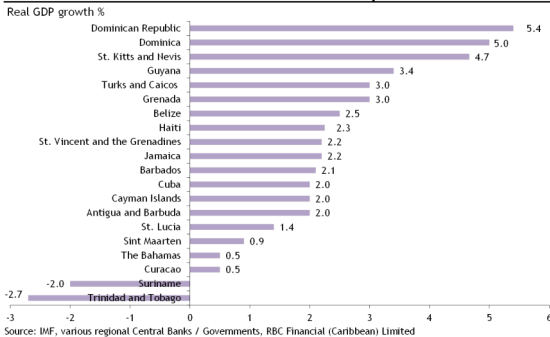


CARIBBEAN ECONOMIC REPORT

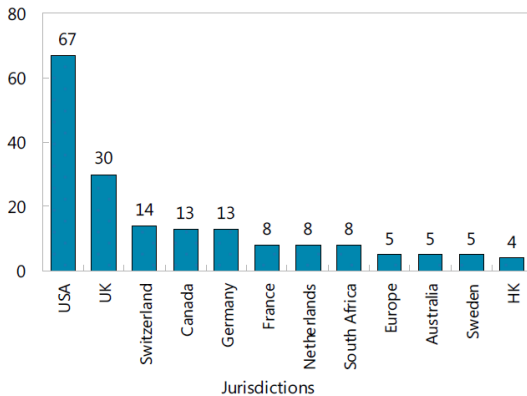
July 2016

Caribbean Growth Forecasts for 2016 as at April 2016

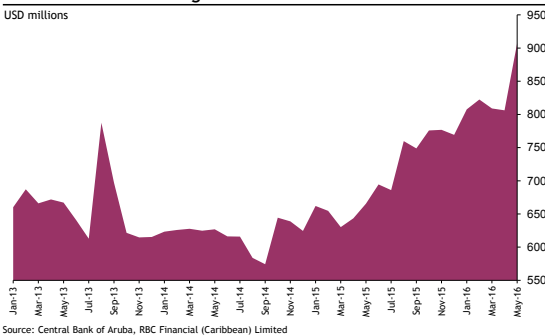


Local Banks (All Regions): Termination Jurisdictions

(percent of local/regional banks reporting terminations)



Central Bank Net Foreign Assets : Aruba



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Brexit or Bremain—Confidence Shattered Again

Akin to the taper-tantrums of mid-2013, the eventual Brexit / Bremain policy action itself (or lack thereof) and its timing, are probably relatively moot points, given current Brexit-induced global political, market, and macroeconomic convulsions, underpinned by the post-2007 serial assault on confidence. [See here for analysis of the possible implications for the Caribbean.](#) Consequently, the IMF's 2016 global growth projection of 3.1% will likely be trimmed, signalling that the global economy is in a recession (global growth <3% is considered a global recession by the IMF) - the first since 2009.

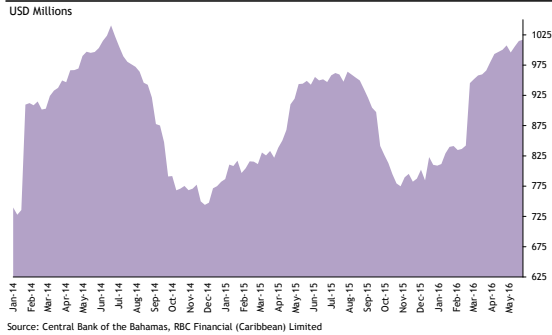
Correspondent Banking Relationships (CBRs) in Decline

A recent [IMF Paper](#) highlighted the fact that although de-risking affects many countries worldwide, the Caribbean is particularly affected by the retrenchment of U.S. and U.K. banks. At least 16 banks across five Caribbean countries are reported to have lost all or some of their CBRs as of May 2016. Several institutions in Barbados, The Bahamas, the ECCU, Guyana, Haiti, Jamaica, and Trinidad and Tobago have had some CBRs terminated. In the Bahamas, five financial institutions (about 19% of the banking system's assets) have recently lost one or more CBRs. Only two of Belize's nine domestic and international banks (27% of the banking system's assets at the end of March 2016) have maintained CBRs with full banking services. The reasons given for termination of CBRs include the perception of risk associated with offshore banking sectors in certain jurisdictions, concerns about supervision and legal frameworks, the inclusion of higher-risk categories of customers in respondent banks' customer base, a change in the correspondent bank's risk appetite, and low profitability of certain correspondent banking services. Remittances and US dollar wire transfers are the most highly affected services.

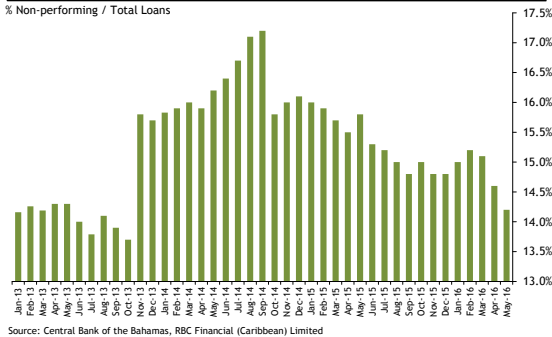
Aruba – S&P revises BBB+ rating outlook to 'Positive'

[Caribbean Tourism Organization](#) (CTO) data show stopover arrivals up 3.8% y/y to April 2016, on higher numbers from all source markets apart from Canada, which showed an 8.2% y/y decline. There was also a 30.2% y/y increase in cruise passenger arrivals to March 2016. S&P revised the outlook for its BBB+ rating to 'Positive' on improved growth, external, and fiscal prospects, given the agreement with CITGO to restart the refinery by 2018, which entails about USD1 billion in upgrades. Central Bank data show a 36.4% y/y rise in Net Foreign Assets, to reach USD907 million in May 2016, which we estimate at five months of imports.

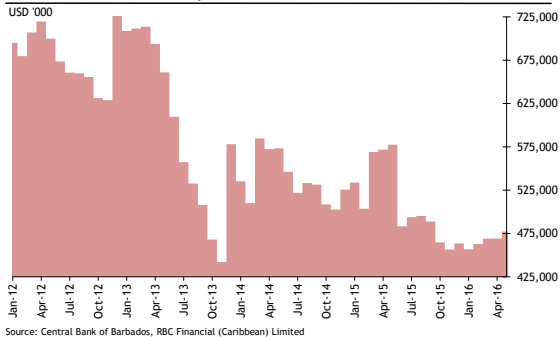
Central Bank External Reserves : The Bahamas



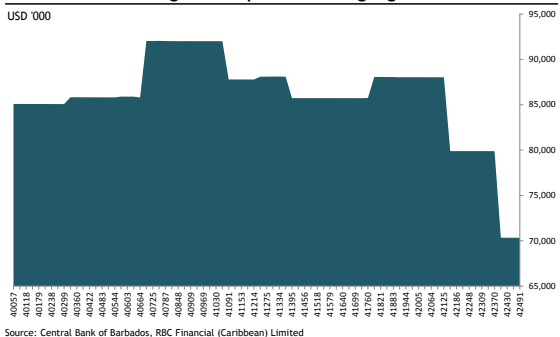
Non-performing Loans : The Bahamas



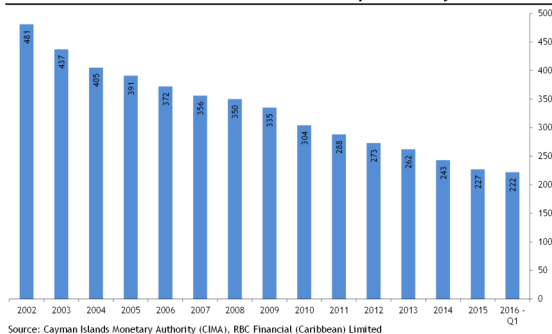
International Reserves : Barbados



Central Bank Holding of IMF Special Drawing Rights : Barbados



Number of Licensees and Other Entities Supervised by CIMA



The Bahamas – On review for downgrade from Moody’s
 Moody’s has placed its Baa2 rating (with a negative outlook) on review for downgrade, citing the continuous rise in risks to the country’s medium-term economic prospects and to its fiscal strength. A downgrade could follow if it appears that the fiscal policy stance and strategy is unlikely to stabilize the debt trajectory over the next two years, and if the growth outlook deteriorates. The IMF recently reported, on conclusion of its Article IV review, that growth is expected to strengthen to 0.5% this year, and projects lower potential growth at 1-1.5% per annum over the medium-term. Import cover stood at 2.4 months at end-March with USD981 million in reserves. The Central Bank (BCB) May 2016 report reveals weak tourism activity to April 2016, as reflected by a 7% y/y drop in hotel room revenues, based on a 5.8% or BSD16.83 decline in Average Daily Room rates to BSD270.91, and a 1.4pp fall in the average occupancy rate to 75.6%. Disinflation continues, bringing the inflation rate to 1.13% y/y in March 2016. External reserves increased by 8% y/y to USD1,016.86 million in May 2016 BCB reports show, which we estimate at 2.5 months of imports. Based mainly on write-offs, non-performing loans declined to 14.2% of total loans in May 2016, down from 15.8% one year prior, according to the BCB. The IMF reported that VAT revenue after twelve months came in higher than expected at BSD536 million or roughly 6% of GDP. The FY2014/15 (ending in June 2015) deficit is estimated to have declined to 4.4% of GDP, down from a revised 5.6% in FY2013/14, as a result.

Barbados – 10.4% y/y stopover arrival growth to March
 Central Bank (CBB) online data show deflation accelerating to 1.4% y/y in February 2016. In celebration of the 41st anniversary of the BBD2.00:USD1.00 currency peg, the CBB reiterated the need for further fiscal austerity to protect said peg. CBB online data show international reserves declined 17.4% y/y in May 2016 to USD477 million, which we estimate at roughly 14 weeks of imports. The monetary base continues to grow rapidly, expanding by 21% y/y in May 2016 to BBD2.05 billion, as the CBB finances part of the Government’s fiscal deficit. As such, CBB claims on central Government increased by 60% y/y in May 2016 to BBD1.48 billion or 58% of CBB total assets. [CTO](#) data show a 10.4% y/y increase in stopover arrivals to March 2016, on higher arrivals from all source markets apart from Canada. Cruise passenger arrivals were up 17.4% y/y to March 2016, according to [CTO](#) data.

Cayman Islands – Stopover arrivals drop 2.5% to March
 According to the [CTO](#), there was a 2.5% y/y decline in stopover arrivals to March 2016, as only US travelers came in larger numbers. Cruise passenger arrivals expanded 12.5% y/y for the same period, however. The Cayman Islands Monetary Authority data going back to 2002 show a steady decline in licensees, averaging -5.6% from 2002-2015. About 25% of licensees are European, and 20% from the USA.

Curacao and Sint Maarten – Strong stopover arrivals

[CTO](#) data show 5% y/y (January–March 2016) growth in stopover arrivals to Curacao and 9.6% y/y (January–April 2016) to St. Maarten, prompted by more tourists coming from all but ‘other’ source markets. Conversely, there were declines in cruise passenger arrivals, of 11.5% y/y to Curacao and 18.1% y/y to St. Maarten, for the same respective periods, according to the [CTO](#). Central Bank reports show deflation in Curacao at 0.4% in May 2016, and 0.5% in April 2016 in St. Maarten. Net international reserves suffered their fourth consecutive y/y decline in April 2016 at 4.23% to reach NAF2,256.7 million, which we estimate at 6.4 months of imports for the currency union.

Dominican Republic – Policy rate held at 5%

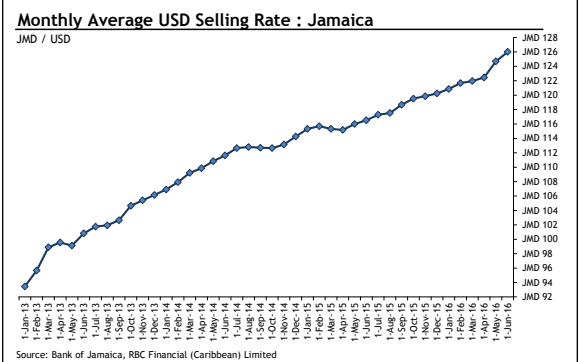
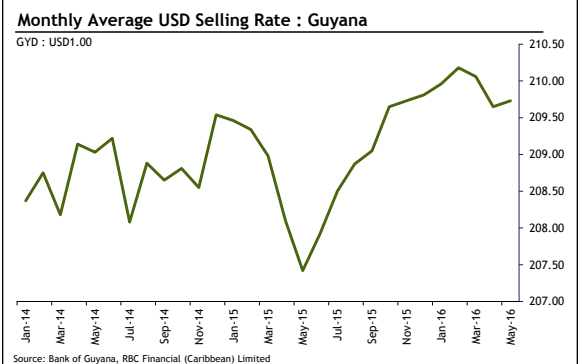
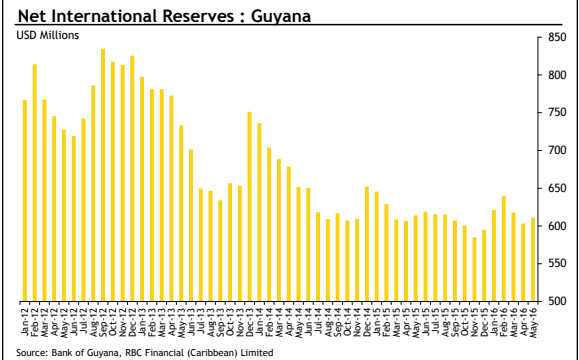
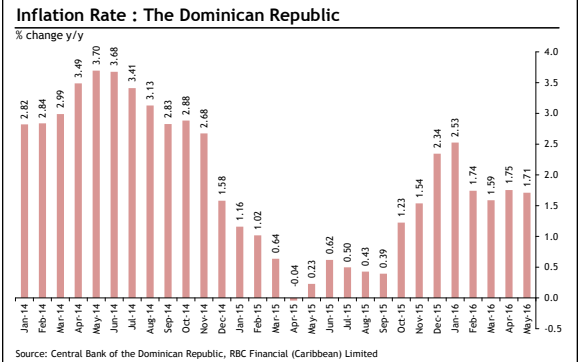
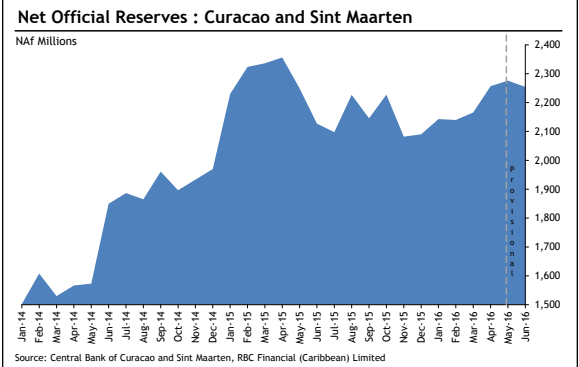
The Central Bank (BCRD) has held the policy rate steady since April 2015, citing inflation at 1.71% y/y in May 2016, down slightly from 1.75% y/y in April–still outside the inflation target of 4.0% ± 1.0%. The Monthly Economic Activity Index grew 7.0% y/y to May 2016–well above the potential growth rate. The government is expected to meet its deficit target of 2.3% of GDP, while the current account deficit is projected to decline to 1.9% of GDP in 2016, according to the BCRD. Stopover arrivals grew 6.5% y/y to April 2016, crossing two million visitors, as higher numbers visited from all major source markets, according to [CTO](#). Cruise passenger arrivals to February 2015 recorded a 15.1% y/y decline however, [CTO](#) data show.

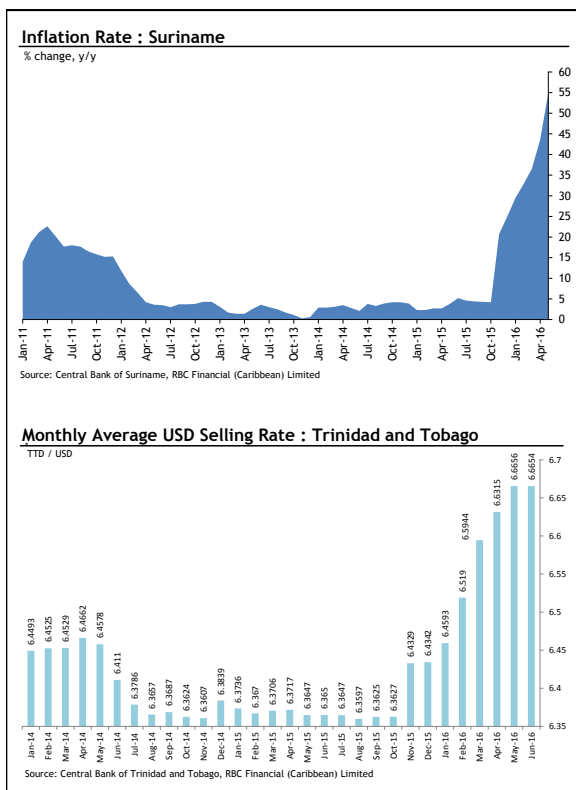
Guyana – IMF forecasts 4% growth this year

The IMF estimates growth at 3% in 2015, down from 3.8% in 2014, increasing to 4% this year, based on two newly established large gold mines, and higher investment spending. Deflation of 1.8% was recorded in 2015, but inflation is projected to reach 2.1% at end-2016. The overall fiscal deficit narrowed from 5.7% of GDP in 2014 to 0.2% in 2015, but is expected to widen to 5.5% of GDP in 2016 on relatively flat revenue and higher capital spending. Lower oil prices supported an improvement in external balances, such that gross international reserves stood at 3.6 months of imports at end-2015, and is expected by the IMF to strengthen to 3.8 months by December 2016. Central Bank data reveal a 0.5% fall in international reserves to USD611.1 million in May 2016, which we estimate at 3.7 months of imports. The GYD has suffered its ninth consecutive month of y/y depreciation against the USD, of 1.11% y/y in May 2016 to reach a monthly average of GYD209.73 : USD1.00. Stopover arrivals grew 7% y/y to March 2016, [CTO](#) data show.

Jamaica – ‘Exceptional’ IMF programme performance

[CTO](#) data show stopover arrivals increased by 3.2% to March 2016, as higher numbers were reported for all major source markets except Canada. Over the same period, there was 19.7% y/y growth in growth in cruise passenger arrivals. The [IMF](#) again commended the ‘exceptional’ implementation of difficult economic reforms, which have yielded growth and stability.





Suriname – Inflation estimated at 55% y/y in May 2016

Central Bank data show inflation accelerating from 43.6% in April to 55% in May 2016, partly due to the roughly 114% y/y depreciation in the currency, to reach SRD7.17 : USD1.00 on July 13th. International reserves declined 20% y/y in June 2016 to USD404.3 million (possibly including a USD81 million injection from the IMF), which we estimate at 2.2 months of imports.

T&T – IMF : TTD6.67/USD1.00 overvalued by 21-50%

Online Central Bank data show reserves declining 12% y/y to USD9.3 billion or eleven months of imports, while the TTD depreciated 4.72% y/y to average TTD6.67 : USD1.00 in June 2016. Despite this, core inflation remained steady at 2.1%, while headline inflation fell slightly to 3.4% y/y in May 2016. Stopover arrivals declined 1.7% y/y to February 2016, [CTO](#) data show suggesting that the peak Carnival season attracted fewer visitors, especially from Canada and Europe, which showed declines. The [IMF](#) expects the fiscal deficit to jump to 11% of GDP in FY2015/16 and 13.4% in FY2016/17, with the economy contracting by 2.7% in 2016. The exchange rate is estimated by the IMF to be overvalued by 21-50%, implying that each USD should sell for TTD8.00–10.00.

Caribbean Economic Indicators

		Nominal			GDP		Import		
	Popl'n (000)	GDP (USD Billions)	Per capita GDP (USD)	Credit Rating & (outlook)	change y/y	Unemplo yment	Gross Public Debt / GDP	cover (months)	Inflation y/y
Aruba	107	2.6	24,402	BBB+ (Positive)	0.1%	7.6%	80.1%	5.0	-1.8%
The Bahamas	347	8.5	23,417	BBB- (Negative)	-1.7%	14.8%	76.5%	2.5	1.6%
Barbados	274	4.5	16,307	B (Negative)	0.8%	11.3%	107.0%	3.3	1.4%
Cayman	58	3.0	54,338	Aa3 (Stable)	1.9%	4.7%	21.0%	n/a	-2.8%
Cuba	11,300	77.1	6,848	Caa2 (Positive)	4.7%	3.0%	22.3%	n/a	1.2%
Curacao	143	3.0	20,260	A- (Stable)	0.1%	11.7%	44.3%	6.4	-0.4%
Dom Rep	10,400	60.8	7,000	BB- (Stable)	6.1%	5.7%	48.5%	3.5	1.7%
ECCU	637	5.2	8,163	n/a	2.6%	20.0%	76.0%	5.4	-1.8%
Guyana	756	2.7	3,596	Not rated	3.0%	11.0%	49.0%	3.7	-1.8%
Jamaica	2,751	15.3	5,526	B (Stable)	1.5%	13.3%	125.0%	5.3	3.7%
St. Maarten	43	0.8	26,025	Baa2 (Stable)	0.5%	8.9%	36.5%	6.4	0.3%
Suriname	541	5.1	9,339	B+ (Negative)	0.1%	9.5%	46.3%	2.2	55.0%
T&T	1,328	23.8	17,935	A- (Negative)	-2.0%	3.5%	68.4%	11.0	3.4%

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