

CARIBBEAN ECONOMIC REPORT

June 2017

Table 2.1 Real GDP Growth in Latin America and the Caribbean
(Percent)

	2015	2016	Projections	
			2017	2018
LAC	0.1	-1.0	1.1	2.0
South America	-1.2	-2.7	0.6	1.8
CAPDR	5.1	4.5	4.3	4.3
Caribbean				
Tourism-dependent	0.8	1.4	1.9	2.3
Commodity exporters	-0.4	-4.8	0.6	3.1
Memorandum				
LA6	-0.3	-0.3	1.2	2.1
Brazil	-3.8	-3.6	0.2	1.7
Mexico	2.6	2.3	1.7	2.0

Sources: IMF, World Economic Outlook databases; and IMF staff calculations.

Central Bank Net Foreign Assets : Aruba

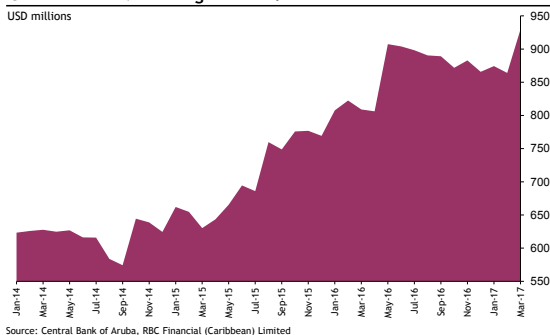
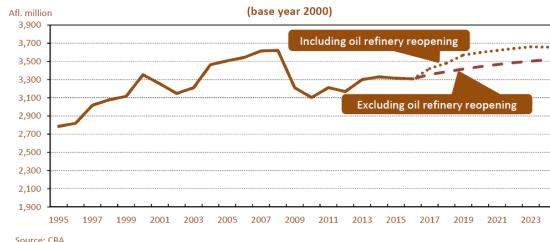


Chart 6: Real GDP medium-term forecast
(base year 2000)



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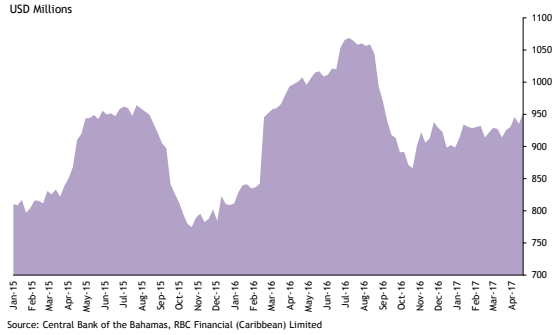
Venezuela’s Crisis Spills Over to the Caribbean

The [IMF reported](#) that the Venezuelan economy is expected to remain in a deep recession and on a path to hyperinflation. Real GDP is expected to fall by 7.4% in 2017, following an estimated 18% decline in 2016 and 6.2% in 2015. Wholesale price inflation is estimated at 470% in 2016, while consumer prices rose 274% in 2016 and are expected to rise further by 1,134% in 2017. The IMF further stated “Venezuela’s social conditions continue to deteriorate rapidly, with poverty in 2016 rising to 82% of households, 50% of which are classified as being in extreme poverty...further aggravated by lack of medicines and the collapse of the health system...with the homicide rate increasing to 92 murders per 100,000 inhabitants in 2016, up from 79 in 2013.” It is possible therefore, that Venezuela now has the highest homicide rate in the world. Could high and increasing levels of crime and violence in the Caribbean be related to similar trends in Venezuela? According to an [IDB report](#), crime and violence costs the Caribbean 3% of GDP, and “An average of 40% of the Caribbean population identifies crime and security-related issues as the main problem facing their country, even above poverty, the economy, or inequality. In several Caribbean countries, crime has increased over the last decade, with homicide rates more than doubling and the countries concurrently becoming more violent”. The report further states “Weapons manufactured in the United States, Venezuela, Brazil, Mexico, and the Dominican Republic are both sold legally (for domestic sale to law enforcement and to licensed owners) and smuggled illegally into Caribbean countries”. [The World Bank](#) also reported “Weapons manufactured or otherwise available in South America are smuggled through Venezuela, Suriname and Guyana to T&T via fishing vessels and private pleasure boats”. Are our Caribbean leaders responding appropriately to this serious and increasing threat, either individually or collectively?

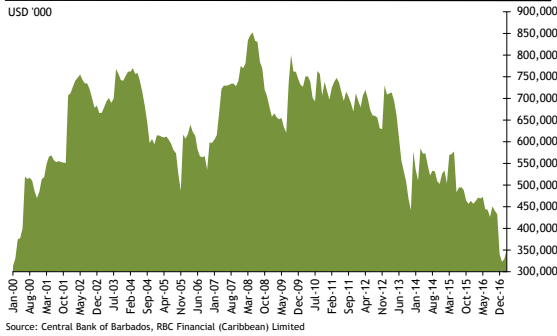
Aruba – Economy contracted 0.6% in 2016

The Central Bank (CBA) reported that GDP contracted by 0.6% in 2016 but growth of 3.4% is expected for 2017, driven mainly by upgrades to the refinery. Overall visitor nights fell 4.3% in 2016 on lower Venezuelan stopover arrivals, while US stopovers showed growth of 0.4% in 2016. In Q1 2017, stopover arrivals fell 15% y/y, as a 55% drop in arrivals from ‘other’ markets pertains mainly to travelers from Venezuela. In the first two months of this year, cruise passenger arrivals fell 1.1% y/y, [Caribbean Tourism Organization](#) (CTO) data show. CBA net foreign assets grew almost 15% y/y in March 2017 to USD929.5 million, which we estimate at roughly 5.2 months of import cover.

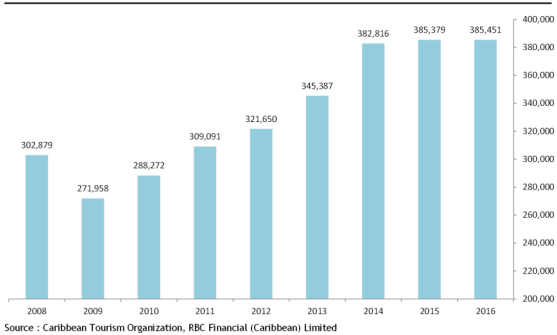
Central Bank External Reserves : The Bahamas



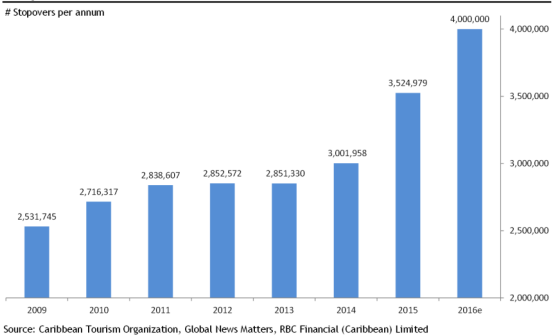
International Reserves : Barbados



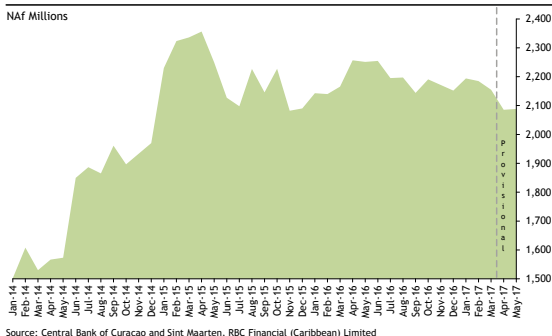
Stopover Arrivals : Cayman Islands



Stopover Arrivals : Cuba



Net Official Reserves : Curacao and Sint Maarten



The Bahamas – New Government, high expectations

Central Bank reports show external reserves declining 6.2% y/y at the end of April 2017 to USD951.75 million, which we estimate at 2.3 months of imports. According to the recent Budget announcement, zero growth is estimated for 2016, contributing to weaker fiscal revenues. This, combined with higher spending than expected, resulted in a fiscal deficit of BSD500 million (excluding arrears currently estimated at BSD300 million), versus BSD100 million budgeted in FY2016/17. The fiscal deficit is budgeted at BSD323 million or 3.5% of GDP in FY2017/18, based on revenue and expenditure measures.

Barbados – Fiscal devaluation, steep adjustment ahead

Central Bank (CBB) data show reserves fell 25% y/y in March 2017 (22nd consecutive month of y/y declines) to USD353 million, which we estimate at 10.7 weeks of imports. CBB holdings of Central Government debt grew 58.4% y/y in March 2017 to BBD2.11 billion, or 72% of CBB total assets. The FY2017/18 budget was revised from a projected deficit of BBD583.6 million or 6.3% of GDP, to a surplus of BBD4.4 million. [See here for a full report on the budget.](#)

Cayman Islands – New coalition government installed

CTO data show stopover arrivals fell 1.4% y/y in Q1 2017, as 24.5% less Europeans and 5.2% less tourists from 'other' markets, visited. Similarly, cruise passenger arrivals fell 6.5% y/y in Q1 2017, according to the CTO. A coalition Government was installed for the first time recently, and has inherited an economy that has grown for six consecutive years, while recording wider fiscal surpluses for four consecutive years to 2016, bringing debt down for five years straight by an average of 3% per annum.

Cuba – Russia sends oil as Venezuela supply dwindles

Reports indicate that shipments of crude oil from Venezuela have dropped by about 40% in the last year, so Russia has stepped in, sending an initial shipment of 249,000 barrels in May. Cuba produces roughly half its fuel needs, or an estimated 4 million tonnes per annum. Venezuela had provided an estimated 90,000 bpd or 60% of Cuba's fuel needs over several years, and overall assistance had been estimated at USD10-12 billion per annum. Rosneft, Russia's state oil company, announced an agreement to supply 250,000 tonnes of oil and diesel fuel to Cuba, a deal estimated by some at USD100 million.

Curacao and Sint Maarten – Venezuela affects tourism

Following a 5.6% fall in stopovers to Curacao in 2016 based mainly on less Venezuelan visitors, in January 2017 there was a further 7.1% y/y drop, this time on lower arrivals across all major source markets, CTO data show. Cruise passenger arrivals to St. Maarten expanded 15.5% y/y in Q1 2017. Reserves are estimated by the Central Bank to have declined by 7.24% y/y in May 2017 to NAF2,088 million, which we estimate at 5.9 months of reserves.

Dominican Republic—Growth slows to 5.2% in Q1 2017

The Central Bank (BCRD) maintained its policy rate in May, citing April 2017 inflation at 3.51%, within 4% ± 1% target, and falling slightly to 3.11% y/y in May. Growth is estimated by BCRD at 5.2% y/y in Q1 2017, and projected to hit 5.0-5.5% for the full year. Credit growth reached 10.5% y/y in May 2017, supporting economic expansion. The fiscal deficit is forecast at 2.3% of GDP, and foreign reserves are expected to expand this year. CTO data show stopover arrivals grew 3.8% and cruise passenger arrivals by 32.9% y/y in Q1 2017.

Guyana—International reserves decline further

Central Bank (BoG) reports show net international reserves declined for a fourth consecutive month, by 2.29% y/y to USD589.5 million in April 2017, which we estimate at 3.4 months of imports. This was due to a deficit of USD8.7 million being recorded on the balance of payments in Q1 2017, down 159% y/y from a surplus of USD14.7 million in Q1 2016, primarily because the merchandise trade deficit widened. Inflation increased to 0.6% in March 2017 based mainly on higher food prices, BoG data show.

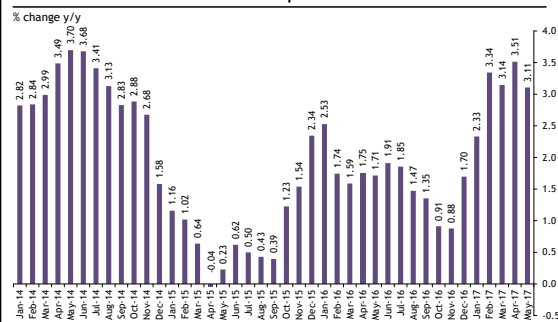
Jamaica – International reserves exceed IMF target

Notwithstanding persistent challenges, broad-based socio-economic progress continues apace in Jamaica as various reforms yield results. The [IMF reported](#) after a recent staff visit; declining debt on a primary fiscal surplus over 7% of GDP for four consecutive years, rising international reserves, but unemployment remains high. The Central Bank (BoJ) lowered its policy rate by 25bps to 4.75% in April, although inflation increased to 4.78% (the highest since January 2015), and credit growth stood at 30.7% y/y in February 2017. The BoJ expects inflation to remain within their 4-6% target range in FY 2017/18. Reserves expanded 16% y/y to USD2.7 billion or 21 weeks if imports in May 2017. In Q4 2016, the current account deficit fell to USD38.1 million or 0.3% of GDP—a 20-year low according to the BoJ. The last winter tourist season was the best ever recorded, as tourism revenues reached USD1 billion in winter alone, whereas tourism revenues usually average just over USD2 billion per annum. A record 4.2 million visitors are expected in 2017, BoJ stated. [CTO](#) data show 2.2 billion stopovers, up 2.8%, and 1.7 billion cruise passengers, up 5.5%, visited Jamaica in 2016. Stopovers grew 2.1% y/y to February 2017, while cruise passenger arrivals expanded 3.7% y/y, [CTO](#) data show.

Suriname—Reserves expand 81% y/y in May 2017

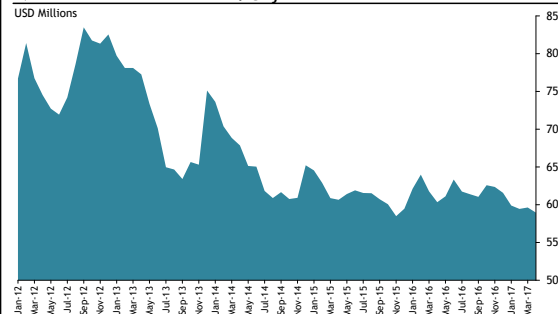
Central Bank (CBvS) data show reserves expanded 81% y/y to USD384.9 million in May, which we estimate at 2.2 months of imports. The IMF program appears to have stalled, so the policy stance is unclear. A managed float is the foreign exchange regime that appears to have been adopted, taking the exchange rate from SRD4.00/USD1.00 in late 2015 to SRD7.58 at the time of writing. The pass through effects of the SRD's devaluation has seen inflation peak at 79.2% in October 2016, subsiding steadily to 31% in April 2017.

Inflation Rate : The Dominican Republic



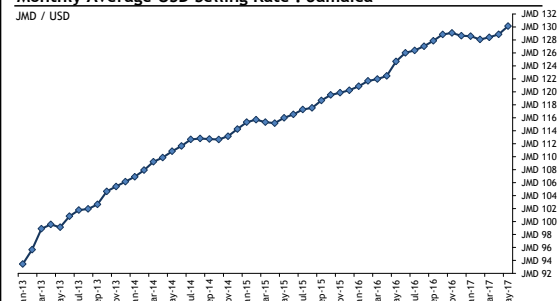
Source: Central Bank of the Dominican Republic, RBC Financial (Caribbean) Limited

Net International Reserves : Guyana



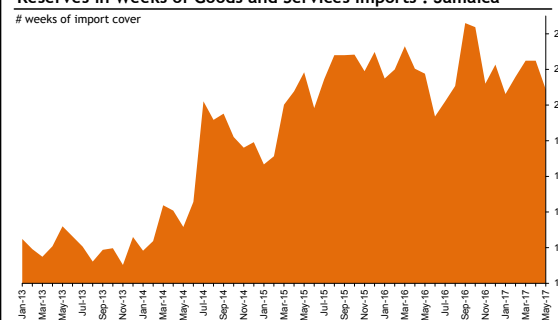
Source: Bank of Guyana, RBC Financial (Caribbean) Limited

Monthly Average USD Selling Rate : Jamaica



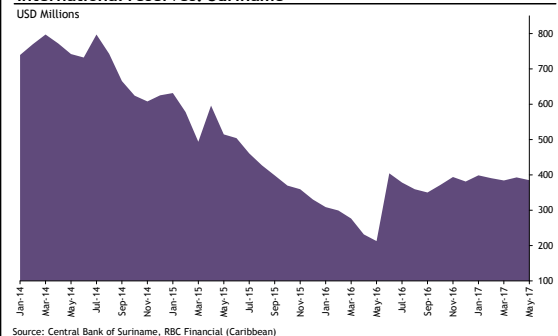
Source: Bank of Jamaica, RBC Financial (Caribbean) Limited

Reserves in Weeks of Goods and Services Imports : Jamaica

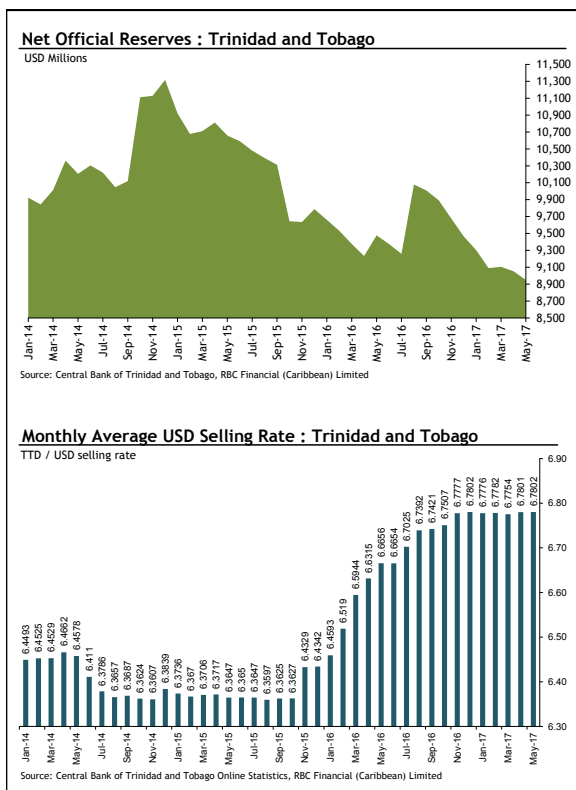


Source: Bank of Jamaica, RBC Financial (Caribbean) Limited

International reserves: Suriname



Source: Central Bank of Suriname, RBC Financial (Caribbean)



T&T—Sub-investment grade now, adjustment continues

Moody's downgraded T&T's sovereign credit rating to non-investment / speculative grade, assigning a stable outlook to the rating. [Please see here for an analysis of this rating action.](#) There are now no remaining investment grade sovereigns in the Caribbean. Central Bank (CBTT) Financial Stability Report points to a stable financial sector despite macroeconomic pressures; overall non-performing loans down from 3.7% of total loans in 2015, to 3.215% in 2016, alongside slower credit growth at 1.8% in 2016, down from 8.4% in 2015. The CBTT held the policy rate steady at 4.75% in May as inflation was fairly steady at 2.8% in March 2017, reflecting the slowing pace of TTD depreciation against the USD. The TTD slipped 1.72% y/y against the USD in May 2017, bringing the average USD selling rate to TTD6.7802. Total FX sales to Banks for the 12 months to May 2017, from the CBTT declined 5.85% y/y to USD2.045 billion, and from the public by 19% y/y to USD3.8 billion. As such, total FX sales to banks have declined 15% y/y over that period to USD5.85 billion. Meanwhile, foreign reserves fell 7.5% y/y in May 2017 to USD8.95 billion or 9.9 months of imports—the first time reserves have dipped below USD9 billion since March 2010, and below 10 months of imports since May 2008.

Caribbean Economic Indicators

	Popl'n (000)	Nominal GDP (USD Billions)	Per capita GDP (USD)	Credit Rating & (outlook)	GDP change y/y	Unemplo yment	Gross Public Debt / GDP	Import cover (months)	Inflation y/y
Aruba	107	2.8	24,402	BBB+ (Positive)	-0.6%	7.6%	85.0%	5.2	-0.9%
The Bahamas	347	8.5	22,754	BB+ (Stable)	0.0%	11.6%	85.0%	2.3	-0.4%
Barbados	274	4.5	16,307	B- (Negative)	1.6%	10.0%	156.6%	2.0	-0.8%
Cayman	58	3.6	54,338	Aa3 (Stable)	2.5%	3.9%	17.0%	1.8	0.6%
Cuba	11,300	77.1	6,848	Caa2 (Positive)	-0.9%	3.0%	22.3%	n/a	1.2%
Curacao	143	3.0	20,260	A- (Stable)	0.0%	11.7%	45.6%	5.9	-0.4%
Dom Rep	10,400	60.8	7,000	BB- (Stable)	5.2%	5.7%	50.0%	3.9	3.1%
ECCU	637	5.2	8,163	n/a	2.6%	20.0%	76.0%	5.4	-1.8%
Guyana	756	2.7	3,596	Not rated	3.3%	11.0%	49.0%	3.4	0.6%
Jamaica	2,751	15.3	5,526	B (Stable)	1.5%	12.9%	120.0%	4.8	4.8%
St. Maarten	43	0.8	26,025	Baa2 (Stable)	0.1%	8.9%	36.5%	5.9	-0.2%
Suriname	541	5.1	5,000	B1 (Stable)	-10.4%	9.0%	47.5%	2.2	31.0%
T&T	1,400	23.8	17,935	Ba1 (Stable)	-10.8%	4.4%	82.4%	9.9	2.8%

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