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SUMMARY

CARIBBEAN REGION QUARTERLY BULLETIN

All countries except Barbados are showing signs of recovery. Persistent fiscal deficits have led to the adoption of further tax revenue measures and expenditure cuts in The Bahamas, Barbados, and Jamaica. In Suriname, authorities remain on course to reduce the fiscal deficit over the medium term.

SELECTED INDICATORS 2013	Real Growth Rate (%)	Annual Inflation (end of period)	General Government Primary Balance	General Government Overall Balance	Current Account Balance	General Government Debt
	(in percent of GDP unless otherwise stated)					
1) High-debt countries						
Jamaica	0.4	10.5	7.5	-0.5	-11.4	142.7
Barbados	-0.8	2.6	-4.0	-8.8	-5.2	92.0
2) Medium-debt countries						
The Bahamas	1.9	1.0	-5.4	-7.6	-14.9	56.1
Trinidad & Tobago	1.6	4.0	0.4	-1.4	8.6	33.4
3) Low-debt or FSO countries						
Suriname	4.7	3.0	-1.6	-2.9	-3.7	37.1
Guyana	5.3	4.8	-1.5	-2.7	-19.6	58.2
Caribbean average	**2.2**	**4.3**	**-0.7**	**-4.0**	**-7.7**	**69.9**

Note: For Guyana, most debt is on concessional terms. FSO = Fund for Special Operation
Source: World Economic Outlook, October 2013.

Summary of Recent Developments, by Country

In **The Bahamas**, persistent weakness is evident in slow growth in tourism arrivals in the first 9 months of 2013. Unemployment thus remained high at more than 16 percent, and there was almost no annual inflation to October 2013. The fiscal deficit tapered in June–September 2013 as revenue collections increased alongside lower expenditures. The government plans to introduce a value-added tax in July 2014.

Barbados' fiscal consolidation attempts for 2013–15 have fallen short of its initial targets resulting in the government's announcement of additional expenditure measures amid falling GDP growth. International reserves are also falling, which presents a challenge for the government's commitment to preserve the exchange rate peg.

The **Guyanese economy** remains resilient, registering continued healthy growth driven by buoyant commodity exports and expanding services. However, the fall in gold and rice prices presents a downside risk in the medium term, which can be mitigated through diversification, as envisioned under the Low Carbon Development Strategy.

Jamaica has met the structural and quantitative targets for the second review of the program with the International Monetary Fund considered by its Executive Board in December 2013. Implementation of the comprehensive tax reform has started with the tabling of two central legislations and IDB financial support in the area of fiscal reforms. However, Jamaica remains fragile, making the outlook dependent on avoidance of shocks and strict reform implementation.

The draft budget presented to parliament in October in **Suriname** projects a fiscal deficit of about 4 percent of GDP in 2014, similar to the 2013 target. H.E. Andy Rusland, the Minister of Finance sworn in the New Year, is in charge of execution while increasing private sector participation. Significant investments and tax reform are planned for the gold sector in the coming years.

Growth in **Trinidad and Tobago** apparently resumed in 2013 as the nonenergy sector continued its recovery. Completion of maintenance works in late 2013 in the energy sector, as well as more investment after successful bid rounds for acreage, bode well for oil and gas production in 2014. Serious logistical problems in the Central Statistical Office have affected the production of timely employment and trade data, in particular.

In the **Eastern Caribbean Countries,** most economies have shown signs of broad-based economic expansion amid low and declining inflation, and they are on course for continued expansion in 2014. The Eastern Caribbean Central Bank projects weaker tourism activity in 2013 overall, but many of the countries continue investing heavily in the sector.

Special Country Reports: Getting More Income From Abroad

In the special country reports for The Bahamas, Barbados, Jamaica, and the island of Tobago, we consider trends in the main export sector, tourism, in addition to recent policy options for the sector. For Guyana, we look at one of the main sources of external income: remittances from citizens living abroad. In Suriname, we consider the options for establishing fiscal discipline and attracting private sector participation in the country's development amid increasing expectations.

Regional Report: Tourism Finally Looking South

Travel and tourism directly accounts for almost 30 percent of GDP in the CARICOM countries, by far the largest sector in most countries. However, the global landscape for the sector has become more competitive and traditional source markets for the Caribbean are less dynamic. The report discusses some ideas for the Caribbean to take on this challenge through diversification, namely, through the creation of new market niches, improved airlift, and the reorientation of supply toward emerging markets. It also analyzes the economic viability of an IDB project to bring new visitors from Brazil (the so-called "Brazil air bridge.")

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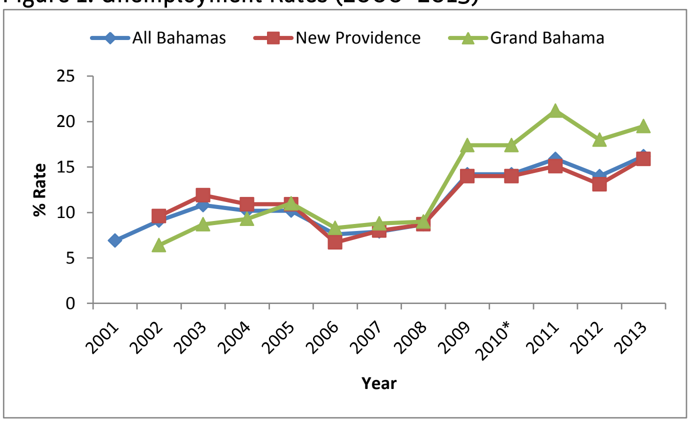
Recent Developments

Weakness in the Bahamian economy continued to persist over the latter half of 2013, supported by softness in the U.S. market. During this period, external borrowing activities boosted external reserves and heightened bank liquidity.

Tourist arrivals to the country for the first 9 months of the year grew at 2.3 percent compared with a growth of 8.3 percent for the corresponding period in 2012. The weakness in the U.S. market resulted in a 6.5 percent decline in the air segment, which was offset by the 5.1 percent growth in sea arrivals. Hotel room revenue for the 6 months to June fell 4.7 percent versus 2012, as a result of the 5.8 percent reduction in hotel occupancy rates (to 64.3 percent), and the 9.5 percent decline in occupied room nights. Despite this scenario and competition from cheaper neighboring destinations, the average daily room rate rose by 2.8 percent to B$243.11[1] for the period.

Unemployment in the country reached a historical high of 16.2 percent in May 2013. Unemployment rose 2.5 percentage points in New Providence and 1.5 percentage points in Grand Bahama (Figure 1). However, the increase in the unemployment rate was in large part due to some people returning to the labor market to look for work, thus increasing the pool of employable persons. They reportedly felt that prospects for employment had improved and therefore rejoined the labor force. Youth unemployment remained relatively unchanged at 31 percent, while the rate among men and women was about the same (16 percent). Participation rates remain steady at 73 percent.

Figure 1. Unemployment Rates (2000–2013)



Source: Department of Statistics, The Bahamas.

[1] B$ is on par with the USD.

Highlights

Tourism performance continued to struggle because of a lower number of air arrivals. Joblessness stands at its highest point in the country at 16.2 percent alongside high levels of nonperforming loans.

Annual consumer price inflation fell to 0.4 percent in October 2013 because of the drop in transportation costs to 0.2 percent.

The deficit tapered in the first quarter of the 2013/14 fiscal year (June–September) as revenue collections increased alongside lower expenditures, particularly capital.

The country is embarking on fiscal reform to increase revenue collection, including through the introduction of a value-added tax in July 2014. High and continuous lending to state-owned enterprises is exerting pressure on the country's fiscal accounts.

Inflation is low and falling. Annual consumer price inflation fell by 2.4% to 0.4 percent in October, mostly because of the drop in transportation costs to 0.2 percent from 4.1 percent. Declines in price advances were noted for the heaviest weighted items in the index—housing, water, gas, electricity, and other fuels. Major price increases were recorded for hotels and restaurants to 3.2 percent, followed by alcohol, tobacco, and narcotics. It is important to note that the fuel surcharge assessed by the Bahamas Electricity Company fell by 19.3 percent in the past 12 months to 22 cents per kWh.

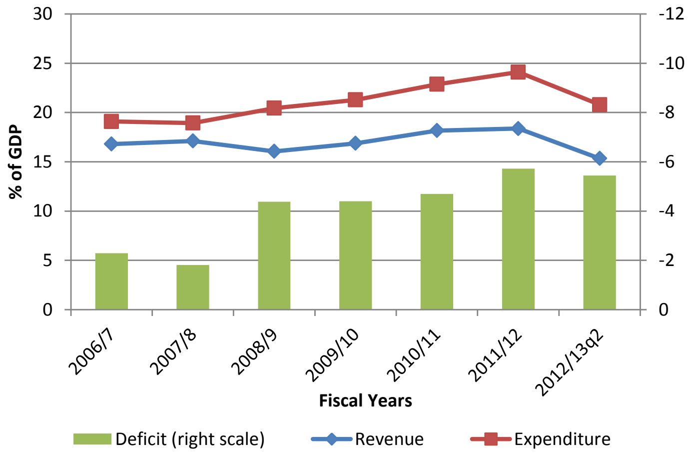
The current account deficit for the second quarter of 2013 doubled to $452 million, after reaching an estimated 16 percent of GDP in 2012. The deficit widened owing to the reductions in foreign investment-related payments and an increase in the merchandise deficit. This led to a reduction in the surplus on the services account. The surplus on the capital and financial account abated by 43.4 percent to $226.3 million.

Fiscal developments featured a slight contraction in the deficit as a result of higher revenue collections, which outpaced the contraction in expenditures. According to Central Bank Reports, a tapering in the fiscal deficit was recorded according to budgetary data for the first quarter of FY2013/14 (July–September 2013). The deficit narrowed by B$66.2 million as revenues increased but expenditures fell even further. Tax collections fell marginally because of the falloff in taxes for

international trade; meanwhile, nontax collections advanced by 39 percent in line with the increase in fines, forfeits, and administrative fees. Regarding expenditure, a decline in subsidies to a local public health authority resulted in lower recurrent spending, while capital spending for the first quarter of FY2013/14 fell, reflecting the winding down of capital formation for infrastructure projects across the country. However, net lending to public entities seems to have grown by $1.9 million to $11.1 million during this period. These developments followed a widening in the fiscal deficit in FY2012/13.

It is estimated that the debt to GDP ratio has continued to increase to over 6 percent versus 4.4 percent in FY2008/09.

Figure 2. Government Operations (FY 2006–13)



Source: The Central Bank of The Bahamas.

The country's debt levels continue to remain a concern, as ratings agencies are closely monitoring the progress made under the country's Medium-Term Fiscal Consolidation Plan initiated by the new government in May 2013. The plan has set targets to reduce recurrent outlays by 0.5 percentage points of GDP each year until current expenditures reach 19.1 percent of GDP by FY 2016/17; for capital expenditure, the government will target an execution rate of 3 percent of GDP and; for revenues, to increase by 4 percentage points of GDP from FY 2013/14 to FY 2016/17. In this way, the government expects to run fiscal surpluses by FY 2016/17. At present, public debt stands at approximately 54 percent of GDP. The country's November 2013 S&P rating is BBB/A2, while the December 2012 Moody's rating is Baa1. However, the December 2013 and January 2014 Moody's report and credit opinion on The Bahamas indicated that a downgrade was looming for the next several months if no significant progress is made on the government's fiscal consolidation plans to arrest the country's high and rising debt relative to its pre-crisis levels.

Relevant Issues for the IDB

The IDB, along with other development partners, has been working with the Government of The Bahamas to assist with its efforts at fiscal consolidation. The government received US$750 million in 2012 from the IDB-administered Japan Special Fund to study conditions for a sustainable fiscal balance in The Bahamas. Studies will be undertaken to look at fiscal measures, specifically (a) an econometric model to measure the effect of a value-added tax on revenue, income distribution, equity, productivity, poverty, and inflation (the tax is scheduled for implementation on July 1, 2014); (b) a fiscal risks analysis: (c) an analysis of government expenditures; and (d) a public expenditure review of the Water and Electricity sectors. The VAT is scheduled for implementation on July 1, 2014.

Revamping customs will also help revenue-collection efforts. The IDB is also financing a Trade Sector Support Programme approved in 2013. The loan will strengthen the ability of customs to collect revenue through the enhancement and modernization of customs operations. The majority of the country's revenue is collected through customs duties, and therefore, the progress of this loan operation will have implications for the country's fiscal accounts.

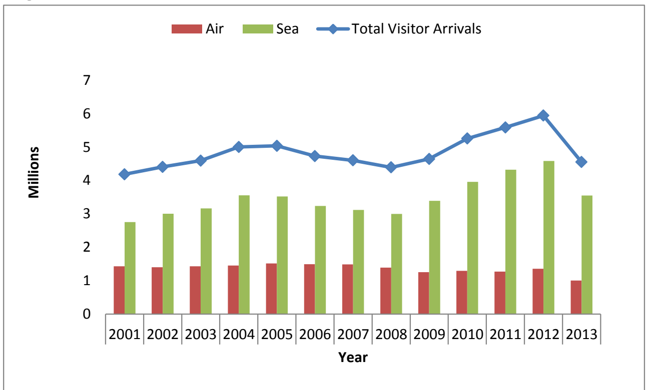
High-Frequency Macroeconomic Indicators	Last data	Period	Prior data	Period
Annual GDP growth (%)	1.8	2012	2.0	2011
Tourism arrivals (annual % change)	2.3	Sep-13	6.3	Dec-12
Exports (12-month growth)	-2.6	Q2 2013	27.3	Q3 2011
Imports (12-month growth)	5.5	Q2 2013	13.9	Q3 2011
Private sector credit growth (%)	-1.9	Oct-13	-1.4	Feb-13
Inflation	2.0	Dec-12	3.3	Nov-12
Exchange rate (end of period)	1.00	May-13	1.00	Apr-13
Unemployment rate (%)	16.2	May-13	14.7	May-12

Background

To diversify tourism in The Bahamas, a country where more than 80 percent of total arrivals originate from the United States, the Government of The Bahamas is actively seeking to attract visitors from other parts of the world, particularly South America, China, Brazil, and other emerging markets. This note examines the possibilities going forward and the initiatives already being planned.

The tourism sector is by far the most important in The Bahamas. In the past decade or so, more than 5 million people have flocked to The Bahamas annually (compared with a resident population of overt 350,000), although only about a fifth of those have been stopover visitors (Figure 3). Tourism is estimated to contribute to more than 50 percent of GDP, with the economic activity generating over 60 percent of all wages and the catalyst for more than 60 percent of the employment base, according to the Ministry of Tourism. It is estimated that the industry generates more than US$500 million (6 percentage points of GDP) in taxes through import duties, departure taxes, hotel occupancy taxes, plus many others. More than 80 percent of tourists to The Bahamas originate from the United States to visit the islands of New Providence (Nassau), Abaco and Eleuthera.

Figure 3. Tourism Arrivals (2001–2013)



Source: The Central Bank of The Bahamas.

Possibilities With Asia, Brazil, and Others

Global tourism thrived in 2012, and The Bahamas needs to be in a position to absorb the increase. The recently published 2013 World Travel and Tourism Council's *Economic Impact Report* shows that Travel & Tourism's contribution to global GDP grew for the third successive year in 2012, and created more than 4 million new jobs globally. The strongest growth in 2012 was evident in international demand as appetite for travel beyond national borders, by leisure and business visitors, remains strong. The report also concluded that in the longer term, demand from and within emerging markets will continue to rise in importance. According to the report, "Destinations need to be willing to invest in infrastructure suitable for new sources of demand to achieve the clear growth potential that exists." For example, the report forecasts that China will overtake the United States by 2023 as the world's largest travel and tourism economy, measured in total GDP (2012 prices) and the size of the outbound market.

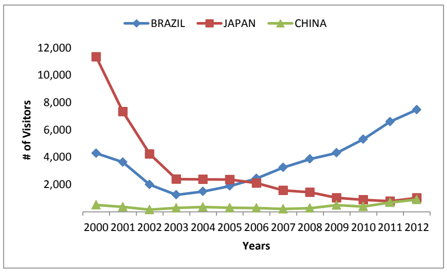
Emerging Asia's presence in The Bahamas tourism sector is now large, and this could spur further demand. In at least one case, financing for infrastructure to support the proposed increase in tourism to The Bahamas originates from Southeast Asia.[2] Moreover, by December 2014, the B$3.5 billion Baha Mar Hotel Resort development—the single largest hotel project in the region—will open, adding 2,200 hotel rooms to the current room stock of 14,430 rooms in the country, plus an additional 307 private, freehold residences. This project was partially financed by China State, China Ex-Im Bank, and a private investor. The project is targeting mainly visitors from China and other Asian destinations, thereby tapping into the expectation that China and other Asian markets will continue to generate larger numbers of travelers over the coming decade. It is anticipated that the effects of Baha Mar on overall hotel revenue, tourist expenditure and occupancy rates will improve the performance of the industry over the next few years.

There is particular interest in improving air links among Brazil, China, and the Caribbean to boost the earnings of tourism-dependent island economies. The IDB's Caribbean Department and Brazil are working on a plan to boost their economic ties, which includes the public and private sectors. Preliminary analyses of the potential market (primarily in tourism from Brazil) were subject to internal consultation with Bahamian stakeholders in the latter half of 2013 (see more on this project in the Regional Supplement). The IDB is also embarking on a fact-finding mission through a technical cooperation that is in preparation to strengthen tourism and transport links between the Caribbean and China with the goal of promoting economic integration between the Caribbean and China. The specific objectives are to determine whether sufficient demand exists for travel from China to The Bahamas on a consistent basis as well as possible travel to other Caribbean countries (Figure 4). In particular, it would establish the possibility of direct air links

[2] Genting, a Malaysian company, is financing the construction of a mega hotel and resort property in Bimini, a small island in The Bahamas.

between China and The Bahamas in the first instance, including regulatory requirements and technical capability for a nonstop flight between the two countries.

Figure 4. Arrivals from China and Brazil Catching Up



Source: The Central Bank of The Bahamas

Initiatives to Jumpstart Tourism

In addition to seeking nontraditional markets, efforts will continue to intensify tourism from traditional markets, through some recent initiatives announced by policy-makers.

Ongoing Marketing and Promotional Efforts

A comprehensive media and advertising campaign has been recently launched in Toronto, Canada. In December 2013, the Bahamas Hotel and Tourism Association pointed to the need for new approaches to marketing The Bahamas in 2014, given mixed financial results in 2013. The president of the association acknowledged that many new investments in hotel properties are under way and in the pipeline, and the Toronto advertising campaign is one of the first. The Toronto Transit Commission Train Wrap consists of images and logos representing The Bahamas, and covering six subway trains in Toronto along with interior ads throughout. The Toronto Transit Commission carries more than 460 million passengers per year, making it North America's second busiest transit system.

Investment in airport infrastructure is continuing, following the recent completion of the renovation of the international airport in Nassau. A Bahamian company has been hired to upgrade the airport in South Bimini, in addition to maintaining the runway, which is expected to bring the airport to international standards so that night flights can be started and accommodated. The company's managing director commented that the company's goal is to "see all of our airports come to FAA and International Civil Aviation Organization regulatory standards and compliance." Further support for upgrading and reforms includes the IDB-financed Air Transport Reform Program, which will support the overhaul and modernization of the Aviation Sector Policy in The Bahamas. This modernization includes new institutional structure and changes in the legal and financial structure governing the sector. The program will also support the incorporation of private sector management and financing for airport infrastructure.

There are also logistical changes to improve access to the Family Islands. The Director General of the Ministry of Tourism announced plans to embark on a complete restructuring of domestic air transportation to help diversify tourism. This policy is considered a critical step towards channeling more tourists into the Family Islands and spreading them more evenly, rather than having the majority of visitors based in Nassau and Grand Bahama. The Director General of the Ministry of Tourism mentioned this as one initiative that should help to turn around the declining tourism growth seen in 2013, by ensuring that flights offered by domestic airlines in The Bahamas are visible to international visitors on global internet distribution systems.

Financial incentives for visitors may also be expanded. The Out Island Promotion Board's president had warned earlier that access costs must be reduced to increase stopover visitor arrivals and suggested that airfare promotions such as the *Two Fly Free* program were critical to sustaining business levels. These offers, as well as the boating, fishing, diving, and aviation special incentives are intended not only to drive higher business levels, but also to help sustain ongoing business for the Out Island Promotion Board's members. The Two Fly Free program has helped gain business across domestic and international markets, even in Europe.

Carnival in The Bahamas

In early December 2013, the Prime Minister led a delegation to Trinidad and Tobago to discuss The Bahamas potentially establishing its own version of the internationally acclaimed festival in 2015. This event would follow the official opening of Baha Mar, and according to the Prime Minister, such an initiative would provide much new needed entertainment options for visitors, which may be particularly attractive to Brazilian tourists. The Prime Minister felt that given the marketing power of the Ministry of Tourism, the promotion boards and the hotel association, and the proximity to the United States where there is some interest in Carnival, such an agreement with Trinidad and Tobago would be important. According to the appointed committee to examine this idea further, the Prime Minister indicated that initial projections show that the country could generate approximately 2 percent of its gross domestic product by hosting a festival of this nature.

The Bahamas: Selected Indicators

	2009	2010	2011	2012	2013 (F)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	-5.4	1.0	2.0	1.8	2.7
Nominal GDP	-5	-1	5	4	3.5
Inflation (end of period) - Central Bank	1.3	1.4	3.2	1.9	2.0
Inflation (end of period) - IFS	1.5	1.5	1.0	n.a.	n.a.
External Sector					
Exports of goods and services	-14.7	-2.6	19.0	9.6	7.2
Imports of goods and services	-18.9	1.1	12.9	7.3	4.6
Current account (percentage of GDP)	-10.5	-10.5	-14.0	-16.0	-13.7
FDI (percentage of GDP)	9.4	12.0	14.9	7.3	8.6
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central Government	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue and grants	16.8	18.2	16.2	18.5	18.7
of which: tax revenue	14.3	16.4	16.2	16.7	16.7
Current expenditure	18.0	19.3	19.6	20.1	20
Capital expenditure and net lending	3.2	3.5	4.4	1.5	4.3
Primary balance	-0.9	-1.1	-2.1	-3.6	-2.9
Overall balance	-4.4	-4.7	-5.9	-5.9	-5.9
Debt Indicators					
Central government debt	43.9	43.9	45.7	49.3	53.6
Central government debt over revenues	261.1	247.9	263.0	289.7	290.1
External public debt (end of period)	9.1	11.8	12.9	12.8	14.1
External debt service as percentage of exports of goods and services		11.2	8.1	7.5	5.9

Note: FDI = foreign direct investment; IFS = International Financial Statistics; (F) Forecasts numbers for 2013.

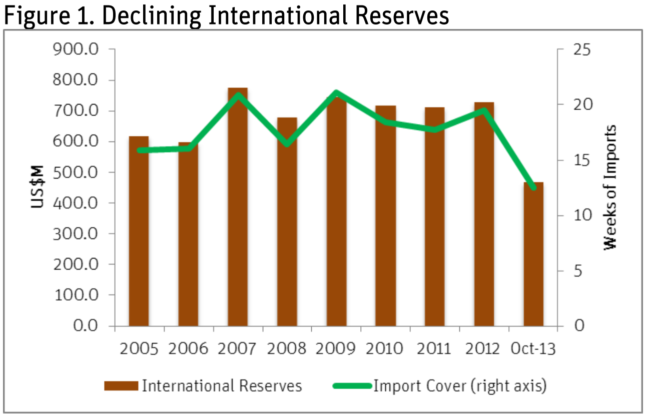
Source: Department of Statistics, Central Bank of The Bahamas and International Monetary Fund World Economic Outlook April 2013.

Recent Developments

Barbados' economy has remained in recession since mid-2012 and faces a worse growth prospect given its significant macroeconomic stability challenges. Since the financial crisis in 2008, the Barbadian economy has struggled with low and negative economic growth, averaging –0.5 percent in the past 5 years. The economy had no growth in 2012 and contracted for the first 9 months of 2013 by 0.7 percent. Negative growth is projected to persist in 2014, partly associated with declining competitiveness especially in the tourism sector. Although low growth is related to the weak global economic condition, Barbados is the only country in CARICOM forecasted to achieve negative growth in the short term (World Economic Outlook, October 2013), highlighting much concern for the country's international competitiveness.

The poor performance of the main foreign exchange earning sectors and the below-average inflow of private foreign investment have contributed significantly to the drop in international reserves. International reserves cover fell by 7 weeks of imports, equivalent to about US$260 million, in the first 10 months of 2013 over the stock at the end of 2012 to about US$468 million. The International Monetary Fund's concluding statement of the December 2013 Article IV mission projects a widening of the current account deficit to 11.4 percent of GDP at the end of 2013, which highlights further pressure on the reserve position. The fast deterioration of international reserves presents a challenge for the Government of Barbados (GOB) given a commitment to preserve the 1975 fixed peg to the US dollar.

Figure 1. Declining International Reserves



Source: Central Bank of Barbados online statistics.

Despite the fiscal consolidation measures outlined in the August 2013 Financial Statement and Budgetary Proposals, the government's fiscal deficit continues to widen. For the first 6 months of FY 2013/14, the fiscal deficit was calculated at 9.4 percent compared with 5.9 percent in the same period of the previous fiscal year (see Figure 2). The Minister of Finance and Economic Affairs acknowledged the consequences of such high deficits on debt and international reserves in his report to the House of Assembly on December 13, 2013, where an update on the progress of the Fiscal Consolidation Programme 2013–15 (starting September 2013) and supplementary expenditure measures were announced. The revenues collected for the first 2 months of the programme (September and October) fell short of the estimated targets outlined in the budgetary proposals. Likewise, the expenditure measures have been unsuccessful as the outlays on other personal emoluments, goods and services, and transfers and subsidies increased.

Highlights

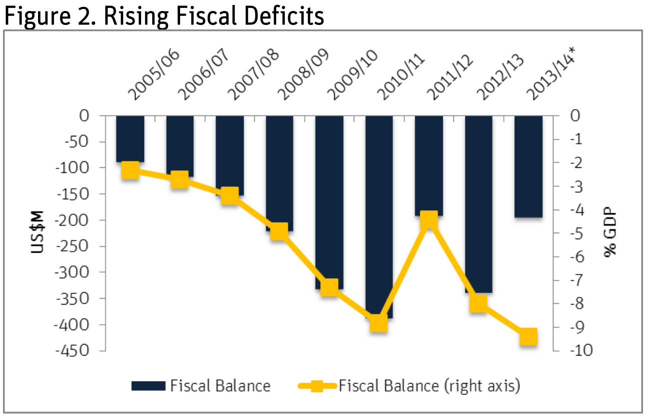
Barbados' fiscal consolidation attempts for 2013–15 have fallen short of its initial targets. As a result, the Government of Barbados (GOB) announced additional expenditure measures.

The decline in international reserves levels presents a challenge for the government's commitment to preserve the exchange rate peg.

Barbados' investment rating was downgraded by regional and international rating agencies.

The tourism sector is earmarked to propel growth and achieve macroeconomic stability.

Figure 2. Rising Fiscal Deficits



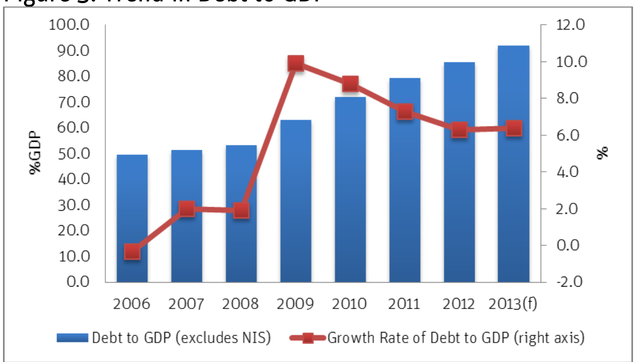
Note: *Data from April to September 2013.
Source: Central Bank of Barbados online statistics.

Against this backdrop, additional expenditure measures were proposed to strengthen the 19-month fiscal consolidation adjustment plan as well as limit the outflow of foreign exchange. The expenditure cuts targeted mainly wages and salaries and transfers and subsidies. There was also some mention of reducing tax expenditure. More notably, the measures proposed included reducing the size of the public sector by 3,000 workers by March 1, 2014. The salaries of all

ministers, government members of parliament, parliamentary secretaries, personal assistants, and all other political appointees are expected to be cut by 10 percent. The GOB also mentioned a review of the tax system and public enterprises through technical assistance from the International Monetary Fund. This assistance should help address inefficiency, tax noncompliance, and the widening of the tax base through a reduction in tax waivers and concessions.

The impacts of the aforementioned measures are conditioned on whether economic growth, that will have to be led by private sector investment, can be achieved. The proposed 11 percent reduction in the size of the public sector would result in an increase in the unemployment rate to about 14 percent compared with 11.1 percent in June 2013, ceteris paribus. Since the government is the single largest contributor to GDP (16 percent), reducing its expenditure will require other sectors to pick up the slack and create new growth. Foreign investment will be critical for economic growth and to augment the international reserves stock. Also, the higher unemployment levels could present financial challenges for the National Insurance Scheme, which already has a substantial amount of investment in government securities—about 68 percent of its total investment (The Debt Unit 2012).

Figure 3. Trend in Debt to GDP



Source: Central Bank of Barbados online statistics and International Monetary Fund World Economic Outlook, October 2013.

Subsequent to the large fiscal balances of the nonfinancial public sector, Barbados' debt levels have risen considerably. The debt-to-GDP ratio (excluding the National Insurance Scheme) is estimated to increase from 53 percent in 2008 to 92 percent in 2013 (see Figure 3), with average annual growth rates of 7.7 percent in the past 5 years. While domestic institutions hold most of this debt (70 percent), such a large acceleration in debt accumulation means that a larger portion of the government's revenue intake is devoted to debt servicing. When a debt sustainability analysis was conducted, it suggested that Barbados will require a stronger fiscal adjustment effort than previously accustomed in order to stabilize or decrease its debt burden.

The financial sector has also been adversely affected by the sluggish economic performance, but remains generally stable. The Central Bank of Barbados' September 2013 Press Release reported high liquidity, profitability, and good capital adequacy of the financial system. However, there is an increase in nonperforming loans, which could be partially attributed to the current macroeconomic conditions.

Issues the Bank Should Watch Out For...

Barbados' ability to negotiate the terms and conditions of its commercial debt has worsened with the country's investment rating being downgraded by three credit rating agencies. On November 20, 2013, S&P downgraded Barbados' long-term credit rating from BB+ to BB– on account of the persistent current account deficit, external financing challenges, the ongoing high fiscal deficit, and the worsening debt position. A month later, citing poor macroeconomic performances, Moody's downgraded Barbados' bond rating from Ba1 to Ba3, with a negative outlook; while the regional rating agency, CariCRIS, downgraded both the local and foreign currency rating.

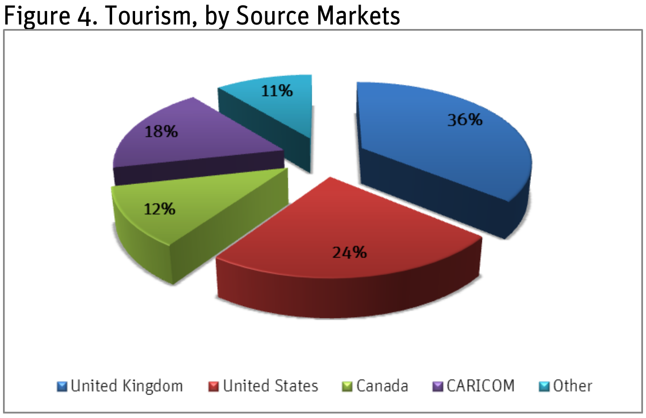
The International Monetary Fund recently concluded its Article IV mission and is expected to provide technical support to the GOB in the area of fiscal consolidation. Significant work has already been done by the IDB on tax administration and public enterprises which could provide an avenue for further dialogue with the GOB.

The GOB is expected to legislate an Electric Light and Power Act that looks at the supply and generation of renewable energy. The development of this sector will help reduce the importation of fossil fuel and corresponding foreign exchange outflow. The IDB is committed to assist in this area. This focus will complement initiatives underway to reduce the region's dependence on imported hydrocarbons. The Bank will also provide support to other foreign exchange-earning sectors (such as tourism), the private sector, and other areas that will help generate jobs in the short term.

High-Frequency Macroeconomic Indicators				
	Last data	Period	Prior data	Period
Annual GDP growth (%)	-0.7	Sep-13	-0.6	Jun-13
Tourism arrivals (annual % change)	-6.2	Sep-13	-6.8	Jun-13
Exports (12-month growth)	-7.1	Sep-13	-10.1	Jun-13
Imports (12-month growth)	0.0	Sep-13	-4.3	Jun-13
Private sector credit growth (%)	-4.0	Jun-13	-1.1	Dec-12
Inflation	2.1	Jul-13	2.7	Jun-13
Exchange rate (end of period)	2.0	Dec-13	2.0	Aug-13
Unemployment rate (%)	11.1	Jun-13	11.5	Mar-13

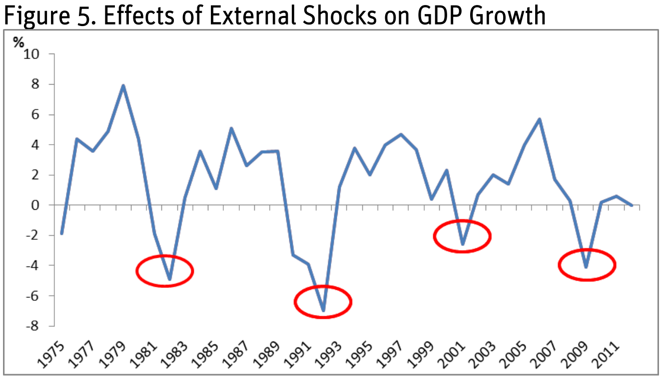
The tourism sector is the main driver of foreign exchange, employment, and growth in Barbados. Tourism accounts directly for 12 percent of gross domestic income and 39 percent of GDP when the interactions with the rest of the economy are considered (World Travel and Tourism Council 2013). Total employment created from this sector is also estimated near 40 percent and accounts for almost 50 percent of foreign earnings on average. However, the sector is highly concentrated on a few source markets, with 70 percent of the visitors originating from the United Kingdom, the United States, and Canada (see Figure 4). This has contributed to the tourism sector being extremely vulnerable to shocks from these economies. The world recessions in the early 1980s and early 1990s saw tourism value-added to output falling by 21.3 percent and 16.3 percent, respectively. The September 11 terrorist attacks in the United States and the more recent financial and economic crisis of 2007–2009 had a cumulative effect of 21 percent decline in tourism output. During these periods, economic growth contracted significantly (see Figure 5).

Figure 4. Tourism, by Source Markets



Source: Central Bank of Barbados online statistics.

Figure 5. Effects of External Shocks on GDP Growth

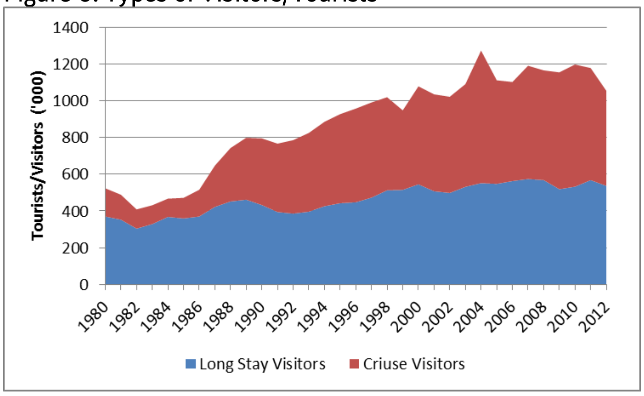


Source: Central Bank of Barbados online statistics.

The contribution of the tourism sector to GDP waned over the past three decades. Growth in tourism output averaged 2.8 percent in the 1980s, 0.7 percent in the 1990s, and −0.8 percent in the 2000s. In recent years, the tourism industry has shown much fluctuation in performance, recording a 5.5 percent decline in arrivals in 2012 over 2011 and a 6.2 percent reduction during the first 9 months of 2013 over the corresponding period for the previous year. Tourism value-added fell in 2013 according to the Central Bank, primarily on account of reduced airline seating capacity, lower hotel room occupancy, and falling tourist expenditure. The challenges facing the tourism industry reflect the slow recovery of the main source markets and underline some concerns about the country's price competitiveness.

Visitors to Barbados have doubled between 1980 and 2012. This growth was mainly on account of higher cruise arrivals, which increased from 29 percent in the 1980s to 52 percent in the 2000s (see Figure 6). Despite the increase in total visitors to Barbados, the value added was minimal given that expenditure per visitor from cruise passengers (US$60) is significantly lower than expenditure per long-stay visitor (US$1,500). There has also been a downward trend in recent times of expenditures of visitors arriving by plane.

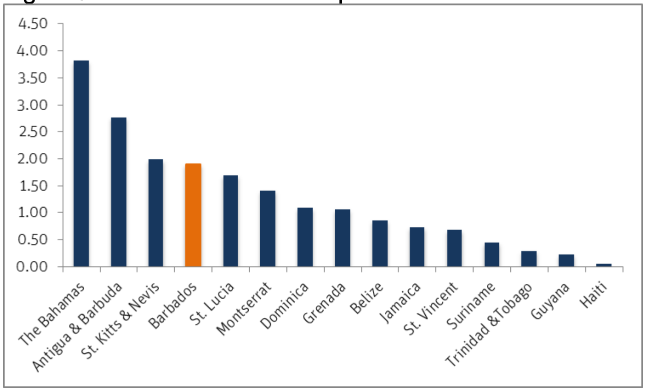
Figure 6. Types of Visitors/Tourists



Source: Central Bank of Barbados online statistics.

Barbados has one of the highest per-capita visitors per population when compared to other CARICOM countries (see Figure 7). However, visitor per capita ratios in the past 5 years are below levels posted after the 2008 financial crisis. In addition to the slowdown in global economic activity, the imposition of an Air Passenger Duty by the U.K. Government in 2010 has been noted by the Caribbean Tourism Organisation to contribute to the decline in tourists from the United Kingdom (see Figure 8). The Air Passenger Duty has increased the cost to travel to Barbados, reducing price competitiveness in the Caribbean region.

Figure 7. Visitor Arrivals Per Capita



Source: Author's calculation using latest data from the Caribbean Tourism Organization.

Figure 8. Decline in U.K. Visitors

Source: Central Bank of Barbados online statistics and Author's calculation.

The macroeconomy is highly affected by deviations in tourism arrivals around its trend. Simple regression analyses suggest that a 1 percent reduction in stopover tourist arrivals could result in GDP and international reserves falling by as much as 2.7 percent and 5 percent, respectively. However, the effect on these macroeconomic indicators is short-lived, given that they rebound to trend within 2 years. Similar findings were reported by Browne and colleagues (2009). Therefore, a one-off negative shock to the tourism sector may not create much dislocation in the economy in the short to medium term, but depressed and prolonged tourist arrivals suggests more sustained implications for the macro economy. The recent financial crisis provides a good example where tourism value-added declined by 15.8 percent in 2012 compared with tourism output in 2006. With highly concentrated source markets, diversification would help reduce Barbados' vulnerability and create new trading partners.

The falloff in tourism value-added and the effect it had on the other productive sectors resulted in the GOB increasing its focus on the industry and earmarking it as a key sector to propel macroeconomic stability. As such, various tourism-related capital projects (e.g., Four Seasons, Almond Beach Resort, and Silver Sands Hotel) have been listed and are anticipated to help take the economy out of recession and spur growth. A Tourism Master Plan is expected to facilitate the long-term growth and development of the industry.

What are the GOB's Initiatives Aimed at Diversifying the Tourism Product?

The GOB has signed a memorandum of understanding with Sandals Resorts International to establish operations in Barbados. The memorandum entails various tax waivers and concessions for up to 40 years. The inclusion of Sandals and other international brands such as Four Seasons to Barbados has been identified by the Minister of Tourism as a good opportunity for Barbados, given potential marketing benefits, loyalty programs, and increased airlifts. However, the award of these concessions has created much discontent with the existing hoteliers, who have lobbied for equality and similar concessions.

The GOB has also engaged new commercial partners in expanding aviation relations. In 2010, the GOB arranged weekly flights from São Paulo International Airport, Brazil with GOL airlines, the largest low-cost and low-fare airline in Latin America. This has not only added about 5,000 more tourists to the island, but has also broadened the awareness of Barbados as a destination to Brazilians. To strengthen tourism opportunities, the GOB has been in recent talks with TAM Airlines, the largest domestic and international operator in Latin America, about extending its code-share arrangement with American Airlines to Barbados. This would facilitate Barbados vacation packages via Miami, according to the Barbados Business Authority. The arrangement may expand the frequency of flights and provide more quality airlifts between countries, thus providing greater opportunities for Barbados.

Role of the IDB

The IDB is committed to providing support to Barbados' tourism sector. The Bank will assist Barbados with the diversification of its tourism product through new source markets. The findings of the Brazil Tourism and Trade Promotion Technical Cooperation for the Caribbean region (RG-T2186) suggest great potential for Barbados in Brazil. This potential could also exist with other countries in Latin America and the world but will require significant investment in marketing Barbados to these countries.

To market Barbados as a destination for these travelers, the IDB can play a unique role in making the negotiations successful especially at a time when the government is constrained by limited fiscal space. The following are possible areas of IDB support:

- *Guarantees*: To help governments that commit to backstop seat purchases. Additional support can be given to guarantee additional flights to cater for growing demand; and
- *Marketing campaigns*: The market players unanimously point to the need for sustained and significant investments in building market awareness in the target market. Success in this enterprise will reduce the probability of triggering the guarantees. Financing and technical support can also be provided to Barbados to expand the tourist source markets to other destinations in Latin America such as Panama and Chile, and other countries in the world.

The IDB can also provide financing to support local financial institutions in extending investment credit to the country's private sector, particularly to small and medium-sized enterprises in the tourism sector. It can provide technical support in areas of institutional strengthening and governance of the tourism entities. These factors, as well as supporting opportunities to upgrade and refurbish tourism infrastructure, are critical in increasing revenue from the sector.

Conclusion

The tourism sector is vital to Barbados' sustainability because it not only earns international reserves but also drives growth and provides sizable employment. However, the sector is heavily concentrated on a few markets, making it susceptible to external shocks. This has contributed to the low to negative GDP growth in the past 5 years. Efforts are being made to diversify the tourism product through new source markets, target marketing, and incorporation of internationally recognized brands.

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Barbados: Selected Indicators

	2009	2010	2011	2012	2013 (F)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	-4.1	0.3	0.8	0.0	-0.8
Nominal GDP	1.2	-3.4	1.6	4.1	0.9
Inflation (end of period)	3.6	5.8	9.4	4.5	2.6
Unemployment	10.0	10.8	11.3	11.6	12.0
External Sector					
Exports of goods and services	-10.6	4.0	-1.6	4.8	-7.2
Imports of goods and services	-6.8	-0.7	-10.5	-6.7	-6.0
Current account (percentage of GDP)	-6.8	-5.8	-11.4	-4.8	-5.2
International reserves (USD millions)	744.4	717.7	711.7	730.05	n.a
International reserves cover (weeks)	21.1	18.4	17.7	19.5	n.a
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central Government					
Revenue and grants	26.4	26.8	29.3	27.7	28.8
Current expenditure	32.0	34.4	32.6	34.3	35.6
Capital expenditure and net lending	2.0	1.6	1.4	1.4	2.0
Primary balance	-2.6	-3.2	1.5	-0.8	-1.8
Overall balance	-7.6	-9.1	-4.6	-8.0	-8.8
General government balance	-6.0	-3.9	-4.4	-4.0	n.a.
Debt Indicators					
Central government debt	63.2	72.0	79.3	85.6	92.0
Central government debt over revenues	239.2	268.2	270.5	309.0	335.9
External public debt (end of period)	27.2	31.9	31.9	30.2	n.a.
External debt service as percentage of exports of goods and services	7.0	16.7	6.6	6.8	n.a.

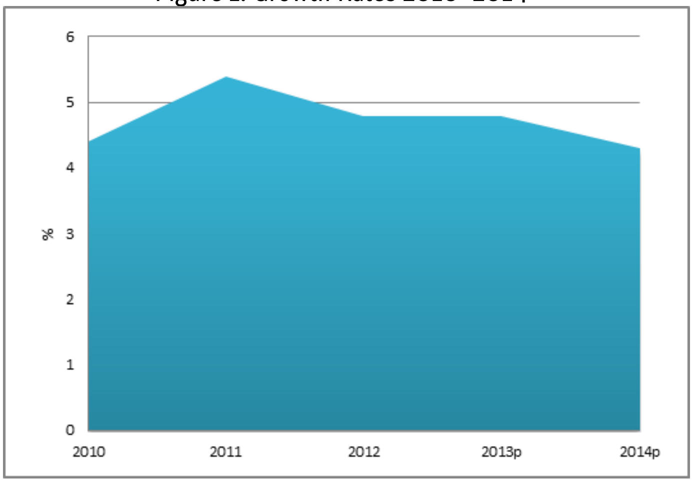
Note: (F) Forecasts numbers for 2013.

Source: Central Bank of Barbados, International Monetary Fund World Economic Outlook, October 2013.

GUYANA STRONG OUTLOOK DESPITE MOUNTING DOWNSIDE RISKS

Despite a slump in commodity prices, Guyana achieved another year of robust economic growth of 4.8 percent in 2013. During the year, lower gold prices and weak output from sugar prompted authorities to lower the growth forecast from 5.3 percent to 4.8 percent. However, the economy remained well positioned for sustained economic expansion as growth continued to be broad-based and buoyed by the vibrant construction, agriculture, mining, and manufacturing sectors. Major downside risks to growth momentum stemmed from a slump in gold prices and a poor performance from the sugar sector that resulted in a lower growth forecast for 2014 at 4.3 percent. Further downside risks may stem from lagging investments in productive infrastructure, especially roads, ports and electricity; as the economy's competitiveness and capacity to diversify are stymied by high energy costs, limited electrical generation capacity and poor quality of electricity service.

Figure 1. Growth Rates 2010–2014



Source: International Monetary Fund, Ministry of Finance, and Bank of Guyana.

The plight of the sugar industry still weighs heavily on Guyana's overall economic performance. During the first half of 2013, nonsugar economic growth plateaued at 6.0 percent, while the sugar sector diminished by 32.5 percent. Third-quarter performance indicated a further decline in output of 19.6 percent as a result of unfavorable wet weather conditions that hindered the harvest. However, the authorities expect that increased output from the Skeldon Sugar Factory after its successful rehabilitation and good weather conditions in the fourth quarter can lead to the revised second crop target of 155,000 metric tons.

In contrast, rice output surged. Total rice production surpassed its end-of-year target of 500,000 metric tonnes in October 2013, and fourth quarter production estimates are on course to reach 522,000 tonnes (24.6 percent of 2012 production). The authorities attributed the massive outturn in the rice industry to a combination of increased acreage and higher yields per acre (approximately 5 tonnes per acre) through the greater use of improved varieties. These elements together continue to lower the cost of production as scale economies are realized. The current plan for the rice industry hinges on increased mechanization, new cropping techniques, and management strategies aimed at lowering production costs and increasing competitiveness on the world market.

Highlights

The Guyanese economy remained resilient amid anemic external conditions, registering continued growth. According to the International Monetary Fund, real GDP grew by 4.8 percent in 2013 and was driven by buoyant commodity exports and by the services sectors. Inflation remained low at 3.5 percent in 2013, despite increases in fuel and food prices earlier in the year.

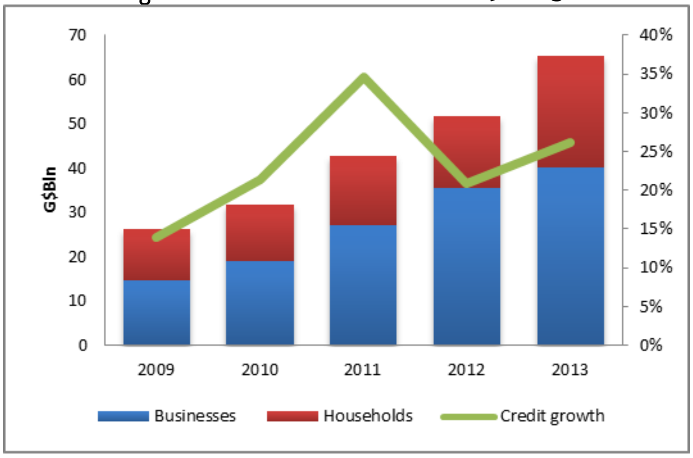
However, further declines in gold and rice prices, which are the main growth drivers over the past 3 years, present a significant downside risk as world economies continue to strengthen.

The authorities should continue pushing for greater diversification and value added in production, as envisioned under the Low Carbon Development Strategy, to help sustain the growth momentum despite lower commodity prices.

Gold production is set to reach 500,000 ounces in 2013. Gold production rose by 27 percent to 234,498 ounces in the first half of the year, approximately 52 percent of the targeted output for 2013. This greater-than-expected performance was achieved despite a price slump: world gold prices fell below US$1,380 per ounce in mid-2013 from the record high achieved in 2011. Surplus returns and continued investment to increase production capacity have enabled miners to realize profits despite lower prices because of their relatively low operational costs in comparison with the cost of a greenfield investment. However, prices could continue dropping as the peak season for consumption demand for gold ends and as global financial markets strengthen. This poses a significant risk to the continued expansion of the sector.

Domestic credit has rapidly expanded more than 20 percent per year since 2010, primarily because of a housing boom and heavy investment in the rice and gold sectors. Despite being well capitalized and profitable, with liquidity ratios above 30 percent, commercial banks are very exposed to commodity price volatility. Gold and rice production booms have fuelled real estate acquisition, a construction boom, and have thus increase demand for asset-backed loans. There is a risk that a significant drop in commodity prices will cause serious stress in bank portfolios and increase nonperforming loans.

Figure 2. Private sector Credit 2009-2013



Source: Bank of Guyana, Ministry of Finance.

Governance and Policy Issues

A U.S. investor pulled out of the Amaila Falls Hydroelectric Project, citing lack of political consensus, and casting doubt on the future of the venture. The sudden exit was prompted by the government's failure to obtain total support from both the opposition parties, an apparent nonnegotiable precondition of the investor. The project, in which the government has invested significant resources, has seen deep divisions emerge over its economic, financial, social, and environmental components, including the ability of Guyana Power and Light (the state-owned electricity company) to receive and distribute power in an efficient and cost-effective manner.

Guyana has been placed under review by the Caribbean Financial Action Task Force as a result of nonpassage of the Anti-Money Laundering and Countering the Financing of Terrorism (amendment bill). This happened on November 20, 2013, despite a 6-month extension in May 2013 to advance the bill given the recommendations of the task force. As of December 2013, the opposition and government have begun negotiations to plan for passage of the amendment bill by February 2014. This measure was taken to avoid further sanctions and to be in compliance by the next task force plenary meeting in May 2014. If this bill is not passed, Guyana's case will be refered to the Financial Action Task Force for evaluation by the International Cooperation Review Group. The Financial Action Task Force would then physically examine the entire financial infrastructure during a period of about 4–6 years, during which time Guyana would be blacklisted.

There will also be more financial autonomy for local government bodies. The National Assembly has passed legislation to give local government bodies the power to raise their own revenue. Also, a formula for sharing revenue between central and local governments was also agreed upon. The new legislation, which is part of a number of local government reform measures, seeks to boost the financial independence of local government bodies by giving them the autonomy to raise various types of revenue without recourse to, or approval by, the central government. Despite budgetary implications of the new law, it will mainly involve reallocating rather than opening new revenue sources. As a result, no significant effect on the headline fiscal numbers is likely. The new measures should improve efficiency and will be positive for the public finances in the long term.

The government is also enhancing transparency and accountability in extractive industries. In August 2013, authorities moved apace with the establishment of a multistakeholder group and consultations for a "scope" study to advance Guyana's candidacy into the Extractive Industries Transparency Initiative. Established in 2002, the initiative is a global standard aimed at improving revenue transparency and accountability in the extractive sectors. The implementation of the Extractive Industries Transparency Initiative standard has two main components: (a) the disclosure of payments to the government from private companies, and the disclosure of receipts from the government, by means of an annual report; and (b) the constitution of a multistakeholder group including representatives from the government, private sector, and civil society responsible for overseeing the process and communicating the findings of the Extractive Industries Transparency Initiative Report.

Recently, the IDB's Multilateral Investment Fund launched a Remittances and Savings Programme seeking to increase the access and use of formal savings products for senders and receivers of remittances. The program will give grants to projects that develop and implement business strategies, including the design of savings products targeted to remittance clients. The IDB's Multilateral Investment Fund surveys have shown that recipients of remittancess are interested in financial products such as saving accounts, business loans, life and health insurance, home mortgages, and education loans.

High-Frequency Macroeconomic Indicators

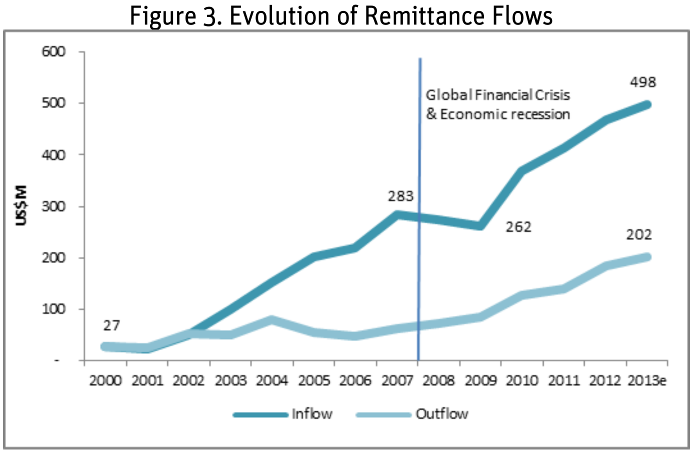
	Last data	Period	Prior data	Period
Annual GDP growth (%)	3.9	H1 2013	4.8	2012
Exports (12-month growth)	1.2	H1 2013	23.6	2012
Imports (12-month growth)	-5.3	H1 2013	11.6	2012
Private sector credit growth (%)	16.5	H1 2013	24.7	2012
Inflation	0.2	H1 2013	3.5	2012
Exchange rate (end of period)	204.7	H1 2013	204.8	2012

*January to June period ended change 2013 over 2012.

Remittances Have Become a Significant Source of Income for Residents in Guyana

After a brief period of decline, remittance flows to Guyana began to show signs of a solid recovery. Recently, they reached growth rates close to those recorded before the start of the global economic crisis. In 2012, total inbound remittances amounted to US$469 million, a 47 percent increase since 2009. Authorities anticipate further growth of inbound remittance flows to reach US$498 million in 2013 as major source economies improve their growth performances (see Figure 3). Remittance flows also represent an important source of income for thousands of families in Guyana who receive transfers to cover basic needs and invest in education, health, housing, and small businesses. However, the true value of remittance inflows and its development impact is difficult to determine, given that many Guyanese migrants remit by "hand carry," which is not covered by the formal reporting system.

Figure 3. Evolution of Remittance Flows



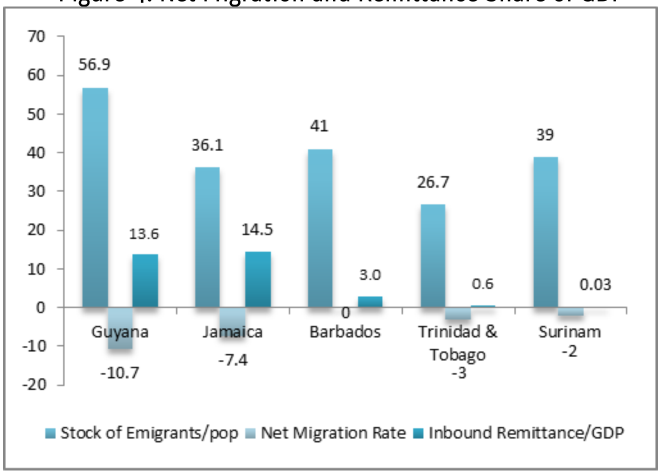
Source: World Bank Migration and Remittance Hub and Bank of Guyana.

Guyana's remittances have done slightly better than remittances to the rest of the region. Remittances flows to Latin America and the Caribbean (LAC) region have stabilized after falling by nearly 15 percent from their historic highs of US$65 billion in 2008 before the effects of financial crisis. However, according to the Multilateral Investment Fund, a member of the IDB Group, remittances to LAC showed a slight increase in 2012 to US$61.3 billon with respect to the previous year, and represent a 0.6 percent year-on-year increase from 2011.

Migrant Diasporas' connectedness

Remittances are inextricably linked to the flow of migrants. Among the IDB-member Caribbean countries, Guyana ranks first in net migrations (an outflow of 11 percent in 2012) and in stock of emigrants as a percentage of population at 57 percent (see Figure 4). The definition of *emigrant* varies across countries but generally refers to residents who have left the country with the intention to remain abroad for more than a year. The stock of emigrants-to-population ratio takes into account only the stock of emigrants from a country to the population and not to the sum of population and emigrants. Guyana also outpaces most of the Caribbean country counterparts in the share of remittances to GDP. Inbound remittances to Guyana account for roughly 13.6 percent of GDP, a close second to only Jamaica at 14.5 percent.

Figure 4. Net Migration and Remittance Share of GDP



Source: United Nations Development Programme Human Development Report 2013 (HDR13).

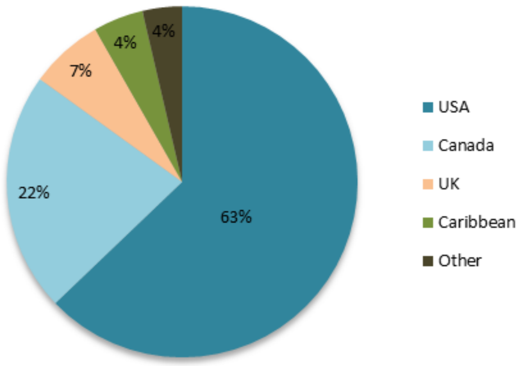
The extent of remittance flows is determined partially by rate of emigration, destination and strength of ties to the home country. There is a strong relation between the pattern of migration and the source of remittances. The United States is the prime destination for Guyanese migrants and, as such, currently represents the largest source of remittance flows to Guyana at 63 percent. Canada is the second most popular country for migrants as well as the second largest source of remittance flows to Guyana (see Figure 5). However, the high rate of migration also represents a significant brain drain of highly skilled and knowledgeable individuals.

Resilience

The strong ties to these advance economies exposed the vulnerability of remittances to the economic downturn spurred by the 2008 Global Financial crisis. The high unemployment rates and tight controls on cross-border movement of people in developed economies led to a significant contraction of flows to the LAC region. However, flows to Guyana fell only marginally and then quickly rebounded when compared with the rest of LAC. This phenomenon was mostly attributed to the persistent

savings flows of the existing migrants (rather than new arrivals who must expend income on establishing themselves). Existing migrants often absorbed income shocks and continued to send money home. The World Bank estimates that roughly US$1 of remittance sent represents US$4 of savings accumulated by the sender.

Figure 5. Remittance, by Source Nation, 2011



Source: World Bank Migration and Remittance Hub, Bank of Guyana, and author's estimates.

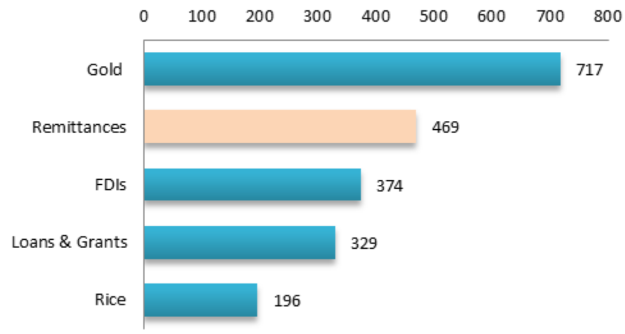
Moreover, many Guyanese nationals are employed in recession-proof sectors. Unlike many Latin American migrants who procure jobs in value-added private businesses and construction, Guyanese emigrants are employed in high-skilled or service oriented jobs in healthcare and education in the United States and Canada—the two largest sources of remittances to Guyana—and thus, tend to be less volatile. Studies including Roberts (2012) also show that ease of access to other classes of jobs is favorable given that nationals are not impeded by language barriers.

Remittances vs. Other Flows

Remittance flows continue to represent a significant and steady source of foreign inflows in Guyana. In 2012, inbound remittances amounted to US$469 million, second only to the earnings derived from gold exports of US$717 million (see Figure 6). Remittances are now nearly 52 percent the size of international reserves held at the central bank and dwarfs the level of official development assistance in the form of concessional loans and grants received in 2012. The role played by remittances was instrumental in stabilizing the country's balance of payments while the level of foreign direct investment declined and export demand fell off as world economies contracted.

Remittance flows provide an income supplement that lifts or maintains recipients above the poverty level. The developmental impact of remittances is thought to be more direct as the use of the funds is determined by the recipient's most pressing need. According to an IDB study conducted in 2005, approximately 64 percent of remittance recipients in Guyana earn less than US$1,500 per annum. In view of this fact, poorer households need remittances to meet immediate consumption needs; in higher income households, remittances may be used as surplus funds for investment.

Figure 6. Remittance vs. Other Inflows, 2012



Source: Bank of Guyana.

Social Cost of Emigrant Remittances: 'Brain-drain'

The most immediate benefit to Guyana from emigration is the flow of remittances, however, migration imposes a significant cost on source countries in the form of 'brain-drain' i.e. the loss of skilled intellectual and technical labor through the movement of such labor to more favorable geographic regions. According to a UNESCO study in 2004, approximately 70 percent of the tertiary-educated labor force has migrated from the Caribbean to OECD member countries. Further breakdown of emigrants from the Caribbean by their education groups (secondary and tertiary) show that Guyana, Jamaica and Trinidad and Tobago are among the highest tertiary emigration rates in the region. The cost to developing countries such as Guyana is particularly high as it reduces the stock and quality of human capital. Additionaly, brain-drain also represents an economic cost, since emigrants usually take with them the value of acquired training sponsored or subsidized by the government.

Oversight and Transaction Cost

In 2010, the central bank of Guyana in its efforts to facilitate and capture the flows of remittances recommended greater oversight of the money transfer industry. A bill was subsequently passed by the National Assembly to facilitate monitoring and periodic reporting, and provide an effective administrative, operational, licencing, and legal framework for the conduct of the business of money transfers. Furthermore, all entities operating the business of money transfers must keep all records, accounts, books, and other information and produce at

any time as requested by the central bank. The central bank will also be able to draft regulations and guidelines to ensure entities carry out the business of money transfers in the interest of the public and the financial system. The purpose is not to discourage entry in the business but rather to ensure transparency in the remittance market.

The cost of remitting remains higher than the world average despite a well-established financial infrastructure. The average transaction cost for sending US$200 to Guyana is US$14.24, above the global average of just US$8.85 according to the World Bank. This is despite continued efforts by the Multilateral Investment Fund to promote greater competition among service providers in the region, which led to dramatic reductions in the costs of transferring money in the past. Lowering the cost of sending money has the effect of increasing the development impact and reduces the transactions conducted through informal channels.

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Guyana: Selected Indicators

	2009	2010	2011	2012	2013 (F)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	3.3	4.4	5.4	4.8	4.8
Nominal GDP (GYD millions)	359549	400922	460108	511337	n.a.
Inflation (end of period)	3.7	4.5	3.3	3.5	4.3
External Sector					
Exports of goods and services	-0.8	14.6	25.8	18.4	n.a.
Imports of goods and services	-6.8	17.9	25.1	13.6	n.a.
Current account (percentage of GDP)	-8.5	-10.7	-16.4	-15.7	-15.5
FDI (percentage of GDP)	8.1	9.9	9.9	10.8	13.8
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central Government					
Revenue and grants	27.2	26.0	26.5	27.9	28.8
Current expenditure	19.5	18.8	19.8	21.1	n.a.
Capital expenditure and net lending	7.7	7.2	6.7	11.1	n.a.
Overall balance	-3.7	-2.9	-3.2	-6.2	-7.0
Debt Indicators					
Central government debt	67.0	68.0	69.3	72.1	n.a
Central government debt over revenues	246.7	261.7	261.6	n.a.	n.a
External public debt (end of period)	45.9	46.1	48.6	54.2	n.a.
External debt service as percentage of exports of goods and services	1.8	2.6	3.0	n.a.	n.a.

Note: FDI= foreign direct investment; (F) Forecasts numbers for 2013.

Source: Central Bank of Guyana, International Monetary Fund World Economic Outlook, April 2013.

JAMAICA

THE HILLS: JAMAICA IS CLIMBING

Quarterly Bulletin January 2014

Highlights

Jamaica has met the structural and quantitative targets for the second review, which was considered by the International Monetary Fund Executive Board on December 18, 2013.

Implementation of the comprehensive tax reform has started with the tabling of two central legislations. The new tax system should be fully implemented on April 1, 2014.

Jamaica remains fragile, making the outlook dependent on avoidance of shocks and strict reform implementation.

The IDB is preparing two policy-based loans amounting to US$140 million in the areas of fiscal reforms and competitiveness, which are expected to be considered by the Executive Board in February 2014.

Recent Developments

Jamaica's outlook improved in the second half of 2013. The strong commitment of the government to fiscal consolidation and the deep reforms comprised in the Extended Fund Facility with the International Monetary Fund have improved the outlook of the Jamaican economy compared to end-2012 and early 2013. Nevertheless, Jamaica's economy continues to face important vulnerabilities in the short to medium term and investors remain cautious given the challenging structural reforms and quantitative targets that have to be met under the International Monetary Fund program.

On December 18, 2013, the Executive Board of the International Monetary Fund completed the second review of the Extended Fund Facility with Jamaica. Overall policy implementation under the program remained strong, and Jamaica met all structural and quantitative targets without the need for waivers for the end-of-September test date. Growth estimates for the third quarter are positive, estimated at 0.5 percent (year-on-year). The International Monetary Fund noted that the execution of the 2013/14 budget also has been broadly on track. The approval resulted in a drawing of SDR19.97 million (US$30 million) and will facilitate the release of US$270 million of additional financing from other multilaterals.

The Jamaican dollar continued its depreciation trend. The Jamaican dollar has depreciated 13.8 percent against the US$ from January to October 2013 (14.4 percent for the whole of 2013), resulting in a real depreciation of 2.99 percent over the same period. The real depreciation should improve competitiveness, which is central for the long-term sustainability of the external accounts. Nonetheless, it adversely affects the import-dependent industries and consumers in the short term.

The depreciation has been one of the major reasons for the decline in business confidence index. The index for the third quarter of 2013 fell to one of the lowest levels since the inception of the survey in 2001. All components of the confidence index declined, with the largest declines experienced in how firms viewed the outlook for the national economy and, consequently, how they judged prospects for their own investment spending.

The authorities estimate that the economy returned to growth in the third quarter of 2013. This is the first time the Jamaican economy experienced a positive outlook after six previous consecutive quarters of contraction. The estimated growth is the result of broad-based improved performance in agriculture, forestry and fishing, mining and quarrying, hotels and restaurants, and construction and installation. Improved external demand has also been a major driver of the expansion in economic activity. The positive outlook supports the Government of Jamaica's expectation that the economy will grow by 0.8 percent in the current fiscal year, followed by acceleration to more than 2 percent in FY16/17.

Growth remains fragile but new opportunities are emerging. The current growth projections are based on continuous improvement in investor and business confidence and the effects of structural reforms related to the business climate. In addition, important opportunities are emerging, including the lowering of electricity prices by 2016 as a result of the construction of a new LNG based 360 Megawatt power plant and the possibility to establish a logistic hub in Jamaica to benefit from the extension of the Panama canal. Other promising areas include agriculture through the establishment of several agro-parks as well as tourism, which continues to perform strongly.

The level of international reserves remains below desirable levels. Net reserves declined from more than US$2 billion as of April 2011 to slightly more than US$1 billion as of the end of 2013, which is in line with the Extended Fund Facility December targets. However, the level is still below the minimum Bank of Jamaica threshold of US$1.2 billion, which would be required to cover short-term liabilities. In the interim, official inflows will continue to be needed in the short to medium term as a stronger recovery in foreign direct investment to cover the balance of payments deficit is expected to take time.

The domestic debt market remains tight. The government has not accessed the domestic debt market since the debt exchange in February 2013 as the financial sector is reluctant to acquire more government securities. In addition, interest rates are trending upwards since the National Debt Exchange. The February 2013 debt exchange reduced the reset margin (the spread above the benchmark T-Bill) on variable rate debt, as well as interest rates on fixed-rate debt. However, the benchmark 90-day T-Bill rate has been increasing since its low of 5.5 percent in February 2013, reaching 7.5 percent in December 2013. The interest rates on variable rate Government of Jamaica securities are now higher than immediately before the National Debt Exchange. Almost 40 percent of Jamaica's domestic bonds, which are equivalent to around 20 percent of direct public debt, have a variable interest rate, making the 90-day interest rate a major factor for fiscal sustainability.

Liquidity remains low in the financial sector. The National Debt Exchange, combined with the introduction of a Central Treasury Management System (centralization of its accounts at the Bank of Jamaica), has reduced liquidity in the financial sector. Because of the liquidity requirements, the lending ability of financial institutions in JM$ is low. The Bank of Jamaica increased liquidity in the last quarter of 2013 but has been cautious in an effort to preserve international reserves. As a result, liquidity remained relatively tight and concentrated.

Jamaica's public debt remains among the highest in the world, at more than 140 percent of GDP. Even after the debt exchange, which led to lower interest rates, interest payments alone will absorb almost 30 percent of the government's revenue in FY2013/14. On the basis of primary surpluses of 7 percent and higher, the medium-term macroeconomic framework supported by the Extended Fund Facility projects that the debt-to-GDP ratio will fall below 100 percent by March 2020.

The weak economic performance is taking a toll on the population. Unemployment decreased from its high at 16.3 percent in April 2013 to 15.4 percent in July 2013. However, this still represents an increase compared with the same period in 2012 and is substantially higher than the 9.4 percent in 2007. Unemployment remains high among the female population, and youth unemployment remains a concern at 38.3 percent. The decrease in the unemployment rate between April and July 2013 reflects a falloff in the number of jobseekers given that the employed labor force increased only marginally.

Security continues to be a major concern in Jamaica. The number of homicides has decreased since 2010, partly because the state security forces have restricted gang operations. The government is making efforts to dismantle informal governance arrangements and empowering citizens in affected communities to reintegrate into the main society, but some areas remain volatile. Despite the decrease and ongoing efforts to curtail major crimes, recent statistics indicate that there is an increase of approximately 10 percent in the number of people murdered thus far in 2013 compared with the same period in 2012.

Issues to Watch Out For

- Low investor confidence could delay growth prospects. Adherence to the Extended Fund Facility and support of growth-friendly reforms are needed to revive investor confidence and new investments.

- Important reforms will coincide with the budget for the next fiscal year, which begins in April 2014, including the implementation of the comprehensive tax reform, the incorporation of the legally binding fiscal rule, and financial sector reforms.

- In February 2014, the IDB Executive Board will consider two budget support loans for Jamaica that will tackle issues related to growth and fiscal stability. The two operations form part of the US$510 million commitment under the coordinated IDB/IMF/ World Bank support and are a central part of Jamaica's financing plan. The first supports a competitiveness enhancement program (for US$60 million), and the second supports a fiscal structural program for economic growth for US$80 million. Together with the disbursement of the US$60 million *Public Financial* and *Performance Management Program* operations approved in 2013, the IDB will have provided US$200 million in budget support in the current fiscal year ending in April 2014 (the highest level among the multilaterals).

The reforms embedded in the Extended Fund Facility, the protection of poor and vulnerable groups, and the implementation of the government's growth agenda continue to offer various opportunities for Jamaica's development partners to provide technical and financial support.

High-Frequency Macroeconomic Indicators

	Last data	Period	Prior data	Period
Annual GDP growth (%)	-0.4	Q2 2013	-0.9	Q1 2013
Inflation (Quarterly)	3.7	Q3 2013	1.1	Q2 2013
Net International Reserves (USD Mill)	1052.8	Dec-13	881.6	Aug-13
Exchange rate (end of period)	106.38	Dec-13	102.08	Aug-13
Unemployment rate (%)	15.4	Jul-13	16.3	Apr-13

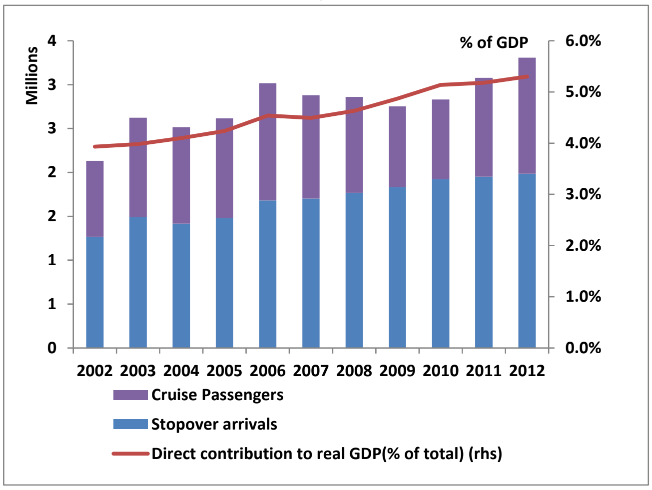
Source: Bank of Jamaica, International Monetary Fund, and STATIN.

Introduction

Travel and tourism are central for Jamaica. Travel and tourism in Jamaica is an important industry for growth and development, directly contributing 8.4 percent to overall GDP in 2012. Moreover, the estimate of the total contribution of the industry (direct and indirect) is 27.4 percent, with potential for further growth (World Travel & Tourism Council, 2012). Tourists require accommodation, food, transportation, and entertainment, creating the opportunity for externalities and linkages with the rest of the economy. Tourism and remittances are the main foreign exchange earners, each contributing around US$2 billion or 13 percent of GDP to the external income accounts.

The tourism industry in Jamaica has grown significantly over the past decade. Stopover tourism has increased consistently, even during the 2007 global financial crisis. In addition, Jamaica achieved a new record number in 2013 with more than 2 million stopover visitors. Jamaica was also able to significantly increase cruise ship passengers over the past 2 years, reaching 1.3 million in 2012 (Figure 1).

Figure 1. Tourist Arrival and Direct Contribution to GDP 2002 to 2012

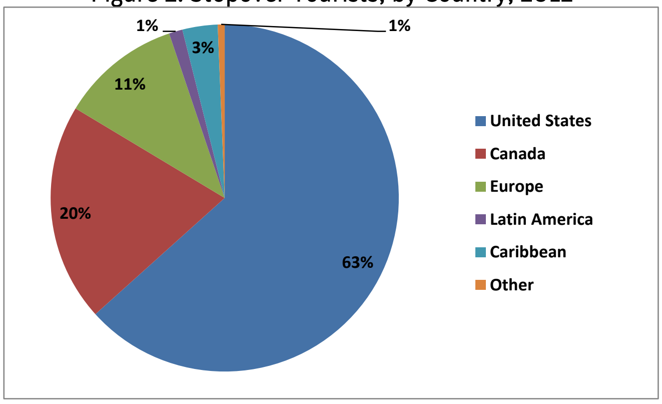


Source: Bank of Jamaica, Jamaica Tourist Board, and original calculations.

The tourism industry also contributes to the economy through employment. According to the Jamaica Tourist Board, the accommodation sector directly employed 35,197 individuals in 2012. The direct contribution by the tourism industry to employment as a whole in 2012 was approximately 90,000 jobs (7.8 percent of total employment). The indirect contribution to employment was estimated at 292,000 (25.4 percent of total employment) for the same year.

Tourism is highly concentrated. Jamaica's tourists come predominantly from North America (United States and Canada) and Europe (mostly the United Kingdom). Over the past 10 years, visitors from the United States represented more than 60 percent of visitors (Figure 2). The same countries also host migrants (remittances) and comprise the main export markets, increasing the exposure of Jamaica to the business cycle of these countries.

Figure 2. Stopover Tourists, by Country, 2012



Source: Jamaica Tourist Board and original calculations.

How Competitive Is Jamaica as a Tourist Destination?

The Travel and Tourism Competitiveness Report analyzes the competitive capacity in tourism in 140 countries across the world. On an index from 1 to 7 for 14 pillars of competitiveness, Jamaica's overall index is 4.1, ranking the country 67th out of 140 countries, still 40 places below its Caribbean counterpart Barbados, which has an overall index of 4.9 and is ranked 27th. The country's rank has decreased over time; in 2009 and 2011, Jamaica was ranked 60th and 65th, respectively. Jamaica has not made improvements in the areas covered by the index even though tourist arrivals increased over the same period (Figure 1).

Table 1. Comparison of 14 Pillars in the Travel and Tourism Competiveness Index, Grouped Into Three Major Categories

	The Travel and Tourism Competitiveness Index						
	Jamaica	Trinidad & Tobago	Barbados	Guyana	Suriname	Panama	Brazil
	Rank out of 140						
Travel & tourism regulatory framework	59	104	13	80	106	54	82
Business environment and infrastructure	64	54	18.0	111	100	36	76
Travel & tourism human, cultural and natural resources	87	95	50	106	86	45	12

Source: The Travel and Tourism Competitiveness Report (2013).

Jamaica scores best in the category of travel and tourism regulatory framework. In this category, Jamaica's highest index was in the area of prioritization of travel and tourism, ranking 7th. The rank reflects the Government of Jamaica's focus on the tourism sector. The report suggests that countries should focus on the areas that offer their economy a competitive advantage. As such, the report suggests that Jamaica focus on the effectiveness of marketing to attract tourists, the quality of airport and port infrastructure, and the quality of the natural environment. On the basis of Jamaica's rank in the region and its strengths, additional growth of the sector should still be feasible.

Challenges and Opportunities

Tourism is a highly competitive industry, and maintaining the momentum in the sector comprises different challenges:

Phasing out of incentives. The tourism sector is a priority sector for the Government of Jamaica, which provides regulatory support and tax incentives to the industry. The comprehensive tax reform that is currently being implemented will remove sector-specific incentives, but other areas of support will remain and gain more attention, including marketing support, guarantees for airlines, infrastructure improvements, and ease of doing business for tourism operators.

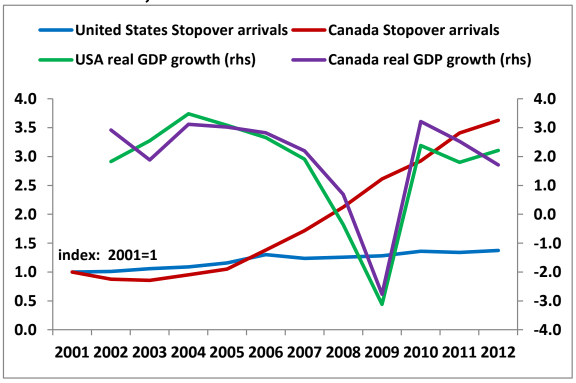
Linkages between tourism and the rest of the economy offer substantial opportunities. Tourists and hotels offer enormous opportunities for Jamaican businesses to provide goods and services to the sector. However, hotels require constant quality and quantity at competitive prices, which have been challenges in the past. The low level of productivity and competitiveness of Jamaican businesses also hinder linkages.

The concentration of the target markets is a major risk for the Jamaican tourism industry. The global financial crisis exposed the vulnerability of tourism-dependent countries that rely on demand from the United States and a few other countries. Jamaica was an exception in terms of arrivals because it managed to increase stopover visitors even during the economic downturn. Jamaica not only lowered the prices but also benefited from stronger growth in tourists from Canada. The share of visitors from Canada, despite its recession, increased from less than 10 percent in 2006 to 20 percent in 2012 (Figure 3).

Environmental degradation is a major threat to tourism. Destruction of fauna and flora because of insufficient protection of the environment, negative impacts from tourism developments, and natural hazards threaten Jamaica's natural beauty. Pressure on the environment is expected to increase because of climate change, putting a major competitive advantage at risk.

Other challenges include the high crime rate and high energy prices in Jamaica. These are general problems of the Jamaican economy, highlighting the synergies between the tourism sector and the rest of the country.

Figure 3. Real GDP Growth and Tourist Arrivals for the United States and Canada, 2001–2012



Source: Jamaica Tourist Board and original calculations.

However, diversification can go further and should include new markets with high growth rates. Jamaica has experienced strong growth in arrivals from Eastern Europe, especially Russia as a consequence of a direct airlink. In addition, the IDB is working with the Government of Jamaica on a Brazil air bridge project. This initiative envisages increasing trade and tourism between Brazil and four Caribbean countries (Jamaica, Barbados, The Bahamas, and Trinidad and Tobago) through active support to the tourism sector (see further discussion in the Regional Supplement). As part of the initiative, the IDB undertook consultations that examined how viable the region might be as a tourist destination given the profile of Brazilian visitors and provided a platform for direct discussions between Caribbean

and Brazilian stakeholders. The consultancy found that Jamaica would offer many attractions for Brazilian tourists, including music, food, shopping, and culture. Even though Brazilians do not necessarily associate Jamaica with travel to the Caribbean, marketing could benefit from well-known Jamaican icons, including Usain Bolt and Bob Marley.

Conclusion

Jamaica's tourism sector faces challenges but also offers opportunities. Even though competition is strong and the sector suffered since the global downturn, tourism arrivals in Jamaica have been steadily increasing over the past 10 years. However, the concentration on a few, very mature markets probably constrains stronger growth going forward. At present, Jamaican authorities are actively pursuing a diversification strategy.

Given the importance of the tourism sector, increasing linkages with agriculture, manufacturing, and service providers could also yield substantial gains. Similarly, Jamaica managed to attract a bigger share of the cruise ship market but benefits less from these visitors because they spend much less than stopover visitors on average and do not require accommodation. However, value can be added through services and goods offered to these visitors.

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http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

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Jamaica: Selected Indicators

	2009/10	2010/11	2011/12	2012/13	2013/14 (F)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	-2.6	-0.6	1.3	-0.3	0.8
Nominal GDP	8.1	7.8	5.9	7.8	10.9
Inflation (end of period)	13.3	7.8	7.3	9.0	10.5
Exchange rate (end of period)	89.5	85.7	87.3	98.9	n.a.
External Sector					
Exports of goods and services	-19.1	-0.1	6.2	2.9	n.a.
Tourism (percentage of exports)	43.2	44.7	47.1	45.6	n.a.
Imports of goods and services	-30.3	8.2	17.4	-3.5	n.a.
Current account (percentage of GDP)	-7.6	-8.9	-14.8	-11.6	-10.0
Treasury bill rate (percent, end of period)	10.5	6.5	6.2	5.8	n.a.
(In percentage of GDP, unless otherwise indicated, on a calendar year basis)					
Central Government					
Revenue and grants	27.1	26.4	25.5	25.5	27.3
Budgetary expenditure	38.1	32.8	31.9	29.5	28.0
Primary balance	6.1	4.5	3.1	5.4	7.5
Budget balance	-11.0	-6.5	-6.4	-4.0	0.1
Public sector balance	-12.4	-7.0	-6.4	-4.4	-0.1
Debt Indicators					
Public sector debt	139.5	141.3	143.7	146.4	138.3
Public sector debt over revenues	514.1	536.1	563.7	n.a.	n.a.
Foreign currency public debt (end of period)	80.5	83.3	81.4	76.0	n.a.
External interest payments as percentage of exports of goods and services	12.1	11.5	10.4	n.a.	n.a.
International Reserves					
Net international reserves (USD Mill)	1752	2553	1777	884	1246
Gross international reserves (weeks of good and services imports)	18.4	23.4	17.8	<12	n.a.

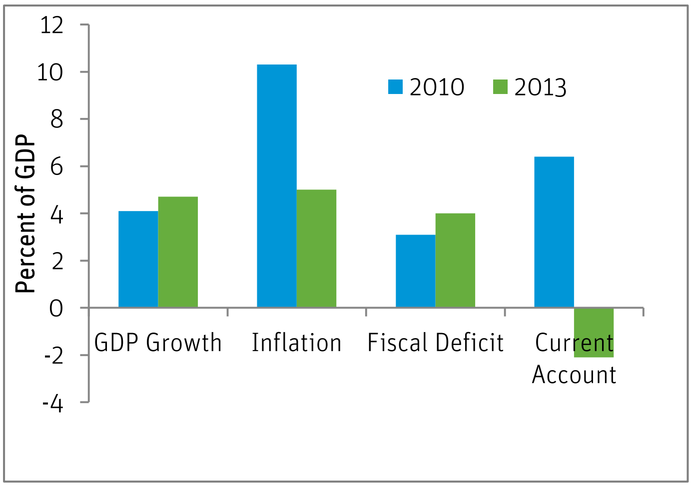
Note: (F) Forecasts numbers for 2013/14.

Source: Ministry of Finance and Planning, Bank of Jamaica, Statistical Institute of Jamaica, International Monetary Fund and own calculations.

Recent Developments

International observers are paying more attention to Suriname's policy choices and reform speed, as global events caused gold prices to tumble in 2013 even while alumina markets remain lacklustre. The current administration has kept inflation down, catalysed public capital investment, strengthened the financial sector and increased the capacity of the Central Bank to support economic management (see Figure 1 for comparison of some main variables). The pace of fiscal consolidation will need to hasten to ensure sustainability while critical structural impediments must be tackled to boost private sector activities. In this context, the Suriname administration is pursuing its Development Plan to boost welfare and achieve greater integration with new economic neighbours. Fresh elections are just about 16 months away, and already the local mood is reflecting this reality.

Figure 1. Macro Variables, 2010 vs. 2013



Source: International Monetary Fund Article IV and Centrale Bank van Suriname.

President Bouterse appointed Andy Rusland as the new Minister of Finance. Mr. Rusland comes to the position having served in senior capacities in public and private sectors. An experienced financial manager and administrator, Mr. Rusland previously headed the American Suriname Chamber of Commerce and worked as the chief financial officer at HJ De Vries Group of Companies Limited. The president swore in the new Minister of Finance during a short ceremony on New Year's Day in Paramaribo and mandated Suriname to continue along its fiscally responsible path. The president's comments followed his New Year's Day address that called attention to Suriname's existing social needs and his administration's intention to tackle this issue. Therefore, observers will look to see how the authorities will strike this delicate balance, especially as elections are due next year.

Highlights

The draft budget and financial memorandum were presented to Parliament in October 2013. Budget debates are ongoing.

H.E. Andy Rusland becomes the third Minister of Finance to assume office in 3 years.

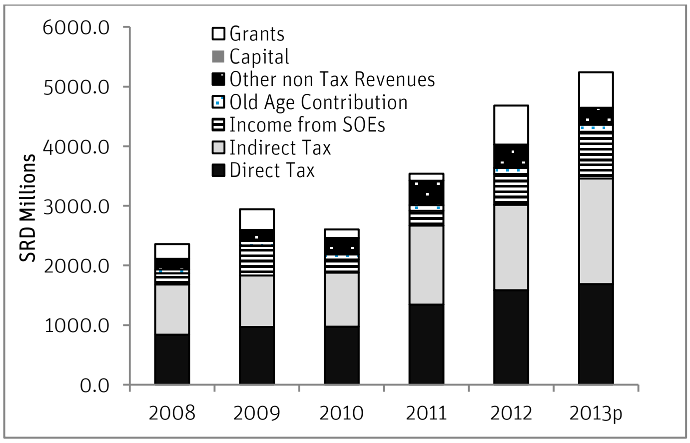
The second part of the 2012 Census results was presented in December; it showed that unemployment increased from 9.5 percent in 2004 to 10.3 percent in 2012.

Significant investments and tax reform are planned for the gold sector in the coming years.

The administration presented the 2014 draft budget and financial memorandum to the National Assembly in October 2013. The documents emphasised social policies and those for housing, mining, and agricultural activities. The authorities project a fiscal deficit of about 4 percent of GDP in 2014, similar to the 2013 target. The fiscal framework assumes real GDP growth of 4.5 percent in 2014.

To increase revenues from the mining sector, the government plans to introduce a new gold tax in 2014. The Gold Restructuring Commission has made an attempt to modernise the sector to make tax collection easier, which will be crucial in helping capture taxes from small-scale informal mining activities. The government hopes to earn US$18 million from the sector in 2014. Revenues are currently around 25 percent of GDP (see Figure 2).

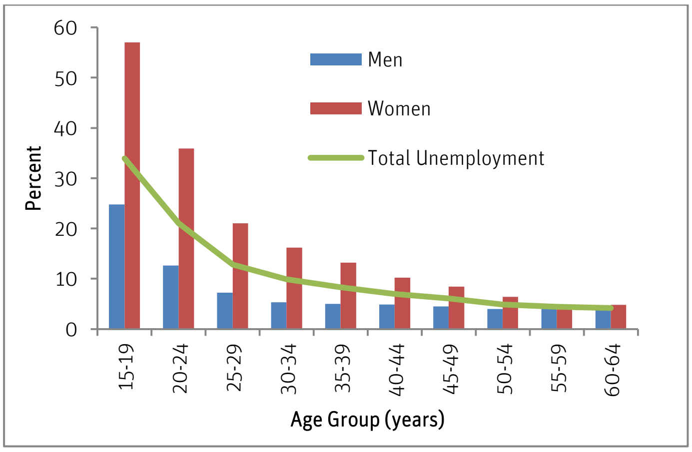
Figure 2. Revenue and Expenditure, 2010–2013p



Source: Financial Note 2014 and International Monetary Fund.

The Suriname Bureau of Statistics presented the second of three volumes of the 2012 Census results in December 2013. The report highlights that unemployment increased from 9.5 percent in 2004 to 10.3 percent in 2012 (6.7 for men and 15.7 for women). Moreover, youth unemployment is significantly greater when compared with other groups (see Figure 3). Also, the number of persons earning tertiary-level degrees has increased by 60 percent, while the fertility rate has declined, particularly among women who are pursing higher education levels. The third volume, which examines households, families, crime, and the environment, is expected to be published in early 2014. In addition, the Bureau of Statistics has commenced a household budget survey to measure consumption patterns; the survey should be completed by the end of 2014.

Figure 3. Percentage of Unemployed Men and Women



Source: Bureau of Statistics.

The Central Bank announced that it will no longer be seeking a US$500 million bond on the international market. With that bond, the government originally intended to finance its participation in the new IAMGOLD and Newmont gold mining projects in the Brokopondo district. Instead, the government will seek a loan of US$200 million. The government is currently considering options for obtaining the loan. Part of the US$500 million bond was also intended for investment plans by the state oil company, Staatsoli, which will now finance its own investment plans.

The gold mining company IAMGOLD plans to build a new US$14 million solar energy plant in the Brokopondo district. The plant will produce approximately 5MW and is expected to meet the energy needs of the mining district while making electricity available for users in other districts. Construction is expected to commence by the end of 2014.

The IDB and Suriname: What to Expect

With the approval of four new operations in the fourth quarter of 2013, IDB and Suriname are prepared to reach their targets as set out in the Country Strategy 2011–2015. The IDB's Executive Board approved US$20 million for the first of three programmatic budget-support loans for revenue management, US$10 million for policy reforms in the energy sector, and US$15 million for agriculture. In addition, a US$30 million investment loan in energy was also approved.

The authorities have also requested the IDB's support to enhance its business climate and to stimulate innovation. This new addition to the strategic dialogue will support the government to work with the private sector to improve the business climate and lay a foundation for stimulating innovation. The main objective of these operations will be to catalyse the role of the private sector in economic development. The work programme for 2014 is ambitious, totalling 8 loans for US$130 million in several areas: public financial management, energy, and agriculture. The Caribbean Economics Team in Suriname is actively engaged with the authorities in studying the role of the private sector and the labour market in the economy, as well as the constraints to growth in 2014.

High-Frequency Macroeconomic Indicators				
	Last data	Period	Prior data	Period
Annual GDP growth (%)	4.8	2012	4.2	2011
Tourism arrivals (annual % change)	20.5	Feb-13	7.9	Jan-13
Exports (12-month growth)	16.1	Q4 2012	9.5	Q1 2012
Imports (12-month growth)	12.2	Q4 2012	14.4	Q1 2012
Inflation	0.3	Nov-13	2.6	May-13
Exchange Rate (End of Period)	3.35	Dec-13	3.35	Jun-13
Unemployment rate (%)	10.3	2012	9.5	2004

Great Expectations: Private Sector Development and Fiscal Management in Suriname

Old Year's (New Year's Eve) celebrations in Paramaribo are the envy of the world and have received international acclaim over the years. The city is packed as music fills the streets and people from every part of the globe magically appear to fete away the past and look forward to the new year. Citizens ignite thousands of *pagaras*—long, red ribbons of fireworks, which besides providing entertainment, carry much superstitious significance because they clear the way for a new (era) year of success. These pagaras symbolize hope as Surinamers overcome a difficult year and move boldly into a new one. Similarly, President Bouterse, while acknowledging the challenges of 2013, pointed his compatriots ahead to 2014 as he swore in his newest (third) Minister of Finance, Mr. Andy Rusland on New Year's Day. Mr. Rusland, a veteran financial administrator and expert on public–private partnerships, appears poised for his new role as minister. Given Mr. Rusland's background, one should expect the Government of Suriname to spend 2014 consolidating its reform efforts by aggressively tackling public financial management and making a substantial push to improve the business climate. These are not easy tasks in the current context.

Down, But Not Out. . .

The new minister takes on the country's finances at precisely what seems to be a challenging time. Gold prices have steadily declined since September 2012 to a low of US$1,210—an annual decline of almost 30 percent, albeit from record highs in the previous 3—4 years. While 2013 statistical estimates are pending, the fall in gold prices, together with lacklustre performance of bauxite, are likely to have contributed to a lower revenue position. Expenditures grew due to higher public capital investment and an increase in wages for government employees, among other things. Pending final figures, the authorities' last projection on the 2013 fiscal deficit was 3.9 percent of GDP (versus a target of 4.1 percent of GDP). These trends highlight the need for the government to sustain its actions regarding tax reform: the introduction of the value-added tax becomes more apparent. In addition, replacing the sales tax with the value-added tax will yield a net benefit of more than US$630 million over the next 20 years in net present value terms. Although reengineering the tax structure will yield important numerical gains and foster fiscal consolidation, Mr. Rusland will have to look closely at introducing a series of fiscal rules to enhance the management of the public treasury.

Fiscal Rules!

Fiscal rules and investment are important for Suriname's long-term sustainability especially because of its dependence on nonrenewable natural resources. A fiscal rule binds budgetary policy and is not changed easily. It is aimed at "correcting distorted incentives and containing pressures to overspend, in particular in good times, so as to ensure fiscal responsibility and debt sustainability" (Schaechter et al. 2012, p. 5). Some common fiscal rules set the non-mineral primary balance target, or cyclically adjusted targets over the medium term. Hence, complying with fiscal rules will require much more intensive macroeconomic management and more detailed data about the economy. While on the one hand, Mr. Rusland will have to explore how to complement the already ambitious set of public financial management reforms with instituting fiscal rules, on the other hand, there is a clear agenda for development that requires more investment expenditures. President Bouterse has said repeatedly that he is very serious about social improvements for Surinamers. The question is, from where shall new resources come?

The president's approach to achieving the national development goals is calling for increased engagement with the private sector. Although Suriname has low debt, the authorities do not seem intent on relying on borrowing to finance infrastructural upgrades, increasing the housing stock, or providing new opportunities for its people. Considering his pick of finance minister, President Bouterse seems to be taking his strategy to the next level: redoubling his focus on the private sector. When elected in 2010, President Bouterse chose his second-in-command from within the ranks of the local private sector leaders, Vice President Robert Ameerali (a former head of the Chamber of Commerce and businessman). Since 2010, the vice president aggressively tackled business sector constraints. He established the Competitiveness Unit Suriname with the support of the Compete Caribbean Programme and avidly supported new initiatives to gather data such as the Enterprise and Global Entrepreneurship Monitor surveys. Moreover, he has worked with several agencies to eliminate superfluous procedures, reduce processing times, and create a road map to make a marginal dent on the global business climate indices.

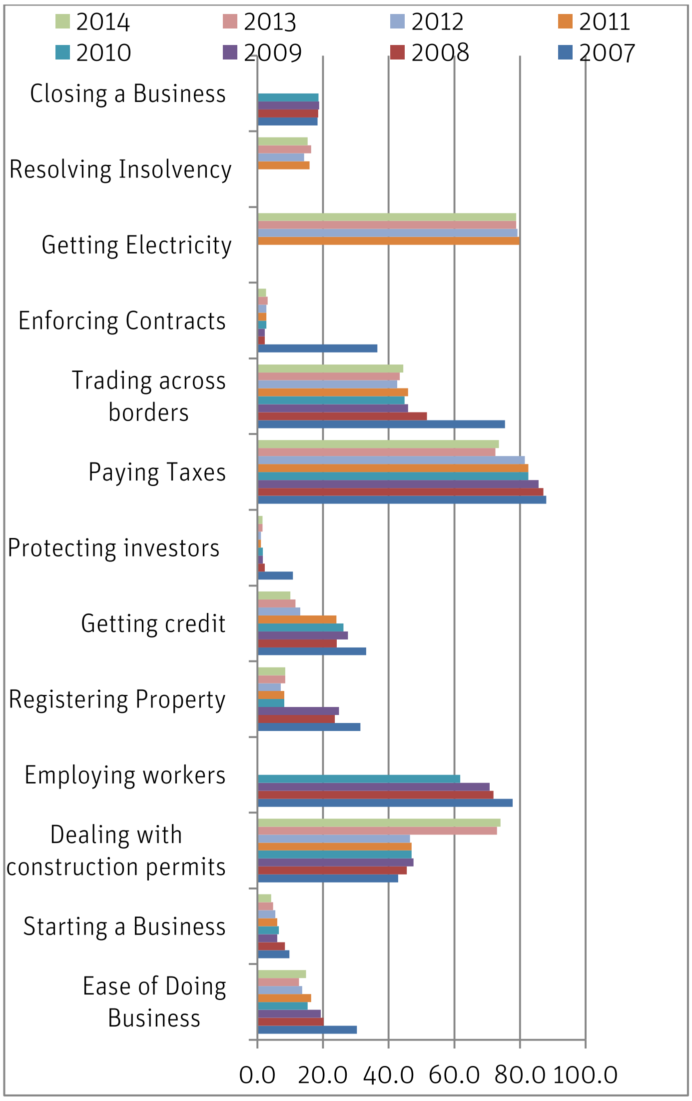
The Task Ahead Is Not Easy

Suriname rose 4 places on the Doing Business Ranking in 2014 to 161—better than only Haiti in the Western Hemisphere, Therefore, there is much more work to be done. For example, although the facility to start a business is one of the most important factors in promoting entrepreneurship, in Suriname

procedures to register a firm are costly, complex, and time consuming. The World Bank's Doing Business Report 2014 still indicates that it requires 208 days to start a business at a cost equivalent to 108 percent of income per capita. Legislative lags and outdated laws are now a grave impediment to Suriname's fiscal consolidation path and economic progress if the private sector should become an engine of growth. (Figure 4 highlights Suriname's Doing Business performance in percentiles between 2007 and 2014.) The country performs best in the areas of getting electricity, paying taxes, and dealing with construction permits. However, there are clear challenges related to resolving insolvency, enforcing contracts, protecting investors, registering property, and starting a business.

A single comprehensive strategy is needed for fostering investment, innovation, and entrepreneurship. If growing the private sector is part of the country's long-term development strategy, tackling the business climate aggressively (akin to the public sector reforms starting in 2010) in a fiscally responsible manner makes sense—and so, too, does Mr. Rusland's appointment.

Figure 4. Doing Business in Suriname, 2007–2014



Source: World Bank Doing Business, 2014.

Reference

Schaechter, Andrea, Tidiane Kinda, Nina Budina, and Anke Weber. 2012. "Fiscal Rules in Response to the Crisis—Toward the 'Next-Generation' Rules. A New Dataset." IMF Working Paper, WP/12/187, International Monetary Fund, Washington, DC.

Suriname: Selected Indicators

	2009	2010	2011	2012E	2013P
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	3.5	4.5	4.2	4.8	4.7
Nominal GDP	-3.1	13.2	25.8	11.94	5.3
Inflation (end of period)	1.3	10.3	15.3	3.4	3
Exchange Rates (end of period)	2.75	2.75	3.35	3.35	3.35
(In percent of GDP, unless otherwise indicated, on a calendar year basis)					
External Sector					
Exports of goods and services	68.2	54.3	64.5	63.1	n.a
Imports of goods and services	60.7	62.7	73	68.8	n.a
Current Account	-1.1	1	0.4	-0.2	-2.1
Gross International Reserves (USD Mill)	763	785	987	1,209	1,477
Savings and Investment					
Private Sector Balance	1.9	9.6	4.7	-0.6	-2.0
Public Sector Balance	-2.4	-3.1	0.9	0.5	0.0
Savings	3.3	1.8	6.9	6.3	5.6
Investment	5.7	4.9	6	5.8	5.7
Central Government					
Revenue and Grants	36.4	25.8	26	25	24.1
Total Expenditure	35.3	28.2	25.2	24.5	24.1
Primary Balance	-1.2	-2.3	1.8	1.4	0.9
Overall Balance	-3	-3.6	0.9	-4.0	-3.9
Consolidate NFPS balance	-3	-3.6	0.9	0.5	n.a
Debt Indicators					
Total Public Sector Debt	18.5	21.6	19.1	21.5	28.0
Public Sector Debt over Revenues	61.5	81	73.3	74.4	75.2
External Debt (end of period)	8.3	8.7	7.6	11.5	14.0
Domestic Debt (end of period)	10.2	12.9	10.8	10	14.0
External debt as percent of exports of goods and services	15.8	14.5	17.3	18.9	22.2

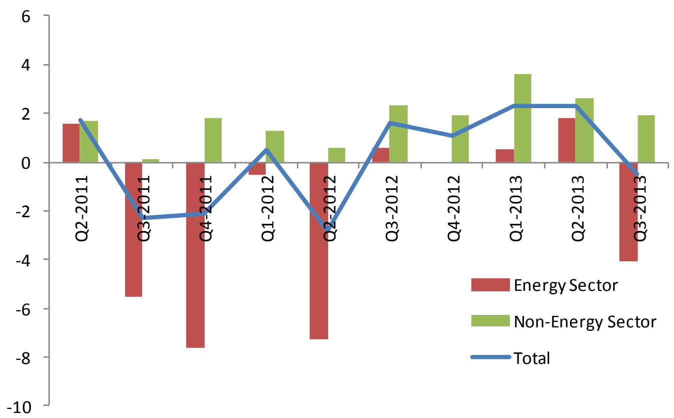
Source: Based on IMF Article IV Country Report and Central Bank of Suriname

TRINIDAD AND TOBAGO MOVING FORWARD WITH ENERGY

Recent Developments

After seven quarters of low or no growth, the energy sector showed some signs of recovery in the second quarter of the year but lagged again in the third quarter. The sector began to expand in 2013, by 0.5 percent in the first quarter and then 1.8 percent in the second quarter (Figure 1). The 4.1 percent decline in the third quarter reflects the lower oil and natural gas production resulting from the last bout of maintenance-related shutdowns. Looking forward, energy production is set to recover to full capacity during 2014 after the completion of major maintenance works on offshore gas platforms. The nonenergy sector remains strong and grew 2.4 percent and 1.9 percent in the second and third quarters of 2013, respectively. The construction sector was the main driver of the nonenergy sector, with an annual growth rate of 3 percent.

Figure 1. Real Growth (Percentage, Year-on-Year Change)



Source: Central Bank of Trinidad and Tobago.

Looking forward, domestic oil and gas investment and production is expected to increase over the medium term. Much of the recent maintenance work (on BPTT's Cassia Hub and BG's Dolphin platform) was well-coordinated and completed ahead of schedule, and some consisted of capital expansion projects that will help increase production capacity. Moreover, after the recent fiscal incentives presented in the 2013/14 budget for new investments, the government has received 11 bids on three onshore blocks that are expected to be assigned by the end of 2013. In November, Repsol and BHP Billiton signed a production-sharing contract for the deep-water block in the east coast of Tobago which could hold up to 907 million barrels of crude and from 1.6 to 3 trillion cubic feet of gas. This, together with many successful deep-water bid rounds over the past 2 years, will lead to significant investment that should bring oil and gas production back to pre-2007 levels. Oil production is projected at 82 thousand barrels per day in 2014.

Highlights

Annual growth was –0.5 percent in the third quarter of 2013. The energy sector declined by 4.1 percent, while the nonenergy sector grew 1.9 percent.

The Ministry of Energy announced that maintenance works were completed. Energy production should return to full capacity in 2014. Oil and gas investment should pick up following the successful completioin of various bid rounds.

The opposition party, the People's National Movement won 8 of the 14 municipal district seats that were up for election in late October 2013.

in the World Bank's Doing Business Survey, Trinidad and Tobago ranked 66th out of 189 countries, slightly below its 2013 position.

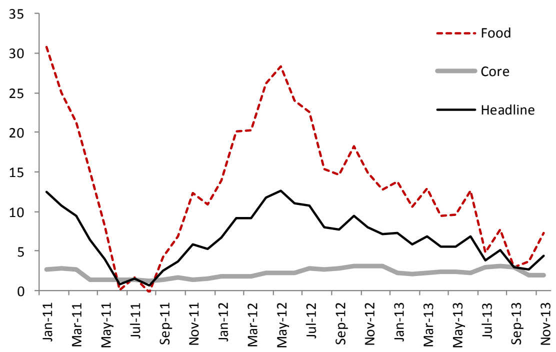
Over the medium term, the rapid production and distribution development of shale oil and gas in North America is bound to affect investment in Trinidad and Tobago. Already some Trinidad exports for refining into the United States have fallen as a result of U.S. shale oil supplying their refineries. During the announcement of the International Energy Agency's World Energy Outlook 2013, the Chief Economist said that because of shale gas and tight oil, the United States is expected to become the world's top oil producer in 2015, surpassing Saudi Arabia and Russia earlier than expected.

Unemployment remains low as of 2012, but serious logistical problems in the Central Statistical Office have affected the production of key economic data. The 2012 third-quarter unemployment rate estimate was 4.8 percent. Two sectors had higher unemployment rates: construction (32 percent) and community, social, and personal services (33 percent). Labor and trade statistics, in particular, have been delayed in 2013, which remains a concern for monetary policymakers and the private sector. In mid-2013, the Central Statistical Office staff moved out of their offices because the building was condemned as unsuitable. Since then, part of the staff has been relocated to a smaller facility, while others have worked from home. The Cabinet recently approved the rental of a new building for displaced employees, but more resources may be necessary to enable staff to catch up with time lost as a result of the interruptions.

Annual inflation slowed from 7.7 percent in 2012 to 4.4 percent by the end of November. Almost all the subgroups of the consumer price index have been increasing at a lower rate compared with a year ago (Figure 2). In particular, food prices

increased 7.3 percent year-over-year in November. The Central Bank's year-on-year inflation forecast for 2013 was 5.3 percent in July, but the latest figures indicate that the price increase could be lower.

Figure 2. Slowdown of Inflation Pressures



Source: Central Bank of Trinidad and Tobago.

A US$500 million 10-year sovereign bond issued in the international markets in December 2013, the first in 6 years, was a resounding success. Given that it was heavily oversubscribed (by almost 10 times), an additional US$50 million was offered. The interest rate was 4.375 percent. About two-thirds will be used to retire external debt of higher rates. Shortly thereafter, Standard & Poor's Ratings Services affirmed the country's A/A-1 long- and short-term foreign and local currency sovereign credit ratings.

Local elections for the control of 14 municipal bodies were held on October 21st. According to the Elections and Boundaries Commission, the elections recorded the highest voter turnout in the history of local government elections (participation rate of 43.2 percent). The opposition party, the People's National Movement (PNM), won eight seats, while Prime Minister Kamla Persad-Bissessar's party, the United National Congress, secured only five seats. The new party, the Independent Liberal Party, recently formed by Jack Warner did not win any municipal body. At the beginning of November, the government also lost the election of St. Joseph, where the candidate of the PNM, Terrence Deyalsingh, defeated Ian Alleyne, the official candidate. Although the results were expected according to surveys before the elections, they clearly signaled that the government coalition is losing support. This followed the January 2013 Tobago House of Assembly elections, where the PNM affiliated party won all twelve available seats.

World Bank: 2014 Doing Business Survey

Trinidad and Tobago ranked 66th out of 189 countries in the Doing Business Survey conducted by the World Bank. The results show a three-point deterioration from the previous year's position of 63rd out of 185 countries (Table 1). Trinidad and Tobago ranked second in the Caribbean region, behind St. Lucia (which ranked 64). With respect to 2013 ranking, Trinidad and Tobago improved in how long it takes to start a business and in resolving insolvency. However, the main obstacles to doing business in the country include difficulties in registering properties and in enforcing contracts: According to the survey, it takes around 1340 days to enforce a contract compared with 529 days in the OECD countries. Other surveys point to the high crime rates and its detrimental impact on business. The Chamber of Industry and Commerce has called for more proactive government policies to combat crime.

Table 1. Doing Business Survey 2013 vs. 2014 Ranking

	Doing Business 2014 Rank	Doing Business 2013 Rank	Change in Rank
Doing Business Rank	66	63	-3
Starting a Business	67	71	4
Dealing with Construction Permits	77	74	-3
Getting Electricity	10	11	1
Registering Property	178	179	1
Getting Credit	28	24	-4
Protecting Investors	22	21	-1
Paying Taxes	97	94	-3
Trading Across Borders	73	73	No change
Enforcing Contracts	174	174	No change
Resolving Insolvency	114	117	3

Source: World Bank. Doing Business Survey 2014.

Issues Relevant to the IDB

Concerns regarding the short- and long-term capacity of the country to produce economic statistics has come to the forefront. After several years of low funding for data production and monitoring and evaluation of social programs, it has become difficult to conduct economic analyses outside of the energy sector. The IDB is providing technical assistance through assessment tools, baseline mapping of labor and social data, and revamping the registrar's office. Moreover, the IDB-financed report by Statistics Sweden, which details the full restructuring and modernization of the Central Statistical Office, will commence implementation in 2014.

High-Frequency Macroeconomic Indicators	Last data	Period	Prior data	Period
Annual GDP growth (%)	-0.5	Q3 2013	2.3	Q2 2013
Exports (12-month growth)	-11.8	Q2 2013	17.0	Q1 2013
Imports (12-month growth)	-27.9	Q2 2013	-3.0	Q1 2013
Private sector credit growth (%)	4.8	Sep-13	4.7	May-13
Inflation	4.4	Nov-13	2.7	Oct-13
Exchange rate (end of period)	6.42	Dec-13	6.42	Nov-13
Natural gas production (%, annual change)	-0.2	Q3 2013	3.6	Q1 2013
Unemployment rate (%)	4.8	Sep-12	4.9	Jun-12

TRINIDAD AND TOBAGO TRIPPING T&T: WHAT ARE THE OPPORTUNITIES?

Trinidad and Tobago is considered the industrial and energy-producing capital of the Caribbean; less than 5 percent of economic activity consists of tourism services. The main attractions are the Carnival in February/March and the island of Tobago. This bulletin looks at the characteristics of the sector and its importance for the Tobago economy, in particular, and policy options that could reveal the country's potential.

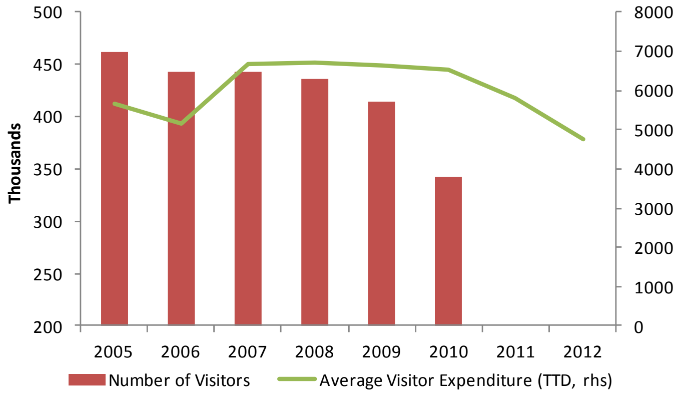
Scope and Size of Tourism

Tourism comprises a relatively small part of the country's economic activity. In 2011, according the Central Statistical Office, the direct contribution of tourism to GDP was 3.7 percent. Using the satellite accounts methodology, the Tourism Development Corporation has calculated the direct and indirect travel and tourism expenses as equivalent to 4.6 percent of GDP.[1] Tourism affects the economy in various ways. In 2010 (latest available data): (a) the country generated TT$2.8 billion in visitor exports, representing 3.2 percent of GDP and 4.8 percent of total exports; (b) the travel and tourism industry (broadly defined) directly employed 4 percent of the labor force (10.4 percent if indirect activities are included); (c) the government spent 0.22 percent of GDP on operating expenses in travel and tourism, and (d) capital investment in the sector was 1.4 percent of GDP.

Unlike most Caribbean countries, the tourism sector is small, with the number of visitors in 2011 equivalent to 29 percent of the total population. This is in line with Suriname and Guyana but compares unfavorably to some of its tourism-dependent neighbors, where the ratio of the number of visitors to the population in 2011 were as follows: 370 percent for The Bahamas, 202 percent for Barbados and 72 percent for Jamaica. Moreover, according to the 2012 Tourism and Travel Competitiveness Index of the World Economic Forum, Trinidad and Tobago ranks 83rd out of 140 countries, well behind other English-speaking Caribbean countries.

Visitor arrivals and spending per visitor have been decreasing over the past 5 years. The number of visitors dropped from more than 450,000 in 2005, a peak, to less than 400,000 in 2010 (Figure 3). The downtrend in tourism can be explained partly by the financial crisis in 2007, and as of 2011 (latest available data), the sector has only slightly recovered. As is typical in other countries, the data also show that the most cyclically sensitive component is of vacation visitors (those looking for sun, sand, and the beach), and the most stable component are visitors coming to see family and friends (about 28 percent of total), and convention and business travelers (about 18 percent of total).

Figure 3. Number of Visitors and Spending per Visitor, 2005–2012



Source: Trinidad and Tobago Central Statistical Office

Where Do Visitors Come From and Where Do They Go?

An important number of the total visitors stay in private homes, although those that stay at hotels spend the most money. There are three types of visitors: those who stay at hotels (most likely business travelers or high-income leisure travelers), those who stay at guest houses (most likely low-budget leisure travelers), and those who stay at private homes (most likely family and friends). According to a survey in 2010, the first type spent about US$250 on average per day, the second type spent less than half of that ((US$109 per day), and the third type spent an average of only US$40.50 per day. However, the latter two spent around 15 days in Trinidad and Tobago on average, whereas the hotel visitors stayed about 5–6 days on average. It is clear that in developing a profitable tourist base, the country will likely need to create an incentive to increase the number of hotel dwellers who spend the most money per day.

In a typical year, most of the visitor influx occurs (not surprisingly) during Carnival. The 18-day Carnival period received 9 percent of total annual visitors between 2005 and 2010. Carnival in Trinidad, unlike many other countries, is an important national holiday and involves a number of creative art and music events. Unlike the famous Rio Carnival in Brazil, it is less of a tourist attraction and more of a home-grown national party. The statistics of visitors confirm this: From the

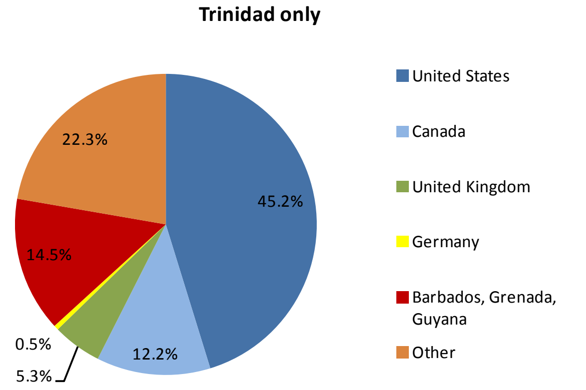
[1] The definition, use by the World Travel and Tourism Council, is fairly broad, as it includes spending by residents, capital investment by all sectors involved in the Travel and Tourism industry, supply linkages and government collective spending.

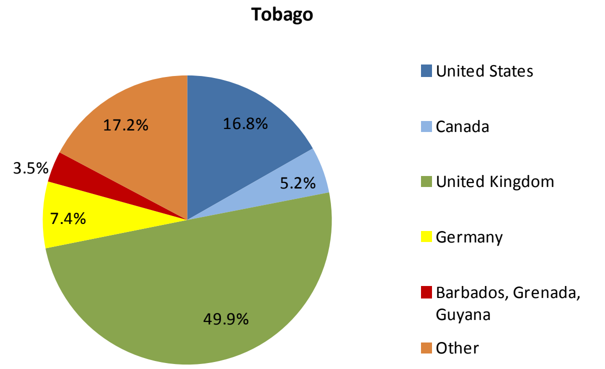
three types of stayover visitors, those identified as staying in private homes (the majority, most likely family members) by far have a very large spike in the number of daily visitors around this time.

Tobago

There are stark differences in the origin of international visitors that come on to Tobago and those that come only to Trinidad. Tobago is sparsely populated and filled with pristine beaches, akin to some of the other Caribbean tourism destinations. About 80 percent of the visitors to both islands are from the United States, Canada, the United Kingdom, Germany, or the three closest CARICOM countries (Figure 4). During 2005–2010, almost 60 percent of visitors originating from North America stayed in Trinidad only, whereas almost 60 percent of foreign visitors who went to Tobago originated from either the United Kingdom or Germany.

Figure 4. Visitor Arrivals to Trinidad and Tobago, by Main Market, 2005–2010





Source: Trinidad and Tobago Central Statistical Office.

Moreover, only a small number of the total visitors to the country go on to Tobago (Figure 4). Tobago receives 66 foreign visitors per day on average; infrastructure is set up only for a relatively low capacity, probably less than 500 persons per day. Most visitors to Tobago are residents living in Trinidad. Moreover, given the more basic type of accommodations in Tobago, the typical foreign visitor is likely a low-budget tourist looking for more adventure. Out of the roughly 47 percent of visitors in 2010 who came to the country for leisure (e.g., for beach, vacation leisure, weddings, and honeymoons), only 11 percent went on to Tobago. However, it is possible that many of the visitors were traveling primarily for business in the oil and gas sector and decided to take some time off and go to Tobago (as opposed to travelers coming specifically to visit Tobago). Figure 4 shows that most foreign visitors to Tobago are from the United Kingdom, and the country's oil and gas sector has many companies from the United Kingdom.

In the past decade, there have been some efforts to revitalize the Tobago economy through the promotion of tourism. Proponents include members of public and private institutions, both national and local. Most initiatives focus on revitalizing the Tobago economy. Regarding tourism, the most egregious barriers identified are the infrastructure conditions of Tobago (e.g., airports, cruise docks, existing hotels, and roads) and the limited number of rooms available in Tobago, particularly for large-scale tourism events. Proponents have also pointed to the rehabilitation of possible existing tourism areas and landmarks in Tobago and Trinidad. Nonetheless, two hotels are scheduled to open in 2015, one with 79 suites and the other with 66 rooms.

Nonetheless, government-sponsored concrete actions have not materialized, possibly the result of regulations and Tobago's lack of financial autonomy. The Tobago House of Assembly is not authorized to impose taxes on its own. Consequently, almost all of its funding is provided by the Central Government. The public sector is the main employer on the island, accounting for around 50 percent of the labor force. Moreover, the Order of February 2007, which requires new investors to obtain a license for the purchase of land in Tobago, has been a major disincentive to new investors in Tobago: 14 investment projects have been halted because of the time it takes to apply and obtain this license. Last, there has not been a development and maintenance of tourist attractions to a high-enough standard to attract international tourists, so most of the tourism to Tobago is from nationals from Trinidad.

What Should the Priorities Be?

Many proposals in the recent past call to further develop Trinidad and Tobago's tourism market. The Caribbean Growth Forum in Trinidad took tourism as one of the main pillars of its proposals to improve the investment climate. Their action plan, the result of a working group with participants of the private sector, public sector, local government, hoteliers groups, and civil society, put forth some carefully crafted suggestions to revamp tourism. They identified the following as their main priorities:

1. **Define, develop, and market a clear tourism brand.** One way is to develop and implement an inclusive marketing and branding strategy and to undertake a comprehensive analysis of the contribution (direct and indirect) of the actual and potential travel and tourism industry in Trinidad and Tobago.

2. **Develop and enhance the tourism product for the travel and tourism industry.** This priority would imply a considerable investment in infrastructure, training, and upgrades. Among the suggestions were the developing and certifying of key attractions sites in Trinidad and Tobago, as well as the improvement in the quantity and quality of room stock particularly that of 4–5-star rating hotels. They also call for the upgrade of key ports, air, and marine facilities; expansion of the Service, Training, Attitude, and Respect Programmes to engage the widest possible participation; and attitudinal changes of residents throughout the country. For Tobago specifically, they recommend better airlift capacity (e.g., direct flights to Tobago from specific international locations), as well as the improvement in the quality of the workforce serving the tourism industry. In this regard, because some beaches in Tobago are isolated, the actual or perceived lack of security has deterred foreign travelers from visiting Tobago.

3. **Deepening linkages within and outside the tourism industry.** One way is to assess opportunities for replacing imported products and services with locally produced goods and services. Better collaboration with the Ministry of Food Production, for example, would be required to increase supplies of food and other targeted commodities. In relation to the government's active objective of developing the creative arts industries, find ways to promote steel pan and other creative-type industries.

What Is Feasible Now?

These ambitious proposals could take 1–2 decades to be fully in place. However, many initiatives can have a more immediate effect. The country is competing with other Caribbean islands with much more developed tourism sectors, as well as countries in northern South America that can offer vast quantities of eco-tourism. Therefore, in addition to following these recommendations, Trinidad and Tobago may want to look more closely at its comparative advantages in this competitive global market to attract more visitors and business. The World Economic Forum indicators show that the country does quite well in terms of price competitiveness, ranking 13th out of 140 countries.

While some of its main tourist attractions are underdeveloped for resort-type leisure travelers, a diverse culture, Carnival, and remote beaches can appeal to budget-minded adventure travelers, particularly from nearby countries with a growing middle class. The 'Brazil Air Bridge' initiative of the IDB's Caribbean Country Department is working to fill in that externality by marketing to the potential visitors in São Paulo, Brazil who may not know anything about Trinidad and Tobago but may find that it has some of the elements that appeal highly to their adventure-seeking tourists. Moreover, small but gradual investments in infrastructure to attract this niche market can run in parallel with more ambitious initiatives.

Another idea is to simultaneously develop similar sectors that could thrive, namely, its openness and education and training. The government is working closely with the service sector to develop a financial institution support services industry. This transformation of the financial services industry would involve making Trinidad and Tobago an attractive jurisdiction for regional and international financial institutions to operate specific middle and back-office processing, but this could be easily extended to call centers and customer support of more sophisticated products. In 2014, the government will develop training centers for this type of human resources that can offer global services with the financial assistance of the IDB.

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World Economic Forum Report (2013), http://www.weforum.org/reports/travel-tourism-competitiveness-report-2013

Trinidad and Tobago: Selected Indicators

	2009	2010	2011	2012	2013 (F)
(Annual percentage changes, unless otherwise indicated)					
Real GDP	-4.4	0.2	-2.6	0.2	1.6
Nominal GDP	-30.8	8.3	14.5	9.2	5.4
Inflation (end of period)	1.3	13.4	5.3	7.2	4.0
External Sector					
Exports of goods and services*	-50.5	21.9	33.0	-8.1	3.1
of which: oil and natural gas*	-51.8	18.8	34.7	-16.8	n.a.
Imports of goods and services*	-27.1	-6.8	46.2	-11.8	5.4
Current account (percentage of GDP)	8.5	20.2	12.3	4.1	4.7
FDI (percentage of GDP)	3.7	2.7	3.3	3.2	8
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central Government**					
Revenue and grants	29.0	34.1	32.6	32.3	32.6
of which: energy revenues	14.5	18.4	19.0	17.3	16.8
Current expenditure	27.7	28.9	28.6	29.4	31.6
Capital expenditure and net lending	6.2	5.0	4.8	4.3	4.8
Primary balance	-2.3	2.7	1.2	0.8	-0.7
Overall balance	-4.9	0.2	-0.8	-1.4	-3.8
Consolidate NFPS balance (incl. CLICO)	-9.0	-6.5	-0.6	-6.8	-1.2
Debt Indicators					
Public sector debt^	30.6	35.5	33.4	38.7	33.4
Public sector debt over revenues	105.5	104.1	102.5	122.8	111.5
External public debt (end of period)	7.7	6.7	6.4	6.7	7.2
External debt service as percentage of exports of goods and services	0.8	0.6	0.4	0.5	n.a

Notes: * refers to annual change in value (USD Million); ** 2013 refers to October 2012-September 2013; ^ Non Financial Public Sector Debt. Excludes debt issued for sterilization and since 2012 it includes debt increase due to issue to CLICO debt holders. FDI= foreign direct investment; NFPS= Non-Financial Public Sector. (F) Forecasts numbers for 2013.

Source: Central Bank of Trinidad and Tobago, International Monetary Fund 2013 Article IV Press Release, IMF World Economic Outlook, October 2013.

OECS Overview

The Eastern Caribbean Central Bank (ECCB) Economic and Financial Review for the first half of 2013 reported that economic activity is estimated to have expanded moderately for the currency union overall. Real growth was recorded in the construction, hotel, restaurant, and agriculture sectors, while manufacturing, wholesale and retail trade, and the financial sectors all registered declines. In the first half of 2013, zero to positive growth is estimated for all territories aside from Anguilla, which is estimated to have contracted despite recording 6.6 percent growth in stopover arrivals between January and August 2013 year-over-year.

Reflecting the subdued level of economic activity across the currency union, prices remained relatively unchanged overall. Most countries experienced disinflation or deflation during the first half of 2013. In addition, reduced demand for imports saw the overall merchandise trade deficit narrow over the same period. The combined primary fiscal surplus widened, while the overall fiscal deficit narrowed, giving rise to only a small 0.2 percent increase in combined central government debt.

Domestic credit of the currency union contracted by 4.1 percent overall for the first half of 2013 year-over-year, based on a 13.6 percent decline in lending to central governments and a 1.1 percent drop in credit to the private sector. The ECCB's net foreign asset position grew by 6.3 percent in the first half of 2013.

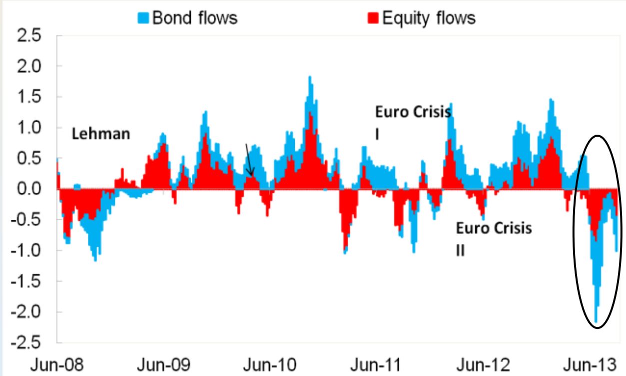
The ECCB expects overall GDP to grow by 1.1 percent in 2013, rising to 1.9 percent in 2014, according to their November report. Only Dominica and Anguilla are forecasted to contract in 2013, and each member state is expected to register positive growth in 2014. All sectors across the currency union are projected to show positive growth in 2014, aside from nutmeg production.

A severe "Christmas Eve" storm hit St. Lucia, St. Vincent and the Grenadines and Dominica on December 24-25th 2013. The low-level high-intensity storm caused severe flooding, which took the lives of roughly twenty persons, and caused severe damage to hundreds of homes, infrastructure, and the agriculture sector. While the full economic cost of the damage has not yet been quantified, reconstruction costs have been estimated at several hundred million dollars.

Issues to Watch Out For: Effects of Tapering

The U.S. Federal Reserve plans to reduce its quantitative easing by US$10 billion per month, implying a 12 percent reduction of liquidity being injected into the system. The reaction to the initial tapering announcement in May 2013 affected emerging market securities to a greater extent than did the Lehman or Euro debt crises, as seen in Figure 1. In the Caribbean, Barbados and Suriname saw their attempts to raise external sovereign debt in the latter half of 2013 significantly affected by the fears of tapering. Many OECS sovereigns may need to raise USD debt to finance fiscal deficits, and tapering is likely to make that task more difficult and costly in 2014.

Figure 1. LatAm-5: Mutual Fund Bond and Equity Flows, 2008–13 (USD billions)



Source: EPFR; and International Monetary Fund staff calculations.

In what follows, we summarize the economic developments for each country, focusing on recent trends in their tourism sectors.

Antigua and Barbuda

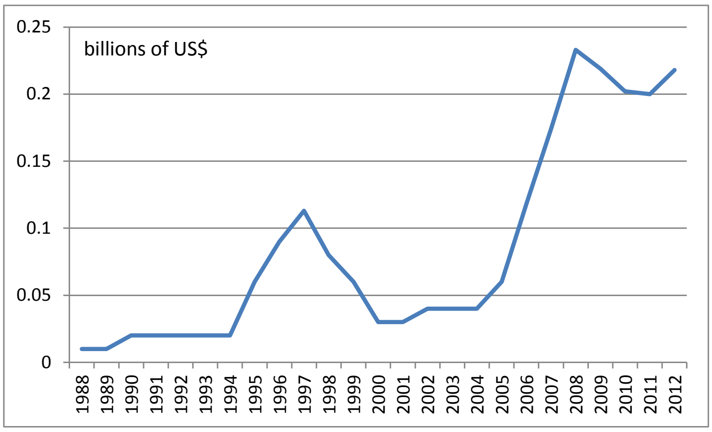
The economy expanded at a "moderate pace" during the first half of 2013, according to the ECCB's Economic and Financial Review. Construction, transport, storage and communication, and the financial sector are all estimated to have grown, while hotels, restaurants, wholesale and retail trade all contracted. Consistent with subdued economic activity, the disinflationary trend saw prices increase by 0.6 percent for the first half of 2013, year-to-

date. The merchandise trade deficit narrowed, but the fiscal deficit more than tripled on weaker revenue collections and higher expenditure, prompting a 2 percent year-over-year increase in public sector debt. Domestic credit contracted by 5.4 percent year-over-year, based mainly on a 7.8 percent decline in net credit to the central government.

The IMF completed its tenth and final review of the country's economic performance under a stand-by arrangement, in June 2013. The IMF then embarked on a Post Program Monitoring arrangement with Antigua and Barbuda.

The ECCB is projecting weaker tourism activity in 2013 overall compared with 2012. Stopover arrivals fell by 5 percent for the first half of 2013, versus 4 percent growth seen in the year earlier. Antigua and Barbuda attracts the second highest volume of stopover and cruise tourist arrivals in the OECS, after St. Lucia. Cruise ship passenger arrivals also saw a decline of 8.5 percent during the first half of 2013, which compounded the decrease seen in 2012.

Figure 2. Antigua and Barbuda Tourism Investment



Source: World Travel and Tourism Council

Of all of the Caribbean countries, Antigua and Barbuda displays the highest dependence on tourism, according to the World Travel and Tourism Council (WTTC) at roughly 79 percent of GDP. This does not bode well for the economy, given the ECCB's reported expectation that tourism will continue to underperform in the latter half of 2013, which speaks to the likelihood that fiscal numbers and overall economic activity will remain weak as well. Antigua and Barbuda highly depends on Europe and the United States in particular for tourist arrivals, with the latter rising since 2011.

According to the WTTC, investment in the tourism sector was on an overall upward trend as seen in Figure 2, and has been the highest in the OECS since 2006. However, given the reversal in fiscal fortunes for the first half of 2013, the decline seen in the tourism sector over the same period, and the consequent slump in economic activity overall, lower levels of capital expenditure are expected in this sector in 2014.

Dominica

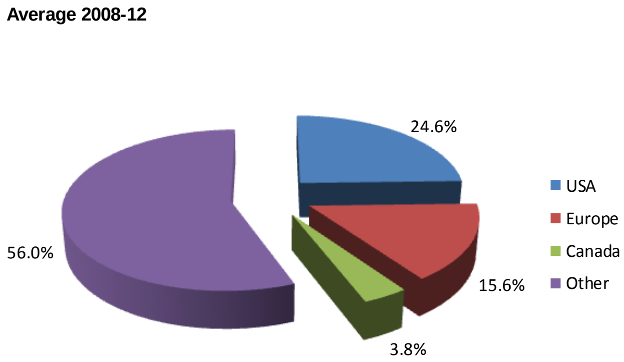
The ECCB estimates zero growth in Dominica for the first half of 2013. The reasons cited were the Black Sigatoka disease, which caused a 48 percent contraction in banana and plantain production, a decline in construction activity, and weakening of the tourism numbers. However, manufacturing output is expected to have increased. At the same time, there was disinflation resulting from weak economic activity, as prices increased by 0.2 percent for the first half of 2013, compared with 1.6 percent for the corresponding period in 2012. The merchandise trade deficit widened on higher imports, which outstripped the uptick in exports, while the fiscal deficit narrowed and the level of public debt fell. Commercial banks' net domestic credit increased, but net foreign assets declined, for the period under review.

According to the ECCB, stopover arrivals increased by 4.1% for the first half of 2013 year-over-year. The downward trend in cruise passenger arrivals seen since 2010 was further compounded by a 28 percent decline in the first half of 2013 year-over-year, according to the ECCB.

Tourism in Dominica has an unusual characteristic compared with its OECS neighbors, given that more than half of its tourists come from "other" markets as shown in Figure 3, as opposed to the more common dependence on the U.S. and European markets. "Other" markets in this context refers mainly to other Caribbean and Latin American countries. There has also been an increase in Chinese, Taiwanese, and other Asian

travelers to the Caribbean over the past few years as well, who will also be captured under the “other” category.

Figure 3. Dominica Tourism Source Markets



Source: Caribbean Tourism Organization

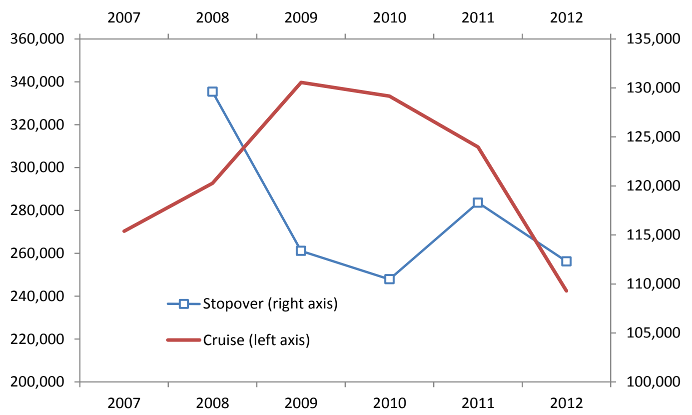
Tourism is still a key sector for Dominica. Tourism is estimated to account for roughly 30 percent of Dominica’s GDP according to the WTTC, which is the third highest in the OECS, and its share of GDP has been on an overall upward trend since the late 1980s. Despite the rising level of dependence on tourism, the level of investment in the sector, according to the WTTC, has been the lowest in the OECS (along with Grenada), and has not changed materially for many years.

Grenada

The ECCB estimates that economic activity expanded in the first half of 2013 compared with the corresponding period in 2012, driven mainly by improved performance in agriculture, manufacturing and construction. The uptick in construction (which expanded for the first time since 2006) was prompted partly by higher government capital expenditure. This resulted in a wider overall fiscal deficit and higher central government debt for the first half of 2013 year-over-year. Commercial banks’ net domestic credit contracted, while net foreign assets expanded. Inflation reached 0.2 percent for the first half of 2013 year-to-date, and the merchandise trade deficit widened mainly on higher construction-related imports and lower exports. Economic activity is expected to gain momentum on the basis of capital investment projects and the reopening of the Sandals La Source Resort and Spa.

Stopover arrivals and cruise arrivals declined in 2012 (Figure 4). This trend persisted into 2013 as stopover arrivals fell by a further 1.6 percent in the first half of the year, up from a 0.5 percent decline seen in the first half of 2012, according to the ECCB. Likewise, the deterioration seen in cruise tourist arrivals persisted into 2013, as 22 percent fewer such arrivals were recorded in the first half of 2013, year-over-year.

Figure 4. Grenada Stopover and Cruise Passenger Tourist Arrivals



Source: Caribbean Tourism Organization

Tourism accounts for only 22 percent of Grenada’s GDP according to the WTTC, and many of the visitors are from the Caribbean. This is the lowest level of dependence on tourism in the OECS, along with St. Vincent and the Grenadines, and has been on an overall downward trend, although there has been a slight increase in recent years. As with Dominica and St. Vincent and the Grenadines, the majority of Grenada’s tourists come from “other” markets—most notably Caribbean countries. The ECCB reported that arrivals from the Caribbean dropped by 9 percent and from the United Kingdom by 20 percent in the first half of 2013, year-over-year. These declines were somewhat offset by a 10 percent increase in U.S. visitors and 49 percent growth in Canadian visitors during the same period, however. Although capital investment in tourism has gained some momentum in Grenada recently, it had historically remained at the lowest levels relative to

GDP in the OECS (along with Dominica) according to the WTTC.

St. Kitts and Nevis

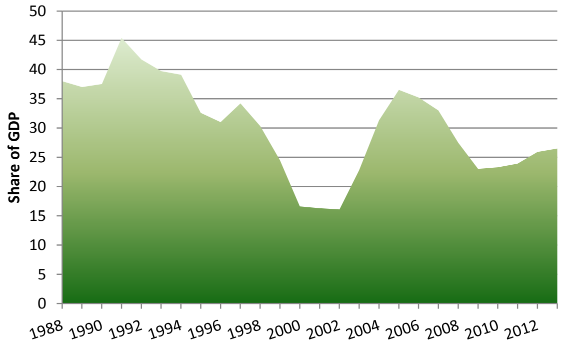
Preliminary data indicate a broad-based expansion in economic activity in the first half of 2013 year-over-year. However, there was a price deflation of 0.4 percent in the first half of 2013, year-to-date. The merchandise trade deficit widened, as did the fiscal surplus. Public sector debt declined over the period under review based on expenditure containment measures and debt repayment under the International Monetary Fund program.

The IMF completed the fifth and sixth reviews under the current Stand-by Arrangement in July 2013, authorizing a disbursement of USD71.58 million.

Stopover visits have increased. Cruise ship passenger arrivals fell by 9 percent in the first half of 2013 year-over-year, as fewer cruise ship calls were made. However, stopover arrivals increased by 6 percent in the first half of 2013, up from the 5 percent increase seen for the corresponding period in 2012, according to the ECCB. Higher stopover arrivals are due mainly to a 23 percent increase in airlift from the United States, resulting in 4 percent more visitors from that market, which is the most important source market for St. Kitts and Nevis. Higher numbers of stopover arrivals was also recorded from the United Kingdom, the Caribbean, and Canada—clearly distinguishing this country's tourism performance from its OECS neighbors.

Tourism accounts for roughly 27 percent of GDP, one of the lowest in the OECS, but it has been increasing slowly over the past few years (Figure 5). Moreover, there has been a general upward trend seen in the level of investment in the tourism sector since 2003. This increase is likely to intensify according to the ECCB, with many tourism-related projects underway such as Kittitian Hill, expansion of the Four Seasons Hotel, and Imperial Bay Beach and Golf residences.

Figure 5. St. Kitts and Nevis Tourism Contribution to GDP



Source: World Travel and Tourism Council

St. Lucia

The ECCB estimates that there was no growth in economic activity during the first half of 2013 year-over-year, and that there was a price deflation of 0.8 percent year-to-date. Lower manufacturing output was not fully counteracted by increased construction activity, higher output in agriculture, and growth in stopover arrivals. On the basis of higher levels of capital expenditure, the fiscal deficit widened, prompting an increase in the level of public sector debt outstanding. The merchandise trade deficit narrowed as a result of a decline in the value of imports and an increase in exports.

St. Lucia has had the highest level of stopover and cruise passenger arrivals in the OECS for many years. Although there was a dip in 2012 as seen in Figure 6, the first half of 2013 saw a 5 percent growth in this measure, year-over-year, according to the ECCB. This result was primarily due to 10 percent more visitors from the United States (the largest source market) and 10 percent more arrivals from the Caribbean. St. Lucia also has the highest level of cruise passenger arrivals in the OECS, but the level has been declining since 2010. The pace of decline eased in the first half of 2013 to 2 percent however, down from 6 percent for the corresponding period in 2012. Although there was an increase in the number of cruise-ship calls, the vessels were of a smaller capacity, which resulted in a lower number of passengers overall.

Figure 6. St. Lucia Stopover and Cruise Passenger Tourist Arrivals

Source: Caribbean Tourism Organization

Tourism accounts for roughly 40 percent of St. Lucia's GDP according to the WTTC, the second highest level of tourism dependence in the OECS after Antigua and Barbuda. However, it has declined significantly from a peak of 60 percent in 2005, despite a small rebound since 2011.

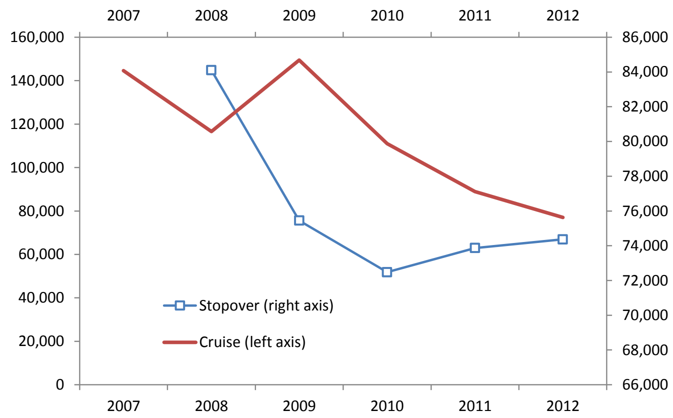
St. Lucia also ranks second after Antigua and Barbuda for the level of investment in the tourism sector, which has increased steadily since the 1990s. This trend is likely to persist, on the basis of the planned further development of tourism infrastructure and accommodation, such as the expansion of the Hewanorra International Airport, development of Freedom Bay Hotel, and Windjammer Landing Resort renovation.

St. Vincent and the Grenadines

Economic activity increased in the first half of 2013 year-over-year, driven mainly by a significant expansion in public sector construction activity, as well as growth in wholesale and retail trade, agriculture, and manufacturing. The government's capital expenditure almost tripled, leading to wider primary and overall deficits, but public sector debt levels fell based on debt repayments during the period under review. The merchandise trade deficit widened by 4.8 percent over the same period as the value of imported construction materials increased by 24 percent. The disinflationary trend saw prices increase by 0.4 percent for the first half of 2013 year-to-date.

The first half of 2013 saw tourism trends being broken. Tourism activity contracted in the first half of 2013, as stopover arrivals fell by 6 percent, breaking the upward trend in place since 2011 (Figure 7). The declines in stopover arrivals during the first half of 2013 were based mainly on lower arrivals coming from the two major source markets: the Caribbean (which fell by 8 percent) and the United States (which fell by 10 percent). The small increases in stopover arrivals from Canada and Europe were insufficient to compensate for these declines. Cruise passenger arrivals have also trended downward, but this trend seems to have reversed in the first half of 2013, when arrivals grew by 13.4 percent year-over-year, versus a 16.5 percent contraction for the corresponding period in 2012.

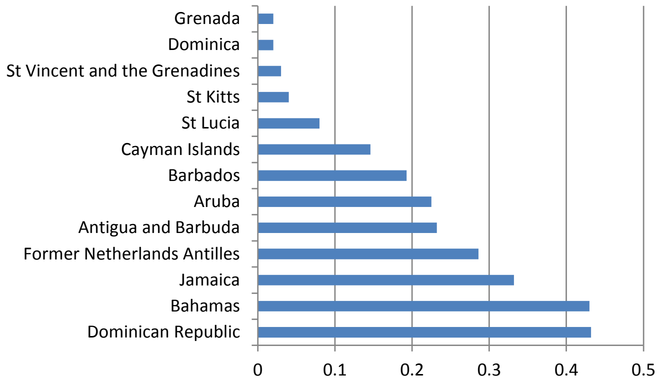
Figure 7. St. Vincent and the Grenadines Stopover and Cruise Passenger Tourist Arrivals



Source: Caribbean Tourism Organization

Within the OECS, St. Vincent and the Grenadines displays the lowest level of dependence on tourism, with the sector's share at only 21 percent of GDP and falling. However, investment in tourism has been on a general upward trajectory, with airport upgrades and two major tourism-related developments demonstrating high levels of investment in the tourism sector relative to its current dependence. Even in dollar terms it is not the lowest in any country, despite its small GDP (Figure 8).

Figure 8. Investment in Tourism in the ECCU and other Caribbean countries (USD billions)



Source: World Travel and Tourism Council

Table 1: OECS Selected Economic Indicators

	Population 2012 (000)	Nominal GDP 2012 (USD millions)	2012 Real GDP Change (%)	Public Debt/GDP 2012 (%)	5yr average tourism contribution to GDP	Primary Fiscal Balance 12 Months to June 2013 (XCD MM)	Overall Fiscal Balance, 12 Months to June 2013 (XCD MM)	2012 BoP Current A/C (% of GDP)	Inflation Year-Over-Year, June 2013 (%)
Antigua and Barbuda	88	1,176	1.6	89.2	76.6%	6.21	(71.92)	(12.8)	0.7
Dominica	71	497	0.4	72.2	29.6%	(71.15)	(118.64)	(13.5)	0.8
Grenada	105	790	(0.8)	112.6	21.1%	(54.39)	(120.75)	(23.0)	1.0
St. Kitts and Nevis	57	734	(0.9)	89.3	24.5%	362.71	273.79	(13.5)	0.2
St. Lucia	168	1,220	(0.4)	78.4	38.3%	(117.34)	(243.72)	(19.1)	2.7
St. Vincent and the Grenadines	110	712	0.5	70.2	21.4%	3.65	(40.08)	(27.9)	0.3

XCD = Eastern Caribbean dollar. USD1.00 = XCD2.70 approximately.
Source: International Monetary Fund and Eastern Caribbean Central Bank.

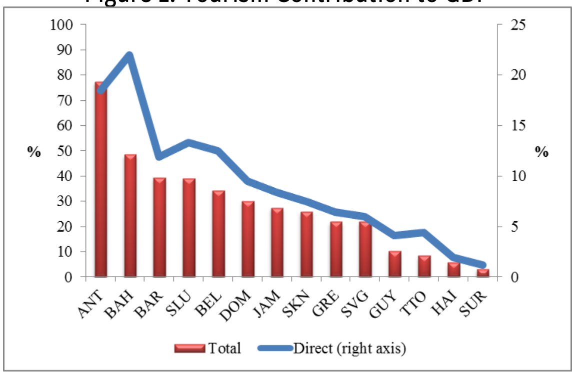
REGIONAL SUPPLEMENT: TOURISM, FINALLY LOOKING SOUTH

Introduction

Travel and tourism has earned its place as a major economic contributor in many Caribbean countries. Tourism adds value not only in terms of foreign exchange, but also in terms of supporting related sectors such as agriculture, construction, security, and export industries. Tourism also provides job opportunities. This bulletin examines the tourism industry for CARICOM[1] countries with an attempt to find new opportunities for trading partners.

Tourism is the mainstay of economic growth and development for many CARICOM member countries. On average, travel and tourism accounts for 28 percent of total GDP for these member states: Antigua and Barbuda, The Bahamas, and Barbados relying heavily on the sector, while Guyana, Haiti, Trinidad and Tobago, and Suriname depend the least on it, given the more commodity-based structure of their economies. For the tourism-oriented countries—Barbados, The Bahamas, Belize, Jamaica, and the countries that form the Organization of Eastern Caribbean States—tourism adds on average 36 percent of GDP after considering expenditure for businesses providing services to the tourism industry (Figure 1).

Figure 1. Tourism Contribution to GDP



Source: World Travel and Tourism Council.

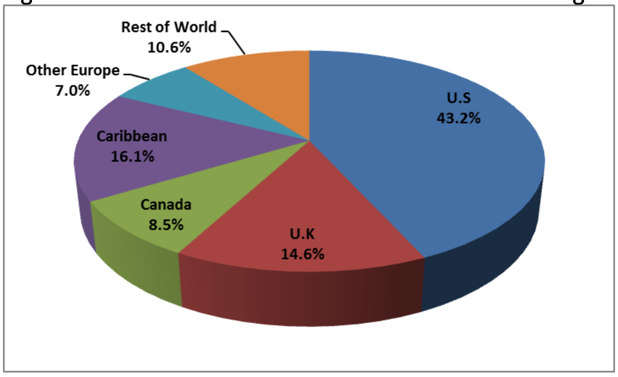
Tourism in CARICOM States

Tourism is based on strong links between the tourism destination and sender countries. Competition is strong, and success depends on strong brands and the availability of good connections, which results in tourism countries focusing on specific markets from where they try to attract their visitors.

[1] There are 15 CARICOM member countries: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

The tourism sectors in the region of the CARICOM member countries are similar in many aspects. The United States (43.2 percent), the Caribbean (16.1 percent), and the United Kingdom (14.6 percent) are the top three origins of tourists (Figure 2). The high season is from November to April when visitors from northern countries tend to visit the islands to enjoy the sand, sea, and sun.

Figure 2. Tourism Source Market for the Caribbean Region



Source: Caribbean Tourism Organization.

The same is true for four IDB member countries in the Caribbean Country Department with important tourism potential: the Bahamas, Barbados, Jamaica, and Trinidad and Tobago. These English-speaking Caribbean countries have strong links with the United States, Canada, and the United Kingdom, where they have established a strong tourism brand but are relatively unknown in the rest of the world. In surveys, tourists associate the Caribbean mostly with Punta Caña and Cancun.

This dependence on visitors from only a few countries brings disadvantages as they represent mature economies with low economic growth rates, making prospects for much further growth difficult. In addition, the dependence implies that tourism arrivals closely mirror the economic conditions in these few countries, as was evident by the deep recession triggered by the world economic downturn.

Competing in a Crowded Market

The tourism product offered by the region seems to have the potential to compete with other tourism destinations in the world. The Travel and Tourism Competitiveness Index for 2013 ranks Barbados as the top Caribbean country, the third in the Americas, and the only Caribbean country listed among the top 30 countries. Competitiveness in the Caribbean countries, other than Barbados, is adversely affected by concerns about safety, security, and environmental sustainability, which suggest the

need for greater work in these areas (Table 1). In addition, many countries in the region suffer from high energy prices and strong real exchange rates, which adversely affect the cost structure of the tourism product.

Economic weakness in the traditional markets severely affected Caribbean tourism. Apart from the domestic constraints that hinder the region's tourism competitiveness, the tourism industry has been severely affected by exogenous shocks. Part of the downward trend in tourist arrivals and expenditure is associated with the 2007 global financial crisis. The world's leading economies (the United States, the United Kingdom, and Europe) experienced a sharp decline in GDP and slow weak recovery rates (some European countries are yet to achieve precrisis GDP levels; see Figure 3). More important, the high unemployment rates, mortgage debt, and uncertainty that characterized the recession in these countries had a particularly detrimental effect on household nonessential expenditure items such as spending on leisure travel.

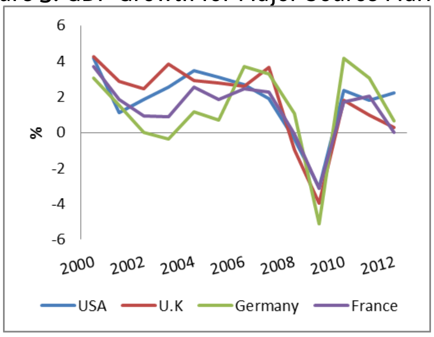
Table 1. Travel and Tourism Competitiveness Index

LAC Countries	Ranking (out of 140)	Improvement over 2011
Barbados	27	Yes
Seychelles	38	n.a
Panama	37	Yes
Mexico	44	No
Costa Rica	47	No
Brazil	51	Yes
Puerto Rico	52	No
Jamaica	67	No
Trinidad and Tobago	83	No
Dominica Republic	86	No
Suriname	100	n.a
Guyana	103	No

Source: World Economic Forum, 2013 Report.
Note: LAC = Latin America and the Caribbean.

The policy options required to deal with the challenges to the sector must take the aforementioned characteristics of the Caribbean tourism industry into account. The vulnerability of the Caribbean to changes in the economic climate as manifested over the past 6 years, as well as reputational factors affecting the country (e.g., crime, social unrest) have to be considered in crafting a renewed strategy for the sector. This accentuates the need for the region to hedge itself from such high concentration levels and move into new markets. Some governments have presented policy options for diversification through greater promotion of the agricultural and manufacturing sectors. However, given the absence of economies of scale in these small and micro countries, policy strategies must target new but growing niche markets.

Figure 3. GDP Growth for Major Source Markets



Source: World Development Indicators, World Bank.

Where to Look For Friends

Another possibility to reduce vulnerability is to broaden the tourism product in terms of source countries toward emerging markets, especially given that increases in global demand are expected to be driven by these economies.

The Caribbean has a strategic location between the Americas—North, Central, and South. Combined, the Americas comprise near 950 million. Capitalizing on a small fraction of consumer expenditure from these countries would have significant impacts.

Transportation routes from the South would have to improve. The 2011 Oxford Economics Report indicated that the Caribbean is connected to urban agglomerations around the world via 297 routes and has about 1.2 outbound flights per day along these routes. However, most of these flights are concentrated in North America and Europe, with few options available for international travelers originating from South America (see Figure 4). The current air connectivity to the majority of the islands provides better travel through the Miami International Airport or JFK International Airport in New York, with higher cost and longer travel time for persons originating from Latin America.

Figure 4. Air Connectivity, 2010

Source: International Air Transportation Association, through Oxford Economics (2011).

Finding New Friends in Brazil

Attracting tourists from new markets requires establishing a brand and airline connections. Having a direct connection is a significant advantage for potential visitors, but airlines are reluctant to start a new connection without guarantees that seats will be filled. In addition, attracting tourists requires specific and substantial marketing expenses. These are two costly upfront investments that the private sector might not be willing to do on its own.

The IDB conducted a marketing study in which research was based on a market analysis of outbound tourism from Brazil. There is great potential for the Caribbean, given that more than 8 million Brazilians have expressed interest in international travel. If the Caribbean region could successfully arrange frequent and direct flights from Brazil and target only 1 percent of this potential market, tourist arrivals would increase by more than 80,000 visitors. This highlights the need for greater seating capacity from South and Central America and more flexibility through partnerships with different airlines. In addition, the study found very little awareness of the Caribbean among potential Brazilian travelers. Marketing efforts are thus essential to drive awareness and subsequently obtain greater tourism value added for the Caribbean.

Cost–Benefit Analysis

To explore the potential benefits of these investments, the IDB's Caribbean Economics Team performed some simple simulations to determine the costs and benefits of such an initiative. The results suggest that under realistic conditions, the initiative presents an opportunity for the Caribbean while avoiding the risk of incurring fiscal liabilities.

The simulation considered the costs and benefits of instituting a direct flight from São Pablo, Brazil, to four Caribbean countries: The Bahamas, Barbados, Jamaica, and Trinidad and Tobago. We assumed one 220-seat flight per week on average to each country from São Pablo, which would result in maximal 11,000 new arrivals per year per country. The direct costs have two components: the cost of advertising and marketing in Brazil, as well as the cost of financing the seat guarantee to the airline, so it is worthwhile to offer the route. Guarantees can range from providing a fixed amount per seat to ensuring a certain utilization of the planes (e.g. 85 percent). There is a tradeoff in these two cost components: More funds that are successfully invested in marketing should lead to more visitors and fuller flights, thus decreasing the likelihood that the guarantee will be triggered as a result of empty seats on the plane.

For comparability, the analysis assumes one flight per week and a marketing cost of US$1 million per countries. However, the guarantee varies by country because it is based on the types of guarantees currently in place. As such, Barbados would fully guarantee every seat on the plane, Jamaica and Trinidad and Tobago would guarantee 85 percent capacity, and The Bahamas would not provide a guarantee.

Table 2: Cost–Benefit Analysis Under Baseline Assumptions

	Increase GDP	Net Fiscal
Barbados	0.47%	508,830
Bahamas	0.31%	4,105,192
Jamaica	0.16%	872,090
T&T	0.09%	405,757

Source: Authors' calculation based on country data, discussions with tourism organizations and government officials, and different reports.
Notes: The net fiscal column represents additional revenues minus marketing and estimated guarantee costs. The results assume a capacity utilization of 90 percent for the high season and 65 percent for the low season.

The initiative yields positive benefits to GDP and fiscal revenues under realistic assumptions. Table 2 presents the effects for GDP and revenues under a scenario that assumes a medium load factor for the planes of 90 percent and 65 percent for the high and low season, respectively. Under these assumptions, all countries would benefit in terms of GDP contribution and fiscal revenues. Break-even (the capacity utilization of the flights required such that the extra revenues from additional taxes and fees from the Brazilian visitors would

equal the cost of the marketing campaign and the guarantees) is around 65 percent for all countries except for The Bahamas, where break-even is 14 percent. This is because of the absence of a guarantee and relatively high tourism taxes in The Bahamas.[2] If the utilization of the planes is lower, then all countries except The Bahamas would have a fiscal loss. However, the net cost to the government would still lead to increases in GDP by a factor of 6–12 times in dollar terms or 0.09–0.47 percentage points of GDP (see Table 2).

The simulations do not look at indirect costs and benefits of the scheme (e.g., possible capital costs for new infrastructure or employment creation in related industries). Furthermore, it does not account for the real potential future benefits. The idea is that the initial costs will uncover a knowledge externality (i.e., they create a market to a destination that Brazilians did not previously know about), and repeat visits could eventually lead to a self-sustaining destination and thus a source of renewed growth for the Caribbean countries.

In sum, the initiative simulated is beneficial if the government can agree on a guarantee scheme that shares the risks and the benefits and if marketing can be direct and cost-effective. A campaign to raise awareness in a new country is expensive in relation to the increase in arrivals. Other complementary cost-reduction measures could make the scheme even more beneficial, for example, by using the direct airlift for freight, and by coordinating airlift to Brazil and South America by establishing a hub in one of the Caribbean islands.

Conclusions

Travel and tourism has earned its place as a major economic contributor in many Caribbean countries, on average accounting for 28 percent of total GDP, but it is clearly experiencing a challenging juncture as a result of tough competition and the weak recovery and sluggish labor market performance of the main source countries. Addressing weaknesses in competitiveness is important given the disadvantage of many Caribbean destinations resulting from high energy prices and strong real exchange rates. In addition, we see a need to diversify export markets. Fast-growing emerging markets in the neighborhood (South America) offer a key opportunity for expanding tourism in the future. In this regard, the Brazil Air Bridge Project initiated by the IDB's Caribbean Department and analyzed here is an example of a way in which the Caribbean region can reset its course for future economic growth. Given the importance of tourism for the Caribbean region, and its connection to air transportation, further ways to promote air connections for the countries should be considered.

[2] The fiscal benefits depend on country-specific tax regimes, which include travel-specific fees and taxes as well as consumption taxes.

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The Caribbean Quarterly Bulletin

REGIONAL SUPPLEMENT: TOURISM, FINALLY LOOKING SOUTH

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