# Caribbean Region Quarterly Bulletin


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IDB Country Department Caribbean

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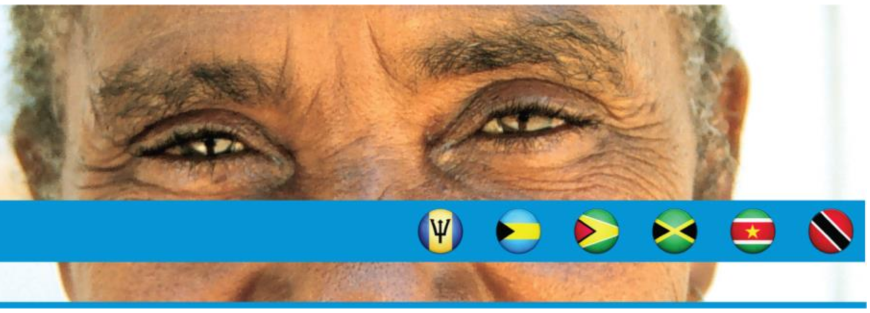
SUMMARY

# CARIBBEAN REGION



*Weak economic growth continues to challenge the tourism-dependent countries in the Caribbean. Conversely, the growth outlook remains strong in Guyana and Suriname, which also just concluded elections. Trinidad and Tobago will host elections in September of this year.*

| Selected Indicators 2014 | Real growth Rate | Annual Inflation (% end of period) | General Government Primary Balance (% of GDP) | General Government Overall Balance | Current Account balance (% of GDP) | General Government Debt (% of GDP) |
|---|---|---|---|---|---|---|
| **1) High-debt countries** | | | | | | |
| Jamaica | 1.4 | 4.7 | 7.7 | -0.4 | -6.1 | 140.6 |
| Barbados | -0.3 | 2.3 | -3.5 | -9.0 | -9.1 | 100.4 |
| **2) Medium-debt countries** | | | | | | |
| the Bahamas | 1.0 | 1.2 | -1.7 | -4.2 | -21.6 | 60.4 |
| Trinidad & Tobago | 1.1 | 8.5 | -2.4 | -4.0 | 8.3 | 37.6 |
| **3) Low-debt countries** | | | | | | |
| Suriname | 2.9 | 3.9 | -4.1 | -5.0 | -7.3 | 34.1 |
| Guyana | 3.8 | 1.2 | -4.4 | -5.2 | -15.9 | 65.8 |
| **Caribbean average** | 1.7 | 3.6 | -1.4 | -4.6 | -8.6 | 73.2 |

Note: All values are for 2014 or last available year.
Source: International Monetary Fund and country authorities.

## Summary of Recent Developments, by Country

***The Bahamas*** *continues to suffer from weak economic growth and high unemployment. At the same time, fiscal indicators stopped deteriorating as a result of the recently introduced Value Added Tax (VAT). Advances in overall tourism performance benefitted from both the recovery in the air arrival component and lower room rates. At the same time, the uncertainty regarding completion of the Baha Mar resort stifles the outlook.*

***Barbados****' tourism sector has started to improve, The fiscal deficit has declined as a result of the fiscal consolidation program. However, current public spending and debt levels remain high and interest payments continue to rise. The country should continue to benefit from lower international oil and commodity prices while unemployment will likely remain in the double digits.*

***In Guyana,*** *growth projections for 2015 were revised downward to 3.8 percent as a result of increased political uncertainty and declining gold prices. In addition, commodity prices for most export commodities remain at levels that do not stimulate greater economic activity, particularly in the gold and rice sectors. However, strong foreign direct investment flows and continued public investment in infrastructure are expected to maintain a favorable economic outlook.*

***Jamaica****'s outlook continues to be positive as the IMF's Executive Board approved the eighth review of Jamaica's Extended Fund Facility in June 2015. In addition, following upgrades in the country's credit rating by Moody's and S&P's the authorities issued US$2 billion in global bonds, US$1.5 billion of which for a buyback of Petrocaribe debt. However, challenges remain, especially to accelerate economic growth to support economic adjustment and improve the livelihood of the population.*

***Suriname's*** *macroeconomic performance continues to be relatively strong although falling commodity prices are challenging revenue collection. For the first time in Suriname's political history, a single political party has won the majority of seats in a general national election.*

*Growth in* ***Trinidad and Tobago*** *is expected to be moderate at 1.5 percent, supported by slightly higher energy sector output and continued moderate performance of the non-energy sector. Fiscal and external risks remain as depressed oil prices and uncertainty in global energy markets continue.*

*A tourism-led recovery is underway in the countries of the ECCU/OECS. Countries are undergoing fiscal consolidation, but continue to be challenged by large fiscal deficits, high levels of public debt and modest growth. The outlook for growth is positive in 2015 and greater oversight of the financial system on behalf of the Eastern Caribbean Central Bank should bring greater macroeconomic stability.*

## *Special Country Reports: Education*

*In the Special Country Reports, we look at education in the Caribbean. Although countries in the Caribbean have made important progress in education coverage and enrollment, important challenges remain. Quality as measured by pass rates and readiness for the labor market is often low. In addition, male enrollment declines sharply at the secondary level, leaving an important share of the population with low levels of education and potential adverse social effects.*

### Regional Report: Education Gaps in the Caribbean

A skilled workforce has become the linchpin for successful countries in the 21st Century. First, education and skills are relevant to produce goods and services with high value added; second, education carries enormous private and social benefits since higher educated persons earn more, are less prone to unemployment and less likely to be poor or have children that will be poor, thus breaking the poverty cycle. There is the general perception that education in the Caribbean is poor and has gaps. This section identifies and explores these gaps for The Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago (CCB region) and analyses potential causes.


## Overview

**The Bahamian economy continues to perform weakly with little indication of a quick acceleration in economic activity.** Newly released data indicated real growth advanced to 1.0 percent in 2014 versus 0.7 percent in 2013. Unemployment remains high while the economic recovery has been more fragile than anticipated. The fiscal deficit continues to improve with expectations of a further decline once the effect from the recently introduced VAT is fully incorporated. Tourism performance benefitted from both the recovery in the air arrival component and lower room rates. At the same time, construction-related imports in relation to the Baha Mar resort have led to a spike in the current account. However, the uncertainty surrounding the completion of the Bahamar project could have adverse effects on growth, revenue, and unemployment.

## Recent Developments

**On May 27, 2015, Prime Minister Perry Christie presented the Budget Communication FY 2015/16 to the House of Assembly.** The Government of the Bahamas (GoBH) outlined its efforts and plans for the customs modernization project, reforms for the real property tax and business license systems, and the central revenue agency, among others. As a result of these efforts and upcoming plans, the overall real growth rate could advance to about 1.7 percent for 2015.

**The Bahamar Resort & Casino filed for bankruptcy on June 29, 2015.** The filing cites that as a result of the repeated delays in the construction schedule and resulting mounting expenses, the Chapter 11 protection was found to be the best path to provide the time and capital structure to complete construction and successfully open Bahamar. Despite this, overall tourism activity advanced in 2015 in line with previous years, with an 8.9 percent increase in stopovers versus the same period in 2014. Total visitors for Q-1 2015 stood at 1.8 million versus 1.7 million in Q-1 2014.

**Double-digit unemployment figures of 15.7 percent persist across the country amidst low economic growth.** Participation rates remain similar at 74.4 percent in November 2014. The youth unemployment component remained relatively unchanged at 31 percent versus 30.7 percent in May last year.

**Consumer price inflation firmed in 2014, despite the fall in global oil prices.** The average price index advanced by 84 basis points to 1.19 percent. The country's inflation level remains one of the lowest in the region. The advance in the level was due mainly to gains in the alcohol, tobacco and narcotics category, which

### Highlights

The fiscal deficit widened for the first seven months of FY2014/15 and total debt crossed the 70 percent mark.

Power Secure International has been chosen by the GoBH to manage the transmission, distribution and generation of electricity in The Bahamas in April 2015.

The draft Environmental Planning and Protection Bill, 2015, was released for public comment in April 2015, while the draft legislation for a new Freedom of Information Act was released in May 2015 for comments.

firmed by 3.61 percent to 7.08 percent, followed by the transport categories which firmed by 3.55 percent to 3.77 percent. In contrast, the fuel surcharge was reduced by 4.8 percent to 24.68 cents per kilowatt hour (kWh), versus the 2.8 percent decline in 2013. An abatement in prices was also recorded for the average gallon of gasoline and diesel by 2.0 percent and 2.8 percent to $5.24 and $4.99 respectively.

**Private sector credit moderated in February 2015 signaling persistent weakness in the domestic market.** This outturn was owed, in part, to high unemployment levels which resulted in declines in the mortgage, consumer and commercial loan categories. Loan arrears climbed by 1.0 percent with the corresponding loan ratio expanding 20.0 percent, while non-performing loans decreased by 15 basis points to 15.9 percent of total loans. Provisioning levels increased by 2.8 percent to 42.3 percent of total arrears and 53.2 percent of non-performing loans. Official reports also indicate an estimated B$8.0 million in debt write-offs and $2.5 million in loan recoveries.

**The current account deficit widened to 22.2 percent of GDP despite projections of a decline for 2014.** The widened deficit was owed to capital imports and construction-related service payments, reported to be associated with foreign investment projects resulting in an expansion in the merchandise trade deficit and a reduction in the surplus on the services account.

**The fiscal deficit widened for the first seven months of FY2014/15.** Thus far into the fiscal year, the fiscal deficit widened due to the expansion in expenditure versus the pace of improvement in revenue collections. Increases on the expenditure side included growth in wages and salaries, transfer payments and capital spending. On the revenue side, the bulk of the improvement resulted from the advance in tax receipts


due to increased collections from business and professional fees, along with VAT receipts ($10 million in first month), and collections on international trade. Meanwhile, non-tax receipts contracted. External reserves at the end of February were recorded at $810.0 million, equivalent to more than 12 weeks of merchandise imports versus 11.4 weeks in 2014.

**The government has collected an estimated Bh$110 million in VAT over the first three months of this year.** Higher than expected registration numbers have resulted in a promising level of new VAT tax intake, as the country proceeds to implement the VAT for the first time in the country's history. The PM reported that as of April 29, which includes the early results of the first quarterly filing period, tax collection experienced close to on-time filing performance of over 90 per cent among the larger, monthly filers. For quarterly filers, for whom this was the first filing period, just over 80 per cent of the mandatory registrants filed on-time. The GoBH's annual net target for VAT collections is about B$150 million after its first year of implementation.

**Moody's analysis indicates that The Bahamas is unlikely to see improvements in its credit rating outlook over the next few years.** Given the 2014 downgrade of the country's sovereign rating to Baa2, just two notches above 'junk status', the analysis delivered a weak prognosis of the impact of the expected economic growth of the country, as it is likely to continue to struggle with high debt until 2020. For The Bahamas, the analysis highlighted that Bahamian economic growth has been stagnant for the past decade, averaging 1 per cent year-over-year between 2004-2008, the same rate it has generated between 2010-2014. Further, it noted that there will be little correlation, or positive knock-on impact, between tourism and economic recoveries on one hand, and government debt, deficits and credit ratings on the other. Although slippages exist, the GoBH's medium-term fiscal plan, articulated in 2013, is being implemented to address its fiscal and debt challenges. Despite this, the stable outlook remains under threat, due to low growth expectations, rising debt levels and a persistently high current account deficit. At the end of 2014, total debt stood at US$6.3 billion (73.4 percent of GDP), while central government debt stood at US$5.6 billion (65.8 percent of GDP) at the end of the year.

**Power Secure International has been chosen by the GoBH to manage the transmission, distribution and generation of electricity in The Bahamas as stated in an official announcement on April 30, 2015.** The GoBH indicated that this management contract, which is under negotiation, would cover a period of five years and is expected to lower energy costs in the country. Currently, the average energy cost in the country is one of the highest in Latin America and the Caribbean at US $0.40 - $0.44 per kWh, with frequent power outages. Furthermore, the Bahamas Electricity Corporation (BEC) carries a heavy debt of roughly $460 million, ($200 million of which is government guaranteed) and remains one of the GoBH's largest contingent liabilities.

**The draft Environmental Planning and Protection Bill, 2015, was circulated for public comment in April 2015.** The Bill seeks to increase environmental protection and oversight throughout The Bahamas, impose stiffer penalties for environmental infractions and also mandates that members of the public be alerted of environmental accidents that may adversely affect their health. The Bill is the first of its kind and the completion of the Integrated Coastal Zone Management (ICZM) Framework is due December 2015.

**Draft legislation for a new Freedom of Information Act was released for public comment in May 2015.** This bill seeks to reinforce and give effect to certain fundamental principles underlying the system of constitutional democracy, including governmental accountability, transparency and public participation in national decision-making by granting the public a general right of access to records held by public authorities. The Bahamas' data protection legislation was passed in 2003 and became effective 2007; at the time, there was no Freedom of Information Act. The first Freedom of Information Bill was passed in 2012 but was never put into effect and came under heavy scrutiny.

| High-Frequency Macroeconomic Indicators | Last data | Period | Prior data | Period |
|---|---|---|---|---|
| Annual GDP growth (%) | 1.0 | 2014 | 0.7 | 2013 |
| Tourism arrivals (annual % change) | 2.8 | Dec-14 | 3.5 | Dec-13 |
| Exports (12-month growth) | -11.1 | Dec-14 | 0.0 | Q3 2014 |
| Imports (12-month growth) | 3.2 | Q4 - 2014 | -0.1 | Q3 2014 |
| Private sector credit growth (%) | -1.9 | Feb-15 | -1.9 | Nov-14 |
| Inflation | 1.2 | Dec-14 | 0.4 | Oct-14 |
| Exchange rate (end of period) | 1.00 | May-15 | 1.00 | Dec-14 |
| Unemployment rate (%) | 15.7 | Nov-14 | 14.3 | May-14 |

Source: Central Bank of The Bahamas


## Introduction

In this section, educational trends in The Bahamas will be explored over the most recent years. With annual reports of declining grades in the national exam, the Bahamas General Certificate of Secondary Education (BGCSE), there are several implications for the overall health of the economy and long term growth.

## Education in The Bahamas

Due to the archipelagic structure of The Bahamas, meeting the educational needs of the country has always posed a significant problem for the Government. While the GoBH exerts considerable effort to make education affordable (historically 3.8 - 4.8 percent of GDP has been directly spent on education) accessibility and quality continue to be challenges. To meet the accessibility challenge, the Government supervises a stock of 246 schools on 18 islands: 84 of the public schools (50.0 percent) have fully equipped libraries and are manned by 4,494 teachers[1], including in some of the most rural areas of the country.

To provide education to many of the rural areas, the Government employs 964 non-Bahamian teachers (21 percent of the teaching labor force) to meet the demand. Further, the need to place educators in schools has allowed for many loopholes in Government policy to meet the demand. In the 2013-2014 academic year, 17.5 percent of the teachers in the public school system were untrained. This figure is even higher in the private schools (55.8 percent), which are not managed by the Government.

**Table [1] – Training of Public and Private School Teachers by School Level 2014**

| School Type | PUBLIC | | INDEPENDENT | | Total |
|---|---|---|---|---|---|
| | Trained | Untrained | Trained | Untrained | |
| Preschool | 31 | 2 | n/a | n/a | 33 |
| Primary | 1152 | 95 | 218 | 62 | 1527 |
| Junior High | 427 | 56 | 3 | 0 | 486 |
| Senior High | 442 | 102 | 0 | 0 | 544 |
| Secondary | 435 | 150 | 77 | 53 | 715 |
| All- Age | 74 | 40 | 599 | 383 | 1096 |
| Special | 63 | 13 | 9 | 8 | 93 |
| **School Total** | **2624** | **458** | **906** | **506** | **4494** |

*Source: Research and Planning Section, Ministry of Education: Education Statistics 2013 - 2014*

The challenge of managing education in The Bahamas is evident in the Bahamas General Certificate of Education (BGCSE) results. With the minimum acceptable grade in the national exam being C, the performance shown to date is below this minimum with little sign of improvement for students who are being prepared to join the local workforce.

**Table [2] – Historic average exam results in the BGCSE**

| Subject | 2011 | 2012 | 2013 |
|---|---|---|---|
| Mathematics | E- | E+ | E |
| English Language | D | D | D |

*Source: Ministry of Education, Science and Technology National Examinations Report*

## A Technical Solution to the Educational Crisis

While performance remains low on the national exams, there has been a trend towards skills-based learning in recent years for tertiary education. While there are several institutes which offer programs, the largest producer of technical graduates is the Bahamas Technical and Vocational Institute (BTVI), operating from campuses in New Providence and Grand Bahama. Since, 2011, the BTVI has shown a 37.5 percent increase in student enrollment with plans for further increase.

**Table [3] – Historic enrollment in BTVI**

| Gender | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| Male | 2,140 | 1,908 | 1,908 | 2,762 |
| Female | 1,480 | 1,549 | 1,549 | 2,215 |
| **Total** | **3,620** | **3,457** | **3,457** | **4,977** |

*Source: Caribbean Development Bank, Bahamas Technical and Vocational Enhancement Project*

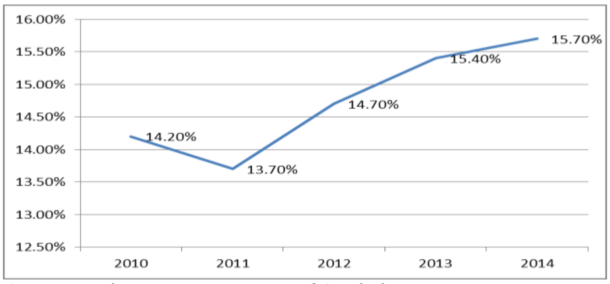
In December 2014, the BTVI signed a USD $7.26 million technical loan agreement with the Caribbean Development Bank for the expansion and enhancement of its facilities. Presently, up to 55 skill and development courses are offered at the main campuses in New Providence and Grand Bahama. Limited courses are offered in Abaco and Eleuthera. Loan proceeds are earmarked for the construction/upgrading of up to 33

[1] Based on data included in the Ministry of Education: Education Statistics 2013-2014. Data for the 2014-2015 academic year had not been released at the time of drafting this report.

classrooms to enhance the learning experience.[2] It is estimated by BTVI that there is demand for an additional 450 persons a year,[3] placing its potential enrollment numbers on par with the College of The Bahamas, the premier tertiary education provider in the country.

A potential drive of the shift in post-secondary education preferences may be the unemployment levels which have increased from 13.7 percent in 2011 to 15.7 percent by the end of 2014 (see graph below).

**Figure 1: Historic Unemployment in The Bahamas**




*Source: Bahamas Department of Statistics*

In an effort to abate increasing unemployment levels, the Government created the National Training Agency (NTA) in 2013. The aim of this entity is to provide affordable technical and vocational training to job seekers and assist in the job search process. Since inception, the organization has trained over 1,400 persons seeking to re-enter the job market in areas requiring technical skills.[4] According to the NTA, the most popular program is training in allied health care. This program awards both a Patient Care Technician and Patient Care Assistant certification to students. Food and Beverage and Housekeeping were also popular options, largely due to the international certification awarded from City and Guilds of London.

Historically, the hospitality sector has required the lowest level of skilled labor in The Bahamas. In the most recent occupational wage survey by the Department of Statistics, only 5 percent of firms surveyed had more than 50 percent of its staff with education beyond the secondary school level.[5] It should be noted that the hospitality sector has been one of the largest employers in the country, with tourism accounting for over 70 percent of GDP.

## IDB Supporting Education in The Bahamas

The 2005 $12.8 million IDB loan entitled *Investing in Students and Programmes for the Innovative Reform of Education (INSPIRE)* paved the way for much of the transformation that exists in the education sector in The Bahamas. Key achievements of INSPIRE include: the establishment of regulations for early childhood education (208 caregivers and 100 teachers trained under the program); the establishment of regulations for inclusive education; the creation of legislation for a semi-autonomous BTVI (passed in 2014), resulting in the appointment of a board; establishment of a career academy model for secondary schools; the transfer of the National Workforce Development Council to the Department of Labor, resulting in the establishment of the National Training Agency. The INSPIRE project closed in 2014.

## Conclusions

The Bahamian economy has historically been reliant on tourism and financial services to support the local economy. For either sector to survive there is a need for academics with degrees in hotel management, banking, finance and the like. The emerging trend of growth in service-oriented technical skills (such as health care) may mean a broadening of the economy or a decline in the two major industries due to lack of skilled labor in the long term. This further supports the observations of the Wage and Productivity Survey 2012 which identified a mismatch between the supply of labor and demand in the economy which may be crippling over the longer term. With the BahaMar development not fully operational as yet (an additional estimated 3,000 jobs will be required at that time) the question remains if the new skilled labor will return to the hotels or continue in other industries.

[2] The loan agreement allows for the first drawdown to occur in October 2015 and construction/completion of classroom upgrades by 2016. The agreement also allows for upgrade/training of 75 faculty members to improve the education product

[3] Management's estimate is based on the number of students waitlisted each year and persons who are turned away due to lack of space in classrooms to avoid overcrowding.

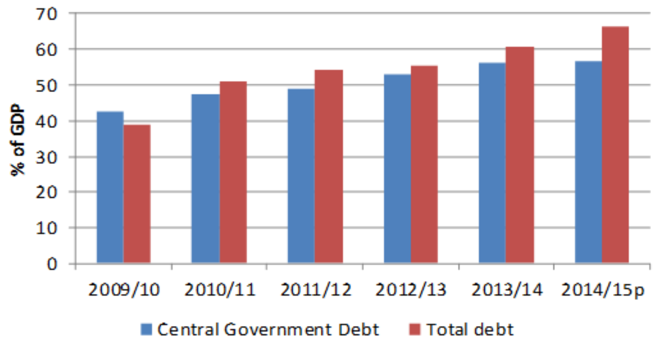
[4] Based on information provided by Bahamas Information Services, the Government reporting agency, up to January 2015 over 200 persons applied to be admitted to spring 2015 intake, indicating the strong demand for vocational training.

[5] According to analysis provided in "In Pursuit of Employable Skills: Understanding Employer's Demands. Analysis of The Bahamas' 2012 Wages and Productivity Survey", accommodation and food service sectors had the lowest level of skilled labor. Financial and insurance sectors possessed the most highly skilled workforce followed by education.


## Snapshot of the Bahamian economy

**Debt continues its upward trajectory…**

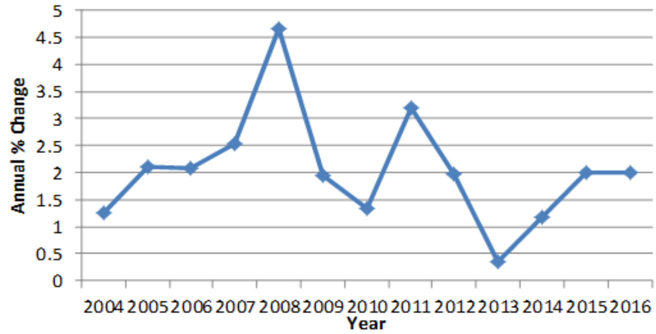
Figure A: Total Debt/GDP, 2009/10 – 2014/15




Source: Ministry of Finance

**Inflation continues to be low.**

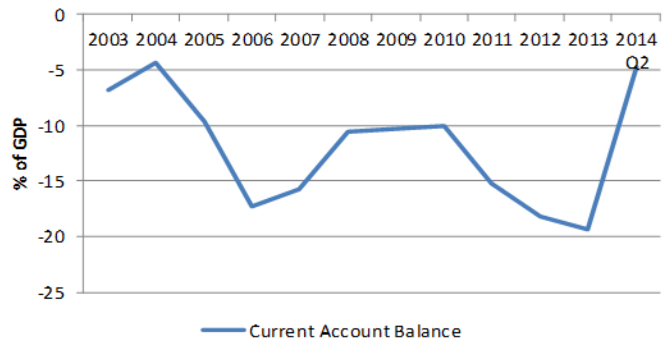
Figure B: Annual Inflation, 2004-2016




Source: Central Bank of The Bahamas

**Current Account Deficits are large…**

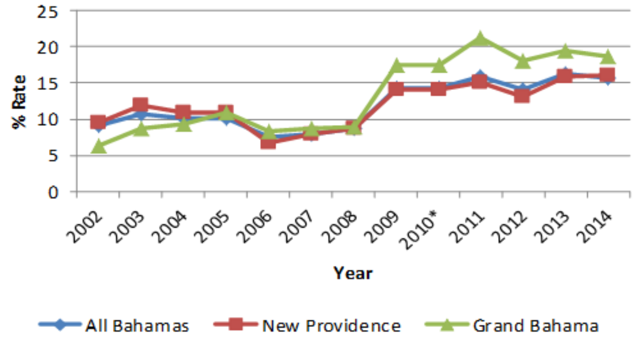
Figure C: Current Account, 2003-2004 Q2




Source: Central Bank of The Bahamas

**Unemployment is still high…**

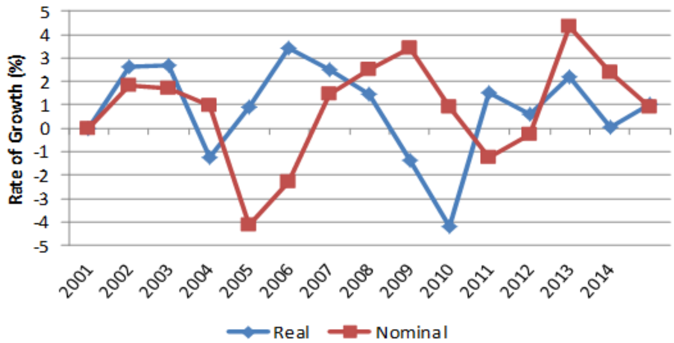
Figure D: Unemployment rates, 2002-2014




Source: Bahamas Department of Statistics

**Growth continues to remain low.**

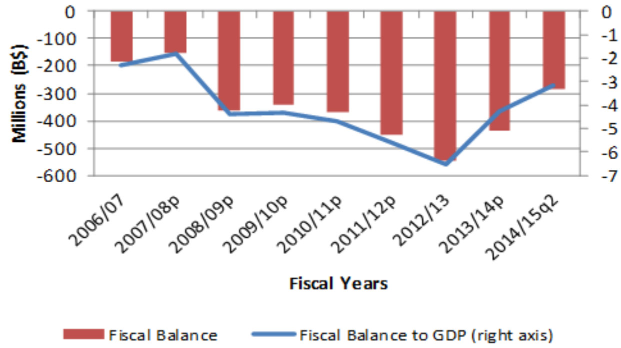
Figure E: Real and Nominal Growth, 2001-2014




Source: Central Bank of The Bahamas

**The fiscal deficit is showing improvements**

Figure F: Fiscal Balance, FY2009/10 – 2014/15




Source: Ministry of Finance


## Table 1: Selected Indicators (2009-2014)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| (Annual percentage changes, unless otherwise indicated) | | | | | | |
| **Real Sector - Department of Statistics/IMF** | | | | | | |
| Real GDP | -4.2 | 1.5 | 1.1 | 1.0 | 0.7 | 1.0 |
| Nominal GDP | -5.2 | 1.1 | 0.3 | 3.6 | 2.5 | 5.4 |
| Inflation (end of period) - Central Bank | 1.3 | 1.4 | 3.2 | 1.9 | 0.4 | 1.2 |
| **External Sector - IMF** | | | | | | |
| Exports of goods and services | -9.3 | -6.2 | 1.6 | 16.0 | 2.1 | -11.1 |
| Imports of goods and services | -20.2 | 2.9 | -1.0 | 9.4 | 2.4 | 3.2 |
| Current account (percentage of GDP) | -10.3 | -10.1 | -15.3 | -18.4 | -19.6 | -21.9 |
| FDI (percentage of GDP) | 9.6 | 12.2 | 12.3 | 7.1 | n.a. | n.a. |
| (In percentage of GDP, unless otherwise indicated, on a fiscal year basis) | | | | | | |
| **Central Government - Medium Term Fiscal Plan** | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
| Revenue and grants | 16.5 | 16.6 | 18.3 | 18.1 | 16.4 | 17.1 |
| of which: tax revenue | 14.4 | 16.4 | 16.2 | 14.9 | 15.9 | 16.9 |
| Recurrent Revenue | n.a. | n.a. | 17.9 | 16.6 | 17.4 | 19.4 |
| Total Expenditure | 21.0 | 20.9 | 22.9 | 23.7 | 23.0 | 22.3 |
| Recurrent Expenditure | n.a. | n.a. | 20.4 | 20.0 | 20.1 | 19.9 |
| Current Expenditure | 18.1 | 19.3 | 19.7 | 19.0 | 19.7 | 19 |
| Capital Expenditure | | | 4.9 | 4.2 | 3.4 | 3.0 |
| Primary balance | -0.9 | -1.0 | -3.3 | -4.1 | -2.4 | 0.4 |
| Overall balance | -4.4 | -3.2 | -5.6 | -6.5 | -5.1 | -2.4 |
| **Debt Indicators - IMF & Ministry of Finance** | | | | | | |
| Central Government Debt - Min of Finance | 42.5 | 47.2 | 48.8 | 53.1 | 59.0 | 65.8 |
| Central government debt over revenues - IMF (aligned with MTFP) | 2.6 | 4.5 | 8.1 | 4.0 | 3.4 | 3.1 |
| External public debt (end of period) - IMF | 9.8 | 11.6 | 13.2 | 17.8 | 17.8 | 19.7 |
| External debt service as percentage of exports of goods and services - IMF | 24.7 | 11.1 | 8.0 | 7.4 | 11.3 | 4.9 |

Source: Central Bank of the Bahamas



IDB
Inter-American Development Bank


## Recent Developments

**Recent developments would have a positive effect on Barbados' economy.** The tourism sector is starting to show signs of better days to come. At the same time, under the Government's fiscal consolidation program, through the introduction of new tax measures and the decline of expenditures, the fiscal deficit declined and a balanced primary budget was achieved in FY2014/15. However, current public spending and debt levels remain high and interest payments continue to rise. The lower international oil and commodity prices would be conducive to growth, while contributing to contain inflation at below 2 percent. Unemployment would likely remain in the double-digits.

**With a better-than-expected winter season, tourist arrivals increased by 14 percent during the first six months of 2015.** Long-stay arrivals picked up in the three main source markets, namely USA (25.3 percent), Canada (22.7 percent), and UK (14.3 percent). It is the reflection of an increase in airlift with new Delta flights starting in December 2014 and greater Jet Blue frequencies. Tourism value-added rose by an estimated 3 percent for the first half of 2015.

**Barbados' fiscal deficit declined to 6.6 percent of GDP by the end of fiscal year 2014/15.** The deficit on a cash basis decreased from the revised figure of 11.2 percent of GDP in 2013/14.[1] This represents a shift from a primary deficit of -4.1 percent of GDP to a surplus of 1.0 percent of 2014/15. Interest payments rose by US$30.5 million or 7.7 percent of GDP with the levels of public debt rising to 134.3 percent of GDP in 2014 (inclusive of holdings from the National Insurance Scheme). Compared with levels at 129.5 percent of GDP in 2013, fiscal consolidation is yet to stabilize the increasing trend in public debt.

**The cumulative impact of the Government's 19-month fiscal consolidation program[2] was 5 percent of GDP by FY2014/15**. Revenue collection improved from 27.1 percent in FY2013/14 to 28.4 percent of GDP at the end of FY2014/15 with the newly introduced taxes. On the expenditure side, savings were achieved through lower wages & salaries and grants to public institutions by US$35million and US$44 million respectively. A high-level oversight committee to monitor SOE performance was set up and the reduction in the mid-year supplementary allocations to stated-owned companies yielded an additional one percent of GDP. This led to a decline in current spending from 36.3 percent of GDP in fiscal year 2013/14 to 33.6 percent for 2014/15.

### Highlights

*Results of the fiscal consolidation program suggest primary adjustment of 5 percent of GDP and a fiscal deficit of 6.6 percent of GDP for fiscal year 2014/15. Public debt rose to 134.3 percent of GDP in 2014.*

*The Central Bank of Barbados removed the minimum interest rate for savings deposits.*

*Guarantees for unpaid VAT returns to small and medium-sized businesses will be provided by The Central Bank.*

*Barbados granted an offshore oil & gas exploration license to the Australian mining giant BHP Billiton.*

**The 2015/16 Budget was discussed in Parliament in mid-March and a fiscal deficit target of 6 percent was announced.** Tax revenues are projected to grow by 4.4 percent led by higher VAT collections and a 10 percent increase in personal income tax collections. Grants are estimated to grow by 52 percent with the disbursement of the EU budget support for the human resource development program, but overall non-tax revenues & grants would be lower than in the previous year. Current expenditures will remain stable at 34 percent of GDP. The projections for wages and salaries seem steady, which would support public announcements that major civil service retrenchment is not expected this year. Goods & services are increasing from 4.5 percent to 5 percent of GDP because several donor projects are entering their implementation stage and are likely to contract consultancy services. The high deficit financing would continue pressuring interest payments rising to 7.9 percent of GDP. Capital expenditures are projected to increase to 2.8 percent of GDP. These investment figures are reflective of a new loan that would finance water meters for the Barbados Water Authority.

**Reserves at US$484.2 or 14.4 weeks of imports remain relatively stable as at the end of June 2015.** This represents a decline when compared with US$546.4 or 14.9 weeks of imports recorded at the end of June 2014. This outturn was due to external debt service payments of US$139 million during the first half of 2015.

[1] Previously, the deficit at the end of FY 2013/14 was cited at 12.3 percent of GDP. However, this was revised to 11.2 percent of GDP.
[2] The fiscal consolidation program was extended until April 2016 to allow more time for the implementation of reductions to SOE transfers, but no new measures have been announced yet.

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# BARBADOS

## SLOWLY IMPROVING

**The Central Bank announced in April that it would no longer set a minimum savings rate for deposits.** In April 2013, the Central Bank implemented a policy of selective intervention in the short-term government securities market. With the removal of the minimum savings rate that stood at 2.5 percent, commercial banks and other deposit-taking institutions will now determine rates. This move towards greater flexibility may give greater space to commercial banks to deepen investment in T-bills, while making investments in the Barbados Stock Exchange and the real sector more appealing.

**Barbados issued two domestic savings bonds of $10 million BBDS** (US$ 5 million) each at a 5.5% interest and with a 5-year maturity. Both bonds were well received by domestic investors and sold within a few days, which reflects the high liquidity in the market. The Central Bank is aiming to change its financing profile to rely more on medium-term instruments, as opposed to shorter-term T-bills that come with a higher roll over risk

**The Central Bank will provide guarantees for VAT returns for small and medium-sized businesses**. To financial intermediaries, the CBB will provide a guarantee for outstanding VAT returns between US$1,500 and 25,000 for any one VAT refund. The aim is to ease the pressure faced by small and medium enterprises with delays in the clearance of payment arrears. Access to this new facility would require registration and would provide access to financing for private sector firms that rely heavily on these tax returns.

**Barbados had 36 Double Taxation Agreements (DTA) in force at the end of March 2015.** New DTAs with the United Arab Emirates, Botswana, and Ghana are awaiting ratification while DTAs with Italy, Vietnam, Belgium, Slovakia and Malaysia are pending signatures before they come into effect. In addition, several Taxation Information Exchange Agreements (TIEA) are under preparation. Moreover, Barbados has nine Bilateral Investment Treaties (BIT) in force. BITs with the Belgium Luxembourg Economic Union and Ghana would be ratified shortly. The move towards greater international cooperation and stronger linkages with established capital markets would likely boost Barbados' offshore international business services sector.

**Elegant Hotels announced it would be trading on the AIM, a market operated by the London Stock Exchange.** The group owns five high-end hotels: The Colony Club Hotel, The Tamarind Hotel, The House, The Turtle Beach Resort and Crystal Cove Hotel, as well as the beachfront restaurant Daphne's. With trading expected to commence by the end of May**,** the offer will be for £63 million (BDS$199.3 million), half of which would be to refinance older more expensive debt. It aims to expand its portfolio in Barbados and further into the Caribbean.

**Barbados granted an offshore oil exploration license to BHP Billiton.** The Australian company will explore two offshore blocks at Bimshire and Carlisle Bay for commercial quantities of oil and gas. This is a bet to reduce the island's reliance on imported fossil fuels. At the end of 2014, Barbados' fuel import bill stood at around US$322.7 million or 7.4 percent of GDP.

**Lower international fuel prices have led to reductions in electricity tariffs.** From August 2014 to June 2015, the electricity tariffs gradually declined by 38.6 percent, from 46.4 cents/kWh to 28.5 cents/kWh, based solely on the fuel adjustment formula. Fuel is the largest item in the cost of production of electricity. The Barbados Light and Power (BL&P), which is a private utility company that generates and distributes electricity, charges a fuel adjustment to smooth international price fluctuations. Aside from lower utility bills, the impact on public finances was neutral, as BL&P is a private company.

**Low oil and commodity prices will continue to contain inflation low at around 2–3 percent.** The lower international commodity prices coupled with weak domestic demand would have a moderating effect on inflation. The Central Bank estimates that at the end of April 2015, imports fell by 14 percent, due to significant declines in fuel costs (40 percent) and food and beverages (5 percent). With weak economic conditions and fiscal consolidation, unemployment rates would likely remain at the two-digit level.

**The island's medium-term growth outlook is modest.** The Central Bank's estimates output would increase to one percent in 2015 which is in line with the IMF forecast. The decline in international fuel prices would have a positive impact on growth. These figures also take into account the increase in airlift and a better-than-expected winter tourism season. At the same time, the dynamism of the economy would depend on sustaining the improved performance of long-stay tourist arrivals, and the associated spending per tourist. New tourism-related capital projects may have a positive impact on construction and boost domestic demand.

| High-Frequency Macroeconomic Indicators | Last Data | Period | Prior Data | Period |
|---|---|---|---|---|
| Annual GDP growth (%) | 0.5 | Jun-15 | 0.2 | Dec-14 |
| Tourism arrivals (annual % change) | 14.4 | Jun-15 | 11.5 | Mar-15 |
| Nonperforming loans (%) | 11.4 | Mar-15 | 11.5 | Dec-14 |
| Private sector credit growth(%) | -0.5 | May-15 | -0.6 | Apr-15 |
| Foreign Exchange Reserves cover,weeks | 14.4 | Jun-15 | 14.7 | Dec-14 |
| Inflation | 1.2 | May-15 | 1.4 | Apr-15 |
| Unemployment rate (%) | 12.3 | Dec-14 | 12.7 | Sep-14 |

Source: Central Bank of Barbados


# EDUCATION IN BARBADOS: GOOD BUT EXPENSIVE?

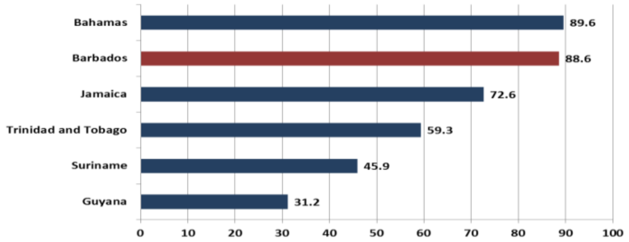
## Introduction

**Barbados has made great progress on education outcomes.** With a quality educational system that provides free primary and secondary education, the country has achieved 99.7 percent adult literacy rates, which is amongst the highest in the World. Tertiary level education is also subsidized and university students only partially cover fees. The country has high gross enrollment ratios. The 2014 UNDP Human Development Report estimates that from 2005-2012, the percentage of children of pre-school age stood at 79 percent, primary and secondary enrollment ratios were 105 percent and at the tertiary level stood at 61 percent.

## Educational Attainment and Coverage

**The share of the Barbadian adult population with at least secondary education ranks favorably when compared to other Caribbean countries.** For the period 2005-2012, 87 percent Barbadians over 25 had a minimum of secondary education, which ranks only second to The Bahamas (see Figure 1). Public funding for primary and secondary education, along with subsidized transport for students to attend school, has led to achievements in education attainment, with relatively equitable access.

**Figure 1. Adult population with at least some secondary education (percent 25 and older)**



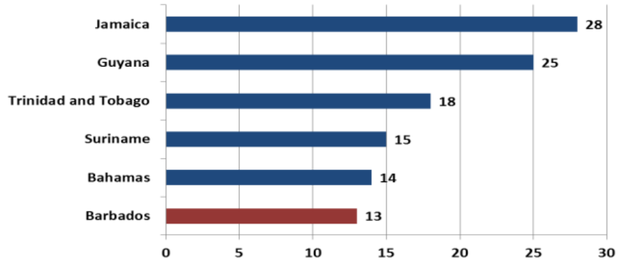

**Source:** 2014 UNDP Human Development Report

**Females in Barbados have higher gross enrollment rates than males at the secondary and tertiary levels.** Over the period 2000-2011, at the pre-primary level, the gross enrollment ratio for females was on par with males, with females averaging 83.4 percent and males around 80 percent. However, at the secondary level, female ratios rose to around 108.8 percent, while males stood at 99 percent. This is even more significant at the tertiary level. Recent data suggest female enrollment rates are over 90 percent, while male ratios registered around 35-40 percent. This is a common trend in the Caribbean and as students move up the education system, a greater share of males drop out, while females continue on to higher education levels. Interestingly, at the three University of the West Indies campuses (Barbados, Jamaica and Trinidad and Tobago), males are a minority and represent around 30 percent of the student population.

## Quality Education

**Barbados has a low pupil-teacher ratio when compared with other countries in the region.** Lower student-teacher ratios, by allowing tutors to spend more time per child, tend to be associated with better quality education systems and stronger education outcomes. During 2003-2012, the ratios of pupils per teacher stood at an average of 13, with similar levels in The Bahamas at 14 and Suriname at 15 (Figure 2). At the pre-primary level, there are about 17 students per teacher in Barbados, while at the primary and secondary these range between 13-17 classmates. These ratios are a reflection of the high number of trained teachers in the country at both primary and secondary levels.

**Figure 2. Number of pupils per teacher (2003-2012)**




**Source:** 2014 UNDP Human Development Report

**A high portion of Barbados' teachers are trained across all levels of education.** Over the five-year period 2007-2011, the percentage of trained teachers[3] stood at around 50 percent at the pre-primary level, with the majority around 80 percent being females. Similarly, the percentage of teachers in primary education who were trained averaged over 60 percent, while at the secondary level the ratios registered around 67 percent.

**Out-of-school rates for children at the primary and lower secondary level are amongst the lowest in the Caribbean.** From 2003-2010, primary out-of-school rates were around 6.6 percent, with even lower rates for females than males at 3.7 percent and 9.3 percent respectively (Figure 3). However, as students moved up the education system, out-of-school rates marginally increased, with lower secondary rates for females averaging 5.4 percent and double rates for males at 10.2 percent.

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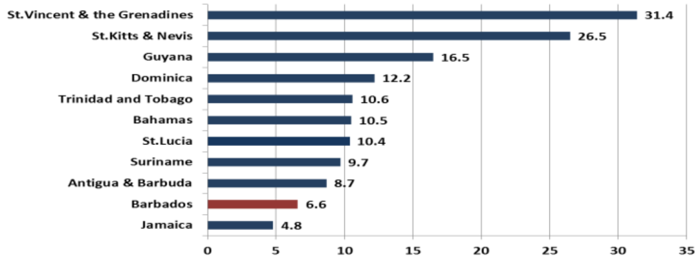
[3] Trained teachers are defined as the percentage of primary/secondary school teachers that received the minimum organized teacher training (pre-service or in-service) required for teaching at the primary/secondary level. Source: UNDP Human Development Report 2014.



# BARBADOS EDUCATION IN BARBADOS: GOOD BUT EXPENSIVE?

**Figure 3. Primary school dropout rates (% of cohort)**




**Source:** 2014 UNDP Human Development Report

**Gross graduation ratios at the primary and secondary levels are around 100 percent**, with the duration of compulsory education at 11 years. Over the period 2007-2011, gross graduation ratios from first-degree programmes in tertiary education (expressed as a percent of the population in that age range) stood at around 26 percent, with females having higher graduation rates at 40 percent than males at 13 percent. At the University of the West Indies Cave Hill Campus, the majority of the degrees awarded by faculty concentrated in the Social Sciences, followed by Humanities & Education, and Science & Technology (see Table 2).

**Table 2. Degrees by Faculty (2008-09 to 2014-15)**

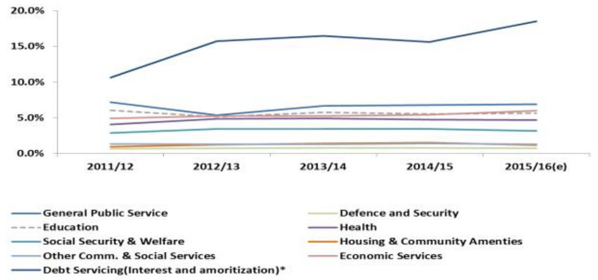
| | Humanties & Education | | Law | | Medical Sciences | | Science and Technology | | Social Sciences | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Undergraduate | Graduate | Undergraduate | Graduate | Undergraduate | Graduate | Undergraduate | Graduate | Undergraduate | Graduate |
| 2008-09 | 156 | 36 | 15 | 4 | 25 | 5 | 125 | 19 | 411 | 90 |
| 2009-10 | 142 | 32 | 25 | 3 | 22 | 22 | 86 | 11 | 481 | 94 |
| 2010-11 | 139 | 39 | 23 | 3 | 19 | 5 | 125 | 6 | 478 | 88 |
| 2011-12 | 137 | 110 | 40 | 3 | 46 | 15 | 109 | 11 | 517 | 98 |
| 2012-13 | 172 | 87 | 47 | 11 | 24 | 12 | 143 | 14 | 588 | 110 |
| 2013-14 | 147 | 61 | 62 | 6 | 38 | 9 | 158 | 23 | 648 | 118 |
| 2014-15 | 194 | 76 | 45 | 14 | 48 | 16 | 144 | 18 | 792 | 153 |
| **Total** | **1087** | **441** | **257** | **44** | **222** | **84** | **890** | **102** | **3915** | **751** |

Source: University of the West Indies, Cave Hill Campus, *Statistics*

## Public Expenditure on Education

**Public expenditure on education has remained stable over the past decade.** Over the last five (5) years, public investment in education averaged around 13 percent of total expenditure and 5.6 percent of GDP. This puts Barbados at par with education investment in developed countries. The UNDP human development index suggests that the top 10 countries allocated on average around 6 percent of GDP during 2005-2012. Even over the past five years when debt service and amortization needs in Barbados crowded out spending in other sectors, the budget allocation for education has remained stable. The Budget for tertiary education, made mostly of transfers to the University of West Indies, reduced by around 12 percentage points from 2013-14 with the fiscal consolidation efforts. However, the level of investment does not necessarily translate into higher education outcomes in the absence of good quality education and is linked to the level of efficiency of public spending.

**Figure 4. Expenditure by Functional Classification (percent of GDP) (2011-12 to 2015-16)**




**Source:** Barbados Estimates 2014-15, 2015-16

**Barbados has allocated resources for the continual training of public teachers at both the primary and secondary levels.** The allocation of expenditure to teacher training for the financial years 2013/14-2015/16 averaged around US$2.3 million (or 0.9 percent of the total education budget)**.**

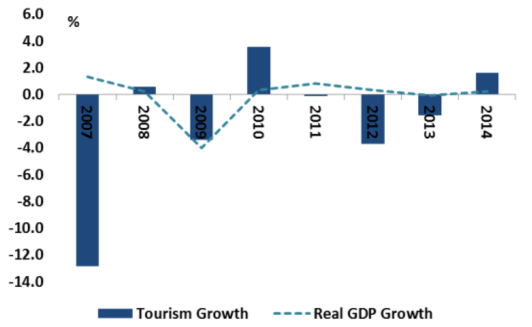
## Conclusion

**Barbados has a well-trained and educated population.** The country has achieved through the provision of quality free education gross enrollment rates of almost 100 percent at the primary and secondary levels. At the tertiary level, enrollment is skewed towards greater female participation, as males join the labor market early. With fiscal consolidation and a gradual decline in subsidies for tertiary education, it is important to target further assistance towards vulnerable groups that may not have access to higher education.

**The IDB is supporting education in Barbados.** Through technical cooperation and investment loans the Bank has partnered with the GBA for the implementation of the Human Resource Strategy (HRDS) with emphasis on the improvement of technical and vocational education and training (TVET) and the development and implementation of a regional qualification framework. Under the Skills for the Future investment loan, the Competency-Based Training Fund promotes partnerships between the corporate sector and training institutions. It places emphasis on institutional strengthening by supporting selected institutions with the development and implementation of business plans; leadership and capacity development to respond to the challenges of revamping the TVET system, while improving data analysis and information systems within specific Ministries. Barbados' HRDS is aligned with regional efforts to create an education and training system better aligned with the needs of the economy and the private sector.

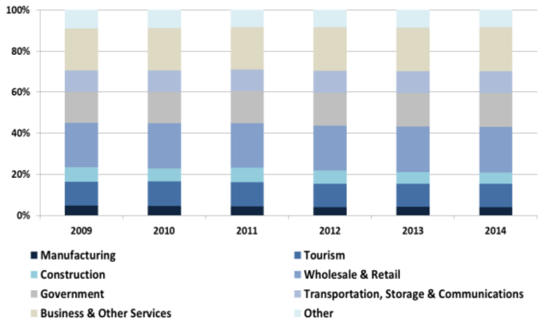

## Growth is constrained by a weak tourism sector

Figure A. Real Growth and Tourism Growth

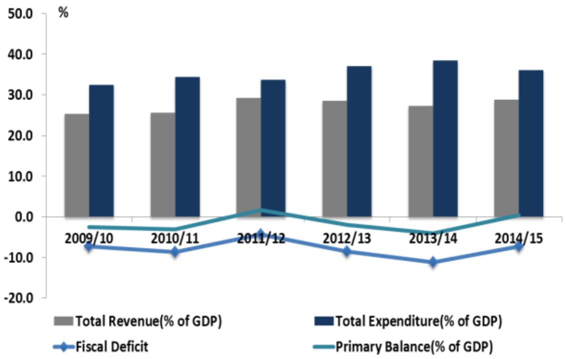



## … which is the driver of growth.

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

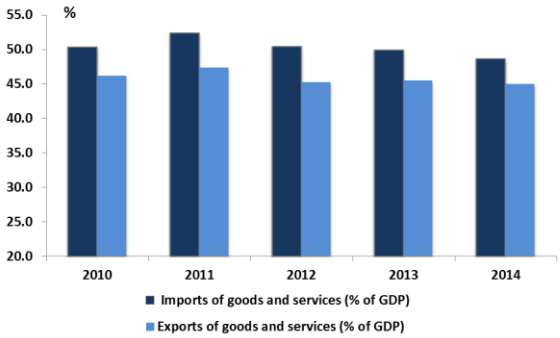



## Fiscal consolidation to reduce fiscal deficits



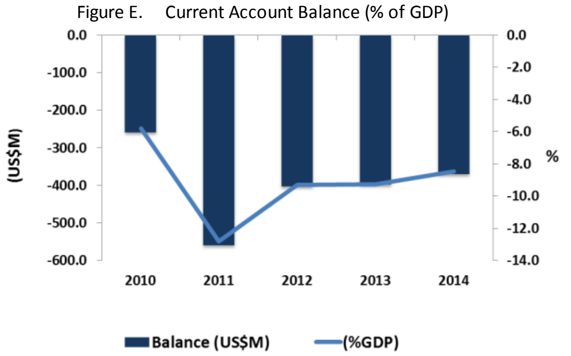

## … and contained imports from lower oil and commodity prices..

Figure D. Exports & Imports (% of GDP)



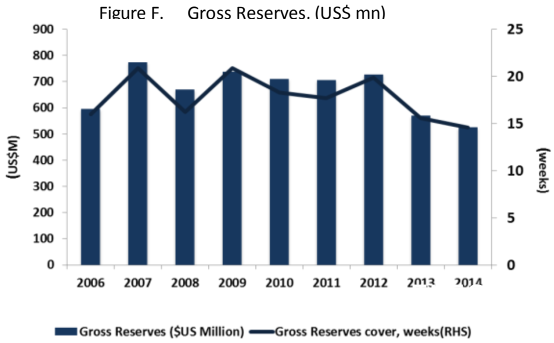

## … have reduced the current account balance

Figure E. Current Account Balance (% of GDP)




## …and stabilized reserves.

Figure F. Gross Reserves. (US$ mn)




Source: Central Bank of Barbados, Accountant General & Ministry of Finance



IDB
Inter-American Development Bank


## Barbados: Selected Indicators

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(e) |
|---|---|---|---|---|---|---|
| (Annual percentage changes, unless otherwise indicated) | | | | | | |
| **Real Sector** | | | | | | |
| Real GDP | -4.0 | 0.3 | 0.8 | 0.3 | -0.1 | 0.2 |
| Nominal GDP | 0.2 | -3.4 | -2.0 | -1.0 | -0.8 | 1.7 |
| Inflation (end of period) | 3.6 | 5.8 | 9.4 | 4.5 | 1.8 | 1.9 |
| Unemployment | 10.0 | 10.3 | 11.2 | 11.5 | 11.6 | 12.3 |
| **External Sector** | | | | | | |
| Exports of goods and services (% change) | -17.2 | 7.9 | 0.4 | -5.3 | 0.2 | -0.1 |
| Imports of goods and services (% change) | -19.7 | 9.5 | 1.9 | -4.8 | -1.2 | -1.5 |
| Current account (percent of GDP) | -6.7 | -5.8 | -12.8 | -9.3 | -9.3 | -8.5 |
| International reserves (USD mill) | 738.7 | 711.9 | 707.4 | 728.9 | 572.1 | 526.1 |
| International reserves cover (weeks) | 20.9 | 18.3 | 17.7 | 19.9 | 15.6 | 14.7 |
| (In percentage of GDP, unless otherwise indicated, on a fiscal year basis) | | | | | | |
| **Public Sector** | | | | | | |
| Total revenue | 25.2 | 25.6 | 29.3 | 28.5 | 27.1 | 28.4 |
| Total expenditure | 32.5 | 34.4 | 33.8 | 37.1 | 38.3 | 35.0 |
| Central government primary balance | -2.5 | -3.0 | 1.6 | -2.0 | -4.1 | 1.0 |
| Central government overall balance | -7.5 | -8.9 | -4.4 | -8.6 | -11.2 | -6.6 |
| **Debt Indicators** | | | | | | |
| General government debt | 63.0 | 71.8 | 76.2 | 84.6 | 95.9 | 100.7 |
| General government debt(inclusive of NIS holdi | 83.3 | 96.7 | 104.3 | 116.6 | 129.5 | 134.3 |
| Central government debt over revenues | 249.6 | 280.0 | 266.5 | 294.7 | 353.6 | 354.4 |
| External debt service as percentage of exports of goods and services | 6.4 | 10.5 | 6.9 | 7.3 | 7.7 | 7.1 |

*Note:* (e) Estimate numbers for 2014.

*Source:* Central Bank of Barbados and Ministry of Finance

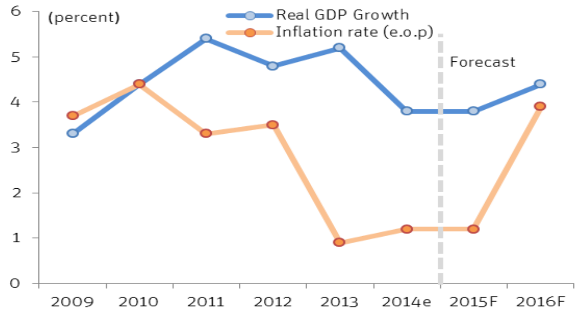
# GUYANA NEW OPPORTUNITIES AMID FRAILTIES

Quarterly Bulletin July 2015

## Economic Developments

**In 2015, economic growth in Guyana is expected to hold steady at 3.8 percent**, largely due to the high political uncertainty that materialized since the second half of 2014. In addition, commodity prices for most export commodities have not rebounded adequately to stimulate greater economic activity, particularly in the gold and rice sectors. However, strong foreign direct investment flows linked to the mining and hydrocarbon sectors, and continued public investment in infrastructure are expected to maintain a favorable economic outlook, with real GDP growth forecasted to expand by 4.4 percent in 2016. See figure 1.

**Figure 1: Economic Outlook 2015-2016**




*Source:* International Monetary Fund, Regional Economic Outlook April 2015.

**Sugar sector shows signs of improved productivity in wake of price slump**. First crop production results show that the sector has made a much needed stride towards increased productivity, as output rose to 81,194 tons, 8 percent over its first crop in 2014. The improved performance is partly attributed to favorable weather conditions conducive to harvesting. Improved weather conditions also attributed to the higher loading and processing capabilities of the much maligned Skeldon sugar factory that is functioning near its optimum at 280 tons per hour.

**However, despite positive signs of higher productivity, the viability of the sugar sector remains uncertain** as the company has experienced liquidity problems. Shortly after elections the Chief Executive of GUYSUCO announced that the company would be unable to pay wages and salaries, and finance day-to-day operational costs. The new Granger administration has pledged to finance GUYSUCO shortfalls to ensure the industry does not collapse. Accordingly, the Granger government obtained a US$2 million loan from a Jamaican bank that will be transferred to GUYSCO to avoid an immediate crisis. GUYSUCO has been blighted by operational and managerial deficiencies that have been compounded by lower prices that impact profitability.

### Highlights

First multiracial coalition to hold power in post independence era. Opposition coalition, Partnership for National Unity+Alliance for Change (APNU+AFC), unseats the long ruling Peoples Progressive Party/Civic (PPP/C) in General and Regional elecions on May 11th by a slight margin.

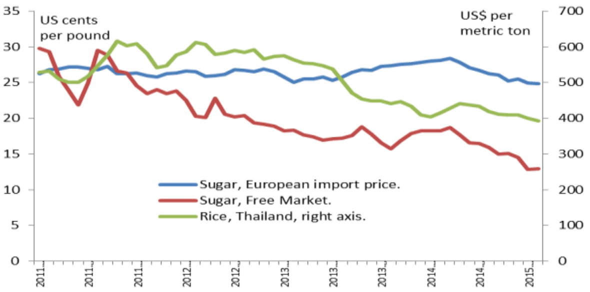
Exxon Mobil announces "significant oil discovery" off coast on May 20th. More studies are ongoing to determine the full extent of hydrocarbon resources found and extraction viability.

Several major economic and socially important sectors (rice, gold mining, sugar) are facing simultaneous challenges that may pose significant downside risks to Guyana's medium term macroeconomic outlook.

**Rice production on record-breaking run but hurdles remain.** Rice is slated to break another record in 2015 as farmers ramp up production to meet local and regional quotas, while ensuring their capital investments are serviceable. Preliminary estimates of the first crop show that the combination of higher yields and increased acreage cultivated has put production on course to surpass 800,000 tons. However, declining prices for the commodity and the imminent loss of the premium Venezuelan market threaten to lower profitability in an already uncompetitive industry. Recently, the new administration learned that Venezuelan authorities are not likely to renew the 2016 rice for oil compensation scheme. Last year, Venezuela accounted for 34 percent of the total exports. Thus, it is imperative that authorities aggressively secure regional and extra-regional markets for rice and promote value-added processing in order to absorb the excess supply over national consumption needs (approximately 130,000 metric tons) and mitigate negative pass-throughs to commercial banks that are the direct and indirect creditors to the industry.

**Gold declarations continue to plummet**. Gold declarations slumped by 40 percent in the first two months of the year as the subdued prices continue to depress small and medium-scale mining activities. The profitability of small miners, which currently contribute more than 50 percent to total annual declarations, is particularly susceptible to low prices given their significant costs of operating and relatively higher breakeven point compared to medium and large-scale mining operations.

**Figure 2: Traditional crop prices**




*Source:* International Monetary Fund, Commodity Market Review May 2015.

**However, the slump in overall gold production is approaching its trough** as two large scale mines, Troy Resources Ltd. and Aurora Gold Project, are slated to commence production in the second half of 2015. Australian mining firm Troy Resources Limited has accelerated preparations to start producing and selling gold from its large-scale Karouni Gold Project in Region Seven by July, while Canadian-owned Aurora Gold Project is expected to produce between 30,000 and 50,000 ounces of gold in 2015. The Aurora mine has an estimated 17-year operating life and is capable of producing 3.29 million ounces of gold, averaging 194,000 ounces per year. The spot price of gold by the end of year for gold, barring major geopolitical disruptions or a massive reduction in the rate of economic growth in China, is forecasted to be in the range of $1,190- 1,220 per ounce. As of press time, the spot price was $1,100 per ounce. These price ranges are much higher than the estimated breakeven point for these two large mines.

**Exxon Mobil Finds Oil**. On May 20th, Exxon Mobil announced a "significant oil discovery" at a depth of 17, 825 feet (5,422 meters) and a sandstone oil-bearing reservoir of 295 feet. Further investigations will continue over the coming months to determine the commercial viability of extracting the discovered resource and whether other hydrocarbon resources are present in the Stabroek Block. In parallel, discussions have started on formulating an Oil and Gas Policy Framework and the new Granger administration has promised to create a Sovereign Wealth Fund, in anticipation of Guyana joining the ranks of oil-producing nations. Nonetheless, the Stabroek Block lies in disputed waters claimed by Venezuela. On May 26th, the Venezuelan authorities issued Decree 1787 claiming most of the waters off of Guyana, including Stabroek Block where the exploratory well Liza 1 is operating, as its own exclusive economic zone. The renewed border conflict has led to an escalating diplomatic row between the two countries.

## Governance Issues

**On May 11th, General Elections and Regional elections were held.** The A Partnership for National Unity and Alliance for Change (APNU+AFC) coalition obtained 207,200 votes compared 202,694 for Peoples Progressive Party/Civic (PPC/C), claiming victory by a margin of 4,506 votes. Despite calls for a recount by the PPP/C, over 100 international observers from the Carter Center, the Governments of the United States, Canada, United Kingdom, the Commonwealth, and Organization of American States among others, as well as local observers from the Private Sector Commission, declared the balloting "free and fair". Besides the presidency, the coalition also won 33 seats in the Eleventh Parliament, while the PPP/C garnered 32 seats, giving the coalition a working majority in the legislative branch. The presidential candidate of the coalition, Retired Brigadier General David Granger, President of the Republic, was sworn into office on Saturday, May 16th and formally inaugurated on May 26th.

**Norway approved US $40MM for Guyana under the binational Forest and Climate Agreement**. Norway has also expressed interest in renewing the program until 2020. The release of the funds is an endorsement of Guyana's natural resource management, particularly regarding forestry and mining, implemented under the Low Carbon Development Strategy.

**Guyana has made significant leaps in potable water access.** Access to potable water has grown over the last 15 years from 26 percent of Guyana's population to 50 percent. Government has invested G$20B to improve the nation's water system, including investments in the construction of seven new water treatment plants, infrastructure investment in transmission and distribution and the drilling of 25 wells. Two new water treatment facilities have been completed in Wisroc and Amelia's Ward with funding from the IDB with new communities being included. These facilities will raise water coverage to 100 percent in Linden. Investments in water treatment facilities in the coastal areas raised water coverage to 95 percent.

**High-Frequency Macroeconomic Indicators**

| | Last data | Period | Prior data | Period |
|---|---|---|---|---|
| Annual GDP growth ( percent) | 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 ( percent) | 14.5 | 2013 | 24.7 | 2012 |
| Inflation | 0.9 | 2013 | 3.5 | 2012 |
| Exchange rate (end of period) | 206.3 | 2013 | 204.8 | 2012 |

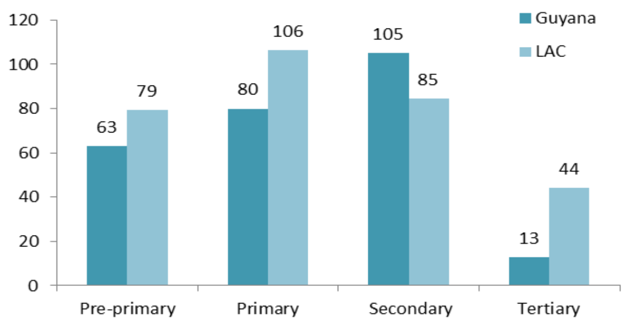
Source: International Monetary Fund


# GUYANA EDUCATIONAL ISSUES AND CHALLENGES

**The Guyanese educational system is multi-tiered.** It consists of 442 nursery schools, 436 primary schools, 166 secondary departments of primary schools, 110 general secondary and community high schools), 8 technical and vocational education and training centers (TVET), 6 special education centers, one teacher training institute, and one public four-year university (University of Guyana). The total enrollment of the system for the school year 2011-2012 summed to 205,598.

**The system engages in tracking by aptitude.** At age 11, students are eligible to sit the Secondary School Entrance Examination (SSEE). Students who score well are placed on an academic track leading to secondary and tertiary levels, while those with a lower performance are placed on a vocational track in community high schools or primary schools with secondary departments. However, students placed in community high schools have a second chance of moving to an academic track depending on performance in the Secondary School Proficiency Examination (SSPE) part 1. Those with high scores can transfer to a general secondary high school. Those with scores below the cut off remain for a fourth year and specialize in a vocation for which they show aptitude.

**Figure 3. School enrollment by categorical age.**

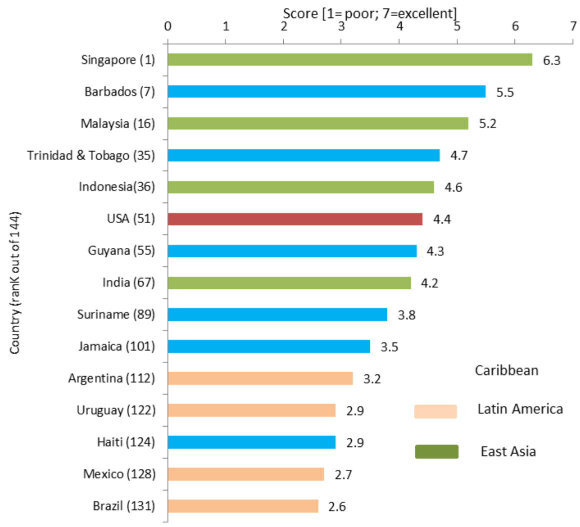



*Source:* Human Development Report 2014.

**The goals of the educational system are threefold:** to provide broad access to the enrollment age population; to provide high quality education to students who are successfully enrolled; and to provide the labor market with the right set of basic literacy/numeracy, critical thinking skills, problem solving abilities, technical, and vocational training. Historically, the Guyanese system has achieved a high level of literacy (93 percent), and produced high quality tertiary-level academic graduates as evidenced by the high rate of emigration among university graduates (76.9 percent in 2009). However, less than 13 percent of the tertiary age cohort enrolls in higher education, and entrance is merit based. Only one percent in the 20-24 age group complete university. A larger share of the population graduates from university, but due to part-time study and financing issues, take longer to do so. However, the system has been less successful in producing the technical and vocational skill sets that the labor market demands, which is evident in the high levels of dissatisfaction expressed by business owners in firm-level surveys. This contributes to the high rate of unemployment, estimated to be in the mid- to high teens among adults (18-65) and 40 percent among the youth (15-24).

In the last ten to fifteen years, the primary observed achievement of the Government has been to increase the stock of schools in the hinterlands. Overall, government expenditure on education as a share of GDP, however, has remained relatively low compared to other countries. In 2012, Guyana expended 3 percent of its GDP on education. In comparison, Jamaica spent 6 percent in 2013, Belize 7 percent, Barbados 6 percent and Trinidad and Tobago, the largest Caribbean economy, spent the same percentage (3 percent). The general low level of expenditure over time has permitted a slow deterioration.

**Figure 4. Quality of math and science education in schools**

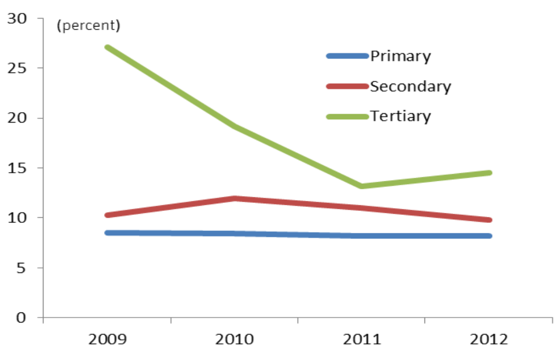



*Source:* Global Competitiveness Index 2014-2015, World Economic Forum

## Performance

Guyana is ranked 55th out of 144 countries, according to the Global Competitiveness Index 2014-2015. However, it lags behind most of its Caribbean counterparts, with Barbados being the highest ranked country in the Western Hemisphere at 7th when measuring the quality of math and science education (see figure 4). Meanwhile, Trinidad and Tobago stands at 35th, Suriname 89th, Jamaica 101st, and Haiti at 124th. Notwithstanding, the Caribbean region remains well above the more developed economies in Latin America: Argentina, Uruguay, Mexico and Brazil are all ranked below Jamaica. Caution should be given to such findings since equity, population density and available infrastructure can be misrepresented. For instance, Barbados, like most other Caribbean nations, has a very small population relative to the rest of its comparators. The number of well-equipped science labs and research centers in Brazil alone may outstrip the entire Caribbean, and very little innovation and technological improvements have originated from the this part of the region.

**Figure 5. Government expenditure per student, (percent of GDP per capita)**




*Source:* World Bank Statistics, 2013

Table 1 reports the core educational statistics for the most recent year available, 2012.

Guyana does not particiate in any of the four international learning assessments for science, mathematics, and reading (PISA, TIMSS, PIRLS, and PIAAC).

The system has a serious problem with drop-outs on three dimesions—gender, location, and income. For the age cohort 15-19 in 2009, 73 percent of males completed the 9th grade compared to 78 percent of females. Urban students completed school at a rate of 85 percent compared to a 71 percent rate for rural students. Last, children from families in the top income quintile completed school at a 94 percent rate compared to children in the lowest income quintile at a 47 percent rate.

The IDB has financed a very impactful set of education sector projects to support the Government of Guyana in its quest to improve access to and quality of education. In 1989, The Primary Education Improvement Project (PEIP) valued at US$51.6m was approved. The IDB project succeeded in aiding 72 percent of the primary school cohort with improvements in school infrastructure and 100% of the cohort with qualitative improvement in the Ministry of Education. In 2002, the US$30 m Basic Education, Access and Management Support Phase I (BEAMS) project was approved and among other things implemented an interactive radio program on mathematics, which is still in operation, and constructed secondary schools in the hinterland areas with attached dormitories. Since 2009, the IDB has not been active in the sector.

## Issues and Challenges Going Forward

Going forward, the Guyanese educational system has to address a number of challenges:

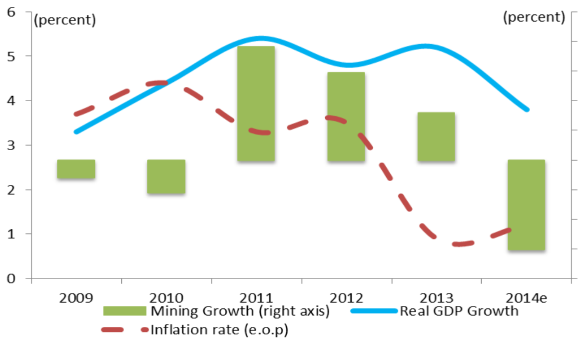
- Reducing drop-out and repetition rates, especially for males and rural students.
- Improving teacher-training and streamlining the professional certification process which is much longer compared to other Caribbean jurisdictions.
- Making the curriculum more relevant and practical.
- Rehabilitating the physical infrastructure of schools and better equipping them.
- Improving science, technology, mathematics, and engineering (STEM) programs within the larger scheme of education.
- Closing the rural-urban gaps in performance.
- Creating, a high-quality, demand-driven technical and vocational training (TVET) system.

Four ways forward would be (1) increasing school autonomy and accountability by engaging more parents teachers, community business people, and policymakers more actively as stakeholders; (2) increasing expenditures; (3) improving the quality of the teacher workforce; and (4) curriculum evaluation and re-design.

| Table 1: CORE INDICATORS –Guyana 2012 | |
|---|---|
| Net enrollment, pre-primary, both sexes (%) | 57 |
| Net enrollment, primary, both sexes (%) | 72 |
| Net enrollment, secondary, both sexes (%) | 93 |
| Gross enrollment ratio tertiary, both sexes (%) | 13 |
| Gender Parity index for gross enrollment ratio, primary | 1 |
| Primary completion rate, both sexes | 85 |
| Out-of-school children of primary school age, both sexes | 31,760 |


***Low gold prices stymied mining activity and subdued economic growth…***

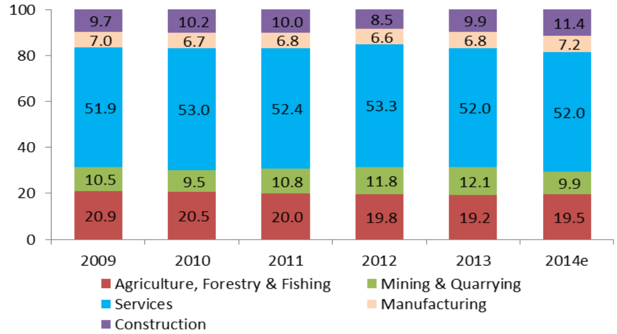
Figure A. Real GDP and Mining Activity Growth




*Source*: Bank of Guyana and International Monetary Fund.

***…However, economic growth continues to be buoyed by Agriculture, through rice, and robust construction activity***

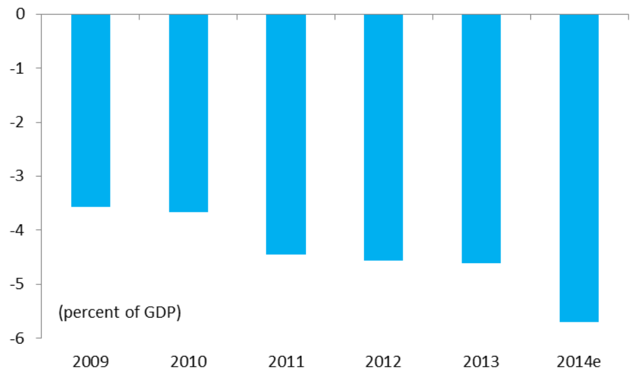
Figure B. Contribution to GDP (in percent of GDP)




*Source*: Bank of Guyana and International Monetary Fund.

***Meanwhile, fiscal spending continues to outstrips revenue***

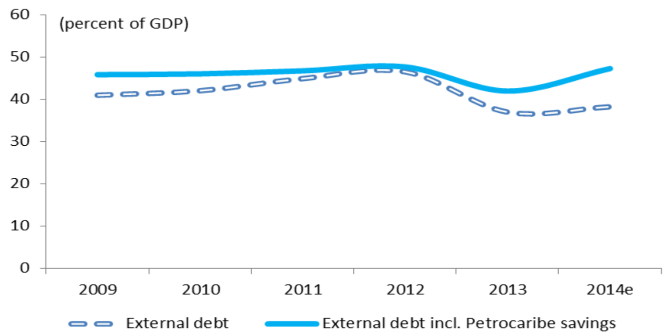
Figure C. Fiscal Deficit




*Source*: Bank of Guyana and International Monetary Fund.

***…but external debt remains well managed***

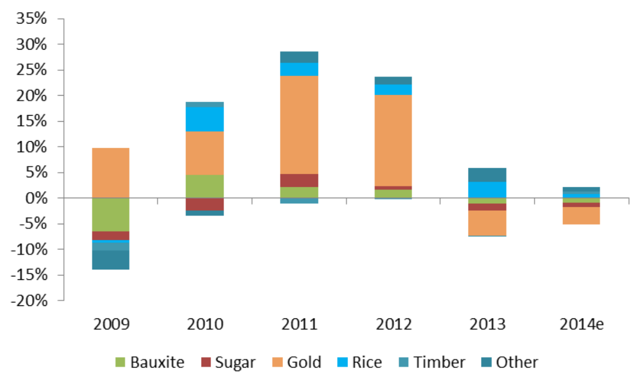
Figure D. External Debt




*Source*: Bank of Guyana and International Monetary Fund.

***Underperforming exports…***

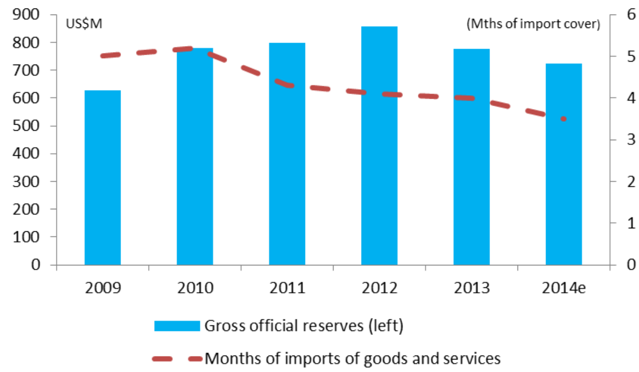
Figure E. Decomposition of Export Growth (year-on-year)




*Source*: Bank of Guyana and International Monetary Fund.

…***mounts pressure on reserves***

Figure F. International Reserves




*Source*: Bank of Guyana and International Monetary Fund.


## Guyana: Selected Indicators

| | 2011 | 2012 | 2013 | 2014 (F) | 2015 (F) |
|---|---|---|---|---|---|
| (Annual percentage changes, unless otherwise indicated) | | | | | |
| **Real Sector** | | | | | |
| Real GDP | 5.4 | 4.8 | 5.2 | 3.8 | 3.8 |
| Nominal GDP (GYD millions) | 460108 | 511337 | n.a. | n.a. | n.a. |
| Inflation (end of period) | 3.3 | 3.5 | 0.9 | 1.2 | 1.2 |
| **External Sector** | | | | | |
| Exports of goods and services | 25.8 | 20.1 | -10.7 | n.a | n.a |
| Imports of goods and services | 25.1 | 14.4 | -7.0 | n.a. | n.a. |
| Current account (percentage of GDP) | -16.4 | -15.7 | -14.2 | -15.9 | -16.4 |
| Remittances (percentage of GDP) | 18.3 | 16.7 | 11.7 | 12.8 | n..a |
| FDI (percentage of GDP) | 9.9 | 10.8 | 7.3 | 10.6 | n.a. |
| (In percentage of GDP, unless otherwise indicated, on a fiscal year basis) | | | | | |
| **Central Government** | | | | | |
| Revenue and grants | 26.5 | 27.9 | 22.1 | 26.7 | n.a |
| Current expenditure | 19.8 | 21.1 | 19.8 | 21.8 | n.a |
| Capital expenditure and net lending | 6.7 | 11.1 | 8.2 | 13.13 | n.a |
| Overall balance | -3.2 | -4.7 | -4.4 | -4.9 | n.a |
| **Debt Indicators** | | | | | |
| Central government debt | 69.3 | 72.1 | 57.4 | n.a. | n.a. |
| Central government debt over revenues | 261.6 | n.a. | n.a. | n.a. | n.a. |
| External public debt (end of period) | 48.6 | 54.2 | 41.5 | 44.8 | n.a. |
| External debt service as percentage of exports of goods and services | 3.0 | n.a. | n.a. | n.a. | n.a. |

*Note:* FDI= foreign direct investment; (F) Forecasts numbers for 2014 and 2015.

*Source:* Central Bank of Guyana, International Monetary Fund Regional Economic Outlook, April 2015.

Quarterly
Bulletin
July 2015

# JAMAICA

# NOT AN IDLE SUMMER AT ALL

## Overview

**The economic outlook for Jamaica remains positive.** Jamaica's economy continues to be stable with interest rates declining, international reserves at comfortable levels and investor and consumer confidence reaching levels not seen in 8 years. Economic growth is projected to increase to around 2 percent in 2015, which would boost the reform effort through employment dividends..

## Recent Developments

**Jamaica issued bonds of US$2.0 billion in international capital markets in July 2015.** Of this amount, US$1.5 billion was used to buy back debt amounting to US$3 billion from PDVSA that was accumulated under the Petrocaribe agreement. The debt buyback should lead to an immediate decrease in debt-to-GDP of around 11 percentage points. The debt issuance follows recent upgrades of Jamaica's credit rating by Moody's and Standard and Poor's.

**The Executive Board of the International Monetary Fund completed the eighth review of the EFF on June 16, 2015.** Jamaica required a waiver as it missed narrowly its nominal JM$ primary surplus target that was based on higher projections for inflation and economic growth. However, the government still maintained the 7.5 percent of GDP primary balance. In addition, Jamaica over performed on the target for the overall public sector balance due to lower than projected interest payments and over performance of public enterprises. Structural reforms were also broadly on schedule.

**Economic growth is expected to recover after a disappointing FY2014/15.** Economic growth in the past fiscal year underperformed due to drought conditions in mid-2014, adversely affecting agriculture and goods processing industries. However the economy is expected to grow close to 2 percent in FY2015/16 as agriculture recovers and in anticipation of tourism and remittances continuing to perform strongly. However, drought conditions have reappeared and threaten to undermine growth.

**Business confidence for the first half of 2015 was at its highest levels since 2007.** Confidence was driven by more favorable prospects for investment as well as improved financial health of firms. For the second quarter of 2015, 64 percent of all firms expected their financial health to improve during the year ahead. While consumers remain cautious, they also expect the economy would ultimately provide improved income and job gains as well as a lower inflation rate.

### Highlights

Jamaica issued a record US$2 billion in global bonds, of which most of the proceeds were used to buy back debt accumulated under the Petrocaribe agreement.

The International Monetary Fund completed its eighth review of the Extended Fund Facility.

More robust economic growth would support the continued success of the IMF program.

**After a short spike,unemployment continues to decline.** Compared to the same period last year, unemployment has decreased from 13.6 percent in April 2014 to 13.2 percent in April 2015, the lowest level in 5 years.

**Net International Reserves continues above prudent levels.** Net international reserves fell from US$2.4 billion to US$2.1 billion between May and June 2015, however remain above prudential levels. Part of the reserves account for special US$ instruments issued by the central bank for the specific purpose of reserve accumulation. However, the Central Bank is expected to accelerate direct purchases of foreign exchange and reduce the dependence on these borrowed reserves as investor confidence continues to improve.

**Oil price declines positively impacted import bill.** The import bill from fuel items declined by 16.2 percent in 2014/15 compared to the year before. The Jamaican government is taking advantage of the lower prices by hedging against future price increases. To this end, the government implemented a JM$$7 per liter tax on petrol. The tax is expected to yield JM$6.4 billion in revenue, with any part not used for hedging to be allocated to finance energy savings measures. The first hedging contract will cover six million barrels of oil imports over 15 months at an average price of US$66.74

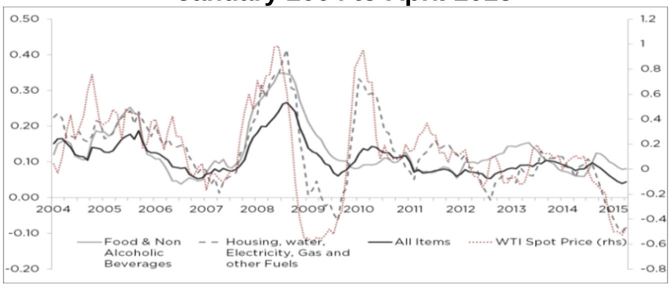
**In line with the fall in oil prices, the current account deficit has decreased considerably.** The current account deficit has declined from 8.5 percent in FY2013/14 to 6.1 percent in FY2014/15. In addition to the oil price decline, low demand resulting from fiscal consolidation and increased inflows from the strong performances of tourism and remittances are also responsible for the decline. Projections indicate that the current account balance will continue to improve over the medium term.

**Inflation has also benefited from the decline in oil prices.** Inflation in FY2014/15 ended at 4 percent,


substantially below the Bank of Jamaica's target range of 7-9 percent. However, with stabilizing or  increasing oil prices, inflation is likely ton be affected.(Figure 1). The BOJ forecasts inflation to be within the range of 6 and 8 percent for FY 2015/16.

**The Government has reached an agreement for the operation of the Kingston Container Terminal.** The agreement with Terminal Link Consortium comprises a long term concession arrangement and includes the expansion, financing, operation, maintenance and transfer of the terminal. The expansion of the terminal will facilitate the docking of bigger ships, paving the way for the logistics hub.

**Figure 1: Components of Inflation and WTI Oil Prices, January 2004 to April 2015**




Source: Statistical Institute of Jamaica and Financial Times

**The government is moving to diversify its energy sources.** The government approved the conversion of the 115 MW Bogue power station from oil to gas. Construction of a new 190 MW LNG-based power plant by the Jamaica Public Service Company is to follow. In addition, government approved a gas-powered co-generation plant by the Alpart bauxite company.

**Although debt-to-GDP decreased slower than initial projections, the Petrocaribe deal facilitates reaching the target.** Debt-to-GDP was estimated at 136.9 percent at the end of the 2014/15 fiscal year. Following the debt buyback, forecasts suggest that the government should be able to reduce the Debt-to-GDP ratio to below 100 percent by the end of the 2019/20. However, attaining the target will still depend on a conducive economic environment  and strict adherence to the  EFF targets.

**Demand for credit remains low, but is anticipated to increase.** In the December 2014 quarter, credit demand remained low, with the Credit Demand Index (CDI) at 99.5. Demand for business loans in both local and foreign currency remained weak. Consistent with this weak demand, interest rates on local currency loans declined for the December 2014 quarter relative to the September 2014 quarter. Still, the Quarterly Credit Conditions Survey Report projects an increase in demand for credit for the March 2015 quarter due to stronger demand from households and businesses for local currency credit.

**The exchange rate has been relatively stable.** The Jamaican dollar depreciated 4.6 percent for FY2014/15, compared to a 10.6 percent in FY2013/14 fiscal year. The stability of the exchange rate in part reflects improved business sentiment, and confidence in Jamaica's economic program under the IMF.

**An increase in homicides is reversing the trend of declining crime in Jamaica since 2010.** Compared to the same period last year, homicides in the first half of 2015 have increased by 18 percent. Homicides have been decreasing for four years in a row. This latest streak underlines the impact of  crime in Jamaica. At the same time, rape, robbery and aggravated assaults all recorded decreases compared to the first half of 2014.

## Conclusion

**After eight successful IMF reviews, the Jamaican government has managed to place the country on a path toward economic stability.** Declining inflation and a return to economic growth give cause for optimism for the future. However, important issues, including public sector rationalization and modernization, need to speed up. The next general  election will also be an important milestone for continued  stabilization.

**The global environment has become more favorable for economic growth in Jamaica.** Lower oil prices provide relief to the current account and reduce energy costs, a major inhibiting factor for business growth. In addition, recovery in Jamaica's key trading partners auger well for increasing demand for Jamaican exports,  tourism and l  remittances.

**The EFF is predicated on an acceleration of economic growth close to 3 percent.** However, in addition to improvements in the business climate, Jamaica  needs to reduce its vulnerabilities, including dependence on rain irrigation (given the importance of agriculture), to achieve its growth potential .

**High Frequency Macroeconomic Indicators**

| | Last data | Period | Prior data | Period |
|---|---|---|---|---|
| **Real GDP Growth (y/y)** | 0.4 | 2015 Q1 | -0.4 | 2014 Q4 |
| **Inflation (y/y)** | 4.4 | Jun-15 | 4.5 | Apr-15 |
| **Net international Reserves (US Mil)** | 2775.6 | Jul-15 | 2537.2 | Jun-15 |
| **Exchange Rate (end of period)** | 117.42 | Jul-15 | 115.81 | May-15 |
| **Unemployment Rate (%)** | 13.2 | Apr-15 | 14.2 | Jan-15 |

Source: Bank of Jamaica & Statistical Institute of Jamaica


# EDUCATION IN JAMAICA: WHERE ARE YOU GUYS?

## Introduction

**As in other countries in the Caribbean, Jamaica has made major advances in education.** However, challenges remain and tackling them is daunting in spite of clarity on the issues of the sector and a detailed strategy.[1] Overall, the challenge manifests in pockets of low and unequal learning, including a fast decrease in enrollment at higher levels. The decrease in enrollment is especially pronounced for boys, which can have significant socio-economic consequences.

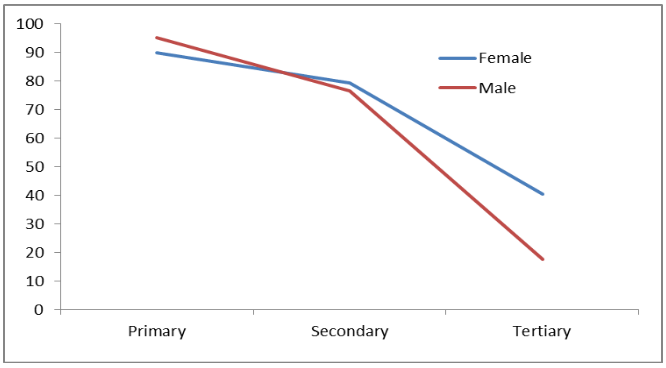
**An additional challenge is the low quality of education**. Both student achievement in exams as well as external efficiency as measured by student readiness for higher education and/or the job market are low.

**Education is important for economic development and has important socio-economic consequences.** Jamaica's educational challenges are mirrored in characteristic socio-economic challenges such as high unemployment and poverty, violent crime and a high share of single-headed households.

## The Challenges

**Enrollment in Jamaica for pre-primary and primary education is close to universal.** However, enrollment declines quickly, especially for boys, and is below averages for tertiary education (see also discussion in regional contribution).

**Figure 1: Gross Enrollment Rates for Males and Females**

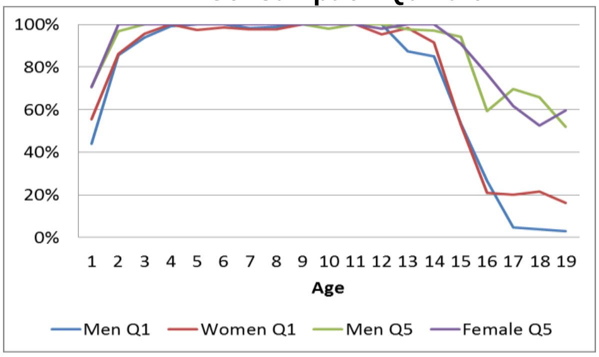



Source: World Development Indicators

**Different reasons can be responsible for the low educational attainment in Jamaica and more so of Jamaican males.** Opportunities in the labor market are not a good explanation of the quick drop in enrollment for older pupils since the unemployment rates for this age group remains substantial. The unemployment rates as of January 2015 for 14-19 years olds were 35.7 percent and 50.3 percent for males and females, respectively. The high number indicates that youth drop out and then look for work rather than the other way around.

**School enrollment is related to economic status.** The decrease in enrollment rates is much less pronounced for members of the highest quintile of the Survey of Living Conditions than the lowest quintile (Figure 2). Again, the drop occurs after age 14. Figure 2 indicates that the huge disparities in female and male attendance could be caused by disparities of lower income households as enrollment of the highest quintile members are relatively high and similar for males and females.[2]

**Figure 2: School attendance by Gender and Consumption Quintile**




Source: 2012 Survey of Living Conditions

**Quality in terms of learning outcomes is measured at different stages in Jamaica.** An early exam is the Grade Four Literacy Test, which is consistent with international practice of benchmarking literacy skills at that grade level. Of all the students who entered in school year 2011-12, 74 percent achieved mastery, 19 percent almost mastery and 7 percent non-mastery. Females comprise 56 percent of students who achieved mastery. In addition, there is a small difference by region, with the capital Kingston attaining the highest share of mastery. However, the major difference is that 94 percent of students in private schools achieved mastery (5.5 percent almost mastery), which is 20 percent above the outcome for public schools.

[1] See e.g. the GOJ's Education System Transformation Program.

[2] For tertiary education, Jamaica has a targeted Student Loan Buruea that provides subsidized loans with priority for students from lower income households.

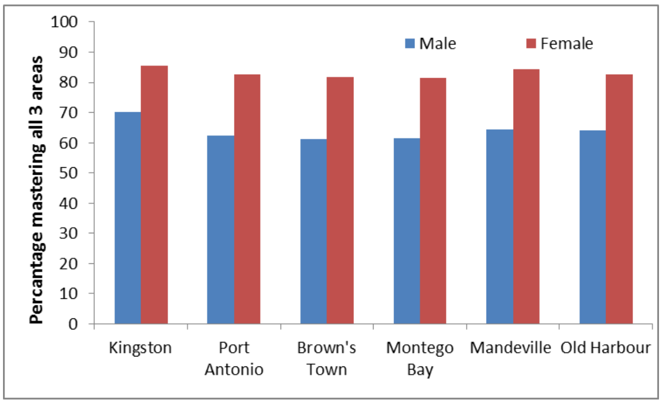


IDB Inter-American Development Bank


# EDUCATION IN JAMAICA: WHERE ARE YOU GUYS?

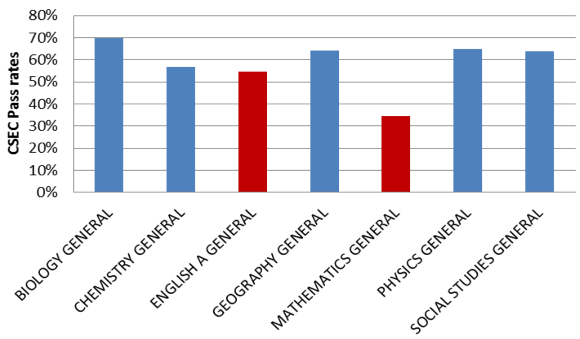
**The results for the Caribbean Secondary Education Certificate (CSEC) confirm the weak educational outcomes.**[3] Pass rates are low for the two main subjects, mathematics and English General. Again we find strong disparities between male and females (Figure 4).

**Figure 3: Students Achieving Mastery at Grade Four Literacy Test by Region and Subject (First Sitting) 2011/2012**




Source: Ministry of Education, Education Statistics 2012 – 2013
Notes: Percentage Mastering All 3 Skill Cognitive Areas.

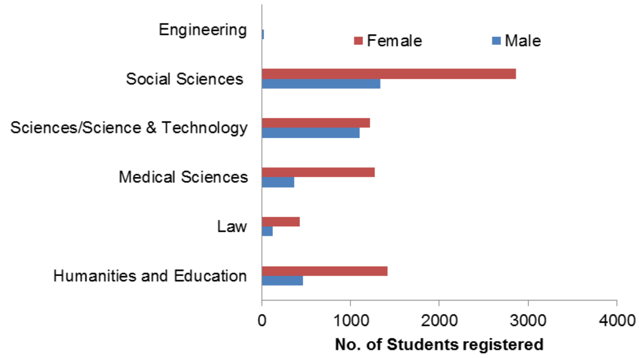
**Figure 4: Pass Rates for Caribbean Education Council, 2014**




Source: Caribbean Education Council, CSEC results 2014

**Gender disparities peak at university.** Given the decrease in enrollment and lower academic achievement at all levels, tertiary education is dominated by women. At the University of the West Indies (UWI) which is the main university servicing Jamaica and other countries in the Caribbean, female students outnumber males at a ratio of 2 to 1. With the exception of engineering, there are more female undergraduate students in all faculties, including sciences and technology. The same is true for academic staff at Jamaican tertiary education institutions, which in 2012/13 comprised 1343 women against 868 males.

**Figure 6: Registration of Jamaican Undergraduate Students in Degree Courses at UWI by Faculty and Gender, 2011-12**




Source: Ministry of Education, Education Statistics 2012 – 2013

**The stronger academic performance of women is only partly reflected in the labor market.** Female labor force participation as at January 2015 was 56.5 percent compared to male participation at 70.4 percent. Similarly, the female unemployment rate was 18.5 percent compared to 10.7 for males.

**In spite of stronger academic achievements, females continue to be under-represented in management and political positions.** As of 2007, 16 percent of board members of publicly listed companies were female with female board members in public bodies registering at 24 percent.[4] Similarly, only 8 out of 63 parliamentarians are women (6 out of 21 Senators are women). As pointed out recently by The Economist magazine, men in today's society cluster at the top and the bottom.[5]

**However, occupation and industry are in line with educational achievements.** Over 40 percent of males work in occupations that require lower skills in general such as elementary occupations, plant and machine operators and craft and related trades.[6] Conversely, less

[3] The CSEC is a regional, terminal examination and is usually taken at the end of grade 11. See regional section for comparison among countries.

[4] According to the 2013 GMI Ratings' 2013 Women on Boards Survey, these numbers are high in international comparison as the survey finds female directors constitute 11.8 percent and 7.4 percent in developed and emerging markets, respectively.

[5] The Economist May 30, 2015. The weaker sex.

[6] Causality can run both ways, males might study less because they know that they will not require more skills or because they do not have additional skills, they work in a low-skill occupation.


than 20 percent of women work in these occupations (Figure 7). Similarly, the agriculture and construction industries are major employers of males; working in both of these sectors is possible with relatively low educational skills.

**Figure 7: Employed Labor Force by Occupation Group and Sex, January 2015**


Source: Statistical Institute of Jamaica

**In spite of the low academic achievements of a significant share of the Jamaican population, finding skilled workers is not a major concern of Jamaican companies.** Just 20 percent of companies in the 2010 enterprise survey for Jamaica state that finding skilled workers is a challenge, which makes it only the 9th out of 15 areas.

**Skilled workers in Jamaica are likely to migrate.** According to a recent study, 85 percent of the labor force with tertiary education migrated to OECD countries as of 2011. Migration of skilled workers with only secondary level is just 35 percent. In the absence of domestic employment opportunities, the possibility to migrate can act as an incentive to invest in education.

## IDB Supporting Education in Jamaica

**The IDB has a long history of supporting the Jamaican education sector.** IDB support through technical cooperations, investment loans and policy-based loans has been spanning all levels of education.[7] Current programs comprise the primary education support program which aims to increasing the available classroom space, and the third phase of a programmatic policy-based operation started in 2008 in support of the educational transformation process.

## Conclusion and Policy Implications

**As in other countries, males are underperforming in terms of education in Jamaica.[8]** Dropouts are especially prevalent among male youth of lower income households. A second issue in Jamaica is that quality of education is relatively low as measured by standard tests at different education levels. The two issues might be related as the incentive to remain in school is smaller if learning is low. In addition, some sectors that require only a low level of formal education, including construction and agriculture, are important industries for male employment.

**Low educational achievement can have signficant consequences in addition to worse employment prospects.** One hundred and eighty thousand young people, equivalent to 40 percent of the 15 to 24 year-olds, were neither working nor enrolled in school or a formal training program. The crime rates among this age cohort are high with 15-29 year-old males at the most risk for perpetrating or being victims of homicide, and males between the ages of 15 and 24 commit over half of all major crimes. As such, young males are more vulnerable to be perpetrator or victim of violent crimes, which is probably worsened in the absence of the structured environment of a school and educational goals to work towards. Lower education is also related to other undesirable behaviors such as drug and alcohol abuse, domestic violence and teenage pregnancy. Finally, as women usually marry men of the same or higher education level, it is becoming a challenge for women to find partners.

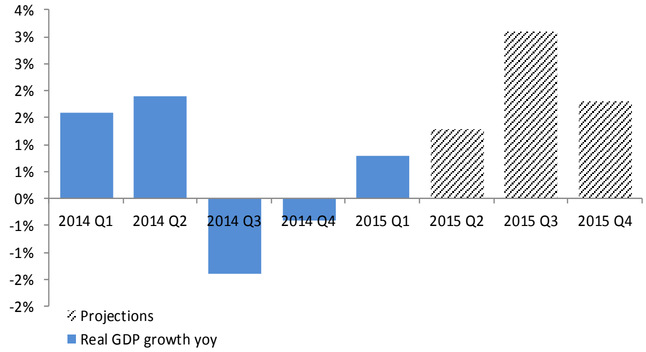
**Policies focus on investments to improve quality of education.** Even though the share of untrained teachers has decreased, they still constitute around 20 percent of teachers. Similarly, several schools remain on shifts and many schools are overcrowded. Besides the need to improve physical infrastructure and the skills of teachers, reforms of the curriculum are also central. Currently, a high number of unemployed young people coexist with unmet demand in the labor market.

[7] See projects page on www.iadb.org for details on individual projects.

[8] See regional report for overview of situation in CCB and references therein for global analysis of the issue.


**Growth is recovering …**

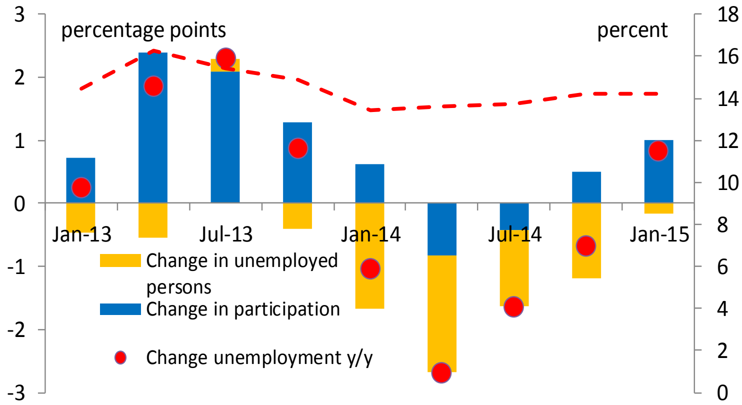
Figure A. Quarterly Growth at Constant Prices




Source: Statistical Institute of Jamaica (STATIN)

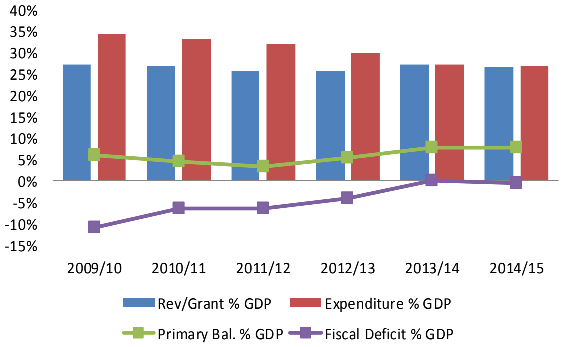
**but unemployment still a problem**

Figure B. Change in number of unemployed and labor participation




**The fiscal adjustment has been maintained…**

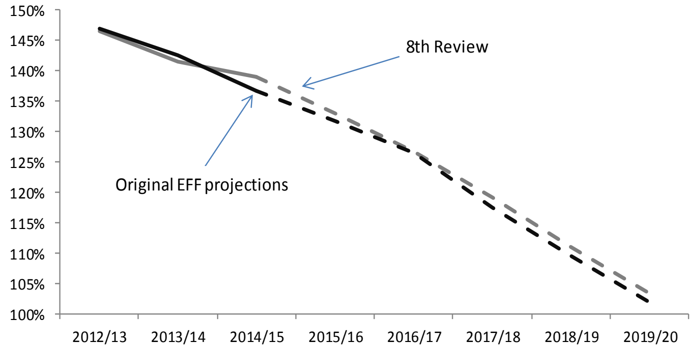
Figure C. Revenues and Expenditures (% of GDP)




Source: International Monetary Fund.

**… which should bring down debt.**

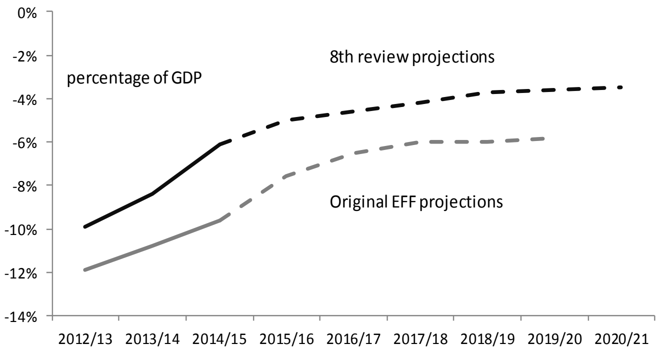
Figure D. Debt-to GDP 2011/12 - 2019/20




Source: International Monetary Fund.

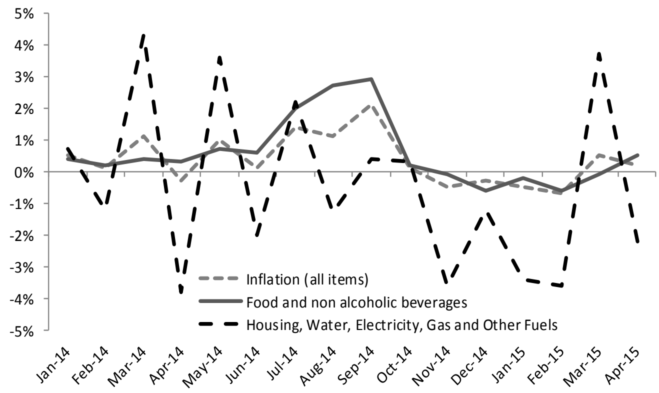
**The current account is expected to overperform…**

Figure E. Current Account Balance (% of GDP)




**...and inflation has been under control**

Figure F. Inflation and its Main Components



Quarterly Bulletin July 2015

# JAMAICA SELECTED ECONOMIC INDICATORS

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 (P) |
|---|---|---|---|---|---|
| (Annual percentage changes, unless otherwise indicated) | | | | | |
| **Real Sector** | | | | | |
| Real GDP | -0.6 | 0.9 | -0.7 | 0.9 | 0.2 |
| Nominal GDP | 7.8 | 7.5 | 6.1 | 8.9 | 7.4 |
| Inflation (end of period) | 7.8 | 7.3 | 9.1 | 8.3 | 4.0 |
| Exchange rate (end of period) | 85.7 | 87.3 | 98.9 | 109.6 | 115.0 |
| **External Sector** | | | | | |
| Exports of goods and services (yoy, %) | 0.8 | 13.0 | 3.5 | 3.5 | -5.0 |
| Tourism receipts (yoy, %) | 2.0 | 1.1 | 1.5 | 0.9 | 10.7 |
| Imports of goods and services (yoy, %) | 6.8 | 13.5 | 0.4 | 0.4 | -7.3 |
| Current account (percentage of GDP) | -9.0 | -14.9 | -11.5 | -8.4 | -6.1 |
| Treasury bill rate (percent, end of period) | 6.5 | 6.2 | 5.8 | 8.0 | 8.0 |
| (In percentage of GDP, unless otherwise indicated, on a calendar year basis) | | | | | |
| **Central Government** | | | | | |
| Revenue and grants | 26.8 | 25.6 | 25.7 | 27.2 | 26.3 |
| Budgetary expenditure | 33.2 | 32.0 | 29.8 | 27.1 | 26.7 |
| Primary balance | 4.5 | 3.2 | 5.4 | 7.7 | 7.5 |
| Budget balance | -6.3 | -6.4 | -4.1 | 0.1 | -0.5 |
| Public sector balance | -6.9 | -6.4 | -4.2 | 0.1 | 0.4 |
| **Debt Indicators** | | | | | |
| Public sector debt | 141.3 | 143.7 | 146.5 | 140.1 | 136.9 |
| Public sector debt over revenues | 536.1 | 563.7 | n.a. | 516.4 | 491.6 |
| Foreign currency public debt (end of period) | 83.3 | 81.4 | 76.0 | 76.4 | 49.9 |
| External interest payments as percentage of exports of goods and services | 11.5 | 10.4 | - | - | - |
| **International Reserves** | | | | | |
| Net international reserves (USD Mill) | 2553 | 1777 | 884 | 1303 | 2335 |
| Gross international reserves (weeks of good and services imports) | 23.4 | 17.8 | 11.4 | 14.6 | 20.4 |

Note: (P) Projections for 2014/15
Source: Ministry of Finance and Planning, Bank of Jamaica, Statistical Institute of Jamaica, International Monetary Fund and own calculations.

IDB Inter-American Development Bank


## Overview

For the first time in Suriname's political history a single political party has won the majority of seats in a general national election. It is expected that the elected government will continue the reform measures to amend the slippages observed in the macroeconomic framework in the past two years. Low commodity prices (gold and oil) remain a key constraint to a robust macroeconomic performance. The sensitivity to commodity price swings is likely to propel the reform agenda as measures have already been mentioned for the energy sector.

## Highlights

*The Honorable Desiré Delano Bouterse has been re-elected President of the Republic of Suriname.*

*International credit rating agencies affirm a stable macroeconomic framework for Suriname with the expectation of a continuation of the reform agenda.*

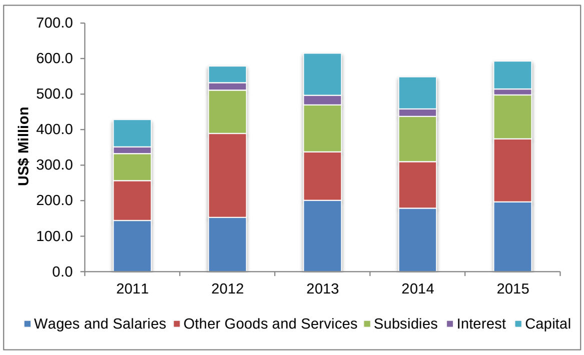
*Suriname increases ties with the Republic of China.*

## Recent Developments

**On May 25, 2015, the people of Suriname voted for its preferred members for the National Assembly, Local Councils, and District Councils.** Almost thirty political parties contested for the 51 seats in Parliament, with only eight of them winning seats. The Nationale Democratische Partij (NDP) attained 26 seats, being the only single political party to ever reach single majority since independence. The other parties and coalitions that won seats were V7[1] (18 seats), ABOP (5 seats), DOE (1 seat), and PALU (1 seat). The elected legislators were sworn into Parliament on 30 June, 2015. Fourteen women were elected, an increase of 100 percent over the previous general elections. A two-thirds majority is required to elect a President and Vice President in Parliament. The incumbent President of the Republic of Suriname, The Honorable *Desiré Delano Bouterse*, was successful in attaining this majority and was re-elected President. The Vice President-elect of the Republic of Suriname is H.E. Ashwin Adhin.[2]

**The macroeconomic performance in Suriname is hampered by commodity prices.** IMF data forecast economic growth below 3 percent in 2015 given reduced international prices for gold and oil. The non-financial public accounts may also be negatively affected, with commodity-related revenues estimated to decline further from 5.2 percent of GDP in 2014 to 3.2 percent of GDP in 2015 (see Selected Indicators Table). Actual data by the Central Bank of Suriname (CBvS) for the first five months of 2015 indicate a drop in total revenues by 17.6 percent of GDP while total expenditure increased by 8.1 percent of GDP over the similar period last year. The higher expenditure is driven mainly by outlays on goods and services (see Figure 1). Fiscal consolidation efforts for the remainder of the year will be required to reduce aggregate demand and stem the outflow of foreign reserves.

**Figure 1. Expenditure by Category (January-May)**




*Sources:* Central Bank of Suriname and IDB.

**International reserves at the end of the first six months of 2015 remain sufficient to cover short-term liabilities notwithstanding that it is below the level reported at the close of 2014** (see Figure 2)**.** International reserves at the end of June 2015 are reported at US$503.9 million (estimated 3.1 months of import cover). The reserve position is about US$121 million below that as at the end of December 2014. The falloff in official reserve assets is mainly attributed to reduced foreign inflows from the gold sector. Despite the lower reserve position, it is sufficient to cover external debt obligations (0.3 percent of GDP) coming due in 12 months. However, international credit rating agencies have indicated some worry on the pressures on the foreign exchange. The ongoing mining investments (for example, investments from Newmont gold mining and Staatsolie) will be important to maintain equilibrium in the exchange rate.

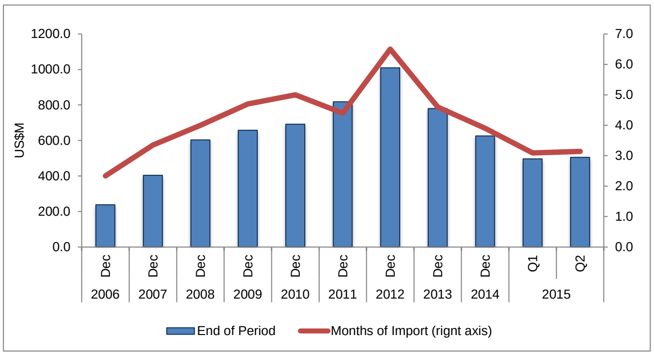
**Suriname's investment credit ratings and outlook were affirmed by Standard and Poor's, Moody's, and Fitch in April in spite of the macroeconomic challenges from the decline in commodity prices.**

[1] Four political parties won seats from this coalition – VHP (9 seats), PL (5 seats), NPS and BEP (both receiving 2 seats).

[2] H.E. Ashwin Adhin most recently served as Minister of Education, Science, and Culture from July 2013 to July 2015.


Suriname's outlook remains stable by all three rating agencies and holds a BB− rating from S&P's and Fitch, which is comparable to the Ba3 rating from Moody's. The credit rating agencies highlighted their concerns on the widened external current account and the subsequent pressures on the foreign exchange reserves if commodity prices remain low, the uncertainty created by the general elections, and the weak institutional capacity. However, the rating agencies expect continuity with the reform agenda after the elections, which include monetary and fiscal policies, budget management, and strengthening institutional capacity.

**Figure 2. Trends in International Reserves**




*Sources:* Central Bank of Suriname and IDB.

**Suriname increases its ties with China.** On March 18th, 2015, The Central Bank of Suriname signed a SRD$ 520 million (one billion yuan or about US$ 160 million) currency swap deal with the People's Bank of China.[3] The swap serves two main purposes: (1) facilitate further bilateral trade and investment for the economic development of the two countries; and (2) support the central bank's efforts to maintain regional financial stability. Over the years, Suriname has maintained its relation with China, with external debt liabilities to China amounting to 30 percent of total external debt while the share of exports and imports to and from China accounts for about 3 percent and 7 percent, respectively (see Figures 3a and 3b). Suriname is expected to "save" foreign exchange with this arrangement given that it is a net-importer with China. Estimations indicate that the arrangement could stem foreign exchange outflows of about 2 percent of GDP in one year. The currency swap is anticipated to support growth, the external position and fiscal accounts.

**The government announced reform measures of the energy sector.** Suriname is expected to have new players in the energy sector which will allow for the separation of generation and distribution of energy.[4] Energie Bedrijven Suriname (EBS), a state-owned enterprise, generates about one-third of total energy and is the only company that is allowed to distribute electricity. The shedding of this sector will require new legislations and is expected to bring gains associated with increased competitiveness and productivity.

**The Government of Suriname (GoS) may soon control the operations of the bauxite company, Suralco.** Negotiations between government and Alcoa are being undertaken where the GoS is expected to purchase Suralco from Alcoa and this agreement is expected to be completed by August 1, 2015. The acquisition should preserve the employment of approximately 700 workers.

**A new financial player will soon enter the banking sector in Suriname.** Republic Bank Limited (RBL), the Trinidad and Tobago based company, announced plans to acquire Suriname's third largest commercial bank – the local branch of the Royal Bank of Canada (RBC). The transaction is estimated to cost RBL US$ 39.8 million. The takeover is expected to be finalized by August of this year and should increase the expertise in the banking sector.

**Figure 3a. Total exports by Trading Partners**

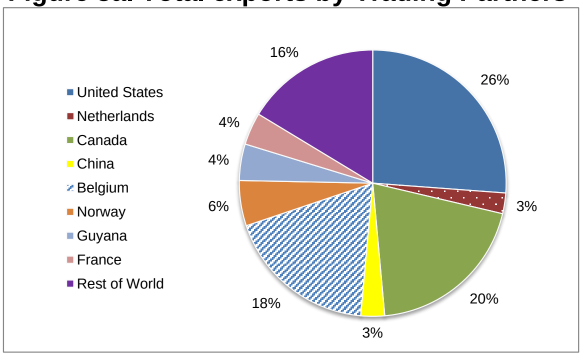
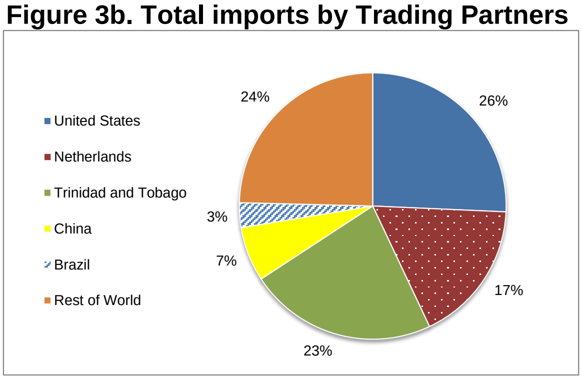



**Figure 3b. Total imports by Trading Partners**




*Sources:* Central Bank of Suriname and IMF

[3] The swap is valid for 3 years and can be renewed by mutual consent.

[4] DWT English Bulletin. April 21, 2015.


## Introduction

One key element of economic growth is improving human capital. Education is also important in reducing poverty, crime, inequality and prejudice (IDB 2011 and UNESCO 2015). An educated society is associated with innovations, creativity, and productivity. Quality education makes available a skilled labor market that is imperative to achieve higher levels of productivity. However, these returns were found to be lower in countries with higher union density, stricter employment protection, and larger public-sector shares (Hanushek et al. 2013). Therefore, it is important to understand a country's educational system and the elements that depend so critically on the skills of the labor market.

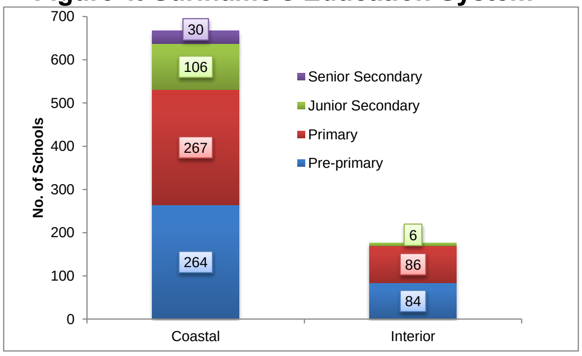
There has been progress in the education sector but many challenges still remain. This note attempts to provide a brief overview of the formal education system in Suriname with focus on some of the constraints. The Latin American and Caribbean (LAC) region is used as a benchmark to compare the performance of the basic education indicators for Suriname. The educational data gaps are many and limit the extent of analysis on the sector.

## The Education System in Suriname

**The education system in Suriname is based on the Dutch system,** which has been modified slightly since its initial adoption in the 1970s. The formal education system has four main levels of schooling: pre-primary for ages 4-5 years, primary (grades 1-6), junior secondary (grades 7-10), and senior secondary (grades 11-13). As for tertiary education, there are only three higher vocational schools and one university. Education is compulsory between the ages of 7 and 12. Most schools are located in or around the city or in the coastal districts (see Figure 1). Nearly half of all primary and secondary schools are private and operated by religious organizations (IDB 2011). Tuition in the private schools is generally subsidized by the Government[5] and most private schools follow the national curriculum with the exception of a few Dutch and International schools in Paramaribo (UNICEF and Government of Suriname 2010). In Suriname, the Ministry of Education and Community Development (MOECD) is tasked with the management of education.

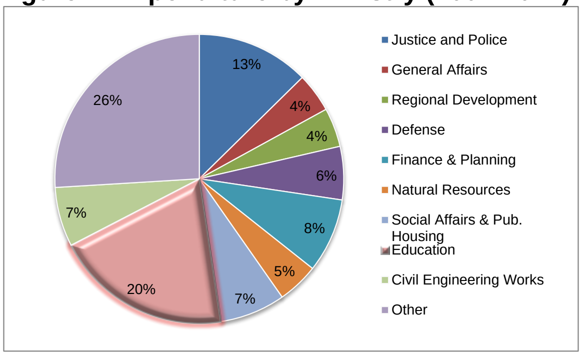
**Expenditure on education holds the largest share of total public spending on various ministries or directorates**. Outlays on education represent on average 20 percent of total government expenditure in the past 10 years (see Figure 2). Though expenditures in nominal value have increased over the years, expenditure on education to total government expenditure has trended downwards in more recent years, with spending on finance and planning and civil engineering works taking a larger share of public outlays. In the past couple years, about half of the allocation for education covered administrative costs while the remainder was allocated for policy programs. Researchers have found that when authorities spend more on educating its population, the returns tend to grow sufficiently to more than recover the initial investment (Romer 1986; and Rosen 1999).

**Figure 1. Suriname's Education System**




*Source:* General Bureau of Statistics. Suriname and IDB.

**Figure 2. Expenditure by Ministry (2007-2014)**




*Source:* Government of Suriname Financial Notes and IDB.

## Assessing the Educational System

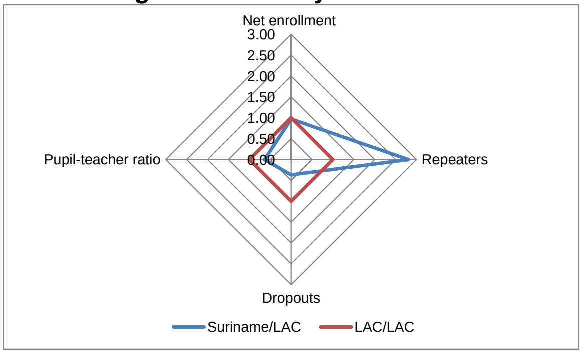
**Suriname outperforms its LAC neighbors in some areas of primary education but falls short for the percentage of repeaters in all grades.** Net primary enrollment rate in Suriname was 88.4 percent in 2013, comparable with LAC average of 91 percent (see Figure 3). Suriname has about three times fewer dropouts than LAC, making it more analogous to the average for developed countries.[6] The pupil-teacher ratio in Suriname

[5] The state pays for teachers' salaries and some other operational costs. The registration fees for private schools are between SRD$50-SRD$120 per year compared with SRD$10 per year for public schools.

[6] In 2008 (the latest available data for Suriname from the UNESCO Institute for Statistics), the dropout rate for Suriname and developed countries were 9.7 percent and 7.8 percent, respectively.

is also similar to the developed countries but can be considered more favorable than the ratio for LAC. Almost one in five students repeat a grade in primary school compared with one in twenty students in LAC. Students who repeat grades in primary school are less likely to complete secondary school.

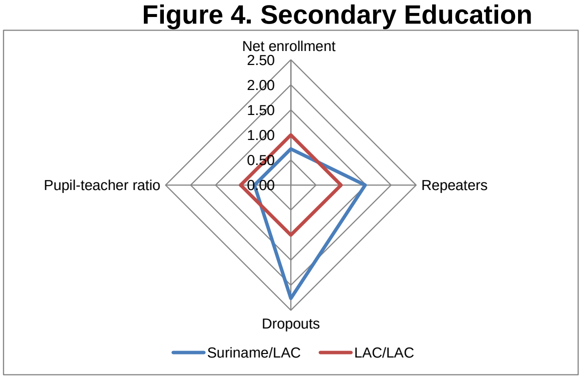
**Figure 3. Primary Education**




*Source:* UNESCO Institute for Statistics.

**The scenario changes significantly for secondary education where enrollment and dropouts fall after age 12, when schooling is no longer compulsory.** Net enrollment rates in secondary school were 52.5 percent. Male students have lower secondary school enrollment and higher repetition rates than female students.[7] Both the indicators for enrollment and repeaters underperform when compared to LAC countries (see Figure 4). About 33 percent of enrolled students drop out of lower secondary school. This rate is twice that of the benchmark countries. For secondary education, the pupil-teacher ratio is also lower than LAC. The wide gaps in the repeaters and dropout rates, as shown in Figure 4, highlight opportunities for improving education at the secondary level.

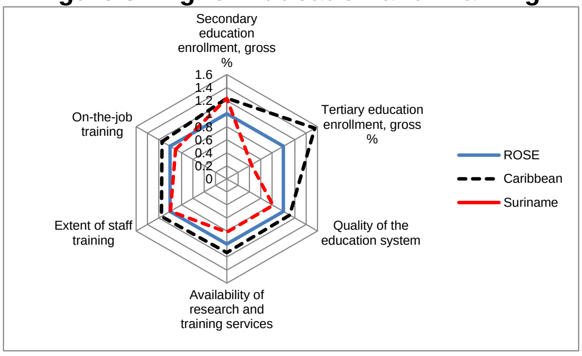
**Figure 4. Secondary Education**




*Source:* UNESCO Institute for Statistics.

**Suriname's higher education rating falls below that of the region and other small economies (ROSE).** About 4-6 percent of the Surinamese workforce has a higher education degree (Ori 2013). The gross enrollment rate is about 12 percent, which is lower than the LAC average of 43 percent. The low ranking in higher educational achievement and training (see Figure 5) can be used to partially explain the under-performance in other competitiveness indicators such as labor market dynamics, goods market efficiency and innovation.[8] The 2010 Enterprise Survey identified inadequate skilled workers as a major problem for their operations. Most of the educational expenditure is to pay salaries for teachers, hence, investment in higher learning such as research and training is below regional average. Gardiner and Stampini (2013) found that higher education brings better opportunities for employment and higher earnings. Therefore, greater investment in higher education can generate significant gains for economic growth and development and result in a more sustainable future.

**Figure 5. Higher Education and Training**




*Source:* WEF Global Competitiveness Index 2014-15.

**One of the key social problems with which the Government of Suriname is confronted is unequal access to education in the less developed areas of the country.** The enrollment rates in the rural or interior areas tend to be lower than the urban or coastal districts. Ooft and Eckhorst (2013) attributed the lack of access to primary education for children in the interior to the civil war (of the early 1900s) where many of the schools were destroyed. Other causes have been identified for the low enrollment in the interior for primary and secondary levels, which include long travel times for teachers and students, pregnancies and early marriages (IDB 2011; LISP 2014). Additional challenges to the educational sector are outdated curricula (secondary level), lack of qualified teachers for secondary and higher education,

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[7] In 2013, net secondary school enrollment rate for females is 57 percent compared to 47 percent for males.

[8] In the World Economic Forum's Global Competitiveness Index, Suriname ranked 129th and 117th out of 144 countries for the pillars Goods market efficiency and Labor market efficiency, respectively.


and inadequate school infrastructure (Ooft and Echorst 2013).

**Table 1. Selected Indicators for Basic Education**

| Description | Total | Description | Total |
|---|---|---|---|
| **Pre-primary Education** | | | |
| **No. of students** | 18,471 | Net enrollment | 69.6% |
| **Pupil-teacher ratio** | 28.0 | | |
| | | | |
| **Primary Education** | | | |
| **No. of students** | 69,410 | Net enrollment | 88.4% |
| **Pupil-teacher ratio** | 13.3 | Percent repeaters | 16.0% |
| **Dropout rate, 2008** | 9.7% | | |
| | | | |
| **Secondary Education** | | | |
| **No. of students** | 51,801 | Net enrollment | 52.5% |
| **Pupil-teacher ratio** | 11.4 | Percent repeaters | 14.1% |
| **Dropout rate,* 2008** | 32.8% | | |
| | | | |
| **Tertiary Education** | | | |
| **No. of students** | 3,910 | Gross enrollment | 12.0% |
| **Pupil-teacher ratio** | 12:1 | | |
| | | | |
| **General Indicators** | | | |
| **Youth Literacy rate, (15-24 years)** | 99.0% | Duration of compulsory schooling (years) | 6 |
| **Public spending on education, 2014 (% total)** | 13.3% | Public spending on education, 2014 (% GDP) | 5.5 |

*Source:* GBS Statistical Yearbook, 2013; UNESCO Institute for Statistics; World Bank.
*Note:* Data reflects 2013 unless stated otherwise; * Data only for lower secondary.

## IDB Supporting Education in Suriname

**The IDB has provided financial and technical support to Suriname.** Given the educational challenges faced and the objective of the government to lower the skill gap, education is one of the priority areas in the IDB's current strategy with the country. An investment loan for US$13.7 million was approved in 2012. From the investment loan, the MOECD has completed an ICT policy, developed new curricula for grades 3-6 (pre-primary and primary), and constructed and renovated schools, mostly in the interior of the country. Even with these achievements, there is still more work to be done in the education sector to strengthen human capital.

## Conclusion

**Improving education will be an important tool to enable a creative and productive environment that supports the needs of the labor market.** Suriname's educational system reflects high disparities in different districts in the country—particularly the coastal area and the interior. To assist the education sector support should focus on addressing the issues relating to the level of repeaters in the primary level, and improving the indicators for secondary and higher education as identified earlier. Quality education will increase student performance.

**There is still significant work that needs to be done to bring the educational system in line with Caribbean neighbors and international requirements.** Suriname is being supported by the international community in achieving its medium to long-term education objectives, with a target of poverty reduction and equity enhancement. Given the nature and challenges faced in this sector, it would be necessary to undertake additional research that looks at efficient ways to improve the education system, but first more data generation is vital.

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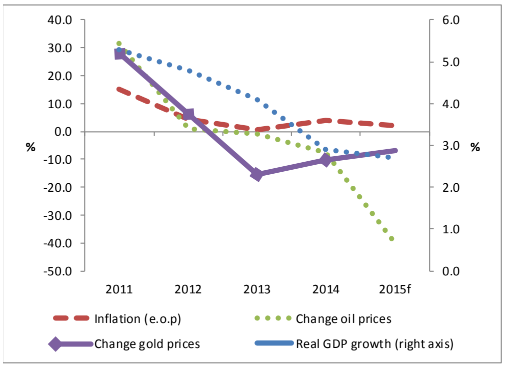
***Low commodity prices have kept overall inflation low, but restricted economic growth...***

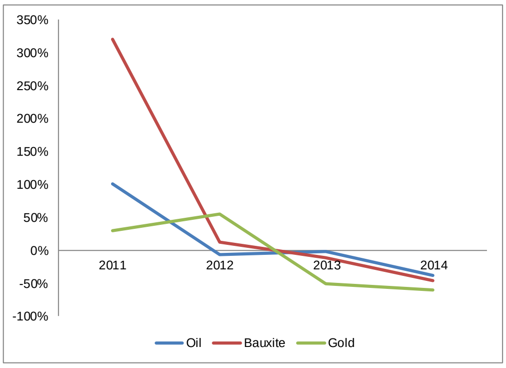
Figure A. Real GDP, Inflation and Commodity Prices




*Source:* Central Bank of Suriname and International Monetary Fund

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

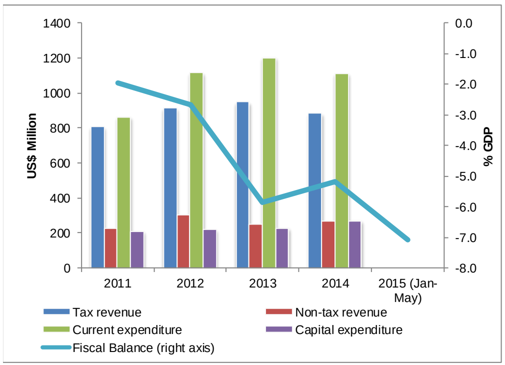
Figure B. Percent Change in Commodity Revenues




*Source:* Government of Suriname and International Monetary Fund

***Consequently, the fiscal balance weakened, ...***

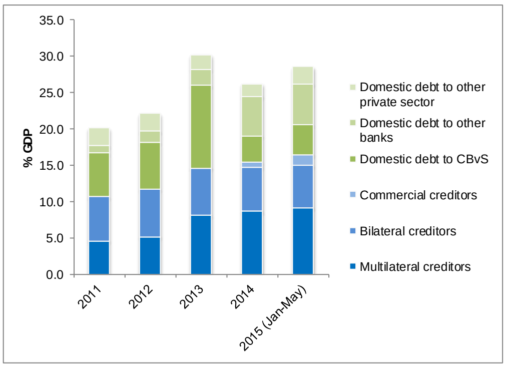
Figure C. Overall Fiscal Performance




*Source:* Central Bank of Suriname

***... and debt-to-GDP increased.***

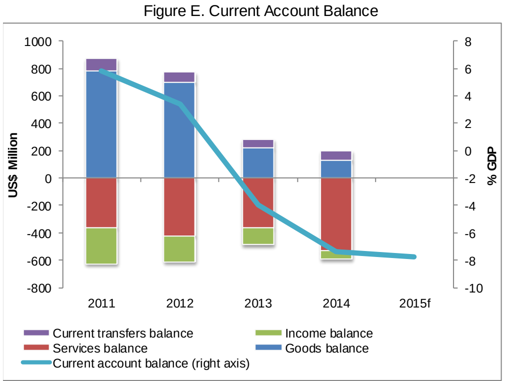
Figure D. Overall Debt Performance




*Source:* Central Bank of Suriname

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

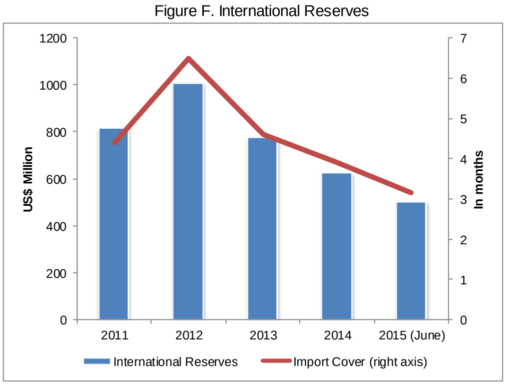
Figure E. Current Account Balance




*Source:* Government of Suriname and International Monetary Fund

***... and reduced the international reserves position.***

Figure F. International Reserves




*Source:* Central Bank of Suriname and IDB Staff Calculation


## Suriname: Selected Indicators

| | 2011 | 2012 | 2013 | 2014 | 2015 f |
|---|---|---|---|---|---|
| (Annual percentage changes, unless otherwise indicated) | | | | | |
| **Real Sector** | | | | | |
| Real GDP | 5.3 | 4.8 | 4.1 | 2.9 | 2.7 |
| Nominal GDP | -0.1 | 10.6 | 4.4 | 5.1 | 4.8 |
| Inflation (end of period) | 15.3 | 4.4 | 0.6 | 3.9 | 2.1 |
| Unemployment | 8.0 | 8.5 | 8.5 | 8.9 | 8.9 |
| Exchange Rates (end of period) | 3.35 | 3.35 | 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 | 61.1 | 59.5 | 51.1 | 44.5 | 38.2 |
| Imports of goods and services | 51.4 | 53.6 | 53.9 | 52.0 | 46.4 |
| Current Account | 5.8 | 3.4 | -3.9 | -7.3 | -7.8 |
| Gross International Reserves (USD Mill) | 816.9 | 1008.4 | 775.4 | 621.8 | 714.0 |
| **Central Government** | | | | | |
| Revenue and Grants | 27.0 | 25.9 | 23.8 | 22.1 | 20.8 |
| Commodity-related Revenues | 10.4 | 9.3 | 7.3 | 5.2 | 3.2 |
| Total Expenditure | 26.5 | 29.9 | 31.5 | 27.5 | 26.1 |
| Primary Balance | 1.5 | -3.0 | -6.0 | -4.2 | -4.9 |
| Overall Balance | 0.5 | -4.0 | -7.4 | -5.1 | -5.8 |
| **Debt Indicators** | | | | | |
| Total Government Debt (international definition) | 20.1 | 21.5 | 28.9 | 26.2 | 29.0 |
| Total Government Debt (national definition)** | 26.8 | 27.1 | 34.5 | 33.2 | 38.3 |
| Government Debt over Revenues | 73.3 | 84.9 | 126.9 | 117.5 | 126.5 |
| External Debt - national definition (end of period) | 16.2 | 16.4 | 18.8 | 20.8 | - |
| Domestic Debt - national definition (end of period) | 10.6 | 10.7 | 15.7 | 12.4 | - |
| External debt as percent of exports of goods and services | 49.5 | 49.5 | 66.0 | 35.4 | - |

Sources: Central Bank of Suriname; IMF WEO April 2015; Moody's Investors Service 2015; IDB

Notes:
f = forecast
** The national definition of debt is broader than the international definition. It allows the full approved amount of financing commitments to be counted as debt rather than only disbursed amounts


## Overview and outlook

**Moderate world growth and oil prices are expected to influence the economic performance of Trinidad and Tobago.** Global growth in 2015 is projected to be moderate with uneven prospects in advanced and emerging markets. The outlook for advanced economies is gradually improving while growth in emerging markets and developing countries is projected to be lower, reflecting weaker prospects for oil exporting countries and some large emerging market economies. Oil prices are expected to average US$58 per barrel in 2015. Against this backdrop, Trinidad and Tobago is expecting a moderate growth performance of 1.5 percent in 2015. However, the economy could see lower growth due to declining energy output recorded in the first half of the year as well as downward revisions of growth prospects by the IMF for Latin America and the Caribbean owing to multiple risks in the global economy. Fiscal and external risks remain for Trinidad and Tobago as depressed oil prices and uncertainty in global energy markets continue.

## Recent Developments

**Trinidad and Tobago's government bond and issuer ratings were downgraded by Moody's from Baa1 to Baa2.** In addition, the rating agency changed the economy's outlook from stable to negative. This change could increase the government's cost of borrowing on the international market and could potentially affect foreign direct investment if present conditions persist. The main reasons provided for the downgrade include; (1) persistent fiscal deficits and challenging prospects for fiscal reforms, (2) decline in oil prices and limited economic diversification, (3) weak macroeconomic policy framework; and (4) inadequate provision of vital macroeconomic data. Moody's also downgraded state-owned Petrotrin, National Gas Company (NGC) and the Tobago House of Assembly (THA), as these entities have strong linkages in the economy.

**The fiscal outturn for Trinidad and Tobago for the first half of fiscal year 2015 showed a small overall surplus.** According to provisional data from the Ministry of Finance and the Economy, a small fiscal surplus of TT$47.3 million was realized by the central government in the first three months of FY 2015 compared to TT$247 million for the corresponding period in the previous fiscal year. Provisional data shows that total revenue increased by 1.2 percent while expenditure increased by 2.1 percent compared to the corresponding period in FY 2014. Expenditures on transfers and subsidies rose by 10 percent in the first quarter of FY 2015 to TT$7,296, compared to TT$6,632 million for the corresponding period in FY 2014. In addition, two government bonds raised on the domestic market for budgetary support in the first quarter of FY 2015 increased total public debt to TT$109,192 million. The country's total public debt (excluding sterilized debt) stands at 40.2 percent of GDP.

### Highlights

Moody's has downgraded Trinidad and Tobago's government bond and issuer ratings and changed the economy's outlook from stable to negative.

The fiscal outturn for Trinidad and Tobago for the first half of fiscal year 2015 showed a small overall surplus.

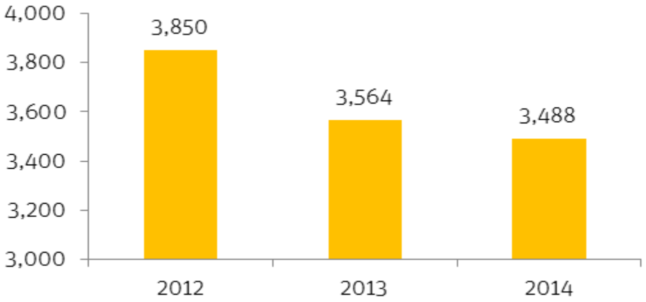
The Central Bank has maintained its stance to tighten monetary policy.

**The recent financial stability report for Trinidad and Tobago has identified four major vulnerabilities facing the financial system.** These include; (1) a heavy dependence on the energy sector which can affect the economy's growth, fiscal and external positions; (2) high levels of household indebtedness which increased by almost 20 percent since 2010; (3) historically low domestic interest rates have affected profitability and asset growth across the financial system; and (4) rising financial interconnectedness in the Caribbean could increase the risk of spillovers from regional shocks to the domestic economy. The IDB's support in the area of strengthening of the financial sector supervisory and regulatory framework would be critical in helping to reduce some of these vulnerabilities and mitigate systemic risks.

**Trinidad and Tobago's business sector continues to experience foreign exchange shortages.** Concerns about the hoarding of foreign currency were raised during the year as a possible contributor to shortages in foreign exchange. However, official statistics from the Central Bank show that foreign currency deposits in commercial banks have actually decreased over the past 2 years (Figure 1). The Central Bank (CBTT) continued its scheduled program of foreign exchange interventions in 2015. For the first four months of 2015, the CBTT sold US$860 million to support the domestic foreign market, an increase of US$345 million compared to the same period in the previous year. According to the CBTT, the sectors that account for a significant share of foreign exchange include the retail and distribution sector (35%), credit card (18%), manufacturing (12%) and automobiles (7.5%).


**The Central Bank has maintained its stance to tighten monetary policy.** The Central Bank increased the repo rate by 25 basis points to 4 percent in May 2015. The main reasons for the increase include the potential for higher domestic inflation, relatively positive growth in 2015 and forward guidance on the medium term path of US monetary policy which is expected to rise. The latter is expected to have implications for the movement of portfolio capital flows out of Trinidad and Tobago.

**Figure 1. Commercial Banks: Foreign Currency Deposits (US$Mn)**




*Source*: Central Bank of Trinidad and Tobago

**The Central Bank's liquidity management program has contributed to a reduction of excess reserves in commercial banks in the first quarter of 2015.** Excess reserves in commercial banks declined from TT$ 7 billion in March 2014 to TT$ 3 billion in March 2015. The Central Bank noted that the tighter liquidity levels prompted inter-bank activity in the first quarter of 2015. The Bank has signaled its intention to maintain its liquidity management program in order to support the transmission of increases in the repo rate.

**The unemployment rate remained low in 2014, but labor shortages have become a big challenge for the business community**. The unemployment rate has reached a record low level of 3.6 percent in 2014. The 2014 Central Bank Labor Confidence Report, which surveys employees, employers, self-employed and trade unions, noted several deficiencies in the labor market. The respondents to the survey indicated a mismatch between skills and available jobs, high youth unemployment, high prevalence of foreign workers in some sectors, poor work ethic, high worker absenteeism and labor shortages in the private sector. The latter has been partly attributed to government's social programs that contribute to lower productivity levels.

**Inflationary pressures are expected to build in 2015.** Headline inflation in the first three months of 2015 averaged 6.8 percent. Core inflation remained low at 1.4 percent, while food inflation averaged 13 percent but reported a marginal decline largely due to higher domestic food supply. However, the Central Bank expects that inflationary pressure can build up in 2015 due to continued growth in consumer credit, the expected settlement of wage negotiations, and the continued expansionary fiscal stance of central government.

**Trinidad and Tobago's ease of doing business ranking has jumped 12 positions higher from 91st to 79th in 2014/15.** Improvements were noted in three areas namely: starting a business, obtaining credit, and resolving insolvency. The introduction of online procedures for employer registration and tax registration made starting a business simpler and easier. Access to credit was also made better with the establishment of the Bankruptcy and Insolvency Act. Trinidad and Tobago launched a public office in charge of the general administration of insolvency issues and proceedings which serves to ease the way insolvency is resolved.

**Trinidad and Tobago has made positive strides in its Global Information Technology (GIT) ranking over the past 3 years,** according to the World Economic Forum's Global Information Technology Report 2015. The GIT ranking refers to the ability of a country to apply the benefits of ICTs to promote economic growth, competitiveness and well-being. Out of 143 countries, Trinidad and Tobago ranks 70th, which is two places up from the previous year.

**A Multi-Donor Energy Co-Financing Facility for Caribbean Sustainability was proposed by the** Government of Trinidad and Tobago in collaboration with the Inter-American Development Bank. The financing facility aims to transform the energy matrix of CARICOM countries by focusing on renewable energy, energy efficiency and alternative fuels.

**Political parties are gearing up for general elections.** The country's general election will be held on September 7th 2015.

| High-Frequency Macroeconomic Indicators | | | | |
|---|---|---|---|---|
| | Last data | Period | Prior data | Period |
| Annual GDP growth (%) | 1.9 | Q3 2014 | 0.2 | Q2 2014 |
| Exports (12-month growth) | -11.1 | Q2 2014 | -7.4 | Q1 2014 |
| Imports (12-month growth) | -6.7 | Q2 2014 | 2.1 | Q1 2014 |
| Private sector credit growth (% yoy change) | 5.9 | Feb-15 | 5.6 | Feb-14 |
| Inflation (% yoy change) | 6.7 | Mar-15 | 6.1 | Feb-15 |
| Exchange rate (end of period) | 6.35 | Mar-15 | 6.35 | Apr-15 |
| Unemployment rate (%) | 3.3 | Sep-14 | 3.5 | Jun-14 |



IDB Inter-American Development Bank


## Introduction

**Trinidad and Tobago has placed education at the forefront of its development strategy.** In an effort to support the country's development of a knowledge-based economy, the government has implemented important initiatives to improve the access and quality of education. Key among these is universal access to education from Early Childhood Care and Education (ECCE) to secondary schools, newly updated curricula for primary and secondary education, subsidized tertiary level education, and the provision of scholarships for citizens to study both locally and abroad. As a result of these initiatives, significant advances have been made in terms of increasing access to all levels of education and making it more affordable, however the quality of education still lags behind.

## Generous Benefits for Students

**Trinidad and Tobago has invested heavily in education to expand access.** In fact, education expenditure has accounted for the largest share of the national budget over the last 7 years. The primary and secondary education system comprises both government schools and government-assisted schools. Government schools, as the name implies, are fully financed by the state, while government-assisted schools (denominational schools-usually administrated by religious boards) are provided with state subsidies and grants and students enjoy free access. There are few private schools which do not receive any state subsidy and students are required to pay tuition fees. However, the majority of students enjoy free access to both primary and secondary education.

**The government provides other benefits to assist underprivileged students, both at the primary and secondary levels.** The state also provides free public transportation, meals (breakfast and lunch), textbooks, and most recently a laptop computer for each student entering secondary school.

**Access to tertiary level education has expanded rapidly since 2001**. In September 2001, the government introduced the Dollar for Dollar (DfD) program with the objective of expanding access to tertiary level education. In 2004, the DfD evolved into the Government Assistance for Tuition Expenses (GATE) program which provided financial assistance to citizens pursuing tertiary level education after the completion and assessment of a Means Testing Questionnaire (MTQ). By January 2006, all citizens were able to access tuition for tertiary education at the undergraduate level free of charge at both private and public institutions, leaving behind the means based testing. The program was then expanded twice: first to students pursuing post-graduate programs at local and regional public tertiary-level institutions; and in September 2010, to students completing approved Technical Vocational Education and Training (TVET) programs.

**The number of students accessing GATE mushroomed from 14,326 in 2005 to almost 60,000 in 2012, but** sustainability, efficiency and relevance concerns have arisen. Expenditure on GATE grew from TT$102 million in 2005 to TT$638.4 million in 2014. Previous studies on the GATE program have shown that it is vertically inefficient. That is, persons in high-income households that can afford to pay for tertiary level education are the main beneficiaries. In addition, the surge of graduates on the labor market is not adequately absorbed, resulting in pockets of underemployment. Moreover, measures to ensure the sustainability of the program have not been implemented, and it is presently funded fully from the national budget. In the context of tightening fiscal space, due to falling oil prices and global uncertainly in energy markets, the GATE program should be reviewed to introduce mechanisms that allow for closer monitoring of the impact of the program, including tracer studies that allow measuring the education and employment of the participating University students.

**The Scholarship and Advanced Training program has huge potential to boost the country's human capital, but better alignment to development priorities is needed.** The program serves to provide funding for students who have excelled in examinations to undertake tertiary education both locally and abroad. Upon graduating, the scholar is required to work in Trinidad and Tobago for a predetermined period of time. The number of scholarships awarded to students has increased by almost twofold since 2008 (Figure 2). However, a major challenge with the program relates to the placement of returning graduates in jobs that match their qualifications. A more strategic approach to awarding scholarships that is aligned with the country's development trajectory could produce better results. In addition, the management capacity to monitor the growing number of scholars would need to be strengthened to ensure effective use of this important pool of talent.

## Unequal learning at Secondary Schools

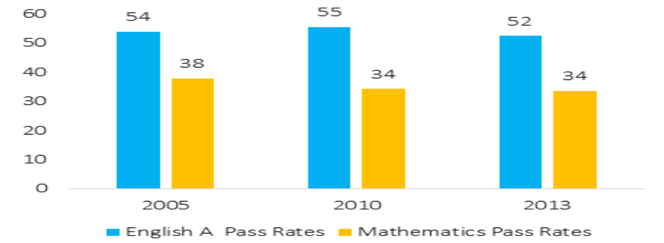
**Government-assisted schools outperform government and private schools at the CSEC level.**

There are over 150 secondary schools in Trinidad and Tobago. About 56 percent are government schools and 33 percent are government-assisted schools, with the remainder being private schools. During the period 2005-2013, the performance of Trinidad and Tobago students has declined marginally. In 2005, almost 38 percent of the students sitting the Caribbean Secondary Education Certificate (CSEC) exams received a passing grade in Mathematics (i.e. grades I-III). By 2013, this number had declined to 34 percent. Pass rates in English have a better showing in general but this has also shown a decline (Figure 3).

**Figure 2. Number of scholarships offered and expenditure**

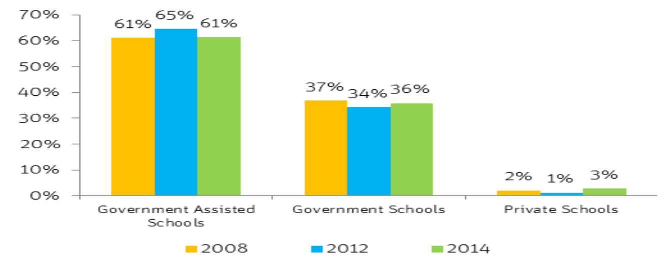

*Source:* Ministry of Public Administration, Scholarships and Advanced Training Division

**Figure 3. Pass rates (grades I-III) for Trinidad and Tobago**




*Source:* Caribbean Examination Council, various years

**Figure 4. Students attaining 5 CSEC subjects including Mathematics and English**



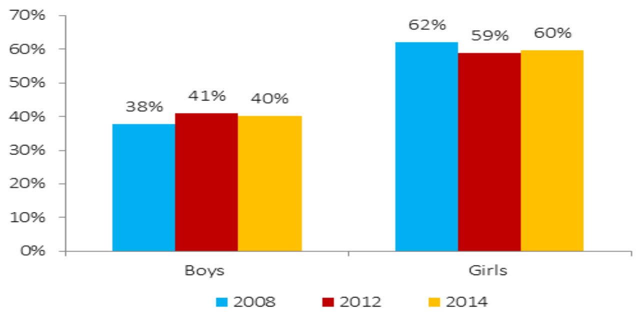

*Source:* Ministry of Education, Trinidad and Tobago, various years

**The data shows that almost 61 percent of students attending Government-Assisted Schools obtained 5** CSEC subjects including Mathematics and English, which contrasts with 3 percent for private schools and 36 percent in government schools (Figure 4). A simple reason for the disparity could be that most government-assisted schools, which are the 'better' performing schools, attract the best students from primary schools. That is, there is an inherent 'ability grouping' that takes place at the secondary school level. The empirical evidence (Jackson 2010) for Trinidad and Tobago shows that students do benefit from attending higher-achieving schools, which implies that ability grouping may lead to increased education inequality in relation to exam scores, number of exams passed, and years of educational attainment. Apart from this, there may be many underlying social, economic and environmental factors that can affect school quality and hence performance. Research shows that differences in school quality can have long-term effects on labor market outcomes and the earning potential of students.

## The Gender Gap in Educational Achievement

**Girls have continuously outperformed boys at the CSEC level**. CSEC level data shows that on average, from the cohort of students attaining full certificates, boys only account for 40 percent, while girls makes up the balance (Figure 5). In addition, the 2014 data shows that 78 percent of boys that did not obtain a full CSEC certificate were from government schools. The poor performance of boys is observed for both Mathematics and English, which are basic entry level requirements for post-secondary and tertiary level enrolment.

**Figure 5. Girls outperform boys at CSEC: students attaining a full certificate**




*Source:* Ministry of Education, Trinidad and Tobago

**A report by the Ministry of Science, Technology and Tertiary Education on factors affecting male re-entry** into the post-secondary and tertiary education system noted that low socio-economic status males tend to lack motivation, academic socialization, and social or familial support, which are important ingredients to encourage re-entry into post-secondary or tertiary level studies. Research has shown that a diminished male labor market can have adverse implications on the economic well-


being of families and can serve to reinforce the gender gap in future generations.

**University graduates in the labor force have doubled since 2000.** The share of the labor force with a university education increased from 7 percent in 2000 to almost 15 percent in 2014. Despite this achievement, the data shows that persons with at most a secondary education account for approximately 82 percent of the labor force. Interestingly, a disaggregation by secondary education shows that the largest portion (16.2) of the labor force includes those persons who obtained no subjects at secondary schools but have some level of training (Table 1). Almost 20 percent of the labor force has at most a primary education, with just about half having training. Many factors, including school quality, student motivation, and other social and environmental variables, could be contributing to this high level of low basic educational attainment at the primary and secondary level. This is reflected in high youth unemployment as many youth are ill-equipped to access formal training and employment opportunities.

**Training is important for persons without basic formal education to access jobs in the labor market**. The unemployment data shows that persons with training account for the smallest share of unemployment by education attainment, with the exception of persons who obtained no subjects at secondary school. In addition, the share of unemployed persons with a secondary education declined significantly from 13.3 percent in 2000 (the year secondary education was made universal) to about 4.5 percent in 2013 (Figure 6). Not surprisingly, persons with no subjects and no training account for the largest share of the unemployed labor force. This implies that the training and skills gap is yet to be closed.

**Table 1. Composition of labor force by educational attainment (2014 Q2)**

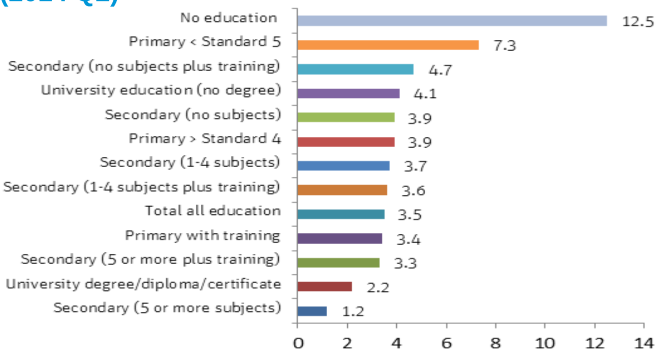
| | |
|---|---|
| Secondary (no subjects plus training) | 16.2 |
| University degree/diploma/certificate | 14.9 |
| Secondary (5 or more plus training) | 14.3 |
| Secondary (1-4 subjects plus training) | 12.1 |
| Secondary (no subjects) | 11.3 |
| Primary with training | 9.5 |
| Primary > Standard 4 | 9.0 |
| Secondary (1-4 subjects) | 5.4 |
| Secondary (5 or more subjects) | 3.7 |
| University education (no degree) | 1.8 |
| Primary < Standard 5 | 0.8 |
| Educated in a foreign country | 0.7 |
| No education | 0.2 |
| Total all education | 100 |

***Source**: Central Statistical Office, Trinidad and Tobago*

## IDB's role: Re-aligning educational policy to development priorities

**The anecdotal country view is that there is a mismatch between skills and available jobs**. Although there is a dearth of available and timely micro data to evaluate this concern, respondents to a recent Central Bank survey on labor market conditions indicated that there is a mismatch between skills and available jobs. This implies that there is a need to develop stronger synergies between education policy and development policy to ensure the effective use of and returns from the large investments being made in the country's human capital.

**Figure 6. Unemployment by educational attainment (2014 Q2)**




*Source:* Central Statistical Office, Trinidad and Tobago

**Realigning the country's educational outcomes to development priorities is essential for moving forward**. As part of this approach, the Government of Trinidad and Tobago has engaged the IDB in preliminary discussions to establish a framework for developing a 'manpower strategy'. The strategy would focus on designing a framework for developing skills aligned to priority sectors which would support the country's diversification objectives.

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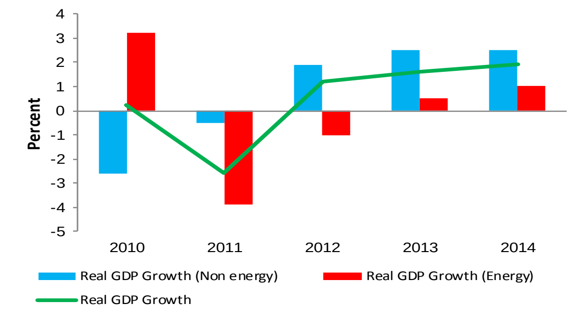
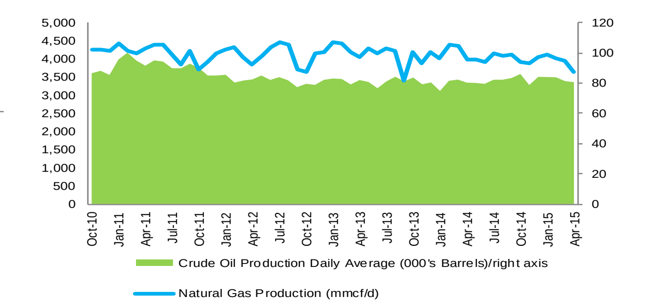
Labour Confidence Report. 2014. Central Bank of Trinidad and Tobago.

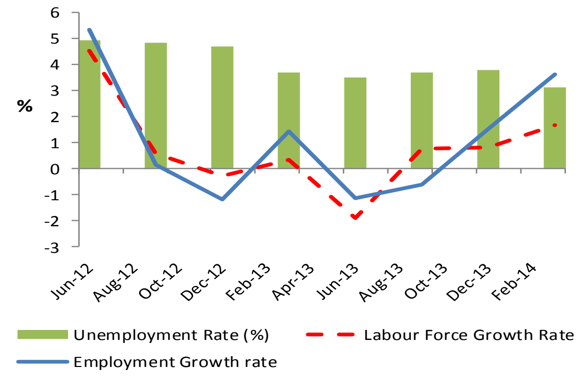

*Real economic activity driven mainly by the nonenergy sector*



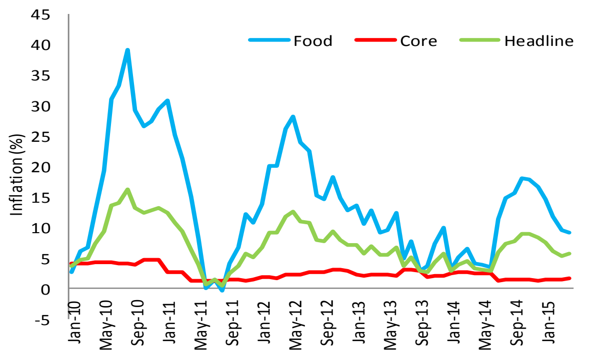

*Energy sector output has declined in the first half of 2015*



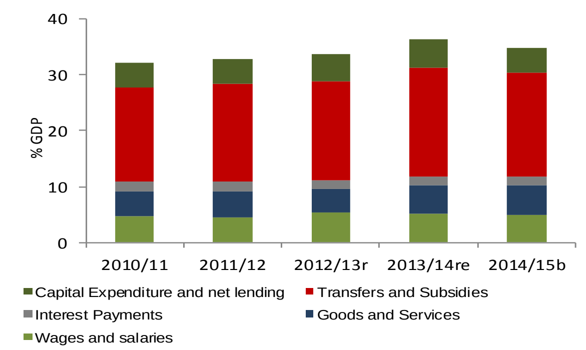

*Unemployment continues to decline*



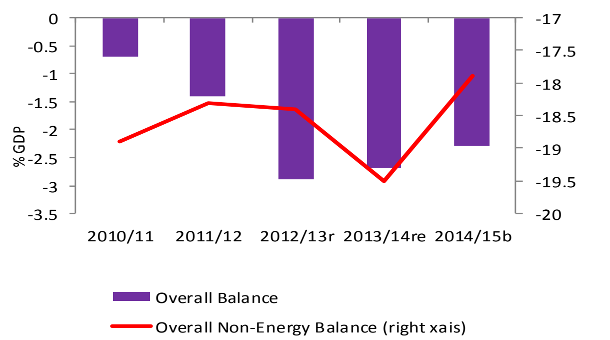

*...while food inflation has slowed*



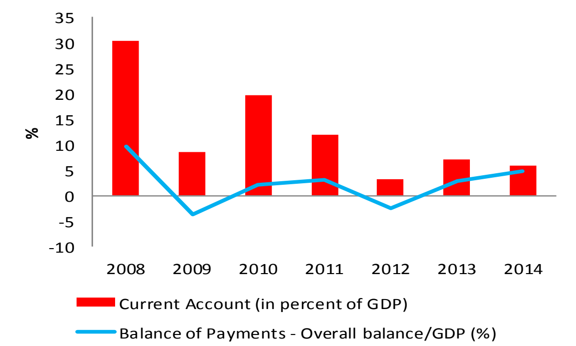

*expenditures are increasingly driven by subsidies and transfers..*



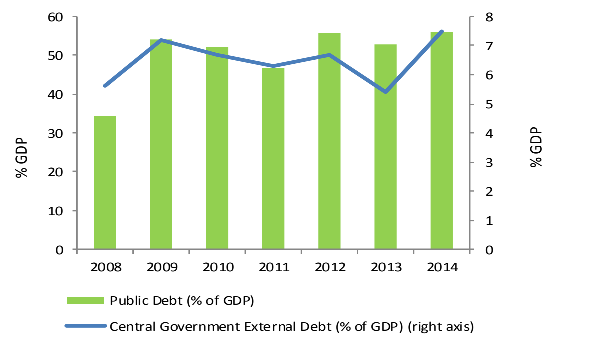

*The public sector's fiscal position has been in deficit in recent years*




*Current Account Surplus has narrowed ...*




*External Debt has increased slightly ...*




***Source***: The Central Bank of Trinidad and Tobago.


## Trinidad and Tobago: Selected Indicators

| | 2009 | 2010 | 2011 | 2012 | 2014 (P) |
|---|---|---|---|---|---|
| (Annual percentage changes, unless otherwise indicated) | | | | | |
| **Real Sector** | | | | | |
| Real GDP | -4.4 | 0.2 | -2.6 | 1.2 | 0.8 |
| Nominal GDP | -31.3 | 7.4 | 13.6 | 2.1 | 7.4 |
| Inflation (end of period) | 1.3 | 13.4 | 5.3 | 7.2 | 8.5 |
| **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 | 3.9e | 10.0e |
| 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 | 32.3 |
| of which: energy revenues | 14.3 | 17.6 | 18.8 | 17.4 | 15.5 |
| Current expenditure | 27.7 | 28.9 | 28.6 | 29.1 | 30.3 |
| Capital expenditure and net lending | 6.3 | 5.0 | 4.8 | 4.6 | 4.4 |
| Primary balance | -2.3 | 2.7 | 1.2 | 0.8 | -0.7 |
| Overall balance | -5.0 | 0.1 | -0.8 | -1.4 | -2.3 |
| 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 | 39.9 |
| Public sector debt over revenues | 105.5 | 104.1 | 102.5 | 122.8 | 111.5 |
| External public debt (end of period) | 7.7 | 6.7 | 6.4 | 6.7 | 7.3 |
| 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.


## Overview

A tourism-led recovery is underway in the countries of the ECCU/OECS. Countries are undergoing fiscal consolidation, but continue to be challenged by large fiscal deficits, high levels of public debt and modest growth. The outlook for growth is positive in 2015 and greater oversight of the financial system on behalf of the Eastern Caribbean Central Bank will bring greater macroeconomic stability.

### Highlights

The recovery in tourism and a more dynamic construction sector drove the higher growth at 1.7 percent for 2014.

The increase in airlift, new flights and greater frequencies across the region would boost tourism demand in 2015.

The Eastern Caribbean Central Bank's new Banking Bill will strengthen oversight and supervision of the ECCU/OECS financial system.

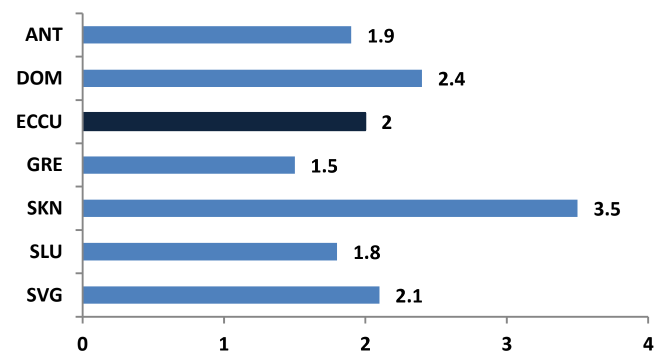
The Eastern Caribbean Central Bank lowered the minimum deposit rate from 3 percent to 2 percent effective May 1, 2015.

## Recent Developments in 2015

**Real GDP in the ECCU grew by 1.7 percent in 2014.** Compared to the 1.1 percent in 2013, this recovery was driven by a stronger tourism sector, but also non-tradeables sectors, particularly greater construction activity. In spite of strong tourism performance, St. Lucia experienced a contraction of 1.1 percent as a result of a decline in manufacturing, agriculture and construction.

**This growth momentum is likely to sustain in 2015** with a forecast of 2 percent for the ECCU/OECS (Figure 1). A slightly higher estimate of 2.4 percent is projected by the Eastern Caribbean Central Bank (ECCB). St. Kitts and Nevis will continue to be the most dynamic economy in the currency union with growth at 3.5 percent for 2015. St. Lucia will also see positive growth this year at around 1.8 percent recovering from a contraction in 2014.

**Figure 1: Economic Growth Outlook for 2015**

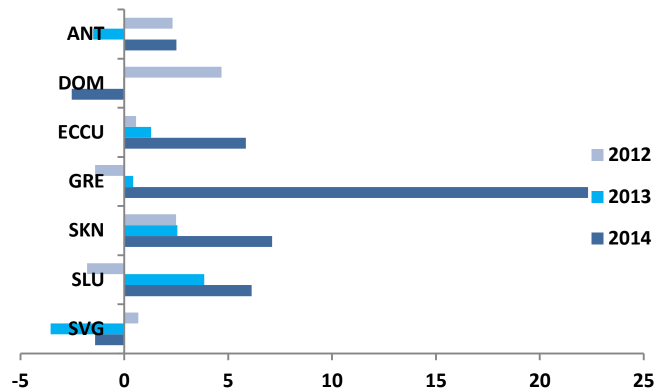



Source: International Monetary Fund

**The tourism industry recovered in 2014** following a slight decline in overall visitor arrivals the previous year (Figure 2). Total arrivals to the ECCU/OECS increased by 9.9 percent in 2014, of which stop-over visitors grew by 5.8 percent and cruise arrivals by 11.6 percent. Tourist arrivals picked up across most source markets with the exception of intra-regional travelers that declined by 3.9 percent. Expenditure per tourist also grew by 6.9 percent in 2014. Over the first two months of 2015, tourism sector recovery was evident across the ECCU/OECS countries, with the exception of Antigua and Barbuda which saw visitor numbers decrease by 8.2 percent.

**Recovery in the United States and the United Kingdom will have a positive impact on economic activity.** Tourist arrivals and spending per visitor are likely to grow as a result of the recovery across source markets. The increase in airlift, with JetBlue Airways announcing new flights across the region, and greater frequencies to Antigua and Barbuda, would boost tourism demand in 2015.

**Figure 2: Long-stay Arrivals to the ECCU, (percent change)**




Source: Eastern Caribbean Central Bank

**Lower international oil prices will improve the external position and keep inflation low at 1.2 percent in 2015.** Despite the risk of lower access to favorable financing terms under the PetroCaribe agreement, lower international oil prices will improve external accounts. The reduction in the oil import bill would ease pressure on the demand for foreign exchange in the ECCU/OECS.


Inflation will remain subdued with lower fuel and imported food prices.

**The Eastern Caribbean Central Bank lowered the minimum deposit rate.** There is excess liquidity in the financial system, but credit to the private sector declined by 1.8 percent in 2014, reversing a 2 percent increase in 2013. With the aim to stimulate lending to the productive sectors, the minimum deposit rate was lowered from 3 percent to 2 percent. This new deposit rate took effect on May 1, 2015.

**The ECCB approved a new Banking Bill enhancing the regulatory and supervisory framework for commercial banks** and the financial sector. This new Banking Bill transfers the responsibility of issuing and revoking licenses to the Central Bank from the Ministries of Finance across the ECCU/OECS. At the same time, the Government of Antigua & Barbuda has taken the decision to invest EC $51M into Antigua and Barbuda Investment (ABI) Bank, as part of its restructuring plan. These are steps in the right direction that will likely strengthen the ECCU/OECS financial sector.

## Recent Developments across the OECS

**The new Prime Minister of St. Kitts and Nevis approved 100 new Citizenship by Investment (CBI) certificates in 2015**. This represents around US$25 to 40 million in new investments. The CBI programme has been well received and contributed about 13 percent of GDP in 2013. The PM announced reforms to strengthen the screening process for new applicants as a result of the new visa requirements to Canada.

**St. Vincent and the Grenadines will receive US$750,000 in funding from the CARICOM Development Fund (CDF)** to construct a renewable energy farm at the Argyle International Airport (AIA). The investment will provide approximately 35 percent of the electricity and air-conditioning requirements of the airport once it opens. The CDF hopes to make the AIA operational on 100 percent renewable energy. The airport terminal building has been completed, but work is pending on the runway, which aims to be ready by the end of the year.

**Dominica is receiving technical assistance to battle the Black Sigatoka disease affecting banana crops.** Since 2012, banana production has decreased by over 54 percent mostly as a result of this plague. To combat the threat, France will provide plague-resistant banana plants to farmers across the island. The Government targets 100,000 new William banana plants by the end of 2015. The first batch of 20,000 plants already arrived.

**Grenada's fiscal adjustment measures out-performed program targets under the Extended Credit Facility** with a primary deficit reduced from 3 percent to 1 percent of GDP in 2014. Additionally, the Government cleared its stock of arrears by 20 percent in 2014. The island is on track to fully repaying arrears by the end of 2015. Debt restructuring and fiscal reforms are in progress, focusing on bringing the country on a path towards fiscal sustainability over the medium term.

**Grenada has agreed on the restructuring terms for its US and EC bonds due in 2025**. The new bonds will be paid at 7 percent per annum, payable in 29 semi-annual installments between March 2016 and March 2030. The principal will be reduced by 50 percent cutting the total debt owed from US$262M to 131M.

**St. Lucia's new Electricity Supply Service Bill will allow electricity generation from renewable sources by independent power producers**. Additionally, the government, in association with LUCELEC and WindTex Energy (a US-based company) has installed test towers to assess the viability of wind farms. A geothermal survey was done to assess the possibility of the development of geothermal energy. The results of the survey are expected to be released in September 2015.

**The IMF concluded the third Post-Program Review for Antigua & Barbuda in March 2015**. Higher public spending as a result of the election, namely transfers (1.2 percent of GDP), public investment (0.5 percent GDP) and goods & services (0.2 percent of GDP), weakened the country's fiscal position. The deficit stood at 2.9 percent of GDP in 2014. The ratio of public sector debt to GDP increased to 98.7 percent of GDP, as financing needs grew to 10.3 percent of GDP in 2014 with higher scheduled amortization.

**Antigua and Barbuda obtained full ownership of the West Indies Oil Company Limited**. This petroleum company supplies products and services to Dominica as well. The Government intends to divest its majority shares domestically over time. The remaining shares are owned by Venezuela (25 percent) and a private Chinese investor (24 percent).

High-Frequency Macroeconomic Indicators

| | Last Data | Period | Prior Data | Period |
|---|---|---|---|---|
| Annual GDP growth (%) | 1.7 | 14-Dec | 1.1 | 13-Dec |
| Tourism arrivals (annual % change) | 9.9 | 14-Dec | -0.4 | 13-Dec |
| Inflation (end of period) | -0.2 | 14-Dec | 0.81 | 14-Sep |
| BOP Current Ac. (% of GDP) | -14 | 14-Dec | -16.8 | 13-Dec |

*Source:* ECCB and IMF

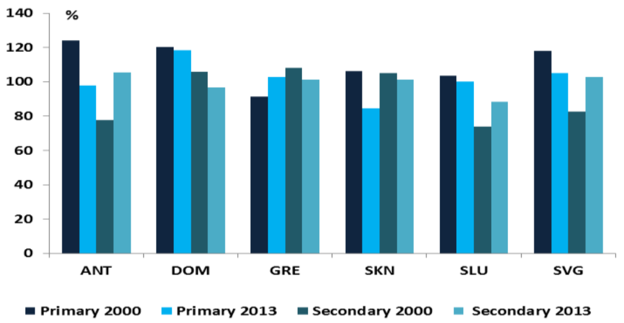

## Education in the OECS

**Member countries of the OECS have made efforts to strengthen educational outcomes.** Through free access to compulsory primary and secondary education, the Eastern Caribbean achieved enrollment rates close to 100 percent. However, a large percentage of secondary school students are graduating without the minimum qualifications to advance to the tertiary level. Literacy and numeracy remain significant challenges. Thus, strengthening quality in the education system would be key to address low transition rates and high repetition rates, as students move from secondary to tertiary education.

## Educational Attainment and Coverage

**OECS students age 25 years and older have on average 8.4 years of formal education.** This is much lower than the average 11 years of formal education evident in developed countries and 12.3 years for the top 10 ranked countries in UNDP's Human Development Index 2014. A major challenge is the limited supply of tertiary education centers across the islands, as well as the high rates of under-qualified graduates at the secondary level. While literacy and numeracy remain a significant challenge, females enjoy higher educational attainment than males.

**Figure 1: Gross Enrolments, Primary and Secondary**



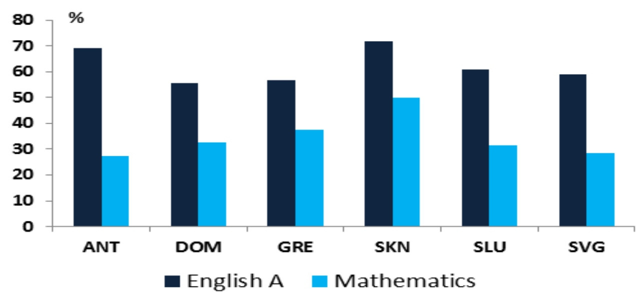

*Source:* World Development Indicators

**Gross enrollment rates for secondary education increased from 2000 to 2013, but declined at the primary level** (Figure 1). In 2000, the average enrollment rate for primary education was 111 percent, but by 2013 it declined to 101 percent. This decline has been sharper in Antigua & Barbuda and St Kitts & Nevis where primary enrollment dropped from 124 percent to 98 percent and from 106 percent to 85 percent respectively. In contrast, the average enrollment rate for secondary education increased from 92 percent to 99 percent during 2000-12, with Dominica and St. Kitts & Nevis being the exceptions. Antigua & Barbuda saw significant improvement in enrollment from 78 percent to 105 percent by 2012. However, as students reach the tertiary level, enrollment levels drop significantly to around 24 percent, the average for the period 2003-2013. This is a reflection of both limited provision of tertiary education and underperformance of secondary school graduates. Grenada has the highest tertiary level enrollment at 53 percent.

## Quality Education

**Pupil-teacher ratios in the OECS are at the level of many developed countries, but students reflect lower educational attainment.** With smaller classes, teachers can dedicate more time per student and can deliver a more personalized instruction. Thus, lower student-teacher ratios tend to be associated with higher education outcomes and better quality education systems. However, this is not the case in the OECS where the quality of instruction may be hindering greater education attainment. The pupil-teacher ratio for primary education decreased from 20 in 2000 to 14.9 by 2013, while at the secondary education level, it declined from 18.5 to 12.5. Still, a low percentage of secondary students graduated with passes in English Language and Mathematics at the CSEC level exams in 2012 (See Figure 2). Performance in Mathematics is below average with a pass rate at around 30 percent. The lowest performing country was Antigua & Barbuda with pass rates in Mathematics at 27.2 percent, while the best performer was Grenada with 49.8 percent pass rates.

**Figure 2: Students with passes in CSEC English A and Mathematics, 2012**




*Source:* OECS Education Statistical Digest

**There is a large percentage of repeaters in both primary and secondary education.** Repetition figures should ideally be close to zero. High rates tend to signal lower quality education, as students are not learning the minimum requirements to move to the next level.

Amongst primary school students, the percentage of repeaters averaged 3.6 percent over 2008-2013 compared to an average of 0.8 percent for developed countries. By 2013, the repetition rate stood at 2.8 percent.[1] For secondary school students the average stood at 4.9 percent in 2013.[2] This is not the case in St. Lucia, which reflects the lowest repetition rate among the OECS countries at 0.5 percent over the period. Antigua & Barbuda saw significant improvement reducing the rate from 16.2 percent to 5.7 percent from 2008 to 2012.

**A large percentage of secondary school graduates do not have the necessary qualifications to continue to higher education.** Over 2009-2012, only 23.9 percent of students leaving secondary school possessed the minimum matriculation requirements to enter tertiary education. Females tend to outperform males with higher completion rates, at 26.3 percent and 20.8 percent respectively (See Table 1).

**Table 1: Percentage of Student with 5 CSEC passes, 2009-2012**

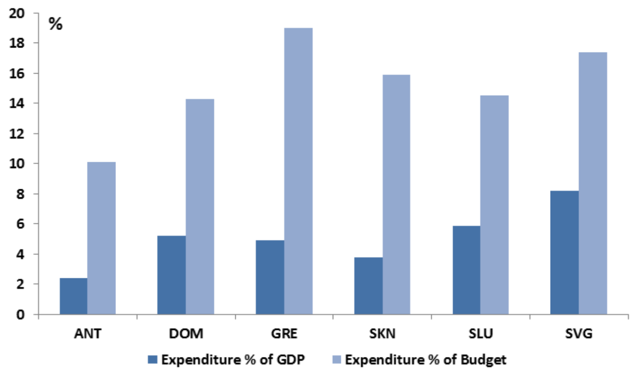
| | 2009 | | | 2010 | | | 2011 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| Antigua & Barbuda | 27 | 28 | 27 | 29 | 36 | 33 | 28 | 29 | 28 | 22 | 25 | 24 |
| Dominica | 19 | 30 | 25 | 31 | 30 | 30 | 34 | 36 | 35 | 15 | 27 | 22 |
| Grenada | 14 | 18 | 16 | 14 | 24 | 20 | 16 | 22 | 19 | 12 | 17 | 15 |
| St. Kitts & nevis | 18 | 21 | 20 | 15 | 22 | 19 | 18 | 16 | 17 | 12 | 20 | 17 |
| St. Lucia | 30 | 40 | 36 | 29 | 38 | 34 | 25 | 30 | 28 | 18 | 26 | 22 |
| St. Vincent and the Grenadines | N/A | N/A | N/A | 21 | 29 | 25 | 18 | 20 | 19 | 14 | 21 | 18 |

*Source*: OECS Education Statistical Digest

## Public Expenditure on Education

**The OECS countries are under-investing in education.** On average they allocated 3.9 percent of GDP over the period 2005-2012, which is much lower than other islands in the region such as Barbados (7.5 percent), Jamaica (6.4 percent) and also lower than the top 10 performers in the UNDP's Human Development Index (5.9 percent). While the level of public spending on education is not the only determinant of education outcomes, with quality and efficiency of public spending playing an important part, it is a reflection of development priorities. Interestingly, the country that allocated the largest share of resources was St. Vincent & the Grenadines, spending 5.1 percent of GDP during 2005-2012. While it invests significant resources in the sector, education outcomes are amongst the lowest in the OECS. Antigua & Barbuda spends less than 2.5 percent of GDP (see Figure 3). In terms of composition of public spending, in general the bulk of the education budget is equally shared between primary (31.1 percent) and secondary levels (30.3 percent). Post-secondary and tertiary education received 2.5 percent and 10.5 percent of the education sector budget in 2012. Grenada (15.7 percent) spent the highest share on tertiary education in 2012.

**Figure 3: Public Expenditure on Education, 2012**




*Source:* OECS Education Statistical Digest

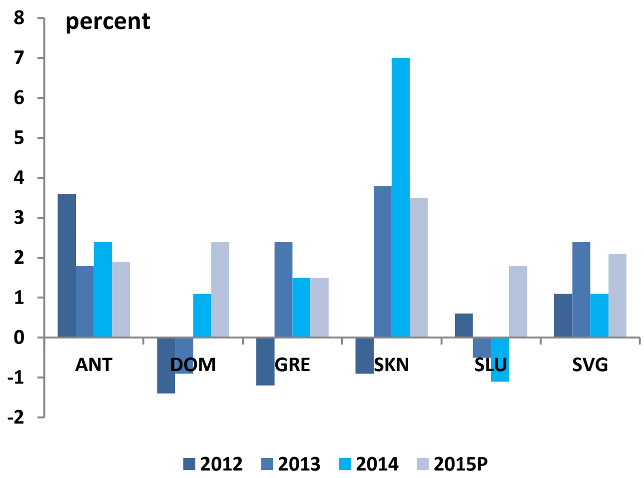
**The level of spending on secondary education is not translating into significant improvements in higher education outcomes over time**. The percentage of students leaving secondary school with the minimum requirements to pursue tertiary education actually declined from 24.8 percent to 19.7 percent during 2009-12. Antigua & Barbuda, which spent the lowest percentage of GDP on education, produced more qualified graduates than the other nations and has the second highest percentage of passes in English exams in 2012.

## Conclusion

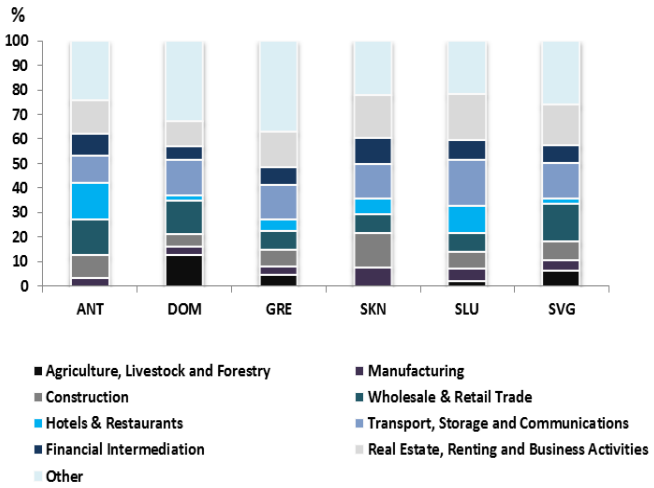
**The OECS countries have made significant progress in access to education with enrollment rates at around 100 percent at the primary and secondary education levels.** However, efforts to improve the quality of secondary education could yield greater returns and address the challenges students face when transitioning from secondary to tertiary education.

[1] Antigua & Barbuda, 2012
[2] Antigua & Barbuda (2012), Dominica (2012), Grenada (2010), and St. Vincent & the Grenadines (2010

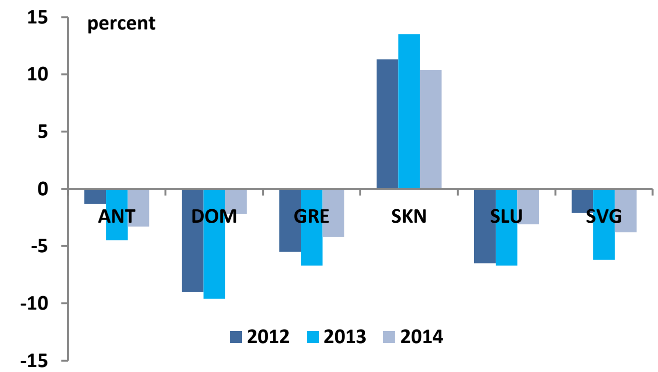

**Growth is returning to the ECCU/OECS countries…**
**Figure 2: Real GDP Growth**



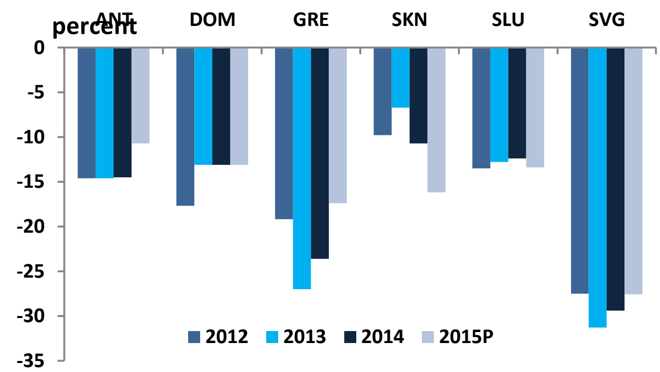

**…with tourism, construction and agriculture leading the way.**
**Figure 3: Contribution to GDP**



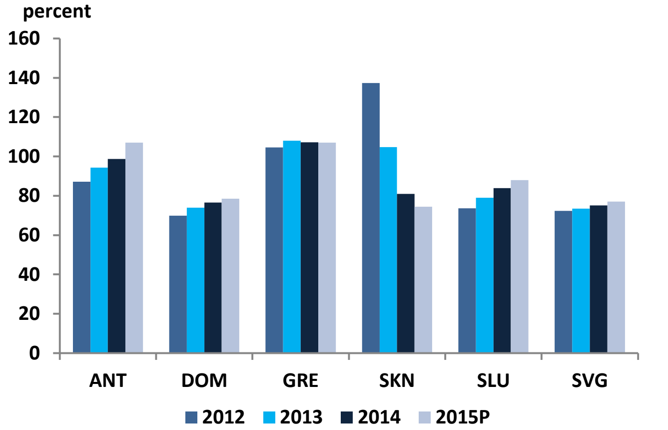

**Large fiscal deficits across member countries …**
**Figure 4: Fiscal Deficit ( percent of GDP)**



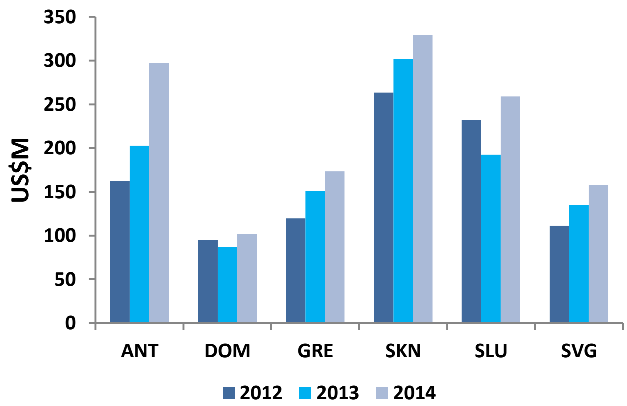

**…and sustained current account imbalances…**
**Figure 5: Current Account Balance ( percent of GDP)**




**…have led to a rapid accumulation of debt…**
**Figure 6: Central Government Debt ( percent of GDP)**




**…but reserves have improved over time.**
**Figure 7: Gross International Reserves (US$M)**




*Source:* ECCB and IMF

### Annex I. ECCU/OECS: Selected Indicators

| | Antigua & Barbuda | | | | Dominica | | | | Grenada | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015P | 2012 | 2013 | 2014 | 2015P | 2012 | 2013 | 2014 | 2015P |
| **Real Sector** | | | | | | | | | | | | |
| Real GDP (% change) | 3.6 | 1.8 | 2.4 | 1.9 | (1.4) | (0.9) | 1.1 | 2.4 | (1.2) | 2.4 | 1.5 | 1.5 |
| Nominal GDP (% change) | 6.6 | (0.3) | 3.5 | 3.2 | 1.2 | 0.4 | 1.8 | 1.6 | 2.8 | 4.4 | 3.1 | 2.4 |
| Inflation (end of period) | 1.8 | 1.1 | 1.3 | 1.0 | 1.2 | (0.4) | (0.1) | 0.9 | 1.8 | (1.2) | (0.7) | (1.0) |
| **External Sector** | | | | | | | | | | | | |
| Exports of goods and services (% change) | (0.2) | - | (0.1) | 2.3 | (15.9) | 14.1 | 3.3 | 9.2 | (7.4) | (4.0) | 15.3 | 5.3 |
| Imports of goods and services (% change) | 17.2 | (7.5) | 2.2 | 2.3 | (5.0) | (1.2) | 4.7 | 15.1 | 2.4 | 23.9 | (0.4) | 1.5 |
| Current account (% of GDP) | (14.6) | (14.6) | (14.5) | (10.7) | (17.7) | (13.1) | (13.1) | (13.1) | (19.2) | (27.0) | (23.6) | (17.4) |
| International reserves (USD mill)/1 | 162.0 | 202.6 | 297.0 | N/A | 94.6 | 87.1 | 101.7 | N/A | 119.5 | 150.6 | 173.5 | N/A |
| International reserves cover (weeks)/1 | 2.6 | 3.1 | 4.9 | N/A | 4.1 | 3.9 | 4.9 | N/A | 3.3 | 4.0 | 5.2 | N/A |
| **Public Sector** | | | | | | | | | | | | |
| Total revenue (% of GDP) | 19.9 | 18.4 | 18.6 | N/A | 27.1 | 28.6 | 29.9 | N/A | 20.6 | 21.3 | 27.1 | N/A |
| Current expenditure (% of GDP) | 20.6 | 21.6 | 20.3 | N/A | 23.6 | 26.2 | 25.5 | N/A | 21.1 | 21.0 | 21.5 | N/A |
| Capital Expenditure (% of GDP) | 0.6 | 1.3 | 1.7 | N/A | 12.6 | 12.0 | 6.6 | N/A | 5.0 | 7.0 | 9.9 | N/A |
| Central government primary balance (% of GDP) | 1.1 | (2.4) | (0.6) | N/A | (7.5) | (7.6) | (0.4) | N/A | (2.1) | (3.5) | (0.4) | N/A |
| Central government overall balance (% of GDP) | (1.3) | (4.5) | (3.3) | N/A | (9.0) | (9.6) | (2.2) | N/A | (5.5) | (6.7) | (4.2) | N/A |
| **Debt Indicators** | | | | | | | | | | | | |
| General government debt (% of GDP) | 87.1 | 94.3 | 98.7 | 107.0 | 69.8 | 73.9 | 76.6 | 78.5 | 104.5 | 108.0 | 107.2 | 107.1 |

P - Projected for 2015
/1 ECCB and IADB staff estimates for 2014


### Annex I. ECCU/OECS: Selected Indicators 1

| | St. Kitts & Nevis | | | | St. Lucia | | | | St. Vincent & the Grenadines | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015P | 2012 | 2013 | 2014 | 2015P | 2012 | 2013 | 2014 | 2015P |
| **Real Sector** | | | | | | | | | | | | |
| Real GDP (% change) | (0.9) | 3.8 | 7.0 | 3.5 | 0.6 | (0.5) | (1.1) | 1.8 | 1.1 | 2.4 | 1.1 | 2.1 |
| Nominal GDP (% change) | 0.5 | 5.8 | 8.7 | 5.8 | 1.0 | 2.5 | 1.0 | 4.0 | 2.5 | 2.3 | 3.7 | 3.1 |
| Inflation (end of period) | 0.1 | 0.4 | 2.0 | 2.0 | 5.0 | 0.7 | 1.7 | 3.1 | 1.1 | - | 0.6 | 0.1 |
| **External Sector** | | | | | | | | | | | | |
| Exports of goods and services (% change) | | | 12.1 | 3.1 | (3.9) | (0.7) | 3.2 | 8.8 | 1.4 | (1.1) | 4.6 | 6.6 |
| Imports of goods and services (% change) | (3.8) | 7.7 | 17.8 | 6.8 | (8.5) | (0.7) | 2.4 | 13.2 | 7.1 | 6.6 | 1.3 | 12.0 |
| Current account (% of GDP) | (9.8) | (6.7) | (10.7) | (16.2) | (13.5) | (12.8) | (12.4) | (13.4) | (27.5) | (31.3) | (29.4) | (27.6) |
| International reserves (USD mill)/1 | 263.5 | 302.0 | 329.1 | N/A | 232.0 | 192.2 | 259.1 | N/A | 111.0 | 135.1 | 158.1 | N/A |
| International reserves cover (weeks)/1 | 8.4 | 9.1 | 9.8 | N/A | 3.4 | 3.1 | 4.4 | N/A | 3.2 | 3.7 | 4.6 | N/A |
| **Public Sector** | | | | | | | | | | | | |
| Total revenue (% of GDP) | 42.6 | 47.0 | 43.1 | N/A | 23.9 | 24.6 | 26.5 | N/A | 27.0 | 26.9 | 27.5 | N/A |
| Current expenditure (% of GDP) | 27.7 | 26.7 | 26.9 | N/A | 23.5 | 23.6 | 23.6 | N/A | 26.1 | 25.3 | 25.6 | N/A |
| Capital Expenditure (% of GDP) | 3.7 | 6.7 | 5.8 | N/A | 6.9 | 7.7 | 6.0 | N/A | 2.9 | 7.8 | 5.7 | N/A |
| Central government primary balance (% of GDP) | 17.2 | 17.3 | 13.7 | N/A | (3.0) | (3.0) | 0.8 | N/A | 0.3 | (3.7) | (1.5) | N/A |
| Central government overall balance (% of GDP) | 11.3 | 13.5 | 10.4 | N/A | (6.5) | (6.7) | (3.1) | N/A | (2.1) | (6.2) | (3.8) | N/A |
| **Debt Indicators** | | | | | | | | | | | | |
| General government debt (% of GDP) | 137.3 | 104.7 | 81.0 | 74.5 | 73.7 | 79.0 | 83.9 | 88.0 | 72.3 | 73.4 | 75.1 | 77.1 |

P - Projected for 2015
/1 ECCB and IADB staff estimates for 2014


# REGIONAL SUPPLEMENT: EDUCATION IN THE CARIBBEAN, A GAP ANALYSIS

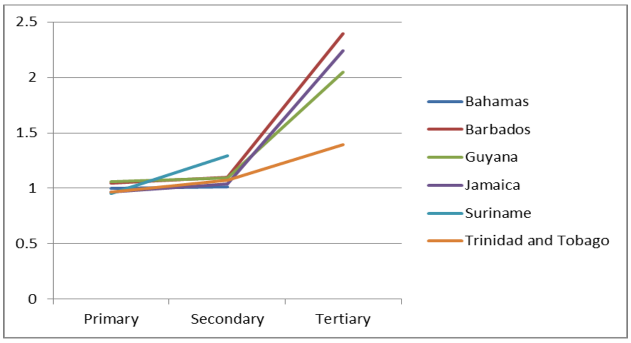
## Introduction

**A skilled workforce has become the linchpin for successful countries in the 21st Century.** As countries develop, education and skills quickly become relevant for them not only to produce goods and services with high value added, but also to move to middle and high income status. In addition, education has enormous private and social benefits as higher educated persons earn more, are less prone to unemployment and less likely to be poor or have children that will be poor, thus breaking the poverty cycle. There is general perception that education in the Caribbean is poor and has gaps. This section identifies and explores these gaps and analyses potential causes.

## Educational Gaps

**As has become the norm in many parts of the world, females over-perform males in almost all indicators in the Caribbean.**[1] The gaps become more pronounced as the level of education advances, implying that boys have a higher drop out ratio than girls.[2] With the exception of Suriname, enrollment rates remain similar up to secondary education; after this, at the level of tertiary education, the divergence becomes marked, with female enrollment at times even constituting a multiple of male enrollment (Figure 1).

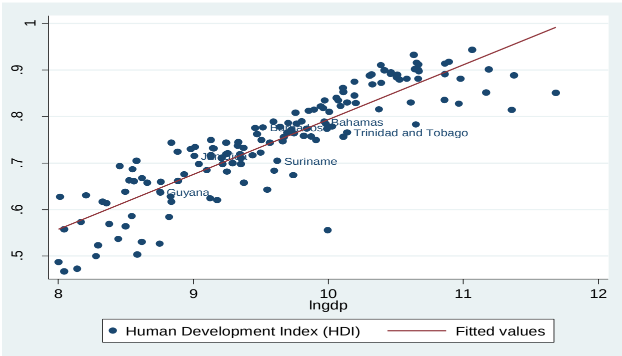
**Figure 1. Female Enrollment as a Share of Male Enrollment for CCB Countries**




*Source*: Authors' calculations based on UNDP HDI database

**The gaps used in the subsequent analysis are based on the expected values of education indicators with respect to GDP.**[3] Controlling for the average income of a country makes sense because educational outcomes should increase as countries become richer. As an example, Figure 1 shows the results for the overall Human Development Indicator, HDI. The HDI is important in this context because it is an overall benchmark for human development.[4] The dots represent the values for individual countries while the continuous line represents the expected value of the HDI as a function of GDP (which can be seen as an average for a given GDP level). Given their per capita income, Guyana, Suriname and Trinidad and Tobago are below their expected values. Conversely, Jamaica and Barbados are above while The Bahamas lies exactly on the value that corresponds to its per capita GDP. The distance from the line can be used as a measure of the gap in that dimension (or overperformance if the country is above the line). The subsequent analysis will calculate the gaps as the difference between the values for the individual countries and the fitted values in relation to its per capita GDP.[5]

**Figure 1. Human Development Index for CCB Countries versus per capita GDP**




*Source*: Authors' calculations based on UNDP HDI database.

**The Caribbean does well in basic education indicators.** Figure 2 shows the gaps for the HDI and some basic education statistics. As mentioned before, the HDI for Trinidad and Tobago are below the level that one would expect given their values in income. For education, the overall literacy rate and the literacy rate for 15-24 year-olds are above the expected values (except for a small gap for Trinidad and Tobago). In addition, the mean years of schooling is above the expected values in all countries other than Suriname. As such, basic education is in general in line with the income level of the CCB countries.

---

[1] For instance, tertiary enrollment is higher for female in all regions other than South-Asia and Sub-Saharan Africa (see chart 2 in The Economist Magazine, 'The Weaker Sex', March 7, 2015).

[2] See the May 30, 2015 special section in The Economist on 'The Weaker Sex'.

[3] See Borensztein et al. (2014), 'Development Diagnostic for the Southern Cone', IDB Working Paper 516 for the detailed methodology.

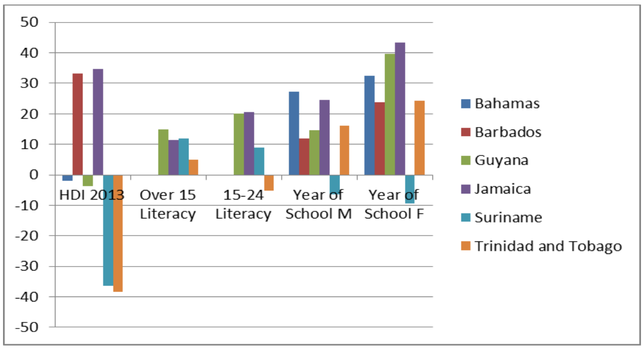
[4] The HDI is a joint indicator comprising health, education and standard of living.

[5] In order to facilitate comparison, we normalize the gaps so that they use the same scale (Figure 2).

## REGIONAL SUPPLEMENT: EDUCATION IN THE CARIBBEAN, A GAP ANALYSIS

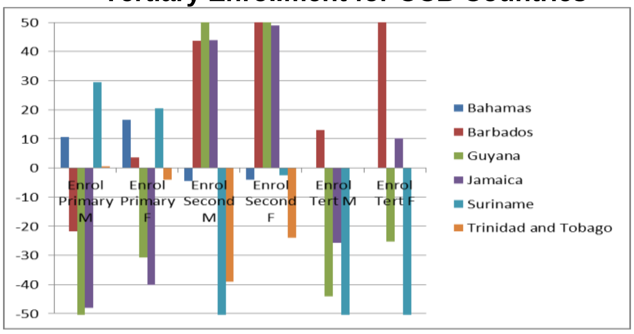
**As in other countries, male enrollment declines as education levels progress.** However, both female and male secondary enrollments are below the values that could be expected given their per capita GDP in The Bahamas, Trinidad and Tobago and Suriname (Figure 3). Guyana and Jamaica also have low gross primary enrollment. For the tertiary level, enrollment is low except for Barbados and for females in Jamaica.

**Figure 2. Gaps in Education: Basic Education Indicators CCB Countries**




*Source*: Authors' calculations based on UNDP HDI database.

**Figure 3. Gaps in Education: Primary, Secondary and Tertiary Enrollment for CCB Countries**

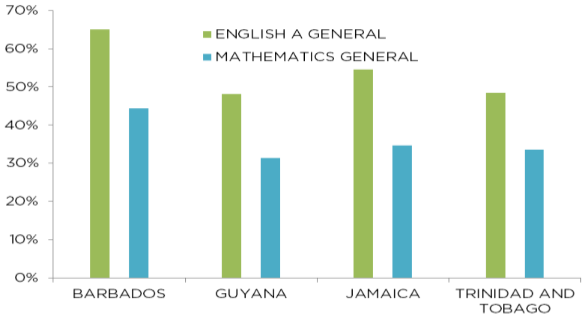



*Source*: Authors' calculations based on UNDP HDI database.
Notes: graphs are capped at +/- 50.

**The preceding analysis indicates that education has progressed substantially in the Caribbean.** Schools are available and children enroll. However, incentives to continue into higher education are not sufficient as indicated by the strong fall in secondary and tertiary enrollment, even for the respective level of income per capita.

**Indicators to compare educational achievements of the Caribbean with other countries are not available.** None of the CCB countries participates in the Program for International Student Assessment (PISA), which has become the standard for international comparison. However, within the Caribbean, four countries do the Caribbean Examinations Council exams, for which most students sit at least English General and Mathematics General. For both exams, Barbados followed by Jamaica have the highest pass rates, with Guyana and Trinidad and Tobago lagging behind. Pass rates are low for all countries, especially for mathematics, as the exams should show that students were able to learn at the level of high school.

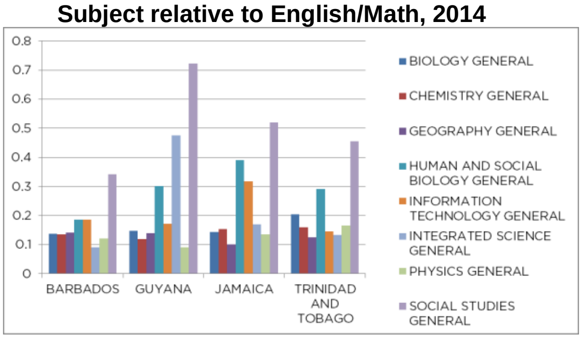
**Figure 4: Caribbean Secondary Education Certificate (CSEC)English and Mathematics Pass Rates, 2014**




Source: Caribbean Exam Council 2014.

**Students in the Caribbean have a preference for social sciences.** Figure 5 presents the number of students who take examinations in different subjects as a share of the ones who take the mandatory English and Mathematics. All countries show a preference for social sciences, which are chosen between one third of the students in Barbados and over 70 percent in Guyana. Guyana also has a high number of students choosing integrated sciences and biology, which is also at least 30 percent in the other countries other than Barbados. Thirty percent of students in Jamaica select information technology, which could be related to the domestic business process outsourcing sector.

**Figure 5: Percentage of Students Taking specific Subject relative to English/Math, 2014**




Source: Caribbean Exam Council 2014.

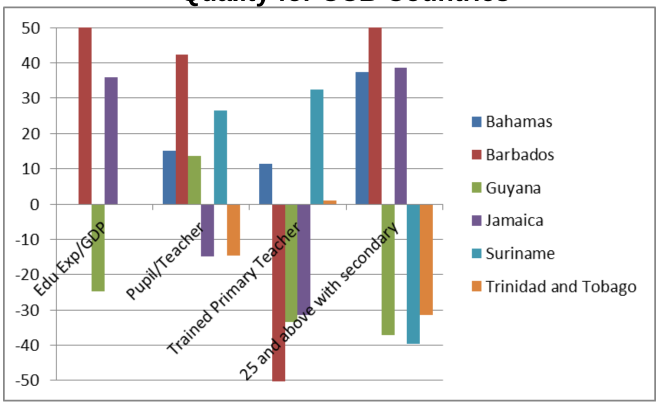
**Different reasons can be responsible for the lack of higher educational achievement.** First, school

## REGIONAL SUPPLEMENT: EDUCATION IN THE CARIBBEAN, A GAP ANALYSIS

attendance in itself does not necessarily mean that the children are learning. Direct measures of school quality are not available to perform the comparable analysis but Figure 6 uses indicators that can proxy quality. Half the Caribbean countries show an important gap in terms of trained primary school teachers. In addition, the pupil teacher-ratio is too high in Trinidad and Tobago and Jamaica. Interestingly, expenditure as a share of GDP is above the expected value in the latter country. Given the low advancement towards higher education, it is not surprising that half of the countries underperform in terms of persons age 25 years and above with at least secondary education.

**Labor market dynamics in the Caribbean are not able to explain the lack of educational achievement.** A thriving labor market with high salaries even for individuals with low education could be an explanation why young persons, and especially young men, drop out of the school system. However, in the countries for which data are available, youth unemployment is high. In addition, unemployment is also higher for less skilled individuals. Finally, except for Jamaica, a third or more of companies interviewed for the 2010 enterprise survey state that finding skilled workers is a severe problem for their operations (Figure 7).

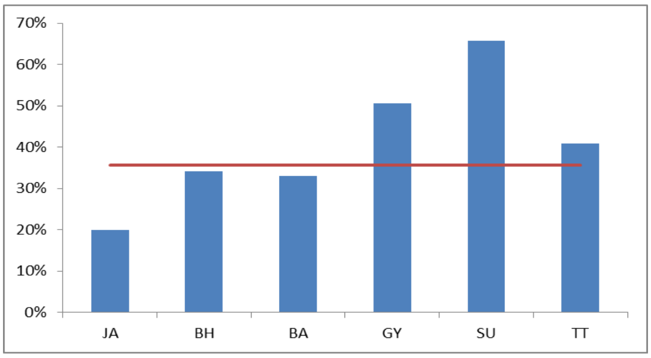
**Figure 6. Gaps in Education: Proxies for School Quality for CCB Countries**




*Source*: Authors' calculations based on UNDP HDI database.

**Figure 7 might hint to an important reason for the lack of educational aspirations.** The three countries with the lower values for a shortage of skilled labor are also the countries that have weak growth performances. Weak growth with a consequent lack of well-paid employment might be responsible for the weak educational aspirations. It is probably harder to keep students at school, moreso boys, if they do not think that it will pay off later in the labor market.

**Figure 7. Share of Companies that Consider Lack of Skilled Labor to be a Severe Obstacle to their Business.**




*Source*: Authors' calculations based on World Bank Enterprise database.

**Migration data supports the hypothesis of depressed returns for education in CCB countries.** In all CCB countries other than Suriname, labor force migration is directly related to education. Sixty-one percent of the labor force with at least tertiary education migrated from The Bahamas, with 85 percent for Jamaica and 89 percent for Guyana. The potential to migrate might act as an incentive to invest in education even in the presence of a depressed domestic labor market. However, given the high leakage of educated citizens, public education expenditure becomes digressive as the better off will attend tertiary education and migrate. While data on tertiary enrollment is not available for Suriname, it would imply that the possibility to migrate to the Netherlands with just secondary-level education would act as a disincentive to pursue further studies.

**Table 1. Percent of labor force that has migrated to OECD member countries, by education level**

| | Secondary | Tertiary |
|---|---|---|
| **The Bahamas** | 10 | 61 |
| **Barbados** | 28 | 63 |
| **Guyana** | 43 | 89 |
| **Jamaica** | 35 | 85 |
| **Suriname** | 74 | 48 |
| **Trinidad and Tobago** | 22 | 79 |

Source: Hausmann et al. 2011 from Ruprah et al. 2014.

**The low educational achievements of males have important implications beyond the labor market.** Women tend to marry someone with at least the same or higher education and job status. As women outperform men in education and the labor market, they face the choice between marrying down, not having children or raising them alone. As a result, many boys grow up without a male role-model in their household, which could pass on the cycle of male underachievement among generations.[6]

**The low educational achievement, especially for boys, can also have consequences for crime.** High dropout rates combined with high youth unemployment can make male youth more vulnerable to becoming involved in criminal activities, a fact that is corroborated by crime data that show that young males are the main perpetrators and victims of violent crimes.

## Conclusion

**Education is important, not only because modern countries require a skilled workforce but also because education delivers important private and social benefits besides employment.** On June 15th the Conference of Commonwealth Education Ministers, which was held in The Bahamas, highlighted the continued importance of education on the heels of the adaption of the Sustainable Development Goals that will represent the pillar of the post-2015 development agenda. The conference was held under the theme 'Quality Education for Equitable Development: Performance, Paths and Productivity', indicating a shift away from just achieving primary education under the MDGs, but towards universal literacy and numeracy as well as improved job skills.[7]

**Education in the Caribbean is a complex subject.** The countries vary highly in terms of educational achievements, challenges and requirements. Several countries in the region are still suffering the aftermath of the world economic recession with low growth and high unemployment, especially for younger, lower-educated persons. Weak job prospects are a negative incentive for young people to invest in education while low skills act as a constraint to economic growth, producing a vicious cycle of low education and low growth.

**The individual country studies highlight the differences in access to quality education.** If children of lower-income households cannot access the same schools, income inequality will become persistent and equality of opportunity will remain an illusion.[8]

**The analysis was not able to compare the educational outcomes to countries outside of the Caribbean** as none of the Caribbean countries participates in international evaluations for education systems like the Program for International Student Assessment (PISA). Participation in PISA would provide a benchmark and support education policy in a globalized world.

[6] See e.g. 'Male Adrift', Economist May 30th, 2015.
[7] The 'Sustainable Development Goals' will replace the MDGs and should be adopted at the United Nations Summit in September 2015.

[8] See special section in the January 24, 2015 Economist on America's new aristocracy, which argues that even in meritocratic societies, poorer children will have worse job prospects as they are often raised in environments that are less conducive for high educational achievements.

# The Caribbean Quarterly Bulletin

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

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