MAY | 2024

Vol. 13
Issue:
01

CARIBBEAN ECONOMICS

Quarterly

Risks and Opportunities for Caribbean Economies in a Diverging World

IDB

TABLE OF CONTENTS

Caribbean Economics Quarterly - May 2024

Regional Overview - Risks and Opportunities for Caribbean Economies in a Diverging World

David Rosenblatt, Khamal Clayton and Sota Ishii

Overview

Caribbean economies are experiencing continued growth into 2024 as the severe economic and social stress of the COVID-19 pandemic has receded.[1] Meanwhile, global economic conditions may be diverging. Economic growth is normally faster in emerging and developing economies than in advanced economies, but this time around both economic growth and inflation may be diverging even within the group of advanced economies, leading to policy conundrums for policymakers in those countries. For Caribbean economies, these divergent circumstances and policies could create both risks and opportunities moving forward.

This report highlights several key developments that are relevant for the Caribbean:

- *The much-anticipated lowering of global interest rates has not yet materialized*. The U.S. economy is performing more strongly than expected, with inflation stuck above the 2 percent target. This is leading to the possibility that the U.S. Federal Reserve will further delay reducing the policy interest rate. Meanwhile, in the United Kingdom, the euro area, and Japan, economic growth is weaker and inflation is converging towards the target level. In those cases, interest rate reductions may come sooner and stronger than in the United States. The evolution of these rate changes will eventually have an impact on external financing costs for Caribbean countries. In addition, if monetary policy diverges, the U.S. dollar will likely strengthen relative to other major currencies. This could imply real exchange rate appreciation for Caribbean economies with fixed exchange rates tied to the dollar, with the possible implications discussed below.

- *After the strong economic recovery of 2021–2023, Caribbean economies continue to grow at a somewhat faster pace than Latin America and the*

[1] The Caribbean Economics Quarterly focuses on the six countries of the Caribbean Country Department at the Inter-American Development Bank: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

Caribbean as a whole. Guyana's economic growth continues at "world record" levels—33.9 percent projected in 2024 (IMF 2024). The average public-debt-to-GDP ratio in the Caribbean has returned to (already relatively high) pre-pandemic levels. Further work to strengthen macro frameworks is a fundamental precondition for growth. A renewed focus on regulatory reforms, human capital, and resilient infrastructure could make Caribbean economies "ready for take-off" to higher levels of growth.

- *Country circumstances vary substantially, as noted in the country sections of this report*. Each country section provides an update of the status of fiscal policy, public debt, monetary policy, the financial system, and inflation.

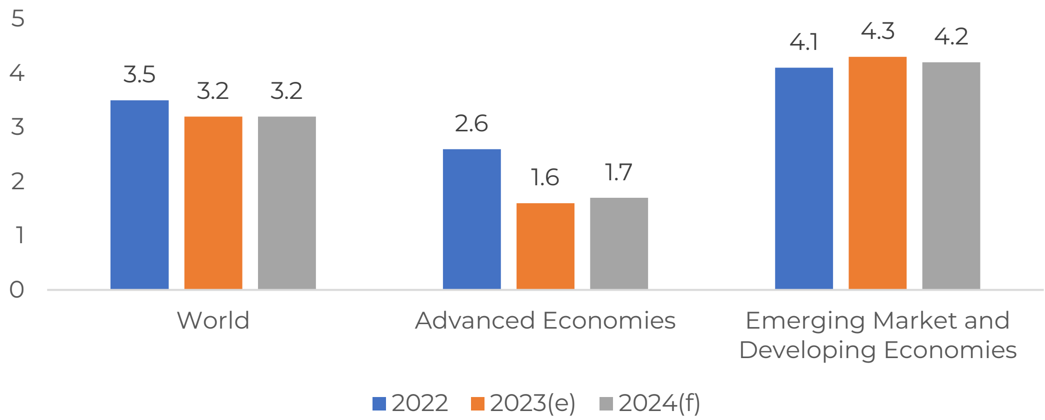
Global Trends and Regional Context

The International Monetary Fund (IMF) expects global economic growth to level off in 2024 relative to 2023. The IMF projects global GDP growth of 3.2 percent this year, the same level estimated for last year (Figure 1). In terms of broad country groupings, advanced economies are expected to grow by 1.7 percent, compared to an estimated 1.6 percent last year, while emerging market and developing countries are expected to grow by 4.2 percent, slightly below last year's growth of 4.3 percent.[2] In general terms, then, global economic growth is expected to stabilize in 2024, following the rapid recovery years of 2021 and 2022 after the pandemic.

Global demand for Caribbean tourism and commodity exports will be sustained, but likely with less dynamism. However, the current economic context also involves rising uncertainty about the course of macroeconomic policies, particularly in advanced economies, and ongoing geopolitical stress that could affect global supply chains.

[2] For information on IMF country classification definitions, see https://www.imf.org/en/Publications/WEO/weo-database/2023/April/groups-and-aggregates (accessed 29 April 2024).

Figure 1. Economic Growth, 2022–2024 (percent)



Source: IMF, World Economic Outlook database (accessed in April 2024).
Note: (e): estimate; (f): forecast.

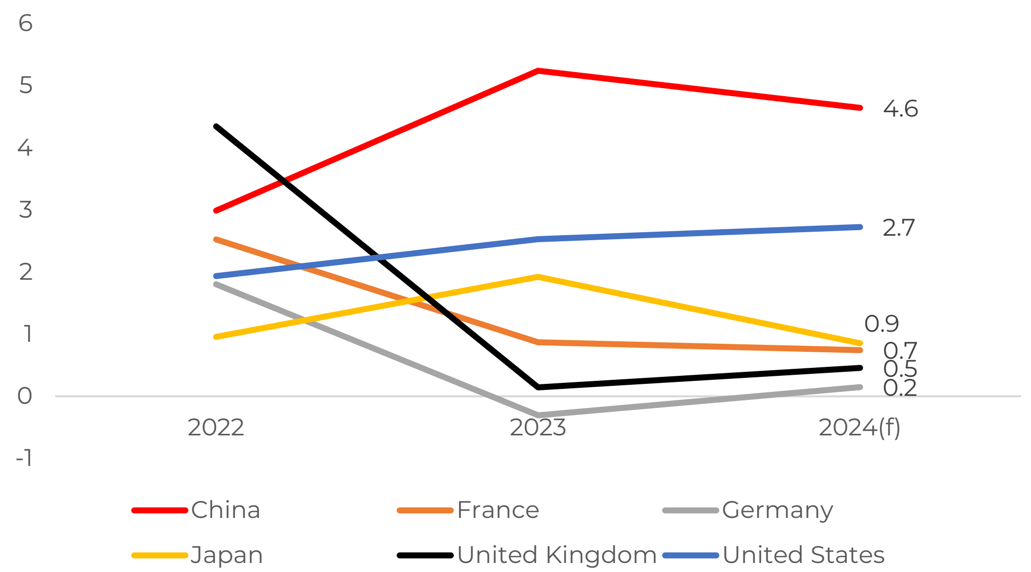
Behind the aggregates of Figure 1, there is a mixed picture for key macroeconomic variables in major economies. Growth declined in some key advanced economies in 2023, and in a few countries, such as the United Kingdom and Germany, there was a technical recession. On the other hand, economic growth remained more robust in the United States and exceeded expectations (Figure 2). China is added to Figure 2 as the largest economic representative of the emerging markets.

Weaker growth in Europe and the United Kingdom, relative to the United States, is combined with a more persistent decline in inflation in those economies with respect to the United States, based on March 2024 estimates (Figure 3). Inflation in the United States surprised on the upside in March 2024, and the country's April job creation report also surprised on the upside, indicating continued stronger-than-expected economic growth (and further upward pressure on inflation). This raises the possibility of divergent approaches to monetary policy during 2024. Recent public comments from U.S. Federal Reserve Board governors indicate the possibility of a more delayed reduction in interest rates than in the euro area.[2] This could have an impact on the

[2] See Federal Reserve Board Governor Michelle Bowman's speech in April 2024, available at https://www.federalreserve.gov/newsevents/speech/bowman20240405a.htm; see also William Horobin and Alessandra Migliaccio, "French and Italian Inflation Keep ECB on Path to Lower Rates," Bloomberg (March 29), available at https://www.bloomberg.com/news/articles/2024-03-29/french-inflation-slows-to-lowest-level-since-august-2021?sref=rUtuwP8T.

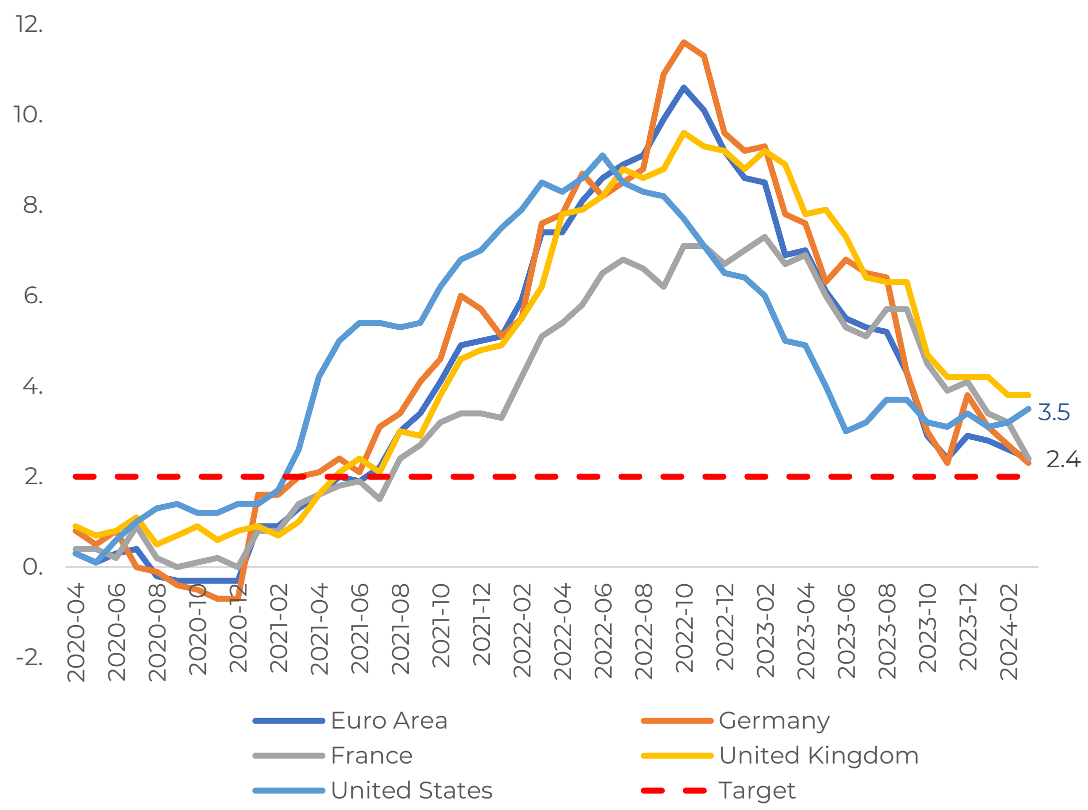
exchange rate between the two major global currencies, with possible implications for the Caribbean that will be discussed below.

Figure 2. Economic Growth in Major Economies Worldwide, 2022–2024 (percent)



Source: IMF, World Economic Outlook database (accessed in April 2024).

Figure 3. Annual Inflation: End-of-Period Consumer Prices in Major Economies Worldwide, April 2020–March 2024 (percent)

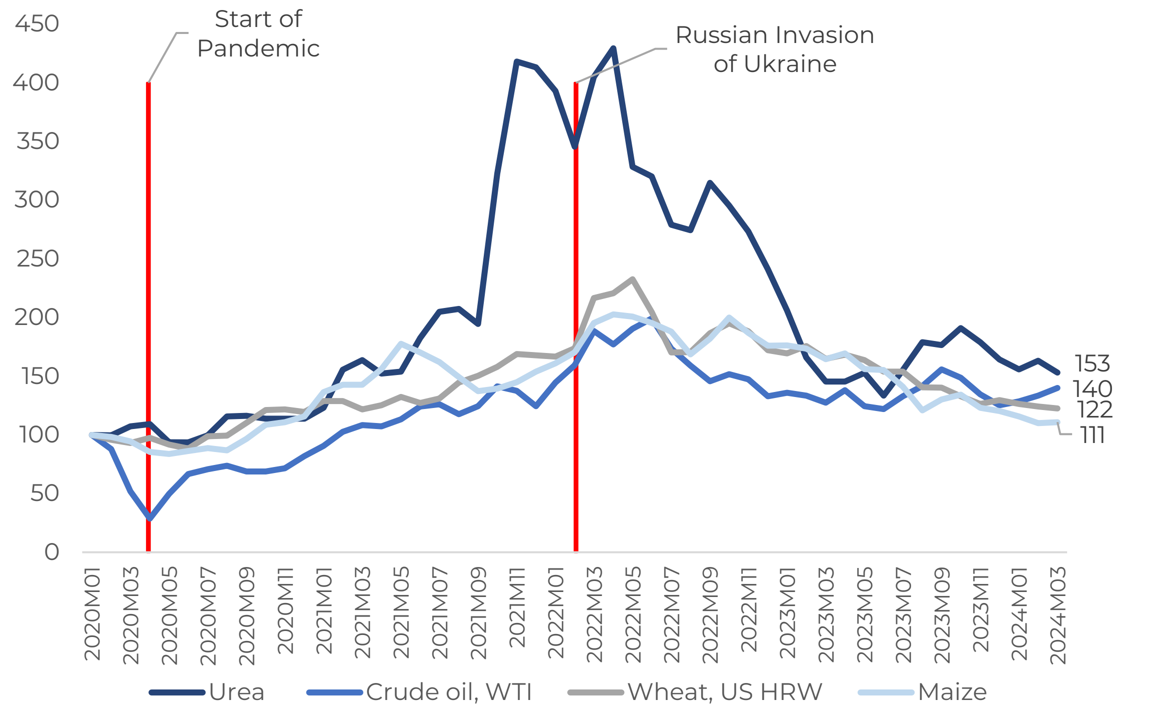


Sources: Eurostat; UK Office of National Statistics; and U.S. Bureau of Labor Statistics.

That said, there are underlying market forces that affect inflation everywhere, as has been the case in recent years. Supply shocks from international conflicts can substantially affect commodity prices (Figure 4). Weather events, such as the drought affecting the Panama Canal zone, can constrain supply chains, and droughts or floods can have a direct impact on agricultural production, which in turn places upward pressure on food prices. Climate change will add to these risks in unpredictable ways in the coming months and years.

While commodity prices have moderated from the peaks of 2022, they generally remain above pre-pandemic levels (Figure 4). In March 2024, maize, wheat, and crude oil prices remained about 11 percent, 22 percent, and 40 percent, respectively, above pre-pandemic levels. The price of urea, a key input, remains more than 50 percent above the pre-pandemic level. These higher price levels have leveled off, so there is no significant upward trend recently that is likely to be contributing to higher inflation.

Figure 4. Price Trends of Selected Commodities, 2020–March 2024 (January 2020 = 100)

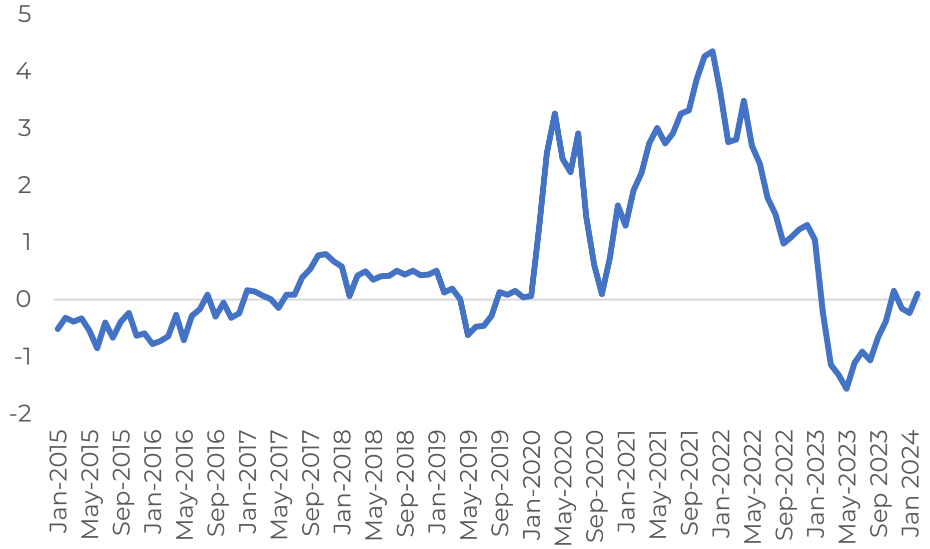


Source: World Bank "Pink Sheet" Data, April 2024.

Supply chain pressures have also remained subdued, even if there are still possible risks ahead. The Federal Reserve Bank of New York has developed an index to track the evolution of these pressures called the Global Supply Chain Pressure Index. The index incorporates a variety of indicators such as freight costs, information from purchasing manager index surveys, and other indices from external sources (e.g., the Baltic Dry Index and the Harpex Index). The index is presented in terms of deviations from normal supply chain conditions, with a higher number indicating greater pressure (Figure 5). Technically speaking, this is measured in terms of standard deviations from the historical average. This can also be thought of as multiples of the

average distance from the mean. As noted by prominent commentators,[3] the spike in supply chain pressures, as measured by the index, coincides with the rise in inflation presented in Figure 3.

Figure 5. Federal Reserve Bank of New York's Global Supply Chain Pressure Index: Standard Deviations from the Historical Average, 2015–October 2023



Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, available at https://www.newyorkfed.org/research/policy/gscpi#/interactive (accessed April 24, 2024).

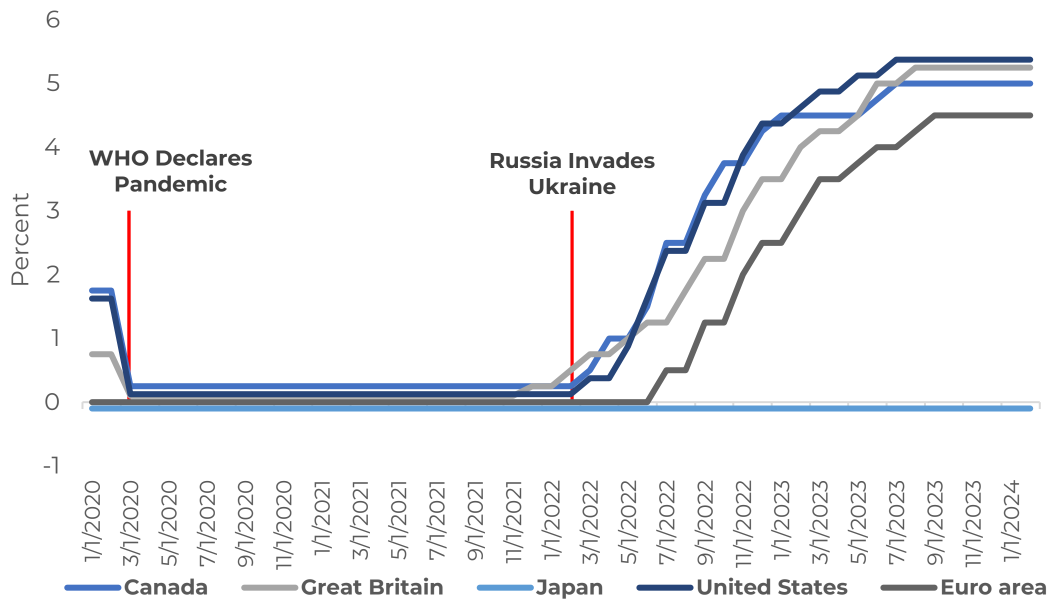
Starting in the spring of 2022 and continuing through the summer and fall of 2023, central banks in advanced economies undertook a series of increases in their respective policy rates (Figure 6). Since those rate hikes have been paused, markets have speculated on the timing and extent of future rate cuts as inflation has declined and supply-side pressures from commodity prices and supply chain disruptions have eased.

While major economies increased their policy rates in a broadly synchronized fashion (Figure 6), economic conditions are currently different across countries, as noted in

[3] See Paul Krugman, 2024, "Stuck Ships and Supply-Chain Inflation," *The New York Times* (April 2), available at https://www.nytimes.com/2024/04/02/opinion/baltimore-bridge-inflation-supply-chain.html?searchResultPosition=.

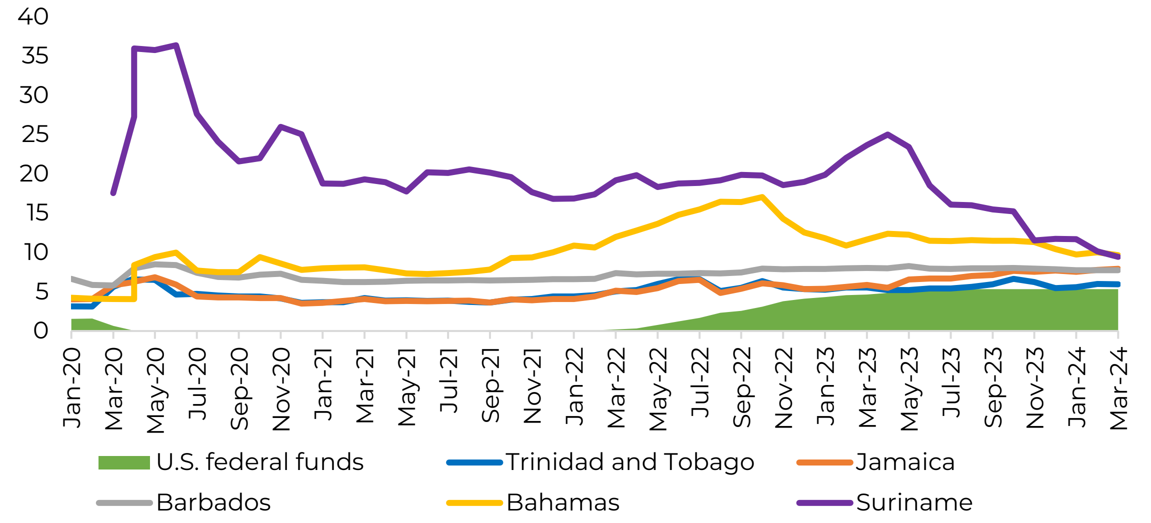
Figure 2. This could lead to a less synchronized lowering of interest rates, potentially leading to changes in exchange rates. For example, with more robust growth and more persistent inflation in the United States, as compared to Europe, the U.S. Federal Reserve may delay rate reductions, while the European Central Bank and Bank of England may lower rates this summer. This could lead to appreciation of the dollar against the euro and the pound. For those Caribbean economies with currencies tied to the dollar, this could lead to a real exchange rate appreciation, with possible competitiveness implications for those countries. For example, for tourism-based economies such as Barbados that have a significant share of arrivals sourced in the United Kingdom, the cost of a vacation in British pounds could rise, thus hampering the recovery of its tourism sector. An overall increase in the real exchange rate could also hamper diversification efforts. That said, if the rise of the dollar lowers the dollar cost of commodities, there could be an offsetting favorable effect through lower commodity import costs for Caribbean countries with fixed exchange rates. Either way, this will be an important issue to monitor in the coming months.

Figure 6. Central Bank Policy Rates in Major Economies Worldwide, 2020–January 2024 (percent)



Source: Bank for International Settlements.
Note: WHO: World Health Organization.

Figure 7. U.S. and Caribbean Sovereign Bond Yields, January 2020–March 2024 (percent)



Sources: IDB Treasury Department; and Federal Reserve Bank of St. Louis.
Note: Guyana is not included because it does not have any international bonds in the markets.

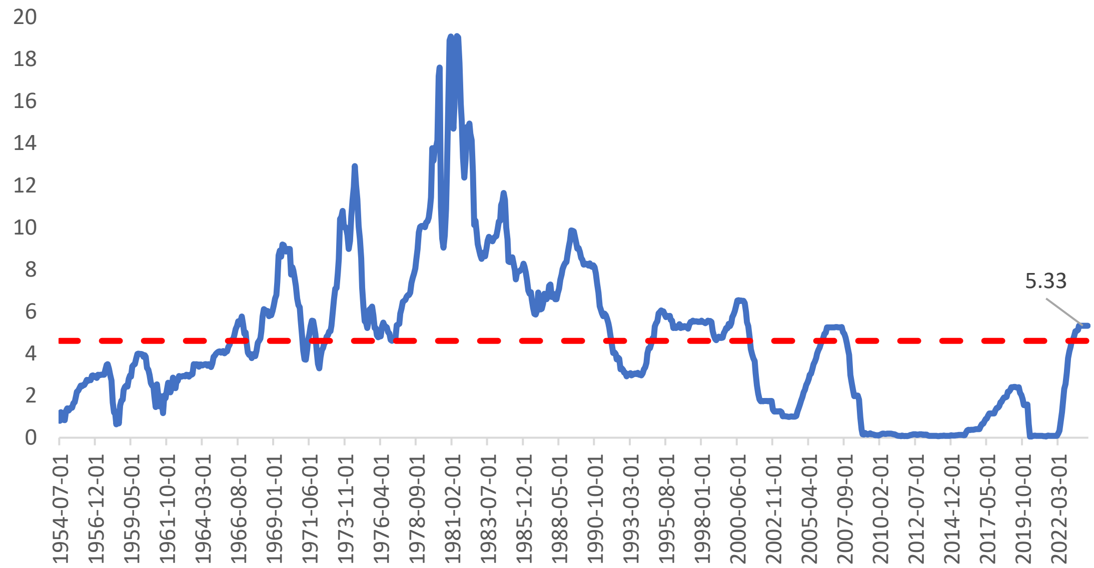
As for the interest rates themselves, there has not been a systematic one-to-one relationship between increases in the U.S. federal funds rate and increases in the implicit yield on the secondary market for external debt (Figure 7). It should be noted that, for some Caribbean countries, external debt has been renegotiated and might not be trading on a regular basis (e.g., Barbados), and there have not been new issuances, unless accompanied in some cases by an IDB guarantee. The recent sharp decline in yields for Suriname is clearly driven by the successful debt restructuring there. Rising federal funds rates are accompanied by rising yields on U.S. government debt. This also affects the interest rates charged by multilateral development banks and the IMF, thus impacting the cost of new borrowing from these entities.

If and when a rate-reducing cycle begins, the question remains as to how low the U.S. Federal Reserve might reduce the federal funds rate. Clearly this will depend on economic conditions. In addition, there is a vast literature on the neutral interest rate—the interest rate that neither stimulates nor constrains the economy and inflation—and how it is affected by longer-term structural conditions.[4] There is a general view that the neutral real interest rate in the United States has declined over

[4] For a general overview of what the neutral interest rate is and why it may have declined over time, see Sam Boocker, Michael Ng, and David Wessel, 2023, "What Is the Neutral Rate of Interest?" Brookings Institution Commentary (October 3), available at https://www.brookings.edu/articles/the-hutchins-center-explains-the-neutral-rate-of-interest/.

time to around 0.5 percent.[5] With inflation at the target level of 2 percent, a nominal interest rate of 2.5 percent would be neutral. Although this may be lower than in the past, it is still above the remarkably low federal funds rate of recent decades (Figure 8). Furthermore, the current federal funds rate of 5.3 percent is higher than its long-run average of 4.6 percent.

Figure 8. The Long-Term U.S. Federal Funds Rate, 1954–2022 (percent)



Source: Federal Reserve Bank of St. Louis economic database, available at fred.stlouisfed.org.
Note: Red dashed line denotes long-run average.

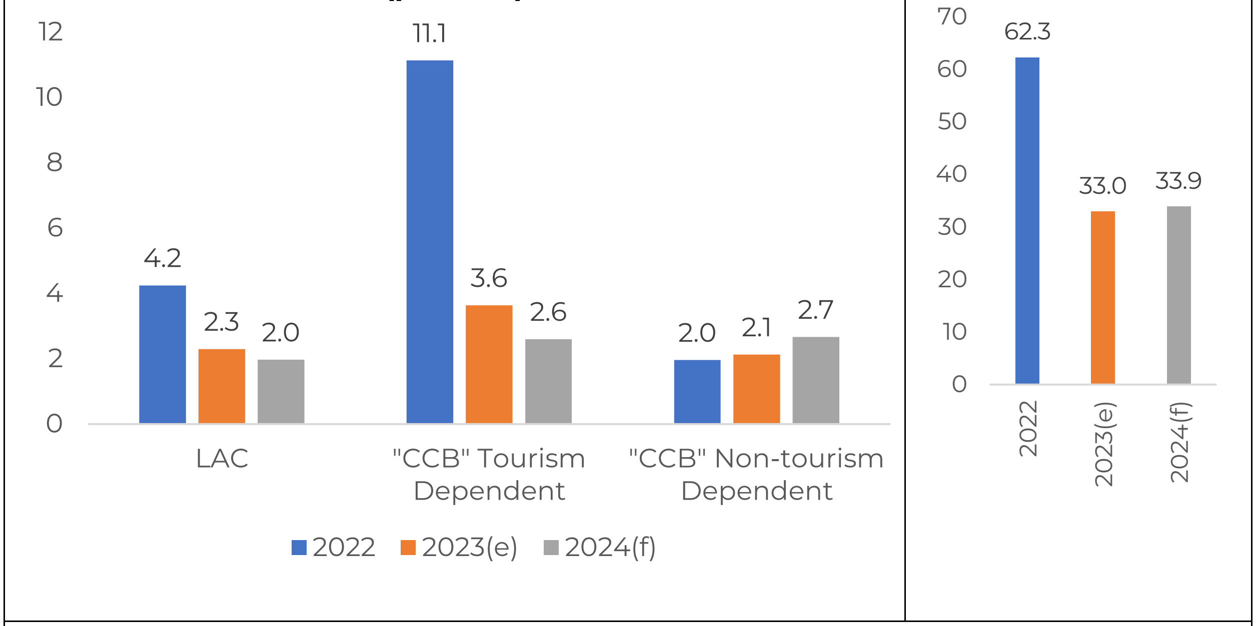
Policymakers will confront a wide scope and degree of uncertainty in considering policy moves in the coming years. Geopolitical risks remain and could reignite inflationary pressures through commodity prices and supply chain disruptions. They could also drag down economic growth in affected countries. Elections could also lead to changes in the direction of economic policy in major globally significant countries. The effects of climate change also remain a significant risk for the global economy.

[5] See Joseph Brusuelas, 2023, "Why the Fed Should Lift Its 2% Inflation Target," The Real Economy Blog (September 12), available at https://realeconomy.rsmus.com/why-the-fed-should-lift-its-2-inflation-target/#:~:text=The%20Fed's%20inflation%20target&text=The%20rigidness%20of%20the%202,3.0%25%20is%20a%20better%20fit.

Caribbean Regional Prospects

The previous section outlined the key global trends that provide the context for Caribbean regional macroeconomic performance. According to IMF forecasts, prospects for the six countries of focus in this report are more favorable than for the broader Latin America and Caribbean region (Figure 9). Commodity exporters in the Caribbean have benefited from higher-than-usual prices for commodities such as oil, urea, and agricultural products. Furthermore, the extraordinarily high oil-fueled growth of Guyana in the short to medium term is nowhere close to losing steam. Geopolitical uncertainty in traditional supply markets, particularly the Middle East and Russia, could provide support for higher oil and gas prices in the near term. Recent border tensions with Venezuela represent a more local geopolitical risk.

Figure 9. Regional GDP Growth Rates, 2022–2024 (percent)

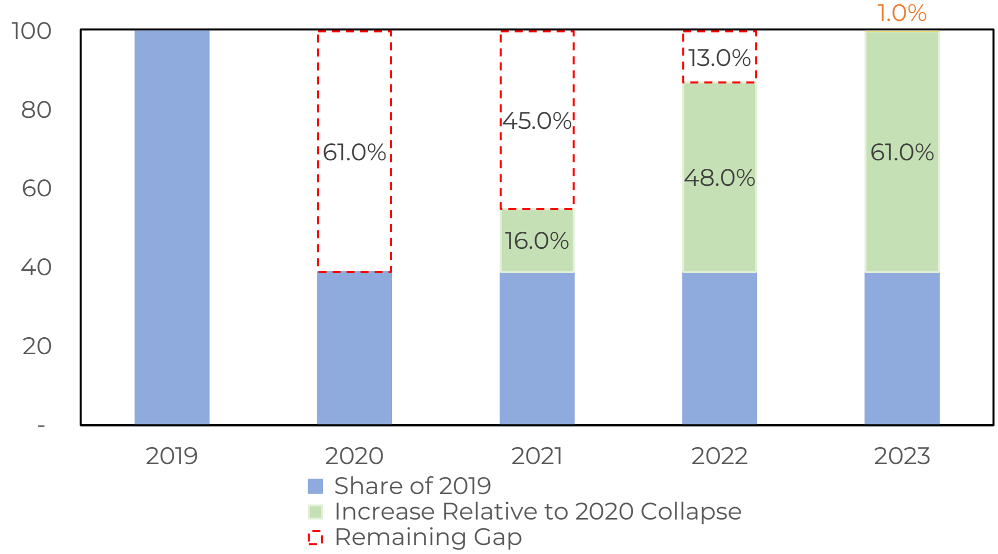


Source: IMF, World Economic Outlook database (accessed in April 2024).
Note: CCB in this figure refers to the six countries of the IDB Caribbean Country Department (The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago), though figures for Guyana are separated out to the right. The share for CCB countries are simple averages for each country grouping. CCB tourism-dependent countries are The Bahamas, Barbados, and Jamaica. CCB non-tourism dependent countries are Suriname and Trinidad and Tobago. (e): estimate; (f): forecast; LAC Latin America and the Caribbean.

Tourism-dependent Caribbean economies have broadly recovered from the COVID-19 crisis, with arrivals having surpassed 2019 figures by 2023 (Figure 10). The recovery was particularly strong in a handful of markets, notably The Bahamas and Jamaica, which have seen record-setting tourist arrivals. At the same time, there is some evidence that the increase in tourism in those locations is also being driven by non-traditional source markets, and this bodes well for a possible permanent increase in market share.[6] On the other hand, Barbados, a tourism-dependent country that relies on European arrivals, has not fared as well, with 2023 arrivals below pre-pandemic levels. (Although, first quarter 2024 figures are now above the first quarter of 2019, as noted in the Barbados country section.) For countries such as Barbados, in particular, the economic downturn in countries like the United Kingdom, as well as potential devaluations with respect to the U.S. dollar, threaten to further delay recovery.

[6] See the country sections of this report for more details.

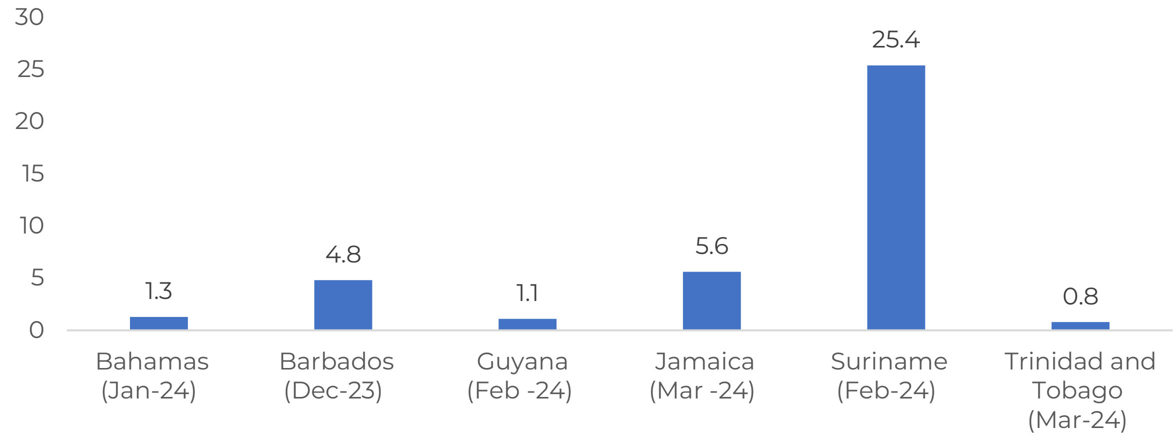
Figure 10. International Tourism Arrivals in the Caribbean, 2019–2023 (percent; 2019 = 100)



Source: World Tourism Organization Tourism Dashboard.
Note: A broader definition of the Caribbean is used here that includes countries beyond those that are members of the IDB's Caribbean Country Department.

Overall annual inflation (i.e., year-over-year) has broadly declined in the Caribbean compared to the highs seen in 2022 (Figure 11). Inflation is within pre-pandemic ranges for most Caribbean countries, excluding Suriname. In the case of Jamaica, where the central bank has an explicit inflation-targeting mandate, inflation as of February 2024 was only 2 percentage points of the upper end of its mandated range. Suriname remains the outlier, but annual inflation there as of January 2024 was less than half what it had been at the end of 2022. Macroeconomic policy reforms are paying off in that regard in Suriname.

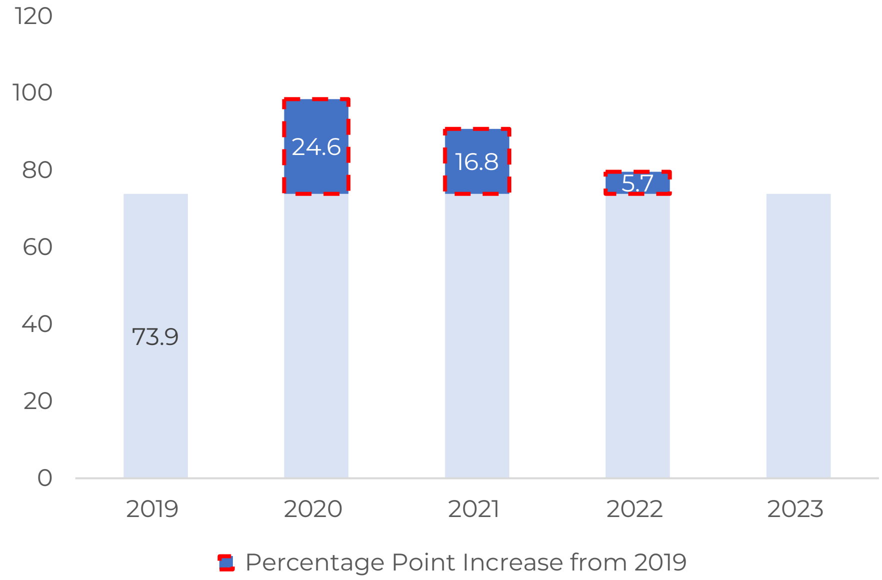
Figure 11. Annual Inflation in the Caribbean (percent)



Sources: Central Banks or Statistical Offices of the respective Caribbean countries.

A combination of faster real growth, positive primary balances, and high inflation contributed to reducing the stock of debt accumulated in the region in 2020 (Figure 12). On average, the pandemic added 22.1 percentage points of GDP to the stock of debt held by Caribbean countries. However, by the end of 2023 that increase had been reversed. That said, public-debt-to-GDP ratios remain worryingly high in several countries.

Figure 12. Average Public Debt in the Caribbean, 2019–2023 (percent of GDP)



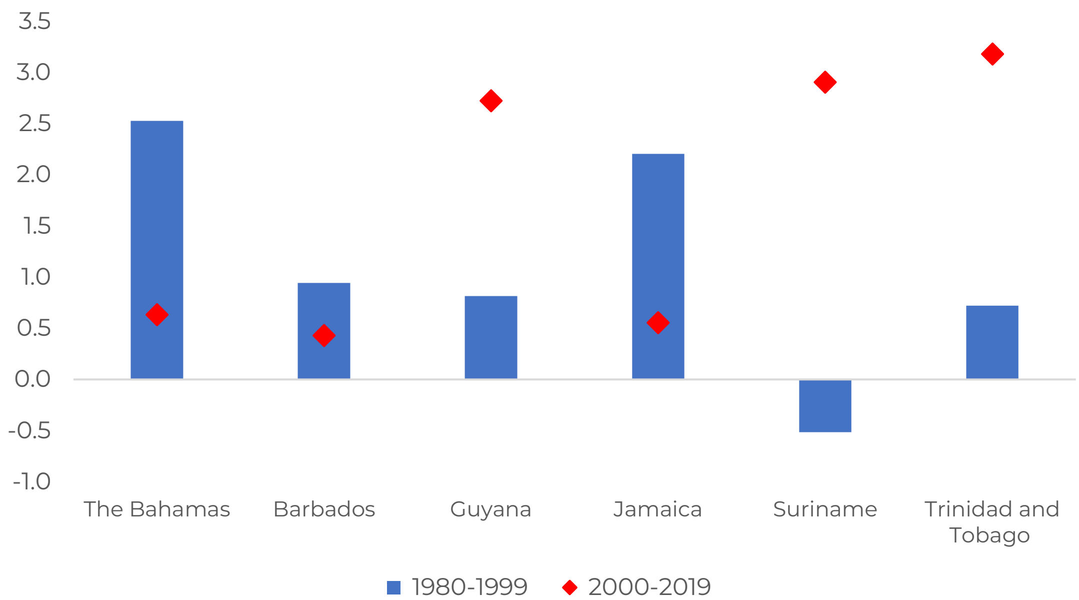
Source: IMF, World Economic Outlook database (accessed in April 2024).
Note: Simple average of the six countries that are members of the IDB Caribbean Country Department.

Economies tend to return to their long-run pre-crisis growth rates following a downturn and recovery. It is not surprising that forecasters predict precisely that pattern. Before 2020, average potential GDP growth in the 21st century favored commodity exporters,[7] as they benefited from a commodity price supercycle between 2000 and 2014 (Figure 13).[8] Long-term potential in tourism exporters only grew by an average of 0.5 percent per year compared to 3 percent per year for commodity exporters—a multiple of 6 annually. If there is a sustained rise in commodity prices, driven by geopolitical cleavages, these same commodity exporters would benefit. Naturally, commodity importers would suffer.

[7] Potential GDP is defined as the GDP if all available inputs—labor and capital—are used within an economy in a sustainable manner (i.e., conducive to stable inflation and steady growth). It is a theoretical concept that cannot be observed directly but can be inferred using empirical tools.

[8] For a discussion of the commodities supercycle, see Farid Abolfathi, John Anton, and John Mothersole, 2015, "Lessons from the Fading Commodity Supercycle," S&P Global Commodity Insights (August 6), available at https://www.spglobal.com/commodityinsights/en/ci/research-analysis/lessons-from-the-fading-commodity-supercycle.html.

Figure 13. Average Long-Run Potential GDP Growth Before the COVID-19 Pandemic, 1980–1999 and 2000– 2019 (percent)



Source: Authors' calculations based on IMF (2024), using a Hodrick-Prescott filter.

There are numerous policy reforms and investments that can improve prospects for long-term growth, and many of these have been covered in previous editions of the Caribbean Economics Quarterly (IDB 2022, 2023). In the macroeconomic realm, ensuring a stable macroeconomic framework through appropriate fiscal and monetary policies is a necessary condition to establish the business climate suitable for the investment and innovation required for faster growth. This is not only true for the Caribbean but also for Latin America and the Caribbean more broadly, as noted in the IDB's latest Macroeconomic Report on the region (Galindo and Izquierdo 2024). In order to make economies "ready for take-off," governments must focus on regulatory reforms, public investment, and human capital development.

Macroeconomic Risks and Opportunities Moving Forward

The IMF's April 2024 *World Economic Outlook* notes that "[r]isks to the global outlook are now broadly balanced" (IMF 2024, xvi). On the downside, geopolitical risks remain, as do risks from geo-economic fragmentation that may be driven by natural events or

policy decisions. [9] Continued accommodating fiscal policy in large economies could boost growth prospects, as could longer-term productivity gains from technological change, including artificial intelligence.

For the Caribbean, risks also appear to be balanced, and there is uncertainty as to whether the region is on the cusp of an acceleration of potential GDP growth, a return to slow pre-pandemic growth, or even renewed external shocks or severe weather events. Global growth is sustaining relatively high commodity prices that favor commodity exporters but hurt commodity importers. Critical to the global economic outlook is China's growth, and that growth continues to be susceptible to a variety of risks, including possible weakness in the housing market.[10]

In addition, hurricane season arrives in June, and Colorado State University researchers have forecast 24 named tropical storms for the Caribbean for the 2024 season, 40 percent more than the long-run average for 1991–2020.[11] The likelihood of a conversion from El Niño to La Niña tropical conditions is a potential contributing factor to a more active hurricane season in the Atlantic.[12] Finally, the unfolding artificial intelligence revolution may pose a risk to existing global services businesses in the region and, as discussed above, the potential strengthening of the U.S. dollar could hurt the competitiveness of countries with currencies tied to the dollar.

There are also opportunities on the horizon that could improve the backward-looking potential growth estimates presented in Figure 13. There is a new Caribbean growth pole in Guyana, and greater regional economic integration could take advantage of this new impetus for regional growth. The transition to renewable energy could end dependence on expensive fuel imports for some countries. Improvements in Caribbean fiscal institutions could provide greater confidence for local and foreign investors, building on macroeconomic stability for growth (IDB 2024). The artificial intelligence revolution may imply risks, but it could also open opportunities for new

---

[9] See Serkan Arslanalp, Robin Koepke, Alessandra Sozzi, and Jasper Verschuur, 2023, "Climate Change is Disruptin Global Trade," IMF Blog (November 15), available at https://www.imf.org/en/Blogs/Articles/2023/11/15/climate-change-is-disrupting-global-trade.

[10] For a recent overview of the issue, see Henry Hoyle and Sonali Jain-Chandra, 2024, " China's Real Estate Sector: Managing the Medium-Term Slowdown," IMF News (February 2), available at https://www.imf.org/en/News/Articles/2024/02/02/cf-chinas-real-estate-sector-managing-the-medium-term-slowdown.

[11] See CSU Tropical Climate and Research, Seasonal Hurricane Forecasting, available at https://tropical.colostate.edu/forecasting.html (accessed April 29 2024).

[12] See Emily Becker, 2024, "April 2024 ENSO Update: Gone Fishing," NOAA Climate.gov (April 11), available at https://www.climate.gov/news-features/blogs/enso/april-2024-enso-update-gone-fishing.

businesses in the region.[13] Finally, if advanced economies do manage a "soft landing" from their efforts to lower inflation, then lower interest rates could reduce financing costs for the Caribbean, and sustained global demand would support growth in both tourism-dependent and commodity-exporting economies in the region. This sustained growth would also provide opportunities to diversify and strengthen the tourism product offering, or to diversify out of traditional exports.

References

Galindo, Arturo J., and Alejandro Izquierdo. 2024. *2024 Latin America and Caribbean Macroeconomic Report: Ready for Take-off? Building on Macroeconomic Stability for Growth.* Washington, DC: Inter-American Development Bank. Available at https://publications.iadb.org/en/publications/english/viewer/2024-Latin-American-and-Caribbean-Macroeconomic-Report-Ready-for-Take-Off-Building-on-Macroeconomic-Stability-for-Growth.pdf.

Inter-American Development Bank (IDB). 2022. "Regional Overview: Digital Infrastructure and Development in the Caribbean." *Caribbean Economics Quarterly* 10(3). IDB Caribbean Department. Available at https://publications.iadb.org/en/caribbean-quarterly-economic-bulletin-volume-10-issue-3-january-2022-digital-infrastructure-and.

Inter-American Development Bank (IDB). 2023. "Regional Overview: Reflections on Innovation and Productivity as Caribbean Businesses Emerge from the Pandemic." *Caribbean Economics Quarterly* 12(1). IDB Caribbean Department. Available at https://publications.iadb.org/en/caribbean-economics-quarterly-volume-12-issue-1-reflections-innovation-and-productivity-caribbean#:~:text=This%20edition%20of%20the%20Caribbean,lies%20in%20innovation%20and%20productivity.

International Monetary Fund (IMF). 2024. *World Economic Outlook: Steady but Slow: Resilience Amid Divergence.* Washington, DC: IMF, April. Available at https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024?cid=ca-com-compd-pubs_belt.

[13] Fortunately, since as early as 2019, there has been steady recognition and investments in higher-value opportunities in business process outsourcing. See Alex Irwin-Hunt, 2019, "Caribbean Builds Up BPO Credentials, " FDI Intelligence (April 18), available at https://www.fdiintelligence.com/content/feature/caribbean-builds-up-bpo-credentials-74563.

IDB CARIBBEAN COUNTRY ECONOMICS TEAM PUBLICATIONS CATALOG IS AVAILABLE AT:

https://public.tableau.com/profile/iadb#!/vizhome/CaribbeanEconomicResearchDatabase/CA

COUNTRY SUMMARIES

The Bahamas

José Luis Saboin

Overview

The tourist boom that occurred in The Bahamas during 2023 is expected to level off this year. However, the strong performance of the tourism sector is having the expected positive impact on the Bahamian economy, including rising government revenue and falling unemployment. Although fiscal consolidation continues, early figures for the first nine months of the current fiscal year suggest that it will be difficult to fully meet the target of a 1 percent of GDP deficit set in the budget unless there are significant increases in revenues or important new expenditure measures. Financing needs remain elevated, and although lower, the debt-to-GDP ratio is still high. In such a fiscal context, the government recognizes that improving tax revenue administration alone will not be sufficient to reach the goals set in the Fiscal Strategy Report 2022, and that it will be necessary to introduce new taxes, such as the upcoming corporate income tax for foreign companies. Credit to the private sector has gained some dynamism, without an impact on international reserves. Medium-to-long-term growth prospects are favorable as Bahamian society shifts its energy matrix toward renewables, increases digitalization in the public and private sectors, and seeks to unleash the potential of its blue economy.

Economic Activity

Preliminary figures for 2023 show a year-over-year increase in tourist arrivals of 37.9 percent, reaching 9.65 million visits, the highest level in history. Although the growth in tourist arrivals is now decelerating, tourism momentum in The Bahamas has thus far continued into 2024: during the first two months of the year the country received 1.86 million visits, 11.7 percent higher year-over-year (Figure 1). However, a structural decomposition of the series suggests that tourist arrivals have reached their potential (Figure 1). Early GDP estimates from The Bahamas National Statistics Institute for 2023 show that, besides tourism, the main contributors to economic growth were construction, government, and other non-traditional activities (such as mining and manufacturing), offsetting contractions in retail and financial services (Figure 2). In a context of Bahamian GDP reaching its potential, the International Monetary Fund (IMF) expects the economy to grow by 2.3 percent in 2024 and 1.8 percent in 2025, almost doubling the 20-year growth trend of 1 percent prior to the COVID-19 pandemic.

Figure 1. The Bahamas: Tourist Arrivals (millions of visitors)

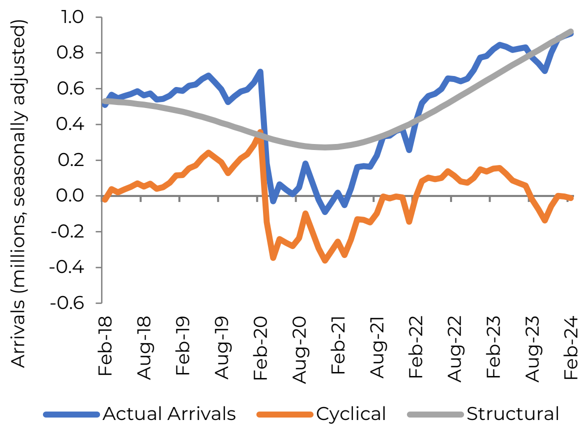
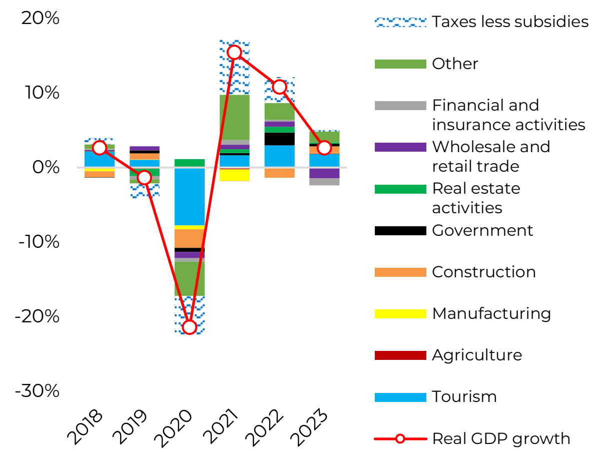


Figure 2. The Bahamas: Economic Growth (year-over-year percent change)



Source: Ministry of Tourism and Central Bank of The Bahamas.

Fiscal Policy and Public Debt

Fiscal Balance

In FY2019/2020, fiscal performance deteriorated due to the impact of Hurricane Dorian and the COVID-19 pandemic, and then further deepened in FY2020/2021, with the fiscal balance reaching -13.5 percent of GDP. As the pandemic faded and the economy recovered, fiscal outcomes improved, outperforming the approved budgets. Results for FY2021/2022 indicate that the fiscal deficit narrowed from BSD1.3 billion to BSD717 million, equivalent to 5.8 percent of GDP. For FY2022/2023, the fiscal deficit further narrowed to BSD554 million or 4 percent of GDP.

Fiscal consolidation seems to be losing track during FY2023/2024. The budget that came into effect on July 1, 2023 contemplated an overall fiscal deficit of BSD131 million, equivalent to 0.9 percent of GDP. The primary fiscal surplus was expected to increase from BSD39 million to BSD486 million (3.3 percent of GDP). However, preliminary estimates for the 12-month rolling-sum ending in March 2024 show that the overall deficit reached BSD542 million. While the figure is just about the same of last fiscal year deficit, it is significantly below the BSD131 million deficit forecast in the budget, and even below the pre-pandemic average deficit of BSD389 million (Figure 3).

Although there are still three months left to close the fiscal year and tourist arrivals are still growing in double-digit numbers, it seems unlikely that the government can reduce the overall deficit by BSD400 million in just a quarter. In a context in which the improvement in tax revenue administration by itself will not be sufficient to reach the goals set in the Fiscal Strategy Report 2022 without imposing other revenue measures—such as the introduction of the corporate income tax as early as in upcoming FY2024/2025—the IMF expects the overall deficit to reach 2.6 percent of GDP in FY2023/2024 and 2.1 percent in FY2024/2025.

Public Debt

As fiscal consolidation continued in 2023, The Bahamas' consolidated public sector debt (net of intra-public sector holdings) reached 86.8 percent of GDP at year's end, down from 91.5 percent at the end of 2022. However, the debt-to-GDP ratio is still significantly above the 66.1 percent in FY2018/2019, the year before Hurricane Dorian and the pandemic. In line with the Medium-Term Debt Management Strategy, the currency composition of public debt continued shifting toward domestic currency instruments last year, as foreign currency debt accounted for 46.7 percent of the total (down from 46.9 percent in 2022), and most of it is held by the private capital market and international financial institutions. In a context of high liquidity in the domestic financial system, local currency debt accounted for the remaining 53.3 percent of total public debt and is well received by the domestic financial system. Although the stock of debt has been decreasing, government financing needs are high (Figure 4). Despite the fact that no sovereign external bonds will mature from now until 2025, amortization of external loans will exert most of the financing pressure, since within the next two fiscal years around USD900 million will need to be repaid, in addition to interest payments. If fiscal and financial market conditions worsen in the medium term, The Bahamas could face difficulties in reducing these large financing needs.

Figure 3. The Bahamas: Fiscal Deficit (millions of Bahamian dollars; 12-month rolling sum)

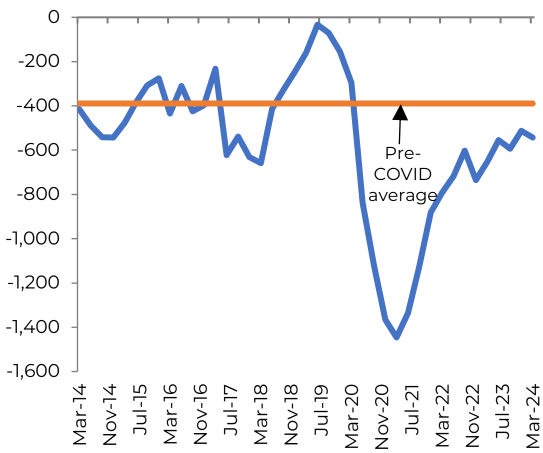
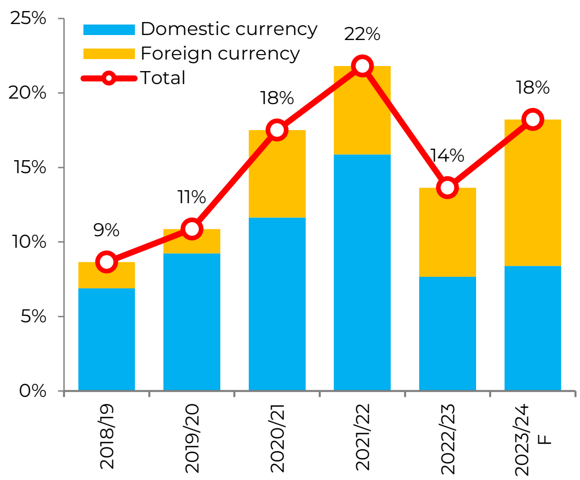


Figure 4. The Bahamas: Debt Service (percent of GDP)



Source: Ministry of Finance.
Note: F: forecast.

Monetary Policy and Inflation

Monetary Policy

The context for monetary policy in 2023 was one of (i) a sustained domestic economic recovery as the tourism sector continued to grow strongly, (ii) lower inflationary pressures both globally and domestically, (iii) international reserve management, due to higher tourism and private sector capital inflows, (iv) improved banking sector credit quality indicators as a consequence of improving economic conditions and loan write-offs, and (v) high levels of bank liquidity. Considering the satisfactory levels of international reserves (Figure 5), the strong economic recovery, and low demand for consumer credit, the Central Bank of The Bahamas continued the accommodative posture for domestic credit—which had started in 2022—throughout 2023 (Figure 6).[14] In terms of interest rates, the weighted average interest rate spread at domestic banks

---

[14] This approach primarily involved employing non-interest-rate tools that influence the accessibility of credit. In August 2022, the central bank eased the minimum qualification criteria for personal loans, increasing the maximum debt service ratio from the previous range of 40-45 percent to 50 percent. In addition, except for residential mortgages, the central bank eliminated the requirement for a minimum equity or down payment on loans, allowing lenders to offer financing up to 100 percent of the borrower's needs.

decreased from 10.7 percent at the end of 2022 to 10.1 percent by the end of 2023, reflecting a mild reduction in risk aversion and breaking an increasing pattern from previous years (9.5 percent in 2020 and 10.5 percent in 2021).

Figure 5. The Bahamas: Ratio of External Reserves (ER) to Broad Money (BM)

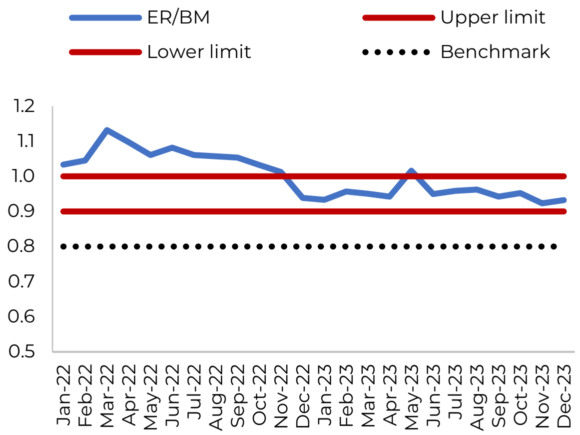
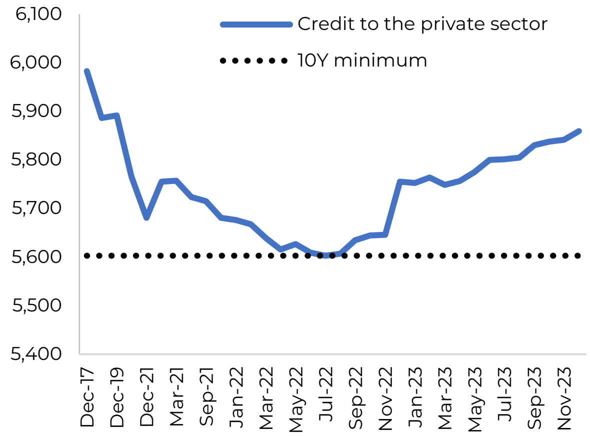


Figure 6. The Bahamas: Total Credit to the Private Sector (millions of Bahamian dollars)

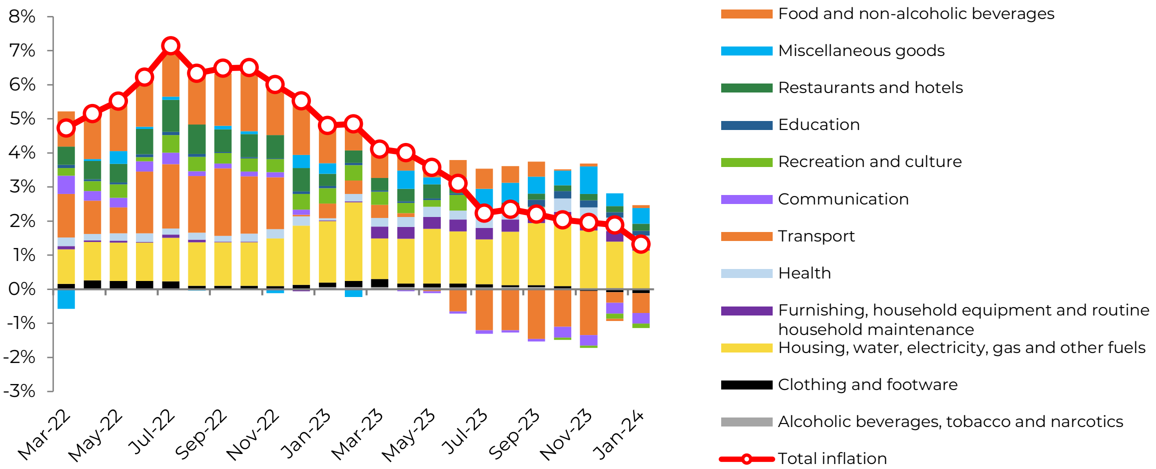


Source: Central Bank of The Bahamas.

Inflation

Despite the easier monetary policy of the Central Bank of The Bahamas, the monetary policy responses of the U.S. Federal Reserve and other major central banks caused annual inflation in The Bahamas to decelerate from 7.1 percent July 2022 to 1.9 percent in December 2023, following global trends. The annual inflation rate averaged 3.1 percent in 2023 and declined to 1.3 percent in January 2024 year-over-year. Much of the fall in inflation in the last six months was driven by deflation within the transport sector, particularly the fall in fuel prices (Figure 7). According to the IMF, in an environment of divergent monetary policy trends between the United States and Europe, inflation in The Bahamas is expected to stabilize in the short to medium terms to 2 percent.

Figure 7. The Bahamas: Inflation by components (year-over-year percent change)



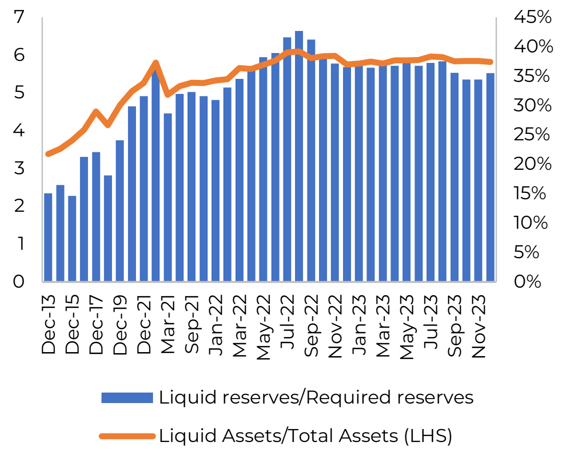
Source: The Bahamas National Statistics Institute.

Financial Sector

Financial sector indicators showed positive trends during 2023. In line with the monetary policy developments described in the previous section, the growth rate of credit to the private sector increased by 1.8 percent year-over-year in comparison to 1.3 percent in 2022. This marked an increase in total private sector credit by BSD300 million over the last two years (Figure 6). At the same time, credit to the government decelerated its upward trend with a 6.7 percent increase year-over-year, in contrast to the 9.4 percent increase in 2022. Around 75 percent of total credit to the private sector falls into the "personal" category, while 4.3 percent corresponds to the construction sector, and 5 percent to the distribution sector.

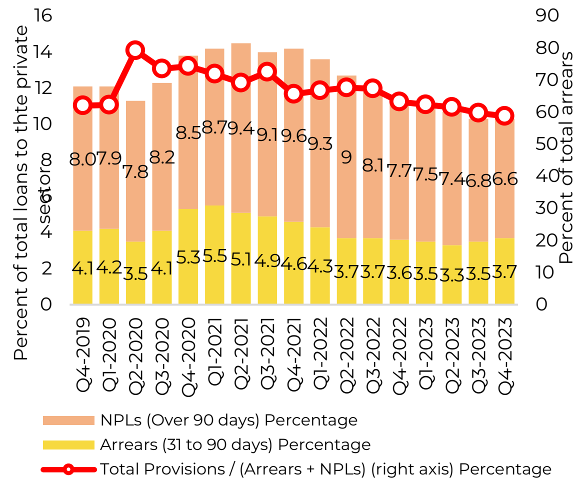
As of the end of 2023, despite a slight reduction in the second half of the year, banks had maintained the positive trend in liquidity indicators. After increasing their share over total assets over the last decade, liquid assets have represented 37.5 percent of total assets since mid-2022 (Figure 8). The value of private sector loan arrears to total private sector loans by the end of 2023 stood at 10.3 percent, compared to 14.3 percent a year after the pandemic (2021). Non-performing loans have decreased over the last couple of years, reaching 6.6 percent at the end of 2023 (Figure 9).

Figure 8. The Bahamas: Banking System Liquidity



Source: Central Bank of The Bahamas.

Figure 9. The Bahamas: Non-performing Loans and Provisions (percent)



Opportunities and Risks Moving Forward

Macroeconomic policy management in The Bahamas has proven resilient and prudent, that is, capable of dealing with several consecutive negative shocks. The tourist boom contributed to increasing domestic credit without an impact on international reserves. However, there are several uncertainties that will have to be monitored. The first is the country's capacity to maintain the high flow of tourists by having adequate public infrastructure and appropriate vacancy rates at hotels and vacation rentals. The second is the risk of price increases for key commodities, including fuel and food, in the context of an already-high cost of living. A third risk is the possibility that investor confidence in emerging markets falls, particularly as the world economic outlook becomes more uncertain due to global macroeconomic trends such as geo-economic fragmentation. Fourth, in an environment of high interest rates, rolling over debt and covering fiscal deficits is going to keep financing costs high for small island developing states like The Bahamas. Finally, the looming threat of natural disasters that The Bahamas faces every year from June to November calls for continuing efforts to strengthen resilience and buffers.

Barbados[15]

Cloe Ortiz de Mendivil

Overview

The economy of Barbados is on the path to recovery. Four years since the onset of the COVID-19 pandemic, real GDP has finally returned to a level comparable to that in 2019. Barbados was particularly hard-hit by the pandemic shock because of its dependency on the tourism sector. Stringent measures to contain the spread of the virus, and a delayed reopening compared to other tourist destinations, resulted in a slow economic recovery. In addition, two weather events in 2021 affected the island. In April, ashfall from La Soufriere volcano in neighboring Saint Vincent disrupted economic activity, and in July, Hurricane Elsa caused infrastructure damage.[16]

Authorities remain committed to implementing the reform agenda to achieve sustainable and inclusive growth and fiscal soundness, as initially outlined in the Barbados Economic Recovery and Transformation (BERT) Plan of 2018 and its recent update in 2022.[17] To that end, the country engaged in a four-year International Monetary Fund (IMF) Extended Fund Facility (EFF) arrangement in 2018 and a subsequent three-year EFF arrangement in 2022 that was combined with a Resilience and Sustainability Facility (RSF) arrangement.[18]

Increased Visitor Arrivals and Construction Activity Drive a Rebounding Economy

Recovery started to materialize in 2022 when, after two years of decline, real GDP grew 13.8% (Figure 1). The positive trend continued in 2023 when the economy expanded by

---

[15] Unless otherwise noted, the date for this country section are from the International Monetary Fund's April 2024 *World Economic Outlook* (https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024); IMF Country Report No. 23/246 (https://www.elibrary.imf.org/view/journals/002/2023/436/002.2023.issue-436-en.xml); the Central Bank of Barbados, including Review of Barbados' Economic Performance January to March 2024 (https://www.centralbank.org.bb/news/economic-reviews/review-of-barbados-economy-january-march-2024); and the Barbados Statistical Service.

[16] Hurricane Elsa was classified as category 1 and was the first hurricane to hit the island in 64 years. It caused damage to rooftops and to critical infrastructure such as powerlines. Some areas of the country experienced disruptions to electricity and water provision, as well as Internet access.

[17] The BERT 2022 Plan is available at https://www.barbadosparliament.com/uploads/bill_resolution/879d615a221db20b21c25f54a3d5972b.pdf.

[18] The 2018–2022 EFF disbursed US$435 million, and the current EFF/RSF arrangement has an estimated envelope of US$302 million.

4.4%, and in the first quarter of 2024, growing at 4.1% year-on-year. The main sectors driving the improvement were tourism and construction. Tourism output grew 13.2% in 2023, and its direct contribution to GDP stood at 10.9%, which is still slightly below the 12% contribution in 2019.[19] Tourist arrivals have been increasing. During the last quarter of 2023, the level of arrivals represented 80% of 2019 figures, but in the first quarter of 2024, arrivals surpassed numbers of the same period of 2019, reaching 104% (Figure 2). Stayover arrivals have recovered faster than cruise (in transit) arrivals. Although in the last quarter of 2023 stayover visitors surpassed pre-COVID-19 figures, at 108%, cruise (in transit) arrivals stood at 60% of those in the last quarter of 2019. The trend is partially explained by more vessels homeporting in Barbados but, in any case, the cruise sector has not fully recovered, and cruise calls between May and September 2023 were almost nonexistent.[20] On a positive note, during the first quarter of 2024 cruise activity was comparable to that experienced prior to the COVID-19 pandemic. Tourism prospects for the rest of the year are positive. In addition, Barbados will host the final of the International Cricket Council's Men's T20 World Cup and eight other matches in June, boosting activity during the traditionally low season.[21]

The construction sector has also benefited from the post-pandemic environment, and hotel projects and other commercial developments that were delayed have been reactivated. Notably, the Wyndham Sam Lord's Castle Resort opened its doors in October 2023. Public investment in infrastructure projects has also contributed. Construction output grew 5.9% in 2023 and prospects for the near future remain positive. Even though agricultural output increased by a significant 10.0% in 2023, in the first quarter of 2024 it contracted by 6.7% year-on-year due to droughts. In any case, its contribution to GDP remains low.

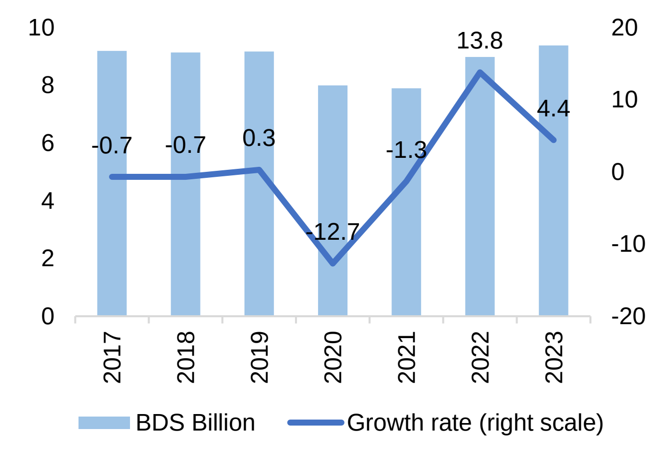
---

[19] However, it should be noted that when the indirect impact is taken into account, estimates of the total contribution of tourism to GDP in Barbados in 2023 were around 24 percent, according to the World Travel and Tourism Council.

[20] There were three cruise calls in 2023 between May and September, compared to 42 in 2018 and 35 in 2019.

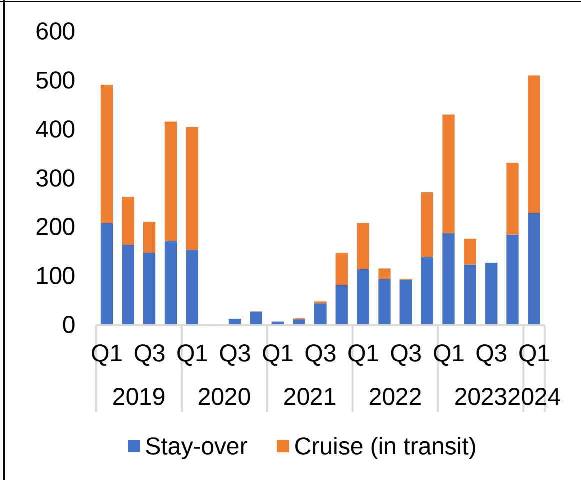
[21] The event is expected to attract more than 20,000 visitors in June. See Emmanuel Joseph, 2024, "Officials Welcome Cricket during 'Slow Season,' *Barbados Today* (January 6), available at https://barbadostoday.bb/2024/01/06/officials-welcome-cricket-during-slow-season/; and Sheria Brathwaite, 2024, "T20 World Cup Kensington Prep on Target," *Barbados Today*(January 27), available at https://barbadostoday.bb/2024/01/27/t20-world-cup-kensington-prep-on-target/.

Figure 1. Barbados: Real GDP Growth, 2017–2023 (annual growth rate)



Source: IMF, April 2024 *World Economic Outlook*.
Note: Barbados operates under a fixed exchange rate regime with US$1 = BDS$2.

Figure 2. Barbados: Tourist Arrivals, 2019–2023 (thousands of visitors)



Source: Barbados Statistical Service.

The unemployment rate stood at 8.2% in the fourth quarter of 2023, above the 7.2% mark a year earlier due in part to the phase-out of the temporary national clean-up program. However, the annual unemployment rate decreased to 7.9% in 2023 from 8.4% the year prior and the rate is still below the historical average of around 10% (Figure 3). Labor force participation has been declining in recent years, which is in part explained by an aging population. The share of retired adults to total adults increased from 16.7% in 2016 to 22.4% in 2023 (Figure 4). The demographic shift is putting pressure on the sustainability of pension schemes. To address this challenge, the government recently passed a pension reform.

Gender disparities persist in Barbados. The unemployment rate is higher for females than for males, with respective rates of 8.2% and 7.6% in 2023. In addition, labor force participation remains lower for women. This is partly explained by the fact that

women make up for a larger share of retired individuals, but also because women tend to assume most of the unpaid household and caregiving work.[22]

Figure 3. Barbados: Unemployment Rate, 2016–2023 (percent)

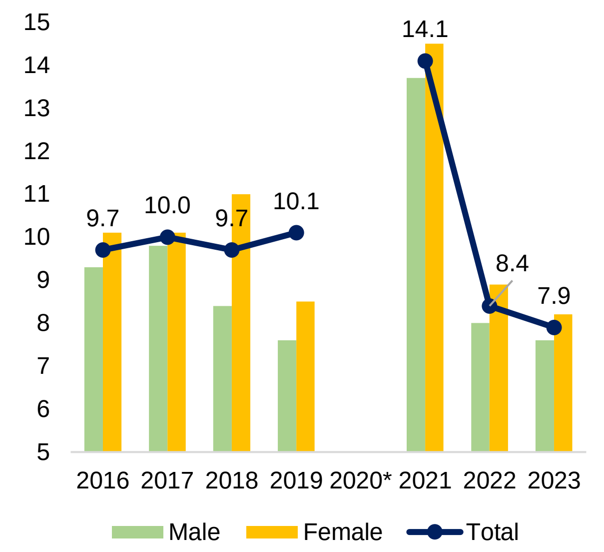
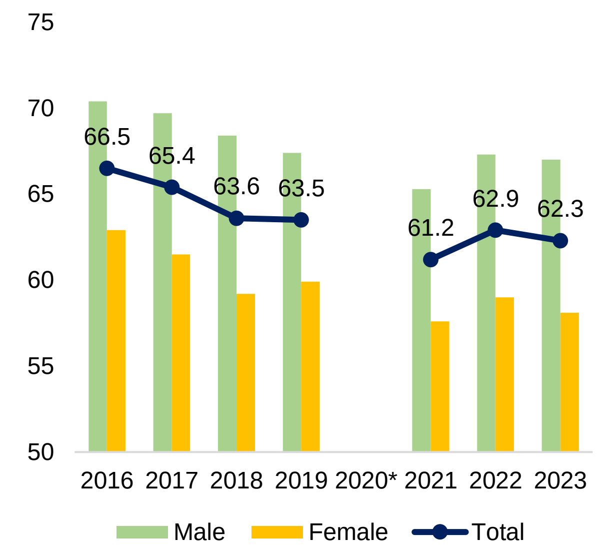


Figure 4. Barbados: Labor Force Participation Rate, 2016–2023 (percent)



Source: Barbados Statistical Service.
* Due to the COVID-19 pandemic, data collection did not take place in the first two quarters of 2020 and annual data cannot be derived. The unemployment rate in the third quarter of 2020 was 17.9% and in the fourth quarter 13.6%. The labor force participation rate was 58.6% and 62.5% for the third and fourth quarters of 2020, respectively.

Inflation is Starting to Ease

Barbados depends heavily on imported goods and therefore is subject to international price fluctuations. At the beginning of the pandemic, inflation remained low due to subdued demand, and average inflation stood at 0.5% (Figure 5). However, in 2021 inflation started to rise as a result of global value chain disruptions and pent-up demand, then significantly rose again in 2022 due to high fuel and food prices derived from the war between Ukraine and Russia, reaching an average of 4.9%. Even though inflation in Barbados was initially below that of the United States during this period, the U.S. inflation rate started to decline in mid-2022, and by early 2023 it was already

[22] In 2023, 25.1% of the female adult population was retired and 6.5% reported that they stay home, compared to 19.6% of the male adult population being retired, and 1.8% reporting that they stay home.

below that of Barbados. In December 2023, point-to-point monthly inflation stood at 4.8% in Barbados compared to 3.4% in the United States, and the year averages amounted to 5.0% and 4.1%, respectively. Food prices continue to be the main contributor to inflation in Barbados (Figure 6). Despite lower international prices in recent months, episodes of droughts and heavy rains have affected local food production, driving prices upward. Restaurants and hotels also increased prices, and in the last two months of 2023 housing and utility prices also exerted pressure. On a positive note, inflation in the first two months of 2024 has started to ease. In February, point-to-point inflation stood at 4.2%, compared to 6.5% a year prior.

Figure 5. Barbados: Inflation Rate in Barbados and the United States, 2019–2023 (year-over-year growth rate in percent)

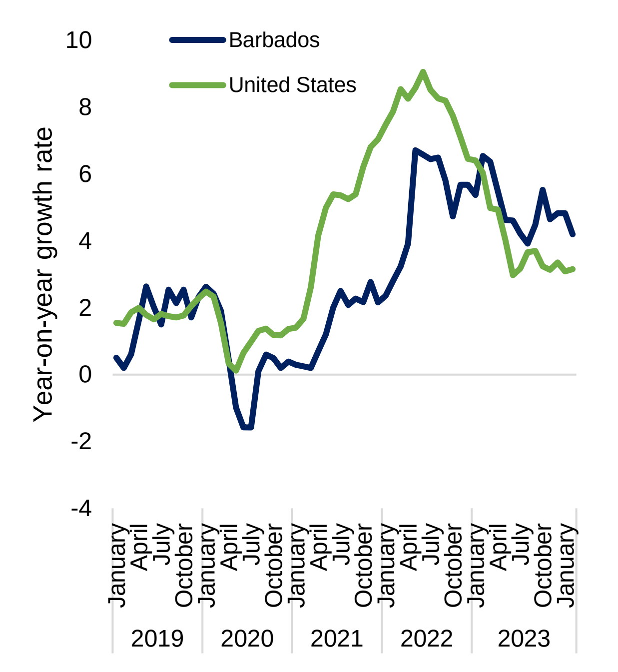
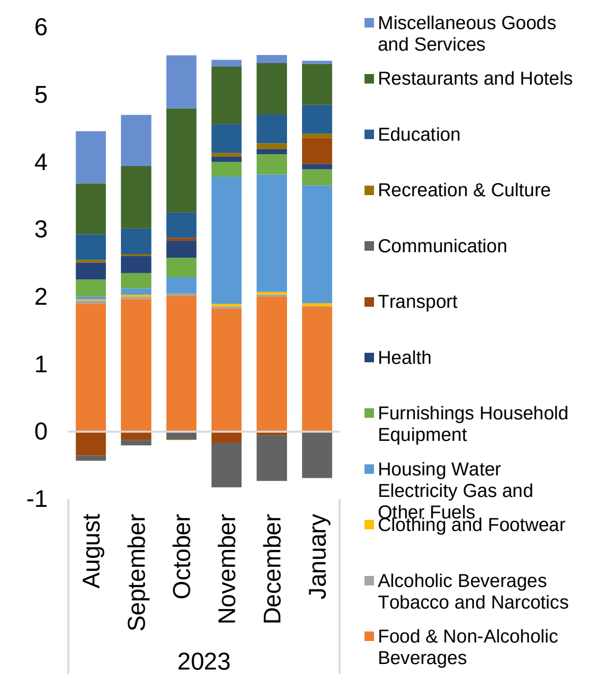


Figure 6. Barbados: Retail Price Index Composition, August–January 2024 (year-over-year growth rate in percent)



Sources: Barbados Statistical Service; and Federal Reserve Bank of St. Louis.

Fiscal Performance Continues to Be Strong

Low growth and recurrent fiscal deficits over the years resulted in an unsustainable accumulation of public debt in Barbados, with the debt-to-GDP ratio reaching 158.1% in FY2017/18. This prompted local authorities to engage in debt restructuring and

embrace fiscal discipline, which was supported by a four-year IMF EFF Arrangement.[23] Two years later, the debt-to-GDP ratio had declined to 116.2% and interest payments as a share of GDP had decreased from 7.4% to 2.8%. However, the pandemic strained public finances given the loss in revenues resulting from subdued economic activity and the rise in public expenditure to support the lives and livelihoods of those most affected. Primary surpluses turned into deficits and the debt-to-GDP ratio grew once more, reaching 148.1% in FY2020/21 (Figures 7 and 8). As COVID-19 cases eased and restrictions started to be lifted, pressure on public finances also diminished. The primary balance reversed to a surplus of 2.5% of GDP in FY2022/23 and further increased to 3.4% last fiscal year. At the same time, the debt-to-GDP ratio started to shrink and reached 114.8% in FY2023/24. However, in order to reach the objective of 60% of debt as a share of GDP by FY2035/36, strong primary surpluses of 4.5% of GDP need to be sustained in the medium term. With the aim of attaining that goal, important structural reforms are ongoing in the areas of duty and tax exemptions, revenue administration, state-owned enterprises, and public financial management.

Figure 7. Barbados: Fiscal Balance, FY2018/19–FY2027/28 (percent of GDP)

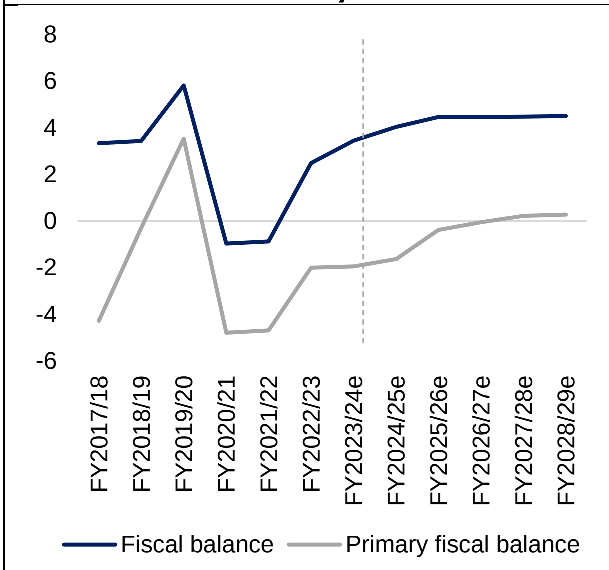
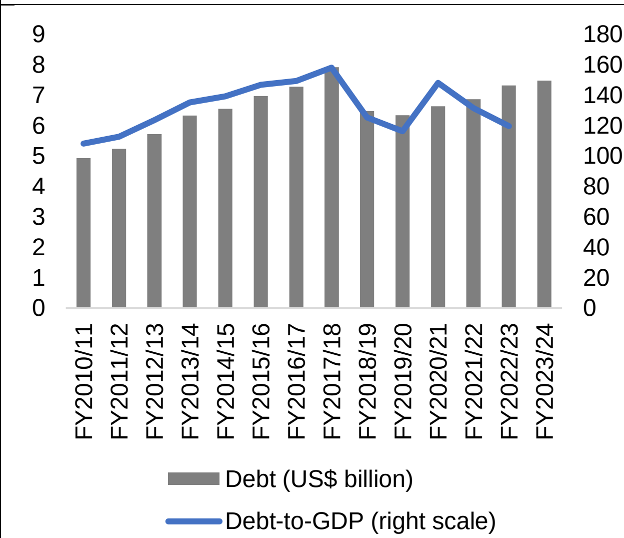


Figure 8. Barbados: Public Debt, FY2010/11–FY2023/24



Source: IMF, April 2024 *World Economic Outlook*.

[23] In Barbados the fiscal year runs from April 1 to March 31.

The Financial System Is liquid and Remains Stable

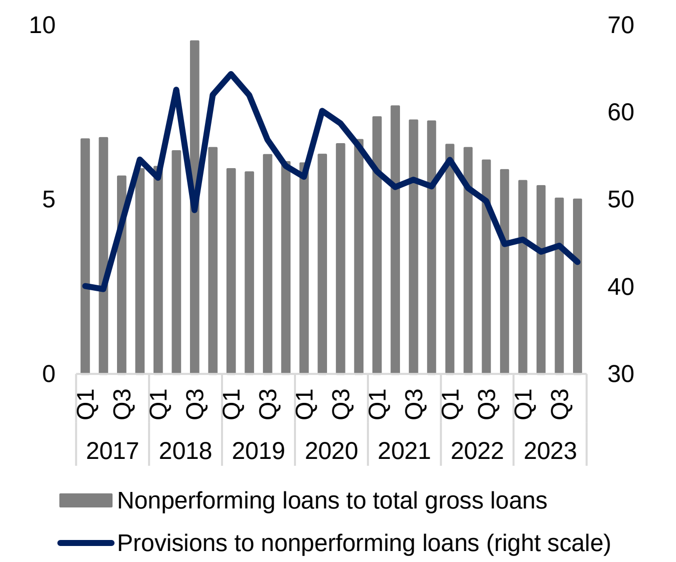
One of the main concerns during the pandemic was whether financial systems would be able to sustain the shock and remain strong. In the case of Barbados, financial system stability prevailed. Deposit-taking institutions remained highly liquid and well capitalized, with buffers exceeding the statutory requirements throughout 2021 and 2022. The efforts of the government to support lives and livelihoods helped to this end. As of December 2023, the system-wide capital adequacy ratio was 20.6% (more than twice the prudential standard of 8%) and liquid assets to total assets were 30.9% (Figure 9). Non-performing loans (NPLs) represented 5% total loans to the private sector—levels not seen since 2009—and the ratio of provisions to NPLs was 42.9%. This compares to NPLs representing 5.9% of total loans to the private sector and a ratio of provisions to NPLs of 44.9% in December 2022 (Figure 10). Domestic currency deposits grew 1.2% in December 2023, year-over-year, while foreign currency deposits decreased by 0.2%. Credit by deposit-taking institutions to the non-financial private sector only grew by 2.4%, and was equivalent to 67.0% of GDP, compared to 71.5% the year prior. Access to credit remains a constraint, particularly for small and medium-sized enterprises.[24] Banks have been able to meet clients' demands for foreign exchange without resorting to the Central Bank of Barbados (CBB). Stress tests conducted by the CBB and the Financial Services Commission indicate a low risk of a systemic crisis.[25]

[24] According to the firm-level survey, Innovation, Firm Performance & Gender conducted in 2020 and 2021

[25] Financial Stability Report 2022.

Figure 9. Barbados: Liquid Assets to Total Assets, Deposit-taking Institutions, 2017–2023 (percent)

Figure 10. Barbados: Non-performing Loans, Deposit- taking Institutions, 2017–2023 (percent)



Source: Central Bank of Barbados.

Tailwinds Are Driving the Economic Recovery in Barbados, but Risks Remain on the Horizon

Four years since the onset of the COVID-19 pandemic, the economy of Barbados is finally recovering. The buoyant tourism sector is contributing to the reactivation of other activities such as construction, agriculture, transport, and retail. Unemployment remains low, but the increase in the cost of living over the past two years has translated into a loss in purchasing power for Barbadians. In addition, although the government's efforts to achieve fiscal sustainability and decrease the debt-to-GDP ratio are bearing fruit, the ratio remains elevated and persistent, and large fiscal surpluses are needed. The anticipated decrease in global interest rates has not yet

materialized, and interest payments continue to represent an elevated burden on public finances.[26]

The outlook for Barbados in the medium term remains uncertain. The main risks that need to be considered are trends of key indicators in source markets, implementation of the reform agenda, and the possibility of natural disasters. A slowdown in economic activity in source markets could impact travel decisions, and competition from other tourist destinations could put Barbados at a disadvantage, especially in a context of elevated local inflation. Sustained global high interest rates are further increasing the cost of financing for the government.[27] On the domestic side, the reform agenda is ambitious, and fiscal discipline needs to be strict. Progress under the current IMF EFF/RSF arrangement is adequate, and at present authorities are fully committed to it, but challenges with implementation could arise due to stretched capacity. Although on a decreasing trajectory, public debt remains elevated and a negative shock could derail that trajectory. Moreover, the lack of economic diversification and the high dependence on imports are two structural challenges that remain a source of risks. Finally, Barbados is heavily exposed to the effects of climate change and the occurrence of weather shocks.

[26] Interest payments represented 16.5% of total revenue in FY2022/23, significantly below the 27% figure prior to debt restructuring, but twice the 8.4% level of FY2019/20.

[27] Interest rate increases in the United States do not necessarily lead to higher interest rates in Barbados due to capital controls, but they impact debt servicing of loans with variable interest rates, such those of international financial institutions.

Guyana

Victor Gauto and Lisa Hussain

Overview

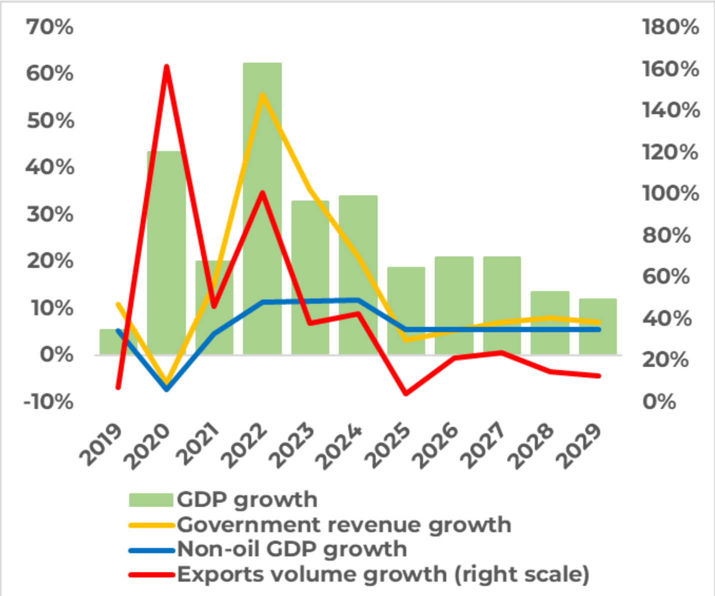
Guyana has become one of the fastest-growing economies in the world since 2020, and remains on a high-growth trajectory as more oil production comes on stream in the medium term. A third oil production vessel arrived in Guyana in 2023 and began production in November. This dynamic context has contributed to strengthening public finances, both in revenues and expenditures, while high GDP growth rates have contributed to declining debt-to-GDP ratios. The financial sector is experiencing a similar boom, though at a smaller scale, with steady expansion in private sector lending. Financial soundness indicators remain healthy.

GDP Growth Prospects

Guyana's macroeconomic context continues to be one of a booming economy, with oil production driving growth in exports, GDP growth, and government revenues and expenditures in the medium term. The third Floating Production Storage Offloading (FPSO) vessel that arrived in Guyana in early April 2023 began oil production in November, boosting growth figures in 2023 and 2024. The volume of exports of goods and services is projected to grow by an average of 19.8% between 2024 and 2029, despite having already had large peaks in 2020 and 2022 (Figure 1). Oil production is driving high annual GDP growth estimates, projected to average 27% over 2022–2029. After a global high GDP growth rate of 62% in 2022, Guyana grew by 33% in 2023 and is expected to expand further by 34.3% in 2024 (Budget Speech, 2024). Guyana's three FPSOs originally had a combined estimated production capacity of 560,000 barrels per day (bpd). At the end of 2023, oil production reached about 400,000 bpd after the third FPSO began production activities late in the year, and in February 2024 authorities announced that oil production had reached 645,000 bpd, as all three FPSO were producing above initial production estimates.

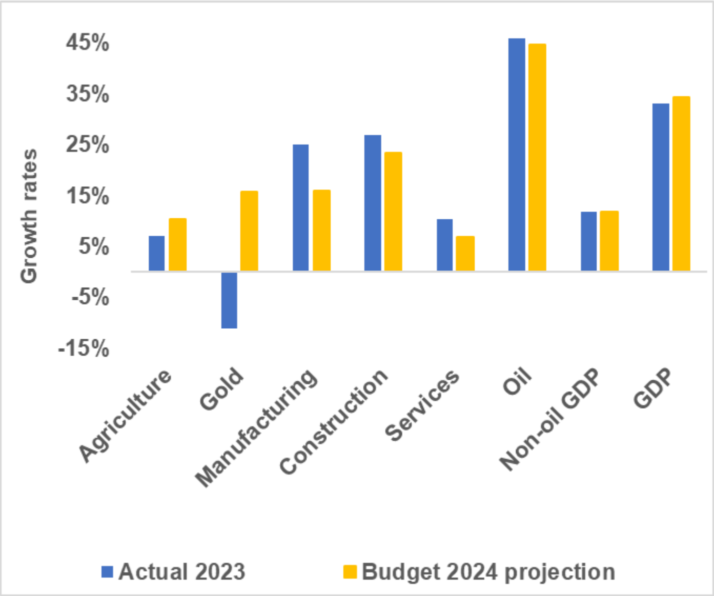
The non-oil economy has benefited from a significant positive spillover from greater public expenditure on infrastructure projects and private sector activity, which experienced double-digit GDP growth in 2022 and 2023, with similar projections for 2024. The non-oil economy grew by 11.5% in 2022 and 11.7% in 2023, and is expected to grow by 11.9% in 2024 (Figure 2). In 2023, large sectors with high growth rates included construction, manufacturing, and services, which grew by 26.8%, 25%, and 10.3%, respectively. Those sectors made up almost 60% of the non-oil economy. The three sectors are projected to continue growing in 2024 by 23.4%, 16%, and 6.9%, respectively. In 2023, the agriculture sector, which accounted for 24% of the non-oil economy, grew by 7% and is projected to grow by 10.4% in 2024. Further, the gold sector (7% of the non-oil economy) contracted by 11.2% in 2023 and is expected to be reversed, with a growth projection of 15.7% for 2024 (Figure 2). Considering these trends, Guyana is positioned to continue its robust growth across key sectors.

Figure 1. Guyana: GDP Medium-term indicators, 2019–2029 (percent)



Sources: IMF, April 2024 *World Economic Outlook*; IMF, IV Article Consultation 2023 (Country Report No. 2023/379).

Figure 2. Guyana: Real GDP Growth (percent)



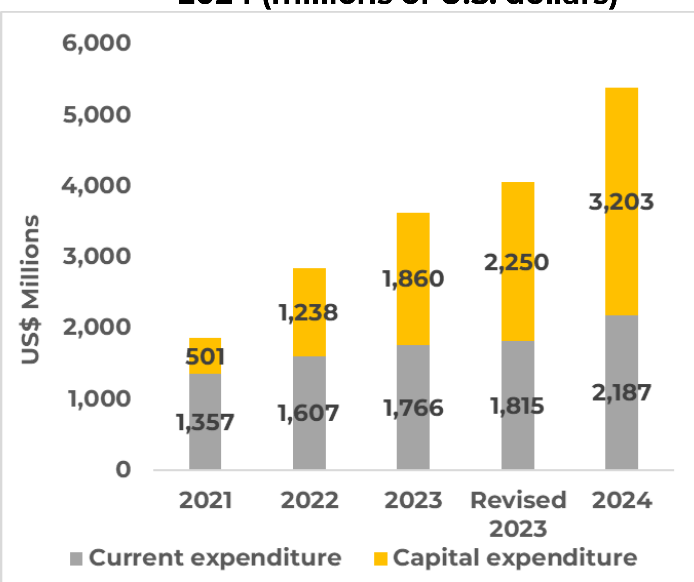
Source: Ministry of Finance, Budget Speech, 2024.

Fiscal Policy and Public Debt

The Ministry of Finance's Budget 2024 outlined recent fiscal developments. While the 2023 budget was originally projected to be 27% higher than that of 2022, it ended up being 43% higher. The main increases were in capital expenditure, which increased by 82% rather than the original 50%. Current expenditures increased by 13% in 2023. The 2024 budget is 32% higher than 2023, with capital expenditure increasing by 42% and current expenditure by 20% (Figure 3). Transfers from the Natural Resource Fund (NRF) were budgeted to increase from US$1 billion in 2023 to US$1.15 billion in 2024, representing 25% of expenditures in 2023 and 21% in 2024.

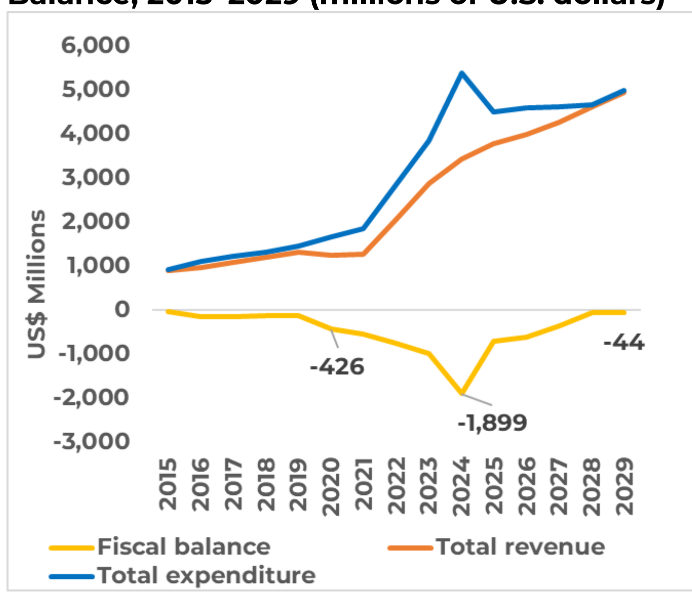
Both revenues and expenditures are projected to increase in level terms but decline as a share of GDP, given the oil boom. Revenues represented 23% of GDP in 2020 and are expected to fall to 15.8% of GDP in 2029, with a similar pattern emerging for expenditures, falling from 30.5% of GDP in 2020 to 15.9% in 2029. With the budget accessing all savings in the accumulated in the NRF in 2020 and 2021, revenue grew by 60.8% in 2022 and an additional 39.2% in 2023. Revenue growth is projected to average 8.7% over 2024–2029. Total expenditures increased by 35.6% in 2023 and are projected to increase by an additional 39.4% in 2024, averaging 5.6% over 2024–2029. The fiscal deficit has continued expanding, reaching US$1.9 billion in Budget 2024, but it is projected to decline to less than US$50 million in 2029 (Figure 4).

Figure 3. Guyana: Budget Trends 2021–2024 (millions of U.S. dollars)



Source: Ministry of Finance, Budget 2024.

Figure 4. Guyana: General Government Balance, 2015–2029 (millions of U.S. dollars)



Sources: Ministry of Finance, Budget 2024; and IMF, April 2024 *World Economic Outlook*.

Guyana's increasing level of debt is contributing to financing the higher levels of expenditure that have focused on infrastructure development. Public and publicly guaranteed debt increased from US$2.6 billion in 2020 to US$4.5 billion at the end of 2023. However, like other indicators, the debt-to-GDP ratio fell from 47.4% in 2020 to 27% in 2023 due to the booming economy. Currently, 39% of total debt is external. Debt levels are projected to increase to US$6.7 billion in 2024. International Monetary Fund (IMF) projections show the debt-to-GDP ratio remaining stable, averaging 28.9% of GDP over 2024–2029.

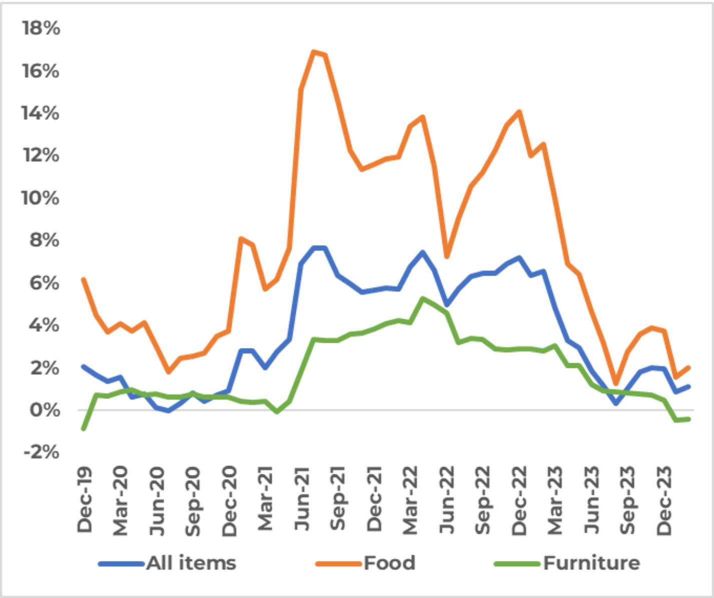
The main recent fiscal policy developments indicate NRF transfers to the budget will play a larger role in the near term. The Fiscal Enactment Act 2024 amended the NRF

withdrawal rule, allowing for larger annual transfers to the budget. For example, under the new schedule, 100% of the first US$1 billion received in the preceding year, 95% of the second US$1 billion, 90 percent of the third US$1 billion, and so on up until 10% of the sixth US$1 billion can be transferred to the budget. This replaces the previous schedule under which 100% of the 1^{st} US$500 million, 75% of the second US$500 million, 50% of the third US$500 million, and so on up until 3% of any amount over US$2.5 billion could be transferred to the budget. In the legislation, the debt ceiling was increased from US$7.9 billion to US$14.4 billion.

Price Levels and the External Sector

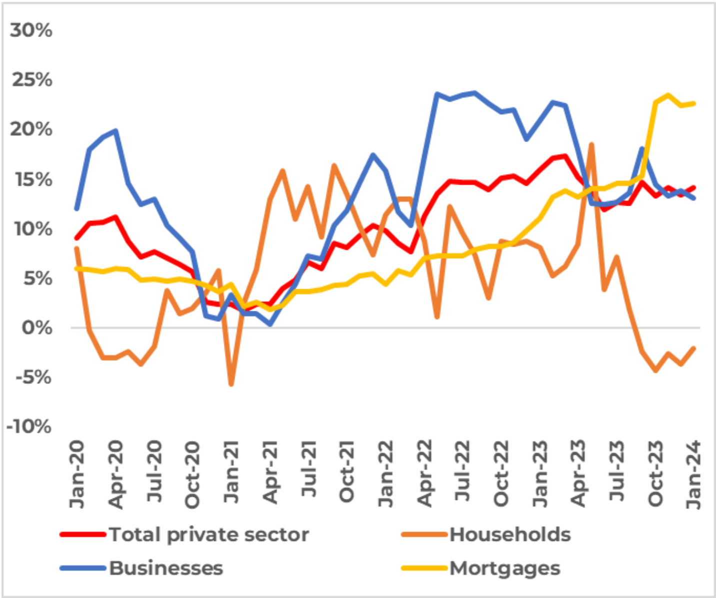
Inflation rates in Guyana have subsided since reaching high rates in 2021 and 2022. The annual inflation rate reached a high of 7.7% in July 2021 and remained relatively high through 2022, closing at 7.2% in December. Since then, the inflation rate has continuously declined, closing at 2% in December 2023. In the first few months of 2024, inflation continued at very low rates, averaging 1% in January and February 2024. Food inflation has been higher than overall inflation and reached a high of 16.9% in July 2021 before averaging 11.7% in 2022. Food inflation declined significantly over the course of 2023, going from 14.1% in December 2022 to 1.3% in August 2023 and averaging 5.9% for the year. In the first two months of 2024, food inflation averaged 1.8% (Figure 5).

Figure 5. Guyana: Inflation Rates, December 2019–December 2023 (year-over-year, in percent)



Source: Ministry of Finance, Budget 2024.

Figure 6. Guyana: Private Sector Lending, January 2020–January 2024 (percent)



Sources: Ministry of Finance, Budget 2024; and IMF April 2024 *World Economic Outlook*.

In terms of the external sector, Guyana's current account surplus is projected to continue increasing steadily on the back of growing oil exports. The current account balance reached its lowest point in 2019 just prior to the start of oil production, with a current account deficit of 69%. That is when the first FPSO, valued at approximately US$1 billion, arrived in Guyana. Export growth in terms of the volume of goods and services is projected to average almost 20% over 2024–2029, while imports will average 8%, contributing to an average current account surplus of 30% over 2024–2029 (IMF, April 2024 *World Economic Outlook*).

Financial Sector Developments

Total domestic lending increased in 2023, mainly driven by lending to the public sector. Total domestic lending went from US$1.2 billion in December 2022 to US$2 billion in December 2023, an increase of 60%. An important driver of this growth has been the public sector, as net lending to the central government (lending less government deposits) grew by more than US$700 million in 2023, while lending to the private sector grew by slightly more than US$200 million.

Private lector lending growth remained robust in 2023 (Figure 6). After growing by more than 15% year-over-year in December 2022, lending growth reached 13.5% year-over-year in December 2023 and 14.2% in January 2024. Of the three major lending categories, business lending grew the most in 2022. However, mortgage lending grew the most in 2023, by 22.5%, while business lending grew by 13.9%. Household lending grew by 8.8% in 2022 and slowed to 3.6% in 2023 (Figure 6). Businesses account for most of the private sector lending, representing 54% of total loans, followed by mortgages at 35% and households at 10%.

Non-performing loans continued to decrease through December 2023. The ratio of non-performing loans to gross loans of commercial banks declined from 10.4% in June 2021 to 2.7% in December 2023. In terms of key prudential ratios, banks remain highly profitable and well-capitalized, reaching a return-on-equity ratio of 17.4% at the end of 2023. The capital adequacy ratio, which measures financial sector solvency, stood at 18.1%, well above the regulatory norm of 8%.

Opportunities and Risks

Guyana's prospects are promising. Robust GDP growth driven primarily by the oil and gas sector, presents an opportunity for the country to capitalize on its natural resources and diversify its economy. This is reflected in the government's policies supporting both infrastructure and human capital development. By strategically allocating resources, Guyana can enhance its overall economic resilience and improve the well-being of its citizens.

Guyana's main challenges relate to climate, commodity prices, and the rate of public sector spending. Guyana is vulnerable to floods and rising sea levels, which can disrupt economic activities, damage infrastructure, and affect livelihoods. In addition, the increasing rate of government spending and the implementation of multiple infrastructure projects could put pressure on overall price levels, which should continue to be monitored. Balancing these opportunities and risks with risk mitigation strategies are key for sustained development.

References

Ministry of Finance (MoF). 2024. Budget 2024 Staying the Course: Building Prosperity for All. Available at https://finance.gov.gy/budget-speech-2024/

Jamaica

Henry Mooney

Overview

Despite ongoing global economic stress and uncertainty, Jamaica continues to outperform all expectations with respect to its pace and depth of fiscal consolidation and debt reduction. This progress towards institutional upgrading and sustainable public finances will be crucial to the country's hopes to achieve faster and more inclusive growth in the coming decades. As has been well documented and discussed in previous editions of the Caribbean Economic Quarterly, Jamaica has undergone a tremendous transformation in the decade since 2013—from the third most indebted country on earth to one of the most notable reformers in terms of economic institutions and improved sustainability (IDB 2022, Box 2.1; Mooney, Prats, and Rosenblatt 2021). This challenging task required both unprecedented and sustained policy commitment on the part of successive governments as well as the development of a new type of compact between policymakers, the private financial sector, and the general public to sustain reform momentum.

Against this backdrop, projections in the International Monetary Fund's April 2024 *World Economic Outlook* highlight the government's ability to overperform with respect to fiscal outcomes linked to debt reduction, moving the Jamaican economy ever closer to its Fiscal Responsibility Framework's medium-term public debt target of 60 percent of GDP by 2028. This is being accomplished despite challenging external conditions linked to tight financial policies in advanced economies, high inflation both at home and abroad, and geopolitical uncertainties.

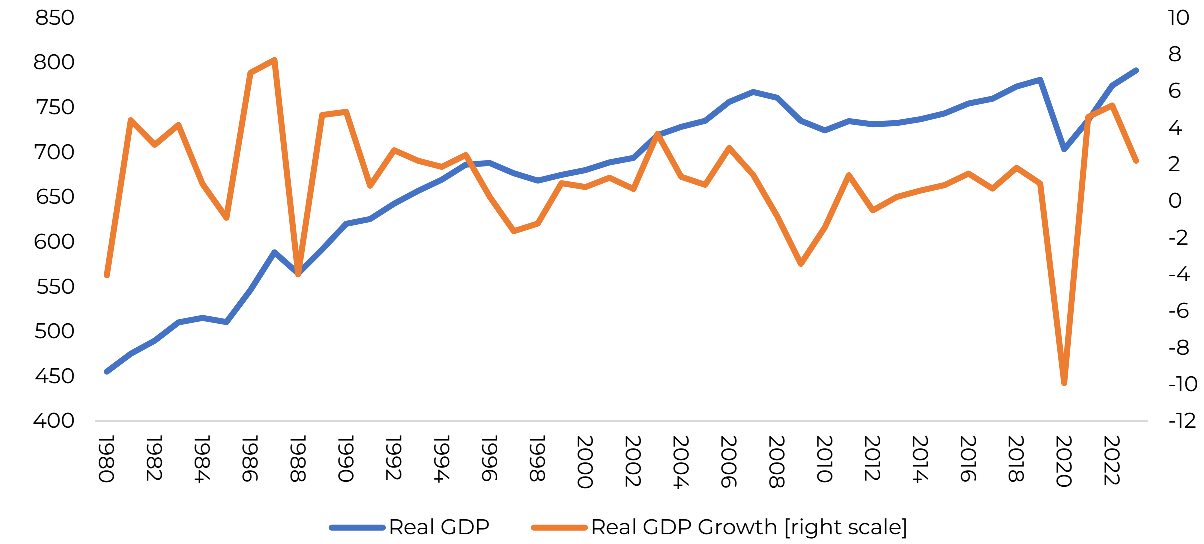
Macroeconomic Outlook

Growth

The COVID-19 shock drove an unprecedented real GDP contraction of -10 percent in Jamaica in 2020, but growth rebounded rapidly. Real GDP growth was about 2.2 percent in 2023, and is now projected at about 1.8 percent for 2024 (Figure 1). As of the end of 2023, the economy had fully recovered to pre-pandemic 2019 levels in terms of real GDP (local currency). The economy is now on pace to deliver strong performance over the medium term, barring any unforeseen or prolonged global or regional

shocks. The latest economic projections assume continued strong performance of the tourism sector, which has historically been responsible for nearly a third of GDP and employment in aggregate (Mooney and Zegarra 2020). In this context, tourist arrivals to Jamaica are expected to continue to set records in 2024 and beyond, after a strong 2023.[28] These projections also assume a rebound of both the production and capacity of extractive industries (e.g., bauxite and alumina), and of the agricultural sector.

Figure 1. Jamaica: Real GDP Growth, 1980–2022
(billions of 2007 Jamaican dollars (left scale) and percent (right scale))



Source: IMF, World Economic Outlook database, April 2024.

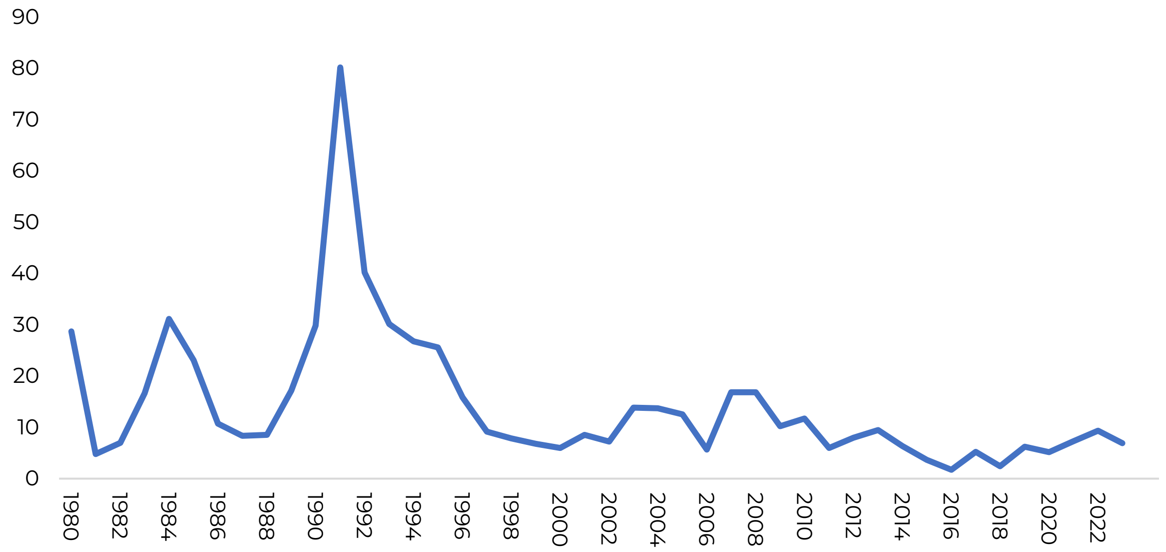
Inflation and Monetary Policy

Like other central banks around the world, the Bank of Jamaica (BOJ) has had to react to rapidly changing global price and financial conditions, including with an unprecedented cycle of tightening. The BOJ is one of the world's newest inflation targeters, having implemented the regime in 2017 with a target band of between 4 and 6 percent. As with many other small countries around the world that depend on imported food, fuels, and manufactured goods, higher global prices have stoked

[28] See Joe Pike, 2023, "Jamaica Breaks Arrivals Record for 2023 and Is Already Looking to Surpass that Number in 2024," Travelmarket Report (February 14), available at https://www.travelmarketreport.com/articles/Jamaica-Breaks-Arrivals-Record-for-2023-and-Is-Already-Looking-to-Surpass-that-Number-in-2024.

inflation in Jamaica, and the BOJ has responded with several rate increases. The BOJ maintained its policy rate—the main policy instrument—at 0.5 percent from August 2019 to September 2021, when it began raising rates to counter rising price pressures. The policy rate was increased to 7 percent in November 2022 as the rate of inflation reached about 10.3 percent on an annualized basis (down from a peak of about 11.8 percent in April 2022). Against this backdrop, inflation dropped to 6.9 percent at the end of December 2023, then fell further to about 5.6 percent at the end of March 2024. In its latest monetary policy decision summary, the BOJ projects inflation to remain near the top of the target range through mid-2025, due in part to a two-part increase in public passenger vehicle fares, and to higher wages. For this reason, the BOJ chose to maintain the policy rate at 7 percent in March, while signaling that it will remain vigilant to emerging and evolving conditions at future fixed action dates.

Figure 2. Jamaica: Inflation, 1980–2022
(consumer price index, annual change, end of period, percent)



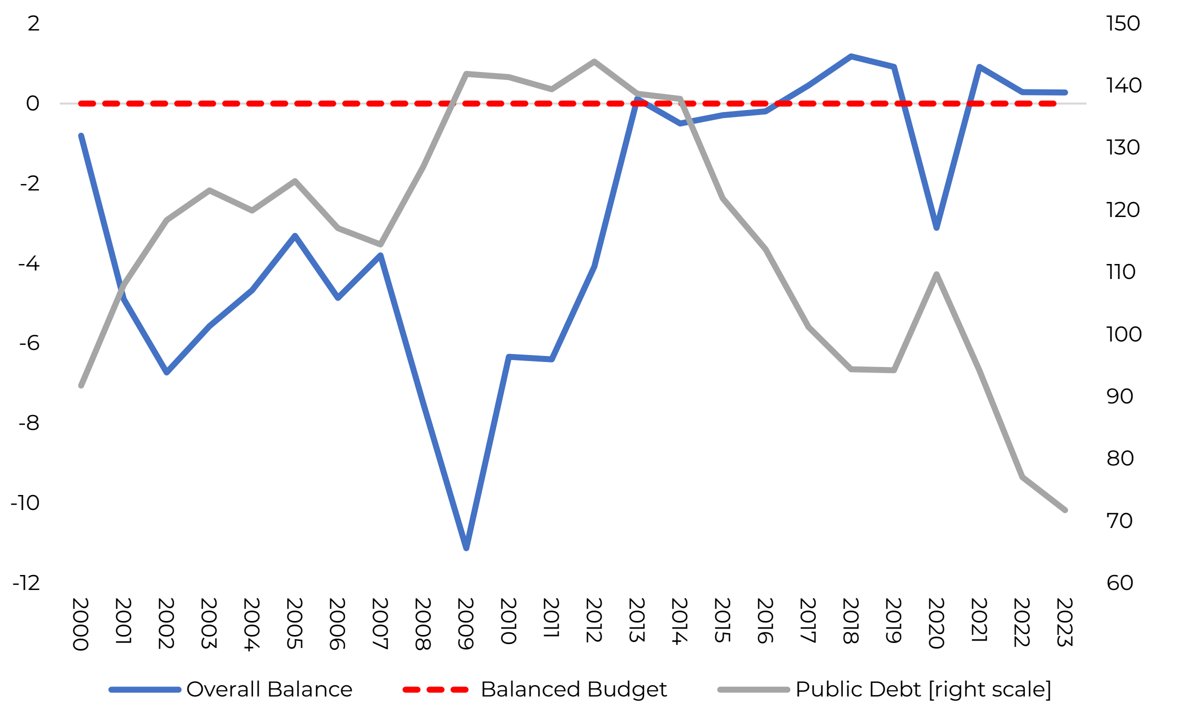
Source: IMF, World Economic Outlook database, April 2024.

Fiscal Conditions and Public Debt

Jamaica is arguably one of the world's best performers in terms of public financial management, institutional reform, and the pace of debt reduction (IDB 2022, Box. 2.1; Mooney et. al. 2021). Jamaica updated its Fiscal Responsibility Law (FRL) in 2014, enshrining a debt target of 60 percent of GDP by 2026 as the fiscal anchor. The COVID-

19 shock prompted the government to use the flexibility embedded within the FRL to postpone the target date for this debt target to 2028. This fiscal anchor has guided fiscal policy, and led to the government's maintenance of large primary surpluses over the past decade, averaging over 5 percent of GDP. The primary surplus was about 5.9 percent of GDP in 2023 and is projected at 5.3 percent of GDP for 2024, and to remain in the 4 to 5 percent of GDP range over the medium term (Figure 3). Against this backdrop, after an increase in the public-debt-to-GDP ratio from 94 percent at the end of 2019 to about 110 percent at the end of 2020, debt fell back to about 72 percent at the end of 2023, and is expected to fall to about 67 percent by the end of this year. Fiscal policy should continue to be anchored in the government's debt reduction objective of a public-debt-to-GDP ratio of less than 60 percent by 2028, which appears quite feasible given current information and expectations regarding performance.

Figure 3. Jamaica: Evolution of Overall Fiscal Balances and Gross Public Debt, 2000–2023 (percent of GDP)

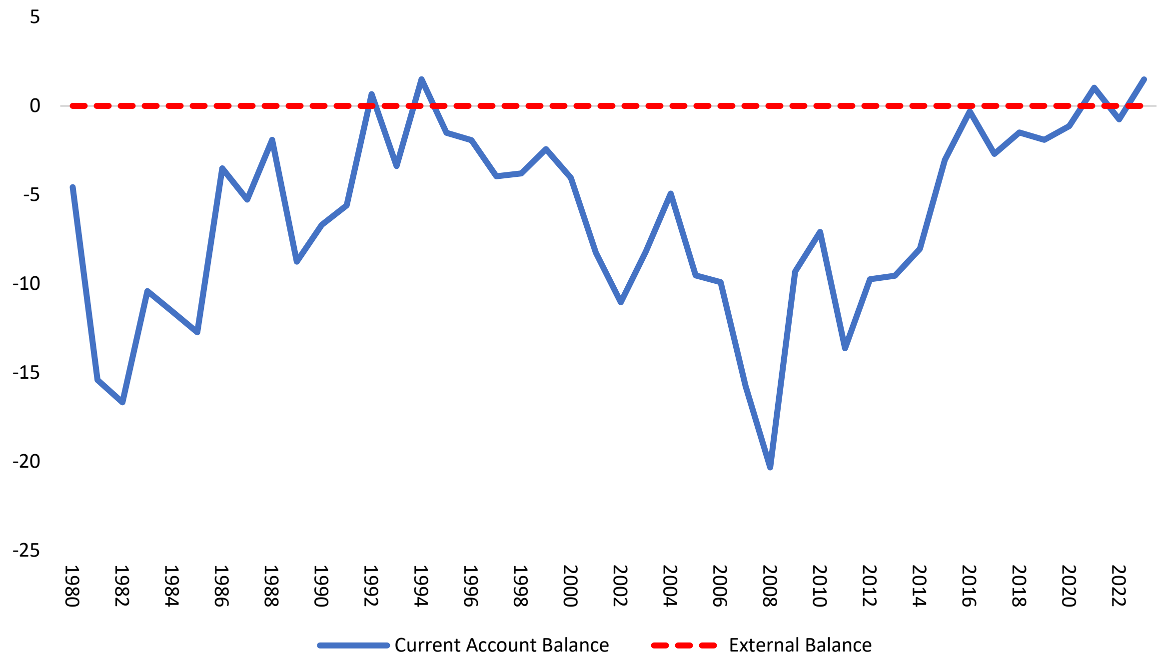


Source: IMF, World Economic Outlook database, April 2024.

Balance of Payments

While the shock to tourism from the COVID-19 crisis implied a fall in services exports in 2020, this was offset by the fact that (i) tourism also generates considerable import demand, and (ii) both oil prices and demand for fuel fell during 2020. Similarly, remittances increased in 2020, providing additional current account financing. In this context, the current account deficit was only about -1.1 percent of GDP in 2020, versus -1.9 percent of GDP in 2019. The current account improved further in 2021, when it declined to a modest surplus of about 1 percent of GDP, in line with continued improvement in remittances. For 2023, more modest global inflation and lower oil import prices relative to 2022 contributed to the current account again recording a surplus of about 1.5 percent of GDP. Looking forward, the external balance is projected at a more modest surplus of about 0.3 percent of GDP (Figure 4), barring any major unexpected disruptions to the exchange rate, global inflationary trends, or tourism.

Figure 4. Jamaica: Balance of Payments, 1980–2022 (percent of GDP)



Source: IMF, World Economic Outlook database, April 2024.

Opportunities and Risks

This past year has seen a rapid recovery of the Jamaican economy, supported in large part by the decades-long effort to build financial and policy buffers. That effort has been underpinned by Jamaica's notable progress with the reform of economic institutions—particularly fiscal and monetary institutions—that have been key drivers in reduced borrowing, speeding up debt repayment, and lowering credit risk and borrowing costs. These and related reforms helped to anchor both domestic and external market expectations in ways that have supported continuous low-cost access to global capital markets and exchange rate stability, despite a period of unprecedented external shocks. The next phase of the government's economic agenda will involve building on the successes noted above to catalyze new sources of private finance to drive productivity increases via increased investment in high-potential sectors. The aim is to raise output potential and support faster and more inclusive growth. All signs point to strong prospects for this next phase, barring significant unforeseen shocks to this small, open economy.

References

Inter-American Development Bank (IDB). 2022. *From Recovery to Renaissance: Turning Crisis into Opportunity. 2022 Macroeconomic Report*. Washington, DC: Inter-American Development Bank.

Mooney, Henry, and María Alejandra Zegarra. 2020. Extreme Outlier: The Pandemic's Unprecedented Impact on Tourism in Latin America and the Caribbean. IDB Policy Brief No. 339. Inter-American Development Bank, Washington, DC.

Mooney, Henry, Joan Prats, and David Rosenblatt. 2021. Debt Management and Institutions in the Caribbean. In *Institutions for a Resilient Caribbean,* edited by M. Schwartz and D. Beuermann. Washington, DC: Inter-American Development Bank.

Suriname

Gisele Teixeira Braun

Overview

Suriname is at a pivotal moment for structural transformation. Recent macroeconomic developments are the product of a comprehensive strategy that was designed and has been implemented by the national authorities (GoS 2021), with support from international organizations such as the Inter-American Development Bank (IDB) and International Monetary Fund (IMF) since the end of 2021 (IDB 2022a, 2022b, 2023; IMF 2021, 2024a). Economic activity is gradually expanding, unemployment rates are estimated to have declined slightly, fiscal consolidation is gaining traction, reserves keep increasing, exchange rates have stabilized, and consumer price inflation is decelerating. However, public debt is still at a high level, and there are opportunities within the financial system to promote financial inclusion and digital payments. Institutionalizing the prudent management of fiscal policy by improving the legal and regulatory aspects of the medium-term fiscal framework would not only ensure achievement of public debt sustainability, but also contribute to overall macroeconomic stability, a key element to boost investment, employment, and living standards. Improving the management of often-volatile fiscal revenues from the mineral sector, while raising efficiency in public expenditure, would generate fiscal space for public investment in physical and human capital, and allow the country to save for rainy days.

GDP Growth Prospects

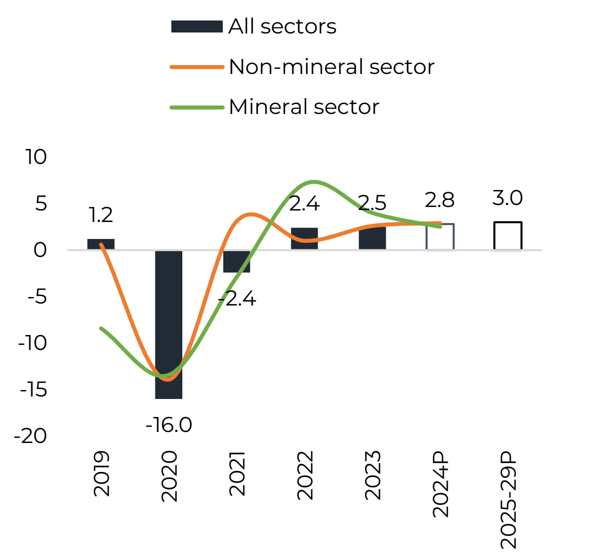
Economic activity in Suriname is gradually expanding, following acute contractions in 2020–2021. After overperforming the October 2022 IMF projection (1.3%), real GDP grew by 2.4% in 2022 (Figure 1). For 2023, the government released a preliminary estimate of real GDP growth of 2.5%, which is 0.4 percentage points above estimates from the IMF (2024b). The mineral sector is expected to have grown by 4% in 2023 as a result of gold and oil growth rates of 5% and 4%, respectively, while the non-mineral sector is anticipated to have expanded by 2.6% in that year. Prospects look favorable for 2024, with GDP growth projected at 2.8%, slightly less optimistic than the last IMF estimate of 3%. Nevertheless, real GDP is not expected to return to levels prior to the COVID-19 pandemic until 2029.

Mining is expected to maintain its importance among the drivers of economic growth for 2024. Gold mining in Suriname is composed of two large-scale companies – Zijin Rosebel and Newmont Suriname – along with a set of small-scale producers that account for around 40% of total production. Despite volatility in gold production in recent years, positive developments on international gold prices have helped the gold sector maintain its importance. The export value of gold has been above 50% of total exports over the last four years (Figure 2). Looking ahead, and assuming two different scenarios for production and prices in 2024, the export value from gold would not decline.[29] According to the government, Agriculture, Forestry and Fisheries (4%), Construction (3%), Trade (2%), and Accommodation & Food Services (6%) are the non-mineral sectors that will contribute positively to real growth rate in 2024.

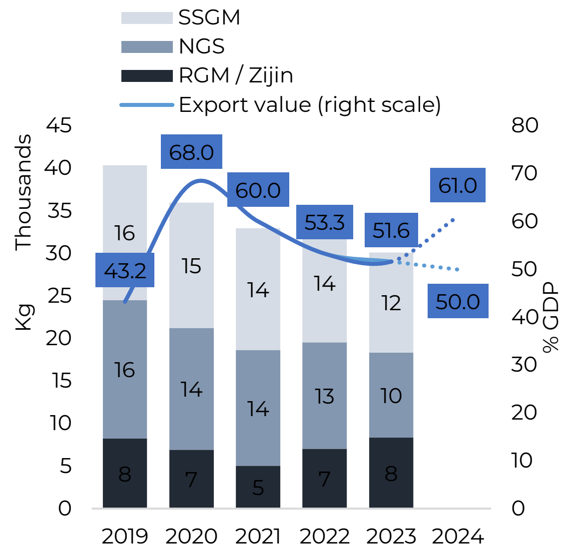
International estimates point out a marginal improvement in unemployment rates. Even though there have been no official estimates for Suriname since 2019, the International Labor Organization estimates that the unemployment rate (15+ years) declined to 8% in 2023 from 8.2% in 2022, after it had increased from 8.0% in 2019 to 9.8% in 2020 and then to 10.1% in 2021. Due to inflationary pressures in recent years, real wages have fallen significantly, prompting the government to increase the general minimum hourly wage in Suriname from SRD 8.40 to SRD 20.00 in June 2022, and then to SRD 35.00 in July 2023. The last adjustment in March 2024 set the rate at SRD 49.12 (equivalent to US$1.4), calculated on the basis of the national poverty line (RoS 2024a).

[29] The pessimistic scenario for 2024 assumed that gold production would remain unchanged and that the price of gold per ounce troy would be US$ 2,061. Under the optimistic scenario, gold production would increase by around 5 percent, pushed by increased production of one of the large-scale producers, while the price of gold would remain at US$ 2,386. The scenarios were prepared in April 2024.

Figure 1. Suriname: Real GDP growth, 2019–2025/2029 (percent)	Figure 2. Suriname: Gold Production, 2019–2024



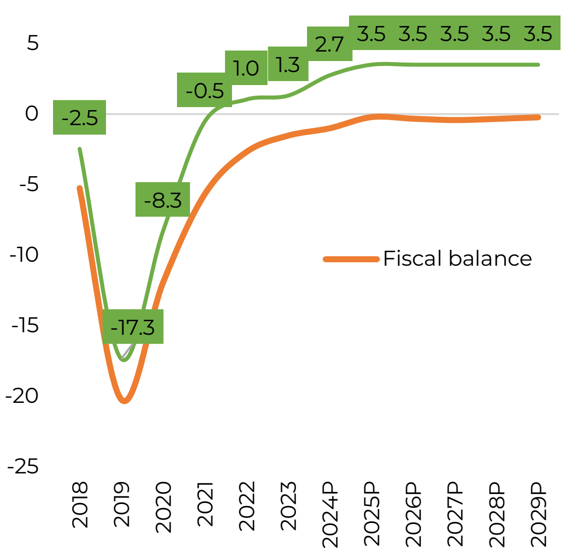
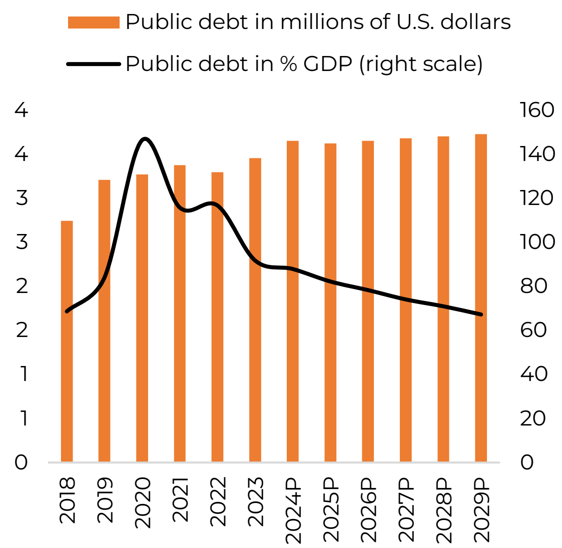
Sources: General Bureau of Statistics (2023) for 2018–2022; GoS (2023) for 2024; and IMF (2024b) for 2025–2029.
Note: P: projected.



Source: CBvS (2024).
Note: SSGM: small-scale gold miners; RGM/Zijin: Zijin Rosebel Gold Mines; NGS: Newmont Gold Surinam.

Fiscal Policy and Public Debt

Recent developments on fiscal indicators are consistent with Suriname's commitment to fiscal consolidation. The fiscal deficit shrank by 18.7 percentage points of GDP between 2019 and 2023, while the primary balance returned to positive territory in 2022 (Figure 3). The fiscal position has benefited from recently implemented fiscal measures, depreciation of the official exchange rate (given that a share of government revenues is received in foreign currency), and feedthrough of inflation (due to having a share of spending fixed in nominal terms). The expected primary balance of 2.7% in 2024 is likely to be reached, based on the elimination of untargeted subsidies, expansion of the value-added-tax base, and authorities' commitment to achieve the program's targets.

Figure 3. Suriname: Fiscal Balance, 2019–2029 (% of GDP)	**Figure 4. Suriname: Public Debt, 2019–2029**
	

Source: IMF (2024b).
Note: P: projected.

Source: IMF (2024b).
Note: P: projected.

The central government's public-debt-to-GDP ratio is expected to remain elevated, despite major relief from external debt renegotiation. The ratio increased sharply from an already-high level of 84% of GDP in 2019 to 146.4% in 2020, an unsustainable level that led to default on its service and a request for renegotiation with creditors. After decreasing from its peak in 2020 to 115.8% and 116.8% of GDP in 2021 and 2022, respectively, the debt-to-GDP ratio decreased further to 91.8% in 2023 (IMF 2024b) (Figure 4). Renegotiations were successfully concluded with all private sector and bilateral external creditors except China. According to the Suriname Debt Management Office's latest Quarterly Debt Report, the country completed the restructuring of its outstanding international bonds in December 2023. The negotiated medium-term debt relief of 29% of total outstanding debt (a US$265 million haircut) will eventually be recovered through an oil-linked security. Following the agreement, S&P Global Ratings raised Suriname's sovereign credit rating to CCC+/C from SD in December 2023 (S&P 2023). As of December 2023, outstanding external debt was equivalent to 78% of total public debt (US$2.6 billion). The largest external creditors are the IDB, followed by Oppenheimer and China. Total arrears were estimated at 6.9% of GDP in 2023, a decrease of around 55% with respect to 2022.

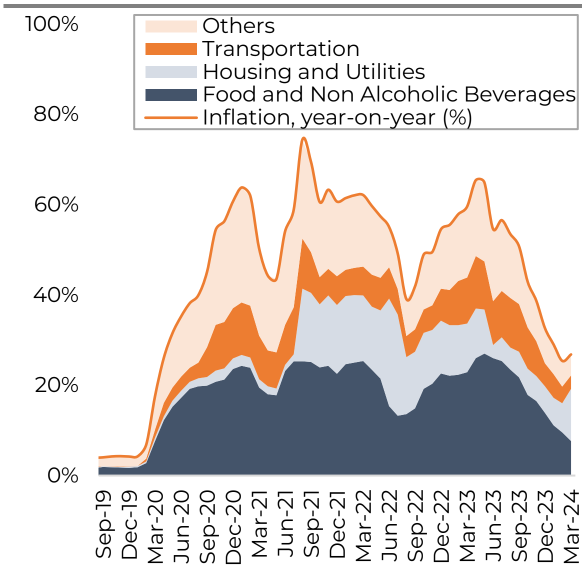
External arrears were estimated to be around 5.4% of GDP, whereas arrears to domestic debt holders and suppliers were equivalent to 1.5% of GDP.

Inflation and Monetary Policy Developments

Inflation in Suriname is on a downward trend despite its high level. The inflation rate reached a peak in 2020–2021, driven by constraints imposed by the COVID-19 crisis associated with low levels of digitalization and reliance on imports for a large share of basic goods and services consumed. In 2022, consumer price inflation decelerated only slightly with respect to 2021, as the monetary policies implemented to drain liquidity were not enough to offset the almost 50% increase in the exchange rate between the local currency and the U.S. dollar. As fiscal and monetary policy measures and structural benchmarks were implemented during 2023 and started proving effective, the inflation rate decreased by 22 percentage points, from a year-over-year rate of 54.6% in 2022 to 32.6% in 2023 (Figure 5). As of February 2024, year-over-year inflation was 25.4%, continuing the declining trajectory. By groups of goods and services, the category of Housing and Utilities and Food Away from Home increased above headline inflation. According to the Central Bank of Suriname (CBvS), annual inflation is projected to reach 14.5%, within a confidence interval of +-9.5%. The central projection assumes the phasing out of utility subsidies through price increases to achieve cost-recovery levels for electricity, water, and cooking gas, introduction of a 5% value-added tax on utilities from June 2024 onward, and the maintenance of fiscal discipline.

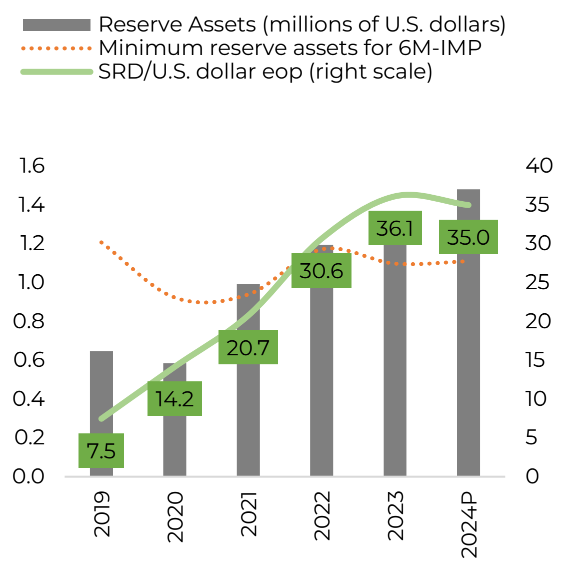
International reserves continue to grow, while the exchange rate has shown a marginal appreciation. The recent stability in the exchange rate underscores the adequate calibration of fiscal and monetary policy to drain liquidity from the market and send correct messages to economic agents. The annual depreciations of about 90% in 2020, 47% and 48% in 2021 and 2022, respectively, were reduced to around 18% in 2023. The nominal market exchange rate of the national currency per U.S. dollar decreased from a monthly average of SRD 36.09 in December 2023 to SRD 34.68 in March 2024 (Figure 6). The CBvS recorded a total of US$1,346 million in gross international reserves as of March 2024, which is enough to cover more than six months of imports, far superior to the scenario observed in 2019–2020. Moreover, the adoption of a fully floating exchange rate system in June 2021 with minimum rules for interventions in the foreign exchange market has contributed to the restoration of international reserves.

Figure 5. Suriname: Consumer Price Inflation, February 2020–February 2024 (%)



Source: General Bureau of Statistics (2024).

Figure 6. Suriname: Reserves and Exchange Rate, 2019–2024



Source: CBvS (2024).
Note: eop: end of the period.

Financial Sector Developments

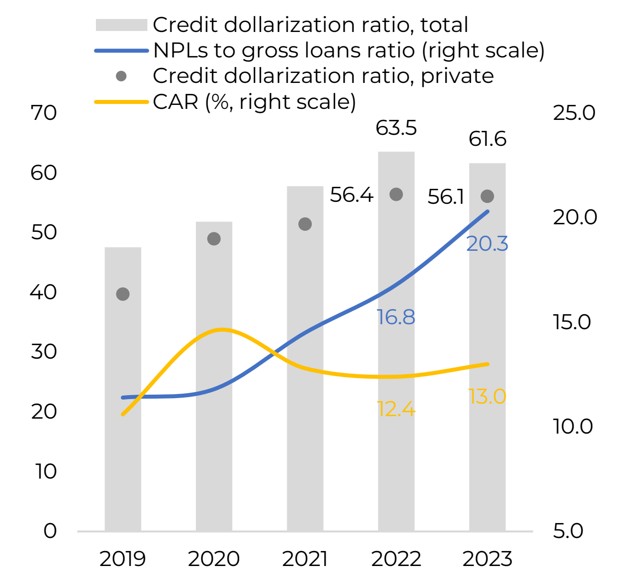
Suriname's financial system continues to be solvent, but asset quality is worsening. The capital adequacy ratio for commercial banks, which account for around 70% of assets in the financial system, improved from 16.8 in 2022 to 20.3 in 2023. However, four banks have a capital adequacy ratio below the 10% minimum requirement (CBvS 2023). In addition, the ratio of non-performing loans to gross loans increased from 12.4% in 2022 to 20.3% in 2023 (Figure 7). Banking sector exposures to the government are mostly non-performing. The dollarization ratio for credit has declined for the first time since 2018, from 63.5% in 2022 to 61.6% in 2023, driven by a decrease in U.S. dollar lending to the public sector. However, around half of dollar lending to the private sector is to borrowers without a natural hedge (i.e., borrowers that earn most of their revenues in SRD rather than U.S. dollars).

Private credit declined significantly, induced by monetary policy to tame inflation. Suriname has one of the shallowest financial systems in the Caribbean, and the

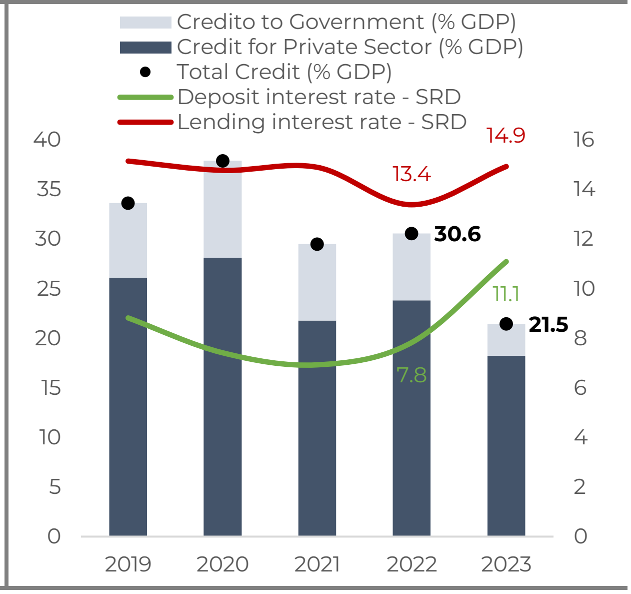
system has been affected by macroeconomic instability (IDB 2022c). Credit to the private sector shrank from 30.6% of GDP in 2022 to 21.5% of GDP in 2023 (Figure 8). The reduction of 8.9 percentage points is explained by a 3.4 percentage point reduction in credit to the government, and a 5.5 percentage point reduction in credit to the private sector. This development is a product of the agreement among commercial banks and the CBvS not to expand the nominal credit supply in local currency by more than 20% from April 2023 to April 2024 in order to control price increases in the economy (Figure 8). The CBvS regulation to increase the reserve requirements of commercial banks from 39% to 44% in April 2023 also played an important role in controlling the supply of credit.

Average deposit and lending rates, although negative in real terms, are gradually increasing. Average deposit interest rates in Surinamese currency increased by 3.3 percentage points, from 7.8% in 2022 to 11.1% in 2023, while average lending interest rates in Surinamese dollars increased from 13.4% in 2022 to 14.9% in 2023. Transmission weaknesses from the rates recorded in the central bank's open-market operations reflect concerns over borrower repayment capacity (contributing to rigidity in lending rates), banking system weaknesses (limiting scope to absorb narrower margins), and the high concentration of liquidity in a few banks (reducing the need to compete for funding). In line with the recent exchange rate stabilization, the dollarization ratio for deposits decreased by 0.5 percentage points from 78% in 2022 to 77.5% in 2023.

Figure 7. Suriname: Financial Indicators, 2019–2023	**Figure 8. Suriname: Credit and Interest Rates, 2019–2023 (percent)**



Source: Central Bank of Suriname.
Note: NPLs: non-performing loans.



Source: Source: Central Bank of Suriname.

Opportunities and Risks

A critical element of Suriname's ongoing reforms involves strengthening the medium-term fiscal framework. More objective rules for public finance management, including budget preparation, execution, and monitoring, would improve transparency and credibility for policymaking. The adoption of a fiscal rule on the budget balance would enhance credibility on fiscal prudence. Amending the Suriname Savings and Stabilization Fund Act 2017 would make its implementation feasible, including mitigating the legal bias towards the accumulation of resources, in tandem with implementation of the fiscal rule. This last recommendation gains more relevance with announcements on upcoming large investments to commercially explore oil and gas reserves in Suriname. The potential upcoming direct and indirect revenues from these investments, if well managed, could be used to maintain levels of public expenditures in case of negative shocks, thus avoiding volatility in fiscal balances or large fiscal deficits, in addition to serving to promote the intergenerational transfer of wealth.

Recently approved legislation for banking supervision is likely to promote greater stability in the financial sector. The approval of the Central Bank Act 2022 (RoS 2023a), the Banking and Credit System Supervision Act 2023 (RoS, 2024b), and the Credit Institutions Recovery and Resolution Act 2024 (RoS 2024c) strengthened the autonomy of the CBvS and its capacity to pursue its policy objectives. In accordance with the mandates, the monetary authority established a Financial Stability Committee and a Bank Resolution Unit, and initiated bi-annual top-down stress tests to promote greater financial system stability. The addition of simplified due diligence to the anti-money laundering/combatting the financing of terrorism regulation is expected to ease access to financial services, while implementation of the National Financial Inclusion and Education Survey has provided the basis for preparation of the National Financial Inclusion and Education Strategy (NFIES). With a focus on promoting formalization in the economy and expanding digital payments, the NFIES has the potential to expand access to credit, a key element to raise productivity and promote economic diversification.

Additional regulations on electronic payments and credit agencies represent opportunities to deepen financial inclusion and access to credit. There are also opportunities for national authorities to engage with the banking sector to promote electronic banking and expand financial inclusion. The CBvS is preparing a draft for the Electronic Payment System Supervision Act. In addition, the creation of a private credit reference agency could deepen credit penetration in the economy. Draft legislation towards that end, which is pending approval by the National Assembly, could unleash credit channels and promote higher-level economic activities by easing frictions caused by a lack information and/or the high cost within the system for individual institutions to assess credit risks.

References

Central Bank of Suriname (CBvS). 2023. Financial Stability Report. October.

Central Bank of Suriname (CBvS). 2024. Macroeconomic Statistics. External Sector Statistics.

Government of Suriname (GoS). 2021. *Hersteplan* 2020-2022. May.

Government of Suriname (GoS). 2023. Financial Plan 2024. September.

Inter-American Development Bank (IDB). 2022a. Suriname to Advance in Restoring Macroeconomic and Fiscal Sustainability with IDB Support. News Release (March). IDB, Washington, DC.

Inter-American Development Bank (IDB). 2022b. Suriname to Strengthen Fiscal Sustainability, Growth with $150 Million IDB Budget Support. News Release (November). IDB, Washington, DC.

Inter-American Development Bank (IDB). 2022c. Regional Overview: Finance for Firms: Options for Improving Access and Inclusion. *Caribbean Economics Quarterly* (11)2. IDB Caribbean Departments, Available at https://publications.iadb.org/en/caribbean-economics-quarterly-volume-11-issue-2-finance-firms-options-improving-access-and.

Inter-American Development Bank (IDB). 2023. Suriname Will Strengthen Transparency Policies with IDB Support. News Release (December). IDB, Washington, DC.

International Monetary Fund (IMF). 2021. IMF Executive Board Approves Extended Arrangement Under the Extended Fund Facility for Suriname. Press Release No. 21/400 (December). IMF, Washington, DC.

International Monetary Fund (IMF). 2024a. IMF Executive Board Completes Fifth Review Under the Extended Fund Facility Arrangement for Suriname. Press Release No. 24/93 (March). IMF, Washington, DC.

International Monetary Fund (IMF). 2024b. *World Economic Outlook.* April. Washington, DC: IMF.

Republic of Suriname (RoS). 2023a. S.B. 65. Central Bank Act 2022. April 17.

Republic of Suriname (RoS). 2024a. S.B. 40. Amending the Act Minimum wage (S.B. 2019 no. 101). March 19.

Republic of Suriname (RoS). 2024b. S.B. 4. Banking and Credit System Supervision Act 2023. January 4.

Republic of Suriname (RoS). 2024c. S.B. 5. Credit Institutions Recovery and Resolution Act 2024. January 4.

Standard & Poor's Ratings (S&P). 2023. Research Update: Republic of Suriname Foreign and Local Currency Ratings Raised to "CCC+/CC" from "SD". December.

Trinidad and Tobago

Victor Gauto and Nirvana Satnarine-Singh

Overview

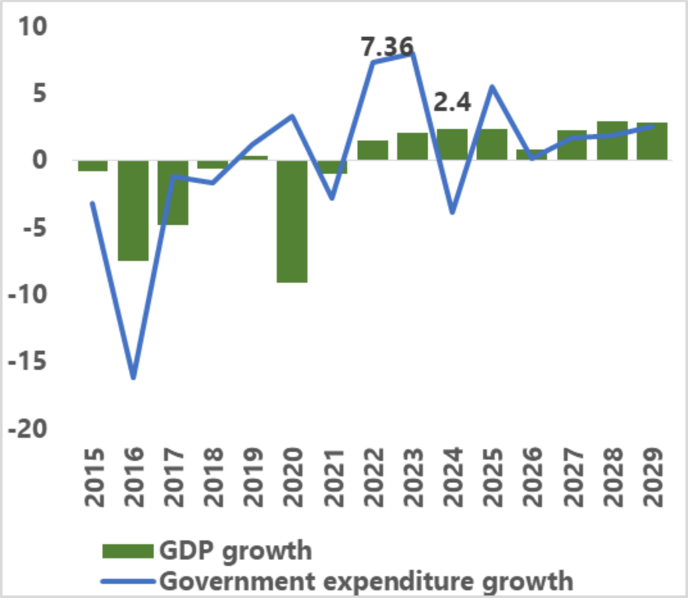
In 2023, the Trinidad and Tobago economy continued its post-COVID-19 pandemic recovery driven by robust performance of the non-energy sector, which more than offset the contractions experienced by the maturing energy sector. Average global oil prices moderated relative to the high of 2022, but remained above the 2015–2021 average, though natural gas prices declined significantly from US$6.50 per mmBTU in 2022 to US$2.70 per mmBTU in 2023. Despite these unbalanced energy price conditions, government revenues remained stable in 2023, maintaining the important fiscal gains of 2022 in the form of both revenues and the debt-to-GDP ratio. As the central bank has retained an accommodative stance by maintaining the monetary/repo policy rate at 3.5% since 2020, private sector lending has remained dynamic, with higher average lending growth rates in 2023 than in 2022.

GDP Growth Prospects

After contracting by 9.1% in 2020 and 1.0% in 2021, GDP grew by 1.5% in 2022 and is estimated to have grown by 2.1% in 2023 (Figure 1). The International Monetary Fund (IMF) projects an average growth rate of 2.1 percent over 2024–2028, slightly above its previous estimate of 2.0% for the same period.

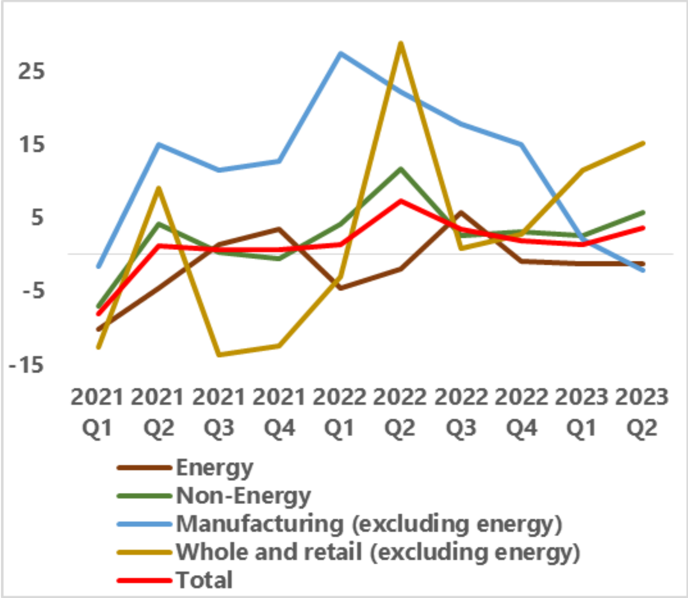
Quarterly GDP growth has been encouraging since 2021, as the economy has recorded growth for eight consecutive quarters since 2021:Q1 (Figure 2). The non-energy sectors, which account for about 70% of the economy, expanded by 2.1 % in 2022 and 4.2% in the first half of 2023. Wholesale and retail trade (excluding energy), which represents 20% of the economy, grew by 15% in 2023:Q2, while the manufacturing sector (excluding energy), which represents almost 7% of the economy, grew significantly in 2022 but moderated to a contraction of 2.1% in 2023:Q2. Finally, the energy sector, making up 30% percent of the economy, contracted slightly by 0.03% in 2022, and declined further by 1.3% in the first two quarters of 2023.

Figure 1. Trinidad and Tobago: GDP and Government Revenue Growth, 2015–2029 (percent)



Source: IMF, April 2024 *World Economic Outlook*.

Figure 2. Trinidad and Tobago: Quarterly GDP Growth, 2021–2023 (percent)



Source: Central Statistical Office of Trinidad and Tobago.

Labor Market

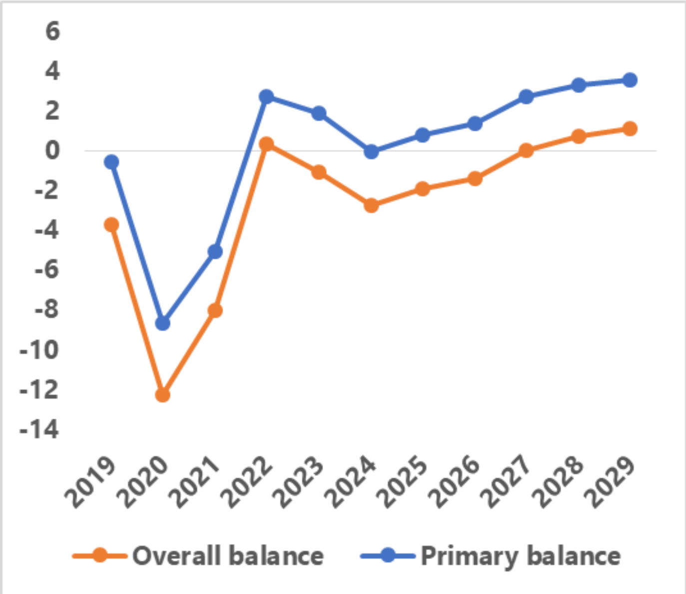
The unemployment rate fell to 4.0% in 2023 from 4.9% in 2022. The unemployment rate had averaged 5.5% during the height of the COVID-19 pandemic in 2020–2021. The male unemployment rate was 3.5% in 2023, lower than that for females, which was 4.6%. Both rates were below pre-pandemic levels in 2019 of 3.7% for males and 5.0% for females. Female labor force participation fell to 47.1% in 2023, slightly down from 47.6% in 2022, while male labor force participation increased to 64.6% in 2023 from 62.7 % in 2022.

Fiscal Policy and Public Debt

Increases in commodity prices significantly supported the fiscal position in 2022, though moderation of international prices in 2023 affected revenues. After two years of relatively large fiscal deficits that reached 11.5% in FY2020 and 7.8% in FY2021 (fiscal years run from October–September), the fiscal balance in 2022 reverted to a surplus

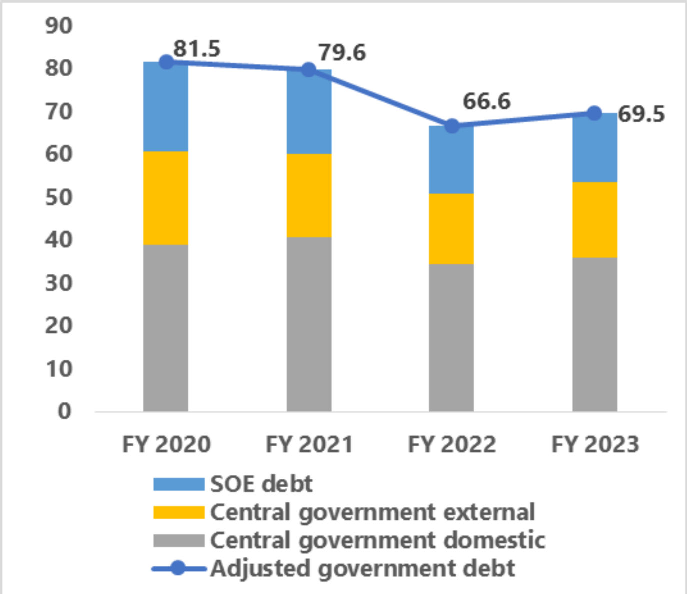
of 0.7%, benefitting from higher-than-expected energy prices that significantly contributed to revenue growth. In fact, government revenue grew by 46.5% in FY2022, driven by tripling energy revenues (Figure 1). Moderating energy prices in 2023 resulted in lower levels of revenues in FY2023, but the decline was 1.4%, much smaller than the gains in FY2022, maintaining robust government revenues that are expected to increase slightly in FY2024. Non-energy revenues increased by 7.0 percent in FY2023 and are projected to increase by 13% in FY2024, partially offsetting a projected fall in energy revenues of 17.8% in FY2024. The overall fiscal balance is projected to fall to a deficit of -1.7% in FY2023 and -2.7% in FY2024, with government expenditure growth averaging 5.4% in FY2023 and FY 2024.[30] The IMF projects overall fiscal and primary balances averaging -0.7% and 1.95% respectively, between 2024–2029, with overall fiscal surpluses from 2027–2029 (Figure 3).

Figure 3. Trinidad and Tobago: Fiscal Balances, 2019–2029 (percent of GDP)



Source: IMF, April 2024 *World Economic Outlook.*

Figure 4. Trinidad and Tobago: Adjusted Government Debt, FY2020–FY2023 (percent of GDP)



Source: Central Bank of Trinidad and Tobago.
Note: Excludes debt issued for sterilization purposes. SOE: state-owned enterprise.

[30] See the January 2024 edition of the Economic Bulletin of the Central Bank of Trinidad and Tobago.

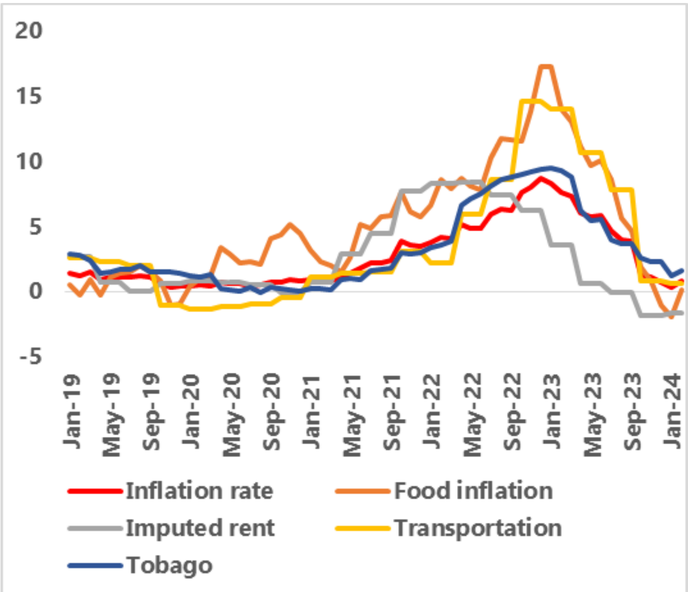
This context of high energy prices contributed not only to reducing the fiscal balance in FY2022, but also had important implications for the debt-to-GDP ratio. Adjusted public debt, which excludes open market operations for sterilization purposes, declined from 79.6% of GDP in FY2021 to 66.6% in FY2022 before increasing to 69.5% in FY2023. Between FY2021 and FY2022, public debt increased slightly by 1.7% to US$19.1 billion, while nominal GDP increased by more than 20%, reflecting the increase in energy prices. In FY2023, public debt levels increased by 6.4%. Central government debt (excluding sterilization) dropped from 60% of GDP in FY2021 to 50.7% in FY2022, then increased to 53.3% in FY2023. The share of external debt is relatively small compared to the combination of domestic debt and government-guaranteed debt of public entities[31] (state-owned enterprise and statutory authority debt), averaging 17% of GDP in FY2022 and FY2023, compared to 16% for state-owned enterprise debt and 35% for domestic debt (Figure 4).

Inflation and Monetary Policy Developments

Since the pandemic in 2020, the central bank has maintained its stance on keeping a low monetary policy rate in line with the government's objective to support private sector economic activity, even in the face of relatively high inflation rates. At the start of 2021 inflation rates were relatively low and stable, but they began increasing in April of that year due to international commodity price increases and supply chain disruptions (Figure 5). The annual inflation rate continued climbing throughout 2022, reaching a high of 8.7% in December 2022 before falling to 0.8% in February 2024. Some specific goods categories that saw high inflation rates included food, transportation, and imputed rent, which reached highs of 17.3%, 14.6%, and 8.4%, respectively, between April and December 2022, before subsiding to low and even deflationary rates in February 2024. The inflation rate in Tobago was higher than the national inflation rate, reaching 9.5% in January 2024 before settling to 1.6% in February. In 2024, the minimum wage was increased by 17%.

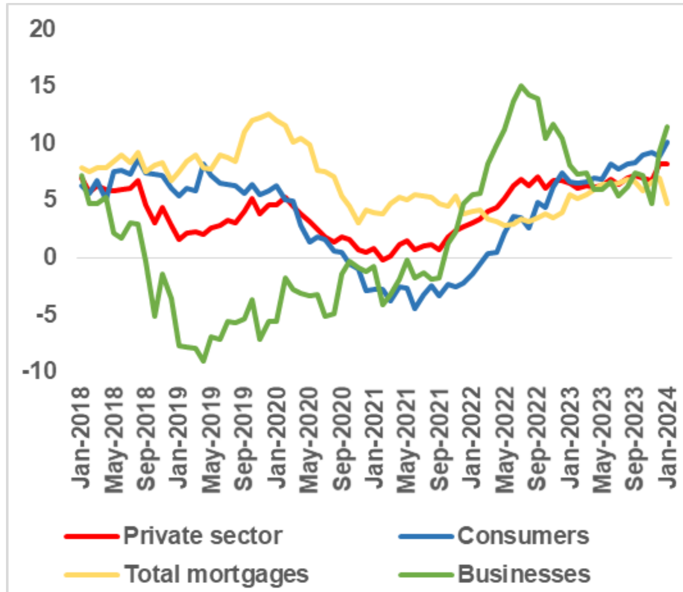
[31] SOE debt is mainly denominated in domestic currency.

Figure 5. Trinidad and Tobago: Inflation Rates, 2019–January 2024 (year-over-year change in percent)



Source: Central Bank of Trinidad and Tobago.

Figure 6 Trinidad and Tobago: Commercial Banks: Private Sector Lending Growth, 2018–January 2024(percent)



Source: Central Bank of Trinidad and Tobago.
Note: Excludes debt issued for sterilization purposes.

Financial Sector Developments

Credit to the private sector has expanded after decelerating during the pandemic. Private sector credit growth reached a low of 0.5% year-over-year in February 2021 before starting to recover (Figure 6). In September 2022, the growth of credit to the private sector reached a high of 7.0%% (year-over-year), then moderated through the rest or the year before hitting a new high of 8.2% in December 2023 and January 2024, representing US$10.7 billion in outstanding loans. Consumer lending growth fell after the pandemic to a low of -4.5% in May 2021 before starting to recover and then maintaining solid growth rates in 2023, averaging 7.5%, and reaching 10% in January 2024. Loans to businesses saw the highest growth rates in 2022, reaching 15% in July 2022 (year-over-year) before moderating to 4.7% year-over-year in November 2023. However, since then business lending has picked up, reaching a high of 10% in January 2024. Real estate mortgage lending grew at a declining pace of 2.9% in June 2022, then strengthened and averaged 6.2% in 2023. Real estate mortgage lending makes up about 40% of total lending, while the remainder is divided almost equally between business lending and consumer lending. Overall, private sector lending growth is well above pre-pandemic levels of 2019 (Figure 6).

Opportunities and Risks

With the completion of negotiations on several energy sector initiatives in 2023, including strides made with the Dragon Gas deal with Venezuela, a revamping of the energy sector could boost growth in 2024 and create positive spillovers to the upstream and non-energy sectors. Risk remains moderate and is heavily contingent on policy decisions external to the Trinidad and Tobago authorities, particularly hinging on relations between the United States and Venezuela. Recent and ongoing energy negotiations locally can also provide an impetus for growth. Apart from traditional energy sector production, available human and physical capital supports the diversification of the energy sector and provides an opportunity for Trinidad and Tobago to gain a competitive advantage due to global shifts to green energy sources. In this context, the Green Hydrogen Roadmap supports the transition. Finally, all policy efforts toward supporting digital transformation would contribute to improving productivity and provide a pathway for further development in the non-energy sector.

IDB
Improving lives