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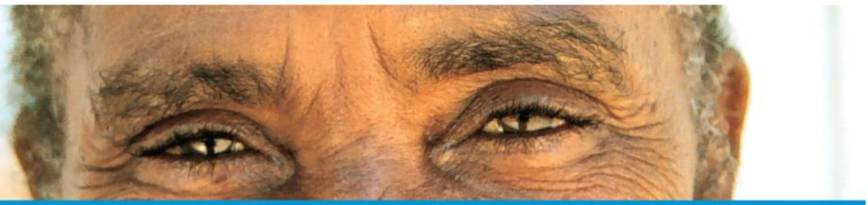
SUMMARY



CARIBBEAN REGION

High fiscal deficit continues to be the main challenge for The Bahamas and Barbados. Jamaica has been complying with the fiscal structural and quantitative targets set in the IMF support program and has completed its fourth review. Growth remains strong in Guyana and Suriname, but 2014 performance will depend on gold prices not falling significantly. In Trinidad and Tobago real growth could outperform last year's value.

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	0.5	9.7	7.7	0.1	-10.4	142.6
Barbados	-0.7	2.2	-4.9	-10.3	-11.4	92.2
2) Medium-debt countries						
The Bahamas	1.9	0.3	-4.2	-6.5	-19.6	55.6
Trinidad & Tobago	1.6	5.6	-0.6	-2.3	10.2	30.3
3) Low-debt or FSO countries						
Suriname	4.7	0.6	-4.5	-6.0	-4.7	29.2
Guyana	4.8	3.5	-2.9	-4.1	-17.9	63.9
Caribbean average	**2.1**	**3.6**	**-1.6**	**-4.9**	**-9.0**	**69.0**

Note: For Guyana, most debt is on concessional terms. FSO = Fund for Special Operations.
Source: World Economic Outlook, April, 2014.

Summary of Recent Developments, by Country

In **The Bahamas,** the government presented its 2014/15 budget, providing an update on its fiscal consolidation plan and the implementation framework of the Value Added Tax (VAT). In particular, the new budget considered a VAT rate of 7.5 percent, In the first nine months of 2013/14 the fiscal deficit narrowed by 32 percent after higher revenue collection and lower capital expenditure. Tourism performance remains strong and growth is expected to recover to 1.3 percent this year.

Barbados' sovereign credit rating was downgraded to B3 by Moody's, which argued that the country is facing continued challenges with high fiscal deficits, rising debt levels, falling international reserves, and increasing pressure on the country's peg to the US dollar. The government has recently revised its fiscal target for 2014/15 and projects a deficit of 6.9 percent of GDP, significantly worse than the initial target of 2.8 percent of GDP.

In Guyana, growth projections of 5.6 percent could be revised downward if gold prices continue to decline. In contrast, the sugar industry is showing signs of revival. Guyana has not yet passed the Anti-Money Laundering/Combating the Financing of Terrorism Act and could be sanctioned internationally if it is not passed by October 2014. New air services that connect Guyana and the US are expected in the next several months.

Jamaica's outlook continues to improve despite continuing challenges ahead. The economy has grown 0.9 percent in FY2013/14 and is expected to grow around 1.5 percent in the current fiscal year. The government returned to the international financial market and issued a 10-year US$800 million Eurobond on July 2nd at an interest rate of 7.625; these inflows will also boost net international reserves.

Suriname's macroeconomic indicators remain strong with 2014 real GDP growth expected at 4 percent and inflation at 4.3 percent. The authorities expect the fiscal position to improve in the current year and have continued expanding economic links with other regions. Suriname has recently signed onto the REDD+ program for US$3.8 million to help reduce greenhouse gas emissions resulting from deforestation.

In **Trinidad and Tobago,** 2014 real growth could reach 2.5 percent, outperforming last year's value. Credit to the private sector showed signs of recovery, while business credit also expanded 3.5 percent in March after 14 month of decline. In contrast, the shortage of US dollars and the excess of liquidity in the banking system continue to present some challenges to the economy.

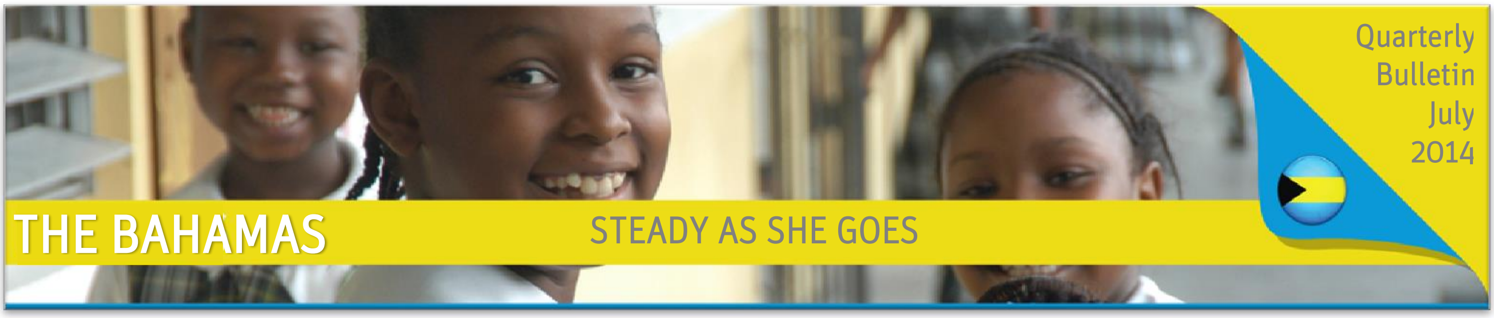
Resent statistics show that real growth in the **Eastern Caribbean Countries** slightly resumed in 2013 and reached 0.7 percent, compared with 0.2 percent in 2012. However, the outlook is improving and growth could accelerate to 1.9 percent in 2014. The IMF has recently held discussions on the common policies of members of the ECCU and positively concluded missions to Antigua and Barbuda, Grenada, and St. Kitts and Nevis.

Special Country Reports: Labor and Social Programs

In the special country reports, we describe the main social and labor programs and policies for each country. We analyze the performance of the labor markets, in particular unemployment rates as they remain high in the Caribbean countries in comparison with other regions. Moreover, the number of social programs has been increasing in the last decade but there is little information if they are well directed and have been successful.

Regional Report: Labor and Social Programs in the Caribbean

While the Caribbean has launched several social and labor programs in the past two decades, systematized information on the nature and extent of these programs along with robust evidence on their effects continues to be scarce. The Caribbean department at the IDB has been working to have a better understanding of these programs. In this issue, the Regional Report describes the main social and labor programs in The Bahamas, Jamaica, Suriname and Trinidad and Tobago and their corresponding monitoring and evaluation systems.



Economic Activity and Inflation

During the second quarter, consistent growth in tourism output and room revenue intake led to greater economic activity. The overall fiscal deficit narrowed, while monetary developments highlighted a widening of the reserve balances and liquidity as a result of foreign currency inflows related to real sector activities.

In 2013, tourism performance remained strong, despite lackluster growth in air arrivals. Consistent growth in the sea arrivals component offset the struggling airlift segment, resulting in total arrivals to The Bahamas of 6.2 million—an all-time high, growing 3.5 percent over the 5.9 million registered in 2012. Visitor expenditure for cruise passengers increased by 19 percent to $412.5 million, whereas expenditure by airlift visitors increased by 6 percent to $1,896.5 million in 2012. The bulk of visitors entered the country via sea at 4.6 million versus 1.4 million air arrivals. By port, arrivals to New Providence drew the majority of visitors to the country with 3.4 million arrivals in comparison with 1.9 million visitors to the Family Islands and 0.8 million to Grand Bahama. Hotel room revenue data for the month of April (latest information available) indicates an increase by 12.3 percent over 2013 as the average daily room rate grew by 12.6 percent to $290.13 and the hotel occupancy rate increased by 3.2 percent to 75.2 percent, respectively. Tourism is likely to continue this level of growth throughout the summer months.

Inflation is historically low. Inflation in The Bahamas averaged about 2 percent over the last ten years - one of the lowest in the region. For the 12 months to April, inflation retreated by 93 basis points to 0.45 percent as a result of declines in specific consumption categories mainly the housing, water, gas, electricity, and fuels category; followed by the clothing, & footwear category; and furnishings, household equipment & maintenance category. In contrast, for the corresponding period last year, these categories mostly increased. Inflation was slightly lower for food and nonalcoholic beverages, tobacco and narcotics, and restaurant and hotels, among others.

Energy prices remain high and continue to accelerate. For the month of April (latest information available) gas prices increased by 1.3 percent to B$5.38[1] and by 1.4 percent to B$5.21 for diesel when compared with 4.0 percent and 2.7 percent a year earlier. For the review period, the fuel surcharge for The Bahamas Electricity Corporation declined by 18.7 percent year-on-year.

[1] The exchange rate is fixed at parity with the US$.

Highlights

Total arrivals to The Bahamas have reached an all-time high of 6.2 million, despite slow growth in air arrivals.

The overall fiscal deficit narrowed for the first 9 months of the FY2013/14 because of higher tax collections.

The newly tabled budget for FY2014/15 revealed a lowered value-added tax rate to 7.5 percent versus the originally proposed 15 percent. The implementation date of July 1, 2014, has now been pushed to January 2015.

An Ambitious Budget Packed With Measures

In fiscal developments, the government of The Bahamas tabled its 2014/15 budget[2] on May 28, which provided updates on its fiscal consolidation plan and detailed the policy framework for the implementation of the value-added tax (delayed to January 2015), which is expected to contribute to fiscal and economic growth and stability in the country.

On the revenue side, the budget communication outlined the following plans:

- Implementation of a value-added tax, at a 7.5 percent rate, down from the originally proposed 15 percent
- Full readiness of the Ministry of Finance by October 1, 2014, as it pertains to its administrative capacity to introduce the value-added tax
- Significant reforms in the following areas: real property taxes, customs operations and procedures, business license upgrading, and tobacco taxation and counter-smuggling, and creation of the Central Revenue Agency.

Reforms in the area of revenue are expected to yield results to the order of 1 percentage point of GDP in FY2014/15. Moreover, web shops (gaming) will be legalized with the expectation that revenue intake from this measure will be 0.14 percentage point of GDP in the next fiscal year.

On the expenditure side, to restrain spending and make spending more efficient, the government of The Bahamas is implementing the following:

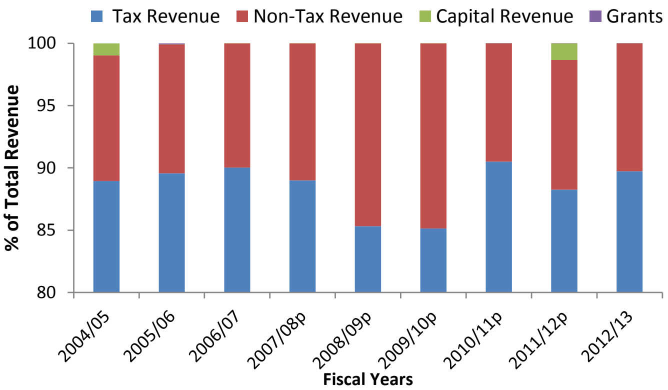
- Improvement of the framework for public financial management by way of the new Financial Administration and Audit Act

[2] See Fiscal Budget at www.bahamas.gov.bs

- Enforcement of strict discipline and accountability in spending across all government ministries, departments, and public corporations
- Restructure of the Ministry of Finance to strengthen its capacity to monitor expenditures across ministries and public corporations
- Introduction of public procurement procedures to implement greater transparency, control, and efficiency in public spending for goods and services
- Strengthening of the planning function to review new investments and projects.
- Improvement of government debt management by establishing a debt management committee.

Once the measures are implemented, by FY2016/17 the debt-to-GDP ratio is likely to fall to 58.5 percent (currently more than 55 percent), with the revenue increasing to 20.5 percent (currently at 16.8 percent) and spending falling to 19.6 percent (currently at 23.2 percent). The reforms will likely be implemented and will yield the expected revenue; however, concerns exist around the timeliness of the reform and the systematic and integrated approach to the consolidation efforts. Over the past year (2013), the International Monetary Fund and the credit rating agencies have supported the commitment of the government on its Medium Term Fiscal Consolidation Plan (MTFP); however, all of these agencies stressed the need for evidence of the execution and implementation toward the goals in the MTFP. Without this, the country has been warned of likely downgrades by one-to-two notches in 2014, thereby losing its investment-grade rating. Currently, the country's rating with S&P is BBB/A2, while the Moody's rating is Baa1.

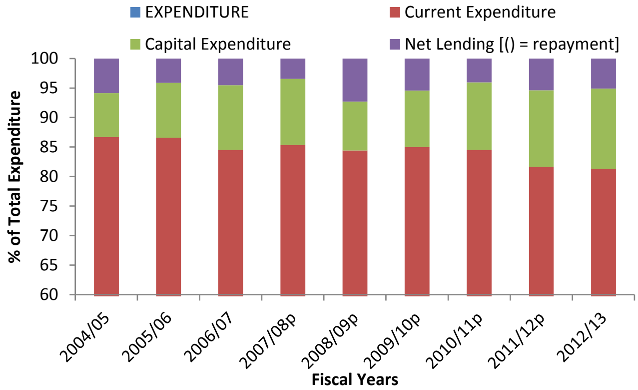
Figure 1. Composition of Total Revenue (FY2004/05 to FY2012/13)



Source: Central Bank of The Bahamas.

So far this fiscal year, revenue collections have improved and capital expenditures have been lower, which resulted in a 32 percent narrowing of the overall deficit. For the 9 months of FY2013/14, budgetary operations indicated a 35.4 percent expansion in nontax collections related to fines, forfeits, and administrative fees alongside proceeds from dividend receipts from ownership in the telecommunications company. Tax revenue grew marginally by 0.8 percent as rate increases led to higher receipt of business fees. Lower expenditure was the result of reduced capital spending related to infrastructure projects and declines in asset acquisitions. Furthermore, public bodies received lower budgetary support by $38 million (46.4 percent). Recurrent spending advanced as a result of higher interest payment and subsidies.

Figure 2. Composition of Total Expenditure (FY2004/05 to FY2012/13)



Source: Central Bank of The Bahamas.

The IDB, along with other development partners, has been working with the Government to assist with its efforts at fiscal consolidation. Such support includes a technical cooperation grant approved in 2011 for The Bahamas and financed by the Japan Special Fund, "Conditions for a Sustainable Fiscal Balance in The Bahamas." This technical cooperation grant funded the preparation of an econometric model to measure the impact of the value-added tax on revenue, income distribution, equity, productivity, poverty, and inflation.

High-Frequency Macroeconomic Indicators

	Last data	Period	Prior data	Period
Annual GDP growth (%)	0.7	2013	1.8	2012
Tourism arrivals (annual % change)	3.5	Dec-13	3.5	Dec-13
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 (%)	-10.3	May-14	-1.9	Oct-13
Inflation	0.5	Apr-14	3.3	Nov-12
Exchange rate (end of period)	1.00	Jun-14	1.00	May-13
Unemployment rate (%)	15.4	Dec-13	16.2	May-14

Introduction

The policy and legal framework of social and labor issues and programs in The Bahamas can be categorized into six areas: healthcare; employment and industrial relations; domestic violence; labor, immigration, technical, and vocational education; children programs; and pensions and national insurance. Given that The Bahamas has recently made great strides toward greater effectiveness in the administration and delivery of social services, this section focuses on these recent developments.

Results from the 2013 Household Expenditure Survey indicated that the poverty rate in The Bahamas accelerated to 12.8 percent from 9.3 percent in 2006. This translates into a poverty line of roughly US$11.64 per person per day or US$4,247 annually[3]. At the household level, 47 percent of all poor households are headed by women. Poverty is highest among Haitian nationals at a rate of 37.7 percent. On average, annual expenditure for Bahamian households is US$53,124, from which 30.5 percent is spent on housing and utilities, 11.4 percent on transportation, and 14.9 percent on food and beverages. Coupled with this, the unemployment rate remains at a historic high of 15.4 percent versus the 8 percent pre-crisis level.

The Structure of Social Services Requires a Change

The development of social policies falls under the mandate of the Ministry of Social Services and Community Development (MSS). The MSS, in its current structure, is responsible for implementing the 10 cash and in-kind programs for individuals and households, including the following: the Food Assistance Program; the Financial Assistance Program; the School Uniform and Footwear Program; the School Feeding Program; the Rent Program; the Water Program; the Electricity Program; the Disability Allowance; Emergency Assistance; Medical Card Assistance; Residential and Nonresidential Social Care Services; and other programs. Table 2 shows the number of programs by type and prevalence of social programs.

This range of noncontributory social protection programs has been in existence in its present form without significant restructuring since the early 1970s. Over the years, the relatively large number of small programs offered by the MSS has become administratively burdensome and prone to abuse with the increase in beneficiaries, particularly since the global recession in 2008. Moreover, these social programs often overlapped with other similar programs such as those offered by the National Insurance Board[4]. Figure 3 shows the social protection and labor market programs by objective. Despite this, data indicated that gaps in coverage are still present, with only 16.7 percent of poor households in receipt of a safety net benefit.

Given the level of overlap with the National Insurance Board and the government's effort to rationalize its budget via spending targets in its fiscal consolidation program, social programs need to be urgently consolidated, restructured, and reformed. Broader service delivery, more efficient use of program budgets, and improved monitoring and evaluation emerged as a high priority for the government. Further support for upgrading the social sector framework was highlighted by the results of IDB's econometric model[5] produced for the government of The Bahamas that anticipates a 4 percent increase in poverty in the initial years of the value-added tax implementation—the cornerstone of the government's current fiscal consolidation plan. One may conclude from these findings that the safety net will very likely experience higher rates of requests for assistance across program categories.

Table 2. Social Protection and Labor Market Programs, by Category (Total)

Program Category	Number of Programs Per Category
Safety Net	22
Cash (Near Cash) Programs	*6*
In-Kind Transfer	*11*
Social Care Services	*4*
Community Based	*1*
Active Labor Market	8
Social Insurance	4
Total	34

Source: Social Protection and Labour Programmes Database, IDB

Technical Corporation and the Reform Process

In 2011, the government of The Bahamas publicly articulated the need to improve its social services program through

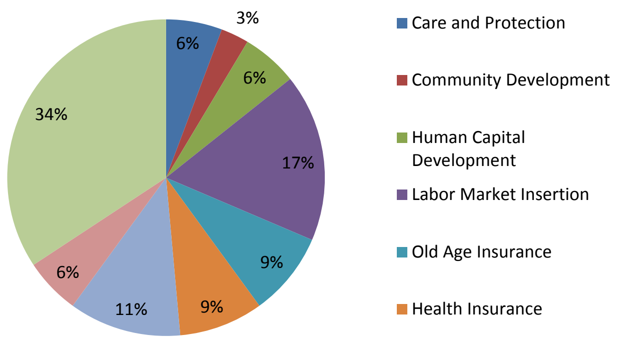
[3] This refers to the amount that an individual needs to meet his or her basic necessities, which are a combination of the minimum expenditure needed for a nutritionally adequate diet as well as the amount needed for basic nonfood necessities. In 2006, the poverty line was set at $2,863.

[4] The National Insurance Board provides a means tested noncontributory pension and assistance benefits targeting the elderly poor. (Social Safety Net Reform Program).

[5] The Bahamas: Impact Assessment of VAT Introduction, November 2013, IDB/FMM.

assistance from IDB. To address this, in late 2011, IDB approved a technical cooperation grant, as a precursor to the existing loan operation, to address the institutional strengthening of the MSS and its Social Safety Net Program. The technical cooperation grant funds were used to support a series of diagnostic studies of the effects of the financial crisis on The Bahamas' social sector (social protection, health, nutrition, early childhood development, labor programs, remittances, targeting, public expenditure review) to generate knowledge and improve social programs and policy decision-making for the most vulnerable groups. It also financed feasibility studies for the current conditional cash transfer (CCT) program.

Figure 3. Social Protection and Labor Market Programs, by Objective



Source: Social Protection and Labour Programmes Database, IDB.

The study found significant and specific deficiencies within the MSS and a duplicity in the provision of services. This situation undermined its ultimate goal of assisting the poor with programs and services that would support a transition from a state of poverty. These challenges formed the core of the work to be conducted in the project with the GoBH. The reports noted that existing programs depended on inadequate targeting mechanisms, which often resulted in nonobjective criteria, to determine eligibility. Moreover, all programs were targeting presumably the same beneficiaries. Each program required a separate application and targeting procedure, and each program had its own criteria for approval, which led to inefficiencies in the overall application process. Also, electronic records and basic program and beneficiary information are difficult to obtain, thereby making consistent and appropriate decisions on the welfare needs of the client challenging.

As a result, the proposed IDB loan considered reforms that ensured programs would achieve their objectives in an efficient and cost-effective manner.

The Conditional Cash Transfer Program

Under the loan program, which resulted from continuous dialogue with the government of The Bahamas, the following reform priorities were identified:

- Consolidation of programs with the MSS
- Transformation of the consolidated programs into a CCT program modality
- Introduction of an objective and transparent targeting mechanism
- Development of monitoring and evaluation systems
- Institutional strengthening of the MSS to allow it to deliver services for vulnerable groups and promote human capital development among beneficiaries

The following specific key reforms were proposed, which would form the framework for social policies in the country:

- Consolidation of existing cash transfer programs and expansion of coverage to a greater share of the poor;
- Reduction of leakage of noncontribution social protection. This would be achieved by introducing a proxy means test, a way of indirectly determining income to better select social programs and beneficiaries in an objective and transparent manner. This would be used for targeted MSS and National Insurance Board programs;
- Strengthening administrative systems in the MSS by reorganizing units, developing a management information system, and requiring documentation of policies and procedures;
- Systematic strengthening of monitoring and evaluation systems based on clear performance objectives so as to measure program performance and poverty impacts;
- Improvement of the capacity of MSS to deliver the consolidated program.

All of this will happen in addition to the institutional strengthening and improved targeting mechanism that will be put in place under the new design.

The reform will also address other social dimensions that will make it unique in many ways. The Bahamas' CCT project will also address educational challenges given the low rates of educational attainment observed over the last few years. Additionally, it will also tackle obesity, a public health problem affecting all age groups in the country. Both features are unique to the design of the CCT program for the country. To address these concerns, the design will require that beneficiaries comply with additional conditions aimed at remedial interventions in these areas.

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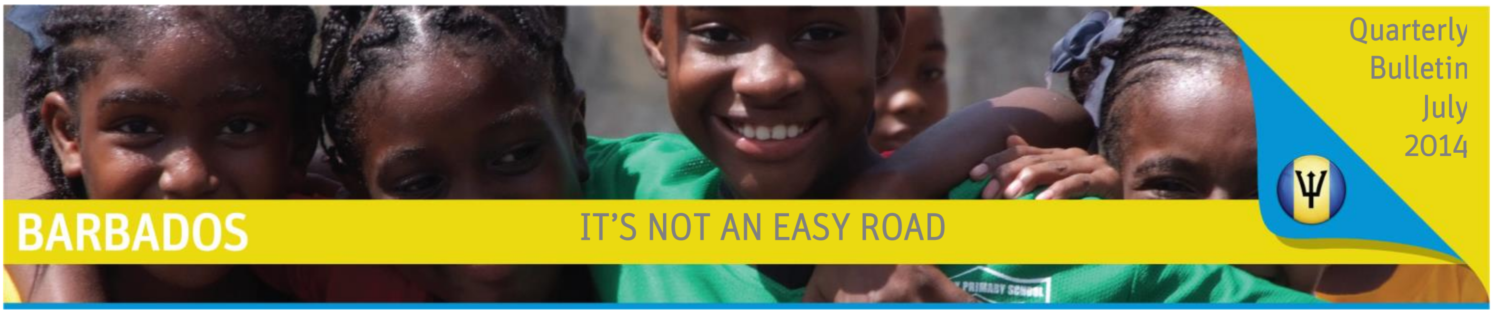
The Bahamas: Selected Indicators

	2009	2010	2011	2012	2013 (E)	2014 (F)
(Annual percentage changes, unless otherwise indicated)						
Real Sector - IMF						
Real GDP	-5.4	1.0	2.0	1.8	0.7	2.3
Nominal GDP	-5	-1	5	4	2.5	5.4
Inflation (end of period) - Central Bank	1.3	1.4	3.2	1.9	2.0	2.0
External Sector - IMF						
Exports of goods and services	-14.7	4.9	7.9	8.3	-1.0	7.7
Imports of goods and services	-18.9	1.1	12.9	15.6	3.9	0.1
Current account (percentage of GDP)	-10.5	-10.1	-13.5	-17.5	-19.6	-15.4
FDI (percentage of GDP)	9.4	11.1	8.5	4.4	5.0	4.9
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)						
Central Government - Ministry of Finance	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Revenue and grants	16.8	18.1	18.4	16.6	17.9	17.1
of which: tax revenue	14.4	16.4	16.2	14.9	15.9	16.9
Total expenditure	21.3	22.9	24.1	23.3	23.2	21.6
Capital expenditure			4.9	4.2	3.4	3
Primary balance	-0.9	-1.0	-3.3	-4.1	-2.4	0.4
Overall balance	-4.4	-3.2	-5.6	-6.5	-5.1	-2.4
Consolidate NFPS balance						
Debt Indicators - IMF & Ministry of Finance						
Central government debt - Ministry of Finance	42.5	47.2	48.8	53.1	56.3	56.6
Central government debt over revenues - IMF (aligned with MTFP)	20.4	4.5	8.1	4.0	n.a	n.a.
External public debt (end of period) - IMF	9.8	11.6	13.2	17.8	17.8	19.7
External debt service as percentage of exports of goods and services - IMF	24.7	11.1	8.0	7.4	11.3	4.9

Note: FDI= foreign direct investment; IFS = International Financial Statistics; (F) Forecasts numbers for 2014.
Source: Ministry of Finance; projections used are International Monetary Fund World Economic Outlook October 2013.



Recent Developments

Barbados' costs for obtaining commercial loans and issuing bonds are likely to increase given the triple-notch downgrade of the government's bond by Moody's credit rating agency to B3. This is the country's third consecutive downgrade Moody's Investors Service since June 2011 where its credit rating moved from investment grade to junk status (see Table 1). Citing continued challenges with high fiscal deficits, rising debt levels, falling international reserves, and increasing pressure on the country's peg to the US dollar, Moody's lowered Barbados' government bond rating from Ba3 in December 2013 to B3 6 months later. The rating agency maintained a negative outlook and hinted of further downgrade if Barbados is faced with challenges of meeting its debt service and maintaining an acceptable level of international reserves. However, Barbados' outlook can improve if it reverses the widening fiscal gap, stabilizes debt ratios, achieves positive growth rates, reduces short-term debt issuance, and steadily increases international reserves. This downgrade has increased the interest rate on the 2013 loan from Credit Suisse AG Cayman Islands by 1.5 percent given the terms of the loan agreement. A worsened credit rating not only affects the cost of borrowing but also has implications for investments in Barbados.

Table 1. Barbados' Credit Rating History

Date	Government Bonds		Outlook	Status
	Foreign Currency	Local Currency		
Jun-14	B3	B3	Negative	Below Investment
Dec-13	Ba3	Ba3	Negative	Below Investment
Dec-12	Ba1	Ba1	Negative	Below Investment
Jun-11	Baa3	Baa3	Negative	Investment
Oct-09	Baa3	Baa2	Stable	Investment

Source: Moody's Investors Service.

A number of adjustment and reform measures have been recommended to the Barbadian government on achieving a sustainable growth path and improving the fiscal and debt position. A team from the International Monetary Fund visited Barbados during June 2–6, 2014, to review recent economic developments and discuss policy priorities. The Fund noted that growth inducing measures and fiscal consolidation are urgent to stabilize the macroeconomy in Barbados. The government was therefore advised to find offsetting fiscal measures to cater for those measures that were short of initial targets. Further recommendations from the Fund were to reform state-owned enterprises and reduce expenditure in social programs that are not targeted to the most vulnerable in society. Capital investment projects and lower production costs, including unit labor cost, have been identified as areas of promoting growth.

Highlights

Barbados' sovereign credit rating was downgraded by Moody's Investors Service and now stands at six notches below investment grade.

When compared with other Caribbean countries, Barbados maintains a good record of social stability, good governance and low levels of corruption and poverty.

Barbados has many features that has resulted in its social partnership being used as a tool to successfully deal with macroeconomic challenges.

The cash flow position and the high financing needs are the most pressing issues for Barbados. The government's revenue has followed a downward trajectory since fiscal year 2011/12, when the increase in the rate of value-added tax generated almost 2 percent of GDP in additional revenue. Total revenue declined by around 17 percent between 2013/14 and 2011/12 as domestic economic activity fell. Likewise, controlling the growth in current expenditure has been difficult given the increasing cost of debt service.[1] Despite efforts to reduce outlays on transfers and subsidies and goods and services, current expenditure grew by 6.1 percent in 2013/14 over 2011/12. Consequently, the fiscal deficit as a percent of GDP increased from 4.4 percent in 2011/12 to 8.8 percent and 12.3 percent in the subsequent two fiscal years. The financing of these large fiscal deficits has been identified by the International Monetary Fund to be one of the more critical problems for the government in the short term.[2]

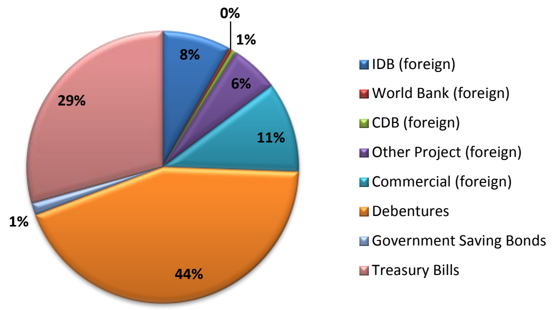
The government of Barbados has increased its borrowing limits on Treasury bills and soft loans. A resolution was passed in parliament to increase the T-bills debt ceiling by US$0.625 billion to US$2 billion. The increase is expected to represent a more realistic debt limit for the country. The Special Loans Act was amended to expand the limit from US$0.75 billion to US$1.25 billion. This increase will allow the government to have greater access to bilateral borrowing at rates much lower than in the international capital market,[3] which can contain the growth of debt service costs.

Government financing needs for 2014/15 are estimated at US$698 million, with the share of foreign financing expected to increase over the previous year. It is estimated that most of the foreign financing will be sourced through bond issuances to

[1] Interest payment to GDP increased from 3.9 percent in the 1990s to 4.1 percent and 7.2 percent in the following decade and 2013/14, respectively.
[2] See "Cash Flow Most Pressing." *Sunday Sun*, June 8, 2014. www.nationnews.com
[3] Recently, interest rates on government bonds have been quoted above 7 percent compared with 3 percent for bilateral borrowing.

commercial entities. The IDB is forecasted to provide 8 percent of total financing and 32 percent of total net foreign financing. The government's reliance on treasury bills is forecasted to fall from 45 percent in 2013/14 to 29 percent in 2014/15 (see Figure 1). The high issuance of Treasury bills and Treasury notes was highlighted by the International Monetary Fund and Moody's, with both institutions advising for the limitation of the scale of intervention by the Central Bank in the T-bill market in order to allay the pressure on the pegged exchange rate.

Figure 1. Financing Sources (% of Total Financing)



Source: Government of Barbados Estimates 2014/15.

Estimated Fiscal Outturn for 2014/15

The Government of Barbados has revised its fiscal balance target for FY2014/15 given the below-than-expected performance in the revenue-earning sectors. The government projects a fiscal balance of –6.9 percent of GDP for 2014/15, which is significantly worse than the *Barbados Growth and Development Strategy 2013–2020* target of –2.8 percent. Compared with FY2013/14, tax revenues from income and profits are forecasted to increase by 10.3 percent. The municipal solid waste tax on the site value of the improved value of land, which was announced to bring in US$24.7 million in 2014/15, is now estimated by the government to add US$4 million compared with 2013/14. However, incomes from the value-added-tax are anticipated to bring in US$463.9 million, 5 percent higher than in the previous year. The anticipated increase in value-added tax revenues is expected to be the main driver behind the overall growth in government tax revenues (7.7 percent).

The government is expected to spend more on capital projects and lower outlays in current expenditure given a significant reduction in transfers and subsidies. The start of some public projects (special roads and bridges package) in 2014/15 should double capital expenditure to GDP, compared with a 5-year average of 1 percent. Moreover, over the next few years, Government is expecting a major growth factor from private investments in tourism-related projects, like Port Ferdinand Marina, Sandals Resort, Sugar Point Cruise Pier and the refurbishment of hotels and other tourism facilities. These projects are projected by the Central Bank to contribute to slight growth of 0.3 percent in 2014. Current expenditure is projected to decline by 6.2 percent year on year, given a significant drop in transfers and subsidies. The fiscal adjustment measures, such as the removal of the tuition payment for students attending the University of the West Indies and the reform of 19 state-owned enterprises, are estimated to reduce transfers and subsidies by US$120 million (or 1.4 percent of GDP). Stability of the macroeconomy depends on the success of the fiscal adjustment program.

Financial Sector and Foreign Trade Developments

The government has approved the recommendations of the judicial manager on the restructuring of the operations of the CLICO, which will be taken over by a new insurance company by the end of this year.[4] One recommendation is to make provisions for policyholders of life, pension, and health plans to receive the full value of their policies. The restructuring will also entail the creation of a new company, NEWCO. The bonds issued to NEWCO by property-holding entities will be guaranteed by the government. This will imply an increase in total debt, which stood at 99.5 percent at the end of March 2014 (excludes holdings of the National Insurance Scheme).

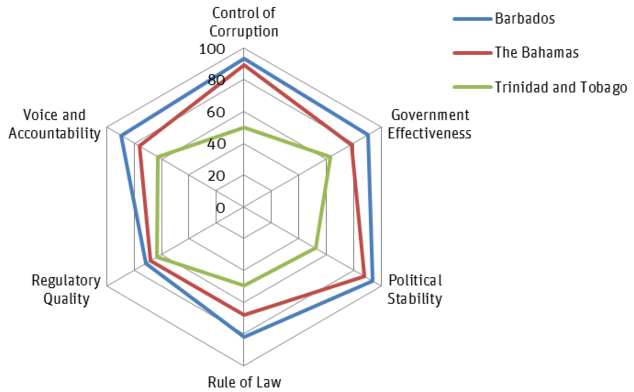
The government is drafting a new foreign policy that looks at strengthening ties between Barbados and new neighbors. Recent discussions with numerous foreign governments[5] centered on improving bilateral engagements in order to enable better trade and other commercial activities. Grant assistance is expected from the People's Republic of China for projects in renewable energy, education, and agriculture. There were also talks with India for a double taxation treaty and an air service agreement, as well as technical assistance from foreign governments in information technology and renewable energy. The deepened relations with non-traditional countries presents numerous opportunities for diversification of the export base and an increase in trade.

High-Frequency Macroeconomic Indicators	Last Data	Period	Prior Data	Period
Annual GDP growth (%)	0.0	Jun-14	-0.4	Mar-14
Tourism arrivals (annual % change)	-0.2	Jun-14	-1.1	Mar-14
Nonperforming loans (%)	10.5	Mar-14	11.3	Sep-13
Inflation	1.7	Jun-14	1.7	Mar-14
Unemployment rate (%)	11.7	Jun-14	11.7	Dec-13

[4] See "CLICO Cheer." *Barbados Today*, May 14, 2014. www.barbadostoday.bb/2014/05/14/clico-cheer
[5] Some of the governments include those of Brazil, China, India, Indonesia, Malaysia, Slovakia, and countries in Africa.

Barbados continues to perform well on a social level. It ranked 45th out of 178 countries on the Index of Economic Freedom published by The Heritage Foundation and 15th on the Corruption Perception Index published by Transparency International. Social stability, sound institutions, and an effective consensus-building mechanism are recognized as important social strengths. According to the Barbados Country Assessment of Living Conditions, individual poverty stands at 19 percent, one of the lowest measures in the Caribbean. Barbados' governance indices have also performed better than have other Caribbean countries (see Figure 2). Despite these favorable indicators, low growth and fiscal instability are weaknesses that can undermine the ability to sustain sound social conditions.

Figure 2. World Governance Indicators

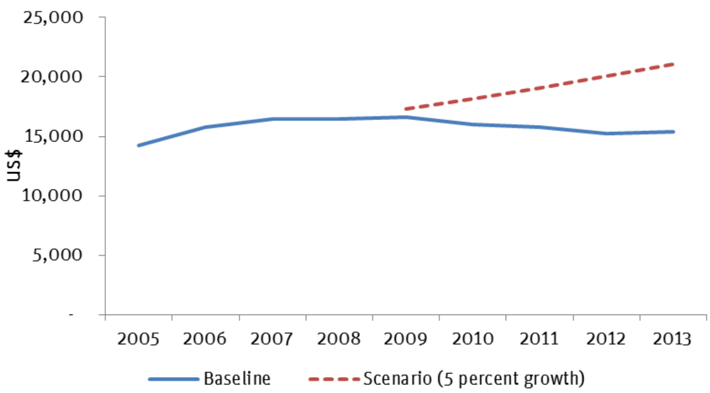


Source: World Bank.

The slow economic recovery of the global economy presents major challenges for Barbados and many other Caribbean countries. For Barbados, its macroeconomic position has deteriorated since 2008, with the economy being in recession for most of the past five years. Per capita income fell by 7 percent between 2008 and 2013. Moreover, if pre-crisis growth trends of 5 percent had continued through to 2013, per capita income loss is estimated around US$5,000 over the same period. (see Figure 3). A continual falloff in GDP per capita would affect living standards, which has been highly rated by the Human Development Index over the years.[6]

High labor productivity is a vital element to achieve sustainable economic growth. This relationship is recognized by the government of Barbados through significant investment in education, training, health and nutrition since the 1950s (Downes 2001). In Barbados, labor market regulations comprise legislation, common law doctrines, custom, and policy. The country does not have an Employment Act or a minimum wage; however, there are legislations for sugar workers (Sugar Workers Act); hotel, restaurant, and shop workers (Shops Act); and community, social, and personal service workers (Domestic Employees Act). These pieces of legislation specify periods of work and payments for overtime.

Figure 3. Per Capita Income Loss



Source: Staff calculation and World Economic Outlook.

The Social Partnership is one key area of labor–employer relations in Barbados that has been used to promote greater productivity. According to Minto-Coy (2011), a social partnership could provide stability for national growth and development. The formation of the social partnership came at a time when Barbados was experiencing serious macroeconomic challenges in the early 1990s. Between 1990 and 1992, GDP contracted by 4 percent and foreign exchange holdings fell to record low at under 1 week of import cover (see Table 2). Both unemployment and inflation was high, and the fiscal position worsened by 2.5 percentage points in 1990 over the average of the previous 5 years. As such, Barbados entered into a stabilization program with the International Monetary Fund that focused on monetary and fiscal policies. Given that some of these policies—in particular, a currency devaluation—were opposed by the main social groups, a collaborative proposal to achieve the desired goal of stable, non-inflationary growth and a viable balance of payments was proposed (Codrington 2003). Furthermore, a currency devaluation in the context of the Barbadian economy was seen to have higher costs than benefits. This contributed to the signing of a tripartite agreement (government, private sector, and trade unions) in 1993.

[6] Barbados was ranked 38th on the 2012 Human Development Index, the highest position among IDB's borrowing member countries.

Table 2. Selected Macroeconomic Indicators: Before and After Social Partnership

	1989	1990	1991	1992	1993	1994
GDP growth	3.6	-3.3	-3.9	-7.0	1.2	3.8
Inflation	6.2	3.1	6.0	6.1	1.1	0.7
Unemployment rate	15.6	16.1	17.3	23.0	24.3	21.8
Primary fiscal balance (% GDP)	1.2	-2.8	2.2	2.8	3.3	1.9
Overall fiscal balance (%GDP)	-2.1	-6.4	-1.6	-2.0	-0.2	-1.7
Import reserve cover for goods (weeks)	8.9	3.8	0.8	10.0	7.4	11.6
Current account balance (% GDP)	0.9	-2.2	-3.0	5.6	3.7	5.0

Source: Central Bank of Barbados.

The Social Partnership in Barbados was developed to improve productivity and increase efficiency, thus reducing waste and enhancing national performance so as to attract investment and create employment opportunities. The achievement of these objectives was based on the mutual commitment of the parties to clearly defined initiatives, including the establishment of a framework for workers' security of employment and a reduction in labor disputes. The first tripartite protocol of the social partnership was the Prices and Income Policy (1993–1995). Since then, five other protocols have been signed that have been built on previous ones (see Table 3). In general, the protocols were designed to reverse any erosion of competitiveness by addressing specific economic problems and their social consequences.

Table 3. Overview of Barbados' Social Partnership

Protocol for the Implementation of a Prices and Incomes Policy 1993-1995
Reform of the tax regime to support the protocol
Exchange rate pegged at BDS$2=US$1
Economic expansion via competitiveness
Reduce unemployment and social dislocation
Freeze on wages, compensation, and prices
Monitor prices
Participatory decision making and shared gains
Extablishment of a productivity Board
Protocol for the Implementation of a Prices and Incomes Policy 1995-1997
Wage restraint
Performance-related pay
Job evaluation
Negotiated job enhancement
Protocol for the Implementation of a Social Partnership 1998-2000
Consolidation and institutionalisation of social dialogue
Commitment to a stable industrial relations climate
Increase employment to reduce social disparities
Protocol IV of the Social Partnership 2001-2004
Emphasis on making society more exclusive
More equitable distribution of growth
Protocol V of the Social Partnership 2005-2007
Emphasis on occupational health and safety
Address issues affecting the disabled community
Address environmental concerns
Focus on disaster preparedness
Initiative for service excellence
Secretariat for social partners
Support for the CARICOM single market and economy
Protocol VI of the Social Partnership 2011-2013
Focus on becoming "The Number One Entrepreneurial Hub in the World" through investment and skills development
Manage health issues, especially chronic illness
Strengthen environmental protection and the Green Economy
Develop a knowledge-driven economy

Source: Government of Barbados.

Barbados has conditions to facilitate an effective social partnership. Codrington (2003) identified key features that have been responsible for the success of Barbados' partnership. Given the high implications of the macroeconomic challenges in the 1990s, the stakes were high for all groups in the partnership to ensure that cooperation existed in an effective manner to return the country to a stable path. Barbados also has a history of consensus among all fractions of society, a formal social partnership framework that is headed by the highest powers in each group (Prime Minister, Head of the Private Sector Agency, and Head of the Confederation of Trade Unions), a monitoring mechanism, and flexibility to accommodate societal changes.

Barbados has benefited from the existence of the tripartite group. The social partnership has been credited for the reduced industrial action in Barbados (Gomes 2000). Minto-Coy (2011) attributed higher competitiveness, improved ranking in the Human Development Index, and reduced dependence on agriculture and concessionary development financing to the existence of the partnership. Minto-Coy added that the Barbadian society has gained from increased trust and cooperation which has contributed to stability, growth, and development. This, she noted, is quite uncommon in developing countries.

There are limitations of the social partnership. Archibald et al. (2008) highlighted some constraints to labor market flexibility, in particular, rigidities in working hours, employment, and redundancy. The Shops Act, for example, limits night work to 10 pm unless permission is obtained from the Chief Labour Officer. Weekend work and overtime pay also face limitations. Moore (2012) attributed rigidity in employment to the need for employers having to notify and seek approval from the union or ministry for group dismissals under the Social Partnership Agreement, as well as the existence of priority rules for dismissals and reemployment formulated by collective agreement.

Conclusion

The Social Partnership was adopted in Barbados as a way of dealing with macroeconomic management challenges. The partnership has been praised for achieving success in promoting economic development, especially during critical periods. Although there is more scope for improvement of the partnership, the Barbadian experience has many lessons applicable to other countries in the region during times of severe macroeconomic disequilibrium.

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Barbados: Selected Indicators

	2009	2010	2011	2012	2013	2014F
(Annual percentage changes, unless otherwise indicated)						
Real Sector						
Real GDP	-4.1	0.3	0.8	0.0	0.2	0.3
Nominal GDP	1.1	-3.5	-1.5	-3.3	0.1	0.7
Inflation (end of period)	3.6	5.8	9.4	4.5	1.8	2.2
Unemployment	10.0	10.8	11.2	11.6	11.7	15.6
External Sector						
Exports of goods and services (% change)	-13.7	14.0	8.7	4.3	-3.2	3.0
Imports of goods and services (% change)	-23.4	7.8	16.6	-7.6	-0.3	-2.6
Current account (percent of GDP)	-6.8	-5.8	-12.8	-9.5	-10.4	-7.7
International reserves (USD mill)	738.7	711.9	707.4	728.9	572.1	n.a
International reserves cover (weeks)	20.9	18.3	17.7	19.9	15.6	n.a
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)						
Public Sector						
Central government current expenditure	30.6	32.9	32.2	34.3	36.8	n.a
Central government capital expenditure	1.9	1.5	1.4	1.5	1.4	n.a
Central government primary balance	-2.5	-3.0	1.6	-2.0	-5.1	n.a
Central government overall balance	-7.2	-8.7	-4.4	-8.8	-12.3	n.a
Debt Indicators						
General government debt	63.2	72.0	77.8	85.7	97.6	n.a
Central government debt over revenues	249.6	280.0	266.4	309.1	370.4	n.a
External public debt (end of period)	28.6	34.2	35.1	34.9	37.4	n.a
External debt service as percentage of exports of goods and services	7.0	16.7	6.6	6.9	6.6	n.a

Note: (F) Forecasts numbers for 2014.

Source: Central Bank of Barbados, International Monetary Fund World Economic Outlook April 2014.

Commodity Price Volatility Begins to Weigh Heavily on Drivers of Growth

The slump in gold prices has dampened growth prospects for Guyana in the near and medium term. Despite growing at an impressive 5.2 percent in 2013, the authorities could revise downward their 5.6 percent projected growth for 2014 if gold prices continue declining. Nonetheless, Guyana is expected to be one of the fastest growing economies in the Latin America and Caribbean region at 4.4 percent in 2014 (as projected by the World Bank). Sustained growth momentum is likely to hinge on the resurgence of sugar and the continued good performance of rice and success in maintaining a high level expenditures on capital projects.

The sugar industry shows signs of revival. The Skeldon Estate has reached its sugar production target of 13,795 tonnes for the year's first crop, according to the Government Information Agency. The performance easily outpaces last year's first-crop production of 6633 tonnes. The second crop is expected to produce 26969 tonnes of sugar and meet the 2014 forecast.

The European Union's withdrawal of support for the sugar industry has raised the urgency of implementing tangible structural reforms in the sector. The sugar industry is Guyana's largest industrial employer, comprising a workforce of 18,000 persons. In terms of economic impact, an estimated 120,000 individuals are affected by the industry; however, sugar accounted for only 3.9 percent of GDP in 2013. The Guyana Sugar Corporation reports that its strategic turnaround plan will require an investment of US$95M to improve agriculture operations and to refurbish sugar factories.

Medium-term prospects for gold prices are less buoyant than before. Major investment banks forecast that gold price will average $1,209 per ounce in 2014. Over the past decade, gold price movements have tended to be countercyclical. However, rebounding equity and housing markets as well as low inflation expectations in most major developing and emerging economies have severely reduced the (countercyclical) demand for gold as a safe haven asset, pushing the price down.

Breaking even. As gold prices continue to decline, for Guyana it would be critical to know what is the breakeven point in mining that determines the viability of current production levels (See Figure 1). Likewise, authorities should be ready to lend assistance to small- and medium-scale miners to promote sustainable practices and technologies that yield higher recovery rates so as to minimize adverse environmental impacts. The government has recently announced that it will auction off and open more land to gold mining. However, in an environ with enforcement and regulatory weaknesses, the opening of more mining sites could tax even more the limited enforcement capacity and result in increased deforestation and undermine the Low Carbon Development Strategy.

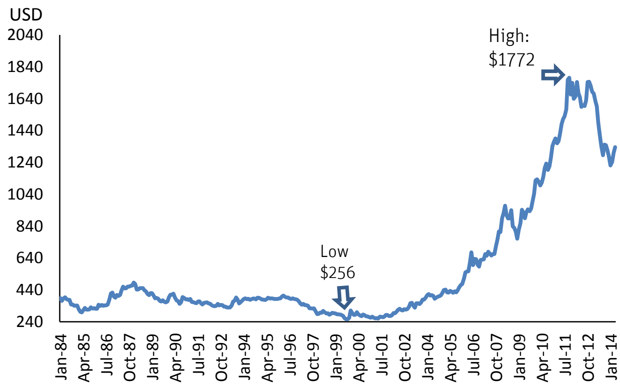
Highlights

Real GDP growth continue to be driven by the resurgence of the sugar industry, good performance of rice production and high level expenditures in capital projects. However, declining gold prices could force the authorities to revise downward their 2014 real growth projection of 5.6 percent.

Guyana failed to comply with the Anti-Money Laundering/Combating the Financing of Terrorism Act, which could affect negatively foreign investments in the future.

Efforts to convert Guyana into an attractive tourism destination continue.

Figure 1. Gold Spot Prices (US dollar per ounce)



Source: World Bank. Global Economic Monitor Commodities.

Rice shipments and diversification at slow pace in 2014. So far, the first rice crop for 2014 has been more than 300,000 tonnes, but only 61,000 tonnes of paddy and white rice have been shipped to Venezuela as per the rice compensation agreement that allows rice to be bartered for oil. By this time last year, approximately 140,000 tonnes had already been shipped.

Besides perennial weather and water management risks, two pressing challenges continue to face the sector: late payments from millers to farmers and slow diversification into other markets other than Venezuela. According to the agreement, the Guyana Rice Development Board receives payment from the government only when physical delivery is made to Caracas. Then, the Board pays millers, who, in turn, pay farmers. Farmers have been bitterly complaining about late payments that affect their payment of outstanding financial obligations and planting preparation for succeeding crops. Farmers have recently met with the banking sector, millers, and the Board to discuss the matter. The second challenge consists on diversification to third markets and an increase in value-added processing products. A

new export deal to Belize for 33,000 tonnes has been secured along with standing deals with Haiti for 50,000 tonnes, and a Jamaican deal that could increase exports to a total of 90,000 tonnes. Larger export deals are needed to assure robustness and resilience of the sector and the feasibility of new processed rice products, such as rice cakes, cereals, wine, and flour.

Governance and Policy Issues

Guyana has once again failed to pass the Anti-Money Laundering/Combating the Financing of Terrorism Act. The continuing impasse in addressing Guyana's legislative deficiencies has led the Caribbean Financial Action Task Force to consider Guyana a risk to the international financial system. Task Force members have been advised to implement further countermeasures to protect their financial systems from the ongoing money-laundering and terrorist-financing risks emanating from Guyana. Also, the Caribbean Financial Action Task Force has referred Guyana to the Financial Action Task Force on Money Laundering, which, in its June meetings, decided to complete a targeted review by October 2014. If Guyana can pass legislation by this time, it can avoid sanctions. Sanctions may dampen the interest of foreign companies in the country, reducing willing to participate in international bidding processes, and could also increase transaction costs associated with enhanced background and verification checks of parties involved in cross-border transfers.

The Ministry of Finance tabled a proposal to restore budget cuts. After an initial budget presentation in March that called for a GY$215.8 billion of spending, the Opposition trimmed expenditures significantly by GY$37.4 billion in April. In June. The Ministry of Finance reported that restoration of cuts were imminent. In light of declining royalty and tax revenues from faltering gold declarations (off 20 percent from levels declared in the January to May period in 2013), the fiscal gap could worsen if plans to spend according to the original budget proceed forward and revenues do not recover significantly.

Other Economic Developments

According to Finance Minister Ashni Singh, Guyana has faithfully met its obligations under the PetroCaribe agreement. From 2012 to 2013, Guyana's debt to PetroCaribe fell to US$198 million from US$364 million. Guyana pays its debt for fuel shipments in rice and paddy. Singh has also noted that Guyana's total external debt fell 8.3 percent to US$1.2 billion over the same period, largely as a result of two compensation agreements under the PetroCaribe deal.

The Guyana Geology and Mines Commission will implement a new system under new Chairman Clinton Williams. The Commission has stated that the industry has been held back by poor or absent infrastructure, insufficient regulatory enforcement, and poor security. One of the most issues to address is the abatement of the use of mercury in gold extraction. The Commission intends to embark on a $1 billion project to develop machinery that will make mercury—which is toxic to humans and ecosystems—obsolete (Stabroek News, April 11, 2014).

Foreign direct investment fell to US$214 million in 2013, according to the Economic Commission for Latin America and the Caribbean's Foreign Direct Investment Report. Forthcoming investments are mainly centered in the oil and gas as well as mining sectors, with Guyana Gold Fields' (Canada) attracting a US $249MM investment. Tullow Oil and Repsol will also make investments. Large-scale hydroelectric developments and the construction of an ethanol plant are not currently moving forward, according to the report. Trinidad & Tobago's Citrus Growers have also announced a US$25MM planned investment.

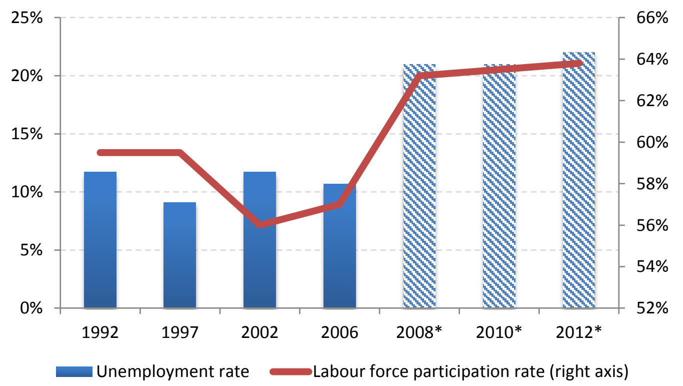
US-registered Dynamic Airways started to offer direct service between New York City and Guyana but has now suspended the service. Dynamic Airlines started service on June 26 but has encountered problems with ground operations handling contractors and securing all the necessary permissions at JFK Airport in New York City, forcing a temporary suspension of services until August. Dynamic is one of three airlines (along with Copa Airlines and Insel Air) that have or will commence services in Guyana to the United States in the next several months.

Moreover, there are joint initiatives to market a common tourism package. Tourism Minister Irfaan Ali met with his counterpart in St. Vincent and the Grenadines to discuss a strategy to make both destinations visible and competitive in the international market. The agreement is seen as particularly timely, considering that both destinations are in the process of upgrading their international airports.

High-Frequency Macroeconomic Indicators	Last data	Period	Prior data	Period
Annual GDP growth (%)	5.2	2013	4.8	2012
Exports (12-month growth)	-2.8	2013	23.6	2012
Imports (12-month growth)	-7.5	2013	11.6	2012
Private sector credit growth (%)	14.5	2013	24.7	2012
Inflation	0.9	2013	3.5	2012
Exchange rate (end of period)	206.3	2013	204.8	2012

A recent review of the labor market in Guyana over the past decade has identified many challenges[1]. The major ones are the mismatch between the educational system and the labor needs of the labor market, low levels of labor productivity, high migration rates (brain drain), high youth unemployment, and limited advances on manpower development and regulatory review. These challenges are compounded by the continuing growth of informality and an inadequate statistical capacity to generate accurate and timely labor market information, which, in turn, impedes the planning of appropriate interventions, and even market clearing. Over the medium term, the creation of green jobs in the context of adjusting Guyana's economy into a low-carbon growth trajectory will emerge as a likely new issue.

Figure 2. Labor Force Participation and Unemployment

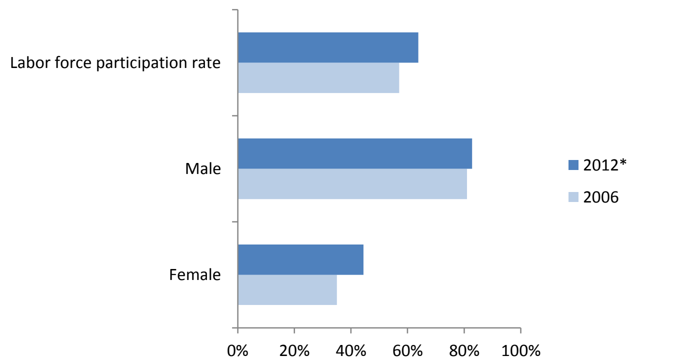


Sources: Bureau of Statistics, Guyana, for the period up to 2006; World Bank estimates (World Development Report) thereafter.

Guyana's estimated active labor force is 308,766 (World Bank 2012). Of this number, female workers constitute 44.4 percent (see Figure 3), yielding a female labor force participation rate than is lower than many other lower middle-income countries and neighboring Caribbean states, that range in the 70 percent range. Estimated labor force has grown steadily from a base of 285,000 in 2006 as the economy expanded at a positive rate for 8 consecutive years, benefiting from the combination of debt relief; buoyant or rising commodity prices for rice, minerals, and timber; and improving business climate. The total force, however, is constrained by low population growth and high migration rates.

On the positive side, Guyana boasts a low-cost, highly literate, and flexible workforce. For example, the legal minimum wage for the private sector per hour in Guyana was reported as US$1.01 in 2013 (US$162.85/month), ranking toward the low end compared with other Caribbean states. Guyana surpassed only St. Lucia (US$0.64), Haiti (US$0.60), and the Dominican Republic (US$0.41) in minimum wage costs (World Bank Enterprise Surveys-Minimum Wages). The country, moreover, has good school enrollment statistics (84.8 percent primary gross enrollment in 2010) and a literacy rate of 92 percent. Last, the country has a low score on the labor rigidity index that weights regulations on labor contracts, especially temporary ones, minimum wages, along with protections against dismissals. It is very easy to hire and fire in the Guyanese private sector, slightly less so in the public sector and the sugar industry where trade unions are present and stronger. There are no maximum terms on a single fixed-term labor contract, so employees have less protection than in other jurisdictions, creating a flexible labor market (USAID Guyana Economic Performance Assessment 2007).

Figure 3. Labor Force Participation, by Gender, 2006 and 2012



Source: Bureau of Statistics, Guyana for 2006; and World Bank estimates for 2012.

Despite the aforementioned positive aspects that favor employers and should enhance competitiveness, Guyana labor markets must overcome many challenges. The market is malfunctioning. At the same time, there are reports of chronic shortages of skilled workers, there are indications that the market does not seem to be able to provide sufficient incentives to retain a high proportion of college-educated persons. When these two features are combined with deficient infrastructure, namely intermittent and high cost electrical service, that combine to reduce overall labor productivity and slow employment expansion.

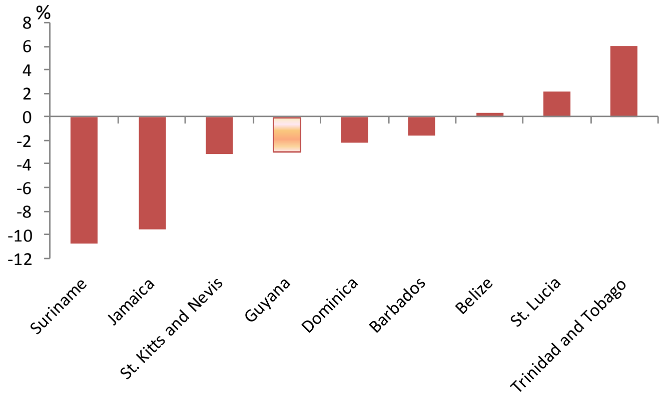
In the 2010 International Finance Corporation Enterprise Survey, businesses of all sizes reported that an "inadequately educated workforce" is the leading obstacle to growing their business. In a more recent 2013 Labor Market Intelligence Survey, 317 surveyed businesses, employing approximately 17,000 persons, reported that 39 percent of staff were rated as having basic skills, whereas only 15 percent were rated as having high skill sets. In terms of the next 2 years, these firms

[1] See CTVET Report (2013)

estimated demand for more than 300 high skilled persons such as electricians, mechanics, machinists, computer programmers, information technology specialists, and managers/supervisors, and they doubt whether these needs can be met. Technical and vocational schools do not seem to be producing the talent they want and the university system does not seem to be producing sufficient persons in science, technology, engineering, and mathematics (STEM).

It is understandable that productivity rates lag and unemployment rates tend to be higher than normal. Despite indications that value per agricultural worker is improving, especially in the rice sector, the most recent productivity figure dating from 2010, indicates a year to year decline of −2.9 percent for labor productivity in aggregate. This figure is better than many other Caribbean states but still it lies in negative territory (see Figure 4). Overall unemployment is estimated by the World Bank to be higher in recent years (2011 and 2012) than the last official government-reported rate of 10.7 percent for 2006 (see Figure 2).

Figure 4. Annual Labor Productivity Growth for Selected Caribbean States, 2010



Source: International Finance Corporation/World Bank. 2010.

High unemployment and huge outmigration creates many policy challenges. Youth unemployment rates (15-24 years old) tend to be superior to that of many smaller Eastern Caribbean states but worse than Jamaica, Trinidad and Tobago, Barbados, according to the most recent International Labor Organization, World Bank, and national statistical data available (Wade 2012). The difficulties in finding employment, in turn, contribute to net migration rates. According to the CIA World Factbook, Guyana has the highest net migration rate in the Caribbean (9.67 migrants per 1000 population estimated in 2014), and the closest Caribbean state with a high net migration is St. Vincent and the Grenadines at 9.60 per thousand persons. Moreover, approximately 76.9 percent of the university graduates migrate abroad (Human Development Report 2009). This represents a significant drain of highly educated persons.

Policy Recommendations

- **Technical and vocational education and training (TVET) is not in sync with the needs of the private sector.** First, there is a lack of adequate funding to provide more relevant vocational training. Second, a more effective dialogue and genuine partnership between the education sector and the private sector on the current and future needs of the national labor market is needed.

- **Tertiary education is overproducing generalists and not enough STEM specialists, and secondary education is not providing the necessary skills for successful tertiary experiences in STEM.** The engineering enrollment at the university is miniscule compared to social sciences but the issue may not be one of lack of aptitude, but lack of sufficiently rigorous preparation. At the secondary level, many students may be receiving an inadequate foundation and proper guidance, which, in turn, reduces the pipeline of students entering STEM at the tertiary level. There seems to be inadequate tracking, mentoring, and limited exposure to a technology-assisted curriculum that promotes critical and higher order thinking, creativity, and problem-solving skills.

- **The labor market does not seem to be able to produce wage incentives and upward mobility opportunities so as to reduce the high rate of emigration of college-educated persons.**

- **The unavailability of data remains a serious concern for Guyana**. More current labor market data should be gathered, released, and thoroughly analyzed on a more regular basis to formulate empirically based policies, design appropriate manpower development programs, and permit standardized cross-national comparisons. Many critical data points are unavailable: the number employed in the various formal and informal sectors (agriculture, manufacturing, services); jobless rates and number of discouraged workers; value added per worker in different sectors; capital intensity of various jobs; cost of job creation; and identification of the enterprises that are generating the most jobs. This and other data would allow an identification of the skills that are most highly demanded, an understanding of the reasons behind the high share of participation of female workers in the informal sector rather than the formal sector, reasons motivating college-educated graduates to migrate, and so forth.[2] These type of data would also help with economic planning and possibly the establishment of a job bank to match applicants with vacancies. This would assist in reducing information asymmetries and search costs for all parties, thus helping labor markets to clear more easily.

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[2] The last survey of household income and expenditure was conducted in 2006 and the 2012 Census data that would shed light on many relevant questions will not be released until 2015.

Guyana: Selected Indicators

	2010	2011	2012	2013	2014 (F)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	4.4	5.4	4.8	5.2	5.6
Nominal GDP (GYD millions)	400922	460108	511337	n.a.	n.a.
Inflation (end of period)	4.5	3.3	3.5	0.9	5.0
External Sector					
Exports of goods and services	14.6	25.8	20.1	-10.7	n.a
Imports of goods and services	17.9	25.1	14.4	-7.0	n.a.
Current account (percentage of GDP)	-10.7	-16.4	-15.7	-14.2	-14.9
Remittances (percentage of GDP)	18.8	18.3	16.7	11.7	12.8
FDI (percentage of GDP)	9.9	9.9	10.8	7.3	11.5
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central Government					
Revenue and grants	26.0	26.5	27.9	22.1	26.7
Current expenditure	18.8	19.8	21.1	19.8	21.8
Capital expenditure and net lending	7.2	6.7	11.1	8.2	13.13
Overall balance	-2.9	-3.2	-4.7	-4.4	-4.9
Debt Indicators					
Central government debt	68.0	69.3	72.1	57.4	n.a.
Central government debt over revenues	261.7	261.6	n.a.	n.a.	n.a.
External public debt (end of period)	46.1	48.6	54.2	41.5	n.a.
External debt service as percentage of exports of goods and services	2.6	3.0	n.a.	n.a.	n.a.

Note: FDI= foreign direct investment; (F) Forecasts numbers for 2014.

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

Recent Developments

Jamaica's outlook continued to improve in the first half of 2014. Ongoing commitment to fiscal consolidation and the stringent implementation of reforms under the Extended Fund Facility with the International Monetary Fund have reduced short-term risks and uncertainty. The economy has grown 0.9 percent in FY2013/14 and is expected to grow around 1.5 percent in the current fiscal year.

The Executive Board of the International Monetary Fund concluded the fourth review of the Extended Fund Facility with Jamaica on June 20, 2014. Policy implementation under the program remained strong, and Jamaica met all structural and quantitative targets without needing waivers for the end-of-March-2014 test date. The approval resulted in a drawing of SDR 45.9 million (US$71.4 million), which will be given as direct budget support as part of the overall financing needed to meet the fiscal financing needs that peak in October. This is the first time Jamaica completes a fourth review under an IMF supported program.

The managing director of the International Monetary Fund, Madame Lagarde, visited Jamaica at the end of June 2014. She met with representatives of the government and participated in different outreach activities. The visit was seen as a vote of confidence by observers and received positive coverage.

The government of Jamaica issued a 10-year US$800 million Eurobond on July 2, 2014. Following a successful roadshow in Europe and the United States, Jamaica issued a US$800 million global bond maturing in 2025 at an interest rate of 7.625 percent, comprising the largest Jamaican issuance ever. It also carries the lowest yield at issuance, comparing favorably to the last overseas sale at 7.95 percent in 2011. Part of the proceeds will be used to refinancing a Euro150 million global bond that will mature in October 2014. The issuance increases both interest payments and the level of debt-to-GDP but it is expected that all the proceeds will be used to replace existing commercial securities, lengthening repayment dates and contributing to lower interest payments on external debt in the medium term.

The Jamaican dollar continued its depreciation. The Jamaican dollar depreciated 25 percent in nominal and 8 percent in real terms since mid-2012. The effects of the real depreciation are reflected in the current account deficit that decreased 2 percentage points to 9.5 percent of GDP between 2012/13 and 2013/14. While the real depreciation improves competitiveness, which is central for the long-term sustainability of the external accounts, it adversely affects the import-dependent industries and consumers in the short term.

Highlights

Jamaica's outlook continues to improve despite continuing challenges ahead.

The International Monetary Fund completed its fourth review of the Extended Fund Facility on June 20, 2014, without the need for waivers. This is the first time Jamaica has reached a fourth review under a program of the International Monetary Fund.

Jamaica issued a 10-year US$800 million Eurobond on July 2, 2014, the first overseas sale of government debt since 2011.

Business and consumer confidence is improving, but the depreciation of the dollar is still a major concern. Consumer and business confidence has been improving as is reflected in the two consecutive improvements of the consumer confidence index. Firms reported increasing their investments, and households expected a rise in their living standards. Despite the improvement, job prospects remained low, and the depreciation of the dollar overtook crime as a major concern.

Growth accelerated in the second half of FY2013/14. Year-on-year growth rates for the last two quarters of FY2013/14 are estimated at 1.6 percent and 1.8 percent, substantially above the –0.3 percent and 0.5 percent for the first and second quarter, respectively. Performance of most industries improved, with mining, agriculture, and tourism as the key drivers. Notwithstanding the positive development, the growth outlook continues to be weak with projected growth in FY2014/15 between 1 and 2 percent. An acceleration to higher rates will depend on the implementation of growth facilitating reforms and successful implementation of major investment projects, especially the work on the logistics hub and energy.[1,2]

International reserves are approaching desirable levels. Net reserves recovered to US$1.3 billion as of end-June 2014, meeting the Extended Fund Facility June target. While the

[1] According to recent statements, the government has advanced on the work for the logistics hub, including the establishment of a non-binding framework agreement with the China Harbour and Engineering Company for investments of US$1.5 billion.

[2] No details or timeline are yet available but are expected when, the high level Electricity Sector Enterprise Team reports to Cabinet in September.

current level remains just above the minimum Bank of Jamaica threshold of US$1.2 billion and includes US$ denominated Bank of Jamaica securities for reserve purposes only,[3] the US$800 million issuance will boost reserves. The inflows from the issuance could also reduce the reliance on official inflows.

Interest rates trended upward after the National Debt Exchange in 2013. 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. The benchmark 90-day T-Bill rate has been increasing since its low of 5.5 percent in February 2013, reaching 8.3 percent as of March 2014. However, the May and June auctions resulted in yields below 8 percent, which could indicate an end or even reverse of increasing interest rates. 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 interest rates a major factor for fiscal sustainability.

The market of domestic government of Jamaica securities remains inactive. While the government has not accessed the domestic debt market since the National Debt Exchange, secondary market trading is virtually absent, too. The two debt exchanges in 3 years probably resulted in a higher risk premia. As a result, financial institutions remain reluctant to increase their already high exposure to the country's securities except at overly discounted prices.[4] Interventions to unfreeze the secondary bond market could be considered if the situation persists. In the meantime, the government depends on external debt, increasing the share of foreign denominated debt, which already stands at over 60 percent.

Liquidity constraints have eased. The lack of secondary market activity and liquidity sterilization by the central bank has reduced liquidity in the financial sector curtailing the lending ability of financial institutions in Jamaican dollars. The Bank of Jamaica increased liquidity operations with special instruments but has been cautious in an effort to preserve foreign reserves. Despite the recovery of liquidity, credit growth to the private sector has slowed down while lending rates are trending up.

Jamaica's public debt is on a downward trajectory. The debt-to-GDP ratio is estimated at 140.2 percent for the end FY2013/14. The bond issuance will lead to a short increase in debt-to-GDP but the downward trend is expected to continue on the basis of primary surpluses of 7 percent and higher. The macroeconomic framework supported by the Extended Fund Facility projects that the debt-to-GDP ratio will fall below 100 percent by March 2020. In addition, the recently introduced fiscal rule stipulates a debt-to-GDP ratio of 60 percent by 2026.

Although economic performance has improved, the population is still adversely affected. Unemployment and poverty remain high (see below) and security continues to be a major concern in Jamaica. The number of homicides has decreased since 2010, but some areas remain volatile. After a 10 percent increase in the number of people murdered between 2012 and 2013, homicides have been decreasing again in the first half of 2014. In addition, the number of police-caused civilian deaths has also declined in the first half of 2014.[5]

To conclude, Jamaica's outlook has improved over the last 12 months even though the country continues to face important vulnerabilities in the short to medium term. Investors and consumers remain cautious given the challenging structural reforms and quantitative targets mandated by the International Monetary Fund program. The economic recovery remains fragile, and sustaining the reform momentum and continued implementation of sound macroeconomic policies will be necessary to assist with the persisting challenges and risks. In addition, acceleration of economic growth will depend on the implementation of business climate reforms as well as the implementation of major investment projects.

Reforms under the Extended Fund Facility, protection of poor and vulnerable groups, and implementation of the growth agenda continue to offer opportunities for Jamaica's development partners to provide support. The IDB and the World Bank each commited to provide US$510 million as part of their support during the implementation of the EFF.

High-Frequency Macroeconomic Indicators

	Last data	Period	Prior data	Period
Annual GDP growth (%)	1.6	Q1 2014	1.8	Q4 2013
Inflation (Quarterly)	1.5	Q1 2014	1.9	Q4 2013
Net International Reserves (USD Mill)	1164.7	May-14	1285.1	Apr-14
Exchange rate (end of period)	112.20	Jun-14	106.38	Dec-13
Unemployment rate (%)	13.4	Jan-14	14.9	Oct-13

Source: Bank of Jamaica, International Monetary Fund, and Statistical Institute of Jamaica.

3 Part of the international reserves results from U.S. dollar–denominated Bank of Jamaica securities that were purchased by domestic financial institutions.

4 Issuance of new securities or a restarting of trading in GOJ securities at higher interest rates would force a repricing of GOJ securities and subsequent losses to the assets of financial institutions, a process which has to be carefully managed.

5 258 civilians lost their lives in incidents involving security forces in 2013 compared with 219 civilian lives lost in 2012 and 210 in 2011.

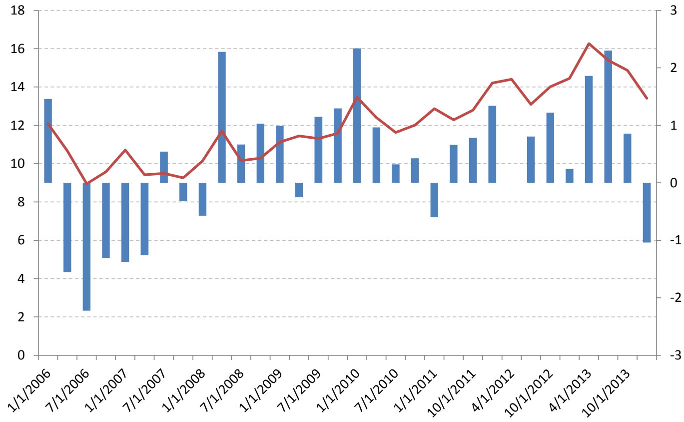
Introduction

The World Economic Crisis put an abrupt end to a period of declining poverty in Jamaica. From more than 30 percent in the 1980s, the headcount ratio of poverty steadily declined to 9.9 percent in 2007. However, starting in 2008, poverty increased rapidly, reaching 17.6 percent in 2010, the last year for which an estimate is available.

Several factors contributed to the rapid increase in poverty. The surge in inflation during the buildup of the crisis, in addition to the economic contraction itself, are the main reasons for the strong increase in poverty between 2008 and 2010. In addition, the unemployment rate increased from 9.9 percent in 2007 to more than 16 percent in 2013. Remittances also declined during the crisis, also contributing to the rise in poverty.

Unemployment has been continuously increasing until October 2013. Since 2008, unemployment has been increasing almost every quarter year-over-year (which isolates seasonal effects) (Figure 1). However, the trend might have turned in January 2014; the unemployment rate fell to 13.4 percent from 14.4 one year earlier. In addition, the unemployment rate fell because employment increased, not because of a decrease in persons looking for work.

Figure 1. Unemployment Rate and Change in Unemployment Rate, January 2006–14



Sources: Survey of Living Conditions and Statistical Institute of Jamaica.

The current level of poverty is difficult to assess. The last official estimate for poverty is for 2010,[6] but poverty likely increased afterwards as the economy continued to contract and unemployment increased further. However, it is likely that the increase has stopped over the last year as the economy started to grow again, employment stabilized, inflation remained relatively subdued, and remittances increased, all of which should help poorer households.

Female-headed households, children, large families and elderly adults are disproportionally affected by poverty in Jamaica. In addition, poverty is more prevalent in rural areas than in urban areas. While some poorer households depend on remittances, receivers of remittances in Jamaica are concentrated in higher income households.

Social and Labor Market Policies

Jamaica's social protection and labor programs cover a wide range of interventions. The programs include direct cash and in-kind transfers, social care, community-based interventions, labor market programs, and social insurance schemes. In addition, the government abolished user fee at public hospitals (except at the University Hospital of the West Indies) in 2008 in an attempt to improve access to healthcare for the more vulnerable population.

PATH is the major social safety net program. The Program of Advancement Through Heath and Education (PATH) is the main social program in terms of beneficiaries and expenditures. PATH is a conditional cash transfer program that targets households with children 0 to 18 years of age, encouraging poor households to invest in the health and education of their children. Secondary beneficiaries of PATH includes elderly adults and persons with disabilities whose benefits are unconditional. PATH was introduced in 2001 to streamline social programs, replacing 54 programs managed by 12 ministries. At present, just under 400,000 persons are on PATH (0.5 percent of central government expenditures).

Children from female-headed households are the main beneficiaries of PATH. Three quarters of beneficiaries are children. The next category of beneficiaries of the grants are poor elderly adults. A relatively small number of persons with disabilities and pregnant and lactating women from PATH households also get direct support from PATH. Other vulnerable persons access social assistance through programs such as the Poor Relief Rehabilitation Grant Program and other forms of public assistance.

[6] The 2012 survey has been done but has not yet been published.

Evaluations indicate that PATH has a beneficial effect on school attendance and preventive healthcare visits.[7] As other conditional cash transfers, the effects on achievement are less clear. Reforms to improve effectiveness and targeting are under way. In addition, a graduation policy has recently been approved by the Cabinet to ensure PATH beneficiaries do not remain on the program indefinitely. This policy attempts to improve the link with welfare to work strategies by including policy interventions to improve labor market access and outcomes of poor households.

The School Feeding Program is a major complement to PATH. Poorer children often come to school hungry, which has adverse effects on learning in addition to general negative health effects from insufficient nutrition. As such, the School Feeding Program aims at improving the nutritional status of children as well as increasing school attendance. PATH beneficiaries are entitled to free meals while other children can benefit from subsidized meals. The School Feeding Program is the second most important social safety net program in terms of expenditure (JM$3.9bn 0.26 percent of GDP in FY 2013/14).

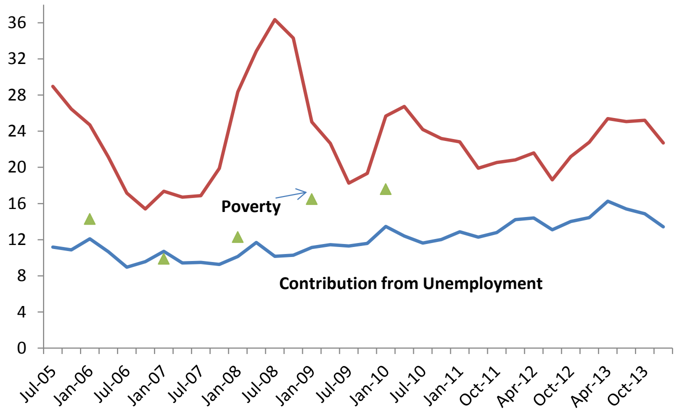
The Steps to Work program is the main welfare-to-work initiative in Jamaica. A major aim of a social program is to have individuals graduate from it. Jamaica offers different programs that support the transition into the labor market, the main one being the Steps to Work Program. The program is designed to assist working-age (15–64-year-old) members of PATH beneficiary households to seek and retain employment, providing opportunities for training, entrepreneurship, and job placement. In addition, the Human Employment and Resource Training Trust/ National Training Agency, HEART/NTA, operates technical and vocational education and training facilities that provide training options to teach relevant labor market skills.

Conclusion and Policy Options

Poverty increased despite social programs. The strong increase of poverty and unemployment during the global recession highlights the limits of social and labor market interventions in a sluggish economy. Jamaica quickly faced fiscal constrained in the downturn and was not able to implement countercyclical policies or introduce additional social protection programs. Nevertheless, PATH and other programs were maintained and even strengthened with the number of PATH beneficiaries and the amount of individual cash grants increased during the downturn. In addition, the current International Monetary Fund program includes a floor on social spending, which protects spending in this area.

The benefits from the recovery should trickle down to poorer households. The Misery Index can be used to quantify the effects from economic instability to the population of a country. The index is the sum of unemployment and inflation, two central variables for the well-being of poorer households whose purchasing power is diminished by inflation, and the decrease of employment and who have fewer assets. Since 2007, the index has been increasing because of both spikes in inflation and a rise in unemployment. However, the index should improve as inflation is expected to remain in single digits and the employment situation should stabilize in line with the uptick in economic activity.

Figure 2. Misery Index and Headcount Ratio of Poverty, January 2005–January 2014



Sources: Survey of Living Conditions, Planning Institute of Jamaica, and Statistical Institute of Jamaica.

Employment could recover only slowly. According to a recent study, historically the unemployment rate has decreased between 0.18 and 0.35 percent for a 1 percent change in GDP.[8] The small effect on unemployment from GDP growth could be because companies might be reluctant to quickly expand their workforce given the continuing uncertainty. In addition, given the low productivity of Jamaican firms, productivity improvements can increase output. Nevertheless, some of the better performing industries, including agriculture and tourism, are labor intensive and could contribute quickly to increasing employment.

[7] See, for example, Levy and Ohls (2007). "2007 Evaluation of Jamaica's PATH Program."

[8] See Nugent and Schmid (2013), "Okun and Jamaica at 50: How Does Unemployment React to Growth?" IDB, CCB Policy Brief No. IDB-PB-208.

To conclude, poorer households should be among the main beneficiaries of the economic recovery. Social protection programs exist but their coverage and funding is insufficient to get a grip on poverty. Reforms are underway to further improve those programs, especially in regards to efficiency and targeting, but a significant decline of poverty requires a long-lasting and sustainable recovery of the economy.

Jamaica: Selected Indicators

	2010/11	2011/12	2012/13	2013/14 (F)
(Annual percentage changes, unless otherwise indicated)				
Real Sector				
Real GDP	-0.6	0.9	-0.7	0.9
Nominal GDP	7.8	7.5	6.1	10.4
Inflation (end of period)	7.8	7.3	9.1	8.3
Exchange rate (end of period)	85.7	87.3	98.9	109.6
External Sector				
Exports of goods and services (yoy, %)	0.8	13.0	3.5	-7.7
Tourism receipts (yoy, %)	2.0	1.1	1.5	0.9
Imports of goods and services (yoy, %)	6.8	13.5	0.4	-6.2
Current account (percentage of GDP)	-9.0	-14.9	-11.5	-9.5
Treasury bill rate (%, end of period)	6.5	6.2	5.8	8.0
(In percentage of GDP, unless otherwise indicated, on a calendar year basis)				
Central Government				
Revenue and grants	26.8	25.6	25.8	26.9
Budgetary expenditure	33.2	32.0	29.9	26.8
Primary balance	4.5	3.2	5.4	7.5
Budget balance	-6.3	-6.4	-4.1	0.1
Public sector balance	-6.9	-6.4	-4.2	0.1
Debt Indicators				
Public sector debt	141.3	143.7	146.4	138.9
Public sector debt over revenues	536.1	563.7	n.a.	516.4
Foreign currency public debt (end of period)	83.3	81.4	76.0	76.4
External interest payments as percentage of exports of goods and services	11.5	10.4	-	-
International Reserves				
Net international reserves (USD Mill)	2553	1777	884	1303
Gross international reserves (weeks of good and services imports)	23.4	17.8	<12	14.4

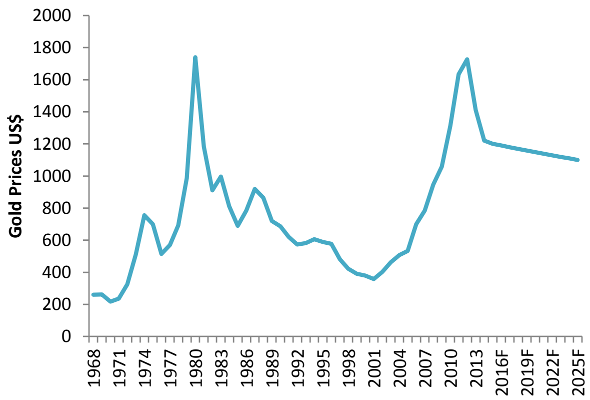
Note: (F) Forecasts numbers for 2013/14.

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

Recent Developments

Suriname's economy continues to perform well. Given Suriname's dependence on gold prices, the International Monetary Fund projects average medium-term growth at around 4 per cent. This forecast assumes strong public capital investment and robust credit growth that supports private sector expansion. It is also based on gold prices not falling significantly. The World Bank is forecasting a mild drop in gold prices in the medium term (Figure 1). Suriname's authorities expect the fiscal position to improve in 2014 relative to last year mainly through containing current expenditures.

Figure 1. Historical and Projected Gold Prices



Source: LBMA gold fixing and World Bank commodity price forecast, April 2014.

Suriname's debt stock rose to 30.5 per cent of GDP in 2013, but it remains the lowest in the Caribbean (Figure 2). The increase in the debt stock in 2013 is attributed to stronger disbursement flows from external lenders (mainly the IDB for about 3 per cent of GDP) and a temporary jump in domestic financing to the central government. The Central Bank also boosted lending to the central government (an additional US$145 million or 3 per cent of GDP) when revenues weakened and expenditures increased during the first semester of the year. Suriname's total debt reported in April 2014 was still at 30 per cent which is below its statutory debt ceiling of 60 per cent of GDP.

Expanding Economic Links Abroad

Suriname will host the 8th African, Caribbean and Pacific Group of States (ACP) Summit for Heads of State and Government conference in Paramaribo on 6th and 7th November. It will be preceded by the 100th session of the ACP Council of Ministers on the 3rd and 4th November and a meeting of Ministers of Foreign Affairs on 5th November. The theme for the 8th ACP Summit will be "Repositioning the ACP Group to Fulfil the Aspirations of Our People," About 79 members of the ACP are expected to discuss development issues related to human security, sustainable economic development and trade, among others.

Highlights

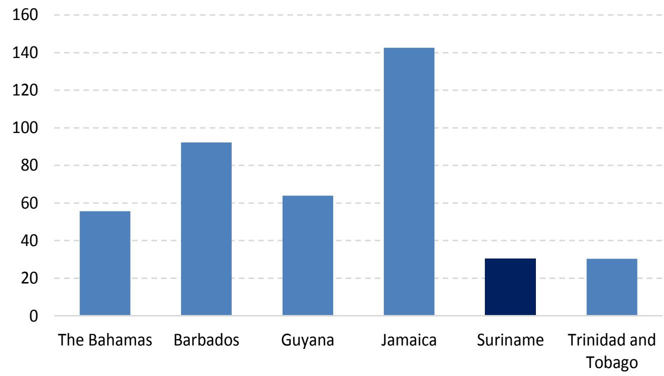
Suriname's debt remains the lowest in the Caribbean at 30 per cent *of GDP.*

Suriname will host the 8th ACP Summit for Heads of State and Government conference in Paramaribo in November 2014.

Suriname has signed onto the REDD+ program for US$3.8 million to help reduce greenhouse gas emissions resulting from deforestation.

Ambitious lending program with IDB receives support from a diverse group of sectors and initiatives.

Figure 2. Debt-to-GDP Ratios, 2013



Source: Central Bank of Suriname and IDB.

Suriname has also co-signed, with ACP member countries, the first National Indicative Programs under the 11th European Development Fund. Under the program a total of €4.6 billion will go toward the formulation of national development strategies for 16 ACP member countries. The National Indicative Programs, which reflect national priorities government policies, outlines the strategies and priorities of how the European Union aid will be applied in each country. The National Indicative Programs for the remaining ACP countries should be finalised and signed by 2015. The financing available for ACP countries under the 11th European Development Fund is more than €31.5 billion, which is divided into grants, €24.3 billion for national and regional indicative programs; €3.5 billion for intra-ACP and interregional cooperation; €1.1 billion for the Investment

Facility managed by the European Investment Bank; and €2.5 billion to the European Investment Bank for loans with reduced interest rates.

Suriname has signed onto the United Nations initiative Reducing Emissions from Deforestation and Forest Degradation program (REDD+). The signing of the agreement releases US$3.8 million to Suriname for the initial stage of the program over the next 30 months. The initiative is meant to address the issue of rising global temperatures, with a view to lowering greenhouse gas emissions through enhanced forest management. More than 94 per cent of Suriname is forested, which makes it ideal for keeping greenhouse gas emissions resulting from deforestation at bay. The initiative could release as much as US$22 million as the program takes shape.

Moreover, Suriname hosted its first Suriname International Mining, Energy and Petroleum conference, SURIMEP, in June, with the main theme being "Utilising Suriname's natural resources to underpin a sustainable economy." The 3-day event showcased products and services, and the latest innovations in the mining, petroleum, and energy sectors with trade exhibitions, presentations, roundtable discussions, and site visits. Representatives from 20 countries attended the conference, which was conducted in English, Dutch, and French. Suriname's mining sector contributes significantly to the country's revenues, and currently there are plans in place to expand the IAMGOLD mine, establish Newmont, and increase the capacity of the Staatsolie refinery.

Suriname is keen to cultivate stronger ties with Brazil, Russia, India, China and South Africa (BRICS) countries. The rising giants are set to launch the New Development Bank. President Desi Bouterse of Suriname and Guyana's President Donald Ramotar attended a special meeting of BRICS and South American leaders in Brazil on 16th July at the invitation of host President Dilma Rousseff of Brazil.

The IDB and Suriname

The 2014 lending pipeline with IDB supports energy, capital expenditure management, revenue management, and private sector development. The program includes one investment loan for US$40M, and four programmatic policy-based loans for US$65M.

The lending program assumes that the government of Suriname's current policy agenda remains stable for the rest of this administration. Because of its primary focus on structural reforms, the main risk for the 2014 lending program rests on the authorities' ability to stay focused on the reform process even in the run-up to national elections scheduled to be held in May 2015.

The authorities have also requested IDB's support in the preservation of the UNESCO-recognized cultural heritage of the capital city of Paramaribo. This initiative is part of the wider context of better structured urban planning. IDB has responded positively to the request and will continue collaborating with Suriname to preserve and upgrade the urban infrastructure of Paramaribo.

High-Frequency Macroeconomic Indicators	Last data	Period	Prior data	Period
Annual GDP growth (%)	4.4	2013	4.8	2012
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	3.5	Apr-14	2.9	Feb-14
Exchange Rate (End of Period)	3.35	6/31/2014	3.35	Dec-13
Unemployment rate (%)	10.3	2012	9.5	2004

SURINAME

ARE LABOUR PRODUCTIVITY AND GROWTH RELATED?

Introduction

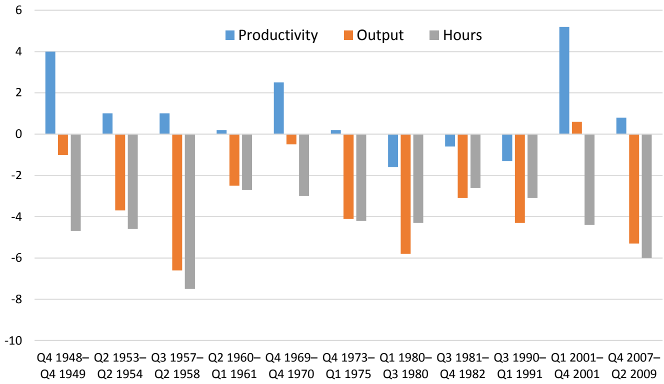
The link between labour productivity, wage determination, and economic activity is key to understanding the process of economic growth in countries around the world. This note, based on a recent IDB report,[1] first explains how this link works in the United States for illustrative purposes in order to understand how this process differs in Suriname. This is corroborated by preliminary but still basic productivity estimates. The note then argues that more detailed data are necessary, not just for an academic understanding of the process, but also to provide policymakers with the basic tools to formulate labour policies that enhance economic growth.

How Should Labour Markets Work?

Modern labour markets are characterised by a strong link over the long-term between economic growth, labour productivity, and wages: a virtuous cycle of higher productivity, leading to higher reward, leading again to higher productivity gains traction. In the United States, growing labour productivity correlates well with sustained growth and labour income.[2]

The long-term growth process in the United States requires labour productivity to vary with the business cycle, which occurs when labour markets are flexible. Countries with flexible labour markets tend to show increases in labour productivity during recessions. This happened, for example, in 8 of the 11 recessions recorded since 1947 in the United States, as shown in Figure 3. These short- and long-term trends are explained by adjustments in the labour force: In the long term, increased production is possible because of productivity gains related to a better trained work force or better technologies, both resulting in higher wages.[3] In the short term, during periods of economic contraction, the labour force usually shrinks faster than production, which results in temporary increases of productivity per worker. The key to this process is labour flexibility: the private sector's capacity to expand and contract its labour force in response to economic activity. Moreover, for modern labour markets to maintain their flexibility while protecting the economically active population from adverse shock to their income, it is necessary to have appropriate safety nets such as unemployment benefits.

Figure 3. Labour Productivity, Change in Output, and Change in Hours Worked in the United States During Recessions (Quarterly Period During Recessions, 1947–2009)



Source: Authors' Calculation based on Fleck, Glaser, and Sprague, 2011.

Labour Productivity in Suriname

The situation is somewhat different in Suriname. When market rigidities are high, in other words, when the capacity of firms to hire and release employees on the basis of economic conditions is restricted, then this process breaks down. In such conditions, when the economy grows labour productivity grows, and when the economy shrinks, labour productivity shrinks because the labour force is fixed. Under such conditions, it takes longer to recover from a recession because firms cannot adjust employment to lower production. They find other ways to lower costs, such as reducing investment and real wages; or in some cases, the firms may go bankrupt. This is the case of Suriname, in particular because about two thirds of the labour force reported works for the public sector (central government and statutory enterprises combined).

A positive note about labour markets in Suriname is that the pervasive presence of public employment replaces the need for a safety net. Because the size of the public sector labour force does not change in response to market incentives, then during bad times, unemployment grows less than it would if more people worked for the private sector. However, during good times employment also grows less than it would if more people worked for the private sector. This is an issue that needs to be carefully factored in when formulating labour market reform in Suriname, as policies to modernise the labour force would also involve modernising the social safety net.

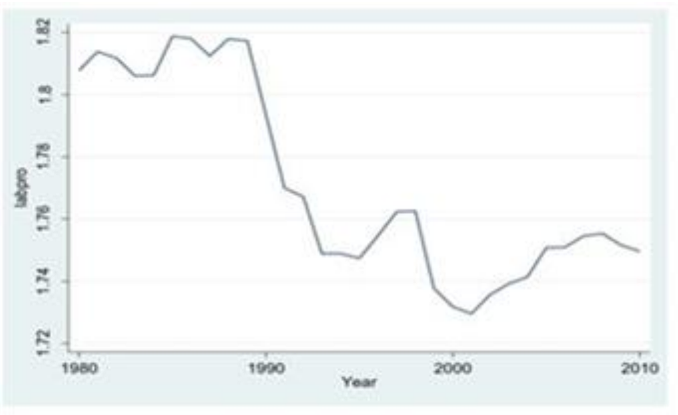
[1] For an extended analysis of this note see "Labour Market Modernisation in Suriname" by Carlos Elias and Musheer Kamau. Forthcoming Policy Note, 2014."

[2] In the U.S. data from the Bureau of Labour Statistics shows an upward trend for all these indicators (see Fleck, Glaser and Sprague (2011)) .

[3] Despite the positive correlation between labour productivity and income in the United States since 1947, the data is showing a growing gap in recent times, in which labour productivity is growing faster than compensation.

Labour productivity in Suriname is relatively low according to preliminary evidence, although **estimates of overall labour productivity in Suriname are few.** Figure 4 shows preliminary labour productivity estimates of Suriname from 1980 to 2011. As the figure shows, Suriname's labour productivity dropped significantly from late 1980s to the mid-1990s, recovered for a couple of years, then dropped again to the early 2000s, and experienced a recovery from then on. Although there is not enough detail in the preliminary measurements to make strong inferences, the econometric estimates show a close fit between the estimated labour productivity and the overall economic performance of Suriname. Moreover, anecdotal evidence shows that, with the exception of the mining sector, there are few formal or informal links between productivity and wages.

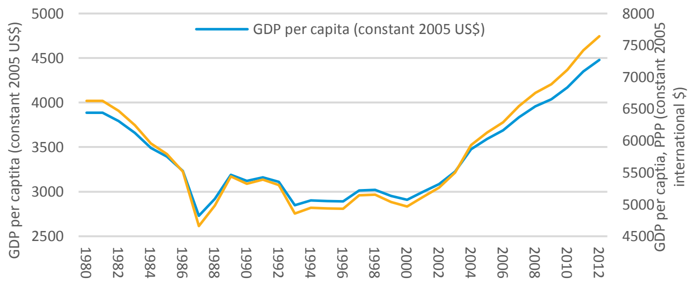
Figure 4. Labour Productivity (Output Per Capita) in Suriname



Source: Authors' estimates.

The preliminary evidence is consistent with the concept that labour productivity in Suriname does not seem to explain per-capita growth in Suriname, in part because of rigid labour markets. Rather, the capital-intensive mining sector seems to have contributed the most to economic growth. Despite a strong co-movement seen between the estimated labour productivity and GDP in Suriname, labour productivity is much less variable, perhaps because of the large and rigid employment in the public sector. The changes in labour productivity in Figure 4, although notable in the graph, are small: From the lowest point to the highest point, there is a change of about 5 per cent. Changes in GDP per capita over the same time period (since 1980) are significantly higher, as can be seen in Figure 5: from the lowest to the highest point, there is a change of about 65–80 per cent.

Figure 5. GDP Per Capita in Suriname

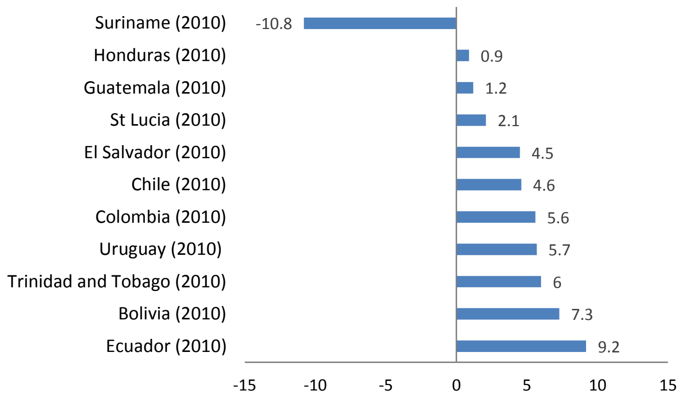


Source: World Bank WDI Data Bank.

Why is labour productivity not growing as quickly as economic activity? An explanation may be that growth is mostly explained by the good performance of the mining sector, which employs about 1 per cent of the total number of formal workers in the country.

Additional evidence from the World Bank Enterprise Survey of 2010 is consistent with the previous estimates. It shows that Suriname's labour productivity growth is one of the lowest in the region: The average growth in firm-level labour productivity in Latin America was –0.5 per cent, compared with Suriname's 10.8 per cent (see Figure 6).

Figure 6. Regional Comparison of Firm-Level Labour Productivity, 2010



Source: World Bank Enterprise Survey, 2010.

Why Do We Need Better Data on Labour Productivity?

Despite these results, they do not constitute sufficient evidence to allow a categorical assessment of the main issues in the labour market. The unusual characteristics of the labour market

in Suriname merit a deeper analysis of labour productivity by sector, particularly nongovernment employment. At the firm level, managers can effectively measure labour productivity, and this is happening in the mining sector, but it also needs to happen in other sectors.

Better estimates are not only interesting in their own right but are imperative for formulating labour and social policies. For example, these estimates may be used in negotiations between government, unions, and private sector representatives. They can also be used to determines wage and salary increases in the public and private sectors, as is common in many countries. This can enhance the virtuous cycle of higher productivity leading to higher income. Developed countries are not the only ones that focus on measuring labour productivity. Some countries in Latin America and the Caribbean have productivity boards that measure and provide information to policymakers and the general public about sector-level productivity.

Such institutional arrangements could be implemented in Suriname. The rich history of tripartite negotiations, also a characteristic in Suriname, have helped lower social conflict and in many cases have supported the implementation of necessary policies with high short-term costs but very high long-run returns, especially policies that have a direct impact on labour markets and salaries.

Better information on productivity has a high payoff. Many countries spend resources collecting and analysing productivity information. What is the impact of these efforts? Arguably, the impact is very high because it helps decision makers in the private and public sectors to design and execute policies that could lead to more investment and employment generation. These policies apply to both private and public sector wage agreements with unions. In the case of Suriname, better information would allow a more precise measure of labour productivity in the public sector, how it compares to the private sector, and what is the wage–productivity relationship. This information would be instrumental in identifying high-performing sectors and would facilitate the identification of skills in high demand in the market, and the sectors' potential overall impact on growth and development.

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Elias, Carlos, and Musheer Kamau. 2014. "**Labour Market Modernisation in Suriname**," Policy Note, Inter-American Development Bank, Washington, DC.

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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	4.4
Nominal GDP	-3.1	13.2	25.8	11.94	5.3
Inflation (end of period)	1.3	10.3	15.3	3.4	0.6
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	775
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	26.8
Total Expenditure	35.3	28.2	25.2	24.5	30.4
Primary Balance	-1.2	-2.3	1.8	1.4	-4.3
Overall Balance	-3	-3.6	0.9	-4.0	-5.7
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	30.5
Public Sector Debt over Revenues	61.5	81	73.3	74.4	71.7
External Debt (end of period)	8.3	8.7	7.6	11.5	14.9
Domestic Debt (end of period)	10.2	12.9	10.8	10	15.6
External debt as percent of exports of goods and services	15.8	14.5	17.3	18.9	22.2

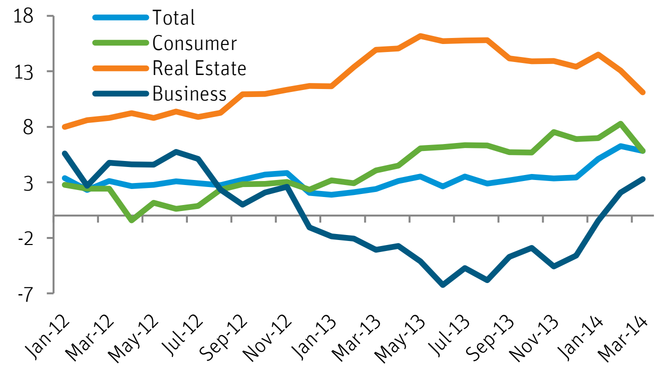
Source: Based on IMF Article IV Country Report and Central Bank of Suriname.

Recent Developments

Economic growth is expected to be stronger in 2014 given that the economy is projected to grow by 2.5 percent, compared with 2.0 percent in 2013. The recovery of the energy sector in the fourth quarter of 2013 from a slowdown earlier in the year did not carry into the first quarter of 2014. Petrotrin and BPTT undertook planned maintenance activity at their facilities, resulting in a fall in the production of crude oil and natural gas in early 2014. However, production in the petrochemical sector picked up in the first quarter of 2014 (year on year) as a result of increased production of methanol and fertilizers. The growth momentum should carry over into 2015. In the energy sector, exploration activity is expected to pick up as drilling in shallow water blocks and new development wells are ongoing in addition to the awarding of further onshore bids, while in the nonenergy sector several large public and private sector projects are being implemented.

Commercial bank credit to the private sector improved in the first quarter of 2014, consistent with improvements in the nonenergy sector. 12-month private sector credit expanded by 6.0 percent in March 2014, up from an increase of 2.5 percent the previous 12 months. One notable aspect of the expansion in private sector credit is that of business loans, which were on the decline for the past 14 months, but have increased by 3.5 percent in March 2014. Other components of private sector credit such as consumer loans (6.0 percent) and real estate mortgages (11.8 percent) also continued growing robustly in the 12 months to February and March this year.

Figure 1. Private Sector Credit to the Consolidated Financial System (Year-on-Year Percent Change)



Source: Central Bank of Trinidad and Tobago.

The Central Bank released the first business confidence survey, which reveals cautiously optimistic prospects by the business community. For the 6 months ending the first quarter of 2014, the survey indicated that the business sector is cautiously optimistic about economic conditions in the local and global economy. Most businesses intend to either maintain or increase their workforce, but cited that the main challenges to doing business are the current economic conditions, lack of skilled labor, access to financing, and competition.

Highlights

Growth in 2014 is expected at 2.5 percent, as private sector credit picked up in the first quarter of 2014, with business credit rebounding at 3.5 percent in March from a 14 months of decline.

The shortage of U.S. dollars has eased to some extent in the month of June as injections by the Central Bank take effect.

The borrowing limit on Treasury Bills and Treasury Notes has increased, which can assist the Central Bank in dealing with excess liquidity.

Inflation has remained subdued, but this could change. Inflationary pressures have remained relatively subdued as headline inflation measured 3.3 percent in April 2014. Core inflation accelerated from 2.0 percent in December 2013 to 2.6 percent in April. Food inflation slowed considerably to 4.1 percent in April from 10.4 percent in December 2013. This fall may be attributed to favorable domestic weather conditions and higher output from the Caroni Green Initiative, which was launched in June 2013. However, with the expected increase in government expenditure in the run-up to the 2015 general elections, further increases in food inflation and headline inflation may be expected. The Central bank has thus indicated that it may have to raise policy interest rates to manage inflationary expectations in the coming year.

Absorbing excess liquidity in the banking system has been an important challenge. The Central Bank's ability to manage liquidity in the banking system has been enhanced through the approval of increased borrowing limits under the Treasury Bills and Treasury Notes Acts in December 2013. In this regard, and as the Bank's open market operations increased in April 2014, $1.2 billion was removed from the system. The Central Bank will increase them further in the coming months given that excess liquidity is expected to persist in the foreseeable future.

The shortage of U.S. dollars continued to present challenges for the business sector in early 2014 but appears to have abated since the month of June. Tightness in the foreign exchange market persisted into 2014 despite a few large injections of U.S. dollars in the first five months of the year (see Table 1). More recently, however, the shortage of U.S. dollars has eased somewhat as initiatives of the Central Bank take effect. The exchange rate declined to its lowest level since 2009 and the business sector has also noted a better disbursement of foreign exchange since June 2014. In anticipation of further shortages in the months of July and August, the Central Bank sold a further US$175 million to the system in July brining total injections to US$865 million for the year to date, US$210 million higher than for the corresponding period in 2013. The introduction of a new distribution system, falling foreign currency deposits into commercial banks, and a lower level of U.S. dollar conversions by energy companies for the corresponding period in 2013 are some of the factors cited as being the cause of the shortage.

Table 1. Authorized Dealers: Foreign Exchange Activity (US$ Mn)

	Purchases from Public	Sales to Public	Net sales	Purchases from CBTT
Jan-May 2013	2177.6	2761.6	583.9	490
Jan-May 2014	2220.6	2760.8	540.2	610
Year on Year % change	1.9	0	-7.5	24.5

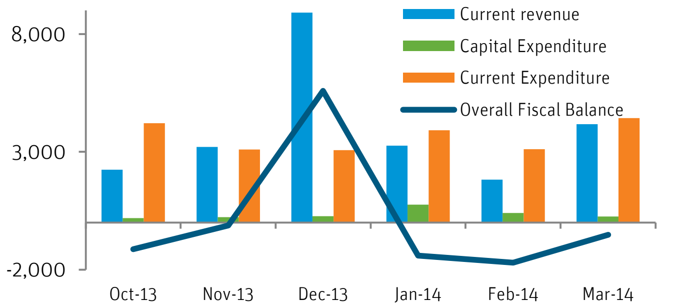
Source: Central Bank of Trinidad and Tobago.

The local stock market has showed improvements despite a contraction in the banking sector, but more has to be done to encourage small companies to list on the stock exchange. The local stock market showed a strong performance in 2013 but did not carry over into the in first 4 months of 2014. The sharpest contraction was recorded in the banking sector as share prices of both First Citizens Bank Limited and First Caribbean International Bank Limited fell on a year-to-date basis. The initial public offering of First Citizens Bank in July 2013 was highly successful, and the government has indicated that a similar or even larger initial public offering of Phoenix Park Gas Processors Ltd will commence in July 2014. While the government introduced the SME Market in 2012 to provide small companies with an avenue to further raise capital, it has not been successful thus far. This is partly due to regulations on the ownership of shares after listing, relatively low interest rates, and excess liquidity in commercial banks.

The resolution strategy for CLICO and insurance legislation are ongoing. In May 2014, the Central Bank, under the Central Bank Act Ch. 79:02, engaged an independent actuarial firm to facilitate the transfer of CLICO's traditional insurance portfolio to a well-established insurance company. On the legislative front, the Insurance (No. 2) Bill 2013, which seeks to replace the Insurance Act, Chap. 84:01, by introducing comprehensive reforms to insurance legislation in Trinidad and Tobago, is presently before a Joint Select Committee of parliament. The lack of formal cross-border supervision mechanisms has slowed the full recuperation of all Caribbean countries affected by the CLICO debacle. An IDB-funded analytical project on cross-border financial links will shed some light on this prospectively.

A fall in transfers and subsidies and higher than expected revenue inflows led to a drive budget surplus in the first half of fiscal year 2013/14. The government is expected to generate TT$55 billion dollars in revenues and expend TT$61.3 billion dollars, resulting in a deficit of TT$6.4 billion or 3.6 percent of GDP, 1 percent less than in fiscal year 2012/13.

Figure 2. Central Government Revenues and Expenditure (TT$ Mn)



Source: Central Bank of Trinidad and Tobago

Despite a projected budget deficit in the first 6 months of the fiscal year (October to March 2014), a surplus was recorded (see Figure 2). Higher than expected budgeted revenues were due to the inflow of receipts from the First Citizens Bank Ltd initial public offering and some extraordinary dividends from a state enterprise. In addition, a falloff in transfers and subsidies contributed to expenditures being lower than anticipated for the first half of the fiscal year. This trend may not persist as capital expenditure (which is budgeted at $8 billion, the largest on record) is expected to rise if the budget target is to be met.

Issues Relevant to the IDB

In the absence of more recent official labor market statistics, the Central Bank examined the retrenchment notices filed at the Ministry of Labour and Small and Micro Enterprise Development to gauge present labor market conditions. The first quarter of 2014 experienced a 14.8 percent increase in retrenchment notices compared with the same period in 2013, as well as labor shortages in the manufacturing and agriculture sectors.

High-Frequency Macroeconomic Indicators

	Last data	Period	Prior data	Period
Annual GDP growth (%)	2.1	Q4 2013	-0.5	Q3 2013
Exports (12-month growth)	-3.9	Q4 2013	-1.9	Q3 2013
Imports (12-month growth)	32.5	Q4 2013	-8.6	Q3 2013
Private sector credit growth (%)	5.8	Mar-14	3.2	Sep-13
Inflation	3.3	Apr-14	4.5	Mar-14
Exchange rate (end of period)	6.5	May-14	6.5	Apr-14
Natural gas production (% yoy change)	-2.4	Q1 2014	2.7	Q4 2013
Unemployment rate (%)	3.7	Mar-13	4.7	Dec-12

TRINIDAD AND TOBAGO LENDING A HAND...OR TWO...OR TOO MANY?

Introduction

Trinidad and Tobago has one of the most generous set of labor and social programs, if measured by amount spent and variety, compared with other Caribbean countries. However, the increasing expansion and permanence of programs has led to duplication of functions even within ministries. Moreover, without a monitoring and evaluation of their effectiveness, costs have escalated, and with less incentives for people to enter the workplace there are signs of shortage of certain types of labor. This section describes the social and labor situation in Trinidad and Tobago and discusses the set of government programs and what we know about their impact on economic welfare.

Characteristics of Poverty and Labor Markets

Trinidad and Tobago is blessed with relatively high GDP per capita—valued at US$28,743 in purchasing power parity terms in 2011, but there is scant information on the socioeconomic conditions of households. Data on poverty and social statistics has somewhat lagged behind—the 2014 Survey of Living Conditions is currently in the field—but the last measurement of poverty per the 2005 Survey of Living Conditions estimated that 11 percent of households,[1] representing 15.4 percent of the total population, were poor; in addition, 1.2 percent of the population were extremely poor or indigent.[2] There was no indigence in Tobago even though the poverty rate in that island was higher. Trinidad and Tobago's poorest households were disproportionately affected by the 90 percent increase in food prices in 2007–10, but this has subsided somewhat. Food expenditures account for around 30 percent of household expenditure in the country's poorest quintile. In terms of demographic characteristics of poor households, unlike in many countries, they were not necessarily those headed by women (although the proportion was slightly higher than the average—38 percent compared with 32 percent for the population as a whole). However, the average size of a household in the lowest income quintile[3] was much larger, at 5.2 persons per household compared with an average of 3.6 persons for all households.

[1] The poor are defined as those living at or below the poverty line, which was equivalent to TT$665 per month in 2005.

2 Indigent refers to households that are unable to meet the cost of obtaining the minimum basket of food items.

[3] The lowest income quintile represents the first 20 percent poorest households in the country.

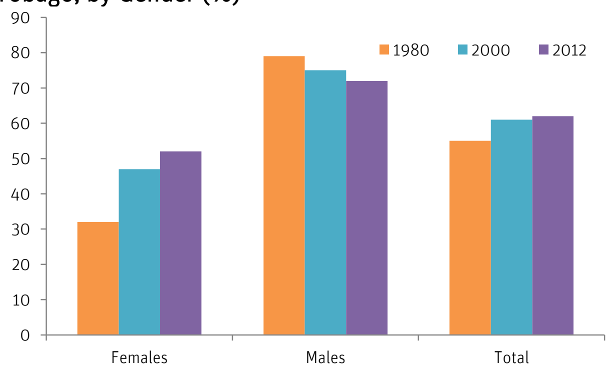
Table 2. Selected Economic and Social Data

Population (2013)	1,317,714
Per-capita GDP at purchasing parity (US$, 2011)	28,743
Life expectancy at birth (years)	70.1
Human Development Index rank	62
Adult literacy rate	98.7
Population share below povety line (2005)	16.7%
GINI coefficient (2005)	40.3
Unemployment rate (Q1 2013)	3.9

Source: Survey of Living Conditions, CSO and World Bank.

The data reveal a continued increase in access to education. Universal education to the secondary level already exists, and with the 2004 expansion of the Government Assistance of Tuition Expenses program, the opportunities for a university degree are available for all eligible citizens. In terms of performance, Trinidad and Tobago ranked 48 out of 61 on the Program for International Student Assessment, although countries that participate are mostly high-income OECD countries, so this is commensurate with its income levels but not spectacular. The quality of education in Trinidad ranked 40 out of 144 countries in the Global Competitiveness Report of the World Economic Forum. Moreover, enrollment in preschools is growing for both the poor and nonpoor. Some face difficulties in availing themselves to educational opportunities, which can result in absenteeism, for example; however, there is support from the state by way of school bus service, school meals, and provision of textbooks.

Figure 3. Labor Force Participation Rate in Trinidad and Tobago, by Gender (%)



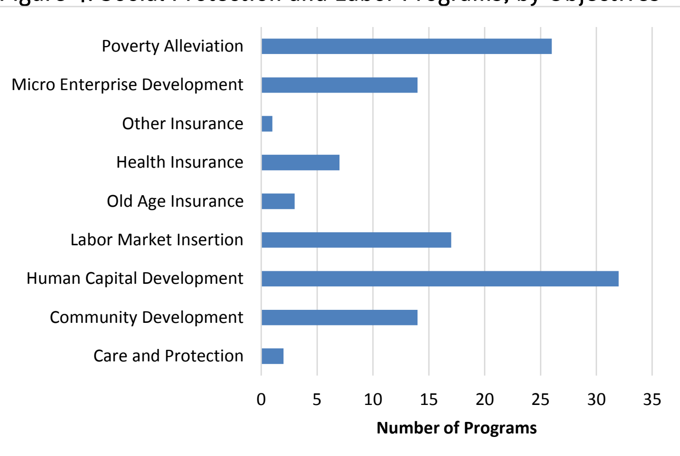
Source: Central Statistical Office

The translation into the labor market shows an important catch-up of women over men. Between 1980 and 2012, the country's population grew by 22 percent to 1.3 million, distributed mostly equally between men and women. Moreover, during that period, the labor force participation rate grew from 55 percent to 62 percent, which is solely explained by an increase in the labor force participation rate of women which rose dramatically from 32 percent to 52 percent (see Figure 3). This is an important change in the labor supply, which also impacts labor productivity as well as the types of jobs that could have a greater supply going forward. However, as is typical in many countries, the unemployment rate of women is larger: 6.2 percent compared with 4.1 percent for men, and average wages of men are higher. Given the better performance of girls in the education system, it may well be that the segmentation of the labor market is a factor in the possible withdrawal from, or nonparticipation on the part of some women.

Since the Survey of Living Conditions yielded this poverty estimate, direct transfers and subsidies to households (excluding unemployment relief, training, and other services) have risen dramatically, from 3 to 7 percent of GDP between 2003 and 2013, with a big increase occurring in 2009 after the recession. Moreover, as will be discussed shortly, it is not clear whether there has been an impact on poverty and employment outcomes and, if there has, whether this has been achieved in the most efficient way possible financially.

What Social Programs Are Offered?

Figure 4. Social Protection and Labor Programs, by Objectives



Source: IDB CCB Baseline Mapping.

A total of 62 social protection and labor programs were identified in the country, out of which at least 10 were created after 2007. More important, many were expanded. Of the 62, 27 were safety net programs, 32 were active labor market programs, and 3 were social insurance programs.

Most of the programs aim to develop human capital (Figure 4). Micro enterprise development was also a frequently occurring objective. Training (37 percent), followed by cash (16 percent), and labor market intermediation services (13 percent) were the main benefits provided across programs identified.

The Social Sector Investment Plan, which defines the budget to carry out the social development strategy of the country every year, has three objectives (or "pillars"): (a) people-centered development; (b) poverty eradication and social justice; and (c) national and personal security. More than 10 institutions (including government ministries and agencies and statutory bodies) were found providing social protection and labor benefits through one or more programs. Six main programs of social protection and employment consume 63 percent of the social sector budget in 2014, which is equal to almost TT$7 billion or 4.8 percent of estimated GDP. By far the largest is the senior disability pension or grant (see Table 3). While most programs are means-tested, once some form of eligibility is established it is fairly easy to qualify and to apply for continuation. Most programs are internally audited—although infrequently—but none of the main ones are monitored for efficacy and follow-through.

Table 3. Most Expensive Labor and Social Programs in FY2014

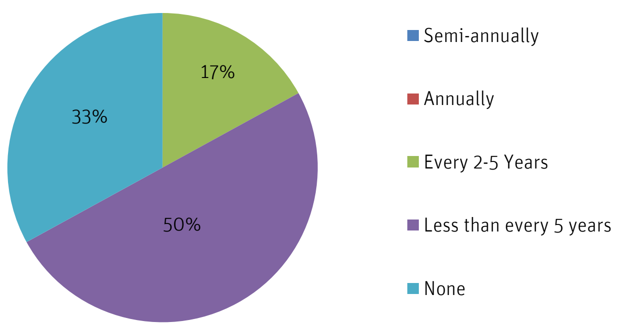
Program	Ministry in Charge	Audited or Monitored?	FY2014 Budget (TT$ mill)	In percent of GDP	Annual Cost per Beneficiary
Disability Grant	Ministry of People and Social Development	Internal audit (5 years or more)	372	0.2	8,785
Unemployment Relief Programme (URP)	Ministries of Local Government, Food Security and Finance	Yes, but not monitored.	452	0.3	10,512
Community-based Environment Protection & Enhancement Programme (CEPEP)	Ministry of Housing and The Environment	Not monitored	536	0.3	28,221
Drugs and Other Related Materials and Suppliers	Ministry of Health	Yes, but not monitored.	596	0.4	-
Government Assistance for Tertiary Expenses (GATE)	Ministry of Finance and The Economy	Yes, but not monitored.	650	0.4	13,000
Senior Citizens' Pension	Ministry of the People and Social Development	Internal, annual process audit	2,437	1.5	29,715

Source: Authors' calculations based on SSIP 2014, Ministry of Planning and Social Development.

Social Protection: The main social protection agency is the Ministry of the People and Social Development, which accounted for 15 of the 63 main identified programs at end-2013. They run the main poverty safety net program, the Targeted Conditional Cash Transfer Programme, which serves about 43,000 households, but has only 105 case workers. It provides food assistance in the form of a cash transfer and developmental program to vulnerable households. The cash transfer component is delivered via the Trinidad and Tobago

Debit Card (TT Card). The developmental component or RISE-UP (Rights of Individuals to Social and Economic Security-Universal Prosperity) provides rehabilitative and developmental support through the provision of training, assistance in finding employment, budgetary planning, family planning, and career guidance to enhance client employability. In addition to other programs for handicapped and disabled individuals, almost 200,000 individuals are served, but few are evaluated (Figure 5).

Figure 5. Distribution of Safety Net Programs by Frequency of Evaluations



Source: IDB Baseline Mapping.

Training and Education Grants . Training has been expanded in recent years, and there has been an improvement in certification. While access to training and opportunities for vocational training are very important elements of human capital development, many of these programs overlap and are not necessarily tied to demand needs in the workplace, at least not in a systematic manner. A 2007 IDB-financed evaluation found duplication in three main areas: the types of skills and training provided, the target group, and the type of accreditation: Many programs offer the same classes for the same group of people, and not all of them have accreditation.

Unfortunately, the effectiveness of programs is not measured, and students are not tracked after training. Regarding the GATE, which provides free tertiary education, the goal of the program is to reach a college participation rate for cohorts of 60 percent, up from 10 percent in 2004. In 2004, student population mushroomed, including older people (no age limit to get GATE). However, neither a monitoring nor a tracer study of this program exists to evaluate educational and employment impact of college graduates who received it. Moreover, because the program is not means-tested, students who can afford to pay tuition also receive free access, so overall the subsidy is biased in favor of wealthier individuals. The 2007 study noted that the area of effectiveness was clearly the weakest for all the training programs considered. With the exception of one program, the Youth Training Employment Partnership Programme Limited, no other program could present evidence of its effectiveness. This was because tracking of clients was nonexistent.

There has been some analysis of cost per person, but even if this is high, it is not necessarily an indication of lack of effectiveness. In respect of client cost of training programs, the range was very wide: between a low of TT$640 per client for the Adult Education Programme and TT$56,700 per client for the Youth Development and Apprenticeship Centres. However, higher cost per trainee does not necessarily imply less effectiveness. Instead, an evaluation needs to understand the additional increase in expected future wages that the program provided.

The two main employment creation programs are substantial in size, but little is known about their impact. Both are relatively large programs where the size and activities are not tied to labor market conditions in the private sector.

The **Unemployment Relief Program** was originally targeted at persons with low skill levels and low levels of educational attainment such as ex-prison inmates. Although it is nominally a short-term employment program, there is much anecdotal evidence that a large number of persons spend their entire productive years of their lives on this program, which has thus strayed from its original concept given the full employment context. Ideally, each beneficiary would be hired on a temporary basis if unemployed and would only receive an extension if economic conditions deem it necessary.

The Community-Based Environmental Protection and Enhanced Programme was created in 2004 and has more than doubled in 10 years in cost, from TT$223 million in 2004 to TT$468 million in 2013. Program workers train for and engage in beautification, preservation, and protection of the environment. However, other agencies, in particular the regional corporations, are involved in similar activities.

Policy Options and Implications

By far the largest concern of these programs is the lack of monitoring and evaluation, particularly given that a substantial part of the nation's budget goes to them. The Ministry of the People and Social Protection has begun internally to develop an integrated management information system to store all information at the program level and ministry level. As a first step, a biometrics card would be issued to beneficiaries which would link to an an electronic database and would allow the input of information into a centralized database. Payments would be sent through the system, which could also reduce possible fraud if it exists. Once adopted more broadly within the ministry and across ministries, this would allow for enough data to at least gauge duplication, monitor program use and understand the characteristics of beneficiaries.

Although a biometric card is a good start, more resources need to be devoted to follow-ups. Evaluation requires a household-type survey that could link income and spending to beneficiaries, before and after receiving benefits, and compare to the rest of the population. Moreover, it would still not be able to consider possible flaws in the design of the programs. Now every department of every ministry maintains different processes, not all digitized; eventually the data could be transfered across all platforms, and a one-stop portal could be created which people can use to apply to all social programs.

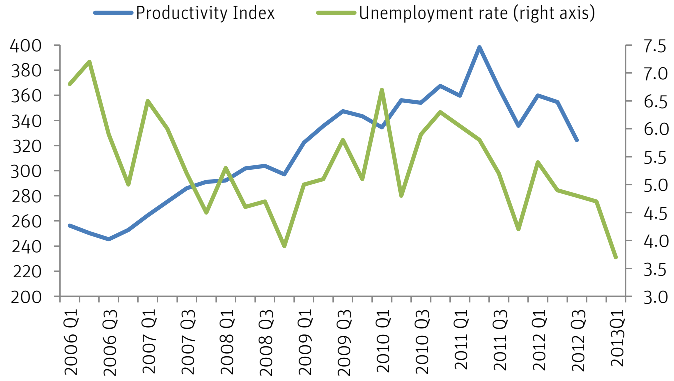
Moreover, there needs to be an interministerial policy committee that looks at the effectiveness of the programs as a whole. The Ministry of the People and Social Protection can manage duplication and redundancy of their programs, but currently they have no way of checking, for example, whether programs in the Ministry of Gender are targeting the same group as a gender-specific benefit of another ministry. Once this cross-checking is achieved and priorities set, it could allow for more efficient budget programming for future years.

Macro Implications of the Generous Welfare State

Many of these social programs, while virtuous on their own, are unfortunately part of an overgenerous state, which, in recent years, has markedly increased their current transfers and subsidies to households and public entities (from 9 to more than 19 percent of GDP in the decade ending in 2013). This figure does not include the full cost of the fuel and electricity subsidies, which could be more than 6 percent of GDP[4] and generally favor the wealthy (who consume more fuels and electricity per capita).

The set of subsidies may also be eroding labor productivity. Although there is still relatively sparse evidence, there are increasing complaints of scarcity of productive unskilled labor and a sense that many in the Community-Based Environmental Protection and Enhanced Programme and the Unemployment Relief Program are employable in the private sector. Because work effort in these programs is less well-monitored, and some households may have sufficient benefits to afford a decent standard of living without having to look for full-time work, effective labor supply may be lower than demand. Another side effect of generous benefits to training and tertiary education is that many graduates are not able to find work commensurate with their skills and have to settle for jobs below their qualifications, which itself erodes skilled labor productivity. The programs therefore have to consider a dialogue with the private sector about the types of jobs that will be needed, particularly in more high-tech areas where Trinidad and Tobago could create some value-added to products and services. Training should be tied to prospective hiring. In this regard, policies that lead to the attraction of more foreign investment or growth of dynamic export industries and link them more closely to training could help boost economic activity while increasing the chance of placement of trainees.

Figure 6. Quarterly Labor Productivity and Unemployment Rate



Source: Central Statistical Office.

Looking Ahead

More information on the impact of the social programs on poverty and household well-being is needed, and the IDB is taking an active role by producing such surveys. This will provide information to analyze options for streamlining or redesigning programs and make them more effective. At present, the set of programs, although well-intentioned, may negatively impact the quality and quantity of labor supply. Cross-country evidence shows that structural, sustainable economic growth in the long term, which leads to reduced structural poverty, occurs as a result of increased labor productivity, not larger handouts.

[4] See the October 2013 Caribbean Region Quarterly Bulletin for a discussion of energy subsidies in Trinidad and Tobago.

Trinidad and Tobago: Selected Indicators

	2009	2010	2011	2012	2013 (P)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	-4.4	0.2	-2.6	1.2	1.6
Nominal GDP	-31.3	7.4	13.6	2.1	7.4
Inflation (end of period)	1.3	13.4	5.3	7.2	5.6
External Sector					
Exports of goods and services*	-50.5	21.9	33.0	-13.1	-1.6
of which: oil and natural gas*	-51.8	18.8	34.7	-16.8	-18.2
Imports of goods and services*	-27.1	-6.8	46.2	-4.7	-2.1
Current account (percentage of GDP)	8.5	20.2	12.3	3.9	10.0
FDI (percentage of GDP)	3.7	2.7	3.3	3.2	3.8
(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	32.4
of which: energy revenues	14.3	17.6	18.8	17.4	16.3
Current expenditure	27.7	28.9	28.6	29.1	29.9
Capital expenditure and net lending	6.3	5.0	4.8	4.6	5.1
Primary balance	-2.3	2.7	1.2	0.8	-0.7
Overall balance	-5.0	0.1	-0.8	-1.4	-2.6
Consolidate NFPS balance (incl. CLICO)	-9.0	-3.9	0.0	-0.3	-1.2
Debt Indicators					
Public sector debt^	30.6	35.5	33.4	38.7	41.2
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	5.7
External debt service as percentage of exports of goods and services	3.70	1.10	0.80	0.90	0.9

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. (P) Provisional numbers for 2013.

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

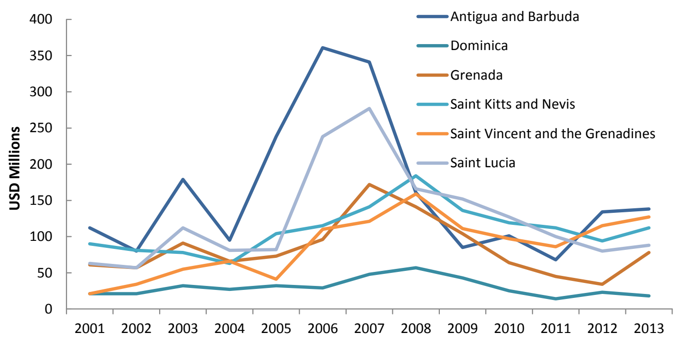
OECS Overview

This section discusses the overall macroeconomic results for the Organization of Eastern Caribbean (OECS) member states in 2013 that were recently published. Growth is still sluggish, but the outlook is improving. The subsequent section discusses recent views of the International Monetary Fund (IMF) on macroeconomic issues. The last section briefly describes the most recent social and labor policies in the OECS countries.

Economic growth has mostly resumed in the OECS countries. In its recently published Annual Economic and Financial Review for 2013 (AEFR 2013), the Eastern Caribbean Central Bank (ECCB) revealed provisional growth estimates of 0.7 percent in 2013, compared with 0.2 percent in 2012. Only St. Lucia (along with Anguilla and Montserrat) is estimated to have contracted in 2013. Higher levels of foreign direct investment (FDI), as well as domestic private and public investment, are largely responsible for the marginal growth in output experienced by the other member states.

The FDI pickup has been key to the recovery. The only country that experienced a decline in FDI inflows in 2013 was Dominica at 22 percent or USD5 million, according to the United Nations Economic Commission for Latin America and the Caribbean statistics, reflected in Figure 1.

Figure 1. Foreign Direct Investment Inflows



Source: United Nations Economic Commission for Latin America and the Caribbean.

Grenada saw the largest increase in FDI in 2013 at 129 percent to USD78 million (the highest level since 2009), up from USD34 million in 2012. After an overall decline of 4.3 percent in 2012, the construction sector is estimated to have expanded by 2.9 percent in 2013 on a regional basis, prompted both by higher FDI flows and domestic private and public investment.

Tourism

Overall stopover arrivals in 2013 rose by 0.1 percent year-on-year to 999,162 visitors—still short of the pre-crisis peak of 1,076,536 visitors (see Figure 2). On an individual basis, data sourced from the Caribbean Tourism Organization revealed that stopover arrivals to Antigua and Barbuda, and St. Vincent and the Grenadines, declined in 2013 compared with 2012, at 1.2 percent and 2.6 percent, respectively, while all other Eastern Caribbean territories under review experienced growth. Cruise ship tourism has fared less well: The ECCB reports that overall, cruise ship passenger arrivals continued their steady decline, dropping by 1.8 percent year-on-year in 2013, notwithstanding the 1.7 percent year-on-year increase in cruise ship calls to the region, after three consecutive years of decline.

Consistent with these figures, the hotels and restaurants sector expanded by only 0.4 percent in 2013, according to the ECCB estimates. This is a decline from 1.4 percent in 2012. As with the decline in stopover arrivals to these territories, the hotel and restaurants sector contracted only in Antigua and Barbuda and St. Vincent and the Grenadines, in 2013.

Figure 2. Visitor Arrivals to the Eastern Caribbean Currency Union

Source: Eastern Caribbean Central Bank.

Growth in the agriculture, livestock, and forestry sector fell to 1.6 percent in 2013, down from 4.7 percent in 2012, based mainly on lower banana output across the region (except for St. Vincent and the Grenadines) due to the Black Sigatoka disease and unfavorable weather conditions.

The manufacturing sector contracted by 3.8 percent in 2013 following an expansion of 0.7 percent in 2012. This was due in part to weak domestic demand and slow tourism activity. In addition, both the wholesale and retail trade sector, and the

transport, storage and communication sector, recorded year-on-year declines of 2.4 percent and 0.1 percent, respectively, in 2013.

Overall deflation of 0.42 percent was recorded in 2013, brought on by weak consumption demand and lower commodity prices. This compares to inflation of 2.6 percent in 2012. By March 2014, 12-month inflation gained momentum to reach 1.09 percent year-on-year.

The fiscal position deteriorated slightly in 2013. According to the ECCB, the overall fiscal deficit widened by 42 percent to XCD466.3 million or 3.0 percent of GDP in 2013, up from XCD329 million, or 2.2 percent of GDP in 2012. The primary balance deteriorated by 146 percent, swinging into a deficit position of 5 percent of GDP in 2013 at XCD43.2 million, from a surplus of XCD137.8 million in 2012.

Nonetheless, debt was lower mostly as a result of St. Kitts land-for-debt swap. The total debt stock shrank marginally by 0.3 percent to XCD12.9 billion in 2013, versus 1.1 percent growth in 2012, resulting in a decline in the overall debt/GDP ratio from 99.6 percent to 98.5 percent in 2013. This reduction in the stock of central government domestic debt was primarily attributable to lower domestic indebtedness in St. Kitts and Nevis, associated with the land for debt swap, according to the ECCB. External debt moved higher on increased borrowings by the central governments of Saint Lucia, Antigua and Barbuda, Grenada, and St. Vincent and the Grenadines.

The current account deficit remains high despite ample reserves. The overall external balance of payments surplus is estimated to have narrowed significantly in 2013 to XCD157 million (1 percent of GDP), down from XCD298 million (2 percent of GDP) in 2012. However, the overall current account deficit narrowed to XCD2532 million (16.4 percent of GDP) in 2013, down from XCD2651 million (17.6 of GDP) in 2012.

The EC currency was backed by an average of 94.8 percent in US dollar reserves during 2013, well above the statutory limit of 60 percent backing, and the prudential operating limit of 80 percent.

Credit conditions remain tight. Domestic credit continued to contract in 2013, by 3.7 percent to XCD12.2 billion, based on a 50.7 percent decline in the net credit position of the governments, as credit from commercial banks shrank by XCD615.5 million. The ECCB's Survey of Commercial Banks' Senior Loans Officers for H2 2013 reveals that overall credit conditions tightened during that period in comparison with the expected outcome. The degree of tightness actually experienced during H2 2013 had eased somewhat compared with that of H1 2013. Credit conditions are expected to tighten further in H1 2014 for business loans, but easing is expected for lending to households. There was a decline in demand for credit across the board in H2 2013, based largely on confidence levels among borrowers.

Small Size and Financial Sector Challenges

The ECCB's recently released 2013/14 Annual Report highlights the constraints of serving a small set of economies and the urgency of integration. The current system and pattern seen in the Eastern Caribbean was described as an input–consumption–default model. The need for further integration and coordination was reiterated, with the governor stating that:

> *"The financial sector is also a victim of arithmetic with 40 commercial banks, 161 insurance entities, and 67 credit unions serving a total population of only 630,000. In the commercial banking sector, our studies have shown that efficiency in the banks' operations is constrained by the small market size in which they operate. In comparison to the other larger countries in CARICOM and other low and middle income countries, the ECCU member countries have the most bank branches per hundred thousand adults. As a result, the ECCU bank cost to income ratios were almost 20 percent higher than in the comparator countries while their earnings ratios were significantly lower. There is an obvious need for some form of consolidation…."*

Work on resolving the indigenous crisis in the financial sector continues. There is a proposal before the monetary council of the ECCB for the amalgamation of all indigenous banks across the Estern Caribbean. Banking sector diagnostics, as well as asset quality reviews, are being conducted. The International Monetary Fund has urged swift implementation of bank restructuring and resolution strategies, and for the Union to seek private sector solutions where feasible to minimize fiscal costs while continuing to preserve public confidence in the banking system. They also encouraged further efforts to strengthen the supervision of financial institutions.

The repercussions of the CLICO debacle for the OECS countries has not been fully resolved, but there has been progress. The ECCB monetary council noted that phase three of the ECCU policyholders' relief program will be continued as soon as the next disbursement from the headquarters in Trinidad and

Tobago is received. The Council also noted the current status of the Colonial International Life Insurance Limited (CIL) in the Caribbean, in particular the approval by the Barbados Cabinet to implement the CIL resolution plan for Barbados policyholders and the approved in principle a counterproposal that includes ECCU policyholders.

The IMF Discusses Policies for the Union

In this regard, the IMF recently held discussions on the common policies of member countries of the Eastern Caribbean Currency Union (ECCU). They noted that while the 3-year recession ended in 2012, the recovery has been listless. The IMF projects 2014 growth at 1.3 percent, up from 0.5 percent in 2013, which are both well below the average of 3.8 percent before the great recession. The economic recovery is being hampered by the lack of adequate fiscal space, high sovereign debt levels, financial sector stress, and weak external competitiveness, according to the IMF. Downside risks stem mainly from fiscal and financial sector weakness.

Policy recommendations from the IMF focused on the need to deepen regional cooperation, especially as it relates to taxation, fiscal frameworks, infrastructure, financial sector issues, and capitalizing on technical assistance. The IMF emphasized the need for fiscal consolidation and increased collaboration among governments, along with the establishment of a robust regional fiscal framework. Furthermore, the IMF highlighted the importance of an internal devaluation in restoring price competitiveness under the current exchange rate peg. They also stressed the need for stronger due diligence and greater transparency regarding the citizenship-by-investment programs, which encourages investment by granting citizenship eligibility to investors in that country. Last, the IMF encouraged a regional approach to bank restructuring and financial sector stability.

Other macroeconomic indicators for 2014 and 2015 will deteriorate slightly, according to IMF projections. Inflation is estimated at 0.9 percent in 2013, rising to a projected 1.2 percent in 2014. Moreover, the overall primary fiscal deficits are forecast to widen to 3.2 percent of GDP in 2014, up from an estimated 0.2 percent in 2013. Similarly, overall fiscal deficits are also projected to increase, from 3.2 percent of GDP in 2013 to 6.4 percent in 2014. Consequently, total public sector debt is expected to rise from 86.7 percent of GDP at the end of 2013, to 89.1 percent of GDP in 2014, with the external component remaining steady just over 45 percent of GDP from 2013 through 2015. The current account of the balance of payments is expected to remain in deficit at just over 16 percent of GDP from 2013 through 2015. The ECCB's foreign reserves have been rising steadily and are projected to grow from an estimated USD1.17 billion in 2013 (or 4.5 months of import cover) to USD1.21 billion in 2014 (or 4.6 months of import cover).

IMF Reviews of Antigua and Barbuda, Grenada, and St. Kitts and Nevis

On April 21, 2014, the IMF's Executive Board concluded the first Post-Program Monitoring discussion for Antigua and Barbuda. According to the IMF release, "Executive Directors noted with concern that the macroeconomic performance has deteriorated in the months following the conclusion of the Stand-By Arrangement with the Fund, weakening the growth outlook and exacerbating downside risks." Growth in 2013 reached 0.5 percent, which was lower than expected, but the economy is projected to expand by 1.6 percent in 2014. Inflation is expected to hover around 1 percent.

On June 26, 2014, the IMF's Executive Board approved a 3-year USD21.7 million arrangement under the Extended Credit Facility (ECF) for Grenada, and concluded the 2014 Article IV consultation. This approval enables the immediate disbursement of an amount equivalent to roughly USD3.2 million. According to the IMF release, "The main objectives of the authorities' ECF-supported economic program are to improve competitiveness and medium-term growth prospects, restore fiscal and debt sustainability and strengthen financial stability." The economy contracted by more than 8 percent from 2008 to 2012 as a result of the effects of natural disasters and the consequent collapse of tourism and construction. Real GDP grew by 1.5 percent in 2013, deflation reached 1.2 percent, and the current account deficit widened to 27.1 percent of GDP. Public debt reached about 110 percent of GDP at end-2013, and the sovereign debt restructure is expected to be completed by the end of this year. Growth is expected to average 1.5 percent from 2014 through 2017.

In May 2014, an IMF mission conducted the ninth and final review of St. Kitts and Nevis under the 3-year Stand-By Arrangement. Growth accelerated to 3.8 percent based on stronger performance in tourism, construction, and public sector investment spending. Employment expanded by 19 percent, while inflation softened to 0.4 percent in 2013, and 0.1 percent by the end of March 2014, year-over-year. By the end of 2013, foreign reserves stood at 8 months of import cover and public debt was reduced to 104 percent of GDP. The fiscal balance swung into surplus of 12.2 percent of GDP in 2013, from a deficit of 7.8 percent of GDP.

Outlook

The ECCB is projecting 2014 overall growth at 1.9 percent, with each member state recording positive real growth. The construction and tourism sectors in particular are expected to gain momentum. Economic expansion is projected to range from a low of 1.7 percent in Grenada and St. Vincent and the Grenadines, to a high of 3 percent in St. Kitts and Nevis. Even when the currency union recorded its highest real growth in recent times at 6.18 percent in 2006, several sectors contracted overall—bananas, sugar, livestock, forestry, road transport, and sea transport. For 2014, however, the ECCB projects real growth in each sector overall, and in each country overall, which seems quite optimistic.

The ECCB also projects wider fiscal deficits and higher public debt levels in 2014, as regional governments adopt more expansionary fiscal policy going forward. Official grant inflows should diminish, adding to fiscal pressures in 2014 and beyond.

The external current account deficit is expected to widen in **2014 and remittances increase**. Higher expected import payments will lead to a higher current account deficit, while the overall surplus is expected to widen on higher FDI and remittance inflows. Given that growth in the developed world is projected to intensify this year and next, and that unemployment rates are projected to decline in the main tourism source markets (particularly the United States, United Kingdom and Canada) it is likely that higher remittance flows to the Eastern Caribbean will materialize as the year progresses.

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Table. Organization of Easter Caribbean States: Selected Indicators

	Population 2012 (000)	Nominal GDP 2013 (USD MM)	2013 Real GDP change (%)	Public sector debt/GDP 2013 (%)	Overall Fiscal Balance (% of GDP)	Overall Fiscal Balance (XCD MM)	Inflation y-o-y (%)
Antigua and Barbuda	88	1,230	0.1%	92.2%	-4.4	-144.3	1.1%
Dominica	71	505	0.0%	77.0%	-8.7	-118.3	-1.7%
Grenada	105	834	2.7%	100.4%	-5.4	-121.5	-1.2%
St. Kitts and Nevis	57	743	2.0%	101.3%	14.5	291.1	0.4%
St. Lucia	168	1,332	-1.6%	76.5%	-6.4	-228.7	-0.7%
St. Vincent and the Grenadines	110	726	3.1%	75.1%	-6.3	-122.4	0.0%
Eastern Caribbean Currency Union		5,714	0.7%	98.5%	-3.0	-466.3	0.8%

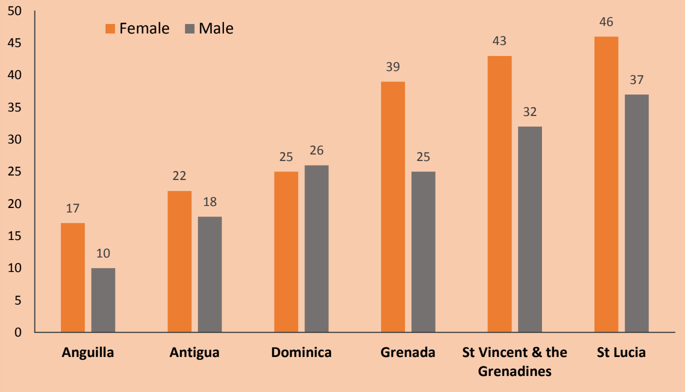
Special Update: Rising Government Wages, Labor and Social Policies.

According to the ECCB's AEFR 2013, it is estimated that overall, public sector wage increases were seen in a number of territories in the Eastern Caribbean. In Saint Lucia, public servants were awarded a 4 percent increase, while their counterparts in St. Vincent and the Grenadines were granted a 1.5 percent increase in October 2013. In Dominica, higher remunerations consisted of a 2.5 percent increase in salaries granted in February 2013, and retroactive salary payment increases of 1 percent and 1.5 percent for the two previous fiscal years, were paid in April 2013. In Grenada, public servants were also awarded salary increases and retroactive payments. In St. Kitts and Nevis, an increase in emoluments reflected the payment of 2 months' salary to public servants in September 2013. Overall, the level of spending on personal emoluments increased annually and grew by 4.3 percent (XCD67.9m) in 2013, as this category of spending was higher in all of the Eastern Caribbean countries under review. Three countries (Dominica, Grenada, and St. Kitts and Nevis) accounted for 67 percent of the total increase in personal emoluments, reflecting salary increases, according to the ECCB. Personal emoluments in 2008 accounted for 43 percent of total government primary spending, which in turn accounted for about 30 percent of GDP in ECCU countries in 2013 according to the IMF (although not all countries collect fiscal data so this is just a rough estimate).

In contrast, government spending on transfers and subsidies has stabilized. They have increased from XCD299 million (3.5 percent of GDP) in 2001 to XCD740 million in 2013 (5.1 percent of GDP), after having peaked at 5.52 percent of GDP in 2011. In the post-2008 period, the share of transfers and subsidies for the Eastern Caribbean has remained above 5 percent of GDP. Antigua and Barbuda and St. Vincent and the Grenadines have the highest expenditure on transfers and subsidies among the OECS countries, reaching 6.3 percent and 7.0 percent of GDP, respectively, in 2013. After 2008, spending on pensions has been rising by an average of 10 percent per annum, although the actual increase in 2013 was the smallest in recent times, at 0.72 percent.

Youth unemployment is becoming an acute problem. Labor statistics are limited for the most part, except for Saint Lucia and Grenada. In 2013, the unemployment rate in Saint Lucia and Grenada was estimated to be 23 percent and 33 percent, respectively. Youth unemployment is emerging as an acute problem in both countries and stands at 55.6 percent for Grenada and 39 percent for Saint Lucia. Several social programs targeted at single mothers and youth have been implemented in the OECS to address the high levels of unemployment. Across countries in the Caribbean, youth unemployment rates are double to quadruple the adult rates. Youth unemployment is likely to be quite underestimated in high unemployment economics where non-availability of employment over a prolonged period influences "discouraged workers" to stop looking for work. Youth unemployment rates are higher for female than males, although their proportion of the total labour force tends to be less. (Figure 3)

Figure 3: Youth Unemployment Rate by Gender (2006).



Source: ILO

Social programs are expected to continue at current levels, at least, amid high levels of unemployment and poverty. Some of the more prominent programs in Saint Lucia include the Short-Term Employment Programme, the Single Mothers in Life Enhancement Skills Project, and the National Initiative to Create Employment Program. These programs have provided employment for hundreds of citizens and the government of Saint Lucia has indicated that it will continue to support these programs in FY14/15 amid high levels of unemployment and poverty. However, the lack of adequate data and small programs preclude further analysis of current labor and social policies in the OECS. The World Bank and the OECS over the period 2011–13 have established a Living Standards Measurement Committee. The purpose of the committee is to inform statistical coordination under the Sustainable Household Data Collection Program for the Measurement of Living Standards and to contribute to reliable statistics for developing better social policies in the OECS.

The Caribbean Quarterly Bulletin

REGIONAL SUPPLEMENT: LABOR AND SOCIAL PROGRAMS IN THE CARIBBEAN

Introduction

Insurance market failures (adverse selection and moral hazard) have been addressed by governments after Bismarck's implementation of the first welfare state in the 19th century. Since then, governments have made in-kind or cash transfers to help households and individuals during unexpected shocks (social insurance) and to reduce poverty (social assistance).

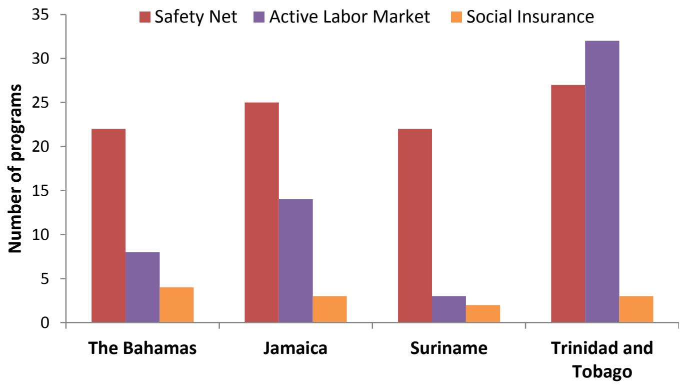
Recognition of the importance of social public spending as a key instrument for fostering economic development has led countries in Latin America and the Caribbean to increase such spending during the past two decades. Furthermore, after the documented success of Mexico's *Programa de Educación, Salud, y Alimentación*, conditional cash transfer programs have expanded rapidly in Latin America and the Caribbean. While the Caribbean has launched several social and labor programs in the past two decades, systematized information on the nature and extent of these programs along with robust evidence on their effects is scarce.

Documenting Labor and Social Programs

Considering this background, the Caribbean Country Department at the IDB is working on a technical project to understand these programs in the Caribbean. The first step is to document within a systematized framework the social and labor programs currently in place in the Caribbean IDB-member countries. The second step is to conduct household-level surveys geared toward collecting the necessary information to characterize the profile of the programs' beneficiaries. Third, exploit the household-level data resulting from these surveys to evaluate the impacts of the main social and labor programs. However, the IDB has not received non-objection letters from the Governments of Barbados and Guyana which will allow it to carry out these activities.[1] Therefore, this research agenda is being implemented only in The Bahamas, Jamaica, Suriname, and Trinidad and Tobago.

To date, the first objective of the aforementioned research agenda has been achieved in The Bahamas, Jamaica, Suriname, and Trinidad and Tobago[2]. More than 165 social programs have been identified across these countries. Most of these programs can be classified as safety nets[3] and labor market and social insurance programs. The number of programs for each category is displayed in Figure 1. While the number of social insurance programs is the least prominent in each country, these typically embody national insurance contributory programs that represent a larger portion of government spending (as a percent of GDP). The number of safety net programs in The Bahamas, Jamaica, and Suriname outnumber the quantity of labor market and social insurance programs. However, in Trinidad and Tobago, labor market programs slightly outnumber safety net programs.

Figure 1. Number of Social and Labor Market Programs, by Type and Country



Source: Authors' calculations based on Baseline Mapping Excercise.

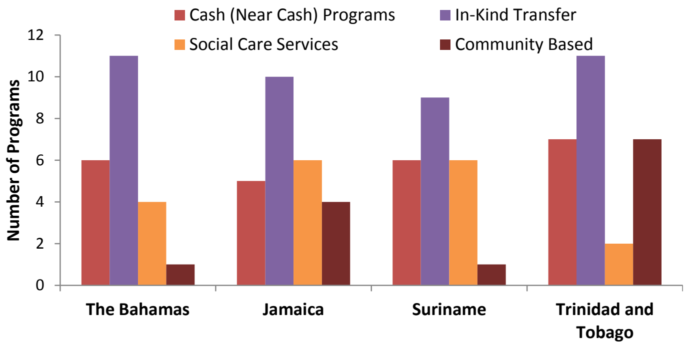
Figure 2 shows safety net programs classified by type. It shows that in-kind transfers are widely used in these Caribbean countries. This is usually driven by school feeding programs and is consistent with what Gentilini and colleagues (2013) find in a worldwide overview of social safety nets. While the Caribbean is prone to weather-related shocks and has shown vulnerabilities during external macroeconomic shocks, programs targeted to natural disaster victims, while existing in all countries, are of small scale.

[1] The IDB is awaiting confirmation from the Government of Barbados on whether a non-objection letter would be granted towards joining the research project.

[2] The information provided is strictly for the programs identified during the baseline mapping exercise which took place between June 2013 and February 2014.

[3] These programs include cash transfer programs, in-kind transfers, social care services, and community-based programs. These programs are also referred to as *social assistance* and *social transfers*.

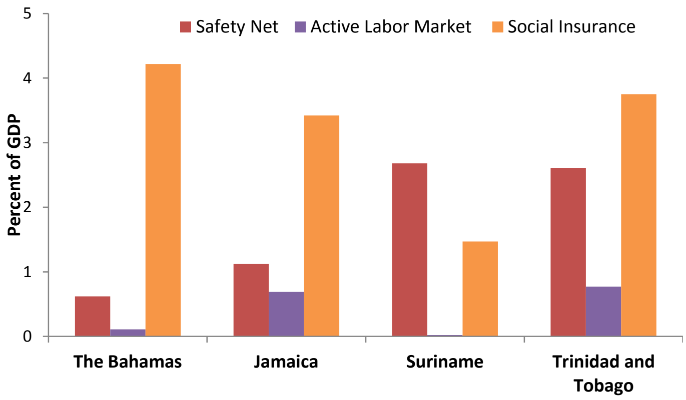
Figure 2. Safety Net Programs, by Type and Country



Source: Authors' calculations based on Baseline Mapping Excercise.

The Ministry of Social Affairs in Suriname implements 19 social protection and labor programs, while the Ministry of the People and Social Development in Trinidad and Tobago implements 15. Similarly, the Ministry of Labour and Social Security in Jamaica implements 13 programs. The Ministry of Social Services and Community Development in The Bahamas is in charge of implementing 14 programs.[4] It is worth noting that the Government of The Bahamas is embarking on a social protection reform that will reduce the number of targeted noncontributory programs. Governments in the four countries also provide grants to nongovernmental organizations to implement an unknown number of parallel social protection and labor programs. Fragmentation and duplication increase administrative costs and reduce capacity building.

Figure 3. Investments in Social and Labor Market Programs With Respect to GDP



Source: Authors' calculations based on Baseline Mapping Excercise.

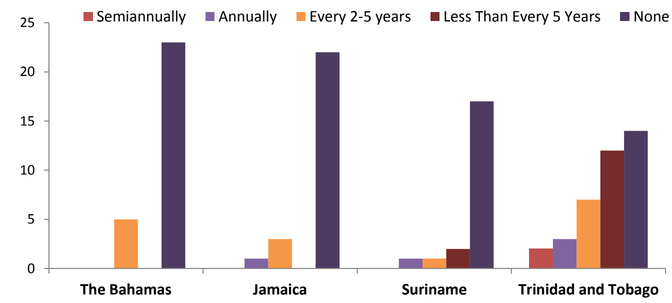
[4] Caution should be taken regarding this figure because it includes different subcategories of the Disability Allowance program (medical assistance, burial, temporary accommodation, house repair, and others) that were classified separately.

The identified programs represent a considerable share of each country's GDP. Overall investments range from 4.2 percent in Jamaica to 7.1 percent in Trinidad and Tobago. The scope and importance of the different social and labor market programs is shown in Figure 3. Investments in social insurance programs range from 1.5 percent in Suriname to 4.2 percent of GDP in The Bahamas. Safety net programs represent, on average, a lower share of GDP in The Bahamas and Jamaica (around 1 percent of GDP), whereas Suriname and Trinidad and Tobago invest a significant share as a percent of GDP. Investments in active labor market programs are the lowest by type across all countries, with investments below 1 percent of GDP in all countries.

Monitoring and Evaluation

While a significant number of social and labor programs with important investments have been identified in the Caribbean, their corresponding monitoring and evaluation (M&E) systems do not result in an evaluation of their effectiveness. Most of these programs have been created without designing proper M&E schemes aimed at evidencing their results within robust frameworks. Rigorous impact evaluations of these programs are nearly nonexistent. The unique exception is the impact evaluation of the Jamaican Programme of Advancement Through Health and Education (Mathematica, 2007). Furthermore, process evaluations are also scarce. Figure 4 shows the frequency of process evaluations for social and labor programs. For The Bahamas, Jamaica[5], and Suriname, most existing programs have never had a process evaluation. For Trinidad and Tobago, of the 38 identified programs, 14 have never been evaluated, 12 are evaluated every 5 years, and 12 are evaluated on a regular basis.

Figure 4. Frequency of Process Evaluations of Social Protection and Labor Programs



Source: Authors' calculations based on Baseline Mapping Excercise.

[5] PATH's internal Monitoring and Evaluation (M&E) unit performs process evaluations regularly.

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Regarding program monitoring, most safety net and labor programs in the Caribbean collect basic information, but it is neither systematically ordered nor readily available for public use. Publicly accessible links to programs' monitoring and information systems or databases were found for only two programs in The Bahamas and three in Trinidad and Tobago. Furthermore, several targeted safety net and labor programs still rely on paper-based information systems, hindering their usefulness to perform analyses of targeting and graduation strategies. Most programs do not have a dedicated M&E officer and instead rely on the general ministry or executing agencies M&E arrangements. Insurance programs in all countries undertake actuarial reviews, but rigorous impact evaluations are uncommon. Hence, there is little information about which programs have been successful and whether they are cost-effective.

Looking Ahead

With this in mind, a rigorous understanding of the cost-effectiveness of the significant number of social and labor programs in the Caribbean would require the following:

i. Providing a clear classification and description of the existing social and labor programs in each country
ii. Designing interventions that measure the effects of these programs considering comparable treatment and control groups. This would entail training in impact evaluation design and supervision for program administrators exploiting alliances with academic institutions[6]
iii. Generating, on a regular basis, household-level data designed to capture the intended (and unintended) effects of these programs[7]
iv. Undertaking impact evaluations using the generated household-level data of each program individually. Financial resources needed for these evaluations would need to be envisioned at project design[8]
v. Making impact evaluations and the complete datasets used within these evaluations publicly available in order to guarantee transparency and global scrutiny.

Over the next year, the IDB will work with the relevant agencies and the statistics offices to reinforce this process, hopefully initiating a new way of collecting and using the information.

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[6] During 2013, IDB in partnership with the University of Berkeley, Hass School of Business held an impact evaluation workshop in Jamaica. Participants included social sector officials from Jamaica, The Bahamas and Suriname. However, more training is needed and this type of alliances have proven useful.

[7] Within IDB Caribbean member countries, Jamaica is the only one that conducts a Survey of Living Conditions annually. This general lack of up-to-date household level data on living conditions has been recently highlighted in Caricom's Second High Level Advocacy Forum on Statistics.

[8] IDB seeks to include impact evaluation plans with associated funding for them within the design of loan operations.

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The Caribbean Quarterly Bulletin was prepared by the Caribbean Economics Team, Inter-American Development Bank.

The contributors were Cherran O'Brien, Chrystol Thomas, Mark Wenner, Juan Pedro Schmid, Musheer Kamau, Valerie Mercer-Blackman, Jeetendra Khadan and Mariana Salazni. Carlos Elias (Senior Partner of Alwang, Elias & Partners, email: celias@d-h-c-consulting.com) contributed to the Suriname section.

The section on the **Organization of Eastern Caribbean States** was prepared by Marla Dukharan, Group Economist, Royal Bank of Canada (Caribbean). Email: marla.dukharan@rbc.com

This issue's **Regional Supplement** was prepared by Diether Beuermann and Ricardo Sierra.

The Quarterly Bulletin's production team is headed by Inder Ruprah (director) and Valerie Mercer-Blackman (editor and coordinator). Mariana Salazni (coordinator), Rumit Pancholi (editor), Dana Payne (editor and distributor). Sasha Baxter, Dillon Clark and Kimberly Waithe also contributed.

For questions or comments please email CET@iadb.org