Caribbean Region Quarterly Bulletin

2019:II

2019 and Beyond

Volume 8, Issue 2 | June 2019

IDB Country Department Caribbean

Dear Reader:

Welcome to the June 2019 issue of the Caribbean Region Quarterly Bulletin.

The bullish sentiment about the world economy that prevailed last year has decreased. In line with most observers, we expect a positive but more moderate performance for the global economy, while recognizing substantial vulnerabilities and downside risks. In the Caribbean, the macroeconomic situation continues to improve in general, but the developments have been uneven and the region remains vulnerable. However, some countries have made significant progress in improving policies and increasing shock absorbers to absorb the impacts.

With this backdrop in mind, this issue of the Caribbean Region Quarterly Bulletin summarizes the recent developments in the region and offers a perspective for 2019 and 2020.

The Year 2019 and Beyond

- Following the recent strong performance of the global economy, forecasts are slightly less optimistic for the future. In addition, downside risks have increased and the likelihood of better than expected performance has declined.
- The situation in the Caribbean has continued to improve. Although the projected average growth for 2019 has increased, trends in different countries vary considerably. Going forward, projections for the Caribbean, in general, have been revised downwards in line with the expected moderation of global economic growth. In addition, considerable differences are emerging in terms of policy because, starting in 2019, the tourism-dependent countries are expected to have positive primary balances.
- The longer-term outlook remains subdued but positive. Predictions for the 2020-2023 growth are above the 2007-2018 averages for all the Caribbean countries analyzed here. Excluding Guyana, the IMF forecasts an average growth rate of 1 percent for the Caribbean countries during 2020-2023, well above the average rate (0.1 percent) over 2007-2018.Following the recent strong performance of the world economy, forecasts are slightly less optimistic going forward. In addition, downside risks have increased and the likelihood of better-than-expected performance has declined.

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Contributor: Juan Pedro Schmid.

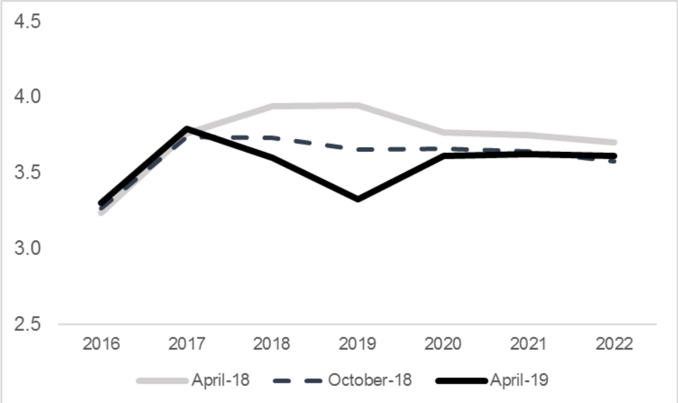
The Global Context

The world economy has continued its expansion, albeit at a slower pace. The Inter-American Development Bank's 2019 *Latin American and Caribbean Macroeconomic Report* notes that estimates of global growth have weakened compared to last year. Similarly, the International Monetary Fund's (IMF) April 2019 *World Economic Outlook* reports a significantly weakened global expansion compared to a year earlier. While in the spring of 2018 the IMF predicted world economic growth of 3.9 percent for both 2018 and 2019, the forecast has since been revised downward twice. According to the IMF's most recent forecast in April 2019, global growth will be 3.6 percent in 2018 and 3.3 percent in 2019 (Figure 1).

The cautious tone reflects weaker-than-expected performances in several countries. Growth in some key markets during the year has been below last year's forecast. While an acceleration towards 2020 is expected, risks have also increased. The forecasts also indicate that the IMF expects growth to have plateaued in 2017.

Downside risks and uncertainty weigh on the outlook. More worrying than the slowdown in economic output is the increase in uncertainty and downside risks stemming from ongoing trade tensions, the lack of clarity surrounding Brexit, and heightened vulnerability from high private and public sector debt, among other issues. Reflecting these vulnerabilities, the World Bank reports a concerning slowdown in global trade growth to the lowest level since the financial crisis 10 years ago and a tumble in business confidence.[1]

Figure 1. Forecasts for World Real GDP Growth, 2016–2022 (percent)



Source: International Monetary Fund, April 2018, October 2018 and April 2019 *World Economic Outlook*.

[1] World Bank, *Global Economic Prospects: Heightened Tensions, Subdued Investment*, June 2019.

Caribbean Performance and Outlook

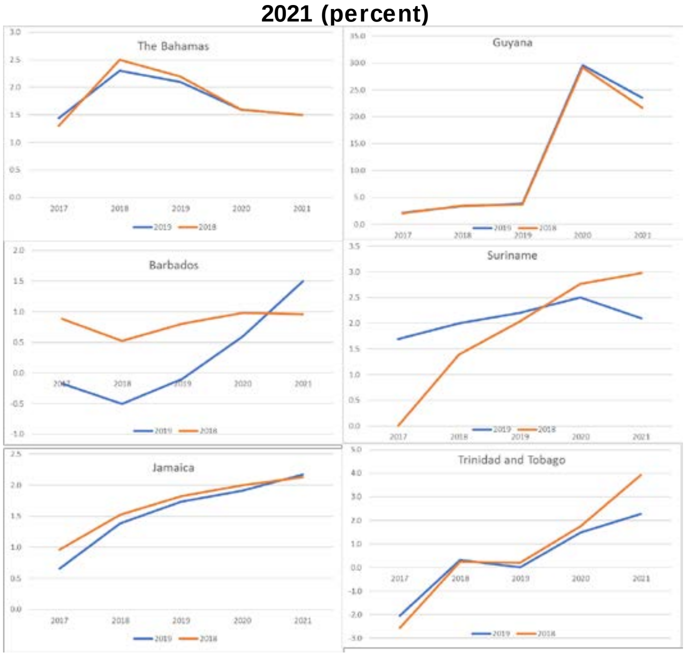
The macroeconomic situation in the Caribbean has continued to improve in general. While average developments are encouraging, however, there continues to be highly divergent development in the various countries. According to recent estimates, average growth for the six Caribbean countries that constitute the IDB's Caribbean Department increased from 0.6 percent in 2017 to 1.5 percent in 2018. For 2019, a tiny increase to 1.6 percent is expected. During the same 2017–2019 period, public debt as a percentage of GDP is projected to decrease from 81 to 75.2 percent. Continued fiscal consolidation is projected, as the primary fiscal balance should move from -1.5 to +0.3 percent of GDP between 2017 and 2019. The current account of the balance of payments will continue stable at around -4 percent of GDP.

Divergence has increased. While the average projection for 2019 has improved, trends in the different countries vary considerably. Suriname has emerged from a strong recession, while the growth rates in The Bahamas and Jamaica are projected over their historical averages. Barbados is progressing with its IMF-supported adjustment program, but growth performance is projected to be weak. While progress on fiscal consolidation programs in Barbados and Jamaica are driving down average debt levels for the region as a whole, debt-to-GDP ratio levels in 2019 are projected to increase in Suriname, Guyana, and Trinidad and Tobago. In terms of economic growth, the situation remains unclear in Trinidad and Tobago, where different institutions offer different growth estimates.

In line with the world economy, projections for the Caribbean have in general been revised downward. The change is most dramatic for Barbados, where the economy has slowed markedly in light of the fiscal crisis that eventually led to the stabilization program with the IMF. However, medium-term projections for the country are substantially higher than they would be in the absence of the fiscal adjustment program. Relatively large differences in the projections are also seen for Trinidad and Tobago and Suriname, while the medium-term outlooks for Guyana, The Bahamas, and Jamaica remain similar (Figure 2).

Improvements in economic activity are expected. Despite the weaker outlook, Figure 2 also indicates that projections are for an acceleration of economic activity in all countries except The Bahamas, which is projected to return to trend growth following exceptional growth rates in 2018 and 2019. Guyana is an outlier, as the start of oil extraction in 2020 is expected to bring double-digit growth rates for several years. Excluding Guyana, the IMF estimates average growth will increase from 1.2 percent in 2019 to 1.6 percent in 2020. The average primary fiscal balance as a percentage of GDP of these five countries (The Bahamas, Barbados, Jamaica, Suriname, and Trinidad and Tobago) is projected to increase from 1.2 percent in 2019 to 1.5 percent in 2020. It is also expected that debt and the current account of the balance of payments (both as a percentage of GDP) will improve or at least stabilize. However, considerable differences are emerging in terms of policy because, starting in 2019, the tourism-dependent countries (The Bahamas, Barbados, and Jamaica) are expected to have positive primary balances.

Figure 2. Forecasts for Real GDP Growth by Country, 2017–2021 (percent)

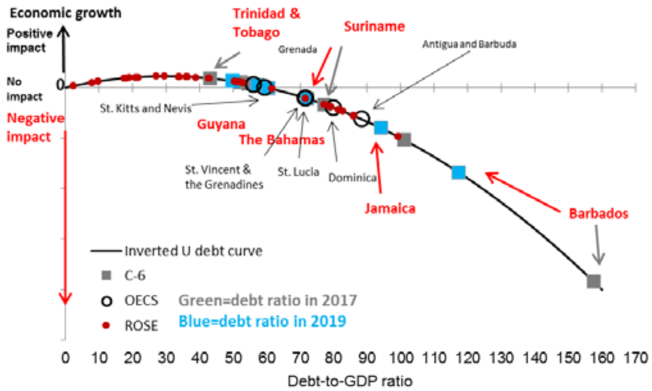


Source: International Monetary Fund, October 2018 and April 2019 issues of *World Economic Outlook*.
Note: The figure compares the April 2018 and April 2019 forecasts for 2019–2021 in the International Monetary Fund's *World Economic Outlook.*

The longer-term outlook remains subdued but positive. Predictions for 2020–2023 growth are above the 2007–2018 averages for all of the Caribbean countries analysed here. Excluding Guyana, the IMF forecasts an average growth rate of 1 percent for the Caribbean countries during 2020–2023, well above the average rate (0.1 percent) over 2007–2018.

Several risks to the outlook persist. Apart from Guyana, all countries are pursuing fiscal adjustments that are needed to control debt levels, reduce interest costs, and keep investor sentiment positive. While average debt was 76.1 percent of GDP as of end-2018, it varied widely between the different countries: Trinidad and Tobago (45.3 percent), Guyana (57 percent), The Bahamas (61 percent), Suriname (69.6 percent), Jamaica (99.4 percent), and Barbados (124.5 percent). Moreover, most of these debt levels are above the debt sustainability levels of small countries with open and undiversified economies of approximately 60 percent of GDP (Figure 3). Other policy reforms that are needed include improving the business climate, access to finance, and support for infrastructure investment.[2] The countries are also susceptible to external economic conditions and shocks.

Figure 3. Debt-to-GDP ratio and Economic Growth, 2017-2019



Source: International Monetary Fund, April 2019 *World Economic Outlook*.

Policy Outlook

Countries in the Caribbean region are susceptible to shocks. All countries are small, open economies with limited domestic markets, and they depend on the economic performance of trading partners. Markets for the tourism countries are concentrated in the United States, Canada, and the United Kingdom (the latter especially for Barbados). Conversely, the commodity producers depend on international commodity prices, including those for oil, gold, and alumina.

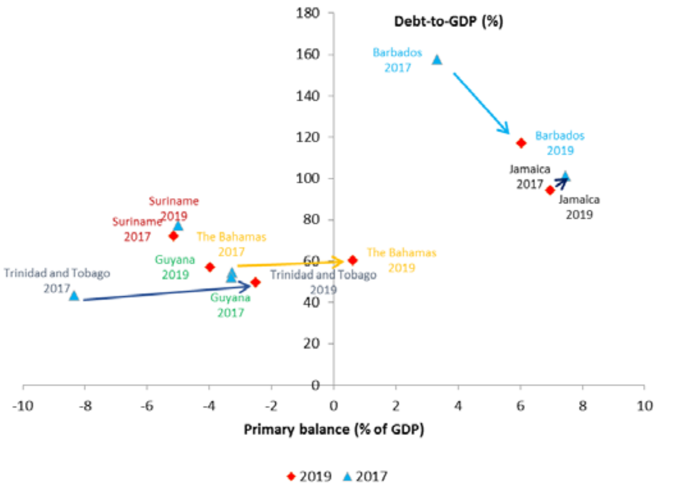
The impact of climate change and natural disasters magnifies macroeconomic problems in the region. The small size of the countries and their location in the hurricane belt also makes them more vulnerable to weather-related shocks, which could occur more frequently as a result of climate change. Climate change and the related sea-level rises also threaten the coastal areas where the population and economic assets of the Caribbean counties are all concentrated. The forecast in terms of the cost to address the impact of hurricanes and floods is approximately 2 percent of GDP per year.

Buffers to absorb shocks remain insufficient. Fiscal buffers – the primary fiscal balance and the current level of debt – are improving because of the fiscal

[2] See the September 2018 *Caribbean Quarterly Bulletin* for an overview of development challenges.

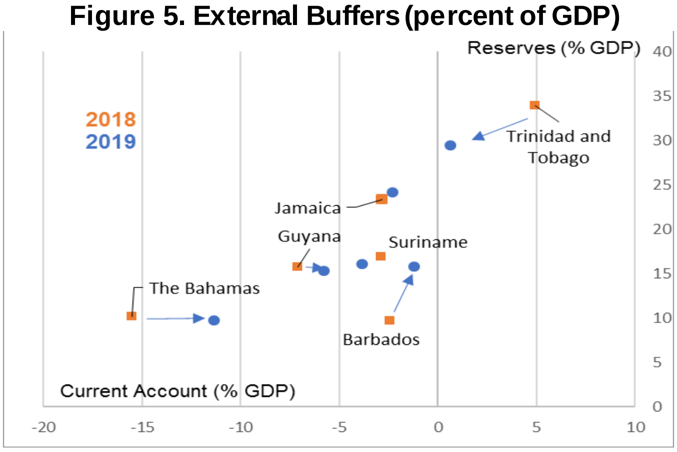
consolidation measures discussed above (Figure 4). Three countries are projected to achieve positive primary balances in 2019 – The Bahamas, Barbados and Jamaica – even though the latter two also have very high levels of debt. The current fiscal stance is around the level that stabilizes the debt-to-GDP ratio in the other countries, implying that an economic shock that affects the fiscal position would lead to rapid debt increases.

Figure 4. Fiscal Buffers (percent of GDP)



Source: International Monetary Fund, April 2018 *World Economic Outlook*.

Figure 5. External Buffers (percent of GDP)



Source: International Monetary Fund, April 2018 World Economic Outlook.

External buffers are usually adequate, but countries with fixed exchange rates benefit from higher levels of reserves. Low current account balances and high international reserves protect countries from external shocks. Reserves are in general adequate in the Caribbean countries (Figure 5), including in Barbados, which that has experienced strong increases as part of its stabilization program. However, all countries other than Jamaica have a fixed (or managed float) exchange rate and would thus benefit from larger buffers. In terms of the current account, oil importers have benefited from low oil prices, but pressure could increase, as oil prices can be volatile.

Conclusion

Following the recent strong performance of the world economy, forecasts are slightly less optimistic going forward. In addition, downside risks have increased and the likelihood of better-than-expected performance has declined.

Overall, while the economic outlook in the Caribbean remains positive, the region remains vulnerable. Strong performance in the United States, the main export market for the region, is supporting tourism demand, while a recovery in commodity prices is helping the commodity-based economies stabilize. However, vulnerabilities exist and could be magnified by external shocks.

Projections are for slow but steady progress in the Caribbean. The region is still feeling the effects of the 2008–2009 global financial crisis, with income per capita still below 2007 levels in several countries. At the same time, economic performance has in general improved and the outlook remains positive.

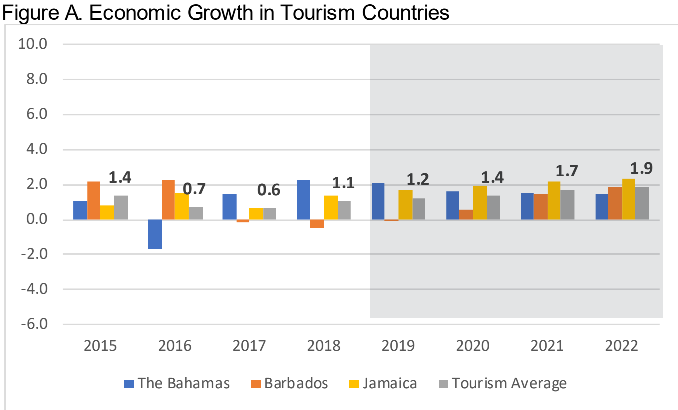
The conducive economic environment should be used to build up buffers. The three tourism-dependent countries in the region (The Bahamas, Barbados, and Jamaica) have positive primary budget balances and are lowering debt and providing fiscal space to react to potential shocks. Buffers have also improved in Trinidad and Tobago and Suriname, but more should be done to be able to react to changing environments and potential shocks.

Mitigating the impact of climate change and natural disasters is of existential importance. The natural vulnerability of the Caribbean countries to weather-related shocks, which are likely to occur with greater frequency as a result of climate change, imposes a heavy burden on the region. Climate change and related sea-level rises are an existential threat, as they affect the coastal areas where the population and economic assets of the Caribbean counties are all concentrated. The forecast in terms of the cost to address the impact of hurricanes and floods could rise dramatically in the medium to long term.

The remainder of this *Quarterly Bulletin* discusses economic developments and outlooks for each country.

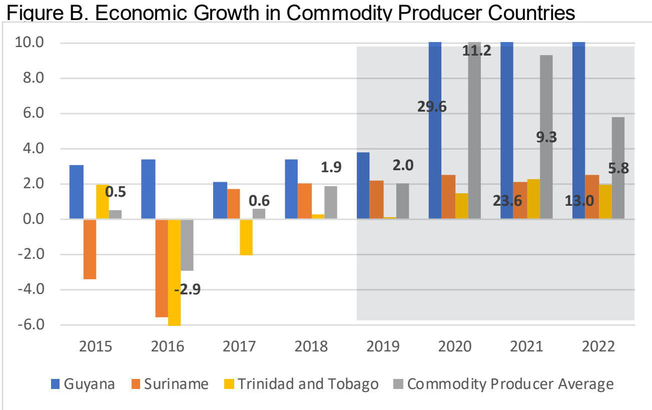
Growth is recovering…

Figure A. Economic Growth in Tourism Countries



… and projected to jump in Guyana.

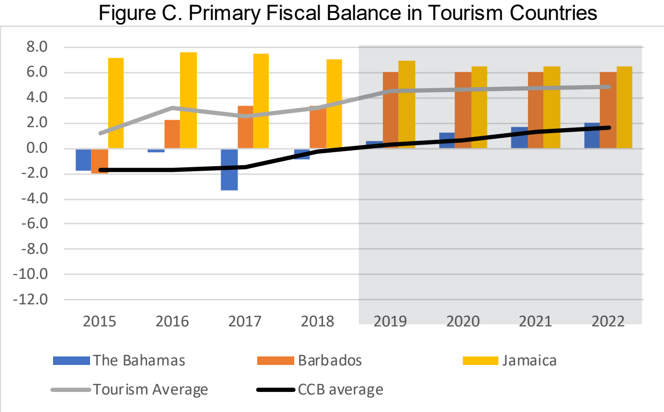
Figure B. Economic Growth in Commodity Producer Countries



Notes: Guyana growth for 2019 and 2020 at 29.8 and 22.1 percent.

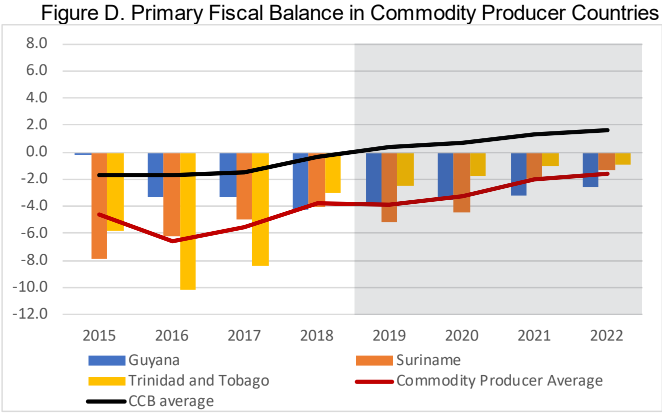
While the fiscal adjustment is evident…

Figure C. Primary Fiscal Balance in Tourism Countries



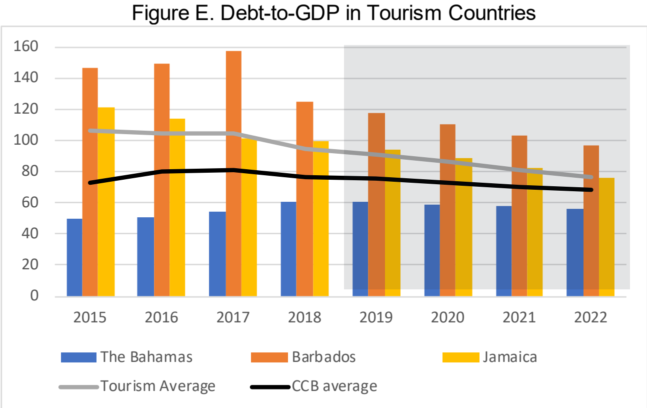
… commodity producers are lagging.

Figure D. Primary Fiscal Balance in Commodity Producer Countries



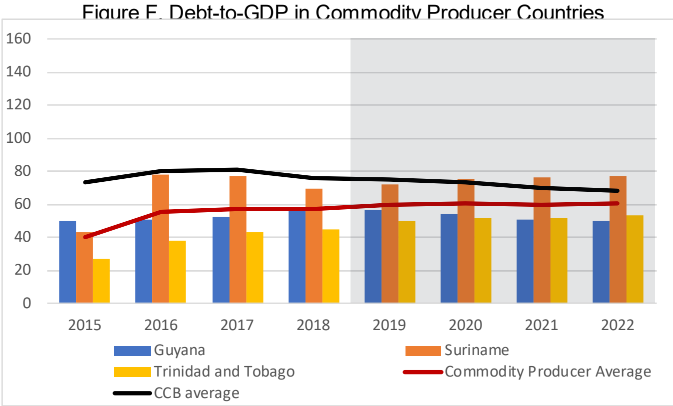
As a result, debt is decreasing but at different speeds…

Figure E. Debt-to-GDP in Tourism Countries



… and only stabilized in commodity producers.

Figure F. Debt-to-GDP in Commodity Producer Countries



Source: International Monetary Fund, April 2019 *World Economic Outlook.*

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THE BAHAMAS TURNING THE CORNER

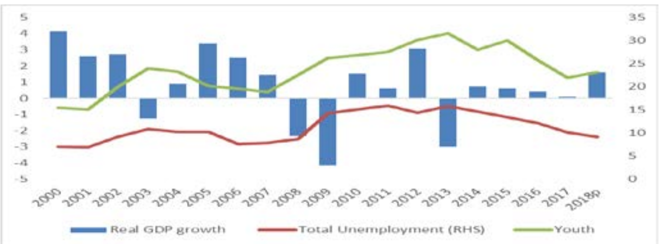
Contributor: Allan Wright.

Overview

Output growth measured in real terms in The Bahamas is estimated to have been 1.6 percent in 2018, after previous periods of low growth.[1] The International Monetary Fund (IMF) also has estimated growth for the medium term at 1.6 percent.[2] Overcoming structural bottlenecks is critical to lift medium-term growth, including moving swiftly to the implementation phase of establishing the credit bureau; advancing energy sector reforms; reducing the administrative burden on businesses; and reducing skill gaps in the labour market. (Figures 1 and 2). Slightly higher levels of growth are forecast for the near term – 2.1 percent in 2019 and on trend in 2020. Recovery in the real sector and a pickup in foreign direct investment will continue to be growth-positive and aid the recovery (Figures 1 and 3).[3]

Unemployment rose slightly to 10.7 percent in November 2018, up from 10 percent in May, as the number of people looking for work increased. During the survey period (between May and November 2018),[4] more than 2,300 jobs were estimated to have been created, largely by the private sector. However, more than 4,000 jobseekers entered the labour market, with the participation rate rising slightly to 83.1 percent from 82.5 percent in the previous period. The unemployment rate for young adults (15 to 24 years old) remains at a high level at approximately 23.1 percent, down 1 percent from the previous period. Domestic prices remained elevated even as unemployment stabilized for the period. Inflation for 2019 is projected at 2.4 percent. Price developments up until October 2018 continued to be dominated by the hike in the value-added tax (VAT) rate.

Figure 1. Real GDP Growth and Employment (percent)



Sources: International Monetary Fund, April 2019 *World Economic Outlook;* and The Bahamas Department of Statistical Data for 2012–2018.

Highlights

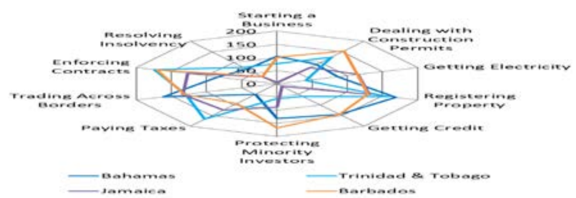
- *Medium-term growth rates of 1.6 percent are forecast due to recovery in the real sector and a pickup in foreign direct investment.*
- *The European Union removed The Bahamas from its non-cooperative jurisdiction list.*
- *The economy of The Bahamas has turned the corner, but structural deficiencies remain.*
- *The FY2019/2020 budget presentation focused on new revenue-collection streams.*

Recent Developments

In the House of Assembly budget presentation for FY2019/2020, Deputy Prime Minister and Minister of Finance Peter Turnquest indicated that no radical expenditure or revenue interventions are planned, but that the government will be introducing new revenue-collection streams. The FY2019/2020 budget will be focused on compliance and adjustments in taxes and fees applied to the home rental market.

Moody's reclassified The Bahamas' outlook from negative to stable. The current rating is Baa3. Moody's left unchanged most of the risk ceilings for The Bahamas' long-term and short-term financial obligations. The optimistic prospects of a change in fiscal culture and strong liquidity levels within the financial sector were the main drivers of the confirmation of the sovereign ratings. However, Moody's expressed concerns regarding the contingent liabilities of state-owned enterprises (SOEs). Standard & Poor's is expected to visit the archipelago sometime during the final quarter of 2019. The Bahamas' current Standard & Poor's rating is BB+.

Figure 2. Ease of Doing Business Indicators for The Bahamas Compared to Barbados, Jamaica, and Trinidad & Tobago, 2019



Source: World Bank, Ease of Doing Business database.

[1] According to The Bahamas Department of Statistics, 2012–2018 revised series (published in May 2019).
[2] According to the IMF's Article IV 2018 Report.
[3] Activity in the tourism sector continued to improve (air arrivals grew by almost 18 percent April 2019 year to date), supported by increased high-end room capacity (opening of the Baha Mar resort and other properties).
[4] According to The Bahamas Department of Statistics.

The government of The Bahamas met its end-of-year deadline to begin the automatic exchange of tax information (AEOI) with 35 partner jurisdictions. An integrated system has been developed to submit and process tax compliance data, supporting all of the country's AEOI needs. The Bahamas now meets the Organisation for Economic Co-operation and Development's (OECD) Common Reporting Standard. The government passed a few bills that will permanently change the model of the "offshore financial centre" designation by removing any preferential tax treatment in The Bahamas.

As of January 1, 2019, all financial institutions can offer services to both domestic and international clients once they meet the prescribed regulatory requirements with respect to the services offered. This framework goes along with the recently passed Removal of Preferential Exemptions Act (2018), which aims to make the archipelago compliant with European Union and OECD requirements on tax matters and international business companies. The government also issued guidelines for the 2018 Commercial Entities (Substance Requirements) Act that provide specific details on aspects of outsourcing and substance requirements for holding companies having a significant economic presence in The Bahamas. The new guidelines are in keeping with global standards on fair taxation promulgation by the OECD's Forum on Harmful Tax Practices.

The European Union removed The Bahamas from its non-cooperative jurisdictions list in March 2019 after the recent passage of tax compliance laws in Parliament, and its continued engagement with the EU's tax watchdog.

Project Sand Dollar is the official name for the payments system modernization initiative known as the Central Bank of The Bahamas' Digital Fiat Currency. The central bank expects that the project will reduce cash transactions, lower service delivery costs, increase transactional efficiency, and improve levels of financial inclusion throughout the archipelago. The 2019 Central Bank of The Bahamas Bill, which is still in draft form, will provide regulations to govern the project, including safeguards to exchange control regulations, controls against money laundering and terrorist financing, and specifications to ensure complementarity for existing banking services.

The fiscal deficit for the first six months of FY2018/2019 contracted by 31 percent in comparison to the same period in the previous fiscal year. The outturn for revenue showed a 14.7 per cent increase. The improved performance is largely due to increases in the VAT and stamp tax, following the upward adjustment in the VAT rate. VAT collection is up during the current fiscal year at $399 million, compared to $318 million during the first six months of the previous fiscal year.[5] Total expenditure for the 2018/2019 period has increased, led by debt repayment commitments and transfers to SOEs. The rise in total expenditure was largely attributed to a 10 percent increase in recurrent outlays, eclipsing a contraction in capital spending. Interest payments firmed amid gains in repayment obligations.

Commercial banks remain well liquid and capitalized, but banks have been cautious, as non-performing loan (NPL) levels remain at elevated levels. The capital adequacy ratio was measured at 33.2 percent in September 2018, up from roughly 28.6 percent the year before and well above the regulatory requirement of 17 percent. Liquid assets increased to 29 percent. NPL levels are declining but remain high, measured at 8.5 percent in September 2018, down from 9.5 percent in the same period the previous year. Credit restructuring and loan write-offs were the main drivers improving banks' credit quality index.

Economic Outlook

The economy of The Bahamas has turned the corner, although significant challenges remain. After a period of low to negative growth, economic activity is picking up. Near-term growth performance is improving on the back of the much-awaited opening of the mega tourist resort Baha Mar and stronger foreign direct investment. But without bold action to tackle longstanding structural bottlenecks, medium-term growth will remain subdued. Growth has been stagnant over the past 10 years, averaging 0.1 percent. The IMF's average medium-term growth projection for the next five years is 1.6 percent, based on the provision of incentives, airlift subsidies, and tax concessions to encourage large, private tourism-related capital projects in order to facilitate a faster recovery over the medium-term (Figure 3).

A fiscal-deficit-to-GDP ratio of 1.8 percent is targeted for FY2018/2019, followed by a deficit of 0.8 percent in the next year and a surplus of 0.1 percent the year after. The estimated results for FY2018/2019 are broadly in line with the current fiscal year target. The government is also expected to attain the estimated level for FY2020/2021. The projected primary surplus is 0.6 percent of GDP for FY2018/2019. Medium-term primary surpluses are projected at 1.7 percent.

[5] According to Central Bank of The Bahamas 2018 reports.

Figure 3. Growth Rates (percent)

Sources: International Monetary Fund, April 2019 *World Economic Outlook*; and The Bahamas Department of Statistics.

Central government and publicly guaranteed debt are estimated to have reached roughly 64.9 percent of GDP in 2018/2019. Central government debt was 59 percent of GDP, as liabilities became due. The targeted level of central government debt for FY2018/2019 is 56.7 percent of GDP. Central government guaranteed debt, both in Bahamian and foreign currency, rose to 5.8 percent of GDP in 2018, a slight increase from 2017. However, efforts by the government to rationalize the spending of SOEs continues**.** A decomposition of The Bahamas' public debt suggests that interest payments constitute the main driver for FY2018/2019. That impact is expected to continue with growing payment obligations. Interest payments grew from almost 2 percent in FY2015 to an expected 2.7 percent in FY2018/2019.

It is estimated that the current account deficit will be 11.3 percent of GDP at the end of 2019, compared to 16 percent a year earlier. This is due to imports having returned to trend levels after a surge in the prior period to facilitate hurricane rebuilding activities and the completion of a major tourism investment project. The deficit is projected to gradually decline in the medium term to 8 percent by 2020**.** It is estimated that gross reserves will remain stable by the end of December 2019 at $1.295 billion (3.2 months of imports of goods and services). Gross reserves firmed during the period as a result of tourism proceeds, along with the continued improvement in foreign direct investment due to the opening of the mega-resort Baha Mar and investment in other private capital projects.

Sluggish growth in private sector credit is likely to persist even as the country moves towards establishing a credit bureau. CRIF S.p.A has been invited by the Central Bank of The Bahamas to establish and operate the country's credit bureau.[6]

Fiscal targets for the near and medium term appear to be within reach through expenditure rationalization efforts and modest revenue growth. However, further efforts are required to bring cost-efficiency to SOEs. Addressing longstanding structural bottlenecks is critical to lifting the medium-term growth path.

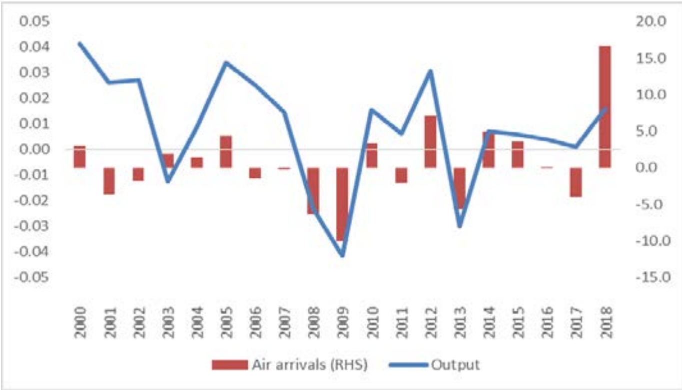
Policy Outlook

The Bahamian economy appears to have turned the corner, as the projected real GDP growth level for 2018 is1.6 percent, a significant improvement over 2017, when real growth was 0.1 percent. Encouraging returns within the real sector and investments in private capital projects are expected to boost the medium-term growth trajectory to roughly 1.6 percent of GDP. However, further efforts are needed to reduce structural bottlenecks. Unemployment levels remain stable, boosted by new jobs created by the private sector even as more Bahamians joined the labour market. The Labour on the Blocks Program, a Ministry of Labour initiative, will be critical to helping more Bahamians find employment. The Bahamas was removed from the EU's non-cooperative jurisdictions list after the recent passage of tax compliance laws. Fiscal targets appear to be within reach, as the government continues expenditure rationalization and revenue-enhancement efforts. Moody's has reclassified the country's sovereign outlook to stable from negative.

[6]CRIF S.p.A. is based in Italy and has a presence in more than 30 countries in the Caribbean, Europe, North America, Africa, and Asia.

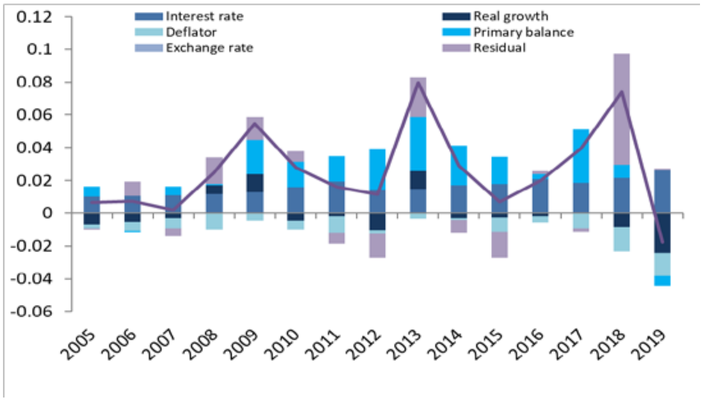
Tourist arrivals are recovering.

Figure A. Air Arrivals and Real GDP Output (percent)



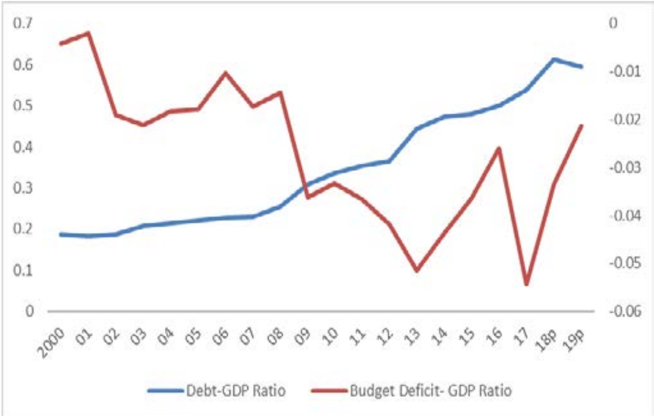
Debt repayment obligations are driving debt levels.

Figure B. Drivers of Debt (percent)



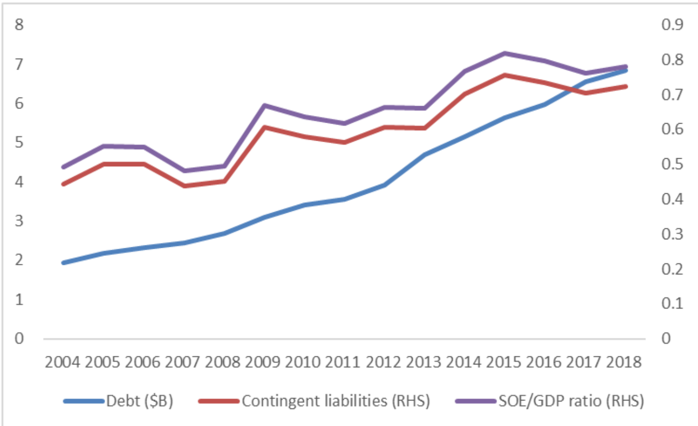
Fiscal Space is improving.

Figure C. Fiscal space (percent)



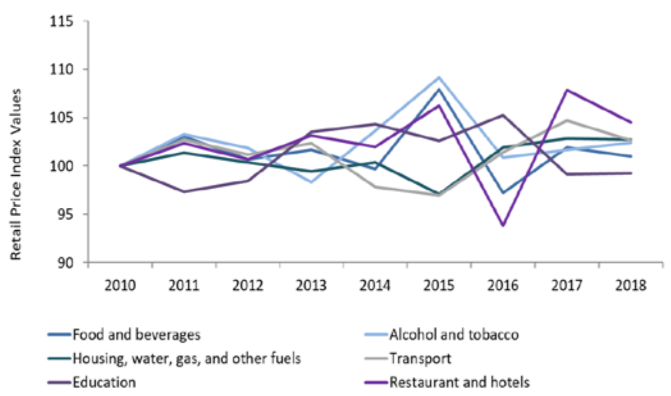
State-owned enterprises (SOEs) pose an excessive burden on the fiscal position.

Figure D. State- Owned Enterprises (percent)



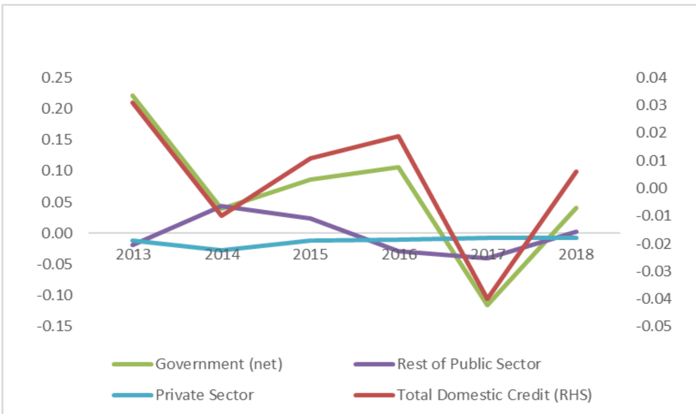
Price developments dominated by VAT increase.

Figure E. Retail Price Index Values



Anemic private sector credit growth remains a lasting concern.

Figure F. Credit (percent)



Sources: International Monetary Fund, April 2018 *World Economic Outlook* and Article IV 2018 Report; Central Bank of The Bahamas; and the The Bahamas Department of Statistics. Note: p: projected.

Table 1: Selected Economic Indicators for The Bahamas, 2014-2019

Social and Demographic Indicators (most recent year)			
GDP (millions of US$), 2016	11,938	Adult literacy	95.6
Per capita GDP (2016,US. dollars)	32,440	Poverty rate (percent), 2014	12.8
Life expectancy at birth in years (2015)	75.6	Population (thousands), 2016	368
Human development Index (rank), 2016	58	Unemployment rate (November 2018)	10.7

Economic Indicators

	2014	2015	2016	2017	2018p	2019p
(Annual percentage change, unless otherwise indicated)						
Real Sector						
Real GDP (% change)	0.7	0.6	0.4	0.1	1.6	2.1
Nominal GDP(% change)	3.3	7.7	1.6	1.8	2.3	3.6
Inflation (end of period)	0.2	2.0	0.8	1.8	2.8	2.4
Unemployment	14.6	13.4	12.2	10.1	9.2	9.0
(In percent of GDP, unless otherwise stated)						
External Sector						
Exports of goods and services	38.0	35.1	35.5	33.7	35.3	34.7
Imports of goods and services	50.0	38.8	37.4	41.9	41.4	37.7
Foreign direct investment	1.5	0.6	0.6	0.6	2.3	3.8
Current account balance	-17.3	-12.0	-10.5	-16.3	-16.0	-11.3
Gross International Reserves (millions of US. dollars)	788	812	904	1414	1301	1295
In months of next year's imports	2.1	2.2	2.1	3.3	3.1	3.2
Central Government Operations	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Revenue and grants	13.2	14.4	16.1	17.0	16.4	19.8
Total expenditure	17.6	18.1	18.7	22.4	19.7	21.9
Overall balance	-4.3	-3.6	-2.6	-5.4	-3.3	-2.1
Primary balance	-2.4	-1.7	-0.3	-3.2	-0.8	0.6
Memorandum items:						
National debt (in millions of $B)	5,160.2	5,637.4	5,964.8	6,550.1	7,614.8	7,893.3
In percent of GDP	0.47	0.48	0.50	0.54	0.61	0.60
Nominal GDP (in millions of B$)	10,913.0	11,752.0	11,938.0	12,150.0	12,424.0	13,262.0

Source: IMF *World Economic Outlook* and Article IV 2018 Report, The Central Bank of The Bahamas, and the Department of Statis

Contributor: Laura Giles Álvarez.

Overview

The government of Barbados is continuing its implementation of the Barbados Economic Recovery and Transformation (BERT) plan. The set of reforms announced in August 2018 are reducing the debt stock. In May 2019, the government passed its first review under the Extended Fund Facility (EFF) with the International Monetary Fund (IMF), which triggers the second disbursement under the four-year program. Throughout FY2019/2020, further structural adjustment and fiscal consolidation measures will be rolled out, with the aim of achieving a primary fiscal balance of 6 percent of GDP. The pending completion of negotiations with external creditors should also contribute to further reducing the debt stock. All these measures will have to go hand-in-hand with more structural reforms and the timely execution of a series of investment plans announced in the March 2019 budget speech.

Recent Developments

The government reached all the quantitative performance targets set for December 2018 and March 2019 under the EFF. These include, most notably, the launch and completion of domestic debt restructuring; the collection and consolidation of financial statements for state-owned enterprises; Parliament's adoption of a revised Public Financial Management Act and the Town and Planning legislation; and the establishment of a sandbox regime for regulation of financial technology start-ups. Passing the first review automatically triggers the second US$49 million disbursement, which will further support international reserves.

Economic performance in Barbados remains weak. The economy continues to contract, with a real GDP growth rate of -0.2 percent in the first quarter of 2019, following contractions of 0.5 percent in 2018 and 0.2 percent in 2017. Along with subdued economic performance, unemployment has continued an upward trajectory from 10 percent in 2017 to 10.1 percent in 2018. As a result of the removal of the National Social Responsibility Levy (NSRL) and the softening of international oil prices in the second half of 2018, inflation fell from 4.4 percent in December 2017 to 3.6 percent at the end of December 2018 and 2.5 percent at the end of March 2019.

Economic Outlook

The economic outlook is more favorable, but ultimately depends on the evolution of the reforms. The latest projections are that growth will range between 0 and 0.25 percent in 2019. However, timely execution of planned investments outlined in the March 2019 Budget Speech could support higher growth rates in the medium term. The continued reduction of arrears related to tax refunds and supplier payments, and the completion of external debt restructuring, will be important to continue redirecting the economy on a more sustainable path. If fiscal consolidation reforms are successfully implemented, the debt-to-GDP ratio should also continue to decline in line with the government's projection of 60 percent by 2033.

The tourism sector continues to grow. Tourism output expanded by 2.2 percent in the first quarter of 2019, compared to 5.7 percent for the same period of 2018. However, growth in the tourism sector was insufficient to overcome the 9 percent contraction in construction sector output in the first quarter of 2019. The English Cricket Tour of the Caribbean during the first three months of 2019 boosted tourism arrivals from the United Kingdom. However, weaker performance in the sector can be attributed to slower growth in long-stay arrivals, the shorter average length of stays, and a pickup in tourism in other Caribbean islands. In 2019, long-stay arrivals are expected to increase by 2.7 percent, compared to a 6.4 percent increase in 2018. At the same time, the average length of stay is decreasing as the composition of tourists is changing, with a larger increase in tourists from the United States relative to Canadian and UK tourists (Table 1). Cruise visitors fell in 2018, as ships returned to their usual schedule following the re-routing of vessels in 2017 due to extreme weather-related events.

Highlights

- *The government of Barbados passed its first review under the four-year Extended Fund Facility with the International Monetary Fund.*
- *Economic reform measures are yielding results and reducing the debt stock. FY2019/2020 will be key in the rollout of fiscal adjustment measures that target 6 percent of GDP.*
- *International reserves more than doubled in 2018 to above the 12-week minimum benchmark.*
- *Going forward, the timely execution of reforms, together with the promotion of growth-enhancing measures, will be key to restore a fiscally sustainable path.*

Table 1. Long-Stay Arrivals by Source

	United Kingdom (percent share of long-stays)	United States (percent share of long-stays)	Canada (percent share of long-stays)	CARICOM (percent share of long-stays)	Total Long-stay arrivals (number)
2015	37.2	21.9	18.1	7.3	171,400
2016	38.1	22.9	16.7	7.1	183,900
2017	35.8	25.5	17.8	7.2	191,000
2018	34.8	26.9	17.9	7.2	203,300
2019 (p)	37.8	27.4	16.2	6.7	208,800

Source: Central Bank of Barbados.
Note: CARICOM: Caribbean Community.

Revenues and expenditures for FY2018/2019 stood at 29.6 percent and 29.8 percent of GDP, respectively. (Table 2). Higher collection of corporate and property taxes, which reached US$177.8 million and US$80.7 million, respectively in FY2018/2019, supported the increase in revenues. The newly introduced foreign exchange fee and fuel tax also contributed to the rise in revenues. These increases partly offset the reduction in revenues from the repeal of the NSRL and the removal of the road tax. The fall in interest payments stemming from the debt restructuring – from 7.6 percent of GDP in FY2017/2018 to 3.5 percent at the end of FY2018/2019 – was the primary reason for the reduction in overall spending. In contrast, primary expenditure slightly increased to 26.3 percent of GDP at the end of FY2018/2019, compared to 25.2 percent in FY2017/2018.

Table 2. Revenues and Expenditures (percent of GDP)

	FY2015/16	FY2016/17	FY2017/18	FY2018/19
Total Expenditure	34.9	33.6	32.7	29.8
Current Expenditure	32.5	31.3	31.0	27.3
Capital Expenditure	2.5	2.3	1.7	2.4
Revenues	25.9	28.2	28.5	29.6
Fiscal Balance	-9.1	-5.3	-4.3	-0.2
Primary Fiscal Balance	-2.0	2.2	3.3	3.3

Source: International Monetary Fund, April 2019 *World Economic Outlook.*

Fiscal consolidation measures have reduced the financing gap. The overall fiscal balance reached -0.2 percent of GDP in FY2018/2019, compared to -4.3 percent in FY2017/2018. The primary fiscal balance remained at 3.3 percent of GDP during both periods. Arrears, which were estimated at approximately 12 percent GDP in June 2018, declined throughout the second half of 2018 and will continue to be paid off throughout the rest of the year. The FY2019/2020 budget targets a primary fiscal balance of 6 percent of GDP and outlines further revenue and expenditure reforms to reach that target.

Following the completion of domestic debt restructuring, the debt-to-GDP ratio fell from 158.8 percent of GDP in 2017 to 124.9 percent at the close of 2018. The restructuring led to a 29 percent of GDP reduction of the debt stock. Gross central government debt fell from 136.9 percent in 2017 to 125.4 percent of GDP in 2018. Approximately three-quarters of central government debt is domestic, primarily held by the National Insurance Scheme and commercial banks. External debt is mostly held in bonds and by international financial institutions. As fiscal adjustment measures continue to be rolled out, and once the debt restructuring with external creditors is completed, the debt-to-GDP ratio should continue declining in line with the government's target of 60 percent of GDP by 2033.

The current account deficit continues to narrow. The current account deficit reached -2.4 percent of GDP in 2018 as compared to -3.8 percent in 2017 and much lower than the -9.2 percent in 2014. This is a result of both a reduction in imports (40.9 percent of GDP in 2018 compared to 45 percent in 2014) and an increase in exports (42 percent of GDP in 2018 compared to 40.3 percent in 2014). The current account deficit is expected to continue narrowing and reach -1.2 percent of GDP in 2019.

International reserves have surpassed 12 weeks of import cover, their highest level since 2014. International reserves reached 14 weeks of import cover at the close of the first quarter of 2019, more than doubling the 6.1 weeks recorded at the close of 2017. The combined US$224 million disbursed by international financial institutions in the last quarter of 2018, as well as the suspension of payments to external creditors, were major factors behind this improvement.

The financial sector withstood the debt restructuring, although it was negatively affected by it. Despite the reduction in liquidity and capital adequacy ratio indicators – also resulting from the adoption of the International Financial Reporting Standard [IFRS] 9 in 2018 – the financial sector remains stable (Table 3). Between 2017 and 2018, the ratio of liquid assets to total assets declined substantially from 32.6 to 17.4 percent, capital adequacy ratios fell from 17 to 13.9 percent, and loan-to-deposit ratios fell from 64.4 to 63 percent. The non-performing loan ratio declined from 7.7 to 7.4 percent.

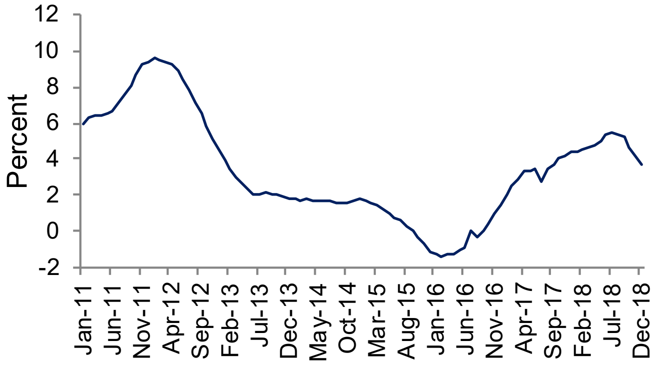
Table 3. Banking System Financial Stability Indicators (percent)

	2015	2016	2017	2018
Capital adequacy ratio	15.8	17.0	17.0	13.9
Loan-to-deposit ratio	66.7	63.7	64.4	63.0
Liquid-assets-to total assets	29.9	32.5	32.6	17.4
Non-performing loan ratio	10.2	8.6	7.7	7.4
Return on average assets	1.4	1.5	1.3	-0.2

Source: Central Bank of Barbados.

Inflation continues to fall as a result of fiscal consolidation and lower international oil prices (Figure 1). The removal of the NSRL and the decline in international oil prices contributed to a decline in the inflation rate from 4.4 percent in 2017 to 3.6 percent in 2018. Inflation is projected to drop further to 1.3 percent in 2019 as a result of the pass-through effects of fiscal consolidation and the projected continuation of low international oil prices. The unemployment rate increased slightly to 10.1 in 2018.

Figure 1. Inflation (12-month moving average, in percent)



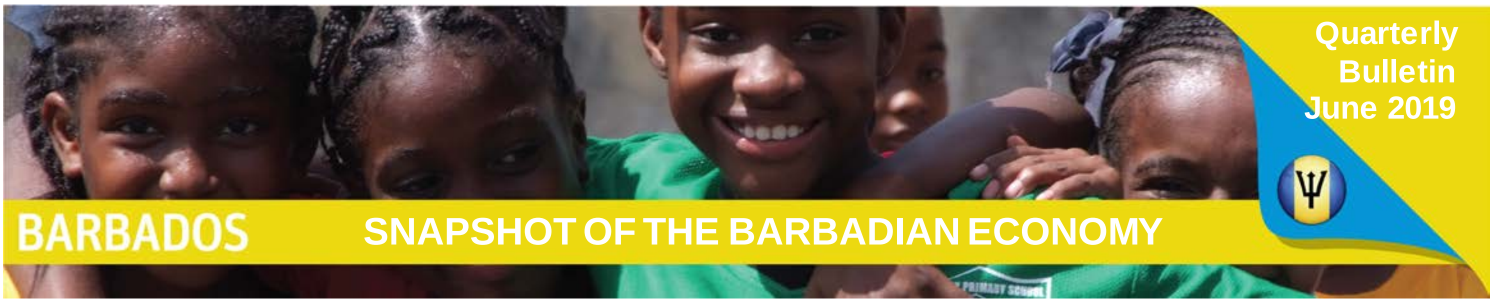
Source: Central Bank of Barbados.

Policy Outlook

The outlook for Barbados depends on the evolution of the planned reforms under the BERT program. Although the government has implemented a wide set of reforms in its first year in power and is successfully reducing the debt stock, 2019 will be a year of further fiscal consolidation and reforms. Some of the key measures planned under the IMF program include a comprehensive review of the tax system and of the tariffs and fees of state-owned enterprises, as well as a revision of the Central Bank Act. As outlined in the March 2019 Budget Speech, fiscal consolidation measures aim to reach the planned primary fiscal target of 6 percent of GDP by FY2019/2020. Key risks stem from lower global growth forecasts, geopolitical events (particularly relating to the United States, Canada, and the United Kingdom), and uncertainty regarding international oil prices.

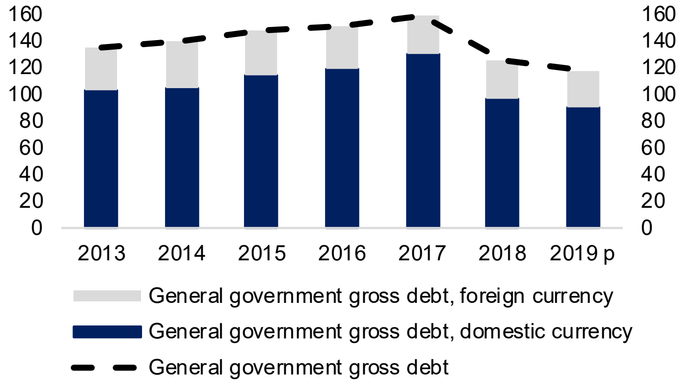
Further structural constraints to growth, such as the weak business climate, will also need to be addressed. Barbados ranked 129th out of 190 countries on the World Bank's 2019 Doing Business Indicators. Red tape and long public service processes are highlighted as important factors behind these results. The private sector also reports continued challenges with respect to getting credit (Barbados ranked 144th), protecting minority investors (168th), enforcing contracts (170th), and dealing with construction permits (154th). To address some of these issues, the government is preparing a public sector modernization project with the Inter-American Development Bank. Its timely approval and execution would be an important step towards addressing the above-mentioned business climate issues.

Going forward, the government's commitment to continue implementing its fiscal consolidation plan, while promoting measures that boost growth, will be key to rerouting the economy back on a sustainable path. FY2019/2020 will see an ambitious fiscal adjustment that could have externalities on social sectors and government services. However, growth will have to be boosted to redirect the economy back on a sustainable growth path. The continuation of structural changes and growth-enhancing policies will thus be key to ensure both the sustainability of the reforms and the promotion of growth in the medium and long terms.



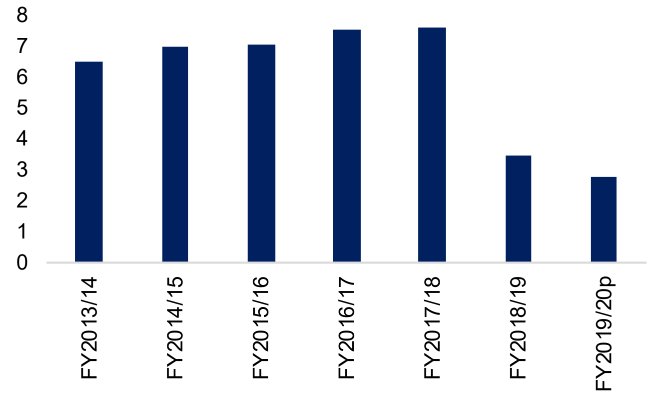
Six months into the Extended Fund Facility program with the IMF, the debt-to-GDP ratio is decreasing.

Figure A. General government gross debt (percent of GDP)



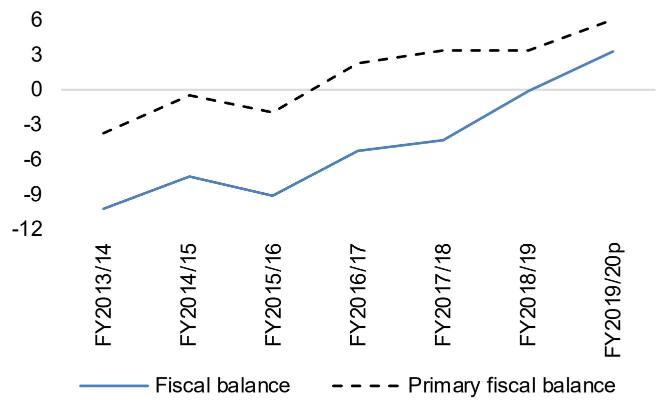
Debt restructuring has substantially reduced interest payments for the government…

Figure B. Interest payments (percent of GDP)



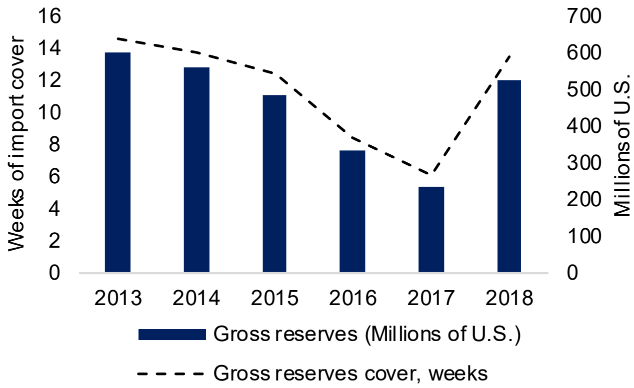
…which have supported a more sustainable fiscal stance.

Figure C. Fiscal Balance (percent of GDP)



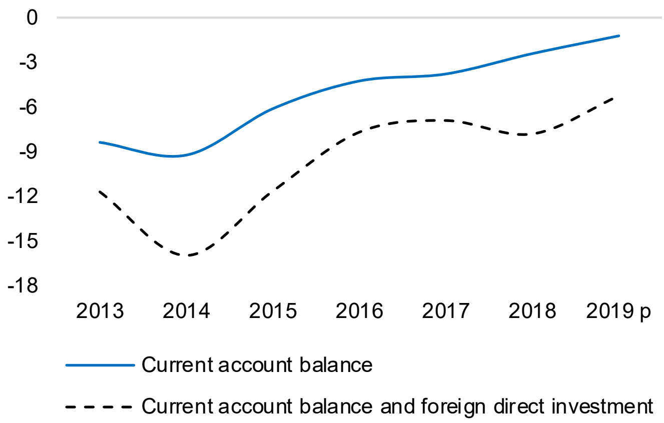
International reserves reached above the 12-week recommended benchmark…

Figure D. International reserve cover



…and have contributed to a further reduction of the current account deficit.

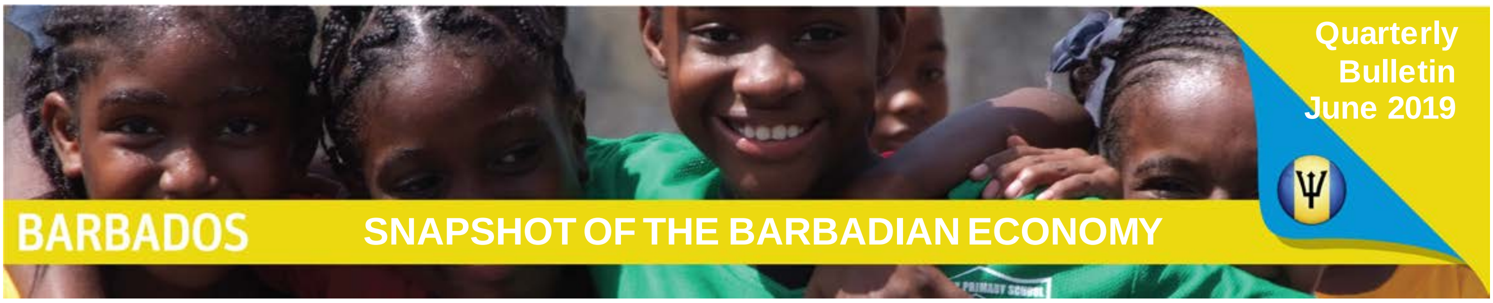
Figure E. Current account balance and foreign direct investment (percent of GDP)



Although the economy continues to contract, timely investment projects could promote higher growth in the medium term.

Figure F. Real GDP growth (percent change)

Sources: Central Bank of Barbados; International Monetary Fund, April 2019 *World Economic Outlook*. Note: p: projected values.



Barbados: Selected Economic Indicators, 2014–2018

	2014	2015	2016	2017	2018
(Percent change, unless otherwise stated)					
Real sector					
Real GDP growth	-0.2	2.2	2.3	-0.2	-0.5
Nominal GDP (in billions of U.S. dollars)	4.7	4.7	4.8	5.0	5.1
Inflation (average period)	1.8	-1.1	1.5	4.4	3.6
Unemployment	12.3	11.3	9.7	10.0	10.1
External sector					
Exports of goods and services (% change)	-3.6	3.2	6.6	0.8	2.9
Imports of goods and services (% change)	-1.5	-3.9	0.2	-0.4	3.8
Current account balance (% GDP)	-9.2	-6.1	-4.3	-3.8	-2.4
Foreign reserves cover (in millions of U.S. dollars)	558.2	484.0	332.8	236.7	524.9
Foreign reserves cover (weeks)	13.7	12.4	8.5	6.1	13.5
Debt					
Gross general government debt (% GDP)	139.4	147.6	150.3	158.8	124.9
Gross domestic general government debt (% GDP)	105.3	113.5	118.8	130.2	96.2
Gross external general government debt (% GDP)	34.1	34.1	31.4	28.6	28.7
(In percent of GDP and on a fiscal year basis, unless otherwise stated)					
Fiscal position					
Revenue	25.6	25.9	28.2	28.5	29.6
Expenditure	33.1	34.9	33.6	32.7	29.8
Fiscal balance	-7.5	-9.1	-5.3	-4.3	-0.2
Primary balance	-0.5	-2.0	2.2	3.3	3.3

Sources: Central Bank of Barbados; and International Monetary Fund, April 2019 *World Economic Outlook*.

Contributors: Elton Bollers and Victor Gauto.

Overview

The Guyanese economy grew in 2018 by 4.1 percent, and the outlook remains extremely positive. In the medium term, growth will be anchored by the export of primary commodities (mainly oil, gold, rice, and bauxite), domestic consumption, and the infrastructure projects currently planned by the government. The macroeconomic fundamentals remain largely stable.

Recent Developments

The government passed the Natural Resource Fund (NRF) Bill in January 2019 to strengthen the fiscal framework and revenue management. The objectives of the NRF are to prevent volatile public spending, prevent the loss of economic competitiveness, create savings for future generations, and facilitate economic development. The revenues that will be deposited into the NRF include the government's share of profits from oil and oil-related corporate and individual income taxes. The NRF is designed to invest in foreign assets, and annual withdrawals from it are planned to be channelled into the government's Consolidated Fund. The amount of the annual transfers would vary depending on the level of oil production, but it is designed to be limited to 3 percent of the balance of the NRF in the long term, when the balance of the fund would be relatively high.

On May 10-11, 2019, the Caribbean Court of Justice heard oral arguments on the three cases concerning the no confidence motion.[1] The opinion is pending. If the decision is in favour of the coalition government, elections could be called as late as August 2020. If the decision is not in favour of the government, elections should be called within three months, despite questions about the readiness of the Guyana Electoral Commission.

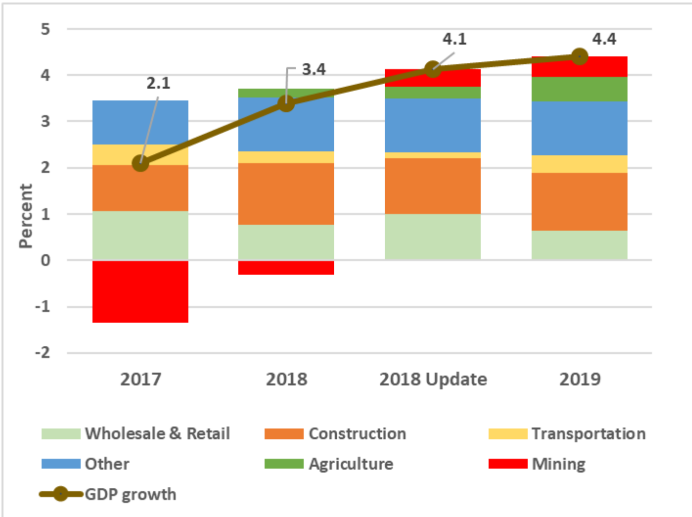
Guyana hit a milestone with its submission of the First Extractive Industry Transparency Initiative (EITI) Report. The EITI is the global standard to promote the transparent and accountable management of oil, gas, and mineral resources. Guyana is taking steps towards becoming compliant with the EITI. The country's application for EITI candidature was approved in 2017, and in April 2019 Guyana published its first EITI report. Once the report is validated, the EITI Board will designate the country as EITI-compliant. The start of the first validation is scheduled for early 2020.

Highlights

- *The Natural Resource Fund Bill was passed in January 2019.*
- *In May 2019, the Caribbean Court of Justice heard oral arguments on the no confidence motion cases.*
- *Economic growth is projected to skyrocket in 2020.*
- *ExxonMobil made its 13th oil discovery offshore of Guyana and its estimates of recoverable resources have been adjusted upward to 5.5 billion oil-equivalent barrels.*

Growth in Guyana reached 4.1 percent in 2018. Inflation remains moderate (2 percent), coupled with sufficient international reserves (totalling US$512.6 million as of April 2019) and manageable public debt. The official exchange rate remained stable at G$208.50/US$1. Growth performance was above expectations in the 2019 budget (3.4 percent), largely due to stronger-than-anticipated performances in the mining and quarrying sector, which expanded by 2.9 percent, the services industries, which grew by 4.5 percent, and the construction sector, which expanded by 11 percent. Within the services industry, wholesale and retail trade grew by 8.1 percent and real estate activities grew by 7.5 percent (Figure 1), all of which made positive contributions to the GDP growth rate.

Figure 1. GDP Growth by Sector (percent)



Sources: Ministry of Finance; and the Bank of Guyana.

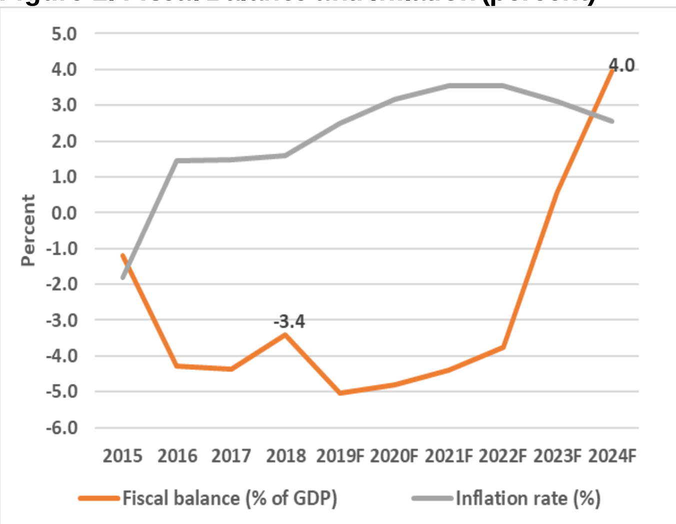
[1] The cases are Christopher Ram v. The Attorney General of Guyana & Others; Bharrat Jagdeo v. The Attorney General of Guyana & Others; and Charrandas Persaud v. Compton Herbert Reid & Others.

Economic Outlook

The macroeconomic outlook over the medium term is positive on account of more oil discoveries in 2019. Oil production is expected to become a major driver of economic growth. In 2019, ExxonMobil announced three new oil discoveries, increasing the total number of discoveries to 13 since 2015. Considering the recent discoveries in late 2018 and 2019, ExxonMobil claims to have the potential to produce at least 750,000 barrels per day by 2025. Government revenues are currently expected to double by 2023, with oil revenues representing 35 percent of total government revenues.[2] Oil exports as a share of GDP are expected to grow from 24 percent of GDP in 2020 to 82 percent in 2024, contributing to average annual real GDP growth of 23 percent over the same period. The new oil discoveries and oil production estimates would contribute to achieving sustained high levels of economic growth, government revenue growth, and fiscal deficit reductions in the medium to long term.

Inflation remains stable and is expected to marginally increase in the medium term (Figure 2). The inflation rate in 2018 was 1.6 percent and is projected to expand to 2.5 percent in 2019 due to pressure from food prices and transport costs.

Figure 2. Fiscal Balance and Inflation (percent)



Sources: International Monetary Fund, April 2019 *World Economic Outlook;* and the Bank of Guyana.
Note: F: forecast.

Guyanese authorities project that the economy will grow by 4.4 percent in 2019 (Figure 1), higher than the estimated growth rates of 4.1 percent in 2018 and 2.1 percent in 2017. The sectors with the highest growth projections in 2019 are construction, finance, and wholesale and retail trade, with growth estimates of 11 percent, 6 percent, and 5 percent, respectively. Construction and retail services are two of the largest sectors of the economy, accounting for 12 and 13 percent of GDP, respectively.

Revenue growth continues to be attributed to rebounding business activity and improvements in the tax collection system. Total revenue is projected to increase by 7 percent in 2019. This trend is expected to persist as the Guyana Revenue Authority widens its tax nets and improves tax efficiency through better service to large taxpayers.

Gold, rice, and sugar production is expected to become more dynamic in 2019. Gold production, which represents 10 percent of GDP, fell by 6 percent in 2018 and is expected to grow 1.7 percent in 2019. The production of rice, Guyana's second largest export after gold, is also expected to improve. After falling by 0.5 percent in 2018, rice output is expected to increase by 3.4 percent in 2019. Finally, the sugar sector is also expected to recover after undergoing partial restructuring in 2018. The publicly owned Guyana Sugar Corporation Inc. (GUYSUCO) reduced its workforce by 39 percent in 2018. Sugar output is expected to grow by 3.2 percent in 2019 after falling by 24 percent in 2018.

Fiscal expenditure and debt are forecast to increase in 2019 and 2020 (Figure 2) as the government moves forward with its infrastructure projects. Rolling out these projects expeditiously is a domestic challenge, but the government is committed to improving efficiency in procurement, contracting, project supervision, and service delivery, which are likely to inhibit growth unless they are improved. Government investment in Guyana – measured by net acquisition of nonfinancial assets as a percentage of GDP – is below the 10-year average of 8.5 percent, but has been increasing since 2015 and is expected to reach 8.8 percent of GDP in 2019 and 13 percent in 2022.

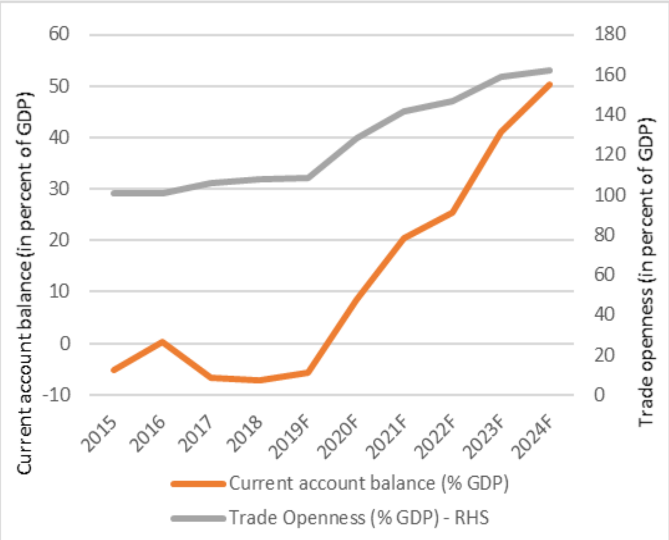
The external position of Guyana remains generally robust and will improve in the medium term. The current account balance is projected to improve in in 2019 and reflect a positive balance in 2020 (Figure 3). Over the medium term, trade openness is expected to increase, as non-gold sectors are anticipated to recover and the new oil sector commences production and export in 2020.

Monetary policy is expected to remain accommodative as the financial sector continues to exhibit high liquidity. Excess liquidity in the banking system tends to negate the potency of monetary policy. Excess reserves

[2] See International Monetary Fund, "Article IV Consultation Report on Guyana 2018."

were 53.2 percent above the minimum requirement. Banks hold liquid assets in the form of government treasury bills or excess reserves. The unremunerated nature of reserves held at the Bank of Guyana puts upward pressure on interest rate spreads, as banks have incentives to recover forgone interest income.

Figure 3. Current Account Balance (percent of GDP)



Source: International Monetary Fund, April 2019 *World Economic Outlook*.
Note: F: forecast.

Policy Outlook

Passage of the Natural Resource Fund was a pivotal step in strengthening Guyana's fiscal framework. The overall framework could be even further improved by making the NRF part of a broader fiscal framework that could include medium-term fiscal planning and a fiscal rule. A medium-term expenditure framework would address questions regarding what, when, and how the government plans to implement policy. It could articulate policy goals and the budget over a multi-year horizon. This fiscal tool contributes to promoting fiscal discipline and sustainability and helps to focus resources on expenditure priorities. Such a framework is particularly recommended for resource-rich countries that can be exposed to revenue volatility. The government has stated its intention to adopt a Medium-Term Expenditure Framework in the Green State Development Strategy, which is another important step forward.

The addiitonal component of a broader fiscal framework would be the adoption of a fiscal rule. A fiscal rule imposes a constraint on spending in the budget by setting numerical limits on specific indicators such as expenditure growth or the government's fiscal balance. The revenue withdrawal rules in the NRF do not apply to the annual budget, so they do not constitute a fiscal rule. Although the NRF is intended to provide stable and limited funds to the budget, total spending could still significantly increase if the government can borrow. The broader fiscal framework could be strengthened by specifying explicit fiscal rules for the annual budget. This would address the goals of preventing volatile public spending and preventing the loss of economic competitiveness[3].

The government is moving forward on several other policy measures. In 2018, the government published a Public Private Partnership Policy Framework, National Forest Plan and Policy, and draft Mineral Sector Policy Framework. The government has undertaken to complete a National Quality Policy, the intention of which is to support private sector producers meet international quality standards and promote international trade.

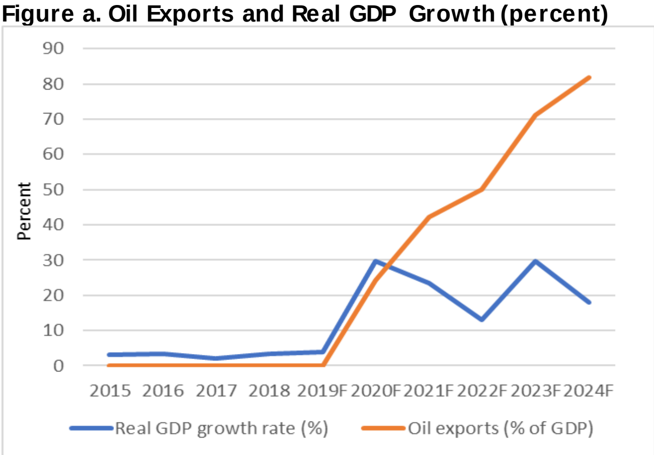
The Bank of Guyana has taken numerous steps to mitigate system risk and assure stability. The steps are related to the 2016 Financial Stability Assessment Program (FSAP) framework recommendations. In April 2018, three bills were passed that address the Bank of Guyana's capacity to provide emergency liquidity assistance to institutions in the financial system: amendments to the Financial Institutions Act for orderly resolution of a failing institution; the National Payment System law to facilitate the establishment, regulation, and oversight of a modern payment system; and the Deposit Insurance Act, which would strengthen financial stability. Additionally, the Bank of Guyana is currently reviewing a recommendation to eliminate reduced provisioning requirements for "well-secured" portions of non-performing loans.

Efforts are being made to create a depletion policy to guide the rate of petroleum extraction. Also, local content policy is being advanced, while a new model for a production-sharing agreement is being designed by the Department of Energy. As oil production is scheduled to commence in 2020, efforts are under way to establish the regulatory, legal, and policy framework for the oil sector.

[3] The loss of economic competitivess is what is generally known as 'Dutch Disease'. This loss of economic competitiveness may originate from higher levels of inflation related to expansionary fiscal policies.

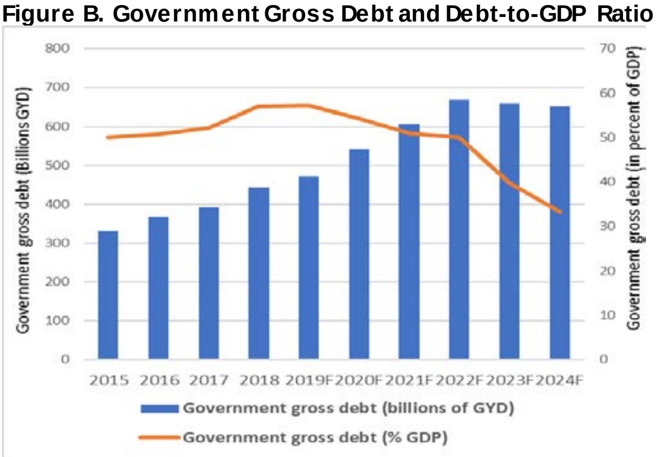
GDP growth is expected to skyrocket due to oil production…

Figure a. Oil Exports and Real GDP Growth (percent)



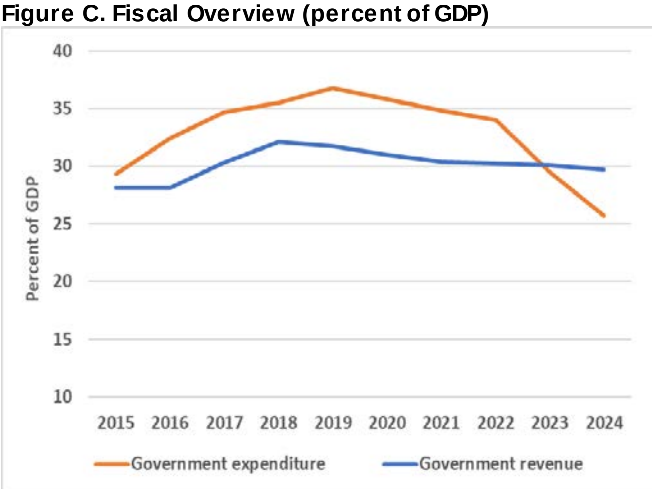
… as debt remains moderate.

Figure B. Government Gross Debt and Debt-to-GDP Ratio



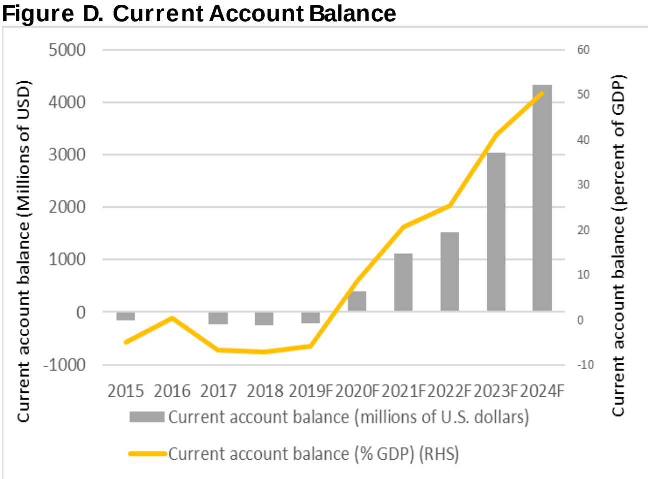
Meanwhile, the expansionary policy stance holds…

Figure C. Fiscal Overview (percent of GDP)



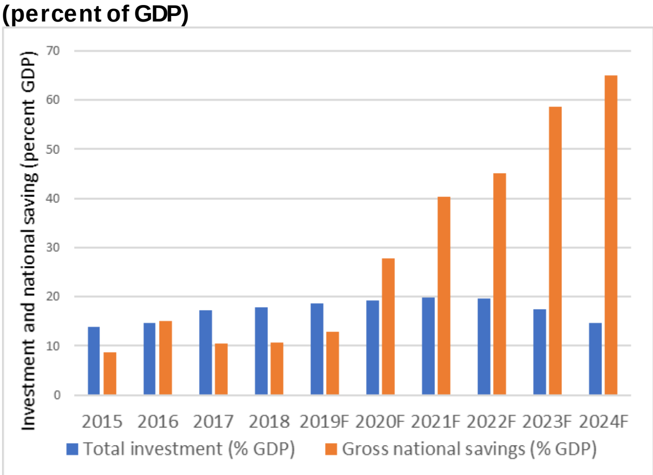
… as the current account balance improves.

Figure D. Current Account Balance



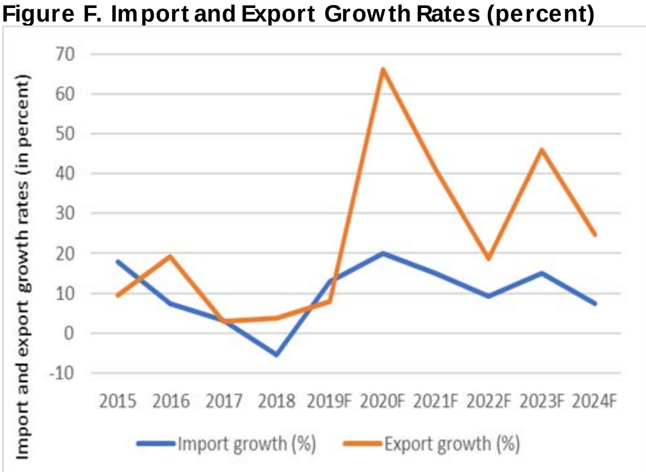
Gross national saving is set to increase due to oil revenues.

Figure E. Gross National Saving and Total Investment (percent of GDP)



Export growth is expected to improve as gold and non-gold sectors rebound.

Figure F. Import and Export Growth Rates (percent)



Source: International Monetary Fund, April 2019 *World Economic Outlook.*

Guyana: Selected Economic Indicators, 2015–2019

	2015	2016	2017	2018	2019 (f)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP growth	3.06	3.36	2.14	3.42	3.82
Nominal GDP (millions of Guyanese dollars)	660.23	723.58	748.74	780.00	825.08
GDP per capita (U.S. dollars)	4,168.48	4,531.24	4,578.20	4,648.72	4,881.90
Inflation	-0.87	0.83	1.95	1.30	2.92
External sector					
Export of goods	9.40	19.18	2.84	3.63	7.95
Import of goods	14.27	4.74	2.23	-2.57	12.74
Current account (percentage of GDP)	-5.10	0.38	-6.66	-7.10	-5.81
Remittances (percent of GDP)	13.20	9.30	8.20	9.02	na
Foreign direct investment (percentage ofGDP)	8.50	4.00	0.90	3.90	na
International Reserves (millions of U.S. dollars)	598.50	596.70	584.60	574.06	587.79
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central government					
Revenue and grants	28.10	28.11	30.29	30.96	31.75
Total expenditure	29.29	32.38	34.67	36.32	36.79
Structural balance	1.24	-2.53	-3.84	-4.74	-3.03
Primary balance	-0.21	-3.35	-3.31	-4.24	-3.99
Overall balance	-1.19	-4.28	-4.38	-5.36	-5.05
Debt indicators					
Central government debt	50.10	50.74	52.20	56.98	57.22

Sources: Bank of Guyana, International Monetary Fund, April 2019 *World Economic Outlook.*
Note: (f): forecast; na: not available.

Contributors: Henry Mooney and Jason Christie.

> ### *Highlights*
>
> - *In March 2019, authorities successfully completed the fifth review under the three-year Stand-By Arrangement with the IMF, which is set to expire later this year.*
> - *Strong performance with debt reduction and fiscal consolidation provided scope for a modest relaxation of fiscal targets this year, without compromising sustainability.*
> - *The shift to inflation targeting and a flexible exchange rate has bolstered external resilience and buffers. Low inflation has prompted the central bank to stimulate the economy, and vigilance is warranted to safeguard financial stability.*
> - *Looking forward, authorities must focus on key reform priorities, including public sector restructuring and modernization to improve service delivery and reduce the wage bill, while also ensuring that public investment is prudently allocated and executed.*

Overview

After six years of ambitious reform, Jamaica is poised to successfully graduate from International Monetary Fund (IMF) support later this year. Jamaica has now successfully completed five reviews under the 2016 Stand-By Arrangement with the IMF, which is now set to expire in November 2019. Authorities are poised to successfully exit from IMF support with a sustained track record of prudent policies, notable institutional reforms, and improving socio-economic conditions. Looking forward, it will be important for authorities to remain focused on prudent policies, as well as on completing key structural and institutional reforms, including efforts to restructure the public sector, reduce the wage bill, and improve the efficiency of service delivery. Efforts are also needed to ensure that as fiscal space expands, public investment is appropriately designed and executed so as to ensure that it is growth enhancing. Authorities should be commended for their successful transition to inflation-targeting. However, they should remain vigilant to potential risks to financial stability in the context of low inflation and considerable monetary stimulus.

Economic Performance

On balance, economic conditions in Jamaica are better than they have been in decades. Real GDP growth was slightly stronger than expected for FY2018/2019, at 1.5 percent (versus the 1.4 percent initially projected), owing largely to strong mining, construction, and agricultural performance. While significantly accelerating GDP growth remains challenging owing in large part to structural bottlenecks, most broad indicators of economic performance and sentiment have reached levels not seen in many years. Similarly, since the shift towards inflation targeting in 2017, both inflation and policy interest rates have fallen to historic lows, and indicators of investor sentiment have reached unprecedented highs.

External deficits have narrowed, and international reserves are well above levels considered adequate. The current account deficit narrowed from about -3 percent of GDP in FY2017/2018 to -2.5 percent of GDP in FY2018/2019, owing to strong growth in tourism and mining exports. The deficit is expected to remain in a sustainable range over the medium term, despite the possibility of a slight deterioration owing to increased imports driven by higher levels of prudent public investment. Gross international reserves are now considered more than sufficient based on the IMF's adequacy assessments, following the shift to a flexible exchange rate regime in 2017.

The 2019/2020 budget leveraged new fiscal space to stimulate domestic investment and demand. The primary surplus target was lowered from 7 to 6.5 percent of GDP, facilitated by past revenue and expenditure over-performance, as well as by the government's success in reaching the wage bill target of 9 percent of GDP for the first time this past fiscal year. With growth performance still below potential, and inflation still slightly undershooting the target range (at 3.9 percent annualized in April 2019), authorities deployed this additional fiscal space to priority investments, including removing distortionary financial taxes, increasing minimum tax thresholds, and increasing public spending (particularly related to security). Given strong past performance, this stimulus should not compromise medium-term debt objectives.

Outlook

Looking forward, increasing fiscal space and stability will support stronger growth prospects. Performance is projected to improve over the medium term, as macroeconomic stability becomes more entrenched and credit conditions continue to improve. Real GDP growth for FY2019/2020 and FY2020/2021 is projected at 1.5 percent and 1.9 percent, respectively, and medium-term growth is expected to accelerate to about 2.4 percent, barring any unforeseen shocks.

The authorities have made tremendous progress towards fiscal consolidation and debt reduction. Jamaica's debt-to-GDP ratio decreased from an estimated 145 percent in 2013 to about 99 percent as of end-March 2019. This means that the authorities were able to reach their debt target of 100 percent of GDP one year ahead of schedule. This rapid debt consolidation stems primarily from significant fiscal effort and prudent policy implementation. This effort has also benefited from the FY2015/2016 Petrocaribe debt buyback, which was equal to about 10 percent of GDP, as well as a change in

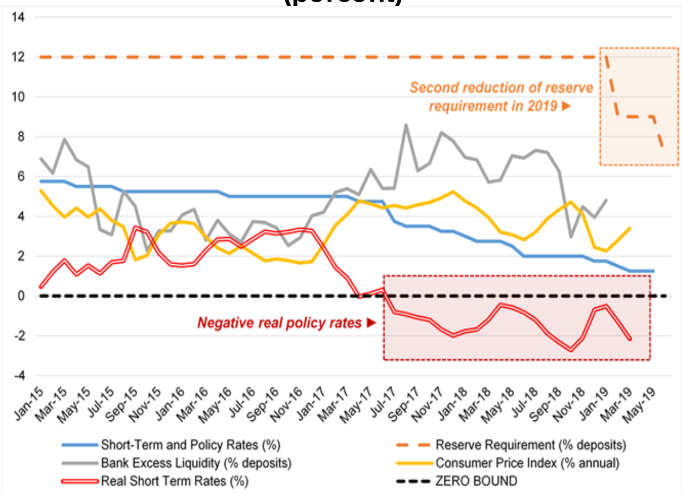
the definition of public debt.[1] Improving fiscal and debt dynamics have also led to lower financing costs, which has helped to improve debt dynamics and accelerate consolidation.

Employment has been increasing in line with improved economic conditions. Unemployment and informality have long been key impediments to faster growth and poverty reduction in Jamaica. Unemployment averaged over 20 percent during the 1980s, and was over 15 percent as recently as 2013 when the first of two IMF adjustment programs was initiated. In this context, overall unemployment fell to 8 percent in the first quarter of 2019, while youth unemployment fell by 14 percent to reach 22 percent in early 2019—the lowest rate since 2007.

Inflation is below the target range, but Bank of Jamaica (BOJ) stimulus should support its return to above 4 percent by March 2020. Inflation fell to about 3.4 percent (annualized) as of end-March 2019, forcing the BOJ to further stimulate demand and credit conditions using both its main policy instrument and less traditional means. In this context, the BOJ reduced the overnight policy rate by 0.5 percentage points from 1.25 to 0.75 percent in May 2019—the 10th rate reduction since shifting to inflation-targeting in July 2017. It also announced a reduction of the cash reserve requirement from 9 to 7 percent. This was the second reduction of the requirement since March 2019 (then from 12 to 9 percent). The requirement had not previously been modified since 2010. The cumulative increase in liquidity from both reductions of the reserve requirement in 2019 is equal to JM$29 billion. As a consequence, the BOJ projects that inflation will return to within the target band (4 to 6 percent) by March 2020.

Despite strong justification, the BOJ's scope for further conventional policy action is dwindling. With policy rates approaching the zero bound in the context of ample liquidity, the BOJ will need to remain vigilant to implications of further stimulus for the financial sector, particularly given challenges related to the transmission of policies to credit conditions and demand. Fiscal prudence and successful debt reduction have reduced government financing requirements, forcing banks to shift focus to the more complex task of assessing counterparty credit and project-specific risks for individuals and businesses. With real policy rates in negative territory (Figure 1), authorities should carefully monitor developments in credit and asset markets in order to safeguard financial stability.[2]

Figure 1. Interest Rate and Credit Conditions (percent)



Sources: Bank of Jamaica data; and authors' calculations.

Fitch increased credit rating from 'B' to 'B+'. Fitch upgraded Jamaica's long-term issuer rating from B (as of January 2018) to B+ at end-January 2019. The last time any rating agency rated Jamaica at B+ was in August 2006 (Fitch). S&P currently assigns a B rating to Jamaica, while Moody's assigns a B3. Agencies cited the country's debt reduction and track record of fiscal and monetary prudence, increased exchange rate flexibility, improvement in external buffers, and progress towards legislative reforms as among the main drivers of their improved ratings.

Policy Priorities and Risks

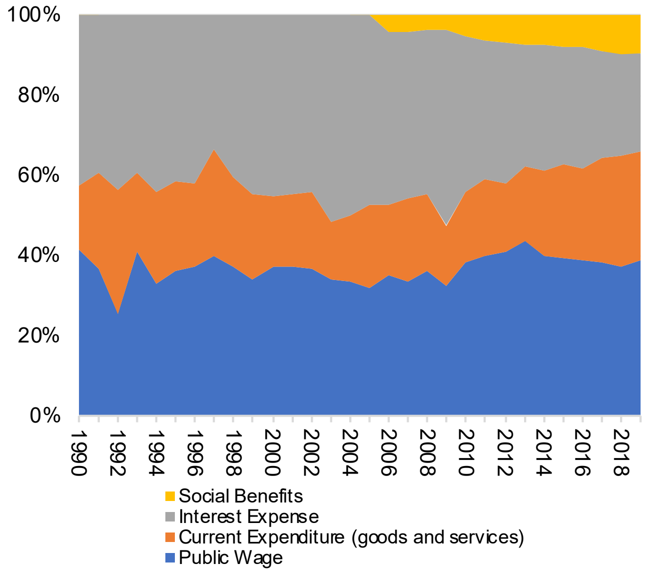
Authorities should focus on institutional and structural reforms as they prepare to exit IMF support. The country's laudable performance with fiscal adjustment and debt reduction since 2013 will help set the stage for continued growth and development. Looking forward, authorities will need to remain committed to prudent policies and the remaining key reforms—including reducing the still-large public wage bill, public sector restructuring, capacity-building, and legislative reforms. The government will also need to improve public service delivery across many key areas, including education, health, and citizen security. Further efforts to improve the business and investment climate would also support economic diversification into higher-value-added sectors, as well as greater resilience to external shocks to demand and natural disasters.

As fiscal space becomes more available, prudent allocation of resources will also be crucial. After years of successful fiscal retrenchment and considerable debt reduction, the authorities have succeeded in creating much-needed fiscal space. With debt levels falling, the proportion of the government's expenditure allocated to interest costs on public debt has declined considerably—

[1] The major difference between the old and new definition is the exclusion of debt to the IMF held by the Bank of Jamaica.
[2] For a detailed discussion of related issues, see Mooney and Christie, "Pushing on a String? Low Inflation and the Curious Case of Monetary Policy Near the Zero Bound", Caribbean DEVTrends, April 18, 2019.

from as high as 50 percent in the past to about 25 percent as of end-2018 (Figure 2). This provided additional scope for public expenditure in the FY2019/2020 budget in areas such as social benefits and programs, whose share of total public spending reached a near-term high of 10 percent in 2019. Looking forward, authorities must ensure that future decisions regarding expenditure and investment are prudently prioritized, assessed, and implemented to avoid a return to unsustainable borrowing. The full implementation of a well-designed and resourced independent fiscal council—in line with international best practices[3]—could provide crucial support to policymakers in this regard.

Figure 2. Composition of Public Expenditure
(Percent of total public expenditure)



Source: Authors' calculations based on International Monetary Fund, April 2019 *World Economic Outlook.*

Conclusions

Jamaicans should be commended for their willingness to support deep reforms that have set the stage for a more prosperous future. Few countries have made as much progress in as short a time towards debt reduction, economic stability, and institutional reform. These efforts have translated into improved economic and social outcomes, which have begun to benefit the population in terms of employment, poverty reduction, and public investment. Continued efforts are required following this year's prospective exit from IMF programmatic support in order to ensure that the public consensus behind prudent policies is maintained, and to complete progress on a number of outstanding institutional and legislative reforms. This will be crucial to ensure that hard-won gains of the past several years are not squandered, and to propel the economy towards even faster growth and human development. Additional efforts to support a shift in the economy's structure towards higher-value-added sectors, less informal activity, and a more vibrant business and investment climate will also be crucial to better insulate the economy from external shocks, and to provide incentives for domestic and external investors to broaden the economic base. Similarly, as fiscal space becomes available, the government must exercise caution in terms of selecting and executing investments in areas where infrastructure and other deficits have constrained growth, and in social sectors that are most likely to improve living conditions.

Table 1. High-Frequency Macroeconomic Indicators

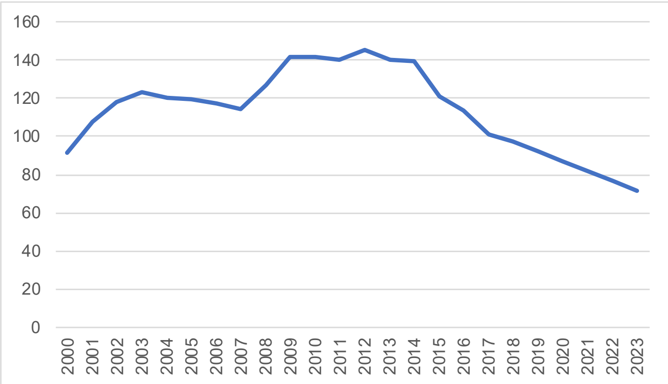
	Most Recent Data	Period	Prior Data	Period
Real GDP growth (year-over-year in percent)	1.5	March 2019	0.9	March 2018
Inflation (year-over-year in percent)	4.0	March 2019	4.0	March 2018
Net international reserves (billions of U.S. dollars)	2.8	March 2019	3.1	March 2018
US$/JM$ exchange rate (end of period)	129	March 2019	126	March 2018
Unemployment (percent)	8.0	January 2019	9.7	April 2018

Sources: Bank of Jamaica; and International Monetary Fund, April 2019 *World Economic Outlook.*

[3] For a discussion of international best practices, see Mooney, Wright and Grenade, "Fiscal Councils: Evidence, Common Features, and Lessons for the Caribbean", IDB Policy Brief No. 300, November 2018, Inter-American Development Bank, Washington, DC.

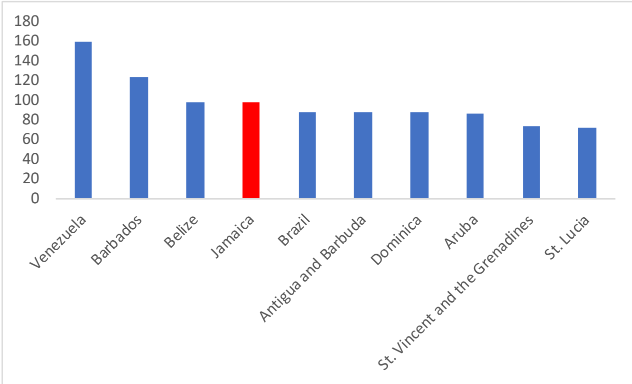
Debt is decreasing, following an impressive fiscal consolidation….

Figure A: Jamaica Debt-to-GDP 2000-2023



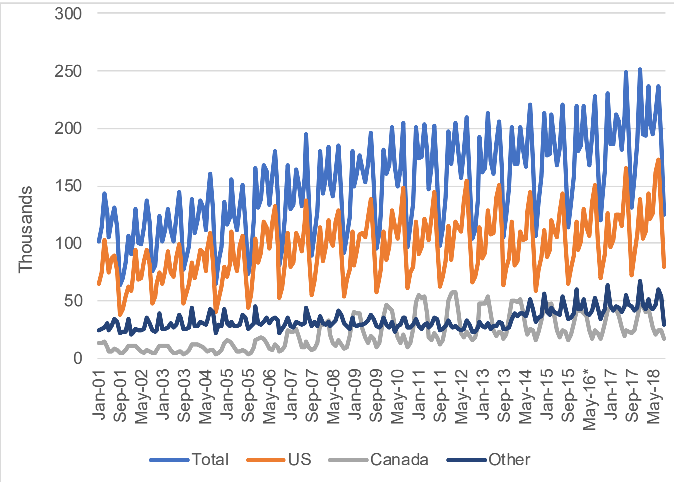
… but Jamaica remains one of the most indebted countries in LAC.

Figure B: Gross Debt-to-GDP, 10 highest in LAC



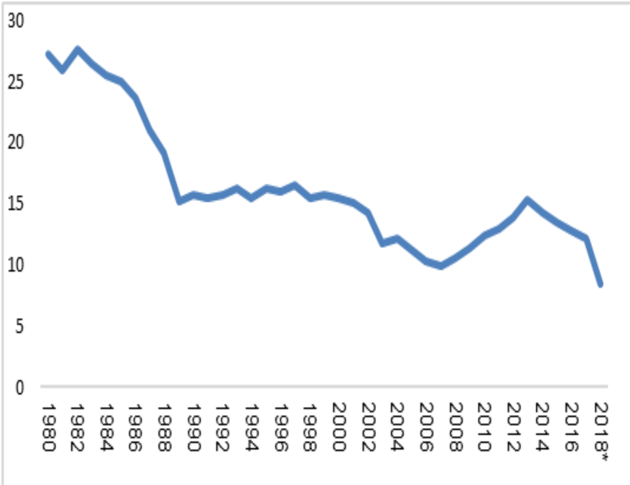
While progress is visible…

Figure C: Tourism Arrivals January 2001-June 2018



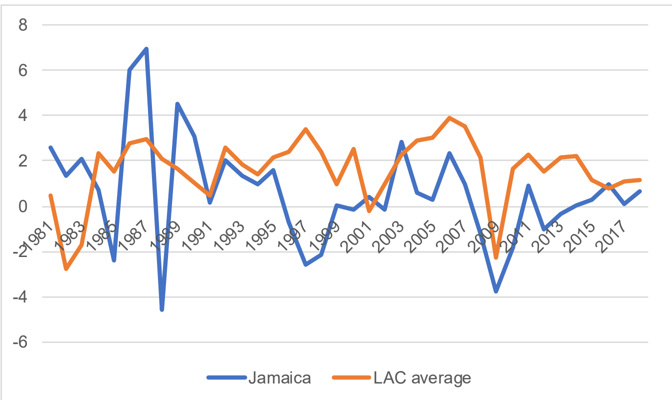
…and reflected in employment…

Figure D: Unemployment Rate, 1981-present



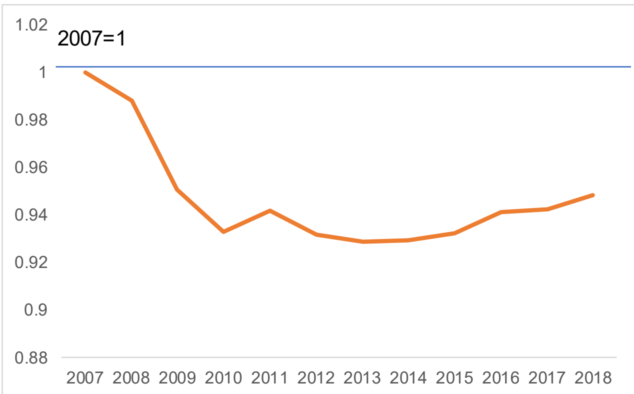
…growth remains below LAC averages….

Figure E: Real per capita GDP growth in domestic currency



…and Jamaica remains poorer than before the world financial crisis.

Figure F: Real per capita GDP Domestic Currency Index



Sources: International Monetary Fund, October 2018 *World Economic Outlook*; Bank of Jamaica; Ministry of Finance; and Statistical Institute of Jamaica.

Jamaica: Selected Indicators

	2015/16	2016/17	2017/18	2018/19	2019/20 (P)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	1.0	1.4	0.9	1.5	1.5
Nominal GDP	7.7	5.9	7.9	5.4	6.2
Inflation (end of period)	3.0	4.1	4.0	4.0	4.3
Exchange rate (end of period)	122.0	128.7	126.0	129.0	..
(In percent of GDP)					
External Sector					
Exports of goods	8.3	8.8	9.2	10.8	10.1
Exports of services	14.8	15.8	14.2	14.1	14.9
Imports of goods	30.0	30.1	33.5	33.7	33.6
Imports of services	19.5	21.2	20.6	20.8	22.6
Current account	-2.0	-1.2	-3.0	-2.5	-2.9
(In percentage of GDP, unless otherwise indicated)					
Central Government					
Revenue and grants	27.0	27.9	29.0	30.8	29.4
Budgetary expenditure	27.3	28.1	28.6	30.6	29.2
Primary balance	7.2	7.6	7.5	7.0	6.5
Budget balance	-0.3	-0.2	0.5	0.2	0.2
Public sector balance	1.6	1.8	1.0	-0.2	0.2
Treasury bill rate (percent, end of period)	5.8	6.3	3.2	2.2	…
Debt Indicators					
Public sector debt (EFF definition)	121.3	121.7	109.1	105.1	96.1
Public sector debt (FRL definition)	…	113.6	101.1	98.7	93.3
International Reserves					
Net international reserves (USD Mill)	2690	2769	3075	2834	3155
Gross international reserves in weeks of projected goods and non-factor services imports for the following year	23.5	26.7	25.6	21.9	23.4

Sources: International Monetary Fund, October 2018 *World Economic Outlook*; and Bank of Jamaica.
Note: EFF: Extended Fund Facility; FRL: Fiscal Responsibility Law; (P): projected.

Contributor: Jeetendra Khadan.

Overview

Suriname's economy continues in the recovery phase that has followed the 2015 commodity crisis. Economic growth returned in 2017 and 2018, and it is expected to continue over the medium term supported by the mining sector. Inflation has declined to low single digits alongside a stable exchange rate. Nevertheless, fiscal imbalances and current account deficits persist along with higher debt levels. There has been some progress on the policy front with passage of legislation to establish a Savings and Stability Fund along with continued efforts to implement the value-added-tax (VAT) in 2021 and undertake comprehensive tax reform and reforms to improve public financial and investment management.

Recent Developments

New government ministers were appointed during the year. In May 2019, the President of Suriname appointed five new ministers for the Ministries of Social Affairs and Housing; Public Works, Transport and Communication; Agriculture, Livestock and Fisheries; Spatial Planning, Land and Forest Management; and Natural Resources.

Changes to election legislation include a recently approved decree by the National Assembly that prohibits the formation of coalitions among political parties before the 2020 national elections. Another approved decree requires that political parties pay a deposit if they want to participate in the 2020 elections. The deposit is refunded if the political organization obtains at least one seat in one of the people's representative bodies or if the number of votes for candidates for the National Assembly equals 1 percent of the total number of voters.

Suriname is developing a National Risk Assessment (NRA). The authorities installed a project management team in May 2019 as the technical executor of the National Anti-Money Laundering Commission. The objective is to identify, evaluate, and understand money laundering and terrorist financing risks in Suriname. The country will also receive support from the Department against Transnational Organized Crime of the of the Organisation of American States' Secretariat for Multidimensional Security for a three-year anti-money laundering program. Conducting the NRA in a timely manner will be critical to help the country prepare for the next Caribbean Financial Action Task Force Mutual Evaluation. Delays could pose risks, including further withdrawal of correspondent banking relationships and the freezing of cash shipments by foreign governments.

Highlights

- *Economic growth returned to positive territory – estimated at 2 percent in 2018.*
- *Inflation has declined to low single digits.*
- *International reserves are improving.*
- *A National Risk Assessment for Anti-Money Laundering and Combatting the Financing of Terrorism is being developed.*
- *Five new government ministers were appointed during the year.*
- *Primary deficits and debt remain relatively large.*

Economic Outlook

Economic growth has returned to positive territory. The improvement in gold production helped return growth to 1.7 percent in 2017 and an estimated 2 percent in 2018, after an 8.9 percent contraction in real GDP from 2014–2016. The overall monthly economic activity index from the Central Bank of Suriname (CBvS) also grew by 1.17 percent (year-on-year) as of September 2018. The International Monetary Fund (IMF) forecasts economic growth of 2.2 percent for 2019.

Growth prospects should continue to improve. In 2019, the National Planning Office of Suriname noted that although gold production in 2018 was lower than estimated, production is expected to increase in 2019 due to increased production by Rosebel Gold Mines (through the exploitation of the Saramacca gold field), but to decline slowly in subsequent years. Petroleum production growth in 2018 was moderate, but production is expected to increase by an estimated 2 percent in 2019, while production growth for oil processing products is expected to increase by 2.5 percent during the year. It is expected that onshore oil production will remain fairly constant over the medium term. Moreover, Staatsolie signed a 30-year production sharing contract for two blocks off the coast of Suriname in 2017. Several wells are expected to be drilled in 2019 following unsuccessful attempts in 2018. The non-mineral sector is expected to grow by 1.7 percent in 2019 due to expected production increases in the fishing, hotels and restaurants, water and electricity, and transport, storage, and communication sectors.

Headline inflation has been reduced to low single digits. Data from the General Bureau of Statistics shows that headline inflation increased from 4.1 percent in October 2015 to peak at 79 percent in October 2017. The increase in inflation was associated with a partial reduction of electricity subsidies and a depreciation of the exchange rate. Headline inflation fell to 4.6 percent in April 2019 from 7.8 percent in April 2018. Inflation mostly decelerated in the sub-components related to communications, transportation and alcoholic beverages and tobacco. Inflationary pressures could increase over the medium term on account of increased public sector wages and the VAT.

The authorities cancelled the Memorandum of Understanding that was in place to cease advances from the CBvS in support of the government's budget. In March 2019, the government requested financing of SRD 100 million from the CBvS. According to the Central Bank Act, the government can receive 10 percent of estimated current revenue in advances from the CBvS for the current fiscal year, which amounts to about SRD 670 million (or an estimated 2.4 percent of GDP).

Interest rates in local currency have remained relatively stable. Data from the CBvS show that the average deposit interest rate in SRDs averaged 9.25 percent during 2018, marginally increasing to 9.4 percent in July 2018 and falling to 9.2 percent in January 2019. The average lending rate has remained relatively stable at about 14.3 percent over the same period. However, both average lending and deposit rates in U.S. dollars and euros have declined over the same period: the lending rate for U.S. dollars decreased from 9.5 percent in January 2018 to 8.3 percent in January 2019, and the deposit rate fell from 3.4 to 2.9 percent over the same period. The lending rate for euros decreased from 9.7 percent in January 2018 to 8.5 percent in January 2019, and the deposit rate fell from 1.2 to 0.5 percent over the same period.

Private sector credit remains at low levels. Private sector credit declined from 38.1 percent of GDP in 2016 to 28.6 percent in 2018.[1] Data from the CBvS show that credit to the private sector in local currency declined by 1 percent in 2016 following an annual increase averaging 15 percent over 2011–2015. A recovery of 10.9 percent (year-over-year) was reported in December 2018. Credit to the private sector in U.S. dollars and euros has also significantly declined since 2015 and remains low. Credit in U.S. dollars declined by 7 percent in 2016 after posting an average annual growth rate of 9 percent in the previous five years and continued to decline to 7 percent (year-over-year) in December 2018. Credit in euros slowed to 4 percent in 2016 compared to an average growth rate of 15 percent in the previous five years. However, by December 2018 private sector credit in euros fell by 17 percent (year-over-year) compared to the same period in 2017.

The unemployment rate is falling. While the unemployment rate increased from 5.5 percent in 2014 to 9.7 percent in 2016, data from the General Bureau of Statistics show that unemployment declined to 7.6 percent in 2017. The International Monetary Fund (IMF) projects that the unemployment rate will fall to 7 percent in 2018 and gradually decline to about 6.3 percent by 2020.

The nominal exchange rate has been stable at roughly US$1/SRD7.5 since December 2016. After a sharp devaluation of 104 percent in the exchange rate over 2014–2017, there have been periods of stability, most notably from December 2016 onward, with shorter periods of fluctuations. However, U.S. dollar shortages have emerged and the spread between the official exchange rate and an estimated parallel market rate is gradually increasing, with a difference of 10 percent as of May 2019.

Fiscal imbalances are expected to continue over the medium term. IMF data show that Suriname had fiscal deficits averaging 8.2 percent of GDP for the period from 2015 to 2018. The large fiscal imbalance was triggered by a fall in mining revenues in 2015. Although the authorities undertook a sharp expenditure adjustment in 2016, expenditure increased again by 4.5 percent of GDP from 2016 to 2018. The fiscal deficit for 2018 was estimated at 7.4 percent of GDP, marginally lower than the 8 percent recorded in 2017. The primary deficit for 2018 was 4.1 percent of GDP. IMF projections indicate fiscal deficits of 8.6 and 8.2 percent of GDP for 2019 and 2020, decreasing to 5.2 percent of GDP in 2023. The primary deficit is also projected to gradually fall to 1 percent of GDP by 2023.

Mineral resource revenues have contributed to an improvement in government revenues. Data from the IMF show that total revenues as a percent of GDP declined from 24.1 percent in 2014 to 22.8 percent in 2015 before reaching a low of 17.6 percent in 2016. The revenue decline in 2015 was largely caused by a drop in mining revenues, while the decline in 2016 was caused by a drop in indirect taxes. Revenues increased from 17.6 percent of GDP in 2016 to 23 percent in 2018, largely explained by an increase in mining revenues of 162.7 percent.

Government expenditure picked up in 2017 and 2018. IMF data show that total expenditure as a share of GDP

[1] According to the International Monetary Fund, Suriname Staff Report for the 2018 Article IV Consultation.

declined from 32.2 percent in 2015 to 26 percent in 2016. The expenditure reductions were recorded mainly in goods and services and wages and salaries. However, expenditures increased from 26 percent of GDP in 2016 to 30.2 percent in 2018. Increases in spending were observed in subsidies and transfers (63 percent), capital spending (60.4 percent), and wages and salaries (16.2 percent).

Public debt declined in 2018, but it remains high. After more than doubling from 2014–2017, the debt-to-GDP ratio declined from 78 percent in 2017 to 73 percent in 2018. Early repayments of debt along with other factors contributed to a fall in the debt ratio. At the end of 2018, external and domestic debt stood at 50.4 percent and 22.6 percent of GDP, respectively.

Interest payments have increased. Interest payments on total debt as a share of GDP and fiscal revenues are projected to increase over the medium term, according to IMF data. Interest payments as a share of revenue are expected to increase from an average of 10.2 percent over 2014–2018 to an average of 16 percent in the next three years. Similarly, interest payments as a share of GDP are expected to increase from 2.2 to 3.9 percent for the same period.

The current account deficit increased in 2018. CBvS data show that at the end of 2018 the current account balance recorded a deficit of 5.5 percent of GDP, compared to 0.1 percent of GDP in 2017. The larger current account deficit reflected a lower merchandise trade balance arising mainly from decreased gold exports and marginally higher imports: gold exports declined from 47.1 percent of GDP in 2017 to 42.5 percent in 2018.

International reserves have improved in 2019. International reserves declined by an average of 30 percent annually over 2013–2015, reaching a low of US$330 million, or 1.5 months of import cover in 2015. International reserves have since improved by 37 percent in 2018 and stood at US$612.9 million as of April 2019 (equivalent to roughly 3.4 months of import cover).

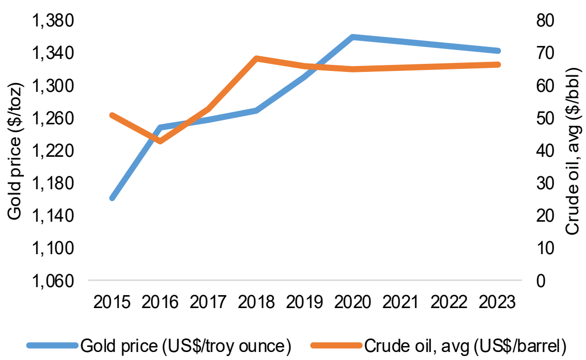
Standard and Poor's Global Ratings affirmed Suriname's B long-term sovereign credit rating and its stable outlook in April 2019. That outlook reflects S&P's expectations that in the next 12 to 24 months, real GDP growth will return to positive territory, leading to higher current account receipts and a near-balanced current account with marginal improvements in fiscal balances in 2019 and 2020. Other rating agencies have a similar outlook. In March 2019, Moody's affirmed Suriname's issuer rating at B2 stable and changed the outlook from negative to stable. In August 2018, Fitch ratings affirmed the country's issuer rating at B- with a stable outlook.

Policy Outlook

Reducing fiscal deficits and placing the public debt on a downward path remain Suriname's near-term priority. After the sharp decline in commodity prices in 2014–2015, Suriname undertook austerity measures resulting in a sharp contraction in expenditures and a decline in the fiscal deficit from 12 percent of GDP in the first half of 2015 to 8.1 percent of GDP in 2016. However, fiscal deficits averaged 7.7 percent of GDP over 2017–2018, and the IMF projects the deficits will average 7.6 percent of GDP over 2019–2021.

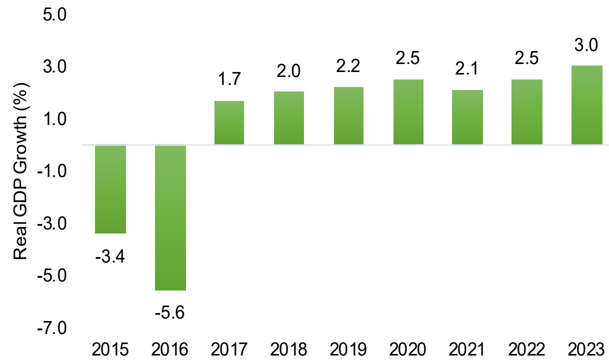
The authorities are pursuing an active reform program to strengthen the fiscal framework. One of the main achievements thus far has been the passage of legislation to establish the country's first Savings and Stability Fund in 2017. According to the authorities, the fund is expected to benefit from windfall mining revenue starting in 2019 and will help to build up savings and support macroeconomic stability. Substantial preparatory steps have been taken to implement the VAT, but implementation has been postponed until 2021. A new Public Financial Management Law has been drafted and is expected to be discussed by the National Assembly in the coming year. The government has prepared a tax identification number for taxpayers that is expected to become operational in 2019, which will help improve tax collection and risk management. The authorities have begun implementation of a tax administration system to help improve the efficiency of tax administration. The system is expected to be completed in 2020. Work on introducing a public investment management system and a Public Private Partnership Unit in the Ministry of Finance is expected to commence in the short to medium term. The authorities are also moving in the right direction to strengthen the Anti-Money Laundering/Counter Terrorist Financing Framework.

Figure A. Gold and Crude Oil Prices



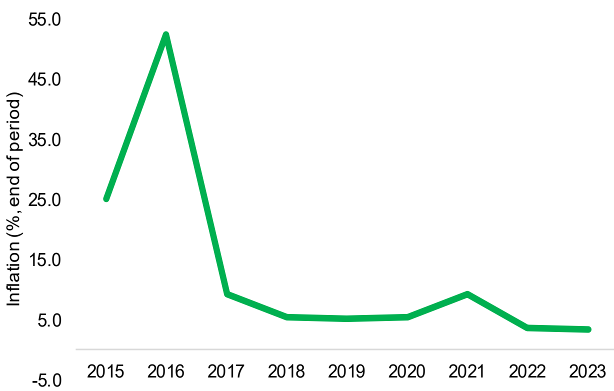
Source: World Bank Pink Sheet (2019).

Figure B. Real GDP Growth (percent)



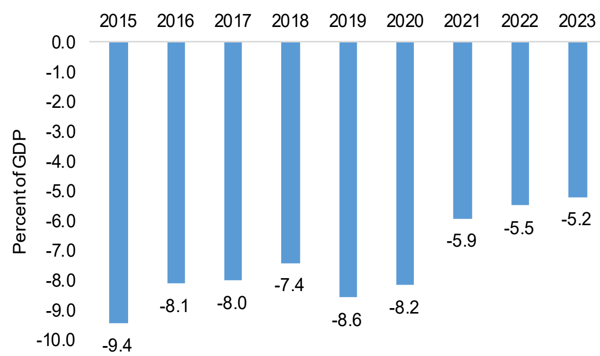
Source: International Monetary Fund, April 2019 World Economic Outlook.

Figure C. Inflation (percent)



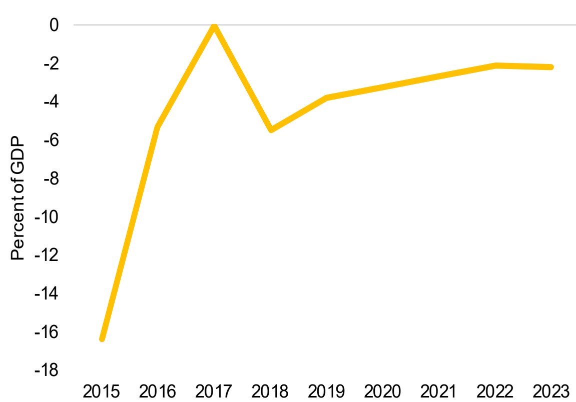
Source: International Monetary Fund, April 2019 World Economic Outlook.

Figure D. Fiscal Balance (percent of GDP)



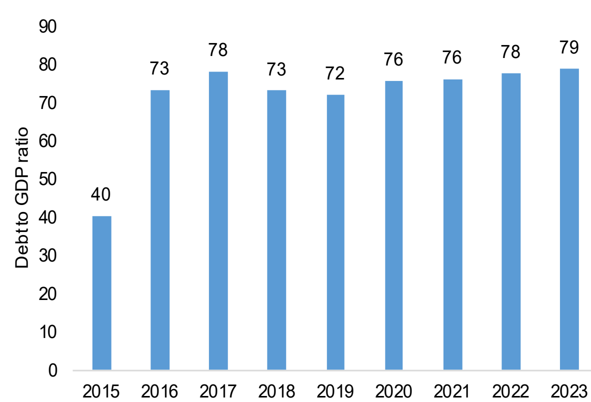
Source: International Monetary Fund, April 2019 World Economic Outlook.

Figure E. Current Account Balance (percent of GDP)



Source: International Monetary Fund, April 2019 World Economic Outlook; Central Bank of Suriname.

Figure F. Debt (percent of GDP)



Source: International Monetary Fund, April 2019 World Economic Outlook.

Suriname: Selected Economic Indicators, 2014–2019

	2014	2015	2016	2017	2018	2019
Annual percentage changes, unless otherwise specified						
Real Sector						
Real GDP	0.3	-3.4	-5.6	1.7	2.0	2.2
Inflation	3.9	25.1	52.4	9.3	5.4	5.3
Nominal GDP	1.8	-5.4	20.6	16.5	11.3	8.7
Unemployment rate	5.5	7.2	9.7	8.0	7.5	7.0
(In percent of GDP, unless otherwise specified)						
Central government						
General government revenue	24.1	22.8	17.6	23.0	22.8	23.3
General government expenditure	32.7	32.2	25.7	31.0	30.2	31.8
Overall fiscal balance	-8.6	-9.4	-8.1	-8.0	-7.4	-8.6
Primary fiscal balance	-7.7	-7.9	-6.2	-5.0	-4.1	-5.1
External sector						
Exports of goods and services	45.0	38.8	51.3	71.5	67.1	66.0
Imports of goods and services	52.9	56.3	54.4	59.9	62.3	62.1
Current account balance	-7.9	-16.4	-5.4	-0.1	-5.5	-3.8
International reserves (millions of U.S. dollars)	625	330	381	424	580	592
International reserves (in months of imports)	2.7	1.5	2.7	2.8	3.2	3.1
General government debt	26.3	40.3	73.3	78.2	73.0	72.0
General government gross debt, domestic currency	10.9	22.0	19.2	23.4	22.6	16.9
General government gross debt, foreign currency	15.5	18.3	54.1	54.8	50.4	55.2
Memorandum items						
Gold (U.S. dollars/troy oz)	1266	1161	1249	1258	1269	1310
Crude oil, average (U.S. dollars/bbl)	96	51	43	53	68	66
Terms of trade (percent change)	-4.3	-2.0	9.0	-2.8	-3.6	2.7
Exchange rate (SRD per U.S. dollars, end of period)	3.3	4.0	7.4	7.5	7.5	7.6

Sources: Country authorities; International Monetary Fund, April 2019 *World Economic Outlook* and World Bank Commodities Price Forecast, April 2019.

Contributors: Zubin Deyal and Lodewijk Smets.

Overview

Mounting risks in Trinidad and Tobago are prompting a call to action. The country's natural gas industry is faced with price reductions and production uncertainty that may undermine growth prospects and pose medium-term fiscal risks. Furthermore, migrant inflows require immediate attention as they may affect labour markets and the provision of public services. While greater government expenditure may add immediate impetus to the economy, expansionary policies need to be balanced with debt sustainability considerations. Meanwhile, large interest rate differentials are encouraging capital outflows as the central bank's policy rate remains unchanged.

Recent Developments

Medium-term natural gas production is set to decrease. British Petroleum Trinidad and Tobago (BPTT), the largest national natural gas producer, announced that four of the infill wells it drilled were empty. As a result, its natural gas production is projected to drop 15 to 20 percent (300 million cubic feet) in 2020 and 2021. As this corresponds to about 10 percent of the country's production, it may have negative implications for the downstream sector, impede economic growth, and reduce government revenue. In response, government officials met with oil executives and came to new agreements that are expected to increase government revenue.

Natural gas prices have slumped amid high volatility. The price of natural gas has fluctuated tremendously over the past eight months. After the winter demand increase pushed the price to US$4.70 per one million British Thermal units (MMBtu) in mid-November, a subsequent oversupply resulted in a 45 percent reduction to US$2.59 per MMBtu by May 30 (Figure 1). Greater uncertainty is expected in the market given the trade war between China and the United States. China, the second largest consumer of natural gas, has threatened to heighten existing tariffs on its natural gas imports from the United States, the world's third largest natural gas producer, from 10 to 25 percent. This would affect the global price and increase demand for non-U.S. gas, of which Trinidad and Tobago is one of the largest producers.

Highlights

- *Uncertainty in the energy sector may hamper growth and government revenue.*
- *Expansionary fiscal policies may provide a stimulus, at the cost of additional borrowing.*
- *The government is responding to increasing migration flows.*
- *Short-term interest rate differentials are negative and increasing.*

Figure 1. Natural Gas Price (U.S. dollars)

Source: IMF Primary Commodity Price System.

Increasing migration has been met with amnesty. Trinidad and Tobago's migrant population is steadily increasing following the intensifying crisis in Venezuela. While the last official estimate placed the number of migrants at 40,000 in 2016, the actual number of Venezuelan migrants is likely to be higher. In light of this, the government allowed amnesty that gives migrants the right to apply for a work permit lasting a year, and limited access to public healthcare. The application period is the first two weeks of June and migrants must show proof of nationality, an address, and a contact number to be approved. The policy could result in an overall production boost from an enlarged labour supply (which could fill demand gaps in agriculture and manufacturing) and greater tax revenues for government.

Economic Outlook

Production is expected to remain constant. The International Monetary Fund (IMF) estimates that real GDP for Trinidad and Tobago will remain relatively constant, but with negligible growth of 0.01 percent. This figure was revised downward from 0.9 percent at the start of the year. However, the growth estimates for 2019 have been volatile and wide-ranging. The World Bank has amended its growth estimate upward for 2019 from -0.5 percent to +0.9 percent, while the Central Statistics Office expects growth of 1.9 percent. For 2018, the IMF altered its growth estimate downward from 1 to 0.3 percent.

Real growth is expected to pick up from 2020 onward. The IMF projects that the economy will expand by 1.5 percent in 2020, 3 percent in 2021, and 2 percent in 2022. These figures were made based on the assumptions of favourable natural resource production and the natural gas price steadying around US$2.70 per MMBtu. However, given BPTT's recent drilling results, overall gas production may fall short of the amount expected.

Public sector debt has stabilized but is expected to increase in the near future. Since 2017, public debt has increased only slightly relative to GDP. At the end of 2018, total public debt stood at 62.2 percent of GDP, up from 61.2 percent at the end of 2017. However, the authorities intend to increase spending substantially going forward – for example, clearing about TTD 5 billion in value-added tax refunds, discharging arrears to commercial suppliers and contractors, and accelerating capital spending – which will likely lead to increases in government debt. Risk of distress in view of climbing debt is still negligible in the short term because the country has sizable assets in the Heritage and Stabilization Fund (amounting to 26 percent of GDP) and liquid holdings in sinking funds (about 5 percent of GDP) to cover principal payments.

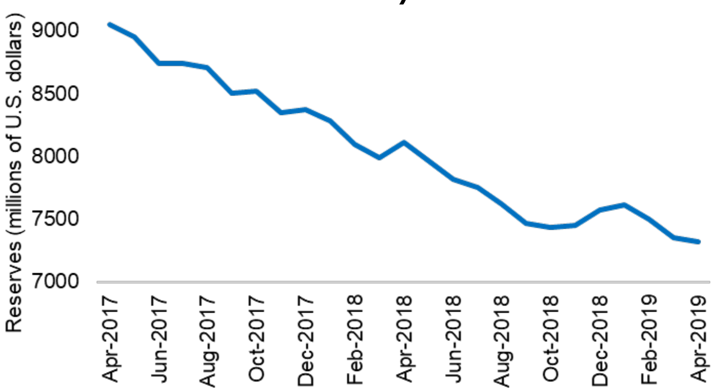
Fiscal consolidation appears to be easing with expenditure increases. For the first five months of the fiscal year, revenues rose 15.3 percent year-over-year to TT$16.81 billion from TT$14.59 billion. This is largely due to a 22 percent increase in energy revenues to TT$3.73 billion from TT$3.04 billion. However, this rise was partially negated by the 12.3 percent increase in year-over-year expenditures to TT$19.7 billion from TT$17.54 billion. The government has further planned to increase spending in hopes of kindling demand. While the revised deficit for the year is well below the levels of 3.4 percent for 2018 and 9.1 percent for 2017, it is still greater than the 2.5 percent initially projected. With expenditure increases, and energy revenue estimates of a natural gas price of US$3.00 per MMBtu (well above current levels) for the remainder of the fiscal year, it remains to be seen whether the government will meet its fiscal targets.

The current account surplus has narrowed. In 2018, despite an increase in energy sector earnings, the current account surplus narrowed to 4.6 percent of GDP from 4.9 percent the previous year. Meanwhile, the financial account recorded a net outflow, primarily reflective of transactions in portfolio and direct investment. It is important to note that the large negative errors and omissions – on average 11 percent of GDP over the past five years – make it difficult to accurately analyse and forecast the external accounts.

Inflation remains tame. Headline inflation was just under 0.3 percent for the first quarter of 2019, and the IMF projects inflation will be 1.1 percent for the year, the same level the central bank reported for 2018. This is down from 1.3 percent and 3.1 percent for 2017 and 2016, respectively. While year-over-year core inflation crept to 1.6 percent as of December 2018 from 0.8 percent a year earlier, it is also vastly below the 2.3 percent level recorded in December 2016. These rates have been stifled due to weak aggregate demand and limited discretionary expenditure.

Foreign reserves have stabilized somewhat but not recovered (Figure 2). After a sharp 11 percent (year-over-year) decrease in import cover as of end-July 2018 to US$8.1 billion, the country's net official reserves have stabilized somewhat at US$7.3 billion (8.2 months of import cover) as of April 2019. This stabilization has mainly occurred as a result of large energy investments and tax reforms. However, the fall in gas prices and the unsuccesful drilling operations may affect foreign reserves in the medium term.

Figure 2. Foreign Reserves (millions of U.S. dollars)

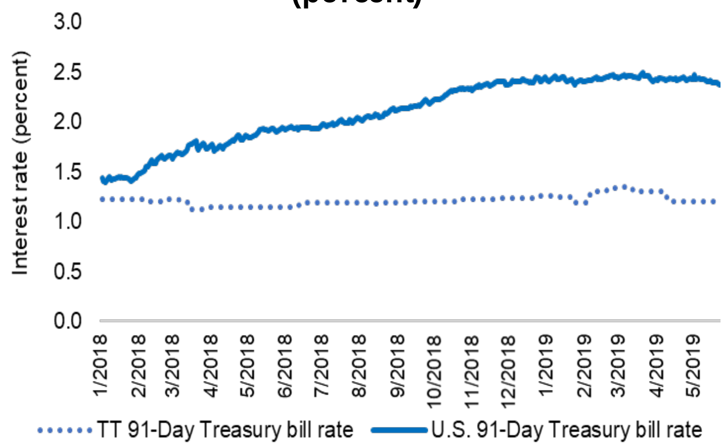


Source: Central Bank of Trinidad and Tobago.

Unemployment has increased, but is expected to fall in the short term. After unemployment increased in 2017 to 4.8 percent from 4 percent in 2016, provisional data suggest that job losses extended into 2018. These data include retrenchments that rose 40 percent to 1,623 persons, and the Petrotrin restructuring that resulted in a further 5,000 job cuts. A large steel mill that previously employed 600 people may reopen in 2019 after closing in 2016, which could decrease unemployment.

Short-term interest rate differentials are negative and increasing (Figure 3). Short-term interest rate differentials have significantly widened since the start of 2018. An increase of 133 basis points in the discount rate from 1.44 to 2.37 percent on the U.S. 91-day Treasury bill is chiefly responsible. The rate increased after the country's strong economic performance and the U.S. Federal Reserve's monetary policy decisions. Meanwhile, the discount rate on Trinidad and Tobago's (TT) 91-day Treasury bill remained constant at around 1.2 percent, 117 basis points below the current U.S. rate. This significant differential is indicative that domestic investors may redirect investments abroad.

Figure 3. 91-Day Treasury Bill Interest Rates (percent)



Sources: Central Bank of Trinidad and Tobago; and the U.S. Department of Treasury.

The policy rate of the Central Bank of Trinidad and Tobago was unchanged despite large differentials. From December 2015 until June 2018, the central bank maintained its main policy rate stable at 4.75 percent. Changing internal and external conditions – including a pick-up in domestic growth and the normalization of global monetary policy– prompted the central bank to raise the repo rate from 4.75 to 5 percent in June 2018. Since then, the central bank has kept the policy rate unchanged. Given that short-term interest rate differentials are widening, there is a need for the central bank to carefully analyse international and domestic developments.

Main credit ratings will be updated soon. Last year the main agencies left their credit ratings unchanged because the country's high wealth levels and significant financial buffers mitigate existing challenges. The sizable Heritage and Stabilization Fund, and relatively deep capital markets, do much to ensure investor confidence. Standard and Poor's retained Trinidad and Tobago's long-term sovereign credit rating at investment-grade level (BBB+). Moody's kept its credit rating at one level below investment grade, Ba1, and stable. However, these ratings are to be updated soon as both agencies recently visited the country.

Policy Outlook

Trinidad and Tobago has room to improve its competitiveness. The country was ranked 102nd out of 190 countries in the World Bank's *2018 Doing Business Report.* The Doing Business indicators show that Trinidad and Tobago's rating fell by 0.19 points in 2018 compared to 2017. The main areas of decline were paying taxes, resolving insolvency, and getting electricity. Paying taxes became costlier because Trinidad and Tobago increased the rates for the environmental tax and social security contributions paid by employers. Nevertheless, with respect to the rest of the Caribbean, Trinidad and Tobago performs better in starting a business, getting electricity, getting credit, protecting minority investors, and resolving insolvency. However, it underperforms in dealing with construction permits, registering property, paying taxes, trading across borders, and enforcing contracts. Trinidad and Tobago was ranked 83rd out of 137 countries on the World Economic Forum's 2017–2018 Global Competitiveness Index. Employer-employee relationships, government bureaucracy, foreign currency regulations and crime and theft were identified as the most problematic factors for doing business in the country.

Expansionary fiscal policy brings short-term benefits that may not outweigh long-term costs. The government is planning to institute a number of measures in the short term intended to bolster aggregate demand. While economic stimulus is welcome, prudence is required as debt sustainability needs to be considered, especially given the country's dependence on the volatile energy sector. Therefore, the government should seek public investments with high social and economic returns.

Increased government spending…

…may offset negative energy sector developments.

Figure A. Government Expenditure (millions of TT dollars)

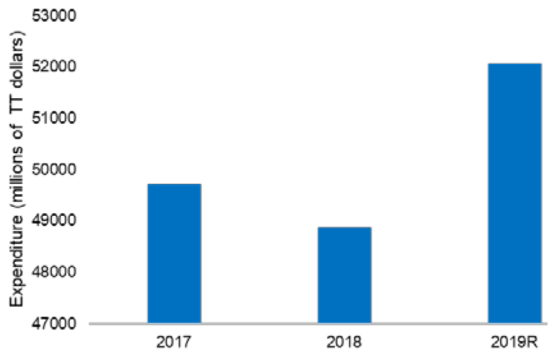
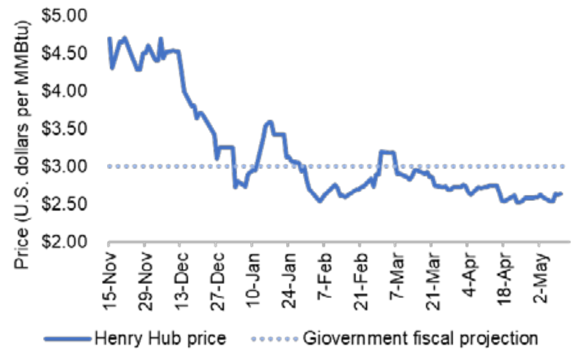


Figure B. Natural Gas Price (U.S. dollars per MMBtu)



Expansionary fiscal policies increase deficits…

…financed by additional borrowing.

Figure C. Fiscal Balance (percent of GDP)

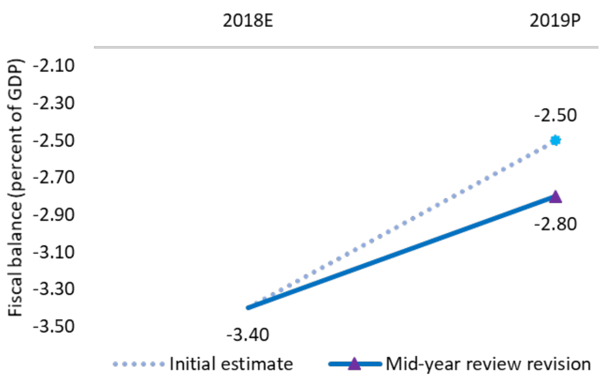
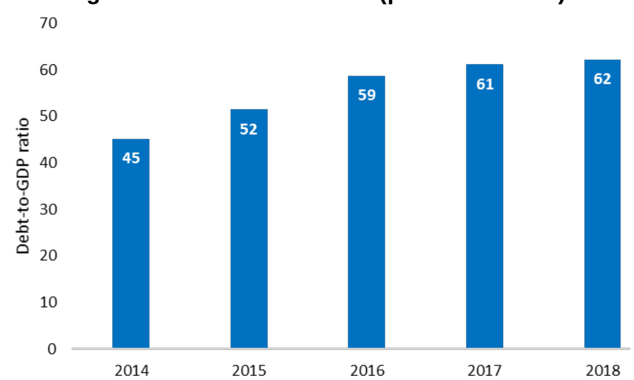


Figure D. Total Public debt (percent of GDP)



The narrowing current account balance…

…may further deplete foreign reserves.

Figure E. Current Account Balance (percent of GDP)

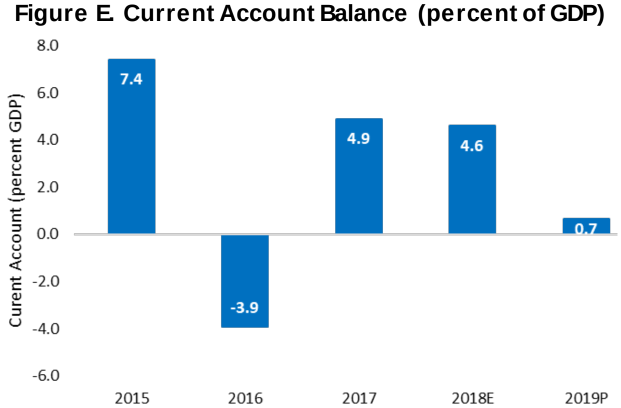
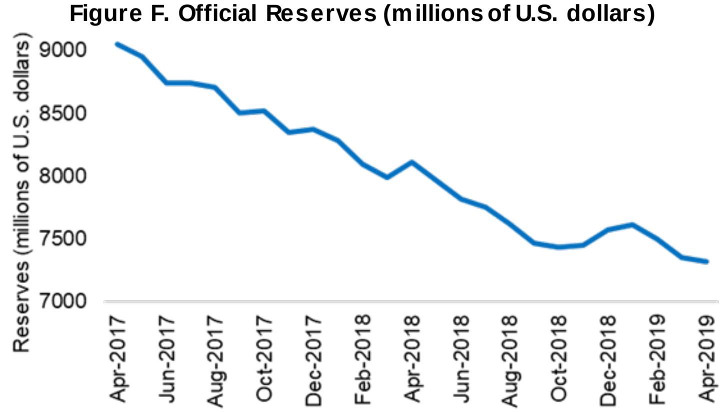


Figure F. Official Reserves (millions of U.S. dollars)



Trinidad and Tobago: Selected Economic Indicators, 2014–2019

	2014	2015	2016	2017	2018e	2019e
	(Annual percentage change, unless specified otherwise)					
Real Sector and Prices						
Real GDP	-1.3	1.9	-6.5	-2	0.3	0.008
Nominal GDP (billions of TT dollars)	176	160	144.8	149.5	151	151.9
Inflation, average consumer prices	5.69	4.66	3.07	1.88	1.06	1.14
Unemployment	3.3	3.43	3.95	4.83	4.9	4.83
External Sector						
Exports of goods and services	-9.87	7.98	19.79	4.52	-2.45	14.28
Imports of goods and services	-7.35	16.21	2.15	-9.23	-8.28	-6.91
Current account balance (percent of GDP)	14.57	7.38	-3.96	4.94	4.93	0.65
International reserves (millions of U.S. dollars)	11,497.1	9,933.0	9,465.8	8,369.8	7,575.0	6,976.0
International reserves cover	12.9	11.2	10.5	9.7	8.0	7.4
	(In percent of fiscal year GDP)					
Public Sector						
Total revenue	30.56	29.38	23.63	21.86	25.97	28.70
Total expenditure	35.18	37.46	36.18	33.12	31.50	34.28
Central government primary balance	-0.8	0.4	-2.8	-6.1	-1.2	-0.2
Central government overall balance	-2.6	-1.7	-5.3	-9.1	-4	-2.5
Debt Indicators						
General government debt	40.4	47.1	59.3	62.7	60.8	63.5
Central government debt	31.7	42.9	45.1	45.8	42.1	42.9
External debt	7.2	8.4	14.4	15.7	15.8	16.9

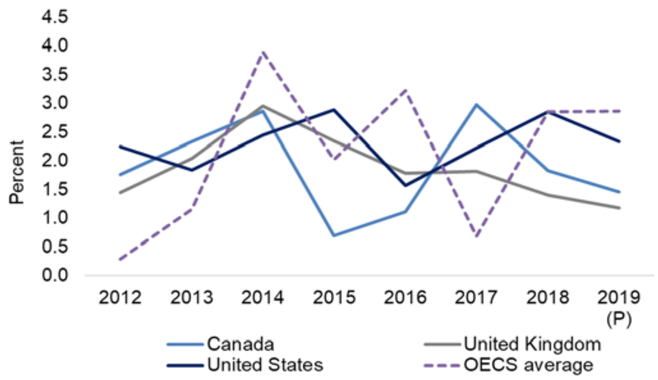
Sources: International Monetary Fund (IMF); and the Central Bank of Trinidad and Tobago.
Note: IMF estimates.

Contributor: Kimberly Waithe.

Overview[1]

The growth outlook remains relatively positive for the Organisation of Eastern Caribbean States (OECS) region, despite a projected moderation in global expansion. Uncertainties in the short term in key advanced economies have partly resulted in a downward revision of global growth rates to 3.6 percent in 2018, compared to approximately 4 percent in 2017. Global growth is estimated to further decline to 3.3 percent in 2019.[2] Despite these developments, the OECS region seems to be recovering from the devastating impact of the 2017 hurricane season. Short-term prospects remain positive, driven primarily by tourism and construction activity, and the associated boost to the auxiliary sectors (Figure 1). In addition, growth is likely to be bolstered by inflows of foreign direct investment (FDI) through Citizenship by Investment (CBI) programs in some countries. The region is expected to witness an overall improved fiscal position in light of policies directed towards fiscal and debt consolidation. However, this outturn could be moderated on account of higher capital spending as work on infrastructure projects advances. With the expected moderation in global oil and food prices, the region could witness a decline in inflationary pressures.

Figure 1. Real GDP growth in the OECS and Its Main Trading Partners (percent)



Sources: Eastern Caribbean Central Bank, and International Monetary Fund, April 2019 *World Economic Outlook.*
Note: (P): projected.

> ***Highlights***
>
> - *The OECS region is expected to record positive economic growth in 2019.*
> - *Inflation is expected to remain subdued over the medium term, reflecting more moderate global oil prices.*
> - *The external current account deficit is likely to widen due to the start of major construction projects and reconstruction activities associated with hurricane-hit islands.*

Recent Developments

The OECS region grew on average by 2.8 percent in 2018. This represents an improvement compared with real GDP growth of 0.7 percent a year earlier, as the region continues to recover from the adverse effects of the 2017 hurricane season. According to the Eastern Caribbean Central Bank (ECCB), growth in Antigua and Barbuda expanded to approximately 5 percent in 2018 compared with 3 percent in 2017 due to positive performance in the construction, hotels and restaurants, and wholesale and retail trade sectors. Similarly, economic activity remained robust in Grenada, as real GDP grew by 4.8 percent in 2018 relative to 5.1 percent in 2017. St. Kitts and Nevis and St. Vincent and the Grenadines grew in 2018 by 3 percent and 3.2 percent, respectively. Economic activity was modest in Dominica and St. Lucia, growing by 0.5 percent and 0.6 percent, respectively. After a contraction of real GDP in Dominica by 9.5 percent in 2017 due to extreme weather-related events, the outturn in the economy was bolstered by growth in key sectors, led by construction activity.

The OECS region witnessed an increase in 2018 in total visitor arrivals, which rose by 8.5 percent during the year. The cruise passenger segment, which accounts for around 70 percent of total visitor arrivals, drove the increase with growth of 10 percent (Table 1). At the same time, total visitor expenditure increased by 9.8 percent to reach US$2,043 million at the end of 2018. Positive performances were recorded for stay-over visitor arrivals by air for Antigua and Barbuda (8.7 percent), Grenada (10 percent), and St. Vincent and the Grenadines (5.4 percent) compared to 2017. Despite 19 fewer cruise calls, St. Vincent and the Grenadines recorded the largest increase in the number of cruise passengers (25 percent) for 2018 to reach 217,876 persons.

[1] This bulletin focuses on developments in the independent member countries of the OECS: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Vincent and the Grenadines, and St. Lucia. Figures exclude territories that are members of the OECS.
[2] According to the International Monetary Fund, April 2019 *World Economic Outlook.*

Table 1. Tourism Statistics, January-December 2018 (percent change compared to 2017)

Country	Total Visitors	Long-Stay Visitors	Cruise Ship Passengers	Total Visitor Expenditure
Antigua and Barbuda	7.5	8.7	7.4	7.6
Dominica	-13.9	-9.8	-14.4	-23.2
Grenada	12.7	10.0	14.5	10.1
St. Kitts and Nevis	8.2	1.3	9.4	15.2
St. Lucia	10.2	2.2	13.6	12.7
St. Vincent and the Grenadines	17.5	5.4	25.0	9.8
OECS	**8.5**	**4.2**	**10.0**	**9.8**

Source: Eastern Caribbean Central Bank.

While moderating, inflationary conditions continued during 2018 for most of the countries in the region. The highest inflation rates at the end of 2018 were in Dominica and Antigua and Barbuda, with end-of-period consumer price indexes of 2.8 percent and 1.6 percent, respectively. In Dominica, inflationary pressures were largely due to increases in the prices of food and non-alcoholic beverages (10.4 percent); housing, utilities, gas and fuels (1.5 percent); and transport (1.5 percent). In Antigua and Barbuda, higher price indexes were driven by household and furniture equipment and food. At the same time, Grenada and St. Vincent and the Grenadines recorded inflation rates of around 1.4 percent, while inflation in St. Lucia stood at 1.5 percent. In contrast, in St. Kitts and Nevis consumer prices fell by 0.8 percent on an end-of-period basis.

Most OECS countries improved their fiscal position at the close of 2018. The fiscal outturn of Grenada and St. Kitts and Nevis improved in 2018. Grenada had an overall surplus of US$50.7 million (4.2 percent of GDP), compared with a surplus of $33.9 million (3 percent of GDP) in 2017. Fiscal policy in the country continues to be guided by the targets set in the Fiscal Responsibility Act.[3] St. Kitts and Nevis' overall surplus (after grants) reached US$69.8 million (6.7 percent of GDP), benefiting from an increase in receipts from the CBI program, which more than doubled to reach US$135.7 million. St. Lucia, Antigua and Barbuda, and St. Vincent and the Grenadines reported smaller deficits at the end of 2018. On the other hand, Dominica had a higher overall deficit of US$49.3 million (9.8 percent of GDP) in 2018, primarily led by an uptick in capital expenditure. Debt levels across the OECS region remained elevated at an average of 73 percent of GDP as of the end of 2018.

The financial sector in the OECS region continues to be highly liquid, but private credit remains subdued. Among the OECS countries, the ratio of liquid assets to short-term liabilities ranged from 41.6 percent in St. Vincent and the Grenadines to 65.6 percent in St. Kitts and Nevis as of end-2018. At the same time, the ratio of loans and advances to total deposits increased marginally by 0.4 percentage points to 59.9 percent. This was well below the ECCB's maximum benchmark of 75 to 85 percent. Despite the high level of liquidity in the banking system, asset quality among financial institutions remains a concern. With the exception of Grenada (2.4 percent), the ratio of non-performing loans to gross loans across the region remains above the 5 percent prudential limit. At the same time, access to credit remains a challenge in the OECS region. Throughout the currency union, credit to the private sector grew marginally by 0.6 percent as of the end of 2018.

Economic Outlook

Short-term economic prospects remain positive, though relatively uneven across OECS member countries. In 2019, the ECCB projects that the OECS region will grow on par with the rate of growth obtained at the close of 2018. Antigua and Barbuda and Grenada are expected to record strong performances, with real GDP growth rates of 5 percent and 3.7 percent, respectively. Robust activity in the tourism and construction sectors will continue to drive growth in Antigua and Barbuda. In particular, the country is expected to increase its hotel room stock and benefit from additional airlift from the United States. Moreover, construction activity is expected to be boosted by key private and public sector projects. In Grenada, developments in the education, hotels and restaurants, and construction sectors are likely to spur economic activity.

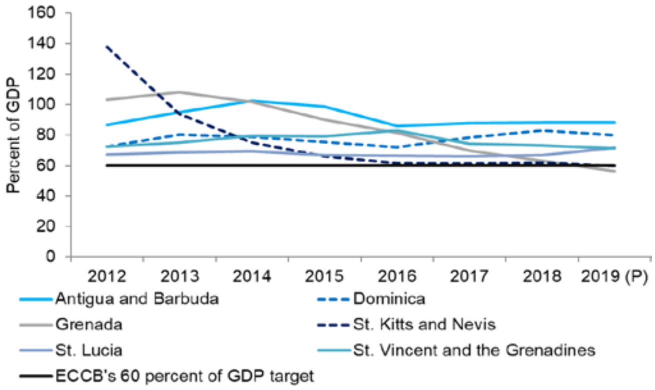
Among the other member countries in the OECS region, growth is expected to range between 1.2 and 3.1 percent in 2019. Moderate growth is expected in St. Vincent and the Grenadines (1.2 percent), Dominica (2 percent), and St. Lucia (2.1 percent). St. Kitts and Nevis is projected to grow by 3.1 percent, boosted by major infrastructure projects, including continued construction of a second cruise pier, and by a stronger performance of the tourism sector. As a consequence of the 2017 hurricane season, Dominica's economic activity is expected to be supported by continued reconstruction and rehabilitation efforts and by a recovery in the agriculture sector.

Debt levels across the OECS countries are projected to remain elevated at an average of 71 percent of GDP in 2019. However, there is heterogeneity among countries. St. Kitts and Nevis and Grenada have benefited from their respective International Monetary

[3] All the fiscal targets were met during 2018.

Fund (IMF) programs, with debt levels in 2019 projected at 59 percent and 56 percent of GDP, respectively. These levels are below the ECCB's 60 percent of GDP target (Figure 2). On the other hand, Dominica and Antigua and Barbuda are projected to record the highest debt levels as a share of GDP at 80 and 88 percent, respectively.

Figure 2. Public Debt in the OECS (percent of GDP)



Source: International Monetary Fund, *World Economic Outlook*, April 2019.
Note: ECCB: Eastern Caribbean Central Bank.

The fiscal outturn is expected to vary in the region over the medium term. A lower fiscal deficit is anticipated for Antigua and Barbuda, boosted by improved tax collection and implementation of the Tax Administration and Procedures Act. Based on budget estimates for 2019, Grenada will continue to witness an overall fiscal surplus, reflective of continued advances in tax administration and a general pickup in economic activity. However, an increase in current spending is expected due to the payment of a 4 percent salary increase to public employees.[4] An overall surplus of 3.8 percent of GDP and a primary surplus of 6 percent of GDP is projected for Grenada in 2019.[5] In St. Kitts and Nevis, the overall surplus is anticipated to be smaller given a projected decrease in CBI receipts and a pickup in capital spending as work on several major capital projects advances. On the other hand, in Dominica, the overall fiscal balance is expected to worsen, primarily due to higher spending on the recovery and reconstruction effort. However, this outturn could be moderated given the inflow of funds from the CBI program. In St. Lucia, anticipated higher levels of expenditure (primarily capital spending) could result in a weaker fiscal position and an increase in public debt. In light of the 2019 budgetary measures, the fiscal outturn is projected to decline in St. Vincent and the Grenadines. An uptick in expenditure is anticipated due to higher provisions for salaries and wages as well as increased investment in infrastructure.

The external current account deficit is likely to widen for the region in 2019. The region could see an increase in the import bill, primarily due to the commencement of and continued work on major construction projects, as well as rebuilding efforts following the 2017 hurricane season. Consumer price inflation is likely to remain subdued, as global oil prices are expected to moderate in 2019.

Conclusion

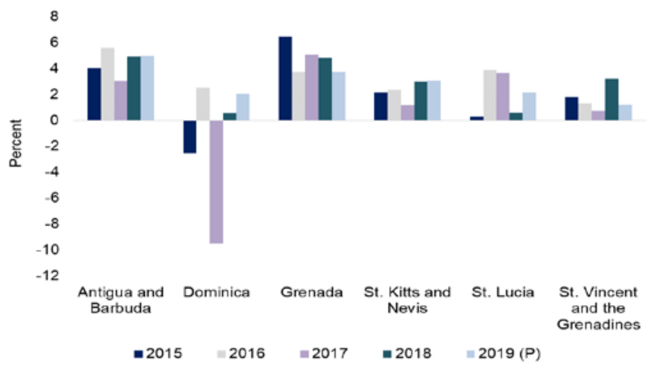
A positive outlook is anticipated for the OECS region amid downside risks. Growth prospects remain relatively favorable for OECS countries primarily due to private and public sector construction activities, improved tourism performance, and a recovery in the agriculture sector. Accordingly, growth in ancillary economic sectors, namely wholesale and retail and transport and storage, will likely improve. At the same time, the recent launch of a pilot FinTech project in the ECCU aimed at strengthening the region's competitiveness bodes well for the financial sector. However, downside risks remain. On the domestic side, continuous fiscal deficits, which increase financing needs, may limit the ability of the authorities to carry out key capital projects. Moreover, major risks include a reduction in travel demand resulting from the projected global economic slowdown, a decline in investment flows, and the region's high vulnerability to natural disasters. Measures geared towards strengthening fiscal and debt dynamics will be key for the region going forward. Moreover, it is important for the OECS to establish buffers to safeguard against adverse external shocks and strengthen resilience to natural disasters.

[4] This is the final portion of the agreement negotiated with trade unions for the 2017–2019 period.

[5] Eastern Caribbean Central Bank, *Annual Economic Review 2018*.

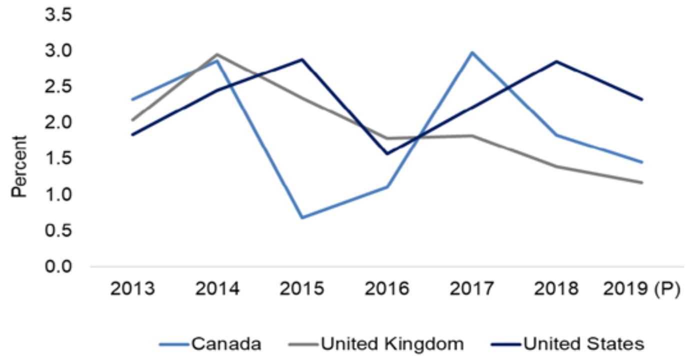
Improved economic activity is expected in the OECS countries…

Figure A. Real GDP Growth in the OECS (percent)



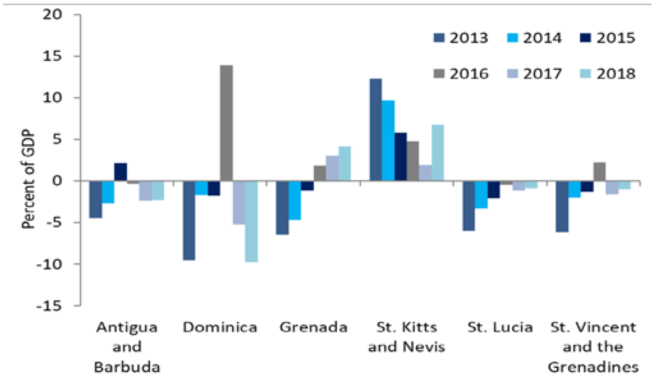
…amid a moderation in real GDP growth in the region's main trading partners.

Figure B. Real GDP Growth: Major Trading Partners (percent)



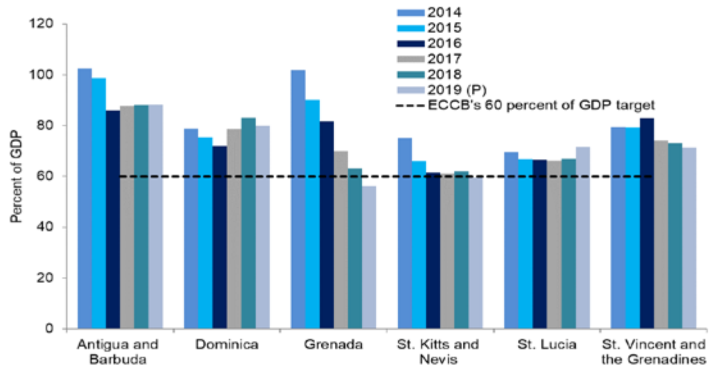
The fiscal position is mixed…

Figure C. Fiscal Balance (percent of GDP)



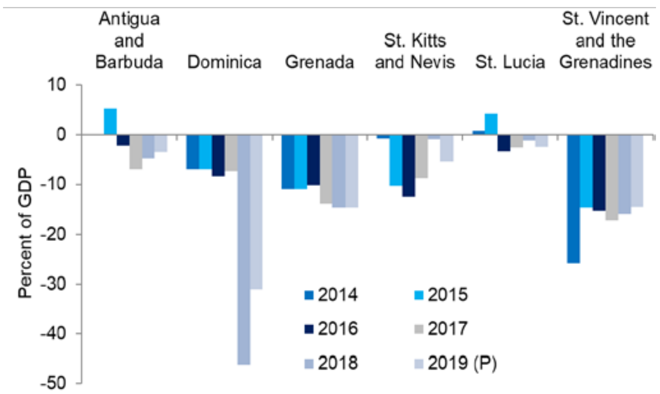
…and debt continues to remain elevated.

Figure D. Central Government Debt (percent of GDP)



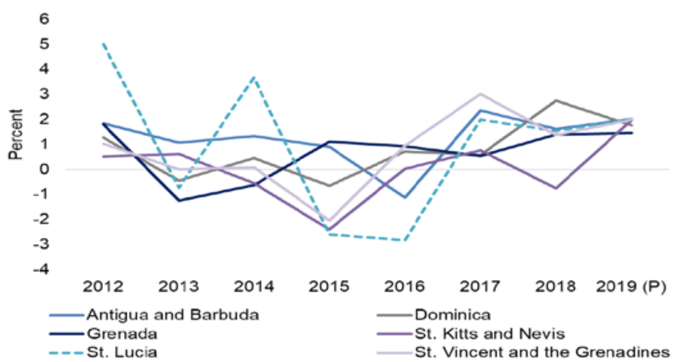
Current account deficits remain high…

Figure E. Current Account Balance (percent of GDP)



…but inflationary pressures are expected to be subdued as a result of a moderation in international oil prices.

Figure F. Inflation (end of period; percent)



Sources: Eastern Caribbean Central Bank; and International Monetary Fund, April 2019 *World Economic Outlook*.
Note: (P): projected.

The OECS: Selected Economic Indicators, 2013–2018

	2013	2014	2015	2016	2017	2018
Antigua and Barbuda						
Annual percentage change unless otherwise indicated						
Real Sector						
Real GDP	(0.1)	4.7	4.0	5.6	3.0	4.9
Nominal GDP	(1.5)	6.9	6.6	7.8	3.1	7.5
Consumer prices (end of period)	1.1	1.3	0.9	(1.1)	2.4	1.6
Consumer prices (period average)	1.1	1.1	1.0	(0.5)	2.4	1.2
Annual percentage change unless otherwise indicated						
External Sector						
Current account (percent of GDP)	...	(0.0)	5.2	(2.2)	(6.9)	(4.7)
International reserves (millions of U.S. dollars)	202.6	297.0	355.7	330.1	313.6	...
In percent of GDP						
Public Sector						
Total revenue	18.6	19.7	23.7	24.0	19.7	19.6
Current expenditure	21.8	20.9	20.1	20.5	20.6	20.1
Capital expenditure and net lending	1.3	1.6	1.4	3.9	1.5	1.8
Primary balance	(2.4)	(0.1)	4.6	2.2	0.1	0.1
Overall balance	(4.5)	(2.7)	2.2	(0.4)	(2.4)	(2.3)
General government gross debt	94.9	102.5	98.6	86.0	87.7	88.1
In millions of EC dollars						
Memo						
Nominal GDP at market value	3,220.9	3,444.1	3,669.8	3,954.5	4,077.2	4,384.3
Dominica						
Annual percentage change unless otherwise indicated						
Real Sector						
Real GDP	(0.6)	4.4	(2.6)	2.5	(9.5)	0.5
Nominal GDP	3.3	4.3	3.3	6.4	(13.7)	1.4
Consumer prices (end of period)	(0.4)	0.5	(0.7)	0.7	0.6	2.8
Consumer prices (period average)	(0.0)	0.8	(0.9)	0.1	0.5	1.4
Annual percentage change unless otherwise indicated						
External Sector						
Current account (percent of GDP)	...	(6.9)	(6.9)	(8.4)	(7.3)	(46.2)
International reserves (millions of U.S. dollars)	87.1	101.4	126.2	221.9	212.3	...
In percent of GDP						
Public Sector						
Total revenue	28.3	32.1	29.7	49.7	47.3	52.5
Current expenditure	26.0	25.2	25.8	25.5	33.2	34.8
Capital expenditure and net lending	11.9	8.6	5.6	10.3	19.4	27.5
Primary balance	(7.5)	0.1	(0.0)	15.6	(3.6)	(7.9)
Overall balance	(9.6)	(1.7)	(1.7)	13.9	(5.2)	(9.8)
General government gross debt	80.1	78.7	75.3	72.0	78.6	83.1
In millions of EC dollars						
Memo						
Nominal GDP at market value	1,355.3	1,413.6	1,460.2	1,553.8	1,341.2	1,359.8

Sources: Eastern Caribbean Central Bank; and International Monetary Fund, April 2019 *World Economic Outlook*.

	2013	2014	2015	2016	2017	2018
Grenada						
Annual percentage change unless otherwise indicated						
Real Sector						
Real GDP	2.4	7.3	6.4	3.7	5.1	4.8
Nominal GDP	5.3	8.2	9.4	6.5	6.1	7.2
Consumer prices (end of period)	(1.2)	(0.6)	1.1	0.9	0.5	1.4
Consumer prices (period average)	(0.0)	(1.0)	(0.5)	1.6	0.9	0.8
Annual percentage change unless otherwise indicated						
External Sector						
Current account (percent of GDP)	...	(10.9)	(11.0)	(10.1)	(13.8)	(14.6)
International reserves (millions of U.S. dollars)	150.6	169.9	198.0	207.7	199.1	...
In percent of GDP						
Public Sector						
Total revenue	20.6	24.5	24.5	26.2	25.6	25.8
Current expenditure	20.3	20.0	17.3	19.7	19.9	18.8
Capital expenditure and net lending	6.8	9.2	8.3	4.7	2.6	2.8
Primary balance	(3.4)	(1.2)	2.1	4.7	5.7	6.2
Overall balance	(6.5)	(4.7)	(1.2)	1.8	3.0	4.2
General government gross debt	108.1	101.8	90.1	81.6	69.9	63.1
In millions of EC dollars						
Memo						
Nominal GDP at market value	2,275.1	2,461.0	2,691.9	2,866.4	3,042.6	3,260.1
St. Kitts and Nevis						
Annual percentage change unless otherwise indicated						
Real Sector						
Real GDP	5.5	6.1	2.1	2.3	1.2	3.0
Nominal GDP	6.1	7.9	2.1	2.4	3.4	4.8
Consumer prices (end of period)	0.6	(0.5)	(2.4)	0.0	0.8	(0.8)
Consumer prices (period average)	1.1	0.2	(2.3)	(0.7)	0.7	(1.0)
Annual percentage change unless otherwise indicated						
External Sector						
Current account (percent of GDP)	...	(0.7)	(10.3)	(12.6)	(8.7)	(0.8)
International reserves (millions of U.S. dollars)	302.0	327.3	288.4	320.5	365.1	...
In percent of GDP						
Public Sector						
Total revenue	42.9	40.1	37.6	33.3	31.5	39.5
Current expenditure	24.4	25.1	25.3	25.0	24.4	26.2
Capital expenditure and net lending	6.2	5.2	6.5	3.5	5.2	6.7
Primary balance	15.8	12.9	7.7	6.4	3.4	8.1
Overall balance	12.3	9.7	5.8	4.8	1.9	6.7
General government gross debt	93.8	75.2	66.1	61.5	61.1	62.0
In millions of EC dollars						
Memo						
Nominal GDP at market value	2,293.6	2,475.5	2,528.0	2,589.2	2,678.4	2,807.7

Sources: Eastern Caribbean Central Bank; and International Monetary Fund, April 2018 *World Economic Outlook*.

	2013	2014	2015	2016	2017	2018
St. Lucia						
Annual percentage change unless otherwise indicated						
Real Sector						
Real GDP	(2.0)	0.0	0.3	3.9	3.7	0.6
Nominal GDP	3.0	4.1	6.4	2.9	7.2	3.6
Consumer prices (end of period)	(0.7)	3.7	(2.6)	(2.8)	2.0	1.6
Consumer prices (period average)	1.5	3.5	(1.0)	(3.1)	0.1	1.9
Annual percentage change unless otherwise indicated						
External Sector						
Current account (percent of GDP)	...	0.8	4.2	(3.4)	(2.6)	(1.2)
International reserves (millions of U.S. dollars)	192.2	257.7	317.5	305.5	321.8	...
In percent of GDP						
Public Sector						
Total revenue	22.1	23.1	22.9	22.8	22.6	23.0
Current expenditure	21.2	21.2	20.0	20.1	19.4	21.1
Capital expenditure and net lending	6.9	5.2	4.9	3.1	4.4	2.8
Primary balance	(2.7)	0.2	1.3	2.8	1.9	2.2
Overall balance	(6.0)	(3.3)	(2.1)	(0.5)	(1.2)	(0.9)
General government gross debt	68.9	69.6	66.8	66.6	66.1	66.8
In millions of EC dollars						
Memo						
Nominal GDP at market value	3,999.1	4,164.5	4,430.5	4,558.3	4,887.4	5,065.7
St. Vincent and the Grenadines						
Annual percentage change unless otherwise indicated						
Real Sector						
Real GDP	1.8	1.0	1.8	1.3	0.7	3.2
Nominal GDP	4.1	0.6	4.3	1.3	1.7	4.2
Consumer prices (end of period)	-	0.1	(2.1)	1.0	3.0	1.4
Consumer prices (period average)	0.8	0.2	(1.7)	(0.1)	2.2	2.3
Annual percentage change unless otherwise indicated						
External Sector						
Current account (percent of GDP)	...	(25.8)	(14.5)	(15.2)	(17.2)	(15.8)
International reserves (millions of U.S. dollars)	135.1	157.4	166.0	192.3	182.0	...
In percent of GDP						
Public Sector						
Total revenue	26.9	29.4	28.0	30.8	29.3	28.2
Current expenditure	25.2	26.0	25.1	24.9	26.8	26.1
Capital expenditure and net lending	7.8	5.5	4.2	3.8	4.2	3.1
Primary balance	(3.7)	0.3	0.9	4.3	0.7	1.2
Overall balance	(6.2)	(2.1)	(1.3)	2.2	(1.7)	(1.0)
General government gross debt	75.0	79.4	79.4	82.8	74.2	73.1
In millions of EC dollars						
Memo						
Nominal GDP at market value	1,947.3	1,959.9	2,043.5	2,070.6	2,106.4	2,195.4

Sources: Eastern Caribbean Central Bank; and International Monetary Fund, April 2018 *World Economic Outlook*.

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