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SUMMARY

CARIBBEAN REGION

Weak economic growth continues to challenge the tourism-dependent countries of the Caribbean. Commodity exporters are also facing subdued growth given the decline in international prices. Fiscal consolidation remains the major theme for the Caribbean region.

Selected Indicators	Real Growth Rate	Annual Inflation (% end of period)	General Government Primary Balance (% of GDP)	General Government Overall Balance	Current Account balance (% of GDP)	General Government Gross Debt (% of GDP)
Jamaica	1.4	6.1	7.3	-0.4	-3.7	124.8
Barbados	0.8	0.9	-1.6	-7.2	-5.1	102.5
The Bahamas	2.3	2.3	-0.9	-3.8	-12.4	61.6
Guyana	2.4	1.2	-3.7	-4.6	-16.4	52.4
Trinidad and Tobago	-1.5	6.0	-2.2	-4.2	0.71	44.0
Suriname	1.5	5.2	-7.8	-9.1	-9.9	36.9
CCB Average	1.2	3.6	-1.5	-4.9	-7.8	70.4

Source: International Monetary Fund and country authorities.
Note: Year is 2015 or closest available date.

Summary of Recent Developments, by Country

***The Bahamas** continues to suffer from uncertainty related to delayed completion of the BahaMar resort. As a result, the economy remains weak in spite of strong international demand for tourism.*

***Barbados's** long-stay tourism arrivals increased by 15 percent in the first nine months of 2015. The country's fiscal position improved, but debt continues to trend upward. The lower international oil and commodity prices would be conducive to growth and keeping inflation stable at below 2 percent.*

*In **Guyana,** growth projections for 2015 are 3.4 percent, as Guyana's main economic sectors face challenges. However, strong foreign direct investment flows and continued public investment in infrastructure are expected to maintain the favorable economic outlook.*

***Jamaica's** outlook continues to be positive as the International Monetary Fund's Executive Board approved the tenth review of Jamaica's Extended Fund Facility in December 2015. However, challenges remain, especially in accelerating economic growth to support economic adjustment and improving the livelihood of the population. In addition, crime has spiked, reversing the declining murder rate trend, with the year-to-date number of murders in October surpassing the number of murders for the whole of 2014.*

***Suriname's** macroeconomic performance continues to be constrained by falling commodity prices. However, reforms to reduce vulnerabilities have started, and new investments should support economic growth.*

*In **Trinidad and Tobago,** fiscal and external risks remain, as depressed oil prices and uncertainty in global energy markets continue. As fiscal revenue continues to be a major concern, the recently presented budget proposes a stronger focus on non-energy revenues.*

A tourism-led recovery is underway in the countries of the Eastern Caribbean Currency Union/Organisation of Eastern Caribbean States. Countries are undergoing fiscal consolidation but continue to be challenged by large fiscal deficits, high levels of public debt, and modest growth. Their growth outlook is positive in 2015. The significant damages and losses from Tropical Storm Erika in Dominica are a reminder of the vulnerability of Caribbean countries to adverse natural events.

Special Country Reports: Credit Ratings

In the Special Country Reports, we look at credit ratings in the Caribbean. In line with challenging economic developments, credit ratings have been under pressure in several Caribbean countries. Weak fiscal situations, structural current account deficits, and vulnerability to external shocks all have put pressure on the credit ratings. The individual country reports discuss rating histories and give an outlook of each credit rating's likely development in the short to medium term.

Special Regional Report: Credit Ratings in the Caribbean: Down We Go

A high credit rating, indicating solid economic performance and buffers to accommodate potential shocks, is important to access international financial markets, even more so with the prospect of interest rate increases next year. However, the situation in the Caribbean is rather the opposite, with credit ratings of several countries facing downward pressure. The Regional Supplement explains the importance of credit ratings and explores the outlook for The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago (Caribbean Country Department).

IDB Inter-American Development Bank

Overview

Economic activity in the Bahamian economy remains mild as the country struggles to regain footing after the recent fallout from the $3.5 billion BahaMar hotel, resort, and casino development. Unemployment remains in the double-digits, although temporary hiring resulted in a moderate rate decline. The fiscal deficit continues to improve under the Government of The Bahamas' (GoBH's) fiscal consolidation plan. Despite this, the country suffered another downgrade by Standard and Poor's to one notch above junk status in August 2015.

Highlights

Standard and Poor's downgraded The Bahamas in August 2015, after placing the country on a negative credit watch in July 2015.

Moody's, in its August 2015 credit opinion, maintained its current rating of Baa2 for The Bahamas.

The government's fiscal consolidation plan has continued to improve the country's fiscal position.

Recent Developments

In August 2015, Standard and Poor's downgraded The Bahamas, after placing the country on a negative credit watch in July 2015. The country's rating now stands at BBB-/A3 with a negative outlook. Reasons for the downgrade reflect the long-term vulnerabilities and the short-term economic shock of the BahaMar bankruptcy filing and subsequent legal disputes. The report indicated that it is now expected that the bookings will take longer to fill the complex once it does open, given the reputational damage to the resort's brand as well as the time needed to obtain new airlift capacity for the resort, among other issues. Further concerns include the subdued growth prospects for the country as a result of high household indebtedness, loan arrears, high unemployment levels, and energy inefficiencies. Standard and Poor's analysis further noted that there is a greater than one-in-three likelihood that the country may be downgraded again within the next 6–24 months.

Moody's August 2015 credit opinion indicated that its current rating of Baa2 will be maintained, which is supported by growth that is expected to improve moderately and the ongoing fiscal consolidation efforts. However, the agency will reassess its forecasts for the economy based on the outcome of the ongoing BahaMar legal battle. Despite this, Moody's envisages real GDP growth that will strengthen somewhat, to 2.0–2.5 percent in 2016, and expects debt levels to stabilize. Further downgrades are likely if debt levels remain high and continue to escalate, fiscal slippage occurs, and/or the country experiences a large negative shock to growth.

On October 30, 2015, the Supreme Court of The Bahamas approved the appointment of Deloitte and Touche as receivers on behalf of the debtor (Export-Import Bank of China). In subsequent press articles, the receivers have stated their intent to have the BahaMar resort opened soonest possible, with some local officials indicating construction is planned to resume in six to eight weeks. Both the receivers and provisional liquidators have pledged to work together to have the project completed. The Bahamian courts are now due to meet in February 2016, delayed from November 2015, to proceed on the winding-up petition, due to new developments emerging since the property went into receivership. It has also been reported that the hotel resort and casino is roughly 97 percent complete, and an additional $400 million would ensure their completion.

Unemployment rates remain high. The May 2015 release of the Labor Force and Household Income survey indicated a decline in the unemployment rate to 12.0 percent from 15.7 percent in November 2014. However, the drop reflects mostly temporary hiring for cultural and sporting events during the first half of the year. The BahaMar Chapter 11 filing, however, has resulted in workforce reductions of approximately 2,000 employees with an additional 400 layoffs pending (total staff stood at 2,500). These layoffs are likely to add an estimated 1–2 percent to unemployment figures.

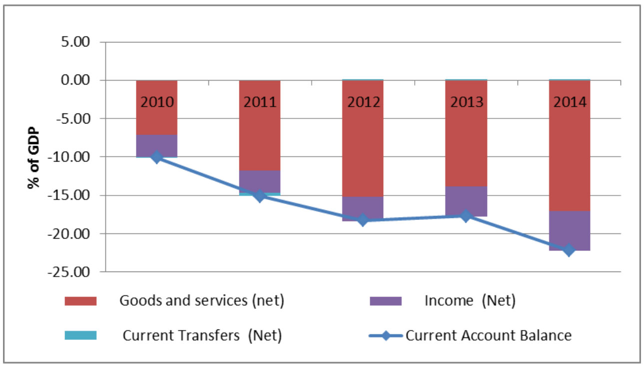
Consumer price inflation rose despite lower global oil prices. An increase in the consumer price index, by 1.3 percent, was attributed mainly to health and dental increases, followed by increases for recreation and culture. Price declines were associated with both the transport component and housing, water, electricity, gas and other fuels component.

Private sector credit continues to fall. Private sector credit growth has suffered owing to weak domestic markets, elevated unemployment, and stringent lending policies within the banking system. For the month of July, Bahamian dollar credit fell by 3.5 percent, reflecting softer mortgage and commercial and other lending during the period. Credit quality indicators demonstrated a firming in private sector loan arrears, by 0.8 percent to $1.2 billion, equivalent to 20.1 percent of total private sector loans. The value of short-term delinquencies (31 to 90 days), in

particular, advanced by 24 basis points to 4.8 percent of total private sector loans. The non-performing loans segment fell in value by 0.8 percent and 15 basis points to 15.2 percent of the total private sector loan portfolio.

The current account remained high at 22.2 percent of GDP (latest data available). Despite this, low fuel prices will continue to have a positive impact on the current account, fiscal balance, and economic growth, supporting expectations of a decline in 2016. Oil imports average 5.7 percent of GDP and just over a third (36.5 percent) of the trade balance for the last few years. The halving in the oil prices from 2014 into 2015, alongside the expectations of more efficient electricity production due to the recent management contract with the American-based power company, Power Secure, will positively affect the current account balance. Power Secure will manage the transmission, distribution, and generation of electricity.

Figure 2. Current Account Balance (2010–2014)

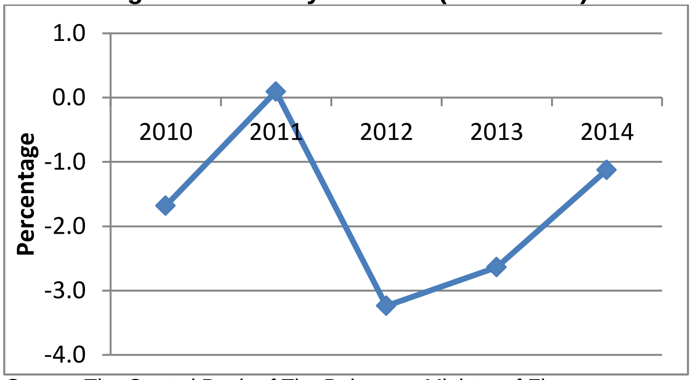


Source: The Central Bank *of The Bahamas*.

The GoBH's fiscal consolidation plan has slowed deterioration of the country's fiscal position. The primary balance has narrowed from -3.2 in 2012 to -1.1 in 2014, with expectations for a further narrowing between 2015 and 2018. The key to the improvements was the increase in business and professional services and departure taxes. Further tax reforms as well as reforms of the real property and business license systems have also supported the improvements. More recently, the implementation of the value-added tax has also led to contraction in the primary deficit. Debt levels, by March 2015, remain high but steady, at 65 percent for central government debt and 74 percent for total debt.

The GoBH is making progress toward universal health coverage. The health system is transitioning from a hybrid system that includes aspects of a managed public healthcare system and aspects of a private healthcare system to a mandatory universal health plan that shares the costs and benefits of healthcare. The new plan will cover: primary care, specialist care, emergency services, hospitalization, maternity and newborn care, imaging services, radiotherapy and chemotherapy, mental health, catastrophic care, essential pharmaceutical and lab services, rehabilitation services,.

Figure 3. Primary Balance (2010–2014)



Source: The Central Bank *of The Bahamas*; Ministry of Finance.

Tax Concessions under The Hawksbill Creek Agreement have been extended until February 2016. For the past two years. the GoBH and the Grand Bahama Port Authority have been working to extend agreement provisions. The GoBH has been criticized by the private sector for its seemingly delayed approach to revising the agreement, which expired in August 2015. Key revisions are expected to tackle the significant changes to the business licenses and real property tax structure in the city of Freeport.

Table 1. High-Frequency Macroeconomic Indicators

	Last data	Period	Prior data	Period
Annual GDP growth (%)	1.0	2014	0.7	2013
Tourism arrivals (annual % change)	2.8	Dec-14	3.5	Dec-13
Exports (12-month growth)	-18.2	Q1-2015	-11.1	Q4 2014
Imports (12-month growth)	10.7	Q1 - 2015	3.2	Q4 2014
Private sector credit growth (%)	-3.5	Feb-15	-0.9	Jul-14
Inflation	1.3	May-15	0.4	Apr-14
Exchange rate (end of period)	1.00	Aug-15	1.00	May-15
Unemployment rate (%)	12.0	Aug-15	15.7	Nov-14

Source: The Central Bank of The Bahamas.

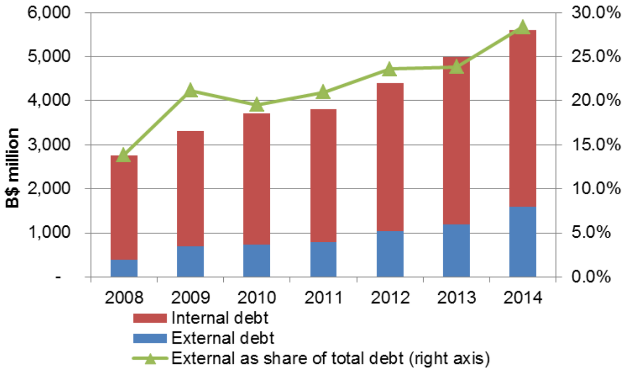
Introduction

Bahamian borrowing has historically been low and focused domestically. Prior to the 2008 financial crisis, the country maintained total central government debt of less than US$3 billion and less than US$400 million in external borrowing. This profile has changed drastically over the last six years, with current central government debt exceeding US$5 billion and external debt exceeding US$1 billion. These movements have led to several downgrades by Standard & Poor's and Moody's. The following brief looks at the developments of debt in The Bahamas to better understand current ratings.

Bahamian Borrowing Patterns

The Bahamas has taken advantage of low interest rates in the international market post-2008. Prior to the financial crisis, the Bahamian portfolio comprised very little foreign debt (13.9 percent) compared to the debt composition at the end of 2014 (28.4 percent).

Figure 4. Components of Debt



Source: Quarterly Statistical Digests of The Central Bank of The Bahamas.

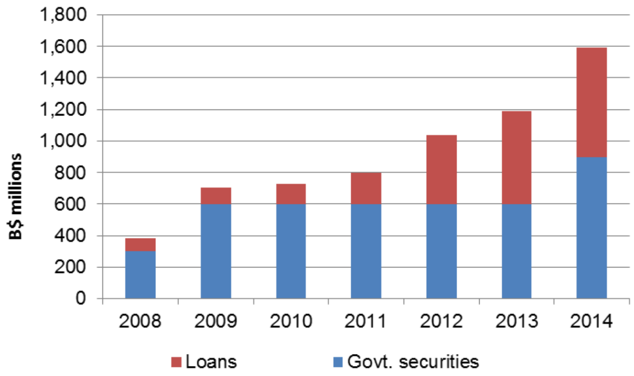
The change in the balance of domestic versus external borrowing reflects international developments. With lower interest rates in the international market, local officials have seized the opportunity to take on more foreign currency debt and accumulate US dollars. Given the Bahamian economy's reliance on imports,[1] the US debt allowed for accumulation of foreign currency stocks.

Local lending interest rates have declined since the downturn. In 2011, the Central Bank of The Bahamas reduced its discount rate by 75 basis points from 5.25 percent to 4.50 percent. Given the weak performance of global economies (and the local one), the Central Bank has been criticized for not lowering its base rate even further.

Bahamian Portfolio Diversification

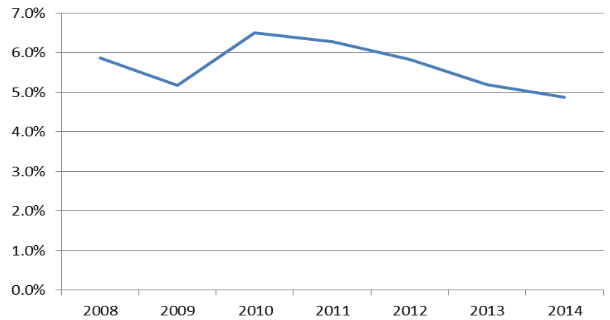
With lower interest rates prevailing in the international markets, The Bahamas has capitalized on this opportunity like other countries. This is a sharp change in strategy, which has been concentrated on international bond placements versus debt financing. Save for a $300 million placement in 2014, the GoBH had not made any new bond issuances since 2009, shortly after the commencement of the global financial crisis.

Figure 5. Composition of External Debt



Source: Quarterly Statistical Digests of The Central Bank of The Bahamas.

Figure 6. Average Interest Rate on Foreign Debt



Source: Government Finance Statistics, the Central Bank of The Bahamas.

The diversification of the Bahamian portfolio has resulted in lower interest payments. Based on calculations of interest payments to average debt levels, the cost of international borrowing has been steadily declining in recent years, taking advantage of the lower

[1] In the past three years, the import of goods has totaled $3.4 billion (2013), $3.2 billion (2014), and $3.3 billion (2015).

interest rates in the US market.[2] This strategy has been particularly important to The Bahamas with a foreign currency debt largely comprised of US currency.[3]

Credit Rating Agencies

The delays and uncertainty of the BahaMar issue has significantly affected the Bahamian economy and, by extension, the investment grade credit rating. The recent downgrade, which was partially influenced by the BahaMar bankruptcy because the project was such a major part of the country's growth, places the country one notch above junk status. The investment was expected to account for roughly 12–15 percent of GDP over the next five years, but once BahaMar is fully operational, visitor expenditure is expected to increase by about 7–8 percent. Total investment is expected to rise by 3.3 percent over the next few years.

Table 2. Bahamas Credit Rating Evolution (2011–2015)

	2011	2012	2013	2014	2015
Moody's	A3	BBB	Baa1	Baa2	Baa2
S&P	BBB+/A2	BBB+/A2	BBB+/A2	BBB+/A2	BBB-/A3

Source: Moody's and Standard and Poor's sovereign debt rating reports for The Bahamas.

The August 2015 Standard and Poor's downgrading came after placing the country on a negative credit watch in July 2015. The downgrade analysis indicates that the BahaMar filing is expected to depress growth and possibly affect fiscal and external accounts. Additionally, concerns exist that high household indebtedness, loan arrears, and high unemployment levels, as well as energy inefficiencies, will continue to subdue growth prospects.

Despite the bankruptcy, the Moody's assessment was optimistic. It indicated that The Bahamas' sovereign ratings reflect a very high national income level, offset by the economy's small size, limited diversification, and weak growth dynamics. Reports indicate that The Bahamas' economy is the second smallest at its rating level and has managed average growth of just 1.0 percent in the last four years. Going forward, the agency expects the economy to post higher growth rates than in recent years, supported by stronger tourism flows and continued foreign investment into the tourism sector. Particularly following the opening of BahaMar, the economy could grow between 2.0 percent and 2.5 percent in 2016 and 2017. After this initial boost, growth would begin to converge toward rates closer to 1.5 percent, which Moody's considers to be The Bahamas' potential growth rate

Conclusions and Policy Implications

To offset downward pressure on credit ratings, the GoBH is actively implementing measures to improve several areas of the economy:

In May 2013, the GoBH articulated a Medium-Term Fiscal Consolidation Plan *"to consolidate public finances and achieve significant and sustainable reductions in the government's debt burden over time."* Key components of the plan include measures to eliminate the primary deficit and get the debt-to-GDP ratio to lower levels. Positive steps have been taken to slow the trend of debt accumulation, which eventually should lower debt to GDP.

In recent weeks, Prime Minister Christie has reported that several major investors are interested in purchasing the BahaMar hotel development, which would support growth and improve fiscal and current account impacts.

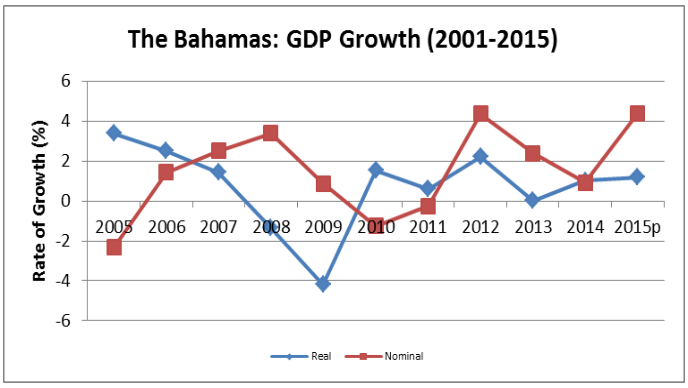
The country has implemented a broad tax reform package, namely the introduction of a value-added tax and property tax administrative system while undertaking a comprehensive customs reform and modernization program, including the new Customs Management Act, in 2013. The GoBH is also in the process of establishing a central revenue agency.

The GoBH has clearly taken a methodical approach to debt management. This is evidenced in actions such as the placement of foreign currency bonds (which tend to be difficult to renegotiate once issued) at fixed rates. While this strategy has produced some positive results thus far, the country can benefit from a more expansive debt management strategy that clearly identifies the mix of foreign versus local debt and clearly schedules debt service payments, amortization, and refinancing.

[2] In 2009, the GoBH placed a US$300 million 20-year bond in international markets at 7 percent interest to refinance an existing US$200 million loan.
[3] Based on Central Bank of The Bahamas calculations, 88.5 percent of total public sector foreign currency debt was in US currency, 8.7 percent in euros, and 2.8 percent in Yuan.

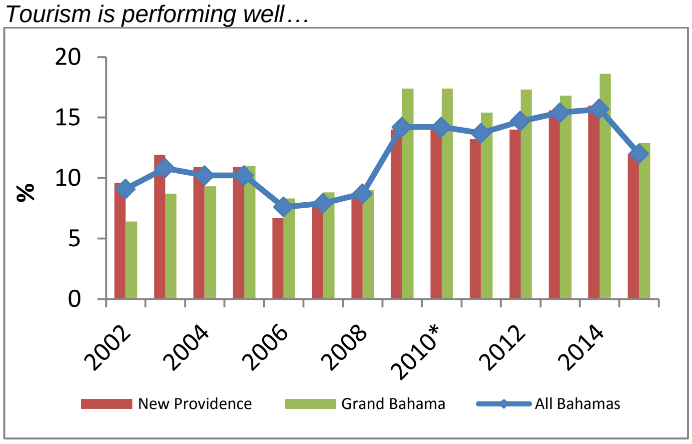
Snapshot of the Bahamian Economy

Growth continues to remain low…



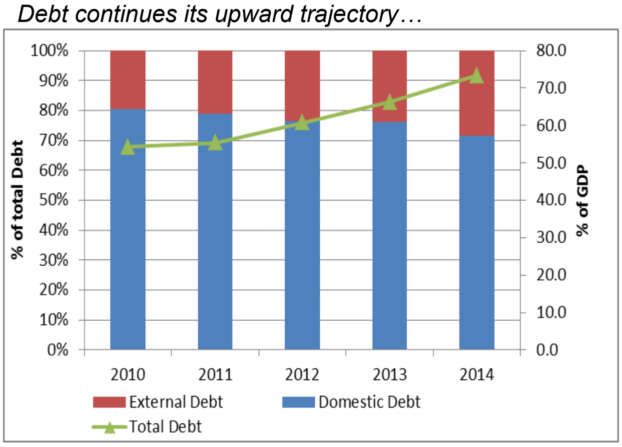
Source: Department of Statistics.

Tourism is performing well…



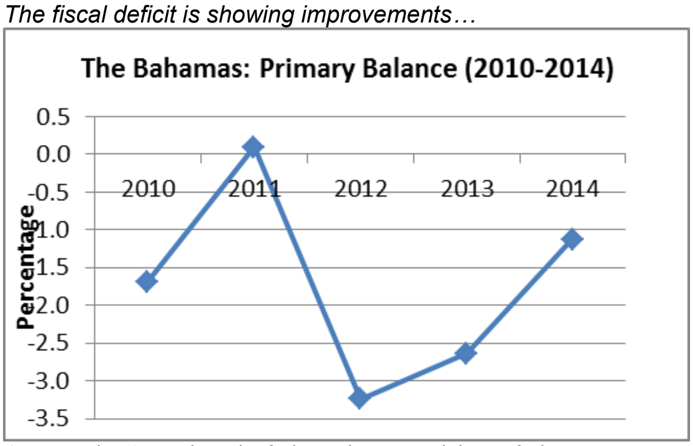
Source: Department of Statistics. *As of August 2015.

Debt continues its upward trajectory…



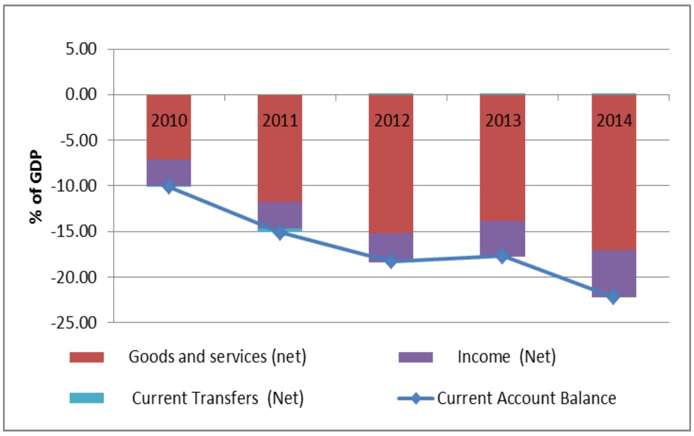
Source: The Central Bank of The Bahamas; Ministry of Finance.

The fiscal deficit is showing improvements…



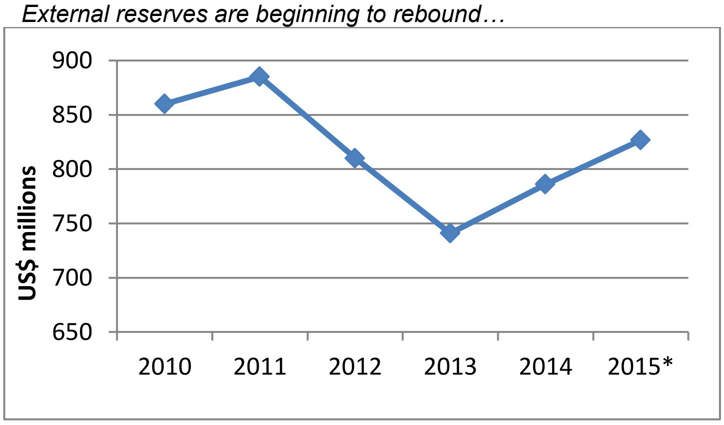
Source: The Central Bank of The Bahamas; Ministry of Finance.

Current account deficits are large…



Source: The Central Bank of The Bahamas

External reserves are beginning to rebound…



Source: The Central Bank of The Bahamas.

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	1.0
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	1.2
External Sector - IMF						
Exports of goods and services	-9.3	-6.2	1.6	16.0	2.1	-11.1
Imports of goods and services	-20.2	2.9	-1.0	9.4	2.4	3.2
Current account (percentage of GDP)	-10.3	-10.1	-15.3	-18.4	-19.6	-21.9
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	19.0
Capital Expenditure			4.9	4.2	3.4	3.0
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	65.8
Central government debt over revenues - IMF (aligned with MTFP)	20.4	4.5	8.1	4.0	n.a	3.1
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: The Central Bank of the Bahamas.

Recent Developments

The first nine months of 2015 saw a gradual tourism recovery. Long-stay arrivals rose, but lower spending per tourist and length of stay moderated the impact on growth. The government's fiscal consolidation program, through the introduction of additional tax measures, is projected to reduce the fiscal deficit to 4.7 percent of GDP for fiscal year 2015/16, ending in March 2016, if spending pressures are contained. The lower international oil and commodity prices would be conducive to growth while containing inflation at below 2 percent. Unemployment will likely remain in the double digits.

Growth stood at 0.3 percent for the first nine months of 2015. Tourism arrivals grew by 14.5 percent during the first nine months of 2015, but length of stay dropped by 5.4% and spending per tourist by 5% respectively. The double-digit growth in arrivals came from the three main source markets, namely the United States (27.9 percent), Canada (18.6 percent), and the United Kingdom (13.2 percent). However, the non-tradable sectors have been less dynamic and have offset this effect. Construction activity fell by 1.7 percent at the end of September 2015.

Barbados fiscal position improved in the first half of the fiscal year (April–September 2015). The fiscal deficit declined by US$9.5 million to reach US$144.9 million at the end of September 2015, when compared with the same period in 2014. Revenues rose by US$25 million on account of higher property taxes, which grew by US$49.5 million.[1] On the other hand, expenditures increased on account of higher domestic interest payments, which grew by US$8.4 million, along with increased transfers to public institutions (US$10 million). Higher domestic public debt put pressure on interest payments and increased total levels to an estimated 139 percent of GDP at the end of September 2015 (inclusive of holdings from the National Insurance Scheme). Compared with levels at 132 percent of GDP by September 2014, fiscal consolidation reduced but has not stabilized yet the increasing trend in public debt. The fiscal deficit is projected to improve to 4.7 percent of GDP by the end of fiscal year 2015/16.

The current account deficit declined to 5.9 percent of GDP at the end of September 2015. This is a significant improvement in the external position, an almost 45 percent drop when compared to the 10.6 percent of GDP reported in September 2014. The increasing travel receipts, the drop in the fuel import bill, and lower merchandise imports all contributed. The fuel import bill reduced by 1.6 percent of GDP or US$72 million at the end of September 2015.

Highlights

Tourism saw gradual recovery and growth in long-stay arrivals, which was offset by the less dynamic non-tradable sectors, such as construction.

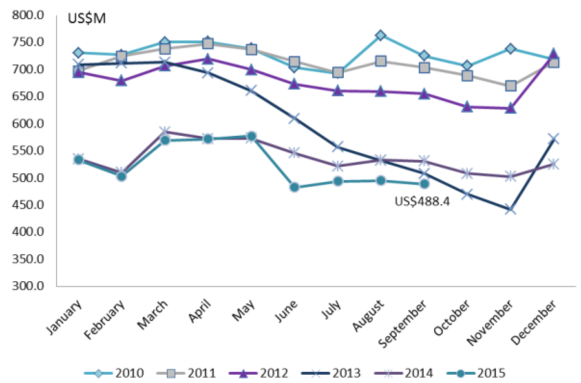
Growth at 0.3 percent for the first nine months of 2015 was below forecast.

Reserves stood at 3.6 months of imports or US$488.4 million.

Barbados will be the base of the Caribbean Center for Renewable Energy and Energy Efficiency (CCREEE).

Reserves stood at US$488.4 million or 3.6 months of import coverage by September 2015(see Figure 1). This represents a slight decline when compared with US$532.7 in September last year. This is reflective of both lower commodity prices and weaker domestic consumption that is containing the demand for imports.

Figure 1. Reserves 2010–2015



Source: Central Bank of Barbados

Inflation is stable owing to lower fuel prices and weak domestic demand. Inflation fell to 0.8 percent at the end of July 2015, compared with 1.7 percent a year earlier. Unemployment declined slightly from 12.4 percent to 12 percent at the end of September 2015, mirroring weak economic conditions and fiscal consolidation.

The University of the West Indies Cave Hill Campus saw a decline of 17 percent in enrollment in the academic year 2015. Enrollment numbers at UWI declined from 6,936 to around 5,000 students, when compared with the previous academic year and reflective of the imposition of tuition fees. As a result of the drop in

[1] As part of the Government's fiscal consolidation programme, a new land tax was included in the 2015/16 Financial Statement and Budgetary Proposals.

enrollment, the Campus pursued an active recruitment campaign. The majority of the new undergraduate applicants entered the social sciences, while at the graduate level, the number of graduates increased from 266 to more than 700.

Barbados will be the base of the Caribbean Center for Renewable Energy and Energy Efficiency (CCREEE). The Thirty-Sixth Regular Meeting of the Conference of Heads of Government of the Caribbean Community (CARICOM) endorsed the creation of the CCREEE and Barbados as the base for its secretariat. The center will serve as a logistical hub for energy assuring that standards for renewable energy and energy efficiency are maintained. Moreover, it will supervise the distribution of energy resources. The CCREEE is part of a broader post-2015 global initiative that aims to establish a network of regional sustainable energy centers for small island development states in Africa, the Caribbean, and the Pacific and Indian Oceans. The network is co-funded by the Austrian Development Agency, which contributed with EUR 1.3 million for the first operational phase. The inauguration of the CCREEE is expected to take place before the end of 2015.

Households and businesses continue to benefit from lower international fuel prices. From October 2014 to September 2015, the retail price of gasoline dropped from $3.60 per liter to $3.19 (11 percent) and diesel from $2.90 per liter to $2.20 (24 percent). Lower fuel prices have led to a reduction in electricity tariffs, as electricity is generated with imported diesel. Barbados Light and Power, through its fuel adjustment clause,[2] reduced electricity tariffs by 48.9 percent, from 41.5 cents/kilowatt hour to 21.2 cents/kilowatt hour, between October 2014 and September 2015. Lower energy costs and inflation contained below 2 percent would boost the competitiveness of businesses by reducing input costs.

Barbados and St. Vincent and the Grenadines signed a historic treaty establishing maritime boundaries between the countries. The treaty, which was signed on August 31, is the first between Barbados and a member country of the Organization of the Eastern Caribbean States. The agreement will make it easier for both countries to exercise their jurisdiction, enforce laws against illegal fishing and trafficking, and pursue off-shore exploration.

Outlook

Barbados' medium-term growth outlook is modest. The Central Bank currently estimates output will increase 0.5 percent in 2015, which is a downward revision from the earlier 1 percent estimate. Growth would likely close at 1 percent in 2016. The decline in international fuel prices, the lower electricity tariffs, as well as gradual recovery in tourism demand could have a positive impact on output over the medium term.

Inflation would remain low, at below 2 percent, in 2015 and thereafter. Low oil and commodity prices would continue to contain inflation and support household consumption. With weak economic conditions and fiscal consolidation, the unemployment rates would likely remain at the two-digit level.

High-Frequency Macroeconomic Indicators	Last Data	Period	Prior Data	Period
Annual GDP growth (%)	0.3	Sep-15	0.5	Jun-15
Tourism arrivals (annual % change)	14.5	Sep-15	14.4	Jun-15
Nonperforming loans (%)	11.0	Jun-15	11.4	Mar-15
Private sector credit growth(%)	0.1	Aug-15	0.3	Jul-15
Foreign Exchange Reserves cover,weeks	14.4	Sep-15	14.7	Dec-14
Inflation	0.8	Jul-15	1.0	Jun-15
Unemployment rate (%)	12.0	Jun-15	11.8	Mar-15

Source: Central Bank of Barbados

[2] The fuel clause adjustment adjusts the price that customers pay for each kilowatt hour of electricity as the cost of fuel used to generate electricity rises and falls.

BARBADOS SOVEREIGN CREDIT RATING

Introduction

Barbados sovereign credit rating has been downgraded four times since 2011. After the 2008 downturn, the country underwent a difficult period of stagnant growth, with a decline in tourism arrivals and a rapid accumulation of public debt that triggered a series of downgrades. Credit rating agencies justified their negative view on account of the country's large fiscal deficits, current account deficits, and high public debt levels. However, the government's fiscal consolidation program, launched in 2013, coupled with the positive growth impact from lower international prices and the gradual recovery of the tourism sector, the ratings have remained stable in 2015.

Table. 1. Barbados, Current Credit Ratings

Date		Outlook
	Standard and Poor's	
Dec-14	B/B	Negative
Sep-15	B/B(Rating Affirmed)	Negative
	Moody's	
Jun-14	B3	Negative
Jul-15	B3(Rating Affirmed)	Negative

Source: Standard and Poor's and Moody's Credit Rating

Downgrades and Rating Justifications

Standard & Poor's (S&P) and Moody's in 2015 affirmed Barbados' long-term sovereign credit rating of B and B3, respectively, with a negative outlook (Table 1). However, from 2011–2014, the economy faced three consecutive downgrades from Moody's, moving from investment grade to junk status (see the Regional Supplement section for a discussion of rating scales). Barbados government bond rating dropped three notches from BA3 in December 2013 to B3 in June 2014, and maintained its negative outlook (Table 2). This downgrade affected the country's debt service and led to a 1.5 percentage point increase in the interest rate of the 2013 Credit Suisse AG Cayman Islands, as set in its loan agreement.[3] Similarly, Standard and Poor's lowered its rating in December 2014 two notches from BB- to B with a negative outlook. The impact on the real sector was evident when the Sagicor Group announced the relocation of its headquarters as a result of the knock-on effect the credit ratings had of its products Sagicor Life and Sagicor Finance Limited; both of which were also downgraded by Standard and Poor's.

Higher country risk, sustained fiscal deficits, rising debt levels, and narrowing financing options were the basis for the downgrades. Growth was stagnant from 2010 to 2014, averaging 0.3 per cent per year. In addition, the deterioration of the fiscal position, with the deficit rising above 11 percent of GDP in fiscal year 2013/14, left the country with limited financing options. With rapid accumulation of debt, at over 8–10 percentage points of GDP per year, public debt levels rose from to 96.6 percent in 2010 to 134 percent by end of 2014 (including National Insurance Scheme [NIS] holdings). Interest payments rose to account around 26 percent of the government's revenues. The credit rating agencies noted that the debt profile was a source of concern, with around two-thirds of public debt with short-term maturity.

Table 2. Moody's Credit Rating History for Barbados

Date	Government bonds		Outlook	Status
	Foreign currency	Local currency		
Oct-09	Baa3	Baa2	Stable	Investment
Jun-11	Baa3	Baa3	Negative	Investment
Dec-12	Ba1	Ba1	Negative	Below investment
Dec-13	Ba3	Ba3	Negative	Below investment
Jun-14	B3	B3	Negative	Below investment
Jul-15	B3	B3	Negative	Below investment

Source: Moody's Investor Service

With fiscal consolidation efforts and an improved external environment, Barbados' credit rating remained unchanged in 2015. Both Standard and Poor's and Moody's affirmed their ratings, but kept the negative outlook. The fiscal consolidation efforts reduced the deficit to 6.9 percent of GDP by March 2015.[4] External developments have been favorable, with the decline in international commodity prices, an improved outlook for Barbados major trading partners, and an uptick in tourist arrivals that contributed to the stabilization of foreign reserves.

Conclusion

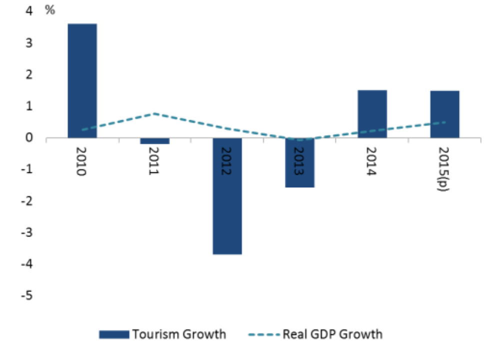
Barbados growth outlook is positive, but subject to downside risks. The gradual recovery in long-stay arrivals would continue to boost the tourism sector, but the non-tradable sectors may continue to underperform given the weak domestic demand. Standard and Poor's and Moody's cited the following as downside risks: the challenge of rolling over maturing short-term debt, renewed pressure on the exchange rate peg, and the current level of foreign reserves. They also note Barbados limited financing options with the NIS less able to finance the budget, because of the decline in the operating surplus, while domestic financing from local banks could come at higher interest rates.

[3] Government loan from Credit Suisse for US$225 million with disbursement of US$150 million in December 2013 and US$75 million in March 2014.

[4] Adverse fiscal conditions, weak economic growth, and a decline in international reserves in 2013 prompted the government to introduce new tax measures and reduce public spending.

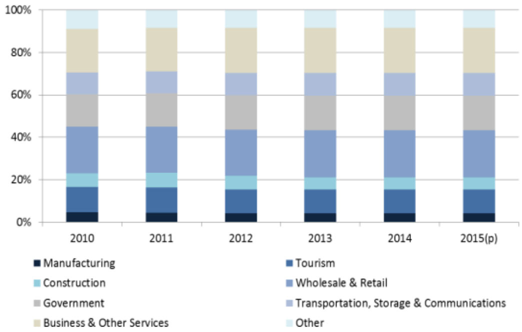
Growth is constrained by a weak tourism sector

Figure A. Real Growth and Tourism Growth



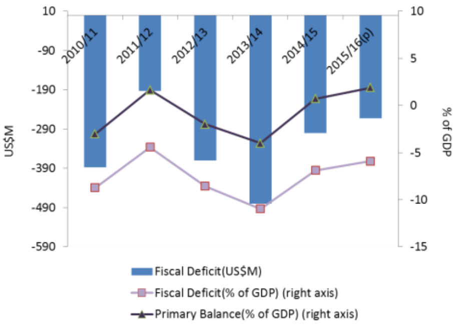
… which is the driver of growth

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



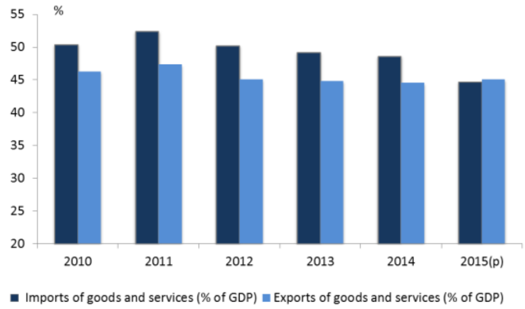
Fiscal consolidation to reduce fiscal deficits

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



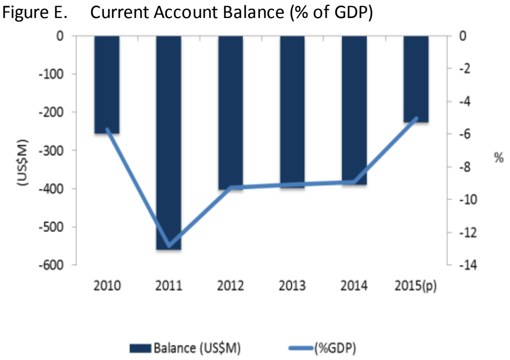
… and contained imports from lower oil and commodity prices...

Figure D. Exports & Imports (% of GDP)



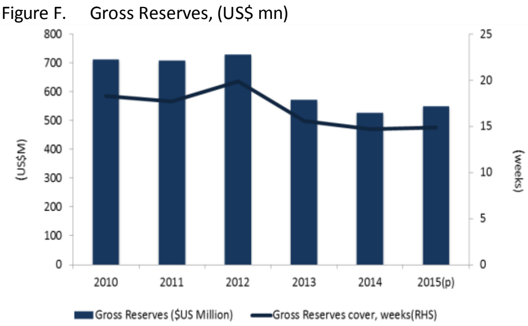
…have improved the current account balance

Figure E. Current Account Balance (% of GDP)



…and stabilized reserves.

Figure F. Gross Reserves, (US$ mn)



Sources: Accountant General, IMF World Economic Outlook October 2015, Ministry of Finance and Central Bank of Barbados

Barbados: Selected Indicators

	2010	2011	2012	2013	2014	2015(p)
(Annual percentage changes, unless otherwise indicated)						
Real sector						
Real GDP	0.3	0.8	0.3	-0.1	0.2	0.5
Nominal GDP	-3.4	-2.0	-0.6	0.9	-0.4	2.4
Inflation (end of period)	5.8	9.4	4.5	1.8	1.9	1.2
Unemployment	10.3	11.2	11.5	11.6	12.3	12.3
External sector						
Exports of goods and services (% change)	7.9	0.4	-5.3	0.2	-1.0	3.6
Imports of goods and services (% change)	9.5	1.9	-4.8	-1.2	-1.5	-6.3
Current account (percent of GDP)	-5.7	-12.8	-9.3	-9.1	-8.9	-4.8
International reserves (US$millions)	711.9	707.4	728.9	572.1	526.1	549.9
International reserves cover (months)	3.8	3.7	4.0	3.2	3.0	3.3
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)						
Public sector						
Total revenue	25.6	29.3	28.4	26.7	28.8	28.7
Total expenditure	34.3	33.7	36.9	37.7	35.7	34.6
Central government primary balance	-3.0	1.6	-2.0	-4.0	0.7	1.9
Central government overall balance	-8.7	-4.4	-8.5	-11.0	-6.9	-5.9
Debt indicators						
General government debt	71.7	78.0	83.6	94.4	99.8	103.9
General government debt (inclusive of NIS holdings)	96.6	105.3	113.6	127.3	134.1	138.6
Central government debt over revenues	280.0	266.5	294.7	353.6	347.0	363.9
External debt service as percentage of exports of goods and services	10.2	6.9	7.3	6.9	7.4	8.1

Sources: Central Bank of Barbados; World Economic Outlook, IMF (October 2015); Ministry of Finance.

Note: (p) projected figures for 2015.

Quarterly Bulletin October 2015

GUYANA POSITIVE INVESTMENT OUTLOOK AMID TESTY WATERS

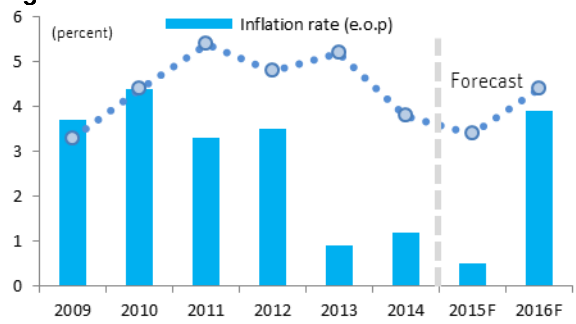
Highlights

- Several major economic and socially important sectors (rice, gold, bauxite, timber, and sugar) are facing simultaneous challenges pose downside risks to Guyana's macroeconomic outlook.
- Guyana fell five notches from 2015 in the Doing Business Report for 2016.
- Venezuela-Guyana border tensions continue to rise, which could affect foreign investment.

Recent Developments

Commodity price declines, unresolved structural issues in key sectors, and lower consumer confidence have dampened Guyana's economic outlook over the near term but growth prospects are still stronger compared to other Caribbean commodity exporters , Suriname and Trinidad and Tobago. While lower oil prices have provided some relief to the oil-dependent economy, declines in key export commodity prices, notably gold, sugar, and rice; an inability to undertake and complete structural reforms; and low business and consumer confidence have combined to contribute to an economic slowdown. Government authorities forecast real economic growth to be 3.4 in 2015, compared with 3.8 percent in 2014 (Figure 1). Authorities expect positive boosts from the rice, sugar, and ICT sectors and anticipate higher remittances and steady foreign direct investment (FDI) inflows associated with the recent discovery of oil (Figure 2). The forecast, however, hinges on a number developments, namely whether large scale gold mine production meets targets, finding new export markets for rice and a stabilization of export commodity prices.

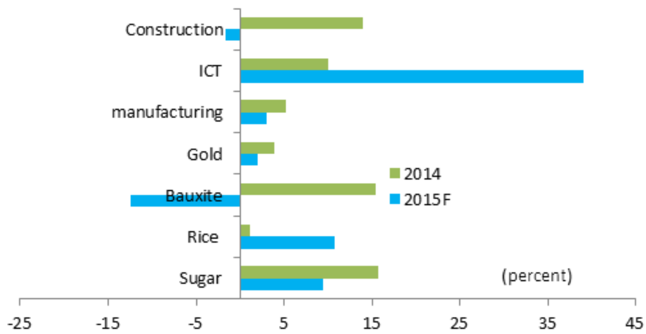
Figure 1. Economic Outlook 2015–2016



Source: Regional Economic Outlook, International Monetary Fund.

Bitter sweet. While Guysuco, the state-owned sugar company, continues to make strides in production—recently breaking a weekly record of 10,539 tons per week for the week ending September 25th—long-standing operational and industrial labor issues are deepening. Year-to-date sugar production stands at 148,610 tons, and by year's end, sugar production is expected to expand by 9.5 percent compared to 2014. However, the sector continues to be affected by labor strikes, low plant processing efficiency, and poor management. These downsides together with the eroding preferential sugar preferences in the European Union place the company in a precarious financial situation. As a state-owned enterprise (SOE) with 16,000 direct employees, Guysuco represents a significant burden on fiscal accounts through the need for recurrent transfers to bridge financing gaps and cover operational losses.

Figure 2. Sectoral Performance



Source: Bureau of Statistics.

Rice faces marketing issues. Paddy rice production in Guyana is expected to reach 925,000 metric tons in 2015, according to United States Department of Agriculture, a marked increase from the 633,000 metric tons produced in 2014. However, uncertainty reigns as to the ability of Guyana to successfully place the amount above domestic consumption needs, approximately 145,000–150,000 metric tons, in export markets. Historically, 80 percent of Guyana's rice production is exported, with the lucrative Venezuelan market accounting for roughly 30–60 percent of all exports over the last few years. The recent territorial spat between Guyana and Venezuela, with the latter claiming two-thirds of Guyana's territory, has led to the nonrenewal of their rice compensation agreement for 2016, thereby placing in jeopardy the viability of the Guyanese rice sector.

Authorities have searched for new markets in West Africa and Central and South America to absorb the production. Unfortunately, Guyanese milled rice exports are at a disadvantage because the average milled cost of Guyanese rice is above levels recorded by leading rice exporting nations, thus forcing Guyana to exploit peculiar windows in the international rice market given the notorious “thinness” or limited and volatile amounts traded. The recent run of record-breaking production has increased capacity while leaving underlying structural issues – such as lack of adequate storage facilities, soil management issues, farm size issues, the high cost of energy for milling, and limited value–added processing unaddressed. On a positive note, international rice stocks are expected to fall slightly in the 2016 marketing year, most likely giving some upward support to average international rice prices with all else constant.

Low gold prices and underdeclarations are fostering a shift to large scale mines. Gold production in the first half of 2015 fell to 169,976 ounces from 198,046 in the corresponding period of 2014. Production is expected to expand by a modest 2 percent in 2015**.** The price slump for metal (5-year low of US$1,097 per ounce) has exposed significant frailties within the sector for small- and medium-scale miners. On October 29, Guyana Goldfields—one of two large mines—announced the sale of 1,400 ounces at an average price of US$1179 per ounce. Guyana Goldfields is expected to produce 30,000–50,000 ounces before the end of the year. Small mines, though less costly to set up, have higher per-unit operational costs and lower gold recovery rates owing to the rudimentary technology employed; thus, higher prices are needed for small miners to break even compared to larger mining operations. The prolonged slump in prices has seen a rise in indebtedness and closure of several small operations, which has impacted production. In addition, arbitrage conditions in gold selling exist with neighboring states and this gives incentives for smuggling. Authorities estimate that a substantial amount of ounces per week are being smuggled, depriving the treasury of significant royalty payments. In response, authorities have offered to review royalty levels and possibly harmonized royalty rates with neighbors to eliminate arbitrage conditions and issue tax breaks and other concessions as part of a relief package to stem the slide in the sector, dominated by small and medium miners.

Tumatumari Hydro Inc. intends to repair the defunct Tumatumari hydroelectric plant in the Potaro-Siparuni region. The US$5 million two-phase rehab project would see the plant restored to its original capacity and two 30-kilometer transmission lines connected. A second phase would boost capacity to 3 megawatts. The project would save an estimated US$40 million in fuel import costs over a 10-year period and generate 30 direct and 30 indirect jobs.

Amalia Falls Hydro Project to be reviewed. Government authorities and the Government of Norway representatives have agreed to an independent review the Amalia Falls project. The incoming government considered the project too costly and risky and the Norwegian government wants US$80 million set aside for investment in a “transformational energy” project to be released and used. **Guyana declines in Ease of Doing Business Index ranking**. Guyana slides five places from its 2015 ranking in the 2016 Doing Business Report. Guyana now ranks 137 out of 189 countries participating. The report analyzes how easy or difficult it is for an entrepreneur to open and run a small to medium-size business and to comply with relevant labor and tax regulations. Measures are calculated for 11 areas business activity: starting a business, obtaining construction permits, getting an electricity connection, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and labor-market regulation. The areas that Guyana marginally improved in were resolving insolvency and registering property, while its areas of substantial decline were getting electricity and starting a business. The declines in other areas were marginal.

Governance Issues

Cross-border tensions continue to mount. On September 27, President David Granger of Guyana met with President Nicolás Maduro of Venezuela and the latter agreed to cease a military buildup on its border with Guyana and to accept a United Nations (UN) fact-finding mission. But on October 13, the Government of Venezuela delivered a letter to Guyana Goldfields, warning that their mining operations “could incur legal consequences” because it is in a disputed area. The company denounced the letter as unfounded and is continuing operations. Guyana is asking the UN General Secretary Ban Ki-moon to refer the dispute to the International Court of Justice for a final ruling.

High Frequency Macroeconomic Indicators	Last data	Period	Prior data	Period
Annual GDP growth (%)	3.8	2014	5.2	2013
Exports (12-month growth)	-15.1	2014	-2.8	2013
Imports (12-month growth)	-5.1	2014	-7.5	2013
Private sector credit growth (%)	9.1	2014	14.5	2013
Inflation	1.2	2014	0.9	2013
Exchange rate (end of period)	206.5	2014	206.3	2013

Source: Bureau of Statistics and Bank of Guyana

CREDIT RATING IN GUYANA – THERE'S NONE

What Does the Absence of Credit Risk Ratings Imply?

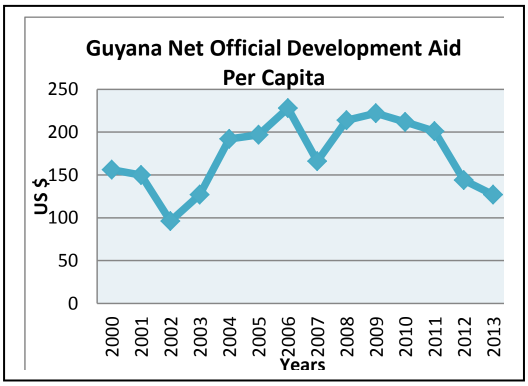
Guyana has not been rated by international rating agencies. Guyana is a lower-middle income country with a GDP per capita income of approximately US$3,725 and a Human Development Index of 0.638. (2013, ranking 121 out of 187 countries reporting) but it currently does not have sovereign credit risk rating. This lack of a rating makes it difficult to borrow from or issue debt instruments on private international capital financial markets. Accordingly, external financing is largely restricted to borrowing from multilateral development finance institutions and bilateral governments.[1]

The absence of a credit rating complicates the financing of development needs. The country has significant infrastructure deficits, and it needs to diversify its economic base away from extractive industries, intensify agricultural production, and generate more knowledge-intensive jobs to reduce the high rate of emigration among those with tertiary education. Yet Guyana has to rely on limited concessional long-term funds from multilateral and bilateral donors, which fall far below total financing needs. The availability of concessional funding, moreover, is diminishing, as donors channel more of these types of funds to least developed countries and ones emerging from crisis. Most of these countries tend to be located in sub-Saharan Africa, South Asia, and West Asia.

How did this happen?

Other countries with at a similar level of development have market access.[2] But the country had accumulated a massive and unmanageable amount of external debt. In 1982, its debt-to-GDP ratio reached 332 percent, and it defaulted on external debt obligations. At its worst moment, in 1988, the external debt-to-GDP ratio reached 500 percent. Guyana then entered a structural adjustment program in the 1980s and later entered the Highly Indebted Poor Country (HIPC) program in the late 1990s before receiving debt relief in 2006. As a former HIPC country, Guyana is encouraged to abide by more conservative debt limits and rely more on concessional debt by IMF–World Bank guidelines in order to avoid falling into debt distress again.

Figure 3. Guyana Net Official Development Aid Flows



Source: World Bank (Note: Norway Redd+ transfers are included)

What is the Path to Market Access?

The guiding principle behind obtaining a rating is making investors and creditors believe that they will be repaid on time. The key variables that factor into the decision are existing debt loads, proportionate debt load, debt servicing capacity, growth rates, the size of fiscal buffers, transparency, quality of governance, protection of property rights, quality of contract enforcement, vulnerability to exogenous shocks, and the absence of political instability.

The path to market access and a credit rating could thus entail the following:

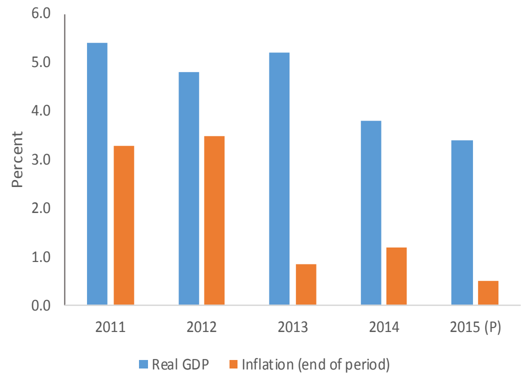
1. Building fiscal and external buffers.
2. Reducing output gaps by growing closer to potential.
3. Enhancing public expenditure efficacy.
4. Building a track record by having the government issue long-term domestic bonds and service them without problems.
5. Then attempt an international bond issuance but be aware that the issuance may need a partial guarantee from a third party or a credit default swap.

[1] Note that in June 2015, the Government of Guyana borrowed US$15 million from the National Commercial Bank of Jamaica with a one-year tenure.

[2] For example, Guyana has a much higher level of GDP per capita income compared to Vietnam (US$3,725 versus US$1,910) but the same HDI rating--.638 in 2013. Yet Vietnam has a BB- credit rating from Standard & Poor's, a B1 from Moody's, and a BB- from Fitch's.

Low commodity prices and high uncertainty depress growth...

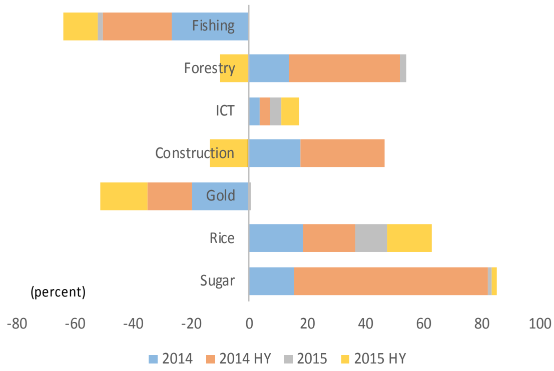
Figure A. Growth and inflation rates



Source: Ministry of Finance

...further compounding structural issues in key sectors

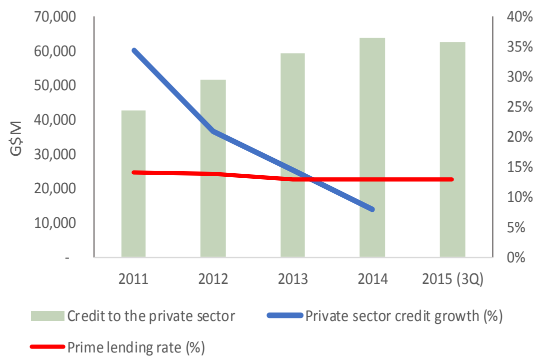
Figure B. Sectoral growth rates



Source: Ministry of Finance

Meanwhile, low economic activity slows borrowing...

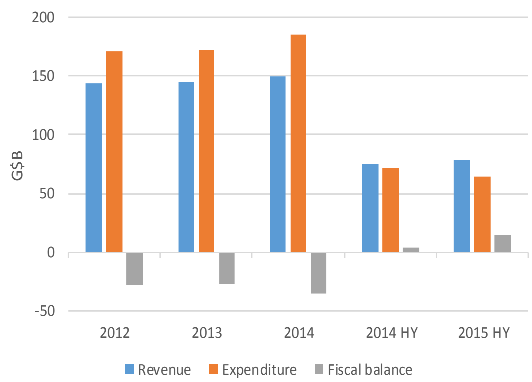
Figure C. Private sector borrowing



Source: Bank of Guyana

... however, lower capital investments, subsidies and higher revenue growth compensates for rise in transfers.

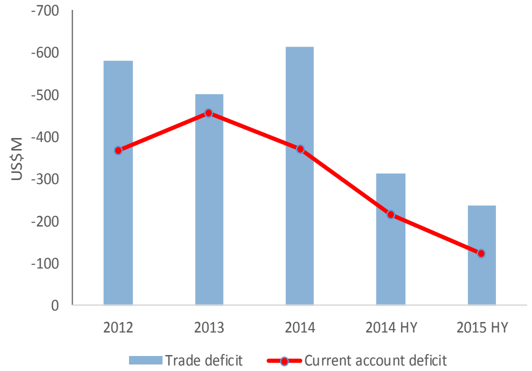
Figure D. Fiscal performance



Source: Bank of Guyana

Low oil prices offsets commodity slump as deficits decline...

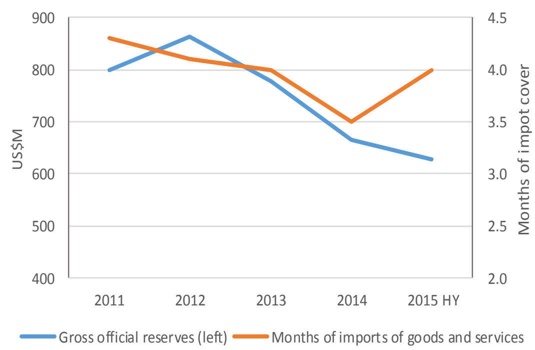
Figure E. Current account and trade deficits



Source: Bank of Guyana

...maintaining a favorable import cover despite lower reserves

Figure F: Gross International Reserves



Source: Bank of Guyana

Guyana: Selected Indicators

	2011	2012	2013	2014	2015(P)
(Annual percentage changes, unless otherwise indicated)					
Real sector					
Real GDP	5.4	4.8	5.2	3.8	3.4
Nominal GDP (GYD millions)	460108	511337	537428.0	555837.0	N/A
Inflation (end of period)	3.3	3.5	0.9	1.2	0.5
External sector					
Exports of goods and services	25.8	20.1	-10.7	-12.4	N/A
Imports of goods and services	25.1	14.4	-7.0	-6.7	N/A
Current account (percentage of GDP)	-16.4	-15.7	-14.2	-14.4	N/A
Remittances (percentage of GDP)	18.3	16.7	11.7	17.0	N/A
FDI (percentage of GDP)	9.9	10.8	7.3	9.8	N/A
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central government					
Revenue and grants	26.5	27.9	22.1	26.7	N/A
Current expenditure	19.8	21.1	19.8	21.8	N/A
Capital expenditure and net lending	6.7	11.1	8.2	13.13	N/A
Overall balance	-3.2	-4.7	-4.4	-4.9	N/A
Debt indicators					
Central government debt	69.3	72.1	57.4	N/A	N/A
Central government debt over revenues	261.6	N/A	N/A	N/A	N/A
External public debt (end of period)	48.6	54.2	41.5	45.3	N/A
External debt service as percentage of exports of goods and services	3.0	N/A	N/A	N/A	N/A

Source: Central Bank of Guyana, World Economic Outlook, IMF (April 2015).

Notes: (P) denotes projected figures. FDI= foreign direct investment.

Overview

Key indicators for Jamaica continue to improve. The Jamaican economy remains stable, with interest rates declining, inflation at its lowest level in decades, international reserves at prudent levels, and Jamaican debt securities maintaining their steady performance. In addition, the World Bank's Doing Business 2016 report lists Jamaica as one of the top 10 most improved economies in the world. However, economic growth and employment creation remain low, which has led to a significant decline in the investor and consumer confidence indices.

Highlights

Jamaica continues to perform under the Extended Fund Facility (EFF) with the International Monetary Fund.

The debt-to-GDP ratio has improved markedly as a result of the Petrocaribe deal.

Elections are due at the end of 2016, but they might be called early.

Recent Developments

Jamaica is among several Caribbean countries that experience challenges with keeping correspondent banking relations. The severing of international banking relations in order to minimize the risk of being involved in money laundering (named de-risking) has become a worldwide challenge for countries that depend on international transactions for trade and remittances. The issue has been noted in Jamaica for a while[1] but a recent survey indicates that the Caribbean is the region most severely affected by the challenge to keep correspondent banking relations.

Jamaica's ranking in the Doing Business indicators improved again. Jamaica moved up seven places in the Doing Business ranking to 64th in the 2016 report from 71st in the previous ranking (taking into account new methodology). Major reforms over the period included the enactment and operationalization of the insolvency framework and changes in tax policy and administration.

The fiscal targets under the Extended Fund Facility (EFF) will be relaxed. Following the reduction of debt to GDP from the Petrocaribe debt buyback, projections indicate that debt to GDP will be below the 100 percent target by March 2020. As a result, the authorities and the IMF reached an agreement to reducing the primary surplus target from 7.5 percent of GDP to 7.25 percent for FY2015/16 and 7 percent thereafter. The IMF Executive Board is scheduled to consider the 10th review December 16, 2015.

Growth projections have been revised downward for the 2015/16 fiscal year. This is partially due to renewed drought conditions that have adversely affected the agricultural sector. Growth is now projected to be 1.4 percent for the 2015/16 fiscal year, down from an initial 1.9 percent projection. Jamaica's economic performance has remained below the initial EFF projections and could create a challenge to sustaining the necessary consensus for fiscal consolidation and further reforms. Nevertheless, the growth projections constitute an improvement over the 0.2 percent of growth recorded in fiscal year 2014/15.

The economic recovery is broad-based. The Statistical Institute of Jamaica indicates that for the second quarter of 2015, the economy grew by 0.6 percent. The expansion was driven by both goods-producing industries and service industries, which improved by 0.8 percent and 0.5 percent, respectively. Benefiting from increased production at alumina plants, mining and quarrying was the best performer, at 4.1 percent growth. Conversely, manufacturing expanded only 0.2 percent, as strong improvements in food, beverages, and tobacco (2 percent) were offset by a contraction of 0.2 percent in other manufacturing. Agriculture, which is important to rural employment, was constrained by drought conditions, with growth at 0.3 percent. The services industries benefitted from increased tourist arrivals from the US and Europe.

Impatience is increasing about the benefits of the reform program. Both business and consumer confidence indices declined sharply in the third quarter of 2015, suggesting impatience with economic recovery and the creation of tangible benefits from the fiscal consolidation and economic reforms started under the IMF program.

Oil prices keep inflation low. At the end of September 2015, year-to-date inflation was 2.2 percent, considerably below the 5 percent recorded in the corresponding period of 2014. The decrease is largely attributable to the decline in oil prices that started one year ago. Inflation expectations, however, are at 7.3 percent for 2015, which is considerably above Bank of Jamaica (BOJ) projections, implying caution by the private sector.

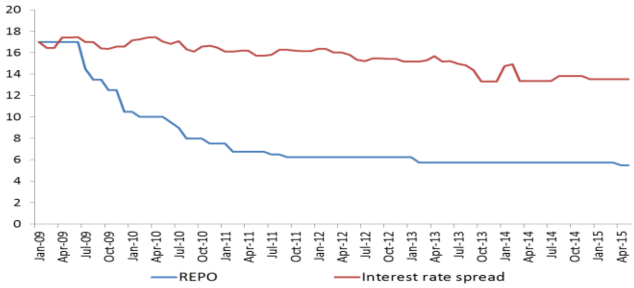
[1] For Jamaica, see Schmid, Juan Pedro. 2014. How much anti-money laundering effort is enough? the Jamaican experience. IDB Policy Brief 242. For the survey, see World Bank. 2015. Withdraw from correspondent banking: where, why, and what to do about it.

Net international reserves remain at prudent levels. Total reserves at the end of September 2015 were US$2.441 billion dollars. This level represents an increase of US$325 million since June 2015. A portion of the reserves comprises US-dollar instruments issued by the BOJ for reserve accumulation. The BOJ intends to become less dependent on these borrowed reserves as investor confidence improves.

Treasury bill and repo rates continue to decline. The 180-day treasury bill rate has declined to 6.5 percent from 6.2 percent as of October 21, 2015. Furthermore, the policy repo rate offered to commercial banks by the BOJ also declined to 5.25 percent in October 2015.

The lower interest rates should increase bank lending and support economic growth. Between January 2009 and May 2015, interest rates have declined by 1150 basis points to 5.50 percent. In response, deposit-taking institutions have reduced their average lending rates by 792 basis points to around 15 percent. Over the same period, the average savings rate on deposits also fell by 445 basis points to 1.44 percent. As a result, the spread is still significant between lending and savings rates (Figure 1).

Figure 1: BOJ REPO Rate and Interest Rate Spread of Deposit-Taking Institutions, Jan. 2009 to Apr. 2015



Source: Bank of Jamaica

The largest portion of credit goes to tourism, government services, and construction. Between January and July 2015, government services and tourism each accounted for 7.5 percent of commercial bank loans and advances. Over the same period in the previous year, government services and tourism made up 7.3 and 7.6 percent of loans and advances, respectively. This compares to manufacturing, which moved from 3.5 to 3.6 percent of commercial bank loans and advances over the same period.

Exchange rate depreciation this fiscal year has increased compared to the corresponding period in 2014/15. The Jamaican dollar has depreciated 4.2 percent from the start of the 2015/16 fiscal year to end-October 2015. This compares to 2.9 percent depreciation for the same period in fiscal year 2014/15 (5 percent for entire 2014/15 fiscal year). Despite the higher depreciation so far this year, the devaluation has not translated into higher domestic prices, as lower oil prices have more than compensated any upward pressure.

Unemployment has declined slightly. As of July 2015, unemployment was 13.1 percent, compared to 13.8 percent in July 2014 and 13.2 percent in April 2015. The decrease is noticeable because it happened on the back of an increase in the labor force, which increased by 1.6 percent compared to April 2015 and 2.1 percent compared to July 2014.

Jamaica has seen a renewed increase in crime. The number of murders by the end of October 2015 surpassed the number of murders during the whole of 2014. One noteworthy development is the increase in murders in rural areas, with 470 so far this year compared to 326 in 2014. This means that in 2015, rural parishes account for more murders than metropolitan Kingston and St. Andrew combined (356).

Conclusion

The Jamaican government has shown determination to implement the IMF program. After ten successful reviews, there are a number of positive economic signals, including reduced inflation and lower interest rates. However, getting the country on a sustained path of economic growth and reducing unemployment remain as challenges.

The IDB is supportive of the reform agenda and the macroeconomic management of the country. This has been reflected by the extraordinary budget support provided since early 2013.

Long-term sustainability requires continued fiscal consolidation and reforms. The reduction of public sector wages to the target 9 percent of GDP or below will be a major challenge. In addition, Jamaica will remain vulnerable to economic shocks as long as the debt-to-GDP ratio remains elevated.

High Frequency Macroeconomic Indicators				
	Last data	Period	Prior data	Period
Real GDP Growth (y/y)	0.6	2015 Q2	0.4	2015 Q1
Inflation (y/y)	2.0	Oct-15	4	Mar-15
Net international Reserves (US Mil)	2,454.31	Oct-15	2401.24	May-15
Exchange Rate (end of period)	119.2325	Nov-15	116.1223	May-15
Unemployment Rate (%)	13.1	Jul-15	13.8	Oct-14

Sources: Bank of Jamaica; Statistical Institute of Jamaica.

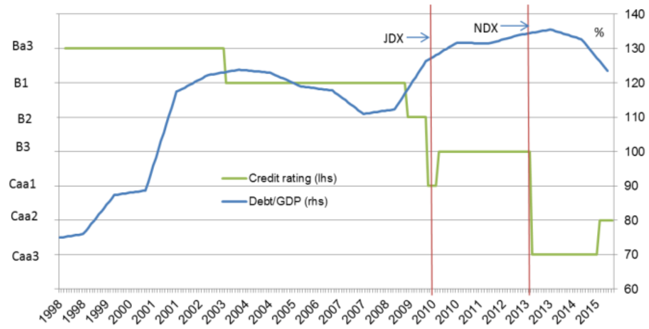
Quarterly Bulletin October 2015

JAMAICA CREDIT RATING IN JAMAICA: A DIFFICULT START

Introduction

Jamaica's credit rating has been improving in line with the recent stabilization of the economy. Historically, high debt levels, weak fiscal outcomes, and repeated periods of economic distress have negatively affected Jamaica's credit rating. As a result, the rating had been on a downward trend since the early 2000s (Figure 1).

Figure 1: Debt to GDP and Moody's Credit Rating 1998–2015



Source: Moody's.

Credit Ratings

The economic uncertainty that started with the world financial crisis has had a profound impact on Jamaica's credit ratings. Jamaica undertook domestic debt exchanges in 2010 and 2013. Even though these exchanges were only on domestic debt, did not include a reduction in the value of securities and participation was voluntary, rating agencies considered them to be distressed debt exchanges/default events. The ratings were raised quickly after the 2010 Jamaica Debt Exchange, but remained at the level of a downgrade for a sustained period following the 2013 National Debt Exchange. The difference in the treatment of the two debt exchanges indicates that rating agencies were more positive about Jamaica's outlook in 2010 than in 2013. Given the need of a debt exchange only three years after the first one, observers were worried that the National Debt Exchange might still not be enough. However, Jamaica's stabilization was successful and has progressed since then, leading the major rating agencies to increase their ratings to levels above the one during the National Debt Exchange.

Current ratings imply a stable but vulnerable economy. Standard & Poor's credit rating for Jamaica stands at B. Moody's rating for Jamaica sovereign debt is Caa2, and Fitch's credit rating for Jamaica is B-. While the rating agencies use different definitions for ratings, they are comparable and are usually aligned. The ratings indicate that under the current projections, Jamaica has the capacity and willingness to meet its obligation on its financial obligations. However, the levels also imply that adverse shocks could impair the debtor's ability to fulfill its obligations (see regional contribution for discussion of rating scales).

Table 1: Jamaica, Current Credit Ratings

Standard & Poor's	
Rating	B/B; stable outlook
Last action	B/B ratings and stable outlook affirmed (September, 29, 2015)
Moody's	
Rating	Caa2; positive outlook
Last action	Upgrade from Caa3, maintains positive outlook (May 28, 2015)
Fitch	
Rating	B-; positive outlook
Last action	Affirms B- rating and revises outlook to positive (February 19, 2015)

Sources: Standard & Poor's; Moody's; Fitch.

The current ratings remain at low levels. The current ratings remain below the levels before the 2008–2009 economic downturn. Also, they are low in comparative perspective and place investment in Jamaica government securities within a highly speculative category. Important factors that determine the current rating are:

- **Debt to GDP:** Jamaica's high level of debt to GDP is a major negative factor for its credit rating. The fiscal burden and the rigidity of expenditures from the debt burden expose the country, as space to accommodate external shocks is restricted. At the same time, Jamaica's historical commitment to honoring its debt payments works in its favor.
- **Current account:** Jamaica's current account deficit has been in line with other countries with similar ratings. The decreased external risk following the strong decline of the current account deficit and increases in international reserves over the last two years is thus credit positive.
- **Economic growth:** Weak economic growth has been Jamaica's Achilles' heel for the last two decades. An

acceleration would strengthen several macroeconomic indicators and support the ongoing fiscal consolidation and building of buffers. At the same time, maintaining support for economic reforms will become increasingly challenging without an acceleration of economic growth and resulting job creation.

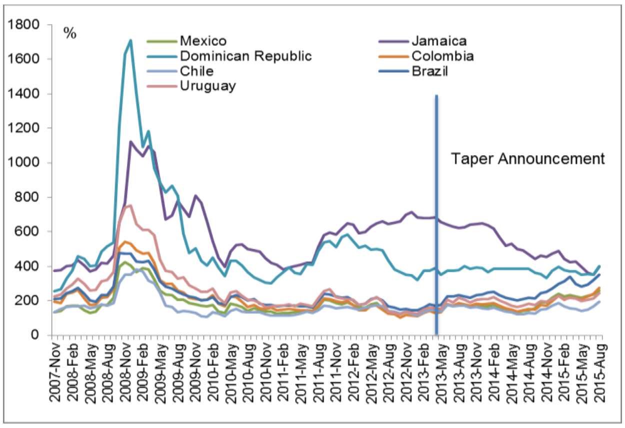
- **Political commitment:** Jamaica's reform commitment and progress under the EFF with the IMF was one of the main factors for the recent upgrades by all rating agencies.
- **History:** Rating agencies acknowledge Jamaica's commitment to service its debt obligation. Jamaica has always given priority to debt service, reflected in the fact that debt service is not approved by parliament in the budget debate. This includes the two domestic debt exchanges, which were voluntary and without a reduction in the value of the instruments, and as such do not constitute a default by Jamaican law. This commitment allowed Jamaica to have higher debt burden than countries with a comparable rating.

Jamaica could experience further upgrades in the near future. The high debt burden is a major negative factor for the country's credit rating. However, if Jamaica implements the macroeconomic and fiscal targets outlined in its medium-term framework, debt to GDP should decline below 100 percent and 60 percent by 2020 and 2026, respectively. An important negative aspect of Jamaica's economic history has been its weak growth performance. A sustained acceleration of the economy would be another major positive factor for its rating.

A better credit rating would facilitate access to financial markets. Following the approval of the EFF with the IMF, the Emerging Market Bond Index of Jamaican government bonds has started to decrease relative to other emerging economies' bonds (the spread measures the difference in the yield compared to the United States, with a tightening implying that Jamaican bond prices increased relative to the benchmark). In line with more positive assessments of the country by rating agencies, the spread continued to decline, even as other emerging market spreads have been on an upward trend since the taper announcement (Figure 2).

A further decline in spreads would be especially important in light of the likely increase in United States benchmark interest rates. It is widely expected that the United States Federal Reserve will start increasing the target on the Fed Fund Rate, which will probably translate into higher interest rates for all debt instruments, including emerging market securities. However, further improvements in the economic outlook for Jamaica and thus a better credit rating would lead to lower spreads, which would partly compensate for the expected higher interest rates.

Figure 2. Emerging Market Bond Index Spreads, November 2007–August 2015 (monthly average)



Source: Latinwatch, IDB.

Conclusions

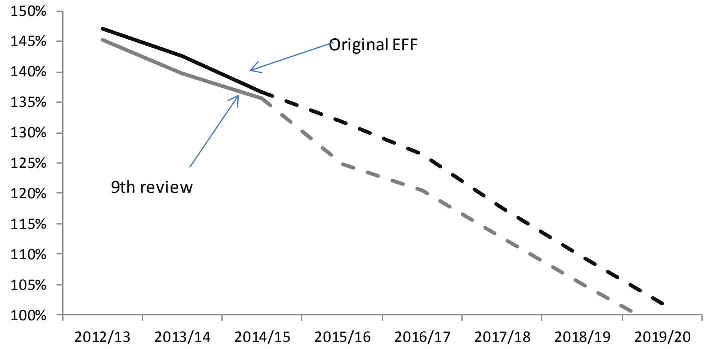
Jamaica's economic woes have been reflected in its credit ratings. Since the start of credit ratings for Jamaica, they have mostly been declining. Moody's, for instance, downgraded Jamaica's credit rating five times versus two upgrades since 1998. In addition, the downgrades were larger than the upgrades.

In 2015, all major rating agencies adjusted upward either the outlook or the credit rating for Jamaica. At the same time, yields on Government of Jamaica bonds have been decreasing in 2015, and Jamaica accessed international financial markets with a record US$2 billion issuance in July 2015 (at a record low yield). All of these factors are a reflection of Jamaica's improved economic sustainability and strong performance under the IMF-supported EFF program.

Jamaica might experience further upgrades. The country's current ratings indicate its willingness and ability to fulfill financial obligations while remaining vulnerable to external shocks. The high debt burden is especially challenging, as it implies a heavy fiscal burden and lack of fiscal space to accommodate shocks. However, under current projections, Jamaica could soon experience further credit rating upgrades.

Petrocaribe deal supports reaching the debt target …

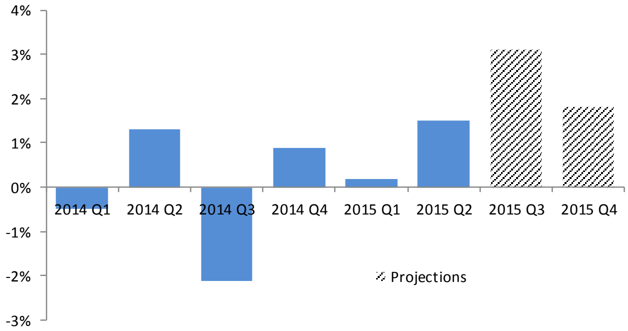
Figure A. Debt-to GDP Ratio 2011/12 - 2019/20



Source: IMF

…in spite of slow economic recovery.

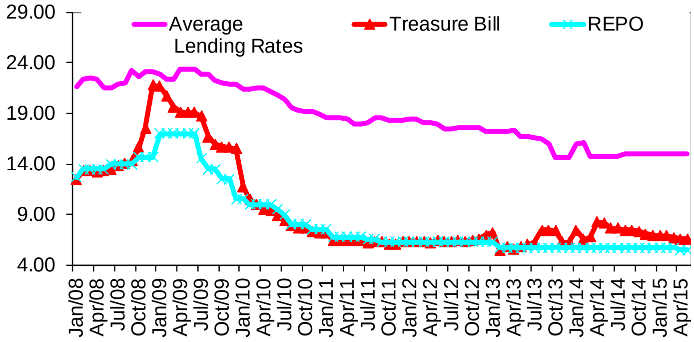
Figure B. Real Quarterly Growth Rate (Y/Y)



Source: Statistical Institute of Jamaica

Interest rates are declining only slowly…

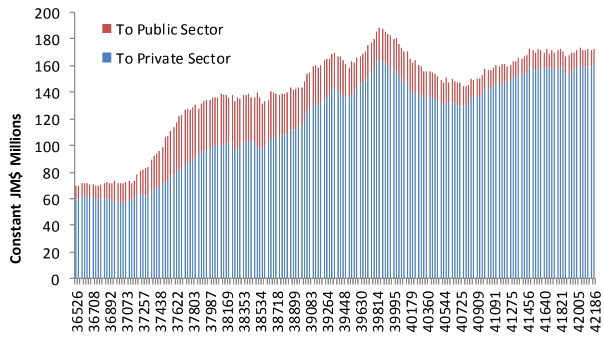
Figure C. Interest Rates



Source: BOJ

… negatively affecting credit growth.

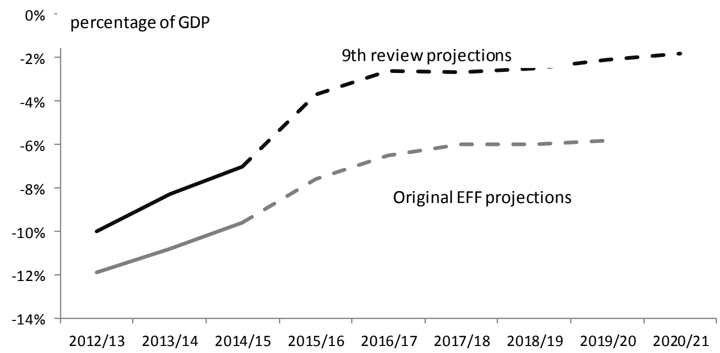
Figure D. Commercial Bank Credit, Jan 2000—July 2015



Source: BOJ

The current account is expected to overperform…

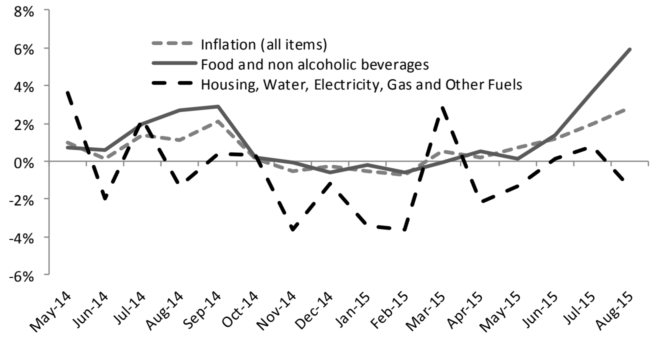
Figure E. Current Account Balance (% of GDP)



Source: IMF

…and inflation has been under control

Figure F. Inflation and Its Main Components



Source: BOJ

	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	0.2
Nominal GDP	7.8	7.5	6.1	8.9	7.4
Inflation (end of period)	7.8	7.3	9.1	8.3	4.0
Exchange rate (end of period)	85.7	87.3	98.9	109.6	115.0
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	-8.4	-6.1
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	27.2	26.3
Budgetary expenditure	33.2	32.0	29.9	27.1	26.8
Primary balance	4.5	3.2	5.4	7.7	7.5
Budget balance	-6.3	-6.4	-4.1	0.1	-0.5
Public sector balance	-6.9	-6.4	-4.2	0.1	0.1
Debt indicators					
Public sector debt	141.3	143.7	146.4	141.6	129.1
Public sector debt over revenues	536.1	563.7	n.a.	516.4	491.6
Foreign currency public debt (end of period)	83.3	81.4	76.0	76.4	49.9
External interest payments as percentage of exports of goods and services	11.5	10.4	-	-	-
International reserves					
Net international reserves (USD million)	2553	1777	884	1303	2401.24
Gross international reserves (weeks of goods and services imports)	23.4	17.8	<12	14.4	29.73

Source: Ministry of Finance and Planning; BOJ; Statistical Institute of Jamaica; IMF; authors' calculations.
Note: (P) denotes projected figures.

Overview

Suriname's macroeconomic framework has weakened amid low commodity prices. Reform measures have begun that should improve efficiency of the public sector and reduce vulnerability to commodity price shocks. The government also devalued the Suriname dollar against the U.S. dollar to levels broadly in line with that in the parallel market. The continuation of investments in the mineral sector, such as the start of a new refinery of the state-owned oil company, and the beginning of operations of a large gold mining company are the main drivers of economic growth in the medium term.

Highlights

Suriname remains dependent on the extractive industry for economic activity in the medium term.

Economic growth revised downward for 2015 and 2016.

Fiscal measures are implemented, which could reverse the trajectory in the fiscal position.

Suriname devalues its local currency against the U.S. dollar.

Recent Developments

Low commodity prices hamper economic performance. The International Monetary Fund (IMF) revised economic growth downward by 1.2 percentage points to 1.5 percent in 2015, owing partially to low international prices for gold and oil. The balance on the non-financial public account has also been adversely affected; Central Bank data to August 2015 indicate a drop in total revenues by about 4 percent of GDP, while total expenditure to GDP over the similar period last year remained constant. During the first eight months of 2015, the fiscal deficit was US$260.6 million (estimated at 7.7 percent of GDP). The external situation also weakened as export value declined. International reserves were US$396.6 million at the end of the first ten months of 2015 (41 percent lower than the level recorded at the end of 2014), and the current account deficit widened by two-fold to an estimated 12 percent of GDP. The government responded to the slippage in the macroeconomic framework by presenting a fiscal home-grown package that has already been partially implemented, and by implementing monetary and exchange rate policies. The reform package should reduce aggregate demand and subsequently stem the decline in foreign reserves.

The government is implementing a structural reform agenda. The public sector is expected to complete reforms in four main areas: public finance management; revenue; expenditure, procurement and asset management; and treasury operations (see Figure 1). The structural reforms in the Ministry of Finance or the public sector should generate efficiency gains for the government and improve the business climate.

Subsidies to state-owned enterprises are expected to decrease. Amid lower commodity prices, Suriname's fiscal-deficit-to-GDP ratio increased from 2 percent in 2012 to an average of 5.6 percent in the past two years. Total mining revenues in the period from 2011 to June 2015 fell by US$385 million to US$53.5 million. Given the limited control of increasing revenues within the current tax framework, fiscal consolidation has started with expenditures, through a reduction in transfers and subsidies. Total subsidies represent about 8 percent of GDP, with transfers to the electricity and water companies amounting to 6 percent of GDP (the electricity company alone received about 5.5 percent of GDP in subsidies in 2014). An increase in the tariffs on electricity and water should bring these state-owned enterprises close to self-sufficiency and remove the need for subsidies from the government.

Figure 1. Structural Reforms

Public Finance Management
- Formalization of the financial programming and policies model for budget preparation and medium-term fiscal planning
- Liquidity financing forecasts
- Reform of the budget process
- Inclusion of a fiscal rule in a revised PFM law

Revenue
- VAT
- Direct tax reform
- Reform or elimination of minor taxes
- Revenue administration reform

Expenditure, procurement, and asset management
- Introduction of IFMIS
- Ministerial expenditure commitments
- Shift to GFS-based fiscal reporting
- Centralized procurement
- Centralization of a government asset management system

Treasury Operations
- Creation of a Treasury Department
- Establishment of a liquidity forecasting system
- Introduction of a T-bill auction system

Source: Ministry of Finance.

The authorities devalued the local currency by 25 percent against the U.S. dollar. The spread in the exchange rate for U.S. dollar between the official and parallel markets had widened significantly since the beginning of this year. The deteriorated external situation challenged the stability of the currency. On November 18, 2015, the Central Bank announced a devaluation to the exchange rate band to between SRD$3.96-4.04 per

Inter-American Development Bank

US$1[1]. The exchange rate is allowed some flexibility through a +/- 5 percent adjustment around the central rate.[2] With this devaluation, the official exchange rate was brought in line with that in the parallel market. The Central Bank noted that the greater exchange rate flexibility should stimulate market forces and competition while ensuring closer integration and deepening of the Surinamese currency. The authorities also implemented monetary policy to reduce the liquidity in the economy by increasing the reserve requirement ratio on commercial banks from 30 percent to 35 percent as of November 3, 2015.

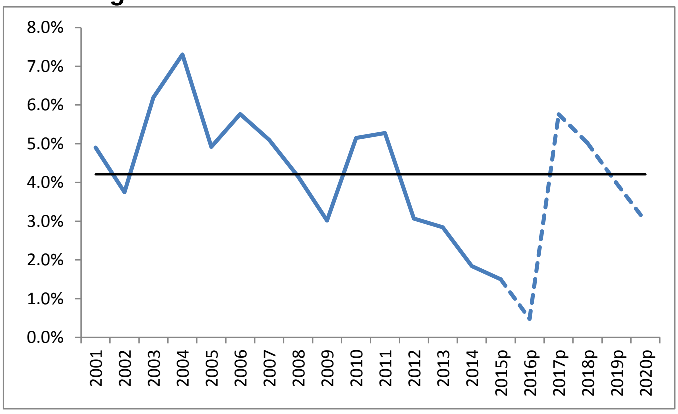
An agreement has been announced on the operations of Suralco. Alcoa, the parent company of Suralco, has indicated that it would close the Suralco plant by November 30, 2015, owing to the losses suffered from the change in global demand and prices. The Government of Suriname and Alcoa agreed to accelerate the transfer of the Afobaka hydroelectric power station on 31 December 2015.[3,4] The bauxite industry was once the main contributor to economic activity in Suriname; however, in the past few years its contribution represented on average 13 percent of total exports, 5 percent of government revenues, and 5 percent of GDP. Employment in the bauxite industry also represents about 2 percent of the total workforce in Suriname.

A revival of the bauxite industry is seen as possible. As part of the negotiations between the Government of Suriname and Alcoa, a new refinery, "Bakhuys," should be constructed, with an initial capacity of 1.5 million tons of alumina per year and the option to increase production to 3 million tons. The two-year feasibility study is to be carried out by Alcoa and will address an investment of US$3 billion. The costs for engineering and studies for the mining and refining project are to be fully covered by Alcoa. A continuation of the bauxite-alumina industry could improve the economic prospects for Suriname.

External financing from multilateral and bilateral donors is budgeted for 2016. The IDB is expected to contribute financing in 2016 in the areas of energy, education, agriculture, and private-sector and public finance. Grant financing is expected from the Chinese for housing and crime prevention and safety of US$60 million and €4.55 million, respectively, while the European Commission's grant[5] of €13.8 million to the agriculture sector will continue into 2016. The Indian government is expected to provide another credit line of US$50 million. The US, the French Development Agency, Cuba, Brazil, and the Islamic Development Bank will also provide technical and financial support to Suriname in the coming year. The total external financing requirement is budgeted at 1.4 percent of GDP in 2016. The external financing and grants to the country should positively affect the external balance and strengthen institutional capacity.

Macroeconomic recovery is projected in the medium term. Economic growth averaged 4 percent in the past 15 years, primarily reflecting higher commodity prices and greater investments in the extractive industry. Despite the likely slowdown in the growth of real national output in 2015 and 2016 (estimated 1.5 percent and 0.5 percent, respectively), economic growth should accelerate and remain fairly robust for the latter part of the medium term (4 percent), with increased activities in the extractive industry (see Figure 2).

Figure 2. Evolution of Economic Growth



Source: World Economic Outlook, IMF (October 2015).

There are downside risks in the medium term. Growth in the medium term is anticipated to be driven by the operations of the new refinery in the state-owned oil company, the commercialization of the Newmont gold mining project, and the construction of a new bauxite refinery. Downward pressures in the international prices of these commodities could affect the profitability of these activities. Other downside risks include policy reversal; weak world GDP growth; reduced domestic economic activity; and an underdeveloped government securities market.

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[1] The previous exchange rate band was SRD$3.25–3.35 per US$1.
[2] Market participants may buy US dollars and sell in a range between SRD$3.80 per US dollar and SRD$4.20 per US dollar, respectively.
[3] The Afobaka hydroelectric power station currently provides about 50 percent of Suriname's electricity supply.
[4] Alcoa will also have to comply with restoration of the environmental damage caused by the mining of bauxite.

[5] This grant is expected to be disbursed during the period of 2014–2020.

CREDIT RATING: GETTING TO INVESTMENT GRADE

Introduction

Suriname's credit rating has improved over the years. Improvements of macroeconomic indicators in the early 2000s and the stable political environment contributed to the upgrades in the foreign currency rating by four notches (now BB−/Ba3). Despite the improved rating, the country is yet to achieve investment grade, which can imply a higher cost of borrowing in the international capital market (Hull, Predescu and White, 2004).

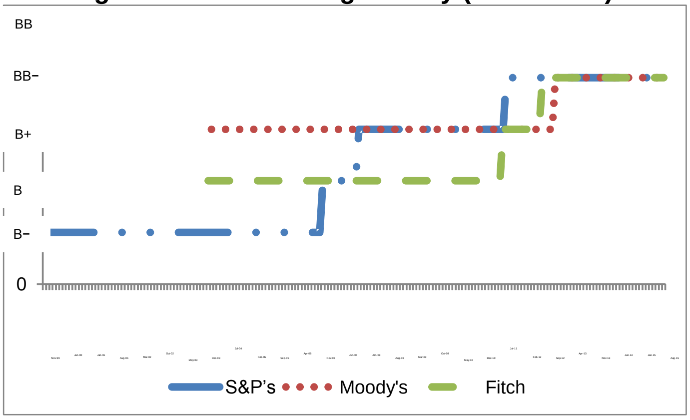
Investment grade ratings are associated with more favorable conditions at the capital markets. A sovereign rating is aimed at measuring the risk that a government may default on its own obligations in either local or foreign currency (see the Regional Supplement for details on credit ratings). Moreover, it takes into account both the ability and the willingness of a government to repay its debt in a timely manner. More than 90 percent of the variation in credit ratings is explained by GDP per capita, GDP growth, inflation, current account balance to GDP, non-gold foreign exchange reserves to imports, and default history and level of economic development (Elkhoury, 2008).

Credit Rating in Suriname

The foreign sovereign credit rating has improved since its establishment but is still classified as speculative (Figure 3). Suriname's credit rating history dates back to November 1999, where a rating of B− was issued by Standard and Poor's, with Moody's and Fitch providing ratings from 2004. In 2013, Dagong Global Credit Rating Co., Ltd. rated Suriname for the first time. Suriname's long-term foreign currency debt was categorized as high risk by the three rating agencies until August 2011, when Standard and Poor's improved the rating by one notch to BB−. Although the sovereign rating remains speculative with ongoing uncertainty, the fulfillment of repaid obligations is "likely."

The current credit rating is three notches below investment grade. Suriname's ratings were affirmed by Standard and Poor's, Moody's, and Fitch in April of this year despite the macroeconomic challenges faced from lower commodity prices. Foreign currency debt holds a BB− rating from Standard and Poor's and Fitch, which is comparable to the Ba3 rating from Moody's. The outlook remains stable by all three rating agencies, though each highlighted its concerns on institutional capacity, widened external current account, and the subsequent pressures on the foreign exchange reserves while with low commodity prices.

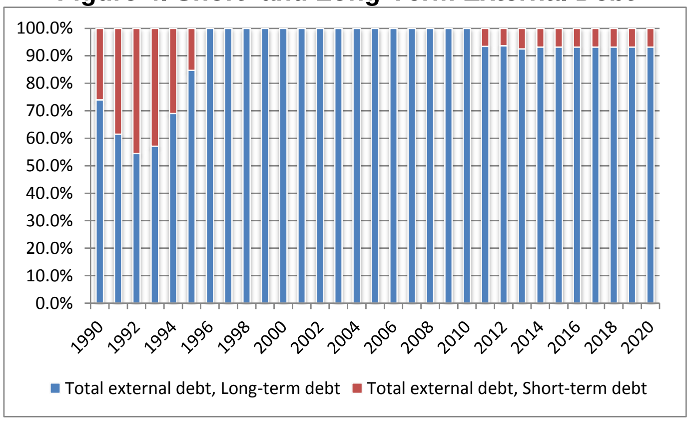
Figure 3. Credit Rating History (1999–2015)



Sources: Standard & Poor's (S&P's); Moody's; Fitch.

Low debt contributed to better investment rating. Suriname's ability to contain fiscal deficits and keep debt levels low has prompted credit rating agencies to improve the local and foreign currency ratings over the years. Short-term debt comprised 28 percent of total debt at the end of 2014, while 27 percent of the total debt had a variable interest rate in 2013 (and the interest rate for 56 percent of external debt is variable). In the past five years, short-term debt accounted for about 7 percent of total external debt (see Figure 4). Since the implementation of the National Debt Act in 2002, Suriname has kept its debt levels below 60 percent of GDP.[6]

Figure 4. Short- and Long-Term External Debt



Source: World Economic Outlook, IMF (October 2015).

Suriname's capacity to absorb domestic and external shocks exceed the ones of peers. Economic growth in Suriname averaged 4.4 percent between 2005 and 2014, compared to 3.1 percent for the rest of small economies (ROSE), and 1.6 percent for the Caribbean. The

[6] The debt rule suggests a threshold for external debt of 35 percent of GDP and for domestic debt, 25 percent of GDP.

consistently high growth rate has placed Suriname in an upper middle-income status in 2005, and per capita income increased almost four-fold between 2000 and 2014.[7] The country's heavy reliance on the extractive industry for economic activity reaped positive returns before and after the 2008 financial crisis, when oil and gold prices increased. This advancement left Suriname's economy better able to absorb domestic and external shocks than countries with similar credit ratings. The country's record of responding with effective tax-raising and cost-containment measures to fiscal shocks increases its standing with its peers (Fitch Ratings, 2014).

Accessing the capital market is important given income volatility. Suriname's high dependence on oil and gold for revenue and foreign reserves increases income volatility. Lower government revenues increase a country's financing needs when there are higher or similar expenditure levels compared to the previous period. The capital market is an appropriate hedging instrument to reduce this income volatility. Accessing financing through international capital markets can raise the necessary funds to cover financing needs; however, the cost of borrowing can be influenced by the country's credit rating. Therefore, a country would prefer to have a higher investment rating. Moreover, a stronger financial regulatory framework, focused in financial development, will further develop the securities market and enhance productivity.

Reforms would be necessary to improve ratings. To improve the sovereign credit rating, the rating agencies expect continuity in the reform agenda, including monetary and fiscal policies, budget management, and strengthened institutional capacity. The sovereign credit rating would be important for Suriname if the country were to assess the international bond market, as a higher credit rating is more likely associated with more favorable terms and conditions.

Conclusion

The outlook of Suriname's macroeconomic framework will influence its future sovereign credit rating. The government has taken steps to address the slippages in the fiscal and external balances, and planned investments are expected to drive economic growth and improve the external situation. The economy's high reliance on primary mineral products presents a challenge in reducing the vulnerability to commodity price shocks. The implementation of measures that should improve Suriname's macroeconomic framework will be important for its next credit rating assessment.

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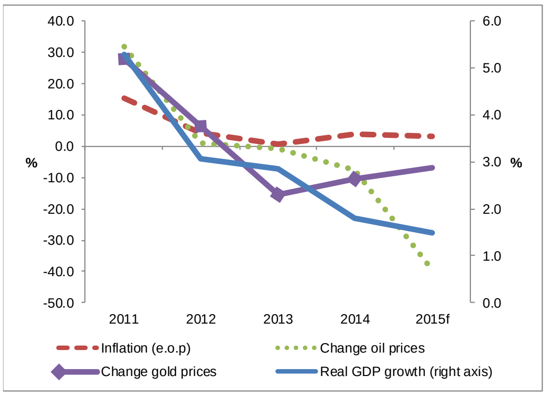
[7] According to World Bank statistics and income classification, Suriname's GNI per capita moved from US$2713 in 2000 to US$9584 in 2014.

Suriname's Macroeconomic Snapshot

Low commodity prices have kept overall inflation low but restricted economic growth...

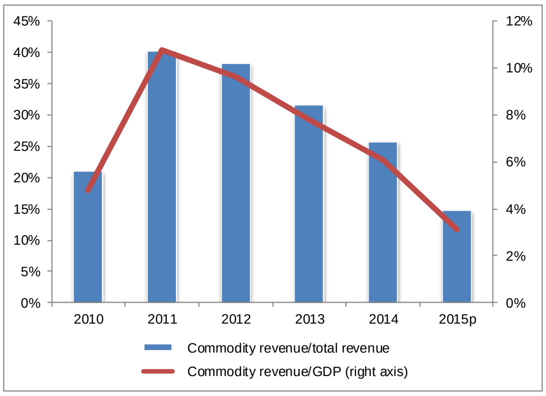
Figure A. Real GDP, Inflation, and Commodity Prices



Sources: Central Bank of Suriname; and IMF.

…and reduced revenue contributions from the mining and oil sectors.

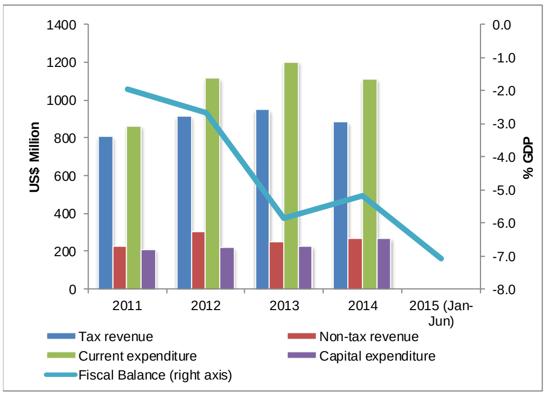
Figure B. Trend in Commodity Revenues



Source: IMF.

Consequently, the fiscal balance weakened …

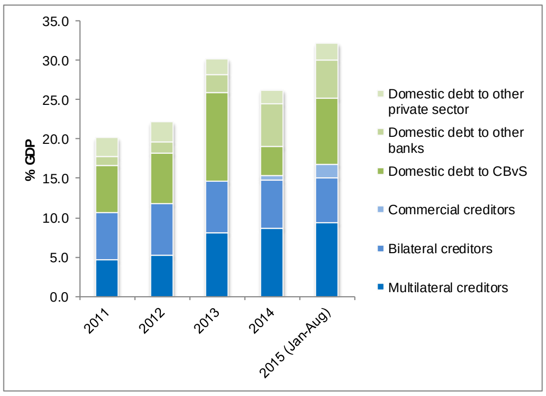
Figure C. Overall Fiscal Performance



Source: Central Bank of Suriname.

… and debt to GDP ratio increased.

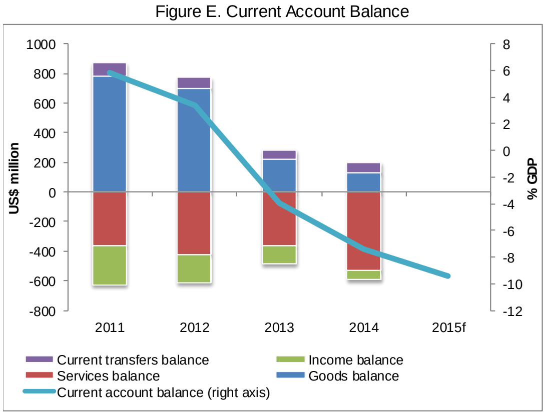
Figure D. Overall Debt Performance



Source: Central Bank of Suriname.

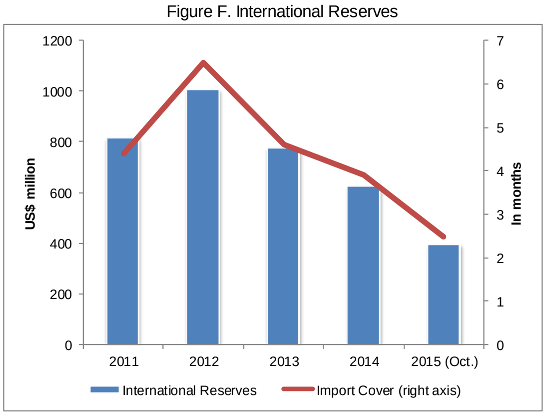
Higher public spending and lower exports placed pressure on the current account,…

Figure E. Current Account Balance



… and reduced the international reserves position.

Figure F. International Reserves



IDB Inter-American Development Bank

Suriname: Selected Indicators

	2011	2012	2013	2014	2015 (p)
(Annual percentage changes, unless otherwise indicated)					
Real sector					
Real GDP	5.3	3.1	2.8	1.8	1.5
Nominal GDP	-0.1	10.6	4.4	5.1	-3.1
Inflation (end of period)	15.3	4.4	0.6	3.9	5.2
Unemployment	8.0	8.5	8.5	8.9	8.9
Exchange rates (end of period)	3.3	3.3	3.3	3.3	3.3
(In percent of GDP, unless otherwise indicated, on a calendar year basis)					
External sector					
Exports of goods and services	60.9	57.6	50.1	45.2	40.6
Imports of goods and services	51.2	52.0	52.9	52.8	50.5
Current account	9.7	5.7	-2.8	-7.6	-9.9
Gross international reserves (US$ millions)	816.9	1008.4	775.4	621.8	369.6*
Central government					
Revenue and grants	26.7	25.1	24.7	23.5	21.2
Commodity-related revenues	10.8	9.6	7.8	6.1	3.1
Total expenditure	26.1	29.0	31.5	28.7	30.2
Primary balance	1.5	-2.9	-5.4	-4.3	-7.8
Overall balance	0.5	-3.9	-6.8	-5.1	-9.1
Debt indicators					
Total government debt	20.1	21.6	30.2	26.9	36.9
Government debt over revenues	75.4	85.8	122.2	114.6	174.2
External debt	9.4	10.1	15.2	10.9	18.7
Domestic debt	10.7	11.5	14.9	16.0	18.2
External debt as percent of exports of goods and services	49.5	49.5	66.0	35.4	-

Sources: Central Bank of Suriname; World Economic Outlook, IMF (October 2015); Moody's Investors Service; IDB.

Notes: (P) denotes projected figures

* Data to October 2015.

Quarterly Bulletin October 2015

TRINIDAD AND TOBAGO

NEW BUDGET, HARSH REALITIES

Highlights

Trinidad and Tobago is in an economic recession.

Forecasts for the medium term suggest low growth, widening fiscal and external deficits along with rising debt levels.

The 2015/16 budget proposes a deficit of 1.8 percent, but the Central Bank is projecting a much higher fiscal deficit.

The Energy Shock: Overview and Outlook

Energy dependence remains a challenge. The decline in energy prices alongside contracting energy output has had adverse effects on Trinidad and Tobago's macroeconomic outlook. Trinidad and Tobago is in a recession after experiencing four consecutive quarters of economic contraction, according to the Central Bank. Growth in the first half of 2015 contracted by 2 percent, influenced by a 3.5 percent decline in the energy sector and a 1 percent decline in the non-energy sector. The energy contraction occurred mainly because of shortfalls in natural gas production. A slowdown in construction, distribution, and manufacturing sectors were responsible for the poor performance of the non-energy sector. The Central Bank is projecting that the 2016 fiscal deficit could increase to TT$7 billion, much higher than the budgeted TT$3 billion. To finance the fiscal gap, the government would have to borrow. As a result, the authorities are seeking to raise the country's borrowing limits. Thus, the forecast for the medium term suggests low growth, widening fiscal and external deficits, along with rising debt-to-GDP ratios.

Recent Developments

The government of the republic of Trinidad and Tobago presented its budget on October 5, 2015. The budget, entitled "Restoring Confidence and Rebuilding Trust," was presented against harsh external realities. The 2015/16 budget is based on an oil price of US$45.00 per barrel and a mix of gas prices to reflect different export markets, including a Henry Hub price of US$2.75 per million British thermal units (mmBtu) and an Indonesia price of US$8.00 per mmBtu. Based on these fundamentals, the budget projects a total revenue of TT$60.29 billion, of which energy revenue is TT$5.4 billion. Budgeted expenditure in 2015/16 is expected to increase by 2 percent over the actual estimated expenditure for 2014/15. The budget proposes a deficit of 1.8 percent of GDP, down from an estimated 4.2 percent in the previous fiscal year.

Fiscal revenue is a major concern, but the budget proposes several measures to boost non-energy revenues. With only 9 percent of government revenues expected to come from the energy sector, the budget proposes several measures to strengthen non-energy revenues. Key among these are: a reintroduction of the property tax, reform of the tax administration, reform of the value added tax, legislation on transfer pricing, and increased fuel prices, asset sales, and green-fund and business levies. These are good signals and can aid to boost revenue collection, but weaker performance in the non-energy sector could hinder this effort.

The repo rate was increased for the seventh consecutive time, from 2.75 in June 2014 to 4.5 percent in September 2015. This increase was primarily an attempt to mitigate potential capital outflows due to the pending lifting of the US interest rate. Monetary authorities have also maintained an aggressive liquidity management program to support the transmission of repo rate increases throughout the financial system. In the context of a contracting non-energy sector and moderate inflation, the central bank still views its monetary policy stance as accommodating.

Private sector lending weakened in the first quarter of 2015. The growth in private sector credit slowed in the first quarter of 2015 to 4.6 percent, after an increase of 7.4 percent in March 2014. The weak performance was due to sluggish business lending. A further disaggregation of business lending showed a deceleration in credit growth in the construction, manufacturing, and distribution sectors. Real estate mortgages also slowed to 8.7 percent in July 2015, down from 11.7 percent in July 2014. On the other hand, consumer loans remained buoyant, driven by strong lending for new motor vehicle purchases and home improvement/renovation.

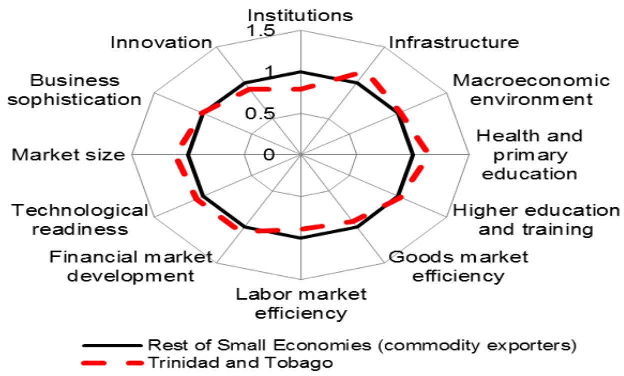
Trinidad and Tobago continues to maintain very strong international liquidity ratios with significant reserves. However, net international reserves trended mostly downward in 2015, even though they remain at prudent levels. Total reserves as of August 2015 were US$10.4 billion, or 12 months of import cover. This represents a decline by 8.3 percent from December 2014. Also, like fiscal year 2015, no transfers to the Heritage and Stabilization Fund are projected for fiscal year 2016. Despite declining energy revenues, the authorities have been reluctant to utilize the stabilization component of the HSF, opting instead to borrow and adjust expenditure. It would be beneficial for Trinidad and Tobago to conduct a review of the Fund to determine whether it should be solely a savings (heritage fund) or whether the

stabilization component should be defined more explicitly to counter any potential negative signaling impacts.

Trinidad and Tobago ranks 89th (of 189 countries) on the 2015-2016 Global Competiveness Index, retaining its rank from the previous index. Poor work ethic, perception of corruption, government bureaucracy, crime, access to financing, and foreign exchange regulations are identified as the most problematic factors for doing business in the country (Figure 1).

Productivity is declining. The index of productivity declined by 2.0 percent in the first three months of 2015, higher than the 0.7 percent decline in the corresponding period one year ago. The decline reflected a fall in both the index of hours worked and the index of domestic production. Assembly and assembly-related industries, petrochemicals, and textiles, garments, and footwear experienced larger declines. However, productivity gains were attained in the refining of oil and gas as well as the water and the food-processing subsectors.

Figure 1. Global Competiveness Index (2015–2016)



Source: IDB staff estimates from World Economic Forum.

Foreign exchange shortages have continued, but changes to the distribution system in the last quarter of 2015 could lead to improvements. Earnings in the energy sector directly affect the inflow of foreign currency and are a key determinant of central bank interventions to defend the country's de facto peg. Thus, the decline in oil prices has contributed to lower conversions of US dollars by energy companies at commercial banks, leading to foreign exchange shortages in the market. In October 2015, the central bank reverted to the foreign exchange rate system that was in operation prior to March 2014 and injected US$500 million to clear the backlog of demand for foreign currency.

Unemployment has increased slightly in 2015. From a record low of 3.3 percent in the first quarter of 2014, the unemployment rate has gradually increased to 3.7 percent in March 2015. For the first six month of 2015, a 13.4 percent increase in retrenchment notices was recorded against the same period in 2014. Job openings, a direct measure of the vacancy rate, fell by 34 percent in the first two quarters of 2015.

Inflation remains moderate. Headline inflation slowed to 4.5 percent in August 2015, considerably lower than the 7.5 percent recorded for the corresponding period in 2014. This was largely attributed to a deceleration in food inflation, with food prices declining from 16.8 percent in December 2014 to 8 percent in August 2015. However, an expected increase in consumer spending and disruptions to the domestic agricultural supply could push up inflationary pressures in the next few quarters.

The initial public offering of shares in Phoenix Park Gas Processors Ltd was a success. Considered the largest in Trinidad and Tobago's history, the initial public offering raised approximately TT$2.2 billion (US$349 million) and was reportedly oversubscribed 1.77 times.

Traffic congestion and mobility affect productivity. According to the results of a Central Bank Labour Force survey, traffic congestion was identified as the second-most important factor affecting productivity, after an inadequately educated workforce. In fact, since 2007, the country's motorization level (351 vehicles per 1000 persons) was higher than the global average (219.6 per 1000 persons), and this number has increased to 586 vehicles per 1000 persons in 2014. The transport infrastructure and road networks, however, did not keep pace with the dramatic growth in private vehicle ownership, thereby resulting in severe traffic congestion, prolonged travel times, and adverse effects on worker productivity. The authorities have engaged the IDB in technical discussions aimed at finding solutions to this challenge.

High-Frequency Macroeconomic Indicators				
	Last data	Period	Prior data	Period
Annual GDP growth (%)	-1.2	Q1 2015	0.1	Q42014
Exports (12-month growth)	-18.3	Q1 2015	-7.4	Q1 2014
Imports (12-month growth)	-13.2	Q1 2015	2.1	Q1 2014
Private sector credit growth (%)	5.8	Jul-15	5.6	Jun-15
Inflation (% yoy change)	4.0	Aug-15	7.5	Aug-14
Exchange rate (end of period)	6.3	Sep-15	6.4	Dec-14
Unemployment rate (%)	3.7	Mar-15	3.3	Dec-14

Source: Central bank of Trinidad and Tobago

TRINIDAD AND TOBAGO

CREDIT RATINGS: RISK OF MORE DOWNGRADES

Introduction

Trinidad and Tobago's credit rating was downgraded in April 2015. The events leading to the downgrade can be traced to the pattern of public expenditure that emerged during the 2001–2008 energy boom and the subsequent neglect for fiscal reforms that were required to mitigate the adverse effects of external shocks in the period following 2008. The oil price crash in December 2014, which carried into 2015, further exposed the economy's structural vulnerabilities. The dramatic fall in budgeted energy revenues in fiscal year 2016 and a relatively rigid structure of public expenditure would imply that the country may need to source financing (domestic or external) to cover a fiscal gap. As a result, maintaining an investment grade rating is important. Although Trinidad and Tobago has a strong external position and moderate debt burden, which support its current rating, policy reforms to mitigate against risks that can erode this position would have to be considered.

Rating History for Trinidad and Tobago

The 2015 Moody's credit rating downgrade was a first for both domestic and foreign currency bonds and notes. Trinidad and Tobago's foreign currency denominated bonds and notes were upgraded from Ba1 (non-investment grade) in 1995 to Baa3 (investment grade) in 2000. A further upgrade to Baa1 was achieved in 2006. The improved ratings in the 2000s reflected lower external debt and a dynamic and diversifying export base within the energy sector. Trinidad and Tobago maintained this rating until 2015, when it was downgraded to Baa2. Its local currency bond ratings improved from Baa3 in 1998 to Baa1 in 2000, and this was maintained until the downgrade to Baa2 in April 2015 (Table 1). It is important to note that despite upgrades and affirmation of credit ratings, Moody's and other credit rating agencies cautioned authorities that the rapid increase in primary expenditure could complicate fiscal adjustment in the event of a downturn in the energy sector and affect its creditworthiness in the future.

Despite the recent downgrade by Moody's, Trinidad and Tobago maintains an investment grade rating. The effect of the credit rating downgrade and the change in economy's outlook from stable to negative can push up the cost of borrowing for domestic financing and influence investment decisions. As a result, this action should caution authorities about the country's macroeconomic sustainability over the medium term. However, it should be noted that despite the credit rating downgrade, Trinidad and Tobago remains in the 'adequate payment capacity' category. Moody's identified three drivers behind the downgrade:

1. Persistent fiscal deficits and challenging prospects for fiscal reforms.
2. Decline in oil prices and limited economic diversification to weigh negatively on economic growth prospects.
3. Weak macroeconomic policy framework given the lack of a medium-term fiscal strategy; and inadequate provision of vital macroeconomic data.

Table 1. Moody's Ratings for Trinidad and Tobago

Senior unsecured and LT issuer rating (foreign)		
30-Apr-15	Baa2	Downgrade
16-Jan-13	Baa1	Rating affirmation
13-Jul-06	Baa1	Upgrade
9-Aug-05	Baa2	Upgrade
6-Apr-00	Baa3	Upgrade
11-Jan-00	Ba1	On watch - possible upgrade
10-Oct-95	Ba1	Upgrade
8-Feb-93	Ba2	New
Senior unsecured and LT issuer rating (domestic)		
30-Apr-15	Baa2	Downgrade
16-Jan-13	Baa1	Rating affirmation
6-Apr-00	Baa1	Upgrade
9-Nov-98	Baa3	New

Source: Moody's Investors Service
Note: LT = long term

What Led to the Downgrade, and Could It Happen Again?

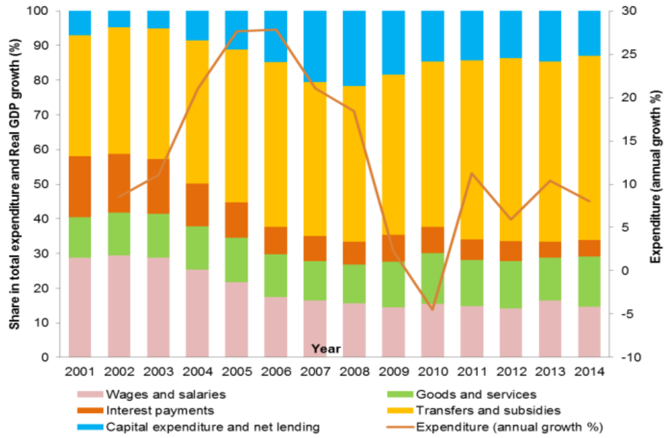
For a country that experienced robust growth, which averaged 6 percent from 2001 to 2008, and large surpluses on its fiscal and current accounts, it is important to understand how it was downgraded and the risk for further deterioration in the country's macroeconomic fundamentals.

Persistent Fiscal Deficits

Fiscal revenues expanded significantly from 2003–2008. Revenues increased by more than 200 percent from fiscal year 2003 to fiscal year 2008, driven largely by energy revenues. Persistent fiscal surpluses were recorded during this period despite a sharp rise in expenditures. However, public expenditure became rigidly focused on increasing transfers, subsidies, and wages and salaries (see Figure 2). With the global financial crisis and the decline in oil prices in 2008, fiscal adjustment was difficult because expenditure patterns were well

entrenched and the country ran persistent fiscal deficits from 2009 to 2015. The crash in oil prices that ran from December 2014 into 2015 exacerbated the situation and made the prospects for fiscal reform even more challenging.

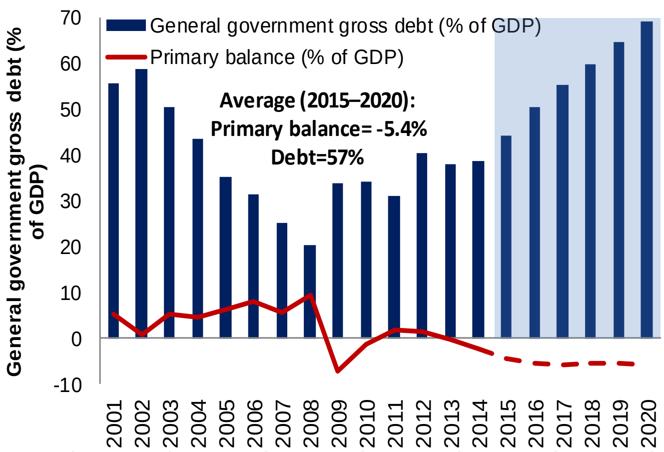
Figure 2. Structure of Government Expenditure



Source: Central Bank of Trinidad and Tobago.

Debt-to-GDP ratio declined in 2001–2008, but increased in the post–2008 period. Trinidad and Tobago reduced its debt-to-GDP ratio during the period of 2001–2008 from about 57 percent to 20 percent. These improvements supported the country's credit rating upgrades. However, after 2008 the debt-to-GDP ratio increased significantly, to 40 percent in 2014. Forecasts over the medium term suggest that authorities would have to contend with a worsening primary fiscal balance and rising debt levels (Figure 3).

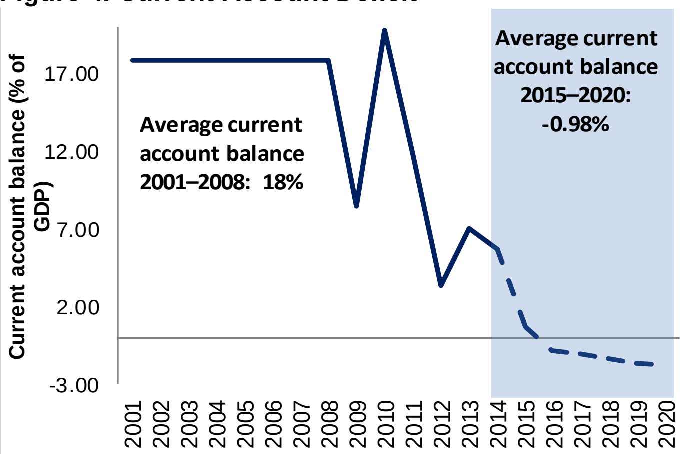
Figure 3. Primary Balance and Public Debt



Source: World Economic Outlook, IMF (October 2015).

Trinidad and Tobago typically runs a current account surplus largely due to energy exports. Exports of energy products account for more than 80 percent of total merchandise exports. The trade balance improved significantly during the 2002–2008 period in line with energy prices. But after 2008, the current account surplus tapered to about 10 percent of GDP by 2013, and this is projected to continue into negative territory over the medium term (Figure 4).

Figure 4. Current Account Deficit



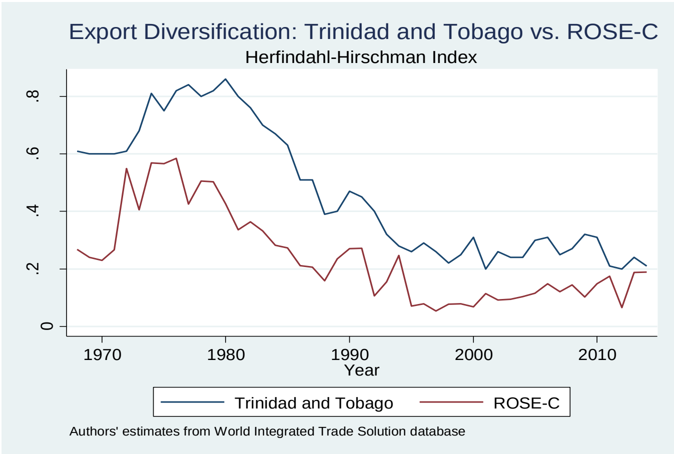
Source: World Economic Outlook, IMF (October 2015).

Limited Economic Diversification and Lower Growth

Trinidad and Tobago has made some progress in terms of economic diversification, but mainly within the energy sector. The Herfindahl-Hirchman Index, which measures the diversification of a country's export basket, shows that Trinidad and Tobago is less diversified when compared to the rest of small-commodity exporting countries (ROSE-C) (Figure 5).[1] Trinidad and Tobago's elusive quest for sustainable, balanced growth is being held back by its inability to stimulate economic activity in the non-energy sectors. As a result, adverse energy shocks (both prices and production in this case) are expected to weigh negatively on economic growth over the next five years (Figure 6).

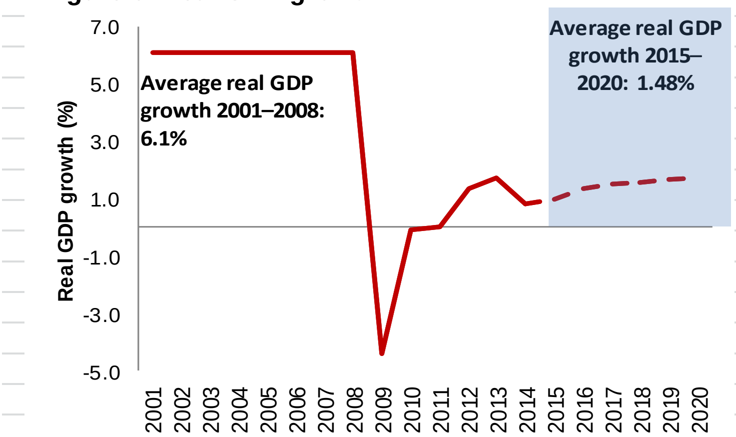
[1] See Ruprah et al. (2014) for definition of ROSE-C.

Figure 5. Export Diversification: Trinidad and Tobago vs. ROSE-C (Herfindahl-Hirschman Index)



Source: IDB staff estimates from World Integrated Trade Solution database.

Figure 6. Real GDP growth



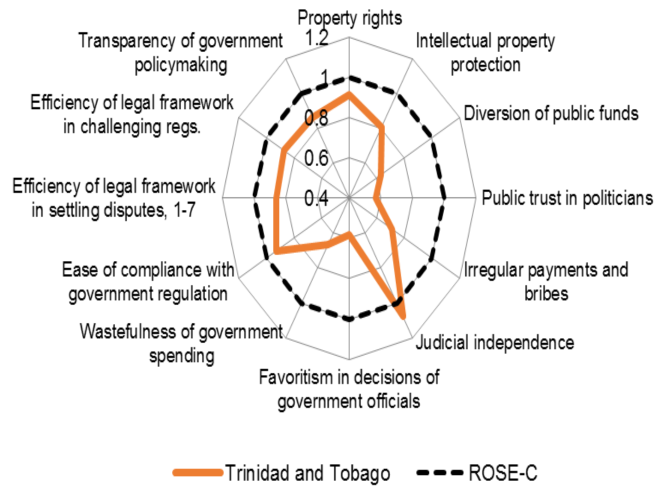
Source: World Economic Outlook, IMF (October 2015).

Macroeconomic Policy Framework and Data Provision

A weak macroeconomic framework and inadequate macroeconomic data also contributed to the Moody's downgrade. Specifically, Moody's highlighted the absence of a medium-term fiscal framework, the lack of a debt management strategy, and the poor quality of statistical information as important policy shortcomings. This relates to a much larger deficiency in the quality of institutions and governance in Trinidad and Tobago. A look at the results from 12 indicators on the quality of institutions in Figure 7 shows that Trinidad and Tobago performs well in only one area (judicial independence) compared to ROSE-C. Further deterioration in these indicato

would increase the risk of further credit rating downgrades.

Figure 7. Institutions



Source: IDB staff estimates from World Economic Forum.

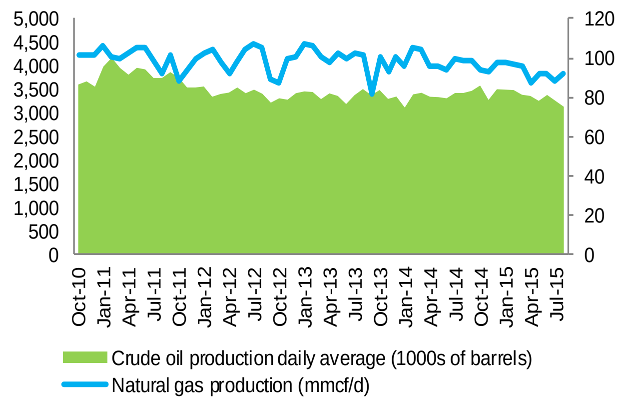
Conclusion

Trinidad and Tobago's economic woes have been reflected in its recent credit ratings. Since the initiation of credit ratings for Trinidad and Tobago, this downgrade is the country's first by Moody's. While the downgrade did not affect the country's investment grade rating, it points to important structural deficiencies that, if left unchecked, can result in further downgrades.

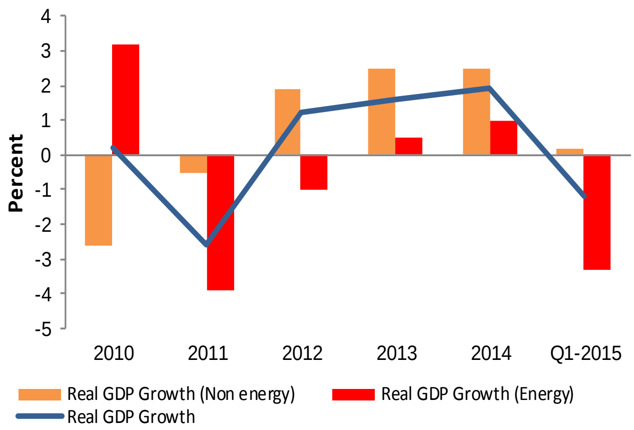
The outlook remains challenging. The forecasts over the medium term shows a worsening macroeconomic outlook with lower GDP growth, higher primary fiscal deficits, higher debt, and continued declines in energy production and current account deficits. These projections, barring a strong recovery in energy prices, can raise the risk of further downgrades if policy reforms are not implemented.

The new budget sends the right signals, but as usual the challenge will be implementation. It is important for Trinidad and Tobago to address key constraints affecting its credit rating. The new budget has sent the right signal, as it proposes to address the fuel subsidy, albeit in a small way; establish an independent statistical institute; reform the tax administration; and continue the diversification agenda. While some of these proposals are not new, now is the time to accelerate implementation in order to avoid the risk for further downgrades.

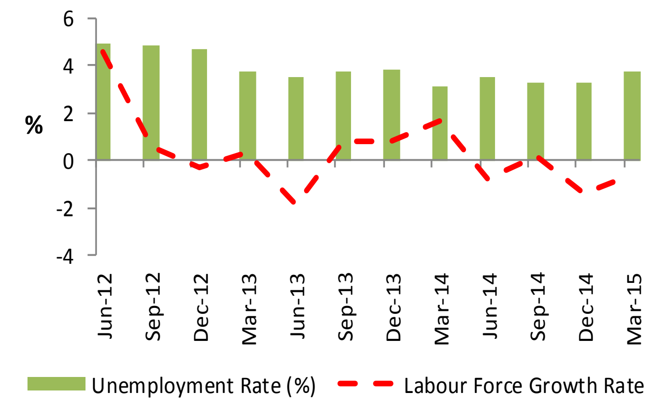
Energy production is on the decline…



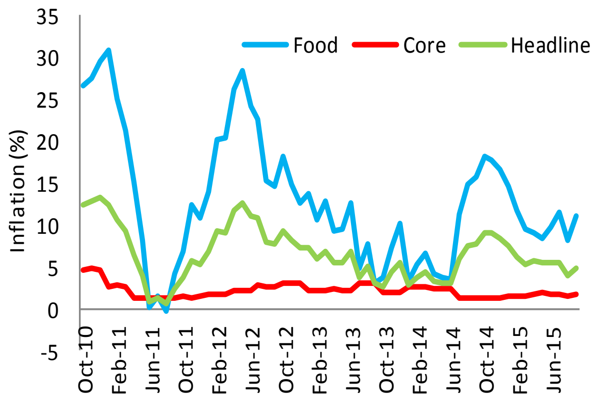
Real economic growth has contracted …



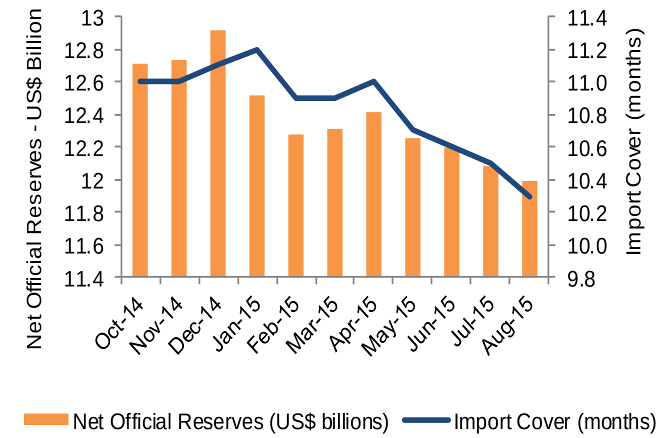
Unemployment has increased slightly



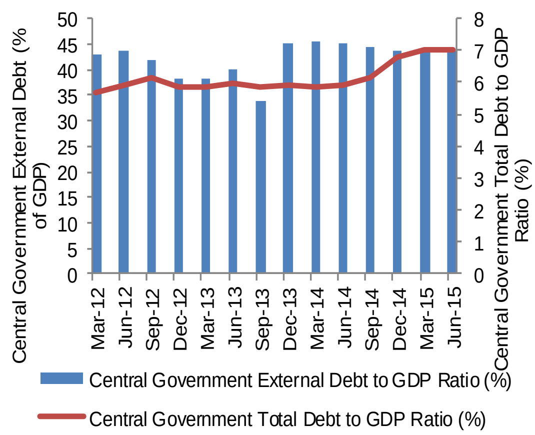
…while food inflation has slowed



Reserves have declined



…debt has increased slightly



Source: Central Bank of Trinidad and Tobago.

Trinidad and Tobago: Selected Indicators

	2010	2011	2012	2013	2014
(Annual percentage changes, unless otherwise indicated)					
Real sector					
Real GDP	-0.1	-1.6	1.4	1.7	1.9
Nominal GDP	10.6	16.6	1.0	11.1	5.4
Inflation (end of period)	10.5	5.1	9.2	5.3	5.7
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
External sector					
Exports of goods and services*	21.9	33.0	-13.1	-1.6	-7.5
of which: oil and natural gas*	18.8	34.7	-16.8	2.7	-7.6
Imports of goods and services*	-6.8	46.2	-4.7	-2.1	-5.5
Current account (percentage of GDP)	19.7	11.9	3.3	7.0	4.8
Central government**					
Revenue and grants	34.0	34.2	33.5	33.4	31.2
of which: energy revenues	17.6	18.8	16.0	15.0	15.8
Current expenditure	28.9	28.6	26.7	27.5	28.9
Capital expenditure and net lending	5.0	4.8	4.2	4.7	4.3
Primary balance	-2.3	-3.0	-3.4	-4.5	-3.3
Overall balance	-5.0	-0.7	-1.4	-2.9	-1.5
Debt indicators					
Public sector debt^	35.3	32.6	41.2	38.6	40.0
Public sector debt over revenues	103.4	94.5	121.4	116.8	125.7
External public debt (end of period)	7.5	7.0	6.1	7.2	7.0
External debt service as percentage of exports of goods and services	0.2	0.3	0.3	0.4	0.3

Notes: * refers to annual change in value (USD Million); ^ represents balances (revised) at the end of the fiscal year and excludes all securities issued for Open Market Operations (OMOs) including: Treasury Bills and Notes, Debt Management Bills and Liquidity Absorption Bonds.

Source: Central Bank of Trinidad and Tobago, IMF World Economic Outlook, 2015.

Quarterly Bulletin October 2015

ORGANIZATION OF EASTERN CARIBBEAN STATES

Vulnerable to Natural Disasters: The Impact of Tropical Storm Erika in Dominica

OECS

Organisation of Eastern Caribbean States

Overview[1]

Tropical Storm Erika hit Dominica on August 27, 2015 and is a reminder of the vulnerability of the Eastern Caribbean countries to external shocks and adverse natural events. The storm caused significant material losses, displacement, and human causalities. At the same time, some OECS countries saw a recovery in tourism and construction that will be conducive to growth. New airport terminals in Antigua and Barbuda and St Vincent will contribute to growth in tourist arrivals and expansion of the tourism industry.

Highlights

-Dominica's Tropical Storm Erika caused material losses at around 90% of GDP, displacement, and human causalities.

- Across the union, the recovery in the tourism industry was mixed during the first half of 2015.

- Grenada is making good progress on fiscal consolidation.

-Antigua and Barbuda opened a new international airport.

Recent Developments in 2015

The recovery in the tourism industry was mixed in the first half of 2015. The Eastern Caribbean Central Bank's preliminary figures suggest that tourist arrivals increased by 11 percent across the OECS relative to the same period in 2014. Growth in arrivals was experienced by St. Kitts & Nevis (28.6 percent), Antigua & Barbuda (14.4 percent), St. Lucia (7.3 percent) and Grenada (2.5 percent). In contrast, declines were seen in Dominica (-5 percent) and St. Vincent & the Grenadines (-2.5 percent). Long-stay arrivals increased slightly by 2.6 percent over the first half of 2015, while cruise passenger arrivals increased by 15.3 percent. The increasing arrivals have also led to a 5.3 percent rise in total visitor expenditure to US$664 million compared to US$630.4 million in June 2014.

The six countries of the OECS were listed as "tax havens" in Washington, DC's 2015 Budget Support Act. While this legislation is only at the State level and not at the Federal level, it may set a precedent for other states to follow. The tax haven classification results from these countries being considered as places commonly used by US companies and citizens to avoid paying taxes in the US. The Prime Minister of Antigua and Barbuda has contested this classification on the basis of compliance with international standards on tax matters by the Financial Action Task Force and the Organisation for Economic Co-operation and Development's Global Forum on Tax Matters.

The OECS took an important step towards renewable energy. In October 2015, the Caribbean Development Bank and the Inter-American Development Bank signed a US$71.5 million Sustainable Energy Facility (SEF) for the Eastern Caribbean aimed at contributing to the diversification of the energy matrix. Through this facility, the Caribbean Development Bank will on-lend to the six island independent states in the OECS to: support the installation and implementation of energy efficient technologies and programs across the public sector; enhance the regulatory, legal and policy framework of the respective Governments as well as strengthen their technical, institutional and environmental capacity; and implement public sector renewable energy projects related to wind, solar, geothermal and waste-to-energy. Improving renewable energy generation will go a long to enhancing energy security and increasing competitiveness in the region.

Focus on Dominica: The Impact of Tropical Storm Erika

The Government of Dominica estimates total damage and losses at US$483 or 90% of GDP. On August 27, 2015 Tropical Storm Erika brought over 10 inches of rain in over six hours that resulted in flooding and mudslides, collapsed roads and bridges, and destroyed houses. Official estimates place the death toll at 31 people. The majority of damages were sustained in the transport sector (60 percent), followed by the housing sector (11 percent) and agriculture sector (10 percent).

The Douglas-Charles Airport reopened after suffering damages. The airport remained non-operational for two weeks as the Melville Hall River overflowed its banks causing significant damage to the infrastructure and equipment of the airport. On September 18th commercial flights resumed service, but work is ongoing to return the airport to full-functionality. Currently, night landing is not possible at the Douglas-Charles Airport as the runway lighting remains non-operational. Preliminary estimates suggest damages of US$15.2 million.

[1] This bulletin focuses on developments in the independent countries of the OECS: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Vincent and the Grenadines, and St. Lucia. The figures exclude the OECS member territories.

IDB Inter-American Development Bank

The Ministry of Agriculture estimates around US$40.4 million in damages to crops and livestock. The sector accounted for 10.2% of GDP in 2014 and is the main source of employment for poorer segments of the population. In an effort to ensure food security, the Ministry plans to double agricultural production focusing on food crops like sweet potato, vegetables and white potato that can be harvested within 3-6 months.

The tourism industry is likely to rebound quickly. Following the passage of storm Erika, 72 of 94 hotel properties remained fully operational, and only 10 properties were affected. It is anticipated that 81 percent of tourist-accommodation supply would be fully operational for the start of the peak season in October-November. In addition, the Ministry of Tourism confirmed that tourist attractions will be fully accessible and 'tourist-ready.'

Dominica has launched emergency appeals to donors for reconstruction efforts. The Caribbean Development Bank, World Bank, European Union, DFID and Inter-American Development Bank have made pledges to facilitate recovery and rehabilitation efforts. The IMF approved US$8.7 million financing under its Rapid Credit Facility.

Country-Specific Developments

Antigua and Barbuda opened its new international airport. On August 24, Antigua and Barbuda opened the new airport that more than doubles the 860,000-passenger per year capacity of the previous facility. The new facility was built at a cost of approximately US$100 million, with funding at concessional rates from the Export-Import Bank of China and an interest-free loan from the Chinese government. A 3-megawatt photovoltaic facility will supply the electricity. The airport will likely strengthen the islands' tourism sectors, which had been leading the growth in arrivals in the OECS. Airlift is also on the rise with new frequencies from JetBlue, which will offer direct flights from New York's JFK Airport beginning in November 2015, and Alitalia which starts weekly flights from Milan in December. Seaborne Airlines will also cover direct service from San Juan as of December.

St Vincent's Argyle International Airport is nearing completion. The project is scheduled to be completed in the first quarter of 2016, after experiencing delays[2]. Financing for this project was provided through grants and loans from: Cuba, Venezuela, Trinidad and Tobago, and Taiwan, among other countries. A solar energy farm will be constructed to meet power generation needs, and excess power generation will be made available through the grid. The airport will aim to process 1.5 million passengers per year and may add a much-needed boost to tourism arrivals, which averaged approximately 200,000 each of the last five years.

Grenada is making progress on its fiscal consolidation. Under its Extended Credit Facility Arrangement with the International Monetary Fund, Grenada's fiscal performance in 2014 was better than projected. According to the ECCB, the primary deficit declined by 3.1 percent of GDP to 0.4 percent of GDP in 2014 while the overall deficit fell by an estimated 2.5 percent of GDP to 4.2 percent of GDP . A one-off non-tax revenue increase and a freeze in public sector wages facilitated an increase in capital expenditure in 2014 whilst also reducing the overall deficit. Notwithstanding, fiscal arrears remain high at 4.4 percent of GDP at the end of 2014.

Grenada's debt restructuring exercise and fiscal adjustment reforms will contribute to restoring debt sustainability. Through a series of agreements with private and bilateral creditors and the restructuring of government-guaranteed debt on the behalf of the Marketing and National Importing Board, Grenada's public debt is anticipated to fall from 102.5 percent of GDP (according to the ECCB) in 2013 to 68 percent of GDP by 2020. Furthermore, gains from fiscal consolidation will further reduce the debt to 60 percent of GDP by 2020.

St. Kitts signed the Foreign Account Tax Compliance Act agreement with the United States. The move will strengthen the sharing of financial information with the US Inland Revenue Service on American citizens who hold bank accounts in the twin-island state. The act will also contribute to greater transparency for the islands' international financial services sector.

St. Lucia has launched it Citizenship by Investment (CBI) program and will be accepting applicants from January 2016. On the basis of the resounding success of this program in St. Kitts in particular, a task force was set up in 2014 to assess the viability of adopting a similar one in St. Lucia. The task force recommended that St. Lucia pursue the CBI and draft legislation was passed in the Senate in August 2015. The country joins its neighbors including Antigua and Barbuda, Dominica and Grenada as the 5th OECS nation to implement such a program.

[2] The original completion date for the airport was in 2011.

Outlook

Overall, the growth outlook for the OECS is positive, with more dynamic tourism and construction sectors, though output is expected to vary across the union. St. Kitts are set to continue to lead with growth, at around 4.4 percent in 2015. Output growth should close the year at 2 percent in Antigua and Barbuda, at 1.3 percent in Grenada, at 2.2 percent in St. Vincent, and at 1.9 percent in Dominica. In contrast, economic activity in St. Lucia is projected to decline by 0.2 percent, as activity in the construction and tourism sectors remains subdued. Overall, the Eastern Caribbean Central Bank (ECCB) estimates average growth of 2 percent in the union.

The fiscal performance across the OECS will likely be mixed in 2015.[3] The fiscal deficit is anticipated to narrow in Antigua and Barbuda and Grenada to 2.9 percent of GDP and 1.4 percent of GDP, respectively. In St. Lucia and St. Vincent, the fiscal deficit is projected to widen to 5.8 percent and 3.9 percent of GDP, respectively. In Dominica, prior to the storm the deficit target was 2.6 percent, but this will likely be revised after a careful review of actual damages and losses. St. Kitts's fiscal surplus is projected at 5.3 percent of GDP for 2015, lower than the previous year.

Table 1: High Frequency Macroeconomic Indicators

High-Frequency Marcoeconomic Indicators				
	Last Data	Period	Last Data	Period
Annual GDP growth (%)	1.7	Dec-14	1.1	Dec-13
Tourism arrivals (annual % change)	11.0	Jun-15	9.9	Dec-14
Inflation (end of period)	(0.08)	Jun-15	(0.41)	Dec-14

Source: Eastern Caribbean Central Bank

[3] The fiscal projections are sourced from the 2015 National Budgets and Estimates of Revenue and Expenditure of the respective countries.

Sovereign Credit Rating in the OECS

Introduction

The OECS countries have limited access to capital markets and only one country has a sovereign credit rating by an international agency. St. Vincent is rated by Moody's, while the Caribbean Information and Credit Rating Services (CariCRIS) rated St. Lucia and Dominica. It is a reflection of the constraints the Eastern Caribbean countries face to access external finance.

Table 2: Credit Ratings in the Organization of Eastern Caribbean States in 2015

	Fitch	Moody's	S&P	CariCRIS
Antigua and Barbuda	n.r.	n.r.	n.r.	n.r.
Dominica	n.r.	n.r.	n.r.	*Cari* **BBB-**
Grenada	n.r.	n.r.	n.r.	n.r.
St. Kitts and Nevis	n.r.	n.r.	n.r.	n.r.
St. Lucia	n.r.	n.r.	n.r.	*Cari* **BBB**
St. Vincent and the Grenadines	n.r.	B3	n.r.	n.r.

Note: n.r denotes not rated
Source: Moody's, Standard and Poor's, and CariCRIS

The Eastern Caribbean trades public debt instruments in their regional market. The Regional Government Securities Market (RGSM) was created in November 2002 for the primary issuance of government debt instruments. Since its establishment, it has raised US$1.7 billion. The RGSM aims to attract more regional and international investors, while reducing borrowing costs and deepening financial integration.

International Credit Rating: Natural Events, Defaults, and Downgrades

St. Vincent is the only OECS country currently covered by an international credit rating agency. Dominica and St. Lucia have not been rated, but the other islands in the union lost their coverage after a series of sovereign debt defaults. St. Kitts defaulted on its debt in 2011, while Antigua and Barbuda went through debt restructuring in 2010. Grenada had three debt default episodes.

St. Vincent' sovereign credit rating currently stands at B3 with a negative outlook. Moody's in December 2007 rated long-term foreign and local currency debt at B1 with a stable outlook justified on its relatively debt burden and highly vulnerable open economy. In 2012, the country was downgraded to B2 with a negative outlook and in 2014, further to B3 with a negative outlook. The rating was maintained in 2015 on account of recovery in tourism and lower oil prices. In May 2015, Moody's affirmed its long-term foreign and local currency rating at B3 with a negative outlook. The recovery in the US and the UK and the completion of the Argyle International Airport are positive developments for the tourism industry.

Grenada's first default was in 2004 after Hurricane Ivan. Subsequent to the default, its debt was restructured and the credit rating restored from SD (selective default) to B- by Standard and Poor's. In 2012, Grenada missed payments on its bonds, but subsequently made the disbursement within the 30-day grace period allowed in the bondholder's agreement. At this time, the credit rating was restored from SD to CCC+/C with a negative outlook. Prior to the missed payment, the foreign currency sovereign credit rating was B-/B. In 2013, Standard and Poor's downgraded to SD and in October 2014 withdrew its credit rating altogether. Weak growth prospects, deteriorating fiscal balances, and rising external vulnerabilities justified the downgrades. A weather-related shock in 2013 derailed the recovery and pressured the external position. The current account deficit increased to 30 percent of GDP in 2013, as tourism activity declined by 3.5 percent. The fiscal deficit widened from 2.1 percent of GDP in 2012 to 6.4 percent in 2013, while debt increased from 41.5 percent of GDP in 2007 to 63.1 percent in 2013.

Table 2: CariCRIS's Credit Rating Criteria

Rating	Definition
Cari **AAA**	Highest
Cari **AA**(+/-)	High
Cari **A**(+/-)	Good
Cari **BBB**(+/-)	Adequate
Cari **BB**(+/-)	Speculative
Cari **B**(+/-)	Weak
Cari **C**(+/-)	Very Weak
Cari **D**	Default

Source: CariCRIS

Dominica and St. Lucia are the only two sovereigns rated by CariCRIS. The regional rating agency assesses debt-issuing entities according to the criteria in Table 2. Dominica's US$25 million debt issue in June 2015 was rated by CariCRIS at *Cari***BBB-**, or adequate. This was an upgrade from its speculative rating of *Cari***BB+**, assigned in February 2012, and the rating has been stable since. St. Lucia maintained its CariCRIS credit rating at *Cari***BBB**, or adequate**.** Currently, the island has seven rated instruments that remained at adequate since December 2007. The justifications for the rating include:

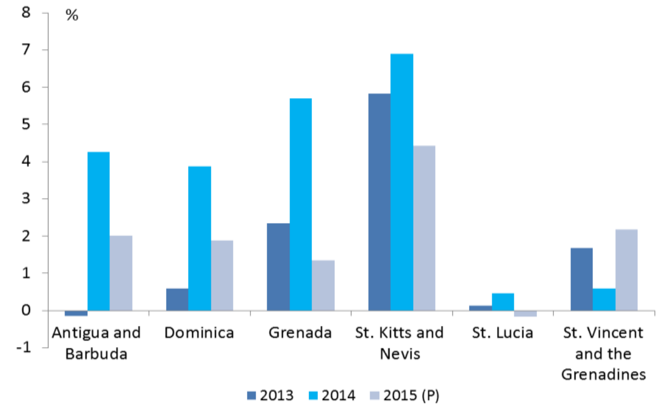
monetary and exchange rate stability, a relatively diversified economic base, moderate balance of payments performances, and relatively low debt. On the negative side, weaknesses affecting the rating include fiscal constraints and rising public debt. Overall, rating changes hinge on the sovereign's ability to improve fiscal balances, control public debt, and improve import cover and non-performing loans.

Conclusion

Access to external finance remains a binding constraint for the OECS member states. A series of downgrades and defaults has characterized the OECS' relationship with international credit rating agencies. Now, only St Vincent has access to international capital markets. St. Vincent' credit rating with Moody's is likely to be remain stable in light of growth prospects for 2015. The prospects of other member states gaining or regaining access to international capital markets depends on the recovery in economy growth and stabilization of other economic fundamentals.

Growth is returning to the OECS countries…

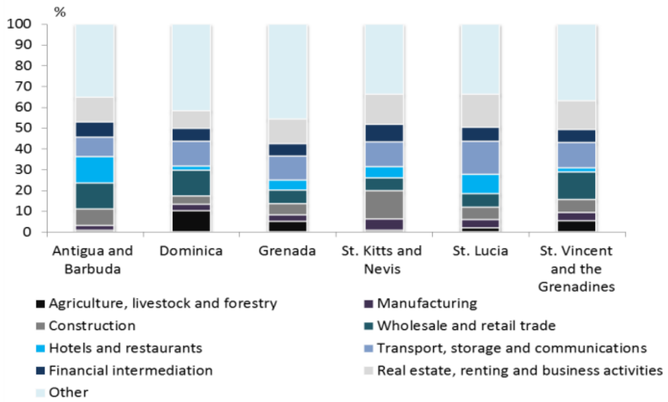
Figure 1: Real GDP Growth



Note: (P) denotes projected figures
Source: ECCB

…with tourism, construction, and agriculture leading the way.

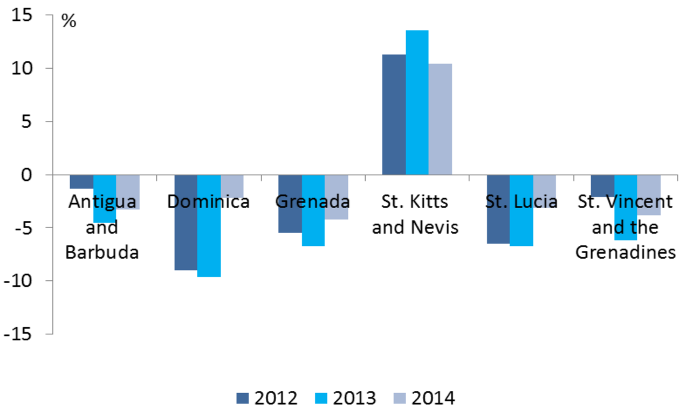
Figure 2: Contribution to GDP, 2014



Source: ECCB

Large fiscal deficits across the member countries…

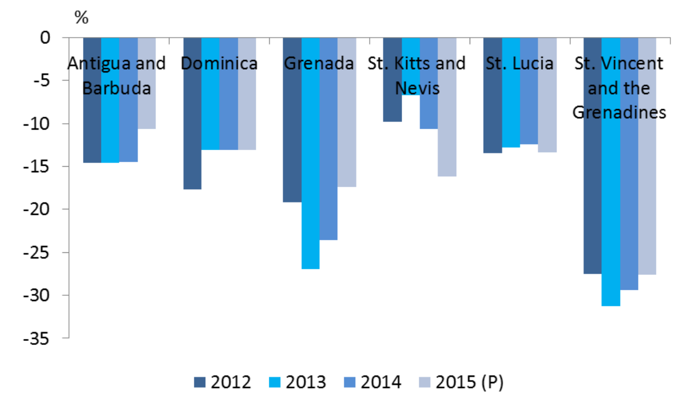
Figure 3: Fiscal Deficit (% of GDP)



Source: ECCB

…and sustained current account imbalances…

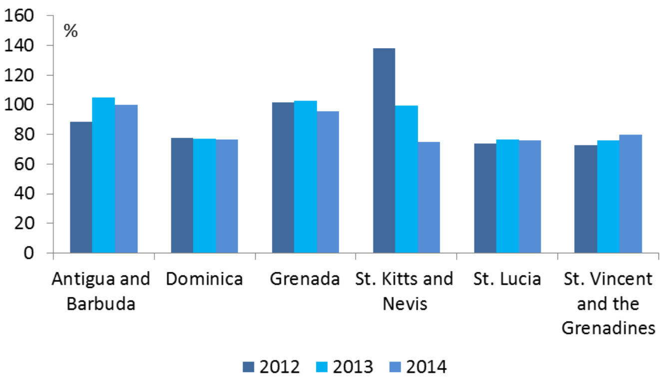
Figure 4: Current Account Balance (% of GDP)



Note: (P) denotes projected figures
Source: ECCB

…have led to a rapid accumulation of debt…

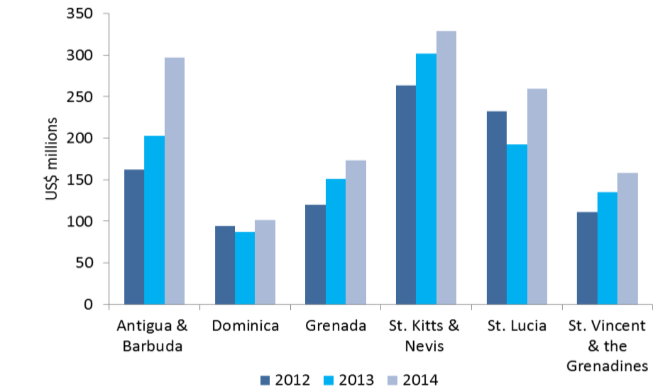
Figure 5: Central Government Debt (% of GDP)



Source: ECCB

…but reserves have improved over time.

Figure 6: Gross International Reserves (US$ millions)



Source: ECCB

	Antigua and Barbuda				Dominica				Grenada			
	2012	2013	2014	2015 (P)	2012	2013	2014	2015 (P)	2012	2013	2014	2015 (P)
Real Sector												
Real GDP (% change)	4.0	(0.1)	4.3	2.0	(1.3)	0.6	3.9	1.9	(1.2)	2.3	5.7	1.3
Nominal GDP (% change)	6.6	(0.3)	3.5	3.2	1.2	0.4	1.8	1.6	2.8	4.4	3.1	2.4
Inflation (end of period)	1.8	1.1	1.3	1.0	1.2	(0.4)	(0.1)	0.9	1.8	(1.2)	(0.7)	(1.0)
External Sector												
Exports of goods and services (% change)	(0.2)	-	(0.1)	2.3	(15.9)	14.1	3.3	9.2	(7.4)	(4.0)	15.3	5.3
Imports of goods and services (% change)	17.2	(7.5)	2.2	2.3	(5.0)	(1.2)	4.7	15.1	2.4	23.9	(0.4)	1.5
Current account (% of GDP)	(14.6)	(14.6)	(14.5)	(10.7)	(17.7)	(13.1)	(13.1)	(13.1)	(19.2)	(27.0)	(23.6)	(17.4)
International reserves (USD millions)/1	162.0	202.6	297.0	N/A	94.6	87.1	101.7	N/A	119.5	150.6	173.5	N/A
International reserves cover (weeks)/1	2.6	3.1	4.9	N/A	4.1	3.9	4.9	N/A	3.3	4.0	5.2	N/A
Public Sector												
Total revenue (% of GDP)	19.9	18.4	18.6	N/A	27.1	28.6	29.9	N/A	20.6	21.3	27.1	N/A
Current expenditure (% of GDP)	20.6	21.6	20.3	N/A	23.6	26.2	25.5	N/A	21.1	21.0	21.5	N/A
Capital expenditure (% of GDP)	0.6	1.3	1.7	N/A	12.6	12.0	6.6	N/A	5.0	7.0	9.9	N/A
Central government primary balance (% of GDP)	1.1	(2.4)	(0.6)	N/A	(7.5)	(7.6)	(0.4)	N/A	(2.1)	(3.5)	(0.4)	N/A
Central government overall balance (% of GDP)	(1.3)	(4.5)	(3.3)	N/A	(9.0)	(9.6)	(2.2)	N/A	(5.5)	(6.7)	(4.2)	N/A
Debt Indicators												
General government debt (% of GDP)	88.6	104.9	99.9	N/A	77.8	77.0	76.3	N/A	101.4	102.5	95.6	N/A

Notes:

(P) - denotes projected figures

/1 - ECCB and IADB staff estimates for 2014

Source: Eastern Caribbean Central Bank

	St. Kitts and Nevis				St. Lucia				St. Vincent and the Grenadines			
	2012	2013	2014	2015 (P)	2012	2013	2014	2015 (P)	2012	2013	2014	2015 (P)
Real Sector												
Real GDP (% change)	(1.2)	5.8	6.9	4.4	(1.1)	0.1	0.5	(0.2)	1.4	1.7	0.6	2.2
Nominal GDP (% change)	0.5	5.8	8.7	5.8	1.0	2.5	1.0	4.0	2.5	2.3	3.7	3.1
Inflation (end of period)	0.1	0.4	2.0	2.0	5.0	0.7	1.7	3.1	1.1	-	0.6	0.1
External Sector												
Exports of goods and services (% change)	-	-	12.1	3.1	(3.9)	(0.7)	3.2	8.8	1.4	(1.1)	4.6	6.6
Imports of goods and services (% change)	(3.8)	7.7	17.8	6.8	(8.5)	(0.7)	2.4	13.2	7.1	6.6	1.3	12.0
Current account (% of GDP)	(9.8)	(6.7)	(10.7)	(16.2)	(13.5)	(12.8)	(12.4)	(13.4)	(27.5)	(31.3)	(29.4)	(27.6)
International reserves (USD millions)/1	263.5	302.0	329.1	N/A	232.0	192.2	259.1	N/A	111.0	135.1	158.1	N/A
International reserves cover (weeks)/1	8.4	9.1	9.8	N/A	3.4	3.1	4.4	N/A	3.2	3.7	4.6	N/A
Public Sector												
Total revenue (% of GDP)	42.6	47.0	43.1	N/A	23.9	24.6	26.5	N/A	27.0	26.9	27.5	N/A
Current expenditure (% of GDP)	27.7	26.7	26.9	N/A	23.5	23.6	23.6	N/A	26.1	25.3	25.6	N/A
Capital expenditure (% of GDP)	3.7	6.7	5.8	N/A	6.9	7.7	6.0	N/A	2.9	7.8	5.7	N/A
Central government primary balance (% of GDP)	17.2	17.3	13.7	N/A	(3.0)	(3.0)	0.8	N/A	0.3	(3.7)	(1.5)	N/A
Central government overall balance (% of GDP)	11.3	13.5	10.4	N/A	(6.5)	(6.7)	(3.1)	N/A	(2.1)	(6.2)	(3.8)	N/A
Debt Indicators												
General government debt (% of GDP)	137.9	99.5	75.1	N/A	73.7	76.5	76.3	N/A	72.8	75.9	80.1	N/A

Notes:

(P) - denotes projected figures

/1 - ECCB and IADB staff estimates for 2014

Source: Eastern Caribbean Central Bank

REGIONAL SUPPLEMENT: CREDIT RATINGS IN THE CARIBBEAN: DOWN WE GO

Introduction

Credit ratings are an important benchmark for creditors and investors. Credit ratings are an assessment of the obligor's capacity and willingness to meet its financial commitments. As a result, they are reflected in the yields, which move inversely with prices, that countries can obtain when they issue debt. In addition, since the ratings reflect the risk of economic distress, they provide an indication of the risk for foreign investors in a country. As such, they play an important role in today's globally linked economy.

Credit Ratings in Action

The credit ratings are subjective assessments made by the various agencies. Rating agencies vary both in the weight they apply to different indicators and the scale they use. Nevertheless, ratings across different agencies are usually comparable (Tables 1 and 2). Rating agencies analyze different factors that indicate the ability and willingness of obligors to fulfil their debt obligations.[1] Key factors include (i) institutional and governance effectiveness and security; (ii) economic structure and growth prospects; (iii) external liquidity and international investment position; (iv) fiscal performance, flexibility and debt burden; and (v) monetary flexibility. In addition to the rating, the agencies also give an outlook – negative, stable or positive – indicating the stability of the rating going forward.

Table 1. Rating Agencies' Scales

Moody's	S&P's	Fitch	Description
Aaa1–3	AAA	AAA	Minimal credit risk
Aa1–3	AA	AA	Very low credit risk
A1–3	A	A	Low credit risk
Baa1–3	BBB	BBB	Moderate credit risk
Ba1–3	BB	BB	Substantial credit risk
B1–3	B	B	High credit risk
Caa1–3	CCC	CCC	Very high credit risk
Ca	CC C	CC C	In or near default, recovery possibility
C	D	RD/D	In default, little chance of recovery

Sources: Moody's; Standard and Poor's (S&P's); Fitch.
Notes: Moody's uses 1–3 to refine each rating, but Fitch and S&P use -/+.

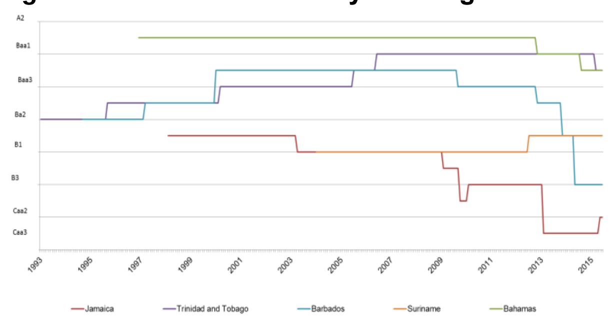
Not all countries have been rated. A credit rating is required to access international financial markets, so countries without market access are not necessarily rated. With the exception of Guyana, all the countries of the IDB's Caribbean Country Department (CCB) have a credit rating (see country sections for details). The ratings of Trinidad and Tobago and The Bahamas are the highest (at investment grade), while Jamaica's rating is the lowest, at a speculative level (high credit risk) (Table 2). In terms of evolution, ratings of several CCB countries have been under pressure, as they have been lowered recently or have a negative outlook (See Figure 1 for the evolution of Moody's ratings since inception). The exceptions are Suriname, which has been very stable since inception, and Jamaica, which has experienced recent upgrades from all major rating agencies. The rating agencies also continue to have a stable or positive outlook on these two countries.

Table 2. CCB Ratings

	Moody's	S&P's	Fitch	Outlook
The Bahamas	Baa2	BBB-	NR	s/n/NA
Barbados	B3	B	NR	n/n
Guyana	NR	NR	NR	NR
Jamaica	Caa2	B	B-	p/s/p
Suriname	Ba3	BB-	BB-	s/s/s
Trinidad and Tobago	Baa2	A	NR	n/s

Sources: Moody's; Standard and Poor's; Fitch.
Notes: Moody's uses 1–3 to refine each rating, but Fitch and S&P use -/+. Outlooks can be stable (s), negative (n), or positive (p).

Figure 1. Evolution of Moody's Ratings for the CCB



Source: Moody's.

Ratings for the CCB could remain under pressure. In line with other commodity producers, the prospects for economic growth, fiscal balances, and the external situation for Guyana, Trinidad and Tobago, and Suriname

[1] This information is based on Standard and Poor's sovereign rating methodology, but the different rating agencies use similar methodologies.

have become more challenging. Jamaica's outlook has improved, but the country is still recovering from a severe recession and remains vulnerable. In addition, The Bahamas and Barbados are experiencing pressure owing to weak economic environments.

The external environment might also challenge current ratings. The likely increase of target interest rates in the United States over the next few months might put upward pressure on global interest rates and could reduce capital flows into emerging markets. This normalization of interest rates could negatively affect the fiscal and external situation of all CCB countries.

Buffers against external shocks are central to ratings. Ratings are an attempt to assess a country's ability and willingness to fulfil debt obligations even under adverse conditions, which means that buffers to accommodate shocks constitute an important part of the ratings' rationale. However, the evolution of buffers, such as international reserves, current account balances, fiscal balances, and debt-to-GDP ratio, have been mixed in the CCB (see Figures 2a–2f). The outlook for commodity exporters has worsened, while performance of the tourism-dependent countries is mixed. Jamaica has been successfully implementing an IMF program that led to substantial improvements, but the country remains in a very vulnerable state as reflected by its low credit rating.

Conclusion

Credit ratings play an important role in today's globalized financial sectors. Assessing the risk of a debt default by a sovereign nation is a highly complicated as well as data- and time-intensive task. Credit rating agencies specialize in these assessments and as such greatly influence the terms assigned to countries when they access financial markets.

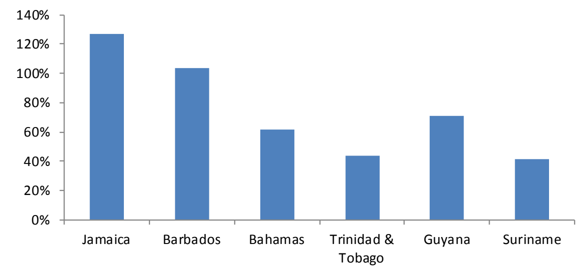
Reflecting economic challenges, credit ratings in the CCB have experienced downward pressure. Given the clout of credit rating agencies, financial market access for CCB countries has become more challenging. Credit ratings will remain under pressure for most of the countries. Commodity producers are experiencing the effects of low commodity prices, while tourism-dependent countries have faced below average growth rates for an extended period. In addition to weak economic growth, these countries have also built up fiscal vulnerabilities with high and rigid expenditures relative to revenues and increasing debt. The expected increase in United States interest rates could put further pressure on the fiscal and external situation.

REGIONAL SUPPLEMENT: CREDIT RATINGS IN THE CARIBBEAN: DOWN WE GO

Figure 2: Economic and Insitutional Vulnerabilities for CCB

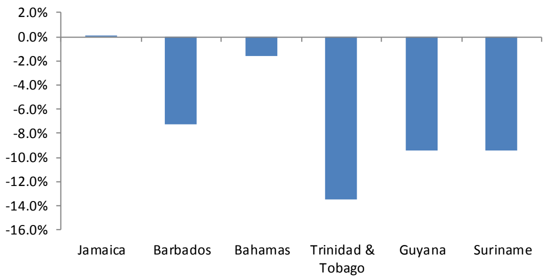
FISCAL

Figure A: Gross Debt as a % of GDP (2015-2017 average)



Source: World Economic Outlook, IMF (2015)

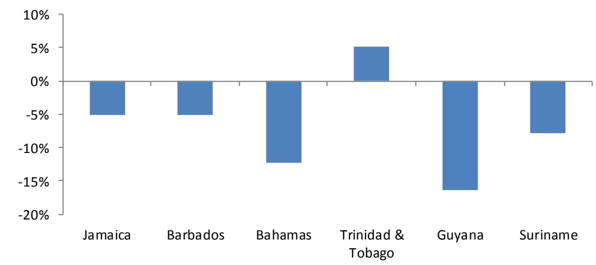
Figure B: General Government, Fiscal Deficit



Source: World Economic Outlook, IMF (2015)

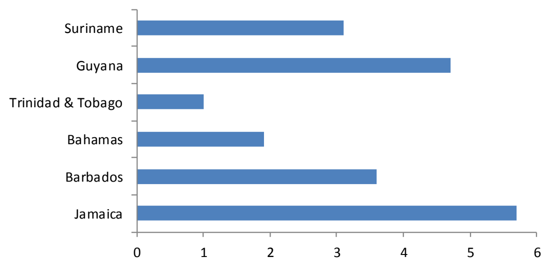
EXTERNAL

Figure C: Current Account Balance 2015 (% of GDP)



Source: World Economic Outlook, IMF (2015)

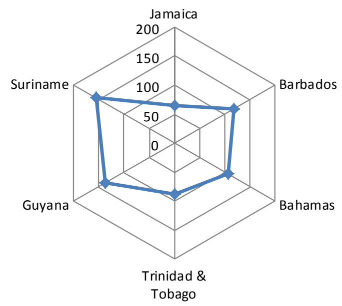
Figure D: Reserves (Months of Goods and Services Imports)



Source: World Economic Outlook, IMF (2015)

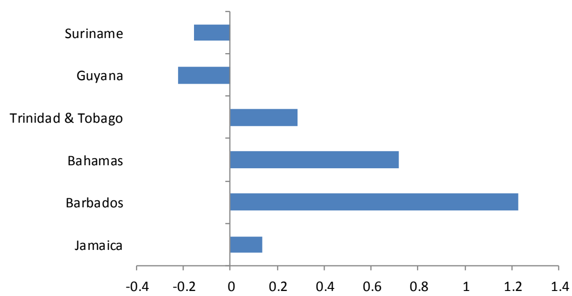
INSTITUTIONAL

Figure E: 2016 Doing Business Indicator Ranking



Source: World Bank
Note: Ranking from 1-189, with a lower ranking corresponding to a better doing business climate

Figure F: 2014 Government Effectiveness Index



Source: World Bank
Note: Indicator runs from -2.5 to 2.5, higher values correspond to better governance

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