for Belize, Suriname and Trinidad and Tobago, reflecting ongoing reserve depletion in the first two and continued maintenance in the latter, in addition to the general impact of the sharp drop in oil prices.

Bauxite production continued to decline in both Guyana and Suriname, while growth in alumina output in Jamaica slowed, as lower prices signalled reduced global demand. Gold mining output was also estimated to have fallen in Guyana and Suriname, notwithstanding continued direct investment in the sector, as prices fell further.

However, the general uptrend in construction boosted demand for quarrying outputs such as sand, stone and aggregate, resulting in growth in mining and quarrying in several smaller BMCs, including Anguilla, Dominica, Montserrat and St. Kitts and Nevis.

## EMPLOYMENT AND PRICES

**Labour market conditions were largely a reflection of the general improvement in real sector activity, with unemployment rates falling in several BMCs, while inflationary pressures generally eased further in line with international commodity prices.**

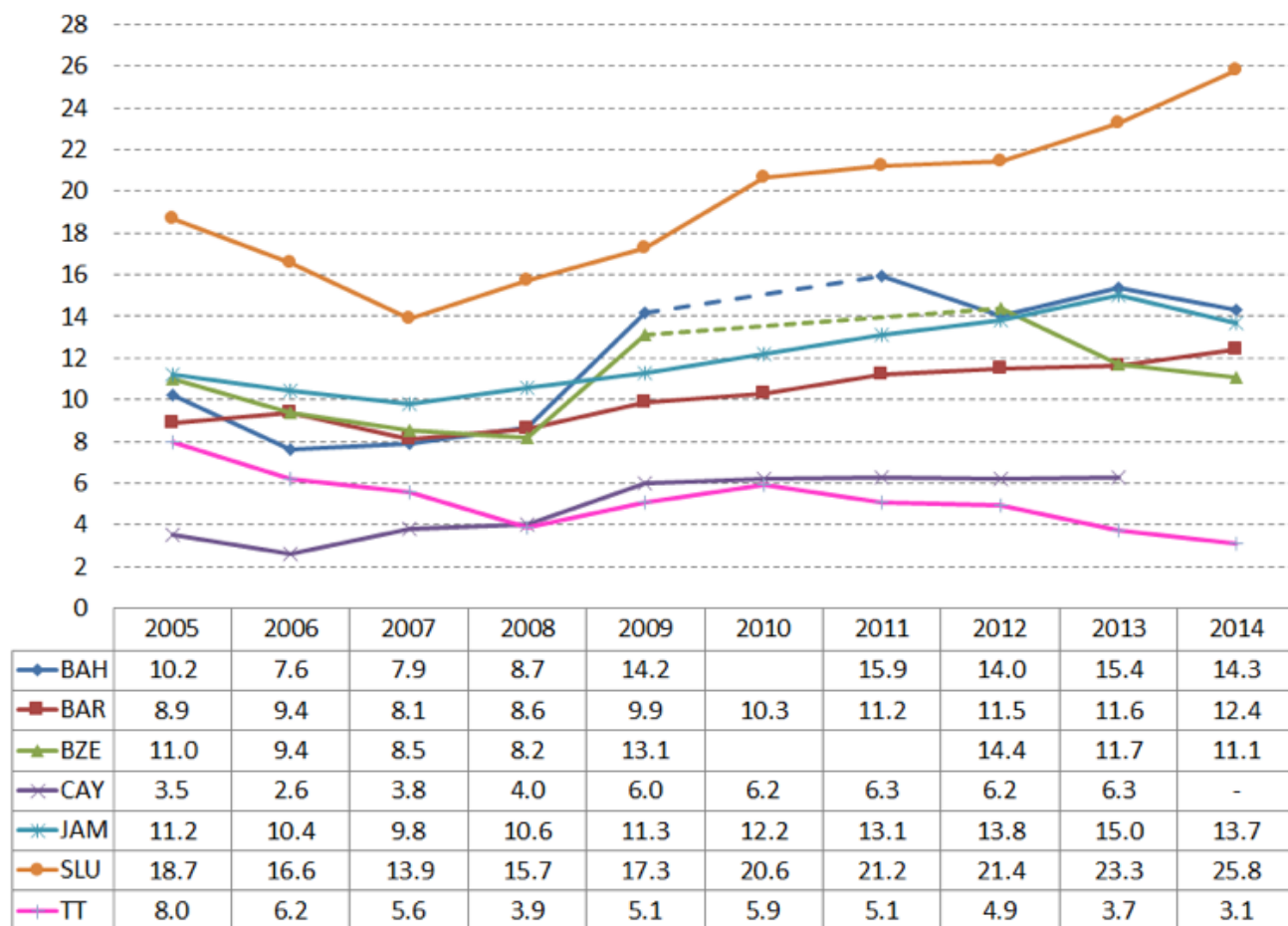
The BMCs for which 2014 labour force data were available (see Figure 4) continued to report double-digit rates of unemployment. Nevertheless, unemployment fell in The Bahamas, Belize and Jamaica, in keeping with overall economic performance. In contrast, the figures for Barbados and St. Lucia represented significant deteriorations, which were likewise consistent with weak economic activity in both economies, as well as the impact of public sector lay-offs under Barbados' fiscal adjustment programme. Anecdotal evidence indicates that labour market conditions in the rest of the Region similarly moved in step with real sector performance.

Also contributing to the general improvement in socioeconomic conditions, average inflation for the Region was estimated at 2.3% in 2014, slightly below the 2013 average, as consumer prices in most regional economies continued to moderate with the decline in international commodity prices.





Figure 4: Annual Average / Mid-year Unemployment Rates, 2005-14



Sources: national statistics offices, central banks

Notes: Rates for The Bahamas, Belize, Cayman Islands and St. Lucia are as at mid-year. Rates for Barbados, Jamaica and Trinidad and Tobago are annual averages. 2014 rate for Trinidad and Tobago is as at March.

## EXTERNAL PERFORMANCE

**Outturns in relation to foreign exchange reserves were mostly positive, providing adequate import cover, in line with balance of payments (BOP) outturns.**

Preliminary indications are that external current account balances in most BMCs were positively influenced by the strengthening recovery in tourism, in terms of travel receipts, as well as continued inflows of remittances.

However, the reduction in international commodity prices had both positive and negative effects on merchandise trade balances, reducing import bills in most BMCs, but also curtailing export proceeds among major commodity exporters. There were indications that most BMCs benefited from increases in FDI, particularly for tourism-related construction.

Consequently, foreign exchange reserves (see Figure 5) rose in The Bahamas, Belize, the ECCU, Jamaica and Trinidad and Tobago, representing significant turnarounds in performance in The Bahamas and Jamaica relative to deteriorating reserve

positions in 2013. Reserves fell once again in Barbados, Guyana, Haiti and Suriname. Most BMCs continued to hold reserves in excess of the international 3-month/12-week benchmark.

Among the floating currencies in the region, the Guyana dollar and the Trinidad and Tobago dollar remained relatively stable (depreciating and appreciating, respectively by around 1%). Fluctuations in the Haitian gourde and Jamaica dollar were larger in comparison, but nevertheless represented some degree of stabilisation.

The depreciation in the Haitian gourde was of a similar magnitude to the 3.4% decline recorded in 2013, as the diminishing trend in official transfers and capital inflows related to post-earthquake reconstruction was partially offset by growth in remittances.

The Jamaica dollar continued to depreciate, but at a much slower rate than in 2013 (7.8% versus 14.4%), reflecting mounting confidence in the economy partly underpinned by the country's performance under a programme supported by international financial Institutions (IFIs), as well as improvements on the BOP, including a net decline in imports and strong growth in travel receipts and remittances.

Figure 5: Annual Change in Net International Reserves (%) 2007-2014\*

	2007	2008	2009	2010	2011	2012	2013	2014
BAH							-16.3	16.1
BAR							-12.6	-8.3
BZE							38.5	19.6
ECCU							31.4	31.8
GUY						-9.0		-13.2
HAI						-12.4		-13.6
JAM						-6.9		91.1
SUR						-23.1		-19.8
TT							-6.8	21.6

Sources: Regional central banks, CDB calculations

## MONETARY DEVELOPMENTS AND FINANCIAL STABILITY

**Monetary policy for the most part diverged in line with the two types of exchange rate regimes being operated in the Region.**

Central banks in fixed exchange rate economies generally kept interest rates low in an effort to support the ongoing economic recovery, as inflation remained subdued.

The Central Bank of Suriname remained an outlier, maintaining its restrictive monetary policy stance in an effort to curb rising inflationary pressures and preserve stability in the domestic economy, particularly with respect to the exchange rate, which has remained fixed since a realignment in 2011. Against a backdrop of falling gold prices and domestic demand pressures, this contributed to a slight deceleration in private sector credit growth in 2014 from the high levels in the previous year and eased the build-up in liquidity.

In general, however, given the limited potency of monetary policy in such regimes, credit growth was primarily driven by sectoral developments in these economies.

Among the central banks with active monetary regimes supporting floating exchange rates, most either maintained or adopted a less accommodative policy stance in 2014 than in previous years.

In Haiti, for example, a large fiscal deficit and high private sector credit growth led the central bank to further tighten monetary conditions to quell incipient exchange rate volatility, avert potential inflationary pressures and curtail increasing dollarisation of credit.

Meanwhile, notwithstanding low inflation and relatively modest growth in economic activity, the Central Bank of Trinidad and Tobago began to rein in its previously expansionary monetary policy toward the end of the year. This move was informed by

continued high levels of excess liquidity, signs that the petroleum sector was recovering and likely to strengthen further, as well as rising private sector credit, which were contributing to a pick-up in inflationary pressures.

The Bank of Guyana also tightened its monetary policy settings somewhat during the year, contributing to very low inflation, but liquidity conditions still remained adequate for supporting the ongoing credit expansion and economic growth.

On the other hand, the Bank of Jamaica maintained its accommodative monetary policy stance, which influenced declines in nominal market interest rates. Credit growth nevertheless slowed substantially, amid continued, albeit more gradual, depreciation of the Jamaica dollar and growing dollarisation, while inflation slowed but remained above target.

**Regional financial soundness and stability indicators generally exhibited improved compliance with prudential guidelines.** The ECCU indigenous banking sector, however, continued to face critical challenges. Non-performing loans (NPLs) remained high in several other BMCs, but were improving in general, while most institutions appeared to be adequately capitalized and other financial soundness indicators remained within prudential guidelines.

## FISCAL PERFORMANCE AND DEBT

**Fiscal performance deteriorated in five (5) of the nine (9) most highly indebted BMCs, resulting in increased indebtedness, whereas the other four (4) saw marked improvements.**

Revenues grew in all nine economies, reflecting increased efforts to improve tax administration (Grenada) and collect arrears (St. Vincent and the Grenadines), higher VAT receipts due to removal of exemptions and increased rates on selected items (St. Lucia), and the introduction of new taxes, such as on municipal solid waste and on bank assets in Barbados.

Expenditure increased due to unanticipated operating and

capital expenditure following adverse weather conditions in late 2013 (Belize, St. Vincent and the Grenadines). In Dominica, however, notwithstanding rehabilitation spending after the Christmas Eve Trough, expenditure fell from an unusual high the previous year (when interest payments related to a previous debt restructuring were made). Expenditure also fell in St. Lucia, mainly due to capital projects being wound down. In Barbados, there were notable reductions in expenditure on transfers and subsidies, and on wages and salaries, in line with the Government's retrenchment programme.

Overall, despite the general upswing in revenues and lower expenditure in some cases, these five BMCs were unable to achieve surpluses and running these deficits added to these countries' already-high levels of indebtedness. As illustrated in Figure 6, the biggest increases were recorded in St. Vincent and the Grenadines and Barbados; consequently, both were downgraded by credit rating agencies.

On the other hand, the debt burden fell in Antigua and Barbuda, Grenada, Jamaica and St. Kitts and Nevis, with the three latter BMCs improving under IMF fiscal adjustment programmes.

Antigua and Barbuda's improved fiscal performance was accounted for by an increase in tax revenues, together with reductions in key expenditure, which outweighed increases in the wage bill and interest costs, as well as a significant expansion of government's capital spending.

Grenada made good progress under its fiscal adjustment programme, with shrinking primary and overall deficits. However, Grenada's credit rating remained at Selective Default (SD), amid ongoing negotiations on a debt restructuring package.

In Jamaica and St. Kitts and Nevis, lower interest payments following debt restructurings contributed to better fiscal outcomes. Jamaica recorded a small overall surplus in 2013-14 following the previous year's deficit, with the Government on track to meet targets for 2014-15 under the ongoing programme supported by international financial Institutions (IFIs). In St. Kitts and Nevis recurrent revenues grew by 10%, driven largely by increased revenues from the CBI programme. Together with the decline in interest payments, this was sufficient to record both primary and overall surpluses.

Figure 6: Change in Debt/GDP Ratio 2009-2014 and Debt/GDP Ratio, 2014

BMC	Change in Debt/GDP ratio (percentage points)						Debt/GDP ratio 2014
	2009	2010	2011	2012	2013	2014	
JAM						-1.7	140
BAR						3.9	115
GRE						-4.8	109
ANT						-0.9	94
SKN						-16.9	86
SVG						5.5	78
BZE						1.0	77
DOM						0.7	76
SLU						1.6	75
BAH						2.4	65
<b>High Debt</b>	<b>7</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>-1</b>	<b>91</b>
GUY						1.6	58
TT						1.8	42
SUR						-6.7	28
HAI						15.1	25
<b>Low Debt</b>	<b>-2</b>	<b>-9</b>	<b>-9</b>	<b>11</b>	<b>3</b>	<b>3</b>	<b>38</b>

Sources: IMF World Economic Outlook Database, CDB estimates





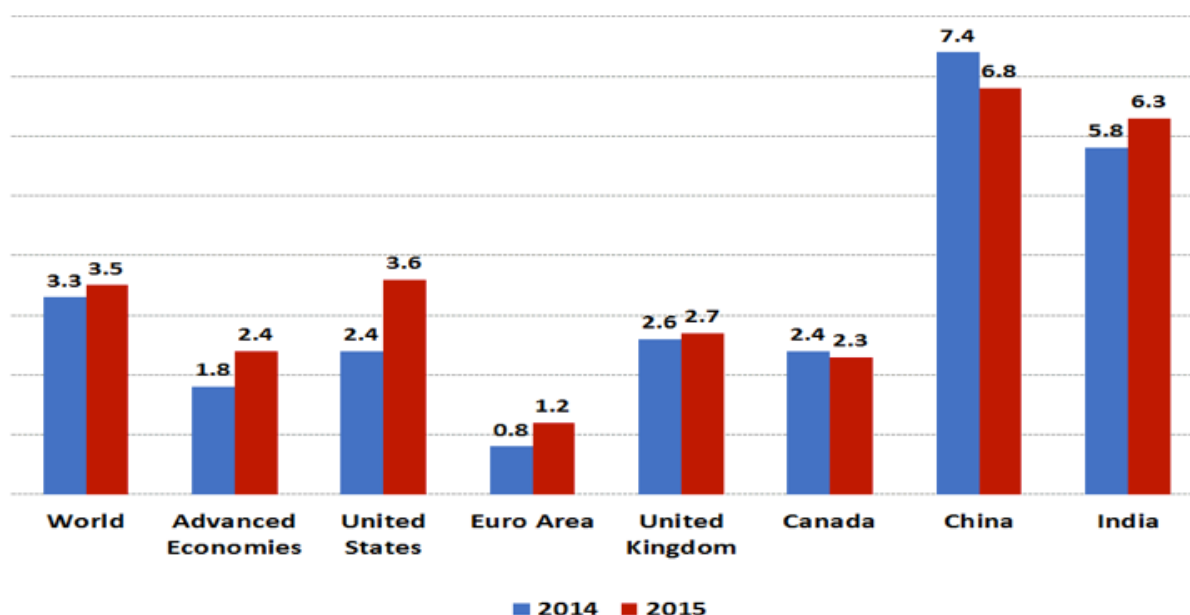
# Outlook

## GLOBAL OUTLOOK

World growth is set to speed up slightly from 3.3% in 2014 to 3.5% in 2015, according to the IMF's January 2015 Update to the World Economic Outlook.

Led by the United States (US), accelerated growth is anticipated in most advanced economies, with the notable exception of the United Kingdom (UK), where growth may be constrained by fiscal tightening. Conversely, emerging and developing economies are generally expected to slow, driven primarily by a further slowdown in China.

Figure 7: Global Growth (%) Estimates for 2014 and Projections for 2015



Sources: IMF World Economic Outlook, January 2015 Update

**Downside risks to the global outlook are increasingly significant in terms of their potential impact, as well as the likelihood that they will materialise.** They include a worsening of current geopolitical tensions (e.g. Middle East, Ukraine, North Korea), global public health concerns (e.g. Ebola) and the risk of a Euro Area break-up.

With regard to the latter, the election of a new Greek government in January 2015 has revived concerns about debt default and/or a Greek exit, or 'Grexit' from the Euro, with potential contagion effects spreading to the rest of the monetary union. Like the other risk scenarios, this raises the possibility of renewed global financial market volatility.

Fundamentally, underlying investor concerns about the implications of a 'Grexit' or Euro area breakup is the continued softness in the Euro area economy. The weak investment climate and market fears of deflation have already prompted the European Central Bank to institute a programme of quantitative easing.

A great deal of uncertainty also surrounds the question of how long the current low commodity prices are likely to persist. This has implications for potential inflation trajectories in 2015, with the impact of possible monetary policy responses on economic activity circling back to affect the growth outlook. Indeed, despite inflationary pressures being well contained at present, the United States' Federal Reserve has hinted at a rate hike in 2015, which would be the first since the Great Recession.

Fiscal policy changes among major economies will also affect the growth outlook, with the notable example of the upcoming election in the UK. Both main parties are likely to cut the budget deficit further, the main difference being one of degree, which would have knock-on effects on disposable incomes and economic activity there.

## REGIONAL OUTLOOK AND POLICY PRIORITIES

**CDB's preliminary forecasts indicate that the regional economy should expand by around 2% in 2015, mirroring the anticipated moderate acceleration in its major trading partners.**

Expansions are currently being projected for all 19 BMCs (see Figure 8), with most set to once again grow by between 1 and 3%. Regional heavy-weight Trinidad and Tobago is expected to be in that range, albeit at the lower end, as unscheduled maintenance activities that have been disrupting petroleum production over the past few years are expected come to an end.

Also, notwithstanding current projections of continued declines

in key commodity prices, growth in output of export commodities should be supported by large-scale investments in gold in Guyana and Suriname, as well as marketing arrangements already established by regional producers for bauxite, alumina and key agricultural products. More rapid growth rates of between 3.5 and 4.5% are therefore being projected for Guyana, Haiti and Suriname.

Similarly high rates of growth are also expected in Antigua and Barbuda and St. Kitts and Nevis, as the recovery in regional tourism is expected to strengthen further. By the same token, Barbados, BVI, St. Lucia and St. Vincent and the Grenadines are all expected to show improvement relative to their weak performances in 2014.

The Caribbean Tourism Organization's expectations of continued recovery are mainly being driven by forecasts for rising source market incomes and lower fuel costs. Stay-over arrivals should also be supported by negotiated airlift increases to several regional destinations, along with additional room stock and enhanced marketing associated with current investments by major hotel brands. This would more than compensate for the impact of the planned repositioning of cruise ships back to the Mediterranean in 2015.

**The recovery in tourism should have further spin-off benefits for construction and other real sector activity.**

**Some of the downside risks identified in the global outlook, together with more localised risks, have significant implications for the Region's prospects, although there are some opportunities as well.** In tourism, again, destinations that are highly dependent on the UK market may see some fallout from any fiscal tightening there. A similar risk exists in relation to the possibility of further Euro area weakening. Notably, European visitors account for around 14% of stay-over arrivals.

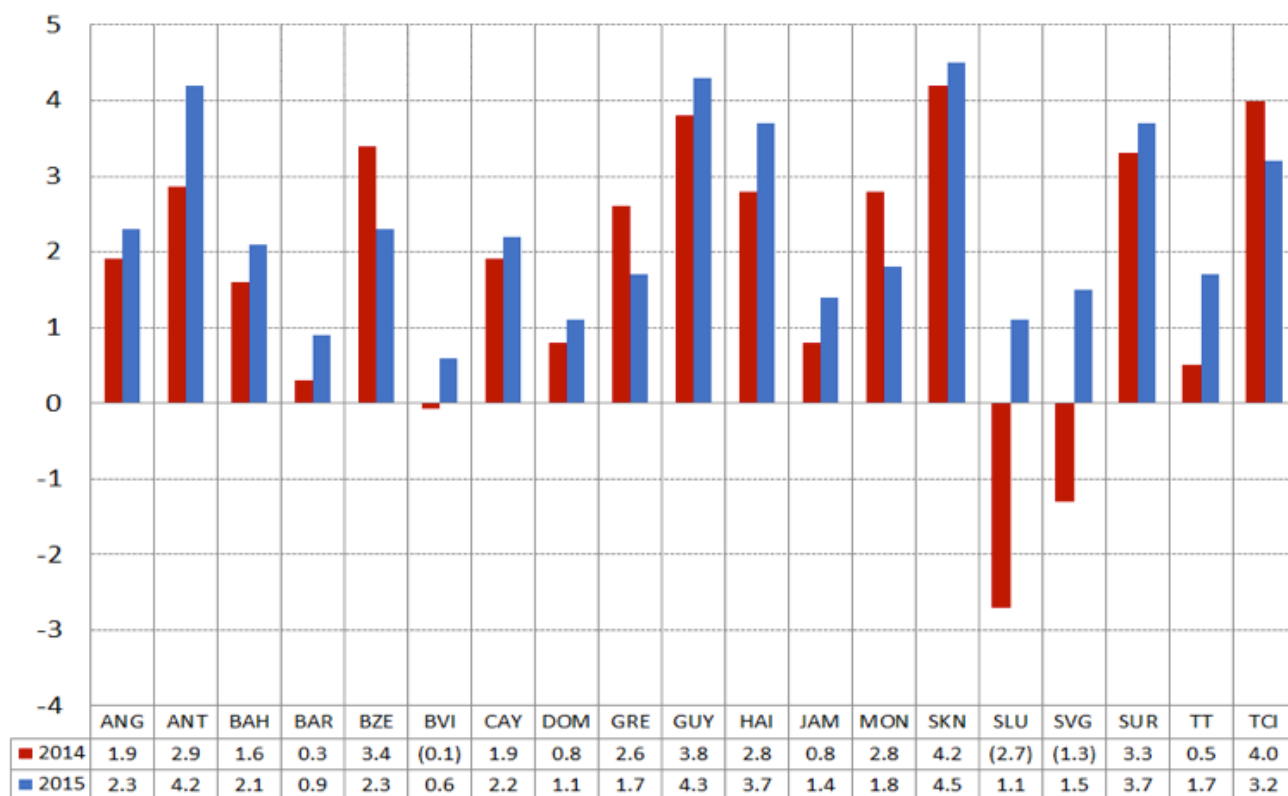
For regional commodity exporters, a major concern would be if commodity prices were to once again decline more sharply than anticipated by the market, which would curtail mining and quarrying output as in 2014.

At the same time, further reductions in oil prices could threaten the sustainability of the PetroCaribe arrangement, under which many BMCs finance petroleum imports on extremely concessional terms, representing a tail-end risk to fiscal and debt sustainability.

In addition, from both the growth and fiscal perspectives, the outlook is subject to the perennial risks of natural disasters and other weather-related challenges, which over the years have randomly and devastatingly reversed BMCs' economic fortunes.

Conversely, some of these risks also exhibit upside potential

Figure 8: Regional Growth (%) Estimates for 2014 and Projections for 2015



Source: CDB estimates and projections

if the opposite were to occur – if commodity prices were to stage a recovery, or the EU and/or UK were to grow faster than projected, for example.

Also, a reduction in commodity prices would assist in lowering fuel and energy costs, further tamping down inflationary pressures. It would also present the opportunity for regional governments to reduce expenditure on fuel subsidies where applicable.

**Overall, therefore, CDB is cautiously optimistic about the outlook for the Region in 2015, while taking a longer-term view on the policy priorities.** The Bank anticipates further strengthening of the regional recovery in 2015, which would allow for a continuation of the reduction in unemployment that started to take hold in 2014. Nevertheless, lingering development challenges continue to dampen medium and long-run prospects in most BMCs.

Infrastructure needs are acute; unemployment, particularly among the youth, remains unacceptably high; poverty is still too widespread and crime and violence too prevalent. Meanwhile, natural hazards and climate change impacts, as well as over-reliance on hydrocarbon-based energy sources, continue to compound these issues.

Sustained poverty reduction and improved standards of living will require much higher rates of economic growth than 2 or even 3% going forward. Growth will also have to be more inclusive and sustainable, not just faster - and, critically, it must

create jobs.

**In 2015 and beyond, CDB will maintain its focus on providing regional decision-makers with the policy tools and financial support to deal with the pressing challenges they face in their efforts to unlock sustainable and inclusive growth.** Low savings and high levels of indebtedness are constraining governments' ability to finance development and calling BMCs' macroeconomic stability into question. This affects credit ratings and colours investor perceptions of the Region, which in turn impact growth. In terms of priority actions, fiscal reforms will therefore remain critical. CDB lauds BMCs' current efforts in this regard, which are helping to ease their onerous debt burdens. Governments are urged to stay the course, or even deepen the reforms where necessary, to:

- incorporate fiscal rules to entrench discipline;
- improve tax administration rather than increasing taxes;
- increase expenditure efficiency, including through rationalisation of subsidies, e.g. on fuel, and proper targeting of social protection programmes;
- prioritise investment in, and maintenance (including climate proofing) of, key social and economic infrastructure, as well as social safety nets and citizen security initiatives;
- improve debt management strategies to focus on sustainable sources of concessional financing; and
- enhance national savings rates and fiscal sustainability



through set-asides from any windfall revenues.

**However, the need for further fiscal consolidation and greater savings means that much of the impetus for growth and job creation must come from the private sector, including through FDI.** The private sector will also have to shoulder more of the financial burden of investing in the Region's infrastructure, both social and economic. To this end, BMCs are increasingly turning to public-private partnerships (PPPs) and CDB is rolling out new facilities to support them in this regard.

However, governments also need to undertake structural and other reforms in order to create the kind of legal and regulatory environment and broader governance framework that can attract investment, and within which the private sector can truly become the main engine of growth. Such reforms and the resulting framework would seek, for example, to:

- encourage use of more renewable sources in the energy mix and greater energy efficiency;
- invest in universal education, emphasizing science, technology and mathematics (STEM) and technical and vocational education and training (TVET), with a view to closing gaps in quality and matching human capital

development policies with changing private sector demand for skills

- promote the use of technology in general, including connectivity and collaboration tools, energy-efficient and/or renewable energy-based systems and e-learning modalities, as a potential driver of efficiency gains;
- implement business and trade facilitation measures; and
- enhance labour market flexibility.

**Many of the required policy actions will require an appropriate institutional framework and supporting action at the regional level.** CDB is positioning itself to champion the cause of fast-tracking the integration process, in order to support private-sector led growth, focusing on the need to:

- enhance regional financial integration, including the development of harmonised supervisory and regulatory frameworks, to facilitate the movement of capital around the Region while preserving financial sector stability; and
- improve intra-regional transport and logistics to increase efficiency of movement of people, goods and services around the Region and tap into the growth potential of global value chains.







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