Caribbean Region Quarterly Bulletin

2018·IV

A Look at 2018 and Beyond

Volume 7, Issue 4 | December 2018

IDB Country Department Caribbean

Dear Reader:

Welcome to the December 2018 issue of the *Caribbean Region Quartlerly Bulletin.*

Ten years after the global financial crisis, some Caribbean countries are still reeling from its effects. Income per capita in several countries is still below the level it was in 2007. On the other hand, the recovery is progressing, though from a low base, with growth levels in 2018 and 2019 projected to accelerate. The weak performance overall has important implications for fiscal targets, debt levels, employment, and the general satisfaction of the population.

In 2018, there has also been further divergence in the development of individual countries that goes beyond the difference between commodity producers and tourism-dependent countries. While the economic situation is visiblly improving in some countries, others are still struggling, and reforms need to be accelerated in order to facilitate growth and create employment while building buffers against an eventual worsening of international conditions or weather-related shocks.

With this backdrop in mind, this new issue of the *Caribbean Region Quarterly Bulletin* summarizes recent developments in the region and provides an outlook for 2019.

The Year 2018 in Review

The divergence in the development of the countries that correspond to the Inter-American Development Bank's Caribbean Country Department and the Organisation of Eastern Caribbean States (OECS) continued into 2018. While The Bahamas, Barbados, and Jamaica have benefited from strong world demand and still low commodity prices, they are also each dealing with fiscal challenges resulting from high debt-to-GDP ratios and related vulnerabilities. The situation in Barbados required immediate attention, and the authorities signed a four-year Extended Fund Facility supported by the International Monetary Fund. At the same time, Suriname and Trinidad and Tobago are still recovering from the fall in commodity prices, with both countries barely exiting recessions. Guyana is an outlier in the region. Based on strong gold prices and the prospect of income and revenue from oil extraction scheduled for 2020, the country is experiencing strong economic growth, partly caused by fiscal expansion. The situation in the OECS countries is similar – while rebuilding from the 2017 hurricanes is ongoing in some countries, others have made important progress on their fiscal reform agenda.

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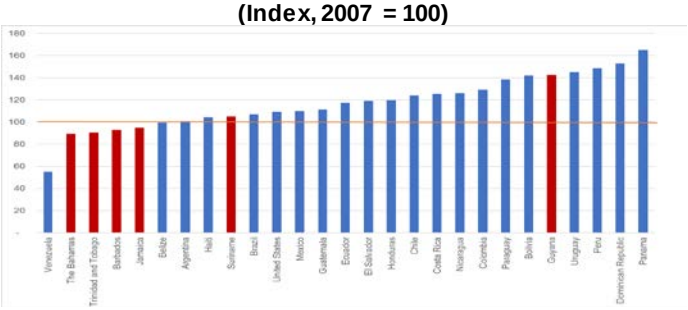
The Global Context

The world economy has continued its expansion. The International Monetary Fund's (IMF) October 2018 *World Economic Outlook* predicts a continuation in the steady expansion of the world economy that dates from mid-2016. The IMF forecasts global growth rates for 2018 and 2019 similar to those in 2017. However, the IMF is slightly less optimistic going forward, reducing the overall growth predictions to 3.7 percent for 2018 and 2019, which is 0.2 percentage points less than its April 2018 estimates. In addition, the IMF points out that the expansion has become less balanced and may have peaked in some major economies. Overall, the IMF sees more downside risks and a decline in the likelihood of better-than-expected performance.

This more cautious tone reflects weaker-than-expected performance in some countries and a possible plateau of growth. Growth in some key markets during the year has been below the April 2018 forecast. Risks have also increased from the negative effects of recent trade measures, a weaker outlook of some key emerging markets and developing economies, tighter financial conditions, geopolitical tensions, and higher oil import bills.

Figure 1. Real GDP Per Capita by Country, 2018 (Index, 2007 = 100)



Source: International Monetary Fund, October 2018 *World Economic Outlook*.
Note: Index denotes real GDP per capita for 2018 in 2007 terms (2007 = 100).

The world economy is still feeling the effects from the global financial crisis of 2008–2009. The IMF noted that 10 years after the Lehman Brothers collapse, GDP in most countries is still below trend growth. The situation is more severe in various Caribbean countries, where GDP per capita is even below the level of 2007 (Figure 1). Most commodity-producing countries experienced a faster recovery than tourism-dependent countries. Guyana had outstanding economic development between 2007 and 2018, reaching an average real GDP per capita growth rate of 3.2 percent. Suriname achieved a positive, although close to zero, average growth rate of 0.45 percent, while Trinidad and Tobago had a negative rate of -0.9 percent. Among the tourism-dependent countries, the growth performance was similar. The average growth rate during the past decade of The Bahamas (-1 percent), Barbados (-0.7 percent), and Jamaica (-0.5 percent) was negative and close to zero. As a result, real GDP per capita of these countries remains below 2007 levels.

Current Performance and Outlook

The macroeconomic situation of the Caribbean in 2018 has continued to improve in general. While average developments are encouraging, however, divergence in the development of the various countries has increased. According to recent estimates, average growth for the six Caribbean countries that constitute the IDB's Caribbean Department will increase from 0.6 percent in 2017 to 1.6 percent in 2018. In the same period, public debt as a percentage of GDP will decrease from 79 to 72.9 percent, and the primary fiscal balance will go from -1.6 to -0.3 percent of GDP. Moreover, the current account of the balance of payments will continue around -3.3 percent of GDP. While the average trend for 2018 has improved, trends in the different countries vary considerably. It is estimated that Suriname and Trinidad and Tobago will emerge from a strong recession, while the fiscal and external situation in Barbados has forced the government to request support from the IMF. Fiscal pressures also continue to increase in The Bahamas and Guyana, while Jamaica continues to make good progress on its fiscal consolidation program.

Further improvements are expected. According to the most recent IMF estimates, Caribbean economies could experience 1.9 percent growth in 2019 and an improvement in their primary fiscal balance as a percentage of GDP from -0.3 percent in 2018 to 0.7 percent in 2019. It is also expected that debt along with the current account of the balance of payments, both as a percentage of GDP, will improve or at least stabilize. However, there is a considerable difference in the current and expected macroeconomic performance for 2019 between tourism-dependent countries (The Bahamas, Barbados, and Jamaica) and commodity-producing countries (Guyana, Suriname, and Trinidad and Tobago). Additionally, Barbados and Suriname have country-specific economic challenges.

The performance of tourism-dependent Caribbean countries continues to improve. The Bahamas is recovering from the effects of hurricanes in 2016 and 2017 that led to higher public spending and interruptions in the flow of revenue. For 2018, expectations are for a recovery of growth (2.3 percent) and a substantial improvement in fiscal effort (a primary fiscal balance of 0.1 percent of GDP compared to -3.4 percent in 2017) that will lead to a stabilization of debt as a percentage of GDP below 55 percent. Jamaica continues to implement fiscal reforms and has benefited from a reduction in its

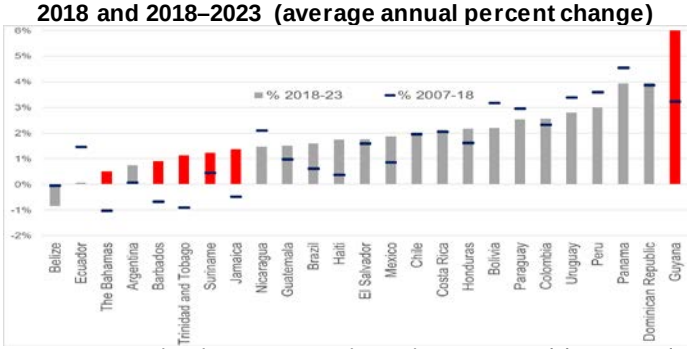
debt as a percentage of GDP (97.4 percent at the end of 2018 compared to 145 percent in 2012). In Barbados, fiscal vulnerabilities have been accentuated, prompting the new government to sign a 48-month agreement with the IMF.

Commodity producers are turning the corner. These countries, in contrast to tourism-dependent Caribbean countries, are benefiting from the increase in the prices of raw materials and increases in production that will be reflected in more vigorous growth. In 2018, economic growth of these countries is estimated to be 2.1 percent, up from an average of 0.5 percent in 2017. Growth is expected to reach 2.6 percent in 2019. Despite the improvements in growth rates, however, the fiscal effort of these countries remains insufficient. The average primary balance improved only slightly from -5.7 percent of GDP in 2017 to -4 percent in 2018, and public debt remains high compared to levels prior to the global financial crisis (average of 54.1 percent of GDP in 2018 compared to 32 percent in 2007). The situation is more critical in Suriname, which saw its debt as a percentage of GDP almost triple between 2014 (26.3 percent) and 2016 (75.8 percent). For its part, Guyana is already beginning to feel the effects of oil production that will begin in 2020 and that is expected to lead to growth rates of more than 20 percent in 2020 and 2021. The projections for Trinidad and Tobago are for a slight economic acceleration (growth of 0.9 percent in 2019 and 1.6 percent in 2020), accompanied by a greater fiscal effort that should stabilize debt at the current level (43 percent of GDP).

The longer-term outlook remains subdued but positive. Figure 2 shows that predictions for 2018–2023 growth are above the 2007–2018 averages for all six Caribbean countries analysed here. According to the IMF, Guyana will achieve an average real GDP per capita growth rate of 17 percent from 2018 to 2023. Without Guyana, the IMF forecasts an average growth rate of 1 percent for the other Caribbean countries during 2018–2023, 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 is 72.9 percent of GDP in 2018, it varies widely between the different countries: Suriname (62.5 percent), Jamaica (97.3 percent), and Barbados (123.6 percent). Moreover, debt levels are above the debt sustainability levels of small countries worldwide with open and undiversified economies (approximately 60 percent of GDP). Other policy reforms that are needed include improving the business climate, access to finance, and support for infrastructure investment.[1] The countries are also susceptible to external economic conditions and shocks. Climate change and natural disasters exacerbate the region's macroeconomic challenges. The estimated cost of the impact of hurricanes and floods in the region is approximately 2 percent of GDP per year.

Figure 2. Real GDP Per Capita Growth by Country for 2007–2018 and 2018–2023 (average annual percent change)



Source: International Monetary Fund, October 2018 *World Economic Outlook*.
Note: The figure reports the annual percent change of real GDP per capita for 2007–2018 and the forecast for 2018–2023. Forecast average growth for Guyana is 17 percent. CCB countries displayed in red.

Conclusion

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 strengthening of commodity prices should benefit the commodity-producing countries. Economic performance in Suriname, Trinidad and Tobago, and Guyana is expected to strengthen. This is especially the case for Guyana, where imminent oil production is raising expectations of a strong push to GDP.

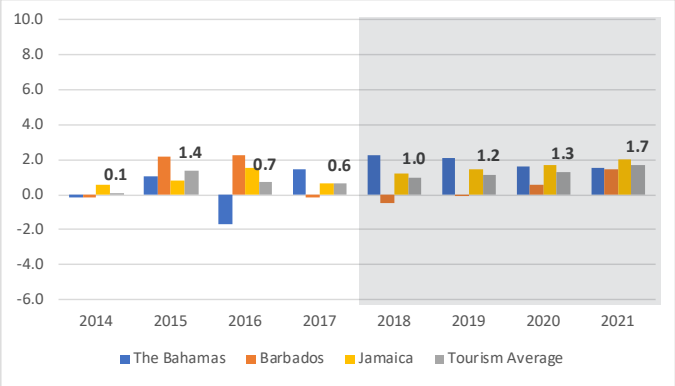
Tourism-dependent countries need to continue to implement the reform agenda, especially regarding fiscal affairs and debt. The outlook for these countries will depend on their ability to continue to lower debt-to-GDP ratios and on favourable external conditions. Lowering debt ratios will create buffers for when conditions worsen. In addition to fiscal reforms, all countries should pursue growth-friendly reforms and ramp up infrastructure investments, which have suffered since 2008.

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

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

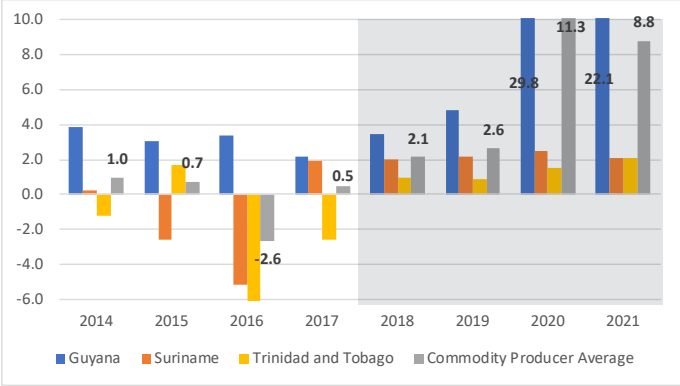
Growth is recovering…

Figure A. Economic Growth in Tourism Countries



… and projected to jump in Guyana.

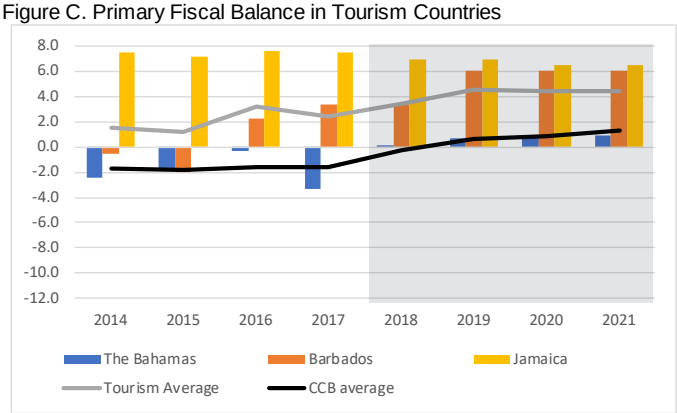
Figure B. Economic Growth in Commodity Producer Countries



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

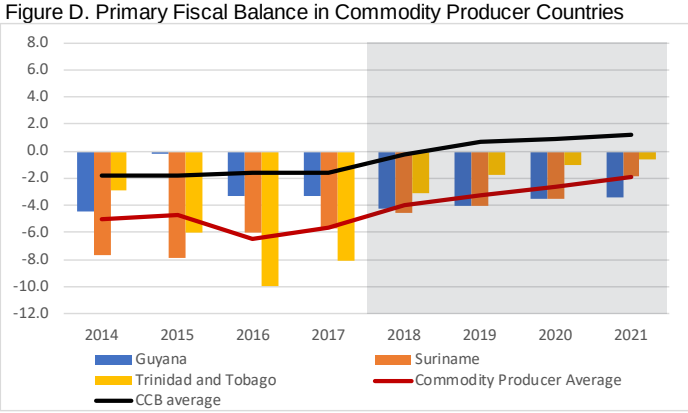
While the fiscal adjustment is evident…

Figure C. Primary Fiscal Balance in Tourism Countries



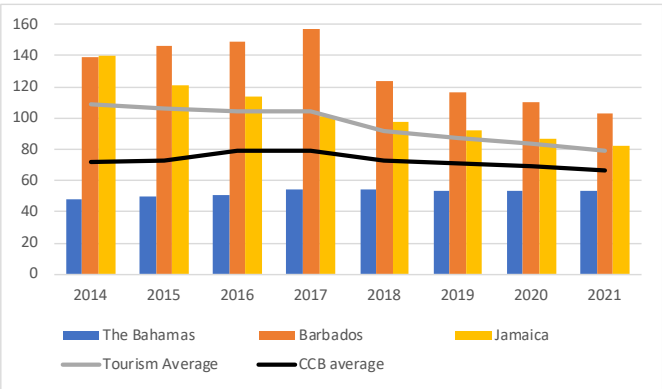
… commodity producers are lagging.

Figure D. Primary Fiscal Balance in Commodity Producer Countries



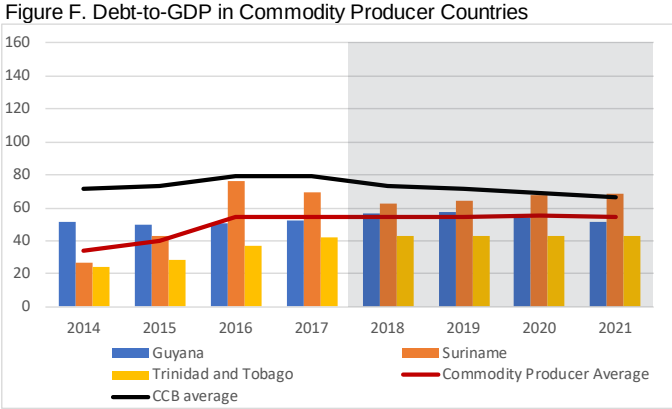
As a result, debt is decreasing but at different speeds…

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, October 2018 *World Economic Outlook.*

THE BAHAMAS DEVELOPMENTS IN 2018

Contributor: Allan Wright

Overview

GDP growth in The Bahamas is estimated at 2.3 percent in 2018, after moderate growth in 2017. The International Monetary Fund projects that the country's average medium-term growth rate for the next five years will be 1.6 percent (IMF 2018), driven by a stronger U.S. economy, the opening of the Baha Mar mega resort, and related construction activity. Recovery in the real sector and a pick-up in foreign direct investment (FDI) will continue to be growth-positive and aid the overall recovery. Buoyed by improvements in tourism and FDI activity, the domestic economy has strengthened over the review period. Activity in the tourism sector continued to improve (with air arrivals up by 15 percent as at August 2018), supported by increased high-end room capacity (the Baha Mar opening and other properties), new airline routes, and strengthened economic conditions in key source markets. Meanwhile FDI-funded projects continue to fuel growth in the construction sector.

The rate of unemployment remained flat at 10 percent as of May 2018, compared to 10.1 percent in November 2017, as the size of the labour force increased at a rate similar rate to that of job creation levels. Regional unemployment on the most populated island (New Providence) declined by 60 basis points, while on Grand Bahama the rate marginally increased to 12.4 percent. Youth unemployment levels remain at concerning levels, up by 2 percentage points, although reports on the "Labour on the Blocks" Program suggest that a number of Bahamians have found employment through that new Labour Department initiative.[1]

Commercial banks remain liquid and well capitalized, but banks have remained cautious as domestic credit has slightly declined. Capital adequacy ratios increased to 32.5 percent in 2017 from 28.6 percent the year before, well above the regulatory requirement of 17 percent, while liquid assets increased to 29 percent. Declining non-performing loan levels were measured at 8.9 percent in June 2018, down from 11.4 percent in 2016. Credit restructuring and loan write-offs were the main drivers improving banks' credit quality index.

Key Economic Developments

Fiscal Responsibility Legislation (FRL) was passed on October 1, 2018, save for provisions with respect to the proposed Fiscal Responsibility Council that are to come into effect by the beginning of the third quarter of 2019. The Fiscal Responsibility Bill seeks to secure the vital fiscal gains set out in the recent budget, with the main objective to develop enhanced principles for better management and stronger scrutiny of fiscal performance. Reducing central government debt to 50 percent from its current level and targeting a fiscal deficit of 0.5 percent by FY2020/2021 are the targets of the FRL.

Highlights

- *Fiscal Responsibility Legislation was passed on October 1, 2018 to develop enhanced principles for better management and stronger scrutiny of fiscal performance.*
- *New revenue measures were presented in the 2018/2019 budget.*
- *The Central Bank of The Bahamas released revised guidelines on anti-money laundering/combatting the financing of terrorism guidelines, even as the archipelago has been added to a list of nations that pose a risk to the international financial system.*
- *The economy appears to be on a stable growth path, even as fiscal targets are within reach.*

New revenue-generating measures were presented by Deputy Prime Minister and Minister of Finance Peter Turnquest in the recent House of Assembly budget presentation. The measures are designed to lead to balancing the country's 2018/2019 budget and achieving fiscal targets outlined in the FRL. Value-added taxes (VAT) increased by almost 60 percent effective July 1, while a sliding scale of rates was introduced to be applied to gaming house activities.[2] Some relief was provided for breadbasket items (except for sugar), medicine, residential property insurance, electricity bills under BHS$100, and water bills under BHS$50, effective August 1.

The Central Bank of The Bahamas (CBoB) released revised anti-money laundering/combatting the financing of terrorism (AML/CFT) guidelines. The revised guidelines, which took immediate effect, outline the CBoB's mandatory minimum customer due diligence requirements for banks, trust companies, co-operative credit unions, non-bank money transmission businesses, and payment service providers (all collectively referred to as supervised financial institutions). The CBoB also proposed revisions to the legislative framework for resolving problem banks. Once enacted, the proposed

[1] Some 1,200 people have been permanently employed as a result of the government initiative, according to Department of Labour officials. The Department of Labour has registered 2,500 job seekers through Labour on the Blocks events.

[2] Delays arising from a lawsuit filed against the government by the gaming industry have impacted the budget. As a result of the prolonged delay in implementation of the new sliding-scale tax, the government stands to lose at least US$10 million in revenue (approximately US$2.8 million per month for the period from July- October 2018) until the matter is heard in the final quarter of 2018.

amendments will establish the CBoB as the resolution authority for problem banks and streamline the role and powers of the Deposit Insurance Corporation. Finally, the central bank has also strengthened its policy on financial inclusion by pledging allegiance to the Maya Declaration and joining the Alliance for Financial Inclusion. The CBoB has committed to introduce a digital version of the Bahamian currency by 2020, ensuring minimum levels of access to banking and payment services in geographically remote parts of The Bahamas. The bank also has plans to conclude the development and start-up of a credit bureau in order to foster trust and accountability between supervised financial institutions and their customers (CBoB 2018).

The Bahamas has been added to a list of jurisdictions considered to have deficiencies that pose a risk to the international financial system. The Financial Action Task Force listed The Bahamas along with 10 other jurisdictions. In response, the Deputy Prime Minister and Minister of Finance has committed to beefing up resources at the Financial Intelligence Unit and other related agencies.

Moody's Investor Services has confirmed The Bahamas' Baa3 credit rating. Moody's left unchanged most of the risk ceilings for The Bahamas' long- 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 confirmation of the sovereign ratings. However, Moody's expressed concerns regarding the contingent liabilities of state-owned enterprises, especially the Bank of The Bahamas. Standard & Poor's visited the archipelago during the final quarter of 2018, and its current rating for The Bahamas is BB+.

Fiscal Performance

The FY2018/2019 budget communication was presented in Parliament on May 30, 2018 and approved in the final week of June. Budget highlights include several key revenue and expenditure measures. For revenue, the government increased the VAT from 7.5 to 12 percent and removed the VAT from several breadbasket items, imposed a progressive tax on gaming house profits and instituted a tax on gaming house patrons, eliminated import duties on several retail and capital goods, and increased the custom exemption from US$300 to US$500. Expenditures were curtailed by the introduction of a Fiscal Responsibility Bill, the proposed establishment of an independent Fiscal Responsibility Council, the 10 percent reduction in discretionary expenditure across all government ministries, the establishment of a Disaster Relief Fund, and a US$13.5 million Digital Government initiative.

Fiscal targets appear to be within reach, as the fiscal deficit has narrowed. Reflecting in part a capital-spending-led US$59.8 million decrease in aggregate expenditure, along with a modest gain in total revenue, the government's overall deficit narrowed to US$211.9 million during almost the full period of FY2017/2018, when compared to the previous period. In one year since the inauguration of the new administration with key mandates, total expenditure for the 2017/2018 period has been reduced by 9.9 percent, exactly on target to achieve the government's 10 percent plan to revive economic growth, improve government accountability and transparency, and restore fiscal discipline. The central government fiscal deficit is estimated to have declined to 2.2 percent of GDP for the fiscal year ending in June 2018, improving from 5.5 percent of GDP in FY2017 due to a decline in capital outlays led by a reduction in infrastructure spending, subsidies, and other transfers. Personal emoluments accounted for a sharp 7.8 percent increase in the wage bill. Interest payments firmed amid gains in repayment obligations. The growth in aggregate revenue was led by an increase in tax receipts, as proceeds from goods and services fees rose by 12 percent. Similarly, tax revenue expanded, with VAT receipts growing by 2.5 percent. In addition, other "unallocated" taxes increased to US$60.6 million, from US$8.6 million a year earlier. Providing some offset, taxes on international trade and transactions contracted, largely reflecting a falloff in imports and excise taxes, which eclipsed the gain in export taxes (CBoB 2018).

Debt Management

Central government and publicly guaranteed debt reached roughly 58 percent of GDP in 2017/2018, marginally below the 2016/2017 level. The debt-to-GDP ratio has fallen by 1 percent for the first time in over a decade, reversing previous levels that averaged 3.5 percent. Central government debt was 52 percent of GDP, slightly above the 50 percent target in the FRL set for FY2020/2021. Central government guaranteed debt, both in Bahamian and foreign currency, fell slightly to 5.4 percent of GDP in 2018, from 5.7 percent in 2017**.**

A decomposition of The Bahamas' public debt suggests that interest payments are the main driver for FY2018. Higher interest payments also made important contributions to the change in debt, and its impact is expected to continue on par with growing payment obligations. Interest payments grew from 1.98 percent in FY2015 to 2.26 percent in FY2018**.** The government appears to be moving to address the current debt levels. The introduction of Fiscal Responsibility Legislation covering the operations of state-owned enterprises aims to achieve savings and is expected to contribute to better medium- and long-term stability in the debt path.

External Sector Performance

It is estimated that the current account deficit will be 12.7 percent of GDP at the end of 2018, compared to 15.7 percent a year earlier. Imports returned to trend levels during the year following 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 6.2 percent by 2020.The current account deficit has mainly been financed by private inflows. The country has been increasing its reliance on private capital inflows (9.2 percent in 2018), while FDI inflows currently stand at 2.4 percent. Private capital inflows contributed on average 11.6 percent of GDP and direct investment contributed 1.7 percent of GDP during the 2013–2018 period. However, there is an expectation of a rebound in the contribution of FDI, with the medium-term forecast improving. Equity investment has gradually started to strengthen and is expected to reach approximately 2 percent of GDP at the end of 2018, then increase roughly to 3.3 percent of GDP in 2019.

Gross reserves increased to US$1.414 billion by end-December 2017 (or 3.5 months of imports of goods and services versus 2.1 months the previous year). Buoyed by the receipt of net proceeds from the government's external borrowings, external reserves expanded over the review period. Improvements in external reserves are also linked to the continued improvement in the tourism sector from the opening of the Baha Mar mega resort, which became fully operational in June 2018, and from investment in other private capital projects. Foreign currency borrowings by the government and a robust pickup in FDI financed investment external reserves, which are estimated to reach four months of goods and services imports in 2019.

Domestic prices remained elevated during the period. Inflation estimates for 2018 are projected at 3 percent, an increase from 2 percent in the previous period. The consumer price index also increased, mainly as a result of housing and transportation services, which contain components sensitive to rising fuel prices (IMF 2018).

Sluggish growth in private sector credit is likely to persist even as the country moves toward establishing a credit bureau. The increased usage of external debt proceeds coupled with a reduction in private sector credit impacted domestic credit, which contracted by roughly 4 percent, while private sector credit fell by 0.7 percent as of the end of 2017. For the first six months of 2018, domestic credit marginally improved to 0.9 percent, as private sector credit declined. Although there is liquidity, lending has been risk-averse because of high non-performing loan (NPL) levels, which were concerning at 8.9 percent as of June 2018. Restructuring credit measures and loan write-offs helped improve indicators for banks' credit quality, but NPL levels remain a concern.

The economy appears to now be on a stable growth path, though dependent on significant capital projects and FDI flows to achieve the medium-term outlook. Any delays in implementation of these projects, however, presents a downside risk. Fiscal targets for FY2017/2018 appear to be in reach through expenditure rationalization and modest revenue growth, although further consolidation efforts are needed, including the improved efficiency of state-owned enterprises in order to reduce pressures on the government's fiscal efforts and not impair the debt outlook. Moving swiftly to address structural bottlenecks is vital to lift medium-term growth. This can be achieved by rapidly starting operations of the credit bureau; instituting reforms to the energy sector; strengthening private sector competitiveness by removing administrative bottlenecks; and enhancing skill talent in the labour market

Conclusion and Policy Discussion

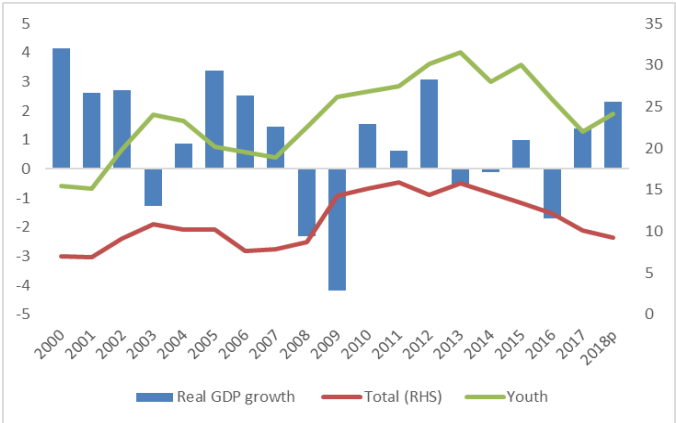
Growth in 2018 in The Bahamas is estimated at 2.3 percent, an increase from the modest rate of 1.4 percent in 2017. A stronger U.S. economy, completion of a large capital project, and related construction activity have boosted growth in the archipelagic nation. A slight decline in the unemployment rate to 10 percent from the November 2017 rate shows that job creation levels are matching growth in the labour force. The passage of new revenue-generating measures and fiscal responsibility legislation in the FY2018/2019 budget presentation targets debt at 50 percent of its current level and a fiscal deficit of 0.5 percent by FY2020/2021. The introduction of fiscal responsibility legislation, in addition to cost-cutting measures, raises hopes that the high levels of the budget deficit and debt burden will gradually be reduced, bringing greater credibility to the level of fiscal governance throughout the country. The Central Bank of The Bahamas released revised guidelines on AML/CFT standards, even as the nation has been added to a list of countries that pose a risk to the international financial system.

Table 1: High-Frequency Macroeconomic Indicators

	Last Data	Period	Prior Data	Period
Annual GDP growth (%)	2.3	2018	1.4	2017
Tourist arrivals growth (%)	5.4	Aug-18	-2.8	Aug-17
Exports (12-month growth %)	6.7	Dec-18	-0.1	Dec-17
Imports (12-month growth %)	-3.5	Dec-18	15.9	Dec-17
Private sector credit growth (%)	-0.7	Dec-17	-1.0	Dec-16
Inflation (% yoy change)	3.4	Aug-18	1.4	Aug-17
Exchange rate (end of period)	1.0	Dec-18	1.0	Dec-17
Unemployment rate (%)	10.0	May-18	10.1	Nov-17

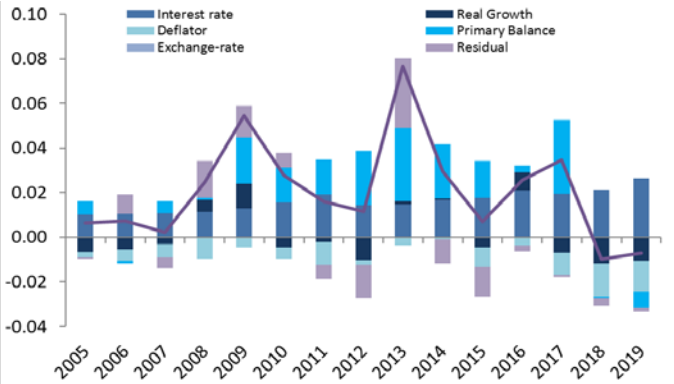
The Bahamas has high per capita, volatile growth and high unemployment

Figure A. Real GDP Growth (percent)



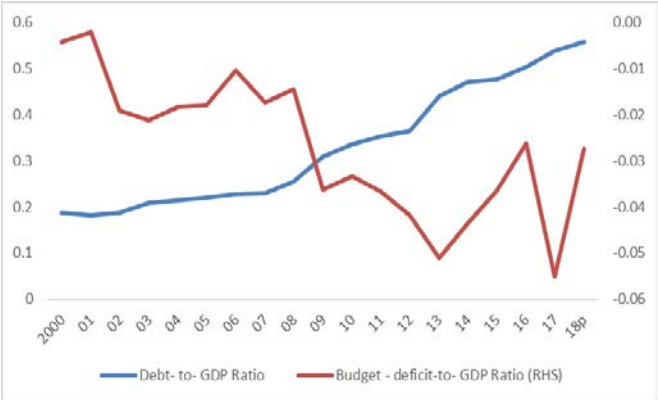
The debt outlook is improving, even with bigger interest commitments

Figure B. Drivers of Debt (percent)



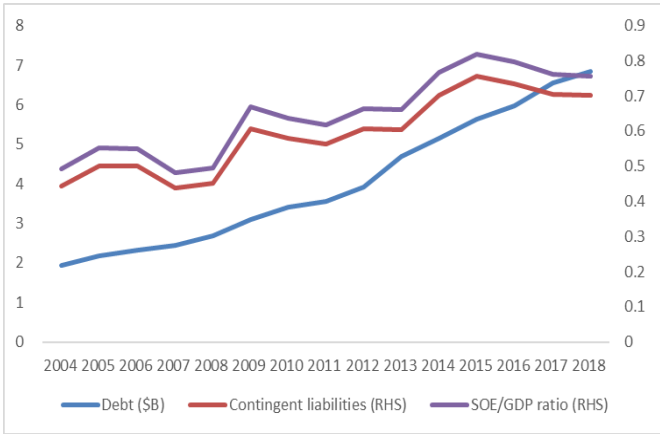
Fiscal Space is improving

Figure C. Fiscal space (percent)



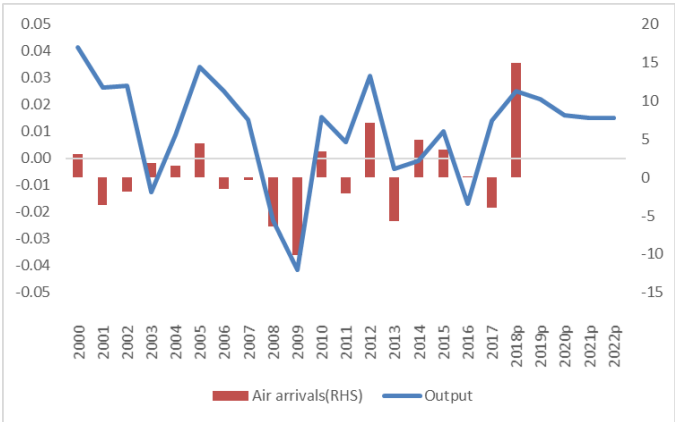
State-owned enterprises (SOEs) pose an excessive burden on the fiscal position

Figure D. State- Owned Enterprises (percent)



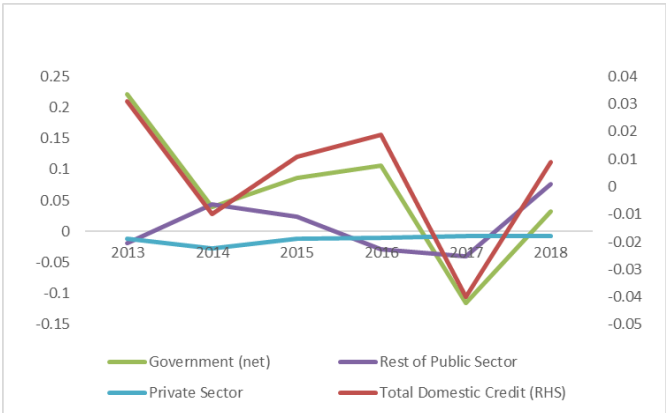
Tourist arrivals are recovering

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



Anemic private sector credit growth remains a lasting concern

Figure F. Credit (percent)



Sources: IMF (2018) Article IV Report; and IDB staff estimates based on the IMF's October 2018 *World Economic Outlook*.

Table 2: Selected Indicators for The Bahamas, 2014-2019

Social and Demographic Indicators (most recent year)			
GDP (US$ millions), 2016	11,838	Adult literacy	95.6
Per capita GDP (2016,US$)	30,581	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 (May 2018)	10

Economic Indicators	2014	2015	2016	2017	2018p	2019p
(Annual percentage change, unless otherwise indicated)						
Real Sector						
Real GDP (% change)	-0.1	1.0	-1.7	1.4	2.3	2.1
Nominal GDP(% change)	3.1	7.6	0.4	2.7	6.3	5.6
Inflation (end of period)	0.2	2.0	0.8	2.0	3.0	2.8
Unemployment	14.6	13.4	12.2	10.1	9.2	6.5
(In percent of GDP, unless otherwise stated)						
External Sector						
Exports of goods and services	37.9	35.0	35.8	33.7	34.1	34.7
Imports of goods and services	49.8	38.7	37.7	41.8	38.0	34.5
FDI	1.5	0.6	0.6	0.6	2.3	3.7
Current account balance	-20.0	-13.7	-7.3	-15.7	-12.7	-8.0
Gross International Reserves (US$M)	788	812	904	1414	1255	1642
In months of next year's imports	2.1	2.2	2.1	3.5	3.2	4.1
Central Government Operations	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Revenue and grants	13.2	14.4	16.3	16.9	16.8	19.4
Total Expenditure	17.6	18.1	18.9	22.4	19.0	21.5
Overall balance	-4.3	-3.6	-2.6	-5.5	-2.2	-2.1
Primary balance	-2.4	-1.7	-0.3	-3.3	0.1	0.7
Memorandum items:						
National debt (in millions of $B)	5,160.2	5,637.4	5,964.8	6,550.1	6,836.1	7,121.4
In percent of GDP	0.47	0.48	0.50	0.54	0.53	0.52
Nominal GDP (in millions of B$)	10,957.3	11,792.3	11,838.8	12,162.1	12,927.6	13,654.0

Sources: IMF (2018); and IDB staff estimates based on the IMF's October 2018 *World Economic Outlook*.
Note: p: projected.

Contributors: Laura Giles Alvarez, Juan Pedro Schmid, and Kimberly Waithe

Overview

The government of Barbados has launched an economic reform program and signed an agreement with the International Monetary Fund (IMF). The authorities rolled out the Barbados Economic Recovery and Transformation (BERT) Program in August 2018. It is an ambitious economic reform program that also provides the macroeconomic framework for the IMF's Extended Fund Facility (EFF) support program. The measures include a front-loaded fiscal adjustment, debt restructuring, economic reforms, and growth-enhancing measures. The aim is to increase the primary fiscal balance to 6 percent of GDP by FY2019/2020 and reduce elevated debt levels, targeting 60 percent of GDP by 2033. International financial institutions are backing the reforms through financing and technical assistance.

Macroeconomic Developments

Economic growth has slowed. The Barbadian economy contracted 0.5 percent in the first nine months of 2018, following a contraction of 0.1 percent in 2017. This is the result of a decline in activity in the construction sector and the impact of tighter fiscal policy on consumption, which counteracted a stronger performance in the tourism industry. Tourism activity increased 1.4 percent, reflecting 2.9 percent more arrivals compared to 2017. However the industry continues to be impacted by a weakening in the average length of stay (Table 1).

Table 1. Long-Stay Tourist Arrivals by Source Market (percent change)

	January-September		
	2016	**2017**	**2018 (e)**
United States	10.7	14.4	8.6
Canada	1.1	10.7	3.1
United Kingdom	2.8	-0.1	1.8
Germany	-4.8	-8.8	-5.5
Trinidad & Tobago	18.2	6.8	-10.2
Total long-stay arrivals	**5.8**	**6.2**	**2.9**

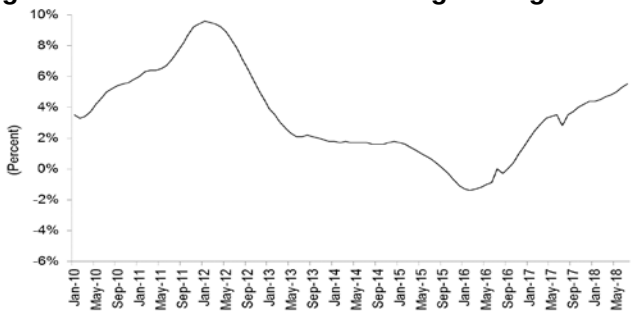
Source: Authors' calculations based on data from the Central Bank of Barbados and the Barbados Statistical Service.

Inflation has increased, and unemployment remains high. The inflation rate reached 4.5 percent of GDP in 2017 and continued to rise to 5.6 percent as of July 2018, partly due to the increase in the National Social Responsibility Levy (NSRL) rate in 2018 and higher international oil prices (Figure 1). Going forward, inflation is expected to fall following the repeal of the NSRL as part of the 2018 fiscal reforms. The average unemployment rate was 9.2 percent for the four quarters ending June 2018, compared to 10 percent at the end of June 2017.

Highlights

- *The economy continued to contract in 2018, and growth will likely remain subdued in 2019.*
- *The government has rolled out an ambitious economic reform plan, the Barbados Economic Reform and Transformation Program.*
- *International financial institutions approved a combined US$465 million in balance of payments and budget support for the government's economic reforms.*
- *The government's fiscal stance continues to improve, with a target primary fiscal surplus of 6 percent of GDP by FY2019/2020.*

Figure 1. Inflation: 12-Month Moving Average



Sources: Central Bank of Barbados; and the Barbados Statistical Service.

With BERT, the government aims to set the economy back on a sustainable path. The program aims to reduce debt levels, targeting 60 percent of GDP by 2033. The key elements of the program include: (1) front-loaded fiscal consolidation measures, aiming for a primary fiscal balance target of 6 percent of GDP by FY2019/2020; (2) comprehensive debt restructuring, including both domestic and external debt (while negotiations with external creditors are ongoing, an agreement with domestic creditors was reached on October 14, 2018); (3) economic reform measures, including a reduction in the central bank's overdraft facility from 10 to 7.5 percent of central government revenues and limits to the central bank's share of securities in the primary market to 10 percent of expenditures; and (4) growth-enhancing policies focused on investing in a high-skilled, knowledge-based economy, providing better channels for local savings for investment, using all assets and easing fiscal leavers that constrain growth, addressing the cost and ease of doing business, and diversifying the economy.

The government's fiscal stance is improving, in line with the targets set in BERT. The overall and primary

fiscal balances in FY2017/2018 reached -4.5 and 3 percent of GDP, respectively, which is an improvement over the respective -5.3 and 2.2 percent of GDP balances recorded in FY2016/2017. This was the result of both higher revenues and lower expenditures, including lower spending on salaries and wages and goods and services. Further measures to increase revenues and reduce expenditures put in place since June have focused on increasing taxes, fees, and levies and reducing spending on salaries and wages and transfers to public institutions. The implementation of the Retooling, Retraining and Enfranchisement Program, along with reforms to state-owned enterprises, commenced in the last quarter of 2018 and is expected to continue in 2019.

The level of debt continues to be high, but it is expected to decline in 2018 following the domestic debt restructuring agreement. Gross public sector debt reached 155.8 percent of GDP at the end of September 2018.[1] This includes the net stock of domestic arrears, at almost 12 percent of GDP. The debt exchange agreement with domestic creditors was approved in October 2018. The negotiations on the debt restructuring agreement with external creditors are ongoing. Approximately 33 percentage points of GDP would be reduced from debt restructuring.

The current account deficit continued to decline, reaching -2.6 percent of GDP at the end of September 2018. At the end of 2017, the current account deficit stood at -3.8 percent of GDP. This falling trend was primarily due to lower external interest payments following the halt on payments to external creditors, and a fall in imports of goods. Net financial flows have been decreasing since 2014, driven by large official amortization payments and lower foreign direct investment (FDI).

International reserves increased slightly, reaching 7.4 weeks of imports at the close of September 2018. This is partly a consequence of the halt on payments to external creditors, which has eased the pressure on external payments but has also resulted in further downgrades by credit rating agencies following missed coupon payments. Support from international financial institutions will further increase the level of reserves.

International financial institutions support the government's fiscal reforms. BERT provides the framework for the four-year EFF with the IMF, approved on October 1, 2018, amounting to US$290 million (Box 1). The EFF focuses on a frontloaded fiscal adjustment that, together with the comprehensive debt restructuring of domestic and external debt, aims to help the government reach its fiscal targets. The Inter-American Development Bank has also committed frontloaded budget support through a US$100 million (2 percent of GDP) Special Development Lending Operation that was signed on November 18, 2018. The Caribbean Development Bank will be providing budget support through an initial US$75 million policy-based loan in 2018 and further loans in the next three years.

Barbados' financial sector has high levels of liquidity and capitalization, despite the impact of debt restructuring. Stress tests of the impact of the proposed debt restructuring on the stability of the financial sector indicate that the insurance subsector would be the most susceptible. Commercial banks and non-banks would be the least impacted by the debt restructuring agreement.[2] Commercial banks remain liquid, registering an excess liquidity ratio of 16.2 percent as of the end of September 2018, compared to 15 percent a year earlier. The level of non-performing loans fell to 7.7 percent and the return on assets remained at a 1.3 percent at the end of September 2018. Average deposit rates remained at 0.2 percent and the average loan rate stood at 6.8 percent over the same period.

The World Bank's *Doing Business Report* for 2019 ranks Barbados at 129th out of 190 countries. This represents an improvement from last year's ranking of 132nd. Barbados was among the lower scoring C-6

Box 1. The Extended Fund Facility

The International Monetary Fund's Extended Fund Facility (EFF) support program builds on the Barbados Economic Recovery and Transformation Program, with a focus of debt reduction. The EFF provides funding, more credibility, and independent monitoring to the fiscal adjustment program.

Key elements of the EFF are:

- **An upfront fiscal adjustment** with the aim of increasing the primary fiscal surplus to 6 percent of GDP in FY2019/2020 and maintaining it at that level for several years thereafter.
- **A reform of state-owned enterprises** with the aim of reducing transfers by 1.8 percentage points of GDP.
- **Structural reforms to support growth** focused on addressing weaknesses in the business climate, as identified in the World Bank's Doing Business Indicators.

[1] Gross public sector debt includes gross central government debt, contingent liabilities, and arrears, and it excludes the IMF's Special Drawing Rights.

[2] The simulations were estimated based on the financial institutions' long-term securities holdings, given the liquid nature of Treasury bills and the small share of direct loans extended to government.

countries.[3] It scored worst on indicators relating to enforcing contracts (170th), protecting minority investors (168th), and dealing with construction permits (154th) (Figure 2). For example, dealing with construction permits takes 442 days in Barbados, compared to 180 in The Bahamas and 141.5 days in Jamaica. Registering property takes 105 days in Barbados compared to 19 days in Jamaica. Improving the business climate during the proposed economic reforms has potential major implications on investment and thus growth.

Figure 2. Barbados: Doing Business Indicator Scores

Source: World Bank, *2019 Doing Business Report.*
Note: The C6 countries are The Bahamas, Barbados, Jamaica, Guyana, Suriname, and Trinidad and Tobago. Scorings from range from 0 to 100 (best).

Outlook

The economy is projected to contract by 0.5 percent and 0.1 percent in 2018 and 2019, respectively. This projection reflects the effect of fiscal consolidation reforms and debt restructuring. Successful implementation of the proposed reform measures, together with support from international financial institutions, should boost confidence and improve the medium-term outlook. Inflation is projected to reach 4.2 percent in 2018, reflecting the repeal of the NSRL and projected higher international oil prices.

The external position is expected to improve over the medium term. The current account deficit is forecast to reach 3.2 percent of GDP in 2018. However, a projected rise in fuel prices could contribute to a higher current account balance over the medium term. Reserves are expected to continue increasing in the next few years. Restored credibility and confidence in the macroeconomic framework should help stabilize exchange rate expectations and improve FDI flows in the medium term, supported by tourism-related investment projects and the relocation of Ross University.[4]

The fiscal stance of the government should continue to improve. If the government continues implementing the proposed measures successfully, the primary fiscal surplus could reach 6 percent of GDP by FY2019/2020, as targeted in BERT. Although the government has shown a commitment to implement and adhere to the required reforms to redirect the economy on a fiscally sustainable path, the economic outlook will ultimately depend on successful and timely completion of the proposed reforms.

Conclusion

Barbados has embarked on an ambitious reform program. Following several years of increases in its debt-to-GDP ratio, the economic situation became highly vulnerable. BERT has both domestic and international support and is expected to restore macroeconomic sustainability, while supporting economic growth and job creation.

The world outlook should have positive effects on the Barbadian economy. The world economy seems to be plateauing at a high level, which supports Barbados in its reform efforts. External demand, including that for tourism, is high, while commodity and energy prices remain manageable.

However, the risk level remains high and must be managed. Besides the need to rebuild buffers to address external risks, a strong commitment to the reform measures is crucial to keep the economy on a sustainable path.

High-Frequency Macroeconomic Indicators

	Last Data	Period	Prior Data	Period
Annual GDP growth (%)	-0.5	Sep-18	-0.6	Jun-18
Tourism arrivals (annual % change)	3.4	Jun-18	3.1	Jun-17
Non-performing loans ratio (%)	7.7	Sep-18	8.0	Jun-18
Gross international reserves cover, weeks	7.4	Sep-18	7.2	Jun-18
Inflation (%)	5.6	Jul-18	4.9	Apr-18
Unemployment rate (%)	9.2	Jun-18	10.0	Mar-18

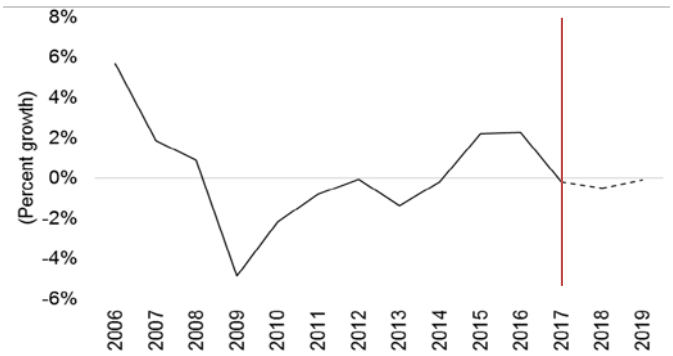
Sources: Central Bank of Barbados; and the Barbados Statistical Service.

[3] The C6 countries are The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

[4] The U.S. offshore medical school, Ross University School of Medicine, is slated to move its operations to Barbados after over 40 years as one of Dominica's major foreign exchange earners.

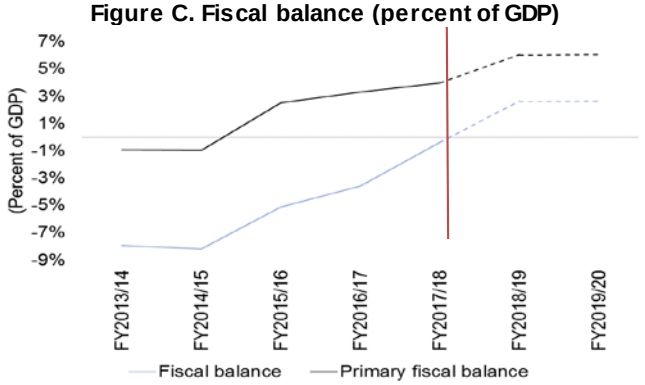
The economy continued to contract in 2018.

Figure A. Real GDP growth



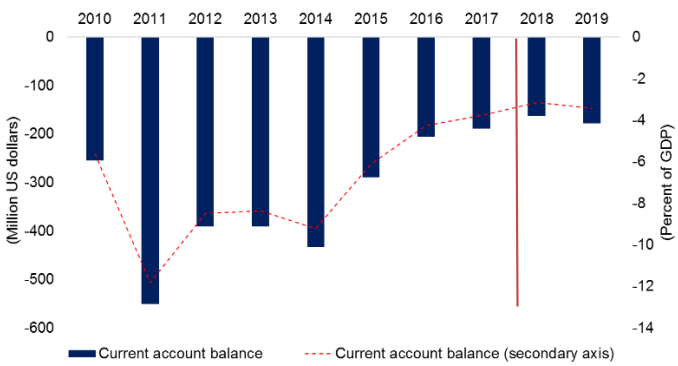
…which are improving the government's fiscal stance.

Figure C. Fiscal balance (percent of GDP)



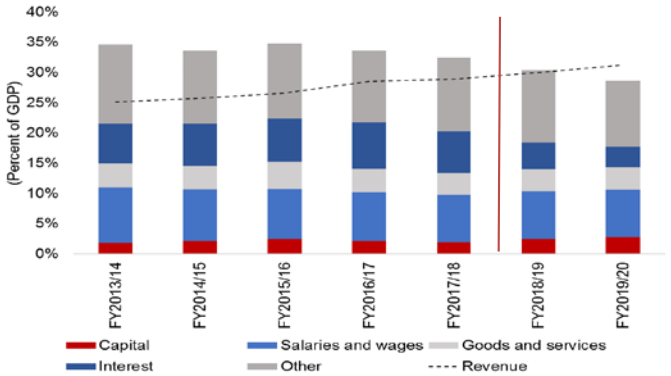
The current account balance continues to improve…

Figure E. Current account balance



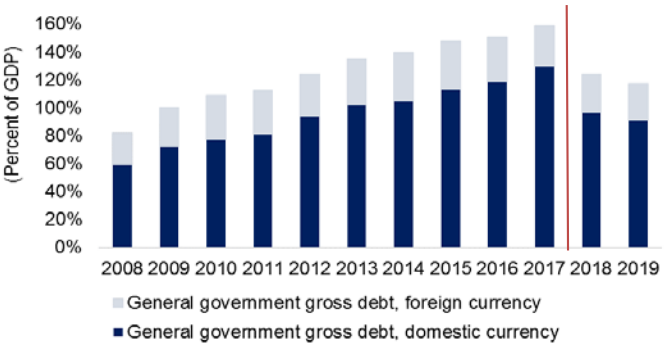
The government is implementing more ambitious revenue- enhancing and expenditure-curbing measures…

Figure B. Revenues and expenditures (percent of GDP)



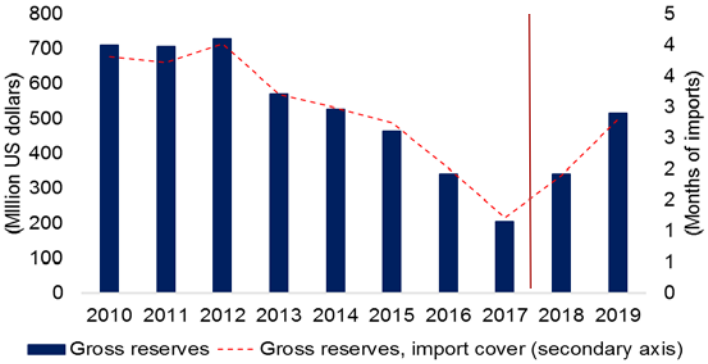
GDP ratios are expected to start falling in 2018.

Figure D. General government debt (percent of GDP)



…which further eases the pressure on international reserves.

Figure F. International reserves



Sources: Central Bank of Barbados; International Monetary Fund, October 2018 *World Economic Outlook;* and Barbados Statistical Services.
NB: the red line indicates the division between actual and projected data

Barbados: Selected Economic Indicators

	2014	2015	2016	2017	2018p
(Percent change, unless otherwise stated)					
Real sector					
Real GDP growth	0.0	2.2	2.5	0.1	-0.5
Nominal GDP (in billions of U.S. dollars)	4.7	4.7	4.8	5.0	5.2
Inflation (average period)	1.8	-1.1	1.5	4.5	4.2
Unemployment	12.3	11.3	9.7	10.0	10.3
External sector					
Exports of goods and services	-0.8	3.2	6.6	0.8	2.9
Imports of goods and services	-1.5	-3.9	0.2	-0.4	4.3
Current account balance (% GDP)	-9.2	-6.1	-4.3	-3.8	-3.2
Foreign reserves cover (in millions of U.S. dollars)	558.2	484.0	332.8	236.7	342
Foreign reserves cover (weeks)	13.8	12.4	9.3	6.1	7.6
Debt					
Gross general govenrment debt (% GDP)	139.2	146.7	149.1	157.3	123.6
Gross domestic general govenrment debt (% GDP)	105.3	113.5	118.8	130.2	96.9
Gross external general govenrment debt (% GDP)	34.1	34.1	31.4	28.6	26.9
(In percent of GDP and on a fiscal year basis, unless otherwise stated)					
Fiscal position					
Revenue	25.8	25.7	28.0	28.1	30.0
Expenditure	33.4	34.8	33.4	32.7	30.4
Fiscal balance	-7.6	-9.0	-5.3	-4.5	-0.4
Primary balance	-0.5	-2.0	2.2	3.0	4.0

Sources: Central Bank of Barbados; International Monetary Fund, October 2018 *World Economic Outlook*; and Barbados Statistical Services.
Note: Gross general government debt includes central government debt,
central government guaranteed debt, and arrears. p: projection.

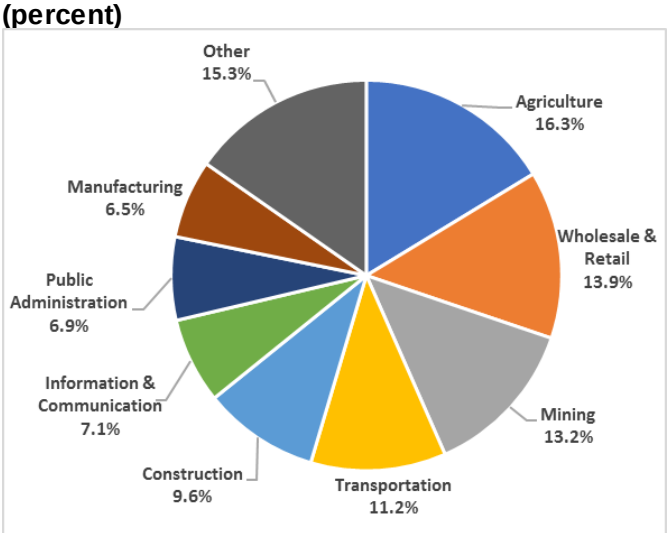
Contributors: Victor Gauto and Elton Bollers

Year in Review

Guyanese authorities estimate that the economy will grow by 3.4 percent in 2018, higher than the 2.1 percent recorded in 2017. The sectors with the greatest growth projections in 2018 are bauxite, livestock, and construction with growth estimates of 26.3, 21.1, and 12 percent, respectively. These positive growth estimates are offset by negative growth estimates for sugar production and gold, which are projected to fall by 28.6 and 13.1 percent, respectively. In terms of contributors to the country's overall economic growth, the main expected drivers are construction and wholesale/retail trade, with contributions of 1.3, and 0.8 percent, respectively. The contributions of those sectors are partly due to the relative size of each one in the economy (Figure 1).

The government projects an economic growth rate of 4.5% in 2019. Agriculture, mining, and manufacturing are expected to recover with the sugar sector leading the recovery in agriculture and growing by 10 percent. The manufacturing and mining sectors are also expected to recover with growth rates of 3.9% and 3.7%, respectively. In terms of main contributors of economic growth, construction and wholesale & retail trade are expected to contribute 1.2 and 0.6 percent to overall economic growth (see Figure A in Snapshot of the Economy).

Figure 1. Shares of GDP by Sector, June 2018 (percent)



Source: Ministry of Finance, Mid-Year Report 2018.

Agriculture, wholesale and retail trade, and mining are the largest sectors of the economy. As of June 2018 these three sectors represented 43.4 percent of the total economy. Within agriculture, rice production represented 3.6 percent of GDP. Within mining, gold production was the largest sector, representing 9.5 percent of GDP. This is a smaller share than what gold production represented in the mid-year points of 2016 and 2017, at 11.5 percent and 11 percent, respectively.

Highlights

- *Economic growth in 2018 accelerated due to dynamism in wholesale and retail trade and construction.*
- *In December, ExxonMobil announced its 10th oil discovery off the shores of Guyana and increased its estimate of reserves to more than 5 billion barrels, higher than the previous estimates of 3.3 and 4 billion.*
- *A Department of Energy was established in August.*
- *The Ministry of Finance released draft legislation for the sovereign wealth fund.*

The sectors experiencing the most growth during the first half of 2018 were livestock, forestry, and bauxite production, as well as construction and retail sales. The livestock industry grew by 29.1 percent during the period, while bauxite production expanded 24.7 percent. The construction sector, which represents approximately 9.6 percent of the economy, grew by 13.4 percent, reflecting higher public sector investment. Overall, the economy grew 4.5 percent in the first half of 2018, higher than the 2.5 percent recorded during that period in 2017.

Strengths in various sectors of the economy offset production decreases in Guyana's two leading products, gold and rice. In the first half of 2018, official gold production decreased by 9.1 percent. Although the combined production of the two large foreign gold mining companies increased, declarations by small- and medium-scale miners fell significantly. Rice production also decreased by 3.8 percent due to adverse weather conditions. Additionally, sugar production fell by 30.6 percent compared to the first half of 2017, which contributed to a fall in manufacturing output of 2.4 percent.

Sugar production and the sugar-related industry are currently facing significant challenges. After several years of producing losses, the publicly owned Guyana Sugar Corporation (GUYSUCO) is undergoing a restructuring process to strengthen its financial sustainability. As part of the process, employment in GUYSUCO contracted by 39 percent during the first half of 2018. The divestment of three of the six sugar estates continues, as their auditing and valuations have been completed. The government has received a number of

bids to purchase the estates, and the authorities are suggesting that the sales could happen by early 2019.[1]

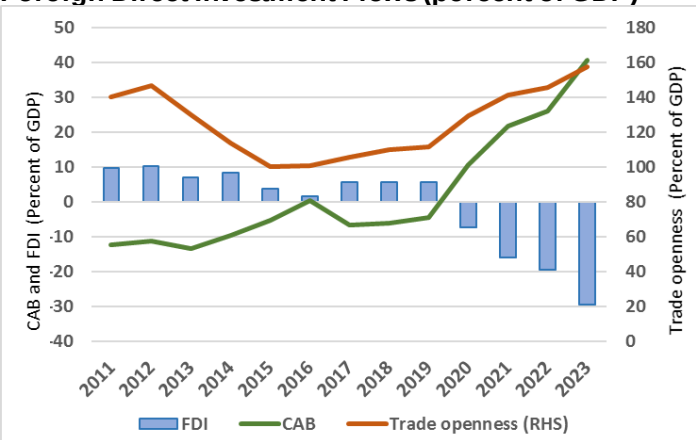
The gross recoverable petroleum resources off the coast of Guyana are now estimated at more than 5 billion oil-equivalent barrels, as announced by ExxonMobil in December 2018.[2] The previous estimate of recoverable resources was 4 billion oil-equivalent barrels. In 2018, five more oil discoveries were made, increasing the total number of oil discoveries to ten. Previously, more conservative estimates indicated that early commercial oil production would start at 100,000 barrels per day in 2020 and increase to a total of 300,000 barrels per day by 2025, using one floating production, storage, and offloading (FPSO) vessel in each of the first two oil wells to become operational (Liza-1 and Liza-2). Oil production in the first two wells is expected to take place over a 20-year period.[3] According to the new higher estimates of resource availability, ExxonMobil claims to have the potential to produce more than 750,000 barrels per day by 2025 with five FPSO vessels.

These levels of production have transformational economic implications for which the government is working to prepare. The main policy developments in this regard have been the creation of the Department of Energy in August and the presentation of draft legislation for a sovereign wealth fund in November. The Department of Energy, which is within the Ministry of the Presidency, will be responsible for developing the oil and gas governance framework, which will be significant for contract management. In November, the Department of Energy announced that it issued several tenders for international experts to assist Guyana in a cost-recovery audit of the Liza-2 development plan.[4] The Department of Energy also announced it is designing new model Production Sharing Agreement contracts for potential future agreements in order to balance investment attraction with economic returns for the government. Also, in November the Ministry of Finance released its draft legislation for Guyana's sovereign wealth fund, named the Natural Resource Fund Bill 2018. Authorities had previously presented a Green Paper on the sovereign wealth fund in August and had announced plans to present draft legislation by December.

Medium-Term Outlook

These natural resource developments are expected to drive economic activity in the medium term. Oil exports are expected to start with a value of US$1.1 billion in 2020 and increase to US$4.9 billion in 2023. These figures would represent 24 and 67 percent of GDP, respectively. While the economy is expected to incur a trade deficit of 5.3 percent of GDP in 2018, the expectation in the medium term is that the trade deficit will become a surplus in 2020 when oil production begins and grow to 50 percent of GDP in 2023. Similarly, the current account balance is projected to increase from a deficit of 6 percent in 2018 to a surplus of 41 percent of GDP by 2023. Foreign direct investment values are expected to turn from net inflows to net outflows in 2020 as oil-producing companies repatriate revenues associated with cost recovery (Figure 2).

Figure 2. Current Account, Trade Openness, and Foreign Direct Investment Flows (percent of GDP)



Sources: Bank of Guyana; and IMF, Article IV Consultation.
Note: CAB: current account balance; FDI: foreign direct investment. Trade openness is the ratio of the sum of exports and imports to GDP.

Central government revenue in 2018 is expected to amount to approximately US$997.6 million, which is 6.8 percent more than collected in 2017. This growth is driven primarily by consumption taxes, followed by the income tax. Non-tax revenues are expected to contract by 13 percent with respect to 2017. In the medium term,

[1] "NCL hoping for sale of sugar estates by early next year, Chairman says," *Stabroek News,* September 30, 2018. Available at https://www.stabroeknews.com/2018/news/guyana/09/30/nicil-hoping-for-sale-of-sugar-estates-by-early-next-year-chairman-says/.

[2] See "ExxonMobil Increases Stabroek Resource Estimate to 5 Billion Barrels; Makes 10th Discover," ExxonMobil press release, December 3, 2018. Available at https://news.exxonmobil.com/press-release/exxonmobil-increases-stabroek-resource-estimate-5-billion-barrels-makes-10th-discovery.

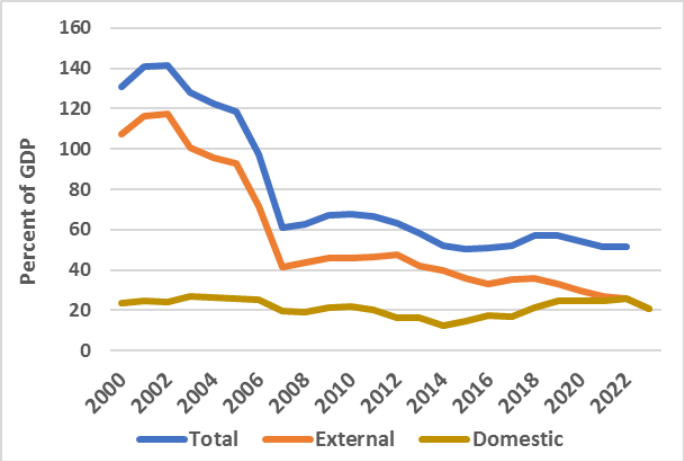
[3] According to "2018 Article IV Consultation Staff Report; Report No. 18/220. International Monetary Fund.

[4] Under the current Production Sharing Agreement with ExxonMobil, 75 percent of total revenues is initially allocated to the Consortium for cost recover.

non-tax revenues based on natural resources are expected to drive government revenue growth. Government revenues are estimated to grow at an average annual rate of 16.4 percent between 2019 and 2023, with non-tax revenues growing at an average of 60 percent per year. These revenues are estimated to increase from approximately US$98 million in 2018 to US$ 965 million in 2023, representing up to 43 percent of government revenues or 12.3 percent of GDP.

The fiscal balance has remained relatively stable in recent years and is expected to become a surplus in the medium term. The average fiscal balance for the five-year period through 2017 was -3.7 percent of GDP. The deficit is projected to grow to 3.9 percent and 5 percent in 2018 and 2019, respectively. This is mainly due to the government's efforts to restructure the sugar sector and increase infrastructure spending leading up to oil production in 2020. Capital expenditure is expected to increase from 7.7 percent of GDP in 2018 to 8.7 percent in 2019 and remain over 10 percent for several years from there on. The fiscal deficit is projected to fall to nearly zero in 2023 attributable to growing oil-related revenues.

Figure 3. Public Debt



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

Debt remains stable, with a positive outlook in the medium term. Total public debt as a share of GDP remained at approximately 50 percent between 2014 and 2017. The higher projected deficits in 2018 and 2019 are expected to lead to total public debt levels of 57 percent and 57.2 percent in those respective years before gradually decreasing to approximately 40 percent of GDP by 2023 (Figure 3). As of December 2018, external public debt was approximately 77 percent of total public debt.

Business Climate

Guyana's ranking on the World Bank's Ease of Doing Business Index continuously declined between the 2017 and 2019 reports. Guyana ranked 124th in 2016, then dropped to 126th in 2017 and 134th in 2019. These rankings are based on an index called the Distance to Frontier, which ranges from 0-100, with 100 being the highest score. From 2017 to 2019, Guyana's score on the Ease of Doing Business Index increased slightly from 56.4 in 2017 to 56.8 in 2018. It then decreased to 55.6 in the 2019 report. This result in 2019 places Guyana below the Latin American and Caribbean average of 58.6 and below the Caribbean average of 55.9 (see Figure E in Snapshot of the Economy).

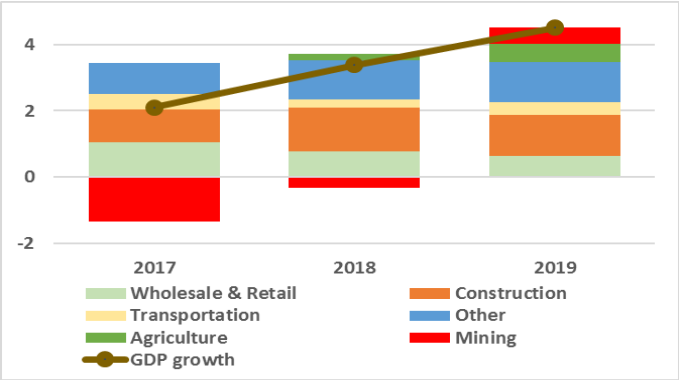
The main factor influencing Guyana's ranking on the Ease of Doing Business Index in 2019 is its score for getting electricity. Guyana's Distance to Frontier score decreased from 58.35 in 2018 to 45.91 in 2019, an overall decrease of 12.4 points. Most components of the Ease of Doing Business Index have remained relatively stable in Guyana since 2015. For example, the scores for starting a business, dealing with construction permits, paying taxes, trade, protecting minority investors, and enforcing contracts remained practically unchanged during this period. There has been a slight improvement in registering property, increasing from a score of 53 in 2016 to 57.5 in 2019. In addition, there was a significant improvement in the score for getting credit, which increased from a score of 15 in 2016 to 55 in 2017. This potentially contributed to increasing Guyana's ranking from 137th to 124th in 2017. However, the area of getting electricity has been a relatively volatile one for Guyana. The decline in this score in 2016 (-9.1 points) and 2019 (-2.4 points) influenced rankings in both years (see Figure F in Snapshot of the Economy).

Conclusion

Guyana's growth outlook over the medium term remains positive. The government's challenge will revolve around managing natural resource revenue and translating the potential windfall into ample and far-reaching economic growth and development. Continued efforts to improve economic policy and institutions could contribute to developing the business climate and attract more investment and employment opportunities.

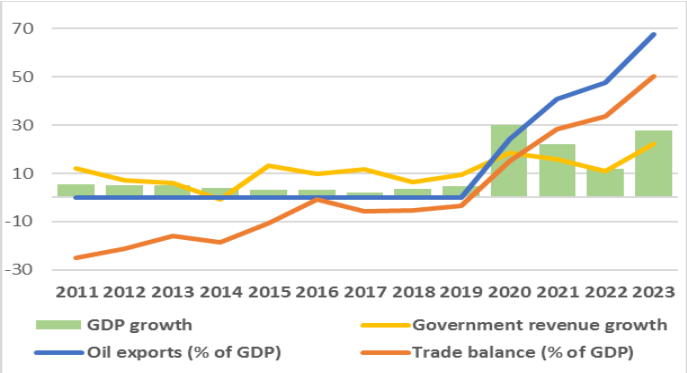
Growth has become more broad-based in the near term, led by wholesale and retail trade and construction.

Figure A. Sectoral Contributions to GDP Growth (percent)



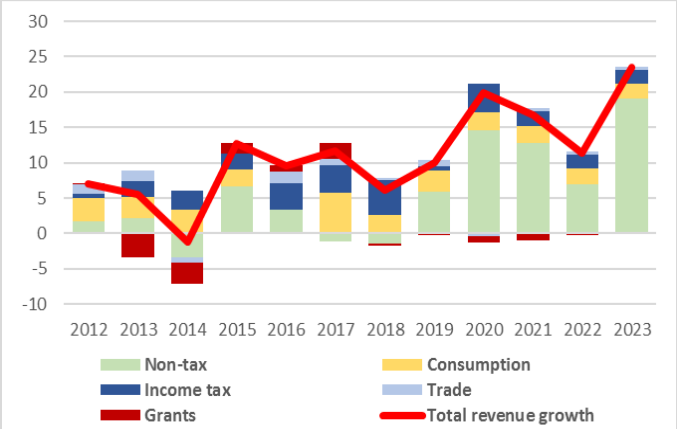
However, oil exports are projected to become transformational drivers of economic growth.

Figure B. Real GDP Growth and Other Indicators (percent)



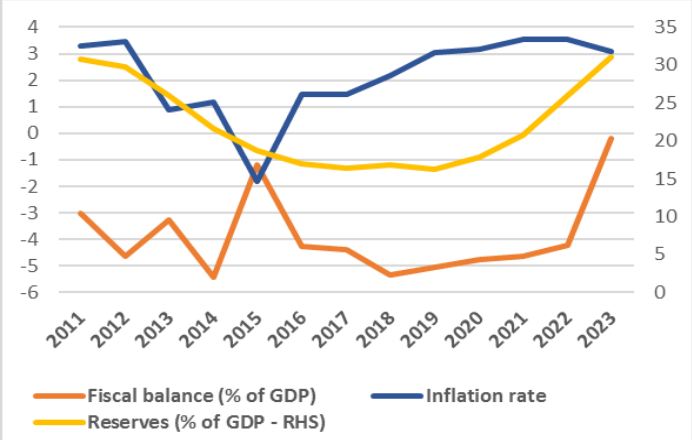
Non-tax revenues are expected to become very large contributors to revenue growth beginning in 2020…

Figure C. Contributors to Government Revenue Growth (percent)



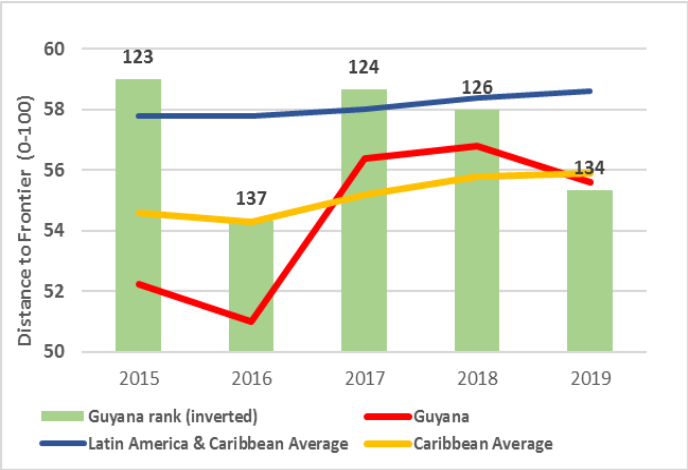
…while also helping to maintain stability and improve key macroeconomic indicators.

Figure D. Selected Macroeconomic Indicators (percent)



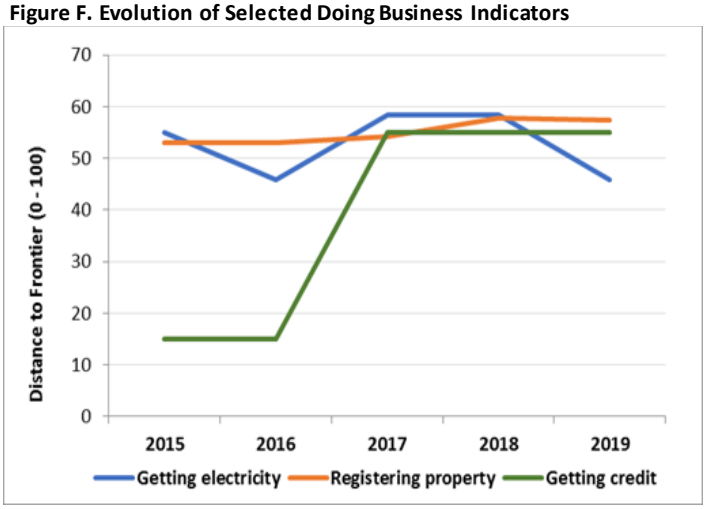
Guyana's ranking on the World Bank's Ease of Doing Business Index remains below regional averages and declined in 2019.

Figure E. Doing Business Indicators in Guyana and the Region



One of the most important declines on the index was Guyana's score for getting electricity.

Figure F. Evolution of Selected Doing Business Indicators



Sources: Ministry of Finance, IMF, World Bank.

Guyana: Selected Indicators

	2014	2015	2016	2017	2018(P)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	3.90	3.06	3.36	2.14	3.42
Nominal GDP (GYD billions)	635.38	660.23	723.58	748.74	780.00
Inflation (end of period)	1.17	-1.81	1.45	1.49	2.18
External sector					
Export of goods and services	0.82	6.82	17.58	3.21	1.64
Imports of goods and services	-3.63	18.97	6.70	3.23	-2.72
Current account (percentage of GDP)	-9.47	-5.10	0.38	-6.66	-6.06
Remittances (percentage of GDP)	14.90	13.20	9.30	8.20	N/A
FDI (percentage of GDP)	8.29	3.81	1.66	5.96	6.03
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central government					
Revenue and grants	25.78	28.10	28.11	30.29	30.96
Current expenditure	21.10	22.40	23.50	24.20	25.90
Capital expenditure	8.00	4.60	6.40	7.80	7.70
Primary balance	-4.30	-0.40	-3.40	-3.40	-4.30
Overall balance	-5.50	-1.40	-4.40	-4.50	-5.40
Debt indicators					
Central government debt	51.88	50.10	50.74	52.20	56.98
External public debt (end of period)	39.50	35.70	33.20	35.50	36.00

Sources: 2018 IMF Article IV Consultation and IMF World Economic Outlook (October 2018).
Note: P: projected. FDI: foreign direct investment

Contributor: Henry Mooney

Overview

After five years of successful reform, Jamaica is about to exit from programmatic support from the International Monetary Fund (IMF). Jamaica has now successfully completed four reviews under the November 2016 Stand-By Arrangement with the IMF that is set to expire towards the end of 2019. The country is now in a position to successfully exit IMF support with a sustained track record of prudent policies, notable institutional reforms, and strong socio-economic conditions. Looking forward, it will be important for the authorities to remain focused on sustaining prudent policies, as well as on completing many structural and institutional reforms that will be important to sustain this performance in the post-program environment. These include reforms of the public sector to reduce the wage bill and improve the efficiency of service delivery, as well as efforts to ensure that future public resource allocation and investments are well-targeted and growth-enhancing.

Economic Performance

Economic conditions in Jamaica are, on balance, better than they have been in decades. While significantly increasing GDP growth remains a challenge, most other indicators of economic performance and sentiment have reached levels not seen in many years. Similarly, since the shift towards inflation-targeting in 2017 and 2018, both inflation and policy interest rates have fallen to historic lows. In this context, the commitment to a flexible exchange rate that underpins the new monetary policy regime has supported a significant build-up of international reserves, which stood at about US$3.3 billion at the end of March 2018—equal to about 25 months of projected imports[1], or about double the share of imports at the outset of the program in 2013 (Figure 1).

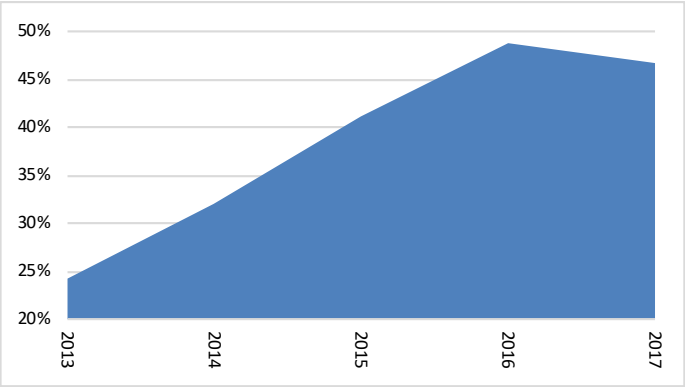
Growth in Jamaica remains weak, but prospects are improving. Current estimates are that real GDP growth for FY2017/2018 (through end-March 2018) was about 0.9 percent. While somewhat below initial estimates for this past year—owing in large part to poor performance of the agricultural sector—, economic performance is projected to improve next year and over the medium term as macroeconomic stability and improving credit and investment conditions continue to take root. Real growth for FY2018/2019 is currently projected at 1.4 percent, with medium-term growth expected to accelerate to about 2.2 percent by FY2022/2023.

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 approximately 102 percent at end-March 2018. This rapid debt consolidation stems primarily from the authorities' significant fiscal effort and prudent policy implementation. This effort has also benefited from a 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 (Figure 2).[2]

Highlights

- *In November 2018, authorities successfully completed the fourth review of the three-year Stand-By Arrangement with the IMF, which is set to expire next year.*
- *Strong macroeconomic performance continues, and authorities remain committed to prudent policies and institutional and structural reforms. Social indicators are improving, with employment increasing and poverty declining, in line with stronger growth and confidence.*
- *Looking forward, authorities must focus on key reform priorities, including public sector restructuring and modernization to improve service delivery and reduce the wage bill. They will also need to ensure that as fiscal space becomes available, public resource allocation remains prudent in order to avoid returning to the cycle of debt accumulation and crisis of the past.*

Figure 1. Total International Reserves vs. Imports
(reserve assets / goods and services imports)



Source: Author's calculations based on the IMF's October 2018 *World Economic Outlook (WEO).*

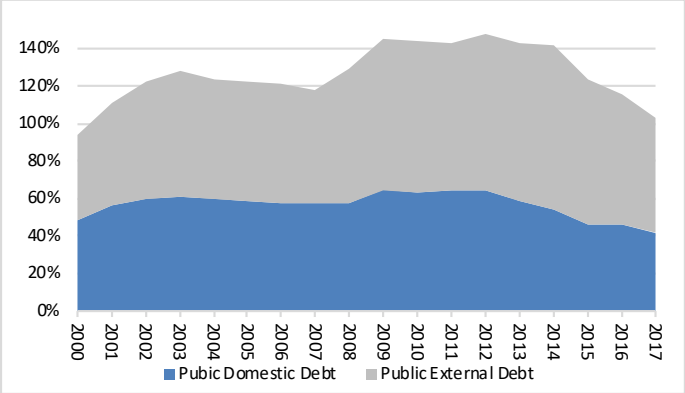
The shift to inflation-targeting will support improved macroeconomic management and investment conditions. Inflation-targeting will focus the Bank of Jamaica's (BOJ) mandate and policy actions on price stability over other objectives, which have in the past contributed to sub-optimal economic outcomes. Related reforms of the BOJ's legal and institutional underpinnings will enhance its operational independence, including as it relates to exchange rate flexibility and intervention in currency markets, policy actions, and government financing. In this context, the IMF reclassified Jamaica's exchange rate regime from a stabilized arrangement to a

[1] Projected imports of goods and services for the next fiscal year.

[2] The major difference between the old and new definition is the exclusion of debt to the IMF held by the Bank of Jamaica.

de facto floating regime in June 2018 (retroactively from September 2017), in line with the emergence of two-way exchange rate movements since that time. In line with this reclassification, the country's stock of international reserves is now considered broadly adequate as a buffer against external shocks.

Figure 2. Public Debt
(percent of GDP)



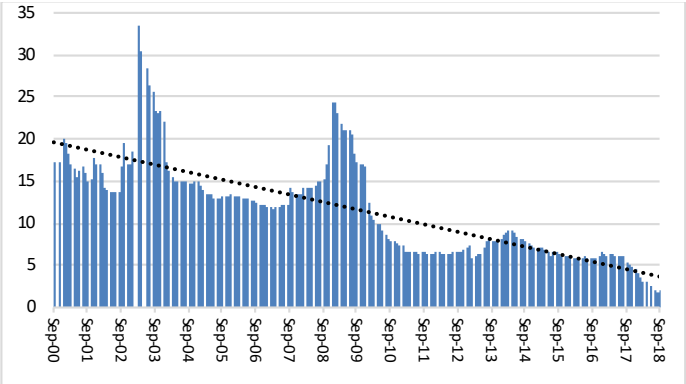
Source: Author's calculations based on the IMF's October 2018 *WEO*.

Inflation targeting will also support price stability, improve credit conditions, and bolster confidence. The current inflation target band of 4 to 6 percent will continue to guide the BOJ's interest rate policy decisions. Along with prudent fiscal policies, this should help to durably reduce domestic interest rates for all market participants. While the transmission of monetary policy remains an issue for the BOJ and its new policy regime—i.e., reductions in the BOJ's overnight rate for commercial banks have yet to be reflected across all consumer lending rates—credit conditions and investor confidence, based on survey responses, have improved considerably since the new regime was implemented.

In addition to low policy rates, falling debt levels have contributed to record low government funding costs. The latest government auction led to strong demand for Treasury instruments and record low yields. For example, the average yield on six-month Treasury instruments fell from an average of over 20 percent in 2000 to about 2 percent in mid-November 2018 (Figure 3). Similarly, demand for these and longer-dated instruments far outstripped the amount allotted. This strong demand for government paper suggests that domestic market conditions are becoming increasingly conducive to faster credit growth, including credit to the private sector.

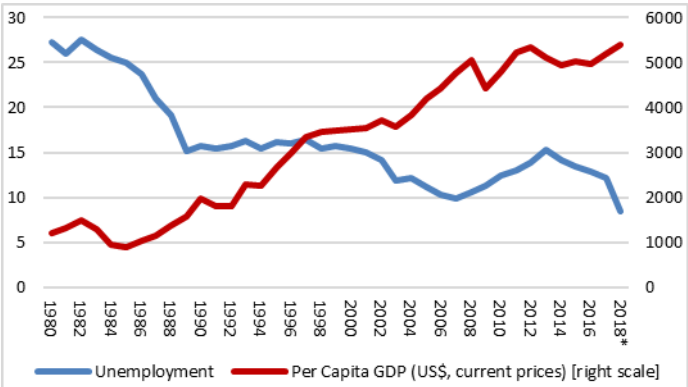
Employment has been increasing in line with improved economic conditions. Unemployment and informality have long been key impediments to faster growth and poverty reduction. The rate of unemployment averaged over 20 percent during the 1980s, and was over 15 percent as recently as 2013 when the first of two IMF adjustment programs was initiated (Figure 4). Since 2013, both per capita income and employment have benefited from efforts to stabilize the economy and restore growth. In this context, unemployment fell to 8.4 percent by the third quarter of 2018, while youth unemployment also fell by 3.2 percent to 25.8 percent (through April 2018)—the lowest rate since 2007. The latest available data show that the poverty rate also fell, from 21.1 percent in 2015 to 17.1 percent in 2016. This is due in part to improving conditions for rural and agricultural communities that have historically lagged behind the rest of the population.

Figure 3. Treasury Yields
(six-month instruments; average yield in percent)



Source: Bank of Jamaica.

Figure 4. Employment and Income
(unemployment (%) versus income per capita)



Sources: IMF, October 2018 WEO; and Statistical Institute of Jamaica.
* Refers to latest data point for the end of third quarter of 2018.

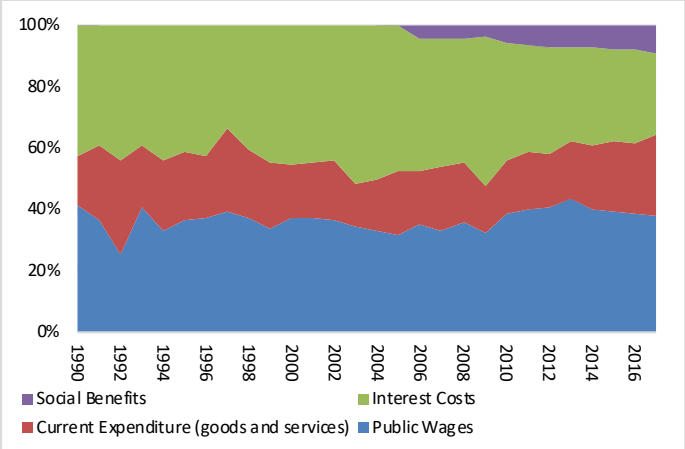
Outlook

As the government of Jamaica enters its last year under an IMF-supported program, signs are encouraging. The laudable quantitative performance with fiscal adjustment and debt reduction since 2013 described above will help set the stage for the future. Looking forward, authorities will need to remain committed to prudent policies and a continuation of key remaining reforms of the structure of the government sector—including reducing the still-large public wage bill. The government will also need to improve public service

delivery across many key areas, including education, health, and citizen security. Finally, the authorities will need to continue to focus efforts on improving the business climate, encouraging domestic investment, and attracting investment from abroad—particularly in new sectors. This could help diversify the economy and make it is less reliant on a few traditional sectors, such as agriculture and tourism, that remain susceptible to weather-related shocks, natural disasters, and variable external demand.

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—from as high as 50 percent in the past to about 27 percent at the end of 2017 (Figure 5). This provided additional scope for public expenditure in areas such as social benefits and programs, whose share of total public spending reached over 9 percent in 2017.

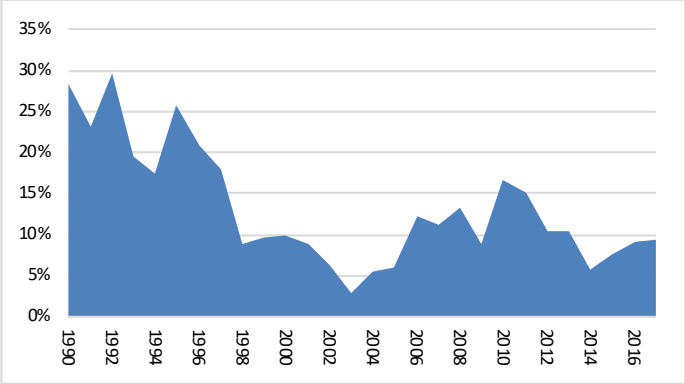
Figure 5. Composition of Public Expenditure
(percent of total public expenditure)



Source: Author's calculations based on the IMF's October 2018 *WEO.*

More public investment is required, but caution is needed to avoid a return to unsustainable debt levels. Jamaica's history of debt sustainability problems stems in part from poor resource allocation, particularly public investment. Public- and debt-financed investments that have not led to strong economic returns (e.g., faster GDP growth or inward investment) have contributed to instability, debt, and ultimately to crises. The cycle of crises and ensuing fiscal adjustment also reduced the government's ability to maintain levels of public investment sufficient to address critical infrastructure needs. In this context, the level of public investment relative to total government expenditure fell from as high as 30 percent in the 1990s to less than 6 percent in 2014 (Figure 6). Looking forward, authorities will need to identify and prioritize the most pressing investment needs and adequately assess the economic rate of return on potential investments when making both financing and execution decisions.

Figure 6. Public Investment
(net acquisition of non-financial assets / total public expenditure)



Source: Author's calculations based on the IMF's October 2018 *WEO.*

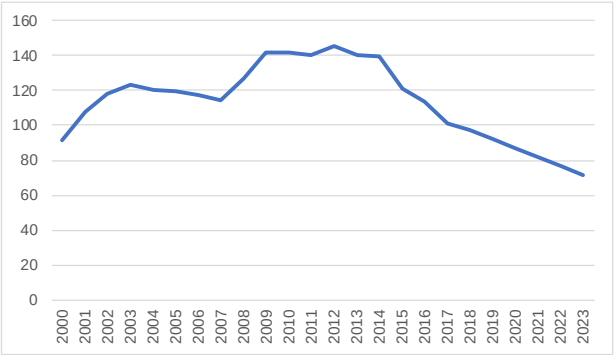
Conclusion

The Jamaican authorities should be commended for their prudent policies and commitment to reform. Few countries have made as much progress in as short a time towards debt reduction and institutional reform. These efforts have translated into improved economic and social outcomes, which have begun to benefit the population in terms of employment and poverty levels. A continuation of these efforts in the post-program environment will be required to ensure that the hard-won gains of the past several years can take root, and to propel the economy towards even faster growth and human development. Doing so will require faster structural reforms, including public sector reforms, as well as continued efforts to encourage both domestic and foreign investment, economic diversification, and efficiency. Similarly, as fiscal space becomes available, the government of Jamaica must exercise caution in terms of selecting and executing investments in areas where infrastructure and other related deficits have constrained growth.

High Frequency Macroeconomic Indicators				
	Last data	Period	Prior data	Period
Real GDP Growth (y/y)	0.9	Mar-18	1.4	Mar-17
Inflation (y/y)	4.0	Mar-18	4.1	Mar-17
Net international Reserves (US bil)	3.7	Mar-18	3.3	Mar-17
Exchange Rate (end of period)	126.0	Mar-18	128.7	Mar-17
Unemployment Rate (%)	9.7	Apr-18	10.4	Dec-17

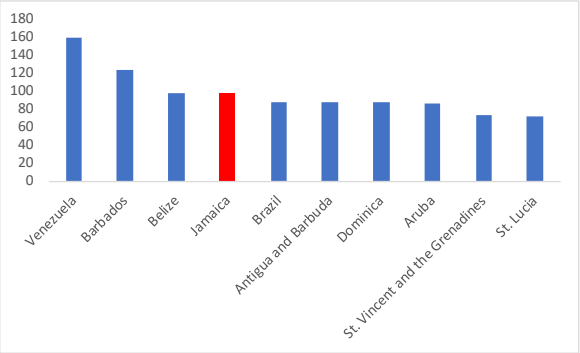
Debt is decreasing, following an impressive fiscal consolidation….

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



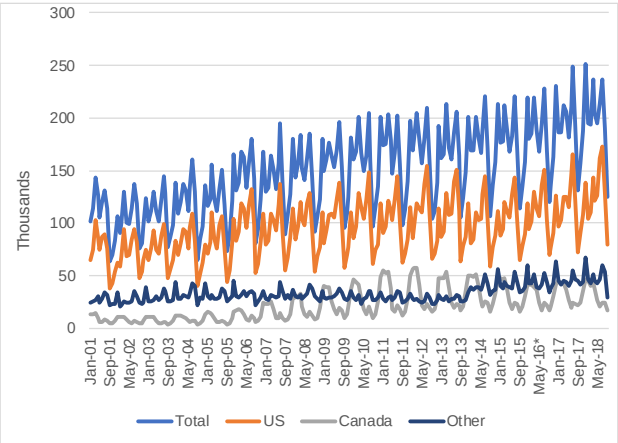
… but Jamaica remains one of the most indebted countries in LAC.

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



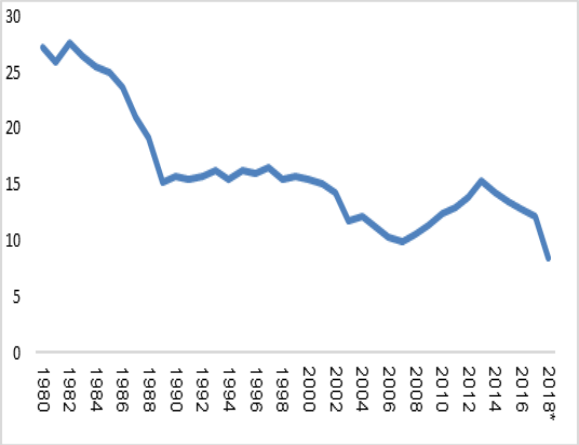
While progress is visible…

Figure C: Tourism Arrivals January 2001-June 2018



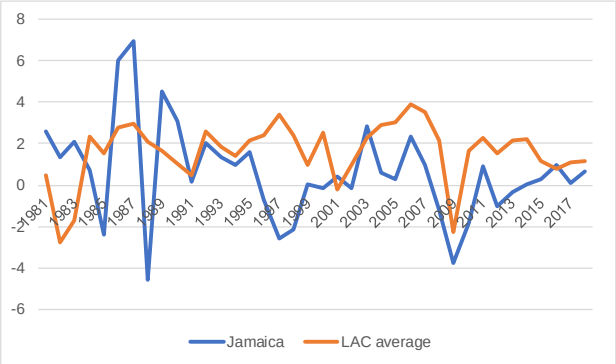
…and reflected in employment…

Figure D: Unemployment Rate, 1981-present



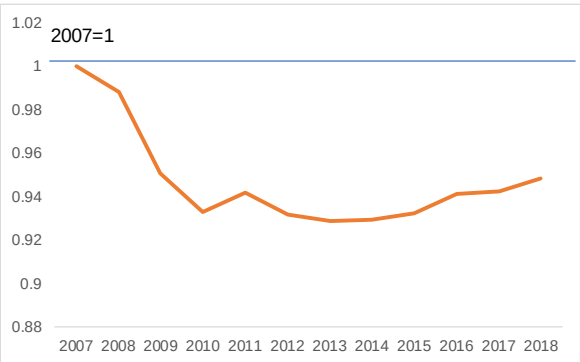
…growth remains below LAC averages….

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 Economic Indicators

	2014/15	2015/16	2016/17	2017/18	2018/19 (P)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	0.2	1.0	1.4	0.9	1.4
Nominal GDP	7.2	7.7	5.9	8.1	5.5
Inflation (end of period)	4.0	3.0	4.1	4.0	4.7
Exchange rate (end of period)	115.0	122.0	128.7	126.0	..
(In percent of GDP)					
External Sector					
Exports of goods	10.2	8.3	8.8	9.2	10.8
Exports of services	15.5	14.8	15.8	14.2	14.5
Imports of goods	36.4	30.0	31.5	34.9	36.9
Imports of services	19.8	19.5	21.4	20.6	21.1
Current account	-7.0	-2.0	-2.6	-5.4	-5.0
(In percentage of GDP, unless otherwise indicated)					
Central Government					
Revenue and grants	26.3	27.0	27.9	29.0	29.8
Budgetary expenditure	26.7	27.3	28.1	28.6	29.6
Primary balance	7.5	7.2	7.6	7.4	7.0
Budget balance	-0.5	-0.3	-0.2	0.5	0.2
Public sector balance	0.4	1.6	1.5	1.1	0.2
Treasury bill rate (percent, end of period)	7.0	5.8	6.3	5.1	-
Debt Indicators					
Public sector debt (EFF definition)	139.7	121.3	121.8	109.1	105.8
Public sector debt (SBA definition)	…	…	115.1	102.2	99.6
International Reserves					
Net international reserves (USD Mill)	2690	2894	3324	3657	3484
Gross international reserves in weeks of projected goods and non-factor services imports for the following year	19.2	23.5	26.0	24.7	21.9

Sources: International Monetary Fund, October 2018 *World Economic Outlook*; and Bank of Jamaica.
Note: EFF: Extended Fund Facility; P: projected; SBA: Stand-By Arrangement.

Contributor: Jeetendra Khadan

Overview

Suriname's economic performance has improved, but challenges and risks remain. Buttressed by an increase in gold production and higher commodity prices, economic growth rose to 1.7 percent in 2017, accompanied by lower inflation, a stable exchange rate, a decline in unemployment, and an almost zero current account deficit. The main challenge facing Suriname over the medium term relates to large fiscal deficits and public debt. The International Monetary Fund (IMF) has recommended that the authorities focus on reducing expenditures and implementing a value-added tax (VAT) along with making continued improvements to tax and customs administration. More broadly, the IMF has emphasized the need for the authorities to continue strengthening the monetary framework, the anti-money laundering/combatting the financing of terrorism framework, the business climate, governance, and the social safety net.

Recent Developments

Economic growth returned in 2017. Real GDP growth of 1.7 percent in 2017 followed a contraction of 8.9 percent from 2014 to 2016, according to Suriname's General Bureau of Statistics. The recovery in 2017 was largely a result of improvements in the the mining and quarrying, agriculture and forestry, wholesale and retail trade, and manufacturing sectors.

Inflationary pressures have decelerated, and the exchange rate has stabilized. From January-September 2018, monthly inflation (year-over-year) declined from 9.1 to 5.5 percent. This represents a significant decline in inflation over the last two years from 77 percent in September 2016 to 11.7 percent in September 2017. The decline in inflation is mostly attributed to a more stable exchange rate. After a depreciation of 124 percent between October 2015 and December 2017, the exchange rate stabilized in the latter part of 2017 to November 2018 at roughly US$1/SRD7.5.

Unemployment rates are expected to decline over the medium term after increasing in the past three years. Data from Suriname's General Bureau of Statistics show that the unemployment rate increased from 5.5 percent in 2014 to 9.7 percent in 2016. For 2017, the IMF estimates that the unemployment rate marginally declined to 8.9 percent.

Private sector credit growth remains low but is slowly recovering after the 2015 recession. Data from the Central Bank of Suriname show that credit to the private sector in the local currency (SRD) declined by 1 percent in 2016, following an annual increase averaging 15 percent for the period 2011–2015. A marginal recovery of 4.6 percent (year-over-year) was reported in August 2018. Credit to the private sector in U.S. dollars and euros also declined significantly after 2015 and remains lower than historical levels. Credit in U.S. dollars declined by 7 percent in 2016 following an average annual growth rate of 9 percent in the previous five years, and that credit continued to decline by 6 percent (year-over-year) as of August 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 August 2018 private sector credit in euros had fallen by 19 percent (year-over-year) compared to the same period in 2017.

Highlights

- *Suriname's economy showed some improvements from 2017 into early 2018.*
- *Economic growth rose to 1.7 percent in 2017.*
- *Fiscal imbalances continued in the first half of 2018.*
- *Debt reached 77.2 percent of GDP at the end of July 2018.*
- *The current account deficit declined in 2017.*

Fiscal imbalances continued in the first half of 2018. The overall fiscal deficit was estimated at 8.1 percent of GDP in 2017, just marginally lower than the 9.2 percent recorded in 2016. The primary fiscal deficit and the non-mining sector fiscal deficit for 2017 were 5.3 and 12.6 percent of GDP, respectively. Preliminary fiscal data for the first half of 2018 show an overall fiscal deficit of US$132 million compared to US$136 million over the same period in 2017.

Increases in mining-related revenues contributed to an improvement in government revenues in 2017 and 2018. Government revenues for 2017 increased to 19.3 percent of GDP from 17.1 percent in 2016. The increase in revenues was largely explained by a 58 percent increase in mining revenues (year-over-year) and a 2.4 percent increase in non-mining revenues. For the first half of 2018, central government revenues were estimated at US$330 million. This represented a 30 percent increase over the same period in 2017. Again, mining revenues were the main contributor to the improvement in government revenues, increasing by 66 percent to US$98 million during January to June 2018, up from US$59 million for the same period in the previous year. Non-mining revenues also increased by 19 percent during January to June 2018 compared to the same period in 2017.

In June 2018, the government received US$337.5 million (equivalent to 8.9 percent of GDP) from the state oil company, Staatsolie. The payment was for a loan of US$261.5 million provided by the government in 2016 and for the purchase of the government's share in the Newmont gold mine valued at US$76 million. The payment was facilitated through a US$625 million syndicated loan that Staatsolie obtained on the international market in June 2018. The government indicated that it will use the repayment to reduce more expensive foreign and domestic debt and deal with recurring payments such as salaries, public services, subsidies, debt service payments, and payment of the small remaining amount of domestic arrears.

Government expenditure picked up in 2017 and 2018, after declining by 4.3 percent of GDP in 2016. Total expenditure as a share of GDP declined from 30.6 percent in 2015 to 26.3 percent in 2016, just below the average for the previous five years (27.2 percent). Expenditure reductions were recorded mainly in the areas of goods and services (3.1 percent of GDP), wages and salaries (1.2 percent), and subsidies (0.1 percent). However, expenditures increased by 18 percent in the first half of 2018 compared to the same period in the previous fiscal year. Increases in spending were observed in recurrent items, while there was a decline of 47 percent in capital spending. The largest increase for 2018 (year-over-year) was related to subsidies (92 percent), followed by interest payments on debt (25 percent) and wages and salaries (14 percent). Expenditure on goods and services declined by 50 percent.

Increased wages and salaries would add to government expenditure over the medium term. Suriname increased the minimum wage by 37 percent in July 2018, followed by a 25 percent increase in wages for public sector workers in August 2018. The authorities estimated that the increased wages for public sector employees could cost about SRD11.5 million monthly or SRD138 million per fiscal year.

Suriname's 2019 budget forecasts overall fiscal deficits for 2020 and 2021, followed by surpluses for 2022–2023. The projected turnaround in the fiscal accounts is predicated on a gradual reduction in government spending from 25.1 percent of GDP in 2020 to 18.4 percent in 2023. Expenditure reduction is projected to come from a decline in capital spending by 3 percent of GDP and a decline in transfers and subsidies by 5 percent of GDP over the forecast period. Revenues are projected to remain relatively flat over the projected period at about 20 percent of GDP. Within this context, the government's medium-term fiscal framework forecasts overall fiscal deficits of 4.9 and 0.8 percent of GDP for 2020 and 2021, respectively, followed by surpluses averaging 1.8 percent of GDP for 2022–2023.

Suriname's general government debt reached 77.2 percent of GDP at the end of July 2018. Persistent fiscal deficits, exchange rate depreciation, and weak economic growth have contributed to a sharp increase in the debt-to-GDP ratio from 26.3 percent in 2014 to 77.2 percent in July 2018. The country's primary fiscal deficit increased from 3.8 percent of GDP in 2014 to 5.3 percent in 2017, reaching a high of 8.3 percent in 2015. Real GDP growth declined from an average of 4.4 percent over 2001–2014 to an average of -4.5 percent over 2015–2016. Together with these factors, a currency depreciation of 124 percent from October 2015 to December 2017 significantly raised the debt-to-GDP ratio.

Most of Suriname's debt is held in foreign currency, with multilateral banks and commercial holders the main external creditors. About 70 percent of total public debt is in foreign currency. External debt increased from US$810 million (15 percent of GDP) in 2014 to US$1,654.2 million (54.2 percent of GDP) at the end of August 2018. Of the gross foreign debt as of the end of August 2018, 21 percent was sourced from bilateral creditors, 38 percent from multilateral creditors, and 41 percent from commercial creditors.

Three credit rating agencies reviewed Suriname in 2018. In August 2018, Fitch ratings affirmed the country's issuer rating at B- with a stable outlook. However, in February 2018 Moody's downgraded Suriname's issuer rating from B1 to B2, with a negative outlook, then maintained this rating and outlook in its August 2018 update. The rating outlook reflected continued fiscal imbalances, as seen in higher-than-expected debt ratios and a deterioration in debt affordability metrics alongside slow implementation of reforms to improve fiscal flexibility. In April 2018, Standard and Poor's revised its Global Ratings outlook for Suriname from negative to stable and affirmed its B long-term sovereign credit rating. The stable outlook reflects the expectation of Standard and Poor's that in the next 12 to 24 months, real GDP growth will return to positive territory, leading to sustained current account balances and slow growth in usable reserves, and that the government will follow through on its plan to implement a VAT or enact some combination of fiscal measures to keep its deficits on an improving trend.

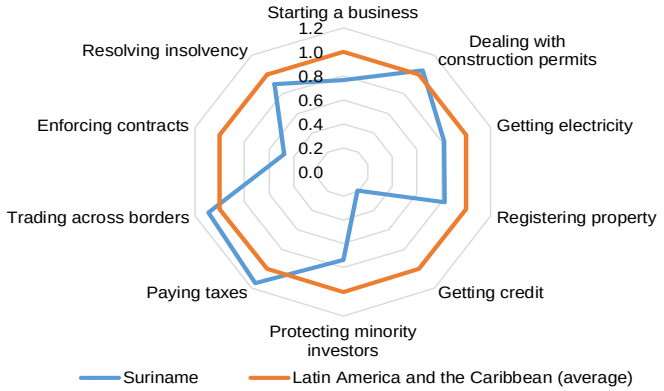
The current account recorded a smaller deficit in 2017. Suriname has been recording current account deficits since 2013, with the largest deficit of 16.8 percent of GDP in 2015. A current account deficit of 0.1 percent of GDP was recorded in 2017 compared to a deficit of 5.2 percent of GDP in 2016. The smaller current account deficit was due mainly to a positive goods trade balance, as gold and

crude oil exports increased by 35 percent and 4 percent, respectively, compared to the same period in 2016. In the first half of 2018, a current account deficit of US$112 million was recorded compared to a surplus of US$78 million for the same period in 2017.

International reserves are recovering after falling drastically in 2015. International reserves declined by 47 percent from 2014 to 2015, reaching 1.5 months of imports. Reserves have since improved by 15 percent in 2016 and 11 percent in 2017. As of September 2018, international reserves stood at US$533 million, equivalent to roughly 3.2 months of imports (Table 1).

Suriname ranked 165th out of 190 countries in the World Bank's *2019 Doing Business Report*. This ranking reflected Suriname's performance on several indicators that assess the ease of doing business within countries. In 2019, Suriname showed an improvement in the area of starting a new business. However, it regressed in such areas as dealing with construction permits, getting electricity, paying taxes, and resolving insolvency. Relative to the average of Latin America and the Caribbean, Suriname performs better in trading across borders, paying taxes, and dealing with construction permits, but underperforms in getting electricity, registering a property, getting credit, protecting minority investors, enforcing contracts, and resolving insolvency (Figure 1).

Figure 1. Suriname's Ease of Doing Business Scores for 2019



Source: World Bank (2018).
Note: See World Bank (2018) for details on the methodology.

In the past three years, Suriname undertook two main business reforms to make it easier to do business. First, it implemented the Automated System for Customs Data (ASYCUDA), which reduced the time for documentary and border compliance in exporting and importing. Second, and more recently, Suriname published the list of documents and fee schedules offered at the agency in charge of land registration and cadastre (World Bank 2018).

Economic Outlook

Suriname's economy is expected to further improve over the medium term. The IMF has forecast that economic growth will average about 2.4 percent for the period 2018–2023. The IMF estimates that the fiscal deficit as a percent of GDP and the debt-to-GDP ratio will average 7.3 percent and 68.3 percent, respectively, over the medium term. Also, the IMF projects current account deficits averaging 2.6 percent of GDP over the medium term. These expected improvements are related to an increase in gold production, supported by a pick-up in commodity prices. Moreover, offshore crude oil exploration is a potential upside over the medium to long term. Although Kosmos Energy completed drilling in October 2018 and did not discover commercial hydrocarbons, plans are in place to continue crude oil exploration in the medium term.

Conclusions

Suriname's economy showed some improvements in 2017 and into early 2018. Economic growth returned, accompanied by a lower inflation rate, greater exchange rate stability, marginal improvements in international reserves, and a smaller current account deficit. However, relatively large fiscal imbalances and high debt levels continue to be important challenges for the authorities. Looking forward, continued improvements in gold output and the stabilization of gold prices should positively impact economic growth and the fiscal and external sectors. Moreover, offshore crude oil exploration could become a potential upside over the medium to long term. On the policy front, the continuation of work to strengthen the fiscal framework and plans to operationalise the Saving and Stability Fund in January 2019 would help to sustain the gains made thus far.

Table 1. High-Frequency Macroeconomic Indicators

	Last Data	Period	Prior Data	Period
Real GDP growth (year-over-year)	1.7	2017	-5.6	2016
Inflation (end of period)	5.5	September-2018	11.7	September-2017
International reserves (millions of U.S. dollars)	540.7	September-2018	403.9	September-2017
International reserves (in months of imports)	3.2	September-2018	2.8	2017
Exchange rate (SRD/U.S. dollar)	7.5	September-2018	7.5	September-2017
Unemployment rate (%)	8.9	2017	9.7	2016

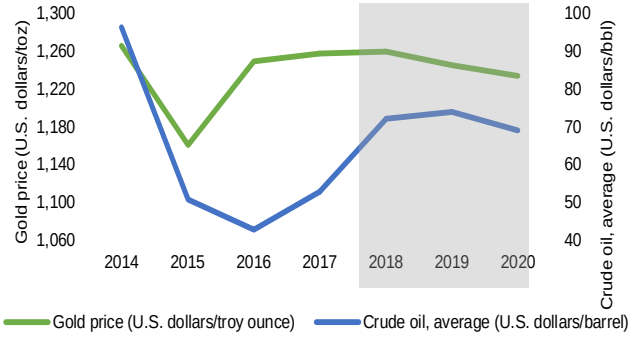
Sources: Central Bank van Suriname; General Bureau of Statistics, Suriname; IMF (2018)

References

International Monetary Fund. 2018. *World Economic Outlook*. Washington, DC (October).

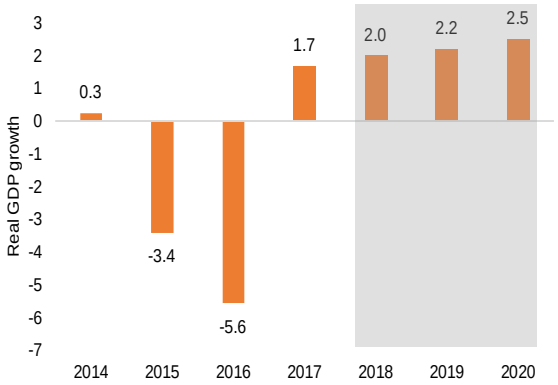
World Bank. 2018. *2019 Doing Business Report*. Washington DC.

Figure A. Gold and Crude Oil Prices



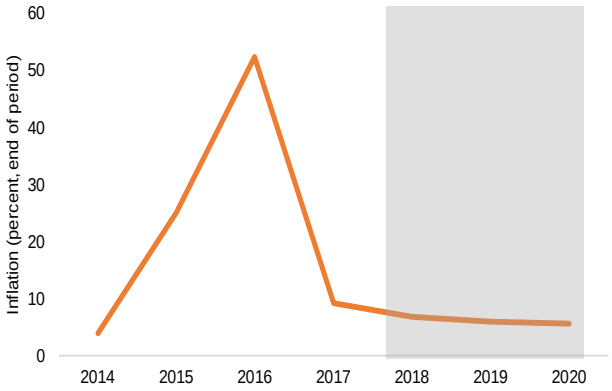
Source: World Bank, Commodities Price Data (The Pink Sheet). Available at http://www.worldbank.org/en/research/commodity-markets.

Figure B. Real GDP Growth (percent)



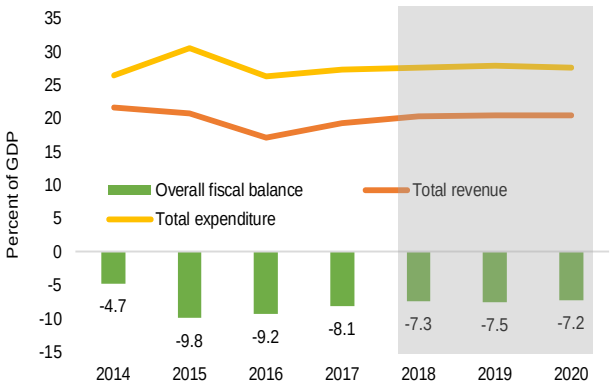
Sources: General Bureau of Statistics, Suriname; and IMF (2018).

Figure C. Inflation (percent)



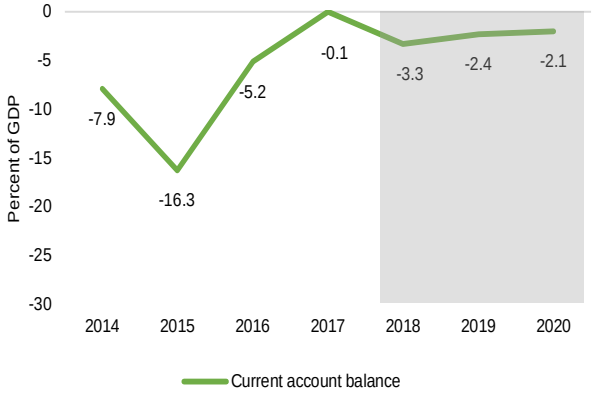
Source: IMF (2018).

Figure D. Fiscal Performance (percent of GDP)



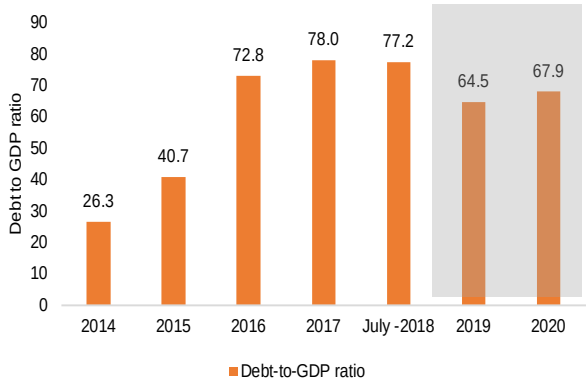
Sources: Ministry of Finance, Suriname; General Bureau of Statistics, Suriname; and IMF (2018).

Figure E. Current Account Balance (percent of GDP)



Sources: Central Bank of Suriname; and IMF (2018).

Figure F. Debt-to-GDP



Sources: Suriname Debt Management Office; and IMF (2018).

Suriname: Selected Economic Indicators

	2013	2014	2015	2016	2017
(Annual percentage changes, unless otherwise indicated)					
Real sector					
Real GDP	2.9	0.3	-2.6	-5.1	1.7
Nominal GDP	3.3	1.8	-7.9	-32.1	4.3
Inflation (end of period)	0.6	3.9	25.1	52.4	9.3
Unemployment	6.6	5.5	7.2	9.7	8.9
Exchange rates (end of period)	3.3	3.3	4	7.5	7.5
(In percent of GDP, unless otherwise indicated, on a calendar year basis)					
External sector					
Exports of goods and services	50.4	45.0	39.7	61.1	71.9
Imports of goods and services	53.0	52.9	57.7	64.8	60.3
Current account balance	-3.8	-7.9	-16.8	-6.4	-0.1
Gross international reserves (millions of U.S. dollar:	779	625	330	381	424
In months of imports of goods and services	3.4	2.7	1.5	2.7	2.8
Central government					
Revenue and grants	23.3	21.7	20.8	17.1	19.3
Mining revenues	7.2	4.9	1.7	2.9	4.5
Non-mining revenues	16.2	16.8	19.1	14.4	14.7
Total expenditure	27.8	26.4	30.6	26.3	27.3
Primary balance	-3.2	-3.8	-8.3	-7.7	-5.3
Overall balance	-4.5	-4.7	-9.8	-9.2	-8.1
Non-mining sector fiscal balance	-11.7	-9.6	-11.5	-11.9	-12.6
Debt indicators					
Total government debt	29.6	26.3	40.7	72.8	78.0
External debt	14.4	15.5	18.7	53.6	54.8
Domestic debt	15.2	10.9	22.0	19.2	23.2

Sources: Central Bank of Suriname; Ministry of Finance, Suriname; IMF (2018).

TRINIDAD AND TOBAGO UNCERTAINTIES ON THE HORIZON

Contributor: Lodewijk Smets

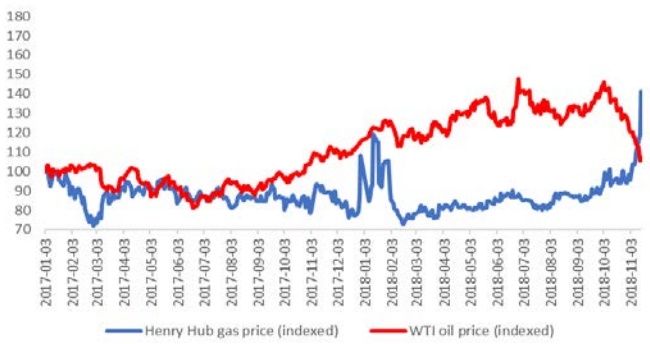
Overview

Trinidad and Tobago's short-term outlook is positive, but there are medium-term uncertainties on the horizon. Driven by favourable developments in the energy sector, the nation's economy is expected to return to positive growth in 2018. Also in the medium term, however, growth is driven by the energy sector, which is inherently volatile. Total public debt is stabilizing, but does not incorporate some important liabilities. Externally, large current account surpluses are offset by outflows through the financial account, which further depletes foreign reserves. Global monetary policy normalization may have adverse implications for the local economy.

Recent Developments

Recovery in the gas sector continued during the third quarter of 2018. Gas production in the first half of 2018 increased by 13.4 percent compared to the first half of 2017. The recovery in natural gas production continued in July and August 2018, as gas output rose 7.5 percent year-over-year (Table 1). On the other hand, oil production declined during the first two quarters of 2018 from 69,000 barrels per day (b/d) in January to 65,000 b/d by the end of June, then further decreased to 61,900 b/d by the end of August. Furthermore, Petrotrin – the state-owned oil company – is undergoing a major restructuring that has created uncertainty in the country's oil sector.

Figure 1. Energy Price Volatility (indexed)



Sources: Federal Reserve Economic Data (FRED); and the *Financial Times*.

Heavy swings are expected for energy prices. By November 13 of this year, the price of U.S. oil had dropped for 12 straight trading sessions, which was the longest consecutive decline in more than three decades (Figure 1). Reasons for the decline include lower global growth forecasts, emerging market turmoil, and geopolitical factors. Natural gas prices, on the other hand, increased substantially – by 18 percent on November 14, 2018, for example, the biggest one-day gain in eight years – driven by supply shortages and colder weather forecasts. These developments point to increased volatility in the commodity markets.

Highlights

- *Trinidad and Tobago's short-term outlook is positive despite medium-term uncertainties.*
- *Economic recovery is driven by the energy sector, while non-energy sector growth remains negative.*
- *The government continues with fiscal consolidation.*
- *Total public debt is expected to stabilize, but does not incorporate some important liabilities.*
- *Current account surpluses are offset by large outflows through the financial account.*
- *Global monetary policy normalization may have implications for the local economy.*

A moderate fiscal deficit is expected for the current budget cycle. On October 1, the Minister of Finance presented the FY2018/2019 budget. Total expenditures for FY 2018/2019 are budgeted to reach TT$51.8 billion, which constitutes a TT$1.3 billion increase compared to the budgeted expenditures for FY2017/2018. The budgeted revenue for FY2018/2019 is projected to reach TT$47.7 billion, a TT$2 billion increase vis-à-vis FY2017/2018 budgeted revenue. The overall deficit for FY2018/2019 is thus expected to reach TT$4 billion (or 2.5 percent of fiscal year GDP), largely financed by domestic sources.

Economic Outlook

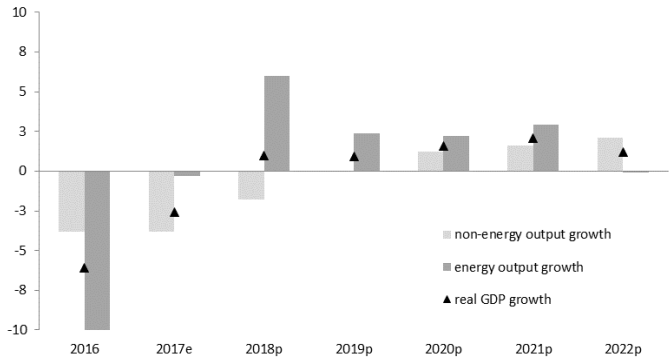
The International Monetary Fund (IMF) expects the economy of Trinidad and Tobago to grow by 1 percent in 2018. This projection stands in contrast to previous forecasts of October 2017 and April 2018, when the IMF projected the economy to grow by 1.9 percent and 0.2 percent, respectively. The changing growth forecasts are related to the timely availability of accurate data, institutional constraints in the country's Central Statistical Office, and intrinsic production uncertainties in the upstream oil and gas sector.

The positive growth forecast for 2018 is mainly driven by developments in the energy sector. A combination of higher-than-expected oil prices and increased gas production volumes – mainly due to the Trinidad Region Onshore Compression (TROC) Project and the BP-operated Juniper platform – is pushing the economy forward. Growth in the non-energy sector is expected to

be negative for the third consecutive year (Figure 2), in part due to reduced government spending.

According to the IMF, real growth will average 1.5 percent in the medium term. For 2019, the IMF estimates that the economy will grow at a rate of 0.9 percent, while in 2020 it is forecast to increase by 1.6 percent. For 2021 and 2022, the IMF projects the economy will grow at 2.1 and 1.2 percent, respectively (Figure 2). In 2019, growth is still expected to come from the energy sector. For 2020–2022, the non-energy sector is anticipated to contribute to growth, possibly due to spillovers from the energy sector and somewhat greater fiscal space.

Figure 2. Real GDP Growth (percent)



Source: International Monetary Fund.

Public debt is expected to stabilize in the medium term, but that projection does not incorporate some important liabilities. At the end of September 2018, public debt stood at 60.8 percent of GDP, down from 62.8 percent at the end of September 2017. It is estimated that central government debt, which mostly includes domestic securities denominated in local currency, will have reached 41.6 percent of GDP at the end of FY2017. External public debt is only 16 percent of fiscal year GDP, with international bonds and foreign loans having long maturities. Contingent liabilities total around 20 percent of GDP and result from explicit guarantees on debt contracted by state-owned companies and statutory authorities. Looking forward, the IMF expects public debt to stabilize at around 65 percent of GDP. It is important to note, however, that total public debt excludes government borrowing from the central bank's overdraft facility. According to the IMF, the overdraft balance with the central bank amounted to 6 percent of GDP at the end of April 2018. Furthermore, Petrotrin, the state-owned oil company, owes more than TT$12 billion (or about 8 percent of GDP) in debt. With the ongoing restructuring, it is uncertain whether the company will be able meet all its debt obligations without government intervention.

The government is continuing its program of fiscal consolidation. Facing significant energy revenue shortfalls, the government of Trinidad and Tobago adopted adjustment measures in the past two fiscal years. Some key changes included tax reforms in the energy and non-energy sector, reduction of fuel subsidies, and the establishment of a procurement board and revenue authority. Nevertheless, the FY2016/2017 budget deficit reached 8.5 percent of GDP, in part due to legal difficulties in carrying out an asset sale program. Aided by favourable conditions in the energy sector, continued fiscal reforms and sizable capital revenues, the government aimed to contain the FY2017/2018 fiscal deficit. During the mid-term review of the budget in May 2018, the government targeted an overall fiscal deficit of 2.5 percent of GDP. However, during the FY2018/2019 budget speech in October 2018, the Minister of Finance noted that the FY2017/2018 deficit may reach 3.9 percent of GDP instead of 2.5 percent. These deviations may create some uncertainty regarding the government's adjustment plan. For the current budget cycle (FY2018/2019), an overall deficit of 2.5 percent of GDP is expected.

Large current account surpluses are offset by outflows through the financial account. As energy export receipts fell in tandem with commodity prices, the current account turned to deficit in 2016 after several years of surpluses. In 2017, increased exports of goods due to rising energy prices, along with a reduction of capital goods imports, led to a large surplus in the merchandise trade account (17.1 percent of GDP). This was offset by a deficit in services trade and capital outflows through the financial account and large negative errors and omissions. The resulting overall deficit of 4.9 percent of GDP was financed by a US$1 billion reduction in official reserves. 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.

The tightness in the foreign exchange market may be easing, but excess demand persists. Shortages in the foreign exchange market have been growing since late 2014 as a consequence of a lower supply of hard currency from energy exporters, and increased demand for speculative and precautionary motives. As a result, the stock of net official reserves declined by US$3.1 billion from end-2014 to end-2017 and stood at US$7.5 billion – or 8.1 months of import cover – at the end of September 2018 (Figure 3). Sizable investments by energy companies, tax reforms, and favourable production and price conditions in the oil and gas sector may slow the decline in foreign reserves. The increased

supply of hard currency may also ease the tightness in the foreign exchange market. Nevertheless, the IMF reports that some companies with large import needs have left the market, while other companies have switched to import substitution. Also, foreign exchange queuing continues, with waiting times of up to a month. All these factors indicate that the foreign exchange market is still in a state of disequilibrium. Uncertain access to foreign exchange may reduce business confidence and hamper non-energy sector recovery.

Figure 3. Official Reserves (millions of U.S. dollars)

Source: Central Bank of Trinidad and Tobago.

Inflation remains subdued. Headline inflation, measured using the retail price index, was 1.3 percent (year-over-year) in December 2017 against 3.1 percent in December 2016. In September 2018, headline inflation was 1.2 percent, while core inflation increased to 1.4 percent. Price inflation differed across goods and services due to a number of fiscal measures (e.g., extension of the value-added tax base, higher fuel prices at the pump, higher taxes on tobacco and alcohol). The low inflation may be explained by weaker aggregate demand associated with limited discretionary expenditures.

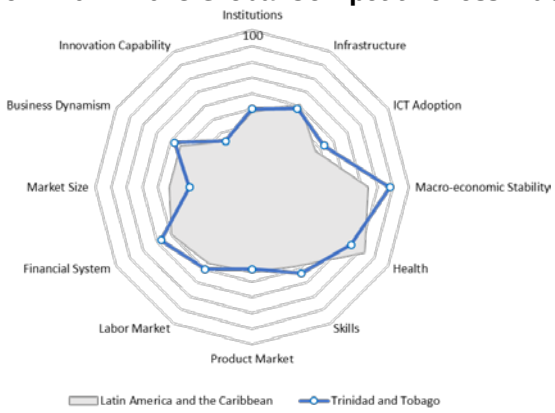
The central bank raised its main policy rate in June 2018 due to changing internal and external conditions. Domestically, economic growth is picking up while business credit is rebounding. Rising interest rates in the United States combined with relatively stable local rates have pushed the TT-U.S. dollar yield differential on three-month Treasuries further below parity to -74 basis points by the end of June 2018. Furthermore, some emerging market and developing economies are facing tighter financial conditions and accelerated capital outflows. Taking into account these developments, the central bank raised the repo rate at the June 2018 Monetary Policy Meeting from 4.75 to 5 percent but has kept it stable since. In the Monetary Policy Announcement, the central bank noted that it will continue to monitor and analyse international and domestic developments. Further monetary policy normalization may lead to increased lending rates, which could stifle the nascent economic recovery.

Credit agencies kept their main ratings stable, but highlighted a number of risks. Standard and Poor's retained Trinidad and Tobago's long-term sovereign credit rating at investment-grade level (BBB+), but revised its outlook to negative from stable. Standard and Poor's noted that the revision reflects concerns regarding external imbalances and uncertainties about the pace of fiscal consolidation. Moody's kept its credit rating stable at one level below investment grade. In justifying its decision, Moody's emphasized the country's large financial buffers and significant reserves as strengths, but raised concerns regarding the extent of fiscal consolidation and the risk of increasing debt levels.

Policy Outlook

According to the World Economic Forum's latest *Global Competitiveness Report,* Trinidad and Tobago ranks 78th out of 140 countries. There is therefore a large scope to increase the country's competitiveness. Figure 4 shows that although Trinidad and Tobago is equally as competitive as many countries in the Latin America and Caribbean region, institutions, infrastructure, and product markets could all be improved. Specifically, measures to increase road connectivity, address crime and violence, and reduce market dominance would significantly improve the competitive environment.

Figure 4. 2017–2018 Global Competitiveness Index



Source: World Economic Forum.

High-Frequency Macroeconomic Indicators

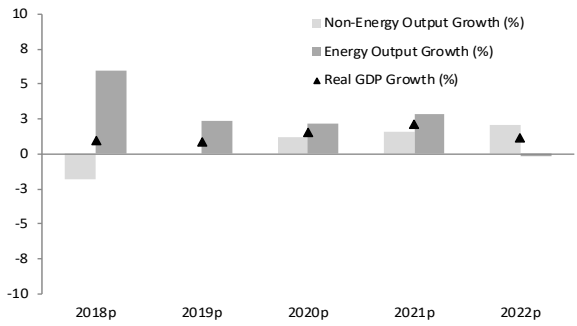
	Most Recent Data	Period	Prior Data	Period
WTI oil price (U.S. dollars per barrel)	71	18-Oct	70	18-May
Gas production (mmcf/d)	3,616	18-Aug	3,748	18-Mar
Foreign reserves cover, months	8	18-Oct	9.1	18-Apr
Inflation (%)	1.2	18-Sep	1.3	17-Dec

Source: Central Bank of Trinidad and Tobago.

TRINIDAD AND TOBAGO SNAPSHOT OF THE ECONOMY

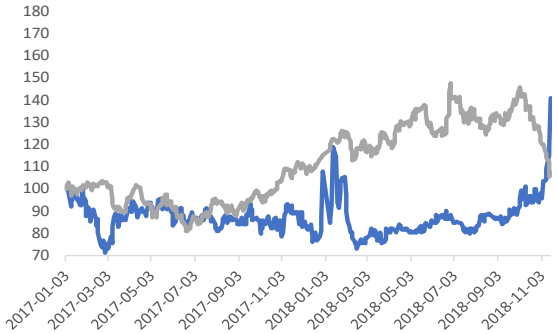
The positive growth forecast is driven by the energy sector.

Figure A: Real GDP Growth (percent)



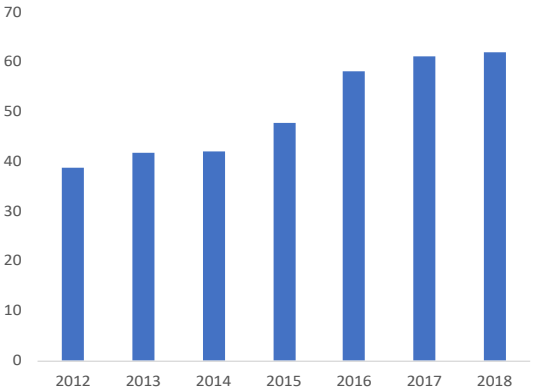
Caution is required, however, as commodity markets are inherently volatile.

Figure B: WTI Oil and Henry Hub Gas Prices (indexed)



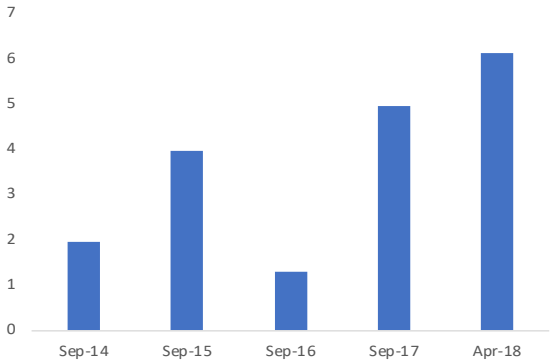
Public debt is stabilizing…

Figure C: Total Public Debt (percent of GDP)



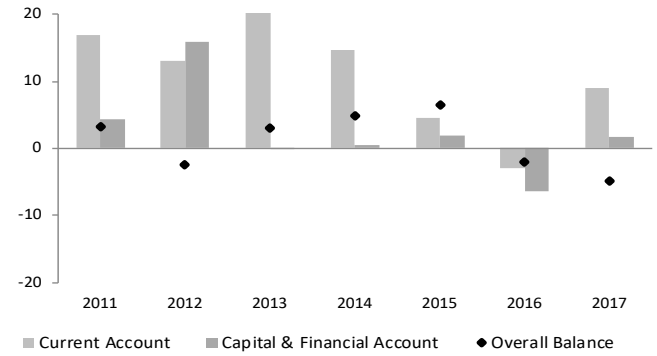
… but borrowing from the central bank's overdraft facility has increased.

Figure D: Central Government Overdraft (percent of GDP)



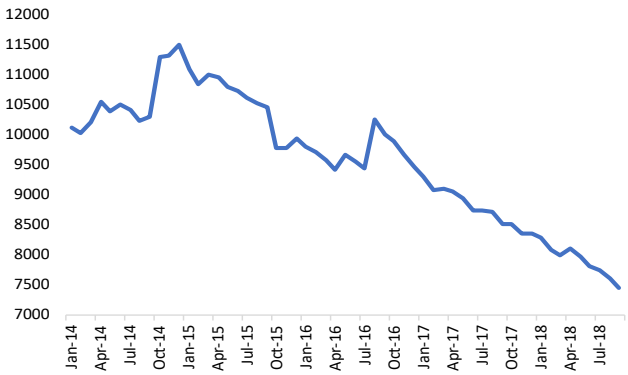
Capital outflows and negative errors and omissions…

Figure E: Balance of Payments (percent of GDP)



…are depleting foreign reserves.

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



Sources: Central Bank of Trinidad and Tobago; and the International Monetary Fund.

Trinidad and Tobago: Selected Economic Indicators

	2012	2013	2014	2015	2016	2017e
	(Annual percentage change, unless otherwise specified)					
Real Sector and Prices						
Real GDP	1.3	1.0	-0.3	1.5	-6.0	-2.6
Nominal GDP (billions of TT dollars)	165	171	174	156	149	146
Inflation, average consumer prices	9.3	5.2	5.7	4.7	3.1	1.9
Unemployment	5.0	3.7	3.3	3.4	4.0	4.0
External Sector						
Exports of goods and services	-3.0	9.3	-10.4	-10.8	-18.6	3.8
Imports of goods and services	9.6	0.6	-7.0	27.1	16.1	-8.9
Current account balance (percent of GDP)	13.2	20.4	14.5	3.8	-10.7	-5.6
International reserves (millions of U.S. dollars)	9,371	10,176	11,497	9,933	9,466	8,370
International reserves cover (months)	10.6	12.2	12.9	11.2	10.5	9.7
	(In percent of fiscal year GDP)					
Public Sector						
Total revenue	29.8	31.1	33.6	35.7	29.9	25.3
Total expenditure	32.6	34.0	36.2	37.4	35.2	33.8
Central government primary balance	-1.0	-1.2	-0.8	0.4	-2.8	-5.5
Central government overall balance	-2.7	-2.9	-2.6	-1.7	-5.3	-8.5
Debt Indicators						
General government debt	38.9	41.8	42.0	47.7	58.3	61.2
Central government debt	24.8	25.3	25.4	27.9	37.5	41.3
External debt	8.2	7.0	8.6	10.2	15.7	17.2

Sources: International Monetary Fund and Central Bank of Trinidad and Tobago.
note: e: IMF estimates (except for fiscal data).

Contributors: Kimberly Waithe and Juan Pedro Schmid

Overview[1]

Positive global developments boosted economic activity in the Organisation of Eastern Caribbean States (OECS) region during the first half of 2018. Moreover, the tourism sector was the main driver of growth and remained resilient despite the devastating impact of the 2017 hurricane season. At the same time, there was a pick-up in construction activity in the region primarily as a result of tourism-related private sector construction, while public sector activity focused on reconstruction of key infrastructure, some of which was damaged due to weather-related events in 2017. Following an uptick in global oil prices, the region witnessed a rise in inflationary pressures at the end of the first six months of 2018. The fiscal position weakened in some OECS countries following an expansion in capital expenditure. Concerns remain over the elevated levels of debt in the region, particularly given countries' susceptibility to natural disasters and external shocks.

Macroeconomic Developments

Preliminary data for the first six months of 2018, suggest an improvement in economic activity in the OECS region. Economic activity was boosted by improvements in the global economy, particularly the performance of the region's main trading partners. At the same time, the region saw improved performances in the hotels and restaurants, manufacturing, construction and agriculture sectors. In particular, tourism-related activity expanded in the first half of 2018, as visitor arrivals grew by 7.4 percent. The cruise passenger segment, which accounts for around 75 percent of total visitor arrivals, drove the increase with growth of 8.4 percent. The main contributor to the improved outturn in cruise passenger arrivals was St. Vincent and the Grenadines, where arrivals almost doubled, while Grenada and Antigua and Barbuda saw increases of 26.5 percent and 17.3 percent, respectively. On the other hand, stay-over visitor arrivals by air grew by 3.8 percent, as arrivals from Canada and the United States grew by 18 percent and 8.1 percent, respectively. Arrivals from the United Kingdom remained modest, growing by 0.9 percent. Total visitor expenditure was estimated to have increased from US$933 million in the first half of 2017 to US$1,015 million by end-June 2018.

Highlights

- *A modest growth outlook is projected for the OECS region, following positive global developments.*
- *There is room for improvement in the business climate in the region.*
- *Most of the countries in the OECS experienced inflationary pressures.*

Prices rose in most countries in the OECS region. The uptick in the consumer price index was in part attributed to a rise in oil prices on the domestic market. With the exception of St. Kitts and Nevis, prices rose in the OECS countries, with the most significant increases in Antigua and Barbuda (1.3 percent), St. Vincent and the Grenadines (1.2 percent), and St. Lucia (1.1 percent).[2] In Antigua and Barbuda, inflation was driven by higher price indexes for housing, utilities, and food, while in St. Vincent and the Grenadines the largest increase was in the alcoholic beverages, tobacco, and drugs sub-index, which grew by 2.6 percent. On the other hand, St. Kitts and Nevis registered deflation rates of 1.3 percent during the first six months of 2018. The decline was due to lower prices for transport and housing and for utilities, gas and fuels, which declined by 4.2 percent and 1.6 percent, respectively.

Most OECS countries improved their fiscal position as of the end of June 2018. The fiscal situation improved in Grenada, St Kitts and Nevis, and St. Lucia, which had larger overall surpluses, while St. Vincent and the Grenadines reported a smaller deficit. In Grenada, the overall surplus increased from US$19.1 million at end-June 2017 to US$25.1 million by end-June 2018. Similarly, St. Kitts and Nevis witnessed an overall surplus (after grants) of US$41 million in the first six months of 2018, compared with a small surplus of US$7 million a year earlier. This was in part due to non-tax revenue receipts more than doubling to reach US$75.7 million,[3] while capital expenditure outlays fell by 13.2 percent to US$19.3 million. On the other hand, the fiscal positions of Antigua and Barbuda and Dominica weakened during the review period. The overall deficit in Antigua and Barbuda rose to US$22.9 million from a marginal one of US$1.5 million at the end of June 2017 following a decline in non-tax revenue in conjunction with an uptick in capital spending. Dominica saw an increase in capital

[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] This is on an end-of-period basis comparing June 2018 with December 2017.

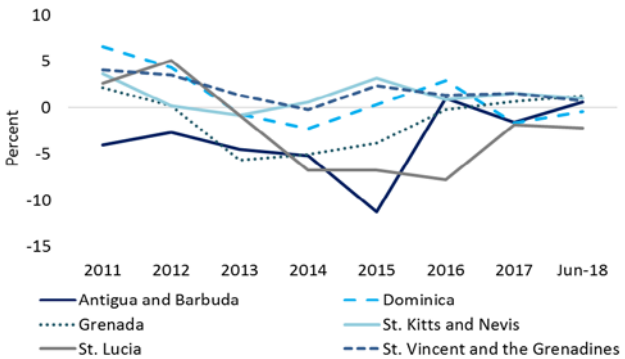
[3] This increase was primarily attributed to a pick-up in inflows associated with the Hurricane Relief Fund of the Citizenship by Investment Program.

expenditure of 39.4 percent in part associated with rehabilitation efforts, while current revenue declined mainly due to lower non-tax revenue, reflecting reduced inflows from the Citizenship by Investment Program (CBI). Overall debt levels remained elevated in the region at an average of around 75 percent of GDP at the end of 2017 and are expected to remain at a similar level at the end of 2018.

Preliminary estimates suggest a weakening of the merchandise trade balance in the OECS region. The merchandise trade deficit widened by 7.5 percent to reach US$1,115 million at the end of June 2018, primarily due an increase in import payments, which offset growth in export receipts. On a country basis, the value of imports grew, with increases ranging from 9.4 percent in St. Kitts and Nevis to 27.6 percent in Dominica and 28.2 percent in Antigua and Barbuda. In contrast, import payments fell by 3.1 percent in St. Lucia. The uptick in the value of imports in Dominica and Antigua and Barbuda was in part related to greater imports of machinery and transport equipment and manufactured goods associated with reconstruction due to weather-related events in the previous year. For their part, export receipts increased by 48.1 percent to US$284 million, as export earnings expanded in Antigua and Barbuda, Grenada, and St Kitts and Nevis.

The financial sector in the OECS region continues to be highly liquid, but private credit remains subdued. The commercial banking system remained liquid as of the end of June 2018. The ratio of loans and advances to total deposits fell by 1.7 percentage points to 57.5 percent, well below the maximum benchmark of 75 to 85 percent set by the Eastern Caribbean Central Bank (ECCB).

Figure 1. Credit to the Private Sector in the OECS (percent)

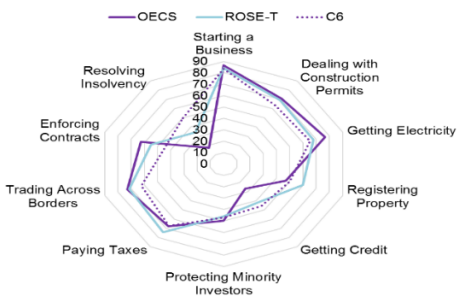


Source: Eastern Caribbean Central Bank.

Asset quality improved marginally, which was reflected in a decline in the ratio of non-performing loans (NPLs) to gross loans of 0.6 percentage points to 11.1 percent. However, with the exception of Grenada, NPLs across the region remain above the 5 percent prudential limit. Access to credit remains a challenge in the OECS. Throughout the currency union, credit to the private sector declined marginally by 0.2 percent at the end of the first six months of 2018 (Figure 1). In particular, St. Lucia witnessed a decline of 2.2 percent in private sector borrowing following a fall of 3.4 percent in business loans and 1.3 percent in lending to households.

The World Bank's *2019 Doing Business Report* suggests that there is there is room for improvement with respect to doing business in the OECS. St. Lucia was ranked highest at 93rd out of 190 countries, while St. Kitts and Nevis and Grenada had the lowest rankings at 140th and 147th, respectively. At the same time, the Distance to Frontier indicator ranged from 52.7 in Grenada to 63 in St. Lucia.[4] A disaggregation of the ease of doing business score points to challenges in accessing credit and with weak insolvency frameworks, as the OECS region is ranked below the ROSE-T and C6 countries in these areas (Figure 2).[5] Particularly with regard to getting credit, the countries in the region record scores ranging between 25 and 30. Implementation of key reforms and strengthening institutions to address the shortfalls in the business climate should be a priority.

Figure 2. Doing Business Distance to Frontiers Indicator



Source: World Bank, *2019 Doing Business Report.*
Note: C6: The Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago; OECS: Organisation of Eastern Caribbean States; ROSE-T = rest of the small economies in the world that are dependent on tourism.

[4] An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 the best performance.

[5] The C6 is comprised of The Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago. ROSE-T= rest of the small economies in the world that are dependent on tourism.

Outlook

Growth in the OECS region in 2018 is projected at around 2.1 percent, compared with 0.7 percent a year earlier. This outturn is supported by positive developments in the global economy as well as an expected pick-up in key economic sectors, including tourism and construction. In addition, growth is likely to be boosted by inflows of foreign direct investment, by way of CBI programs. The ECCB forecasts that the economy of Dominica will contract by 4.4 percent in 2018 as activity in the tourism and agricultural sectors is expected to contract. However, the construction sector is expected to be bolstered by public sector reconstruction and rehabilitation activities and private sector projects. For the other island nations in the region, economic growth is estimated to range from 2.1 percent in St. Kitts and Nevis to 5.3 percent in Antigua and Barbuda at the end of 2018. Inflationary pressures in the region are projected to move in line with higher domestic economic activity and the pick-up in international oil and food prices.

Fiscal performance is projected to vary in the region. A weaker overall fiscal balance is anticipated in Dominica as a result of an expected increase in expenditure following ongoing rehabilitation activities and lower tax receipts due to reduced economic activity. In Antigua and Barbuda, the central government is expected to record a larger deficit than the announced 2 percent of GDP in the 2018 budget, following expected higher capital spending and lower receipts from its CBI Program. Government balances in St. Vincent and the Grenadines are expected to weaken as a result of a number of fiscal adjustment measures announced in the 2018 budget, including higher spending related to increased allocations for health and police and security-related services. On the other hand, an overall surplus is likely to be recorded in Grenada as revenue is projected to grow in line with the continued pick-up in economic activity and efforts to improve tax collection and administration.

Debt levels are expected to remain elevated in some countries. Data from the IMF's October 2018 *World Economic Outlook* indicate that St. Kitts and Nevis and Grenada have benefitted from their respective IMF programs, with debt-to-GDP ratios projected for each country at around 64 percent in 2018. On the other hand, debt-to-GDP ratios in the other countries are projected to range from 72 percent in St. Vincent and the Grenadines to 89 percent in Antigua and Barbuda over 2018–2019, well above the 60 percent target set by the ECCB.

While the economic outlook for the rest of 2018 is broadly positive, downside risks remain. These risks include an unexpected slowdown in global growth, which could impact growth prospects in the region. In addition, the continued uncertainty of Brexit and the region's vulnerability to natural disasters are constant threats to its outlook. Given that CBI programs represent a significant boost to tourism-related foreign investment, a reduction or sudden stop in these receipts could adversely impact the region. Finally, the region is faced with high levels of crime, unemployment, and poverty, and its countries rank low on a number of the World Bank's Doing Business indicators.

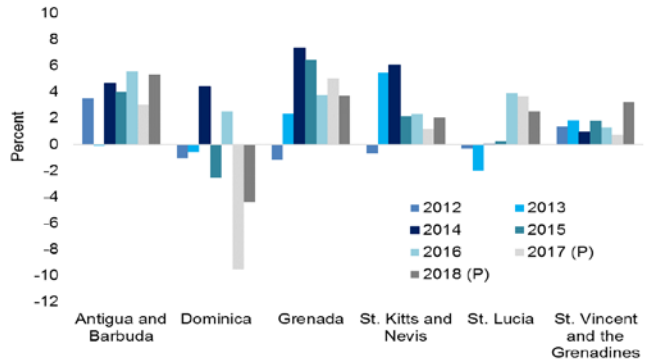
Table 1. High-Frequency Macroeconomic Indicators

	Most Recent Data	Period	Prior Period Data	Period
Annual GDP growth (percent)	0.70	Dec-17	3.20	Dec-16
Tourism arrivals (annual percent change)	7.40	Jun-18	9.10	Jun-17
Inflation (end of period, percent)	1.40	Dec-17	-0.20	Dec-16

Sources: Eastern Caribbean Central Bank; and International Monetary Fund

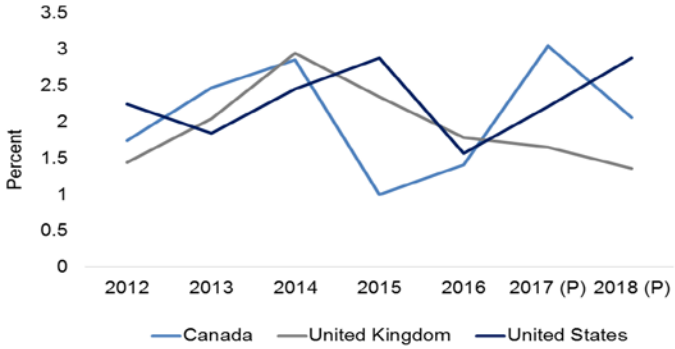
Moderate growth is expected in the OECS countries…

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



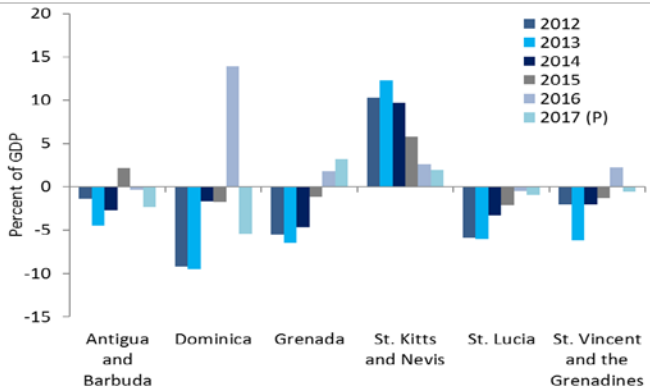
…buttressed by positive developments of the island's major trading partners.

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



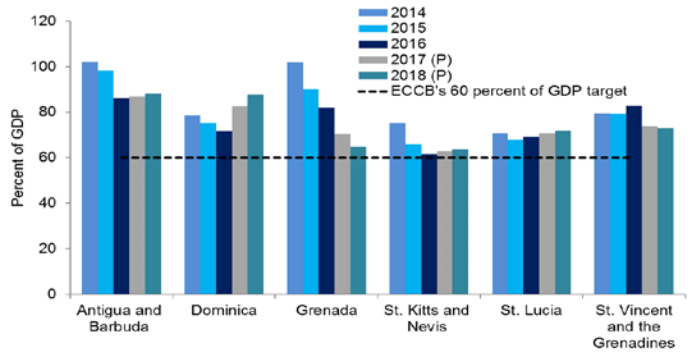
The fiscal position is mixed…

Figure C. Fiscal Balance (percent of GDP)



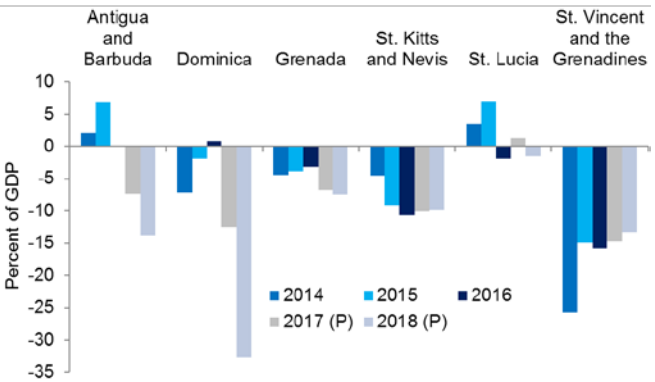
…and debt continues to remain elevated.

Figure D. Central Government Debt (percent of GDP)



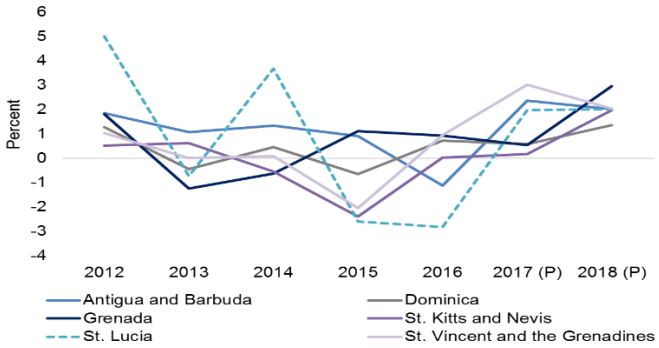
Current account deficits are high…

Figure E. Current Account Balance (percent of GDP)



…and inflationary pressures are expected with rising international oil prices.

Figure F. Inflation (end of period, percent)



Sources: Eastern Caribbean Central Bank; and International Monetary Fund, October 2018 *World Economic Outlook*.
Note: ECCB: Eastern Caribbean Central Bank; P: projected.

The OECS: Selected Economic Indicators

	2012	2013	2014	2015	2016 (R)	2017 (P)
Antigua and Barbuda						
Annual percentage change unless otherwise indicated						
Real Sector						
Real GDP	3.5	(0.1)	4.7	4.0	5.6	3.0
Nominal GDP	6.1	(1.5)	6.9	6.6	7.8	3.1
Consumer prices (end of period)	1.8	1.1	1.3	0.9	(1.1)	2.4
Consumer prices (period average)	3.4	1.1	1.1	1.0	(0.5)	2.4
Annual percentage change unless otherwise indicated						
External Sector						
Current account (percent of GDP)	...	...	2.0	6.8	0.2	(7.3)
International reserves (millions of U.S. dollars)	162.0	202.6	297.0	355.7	330.1	313.6
In percent of GDP						
Public Sector						
Total revenue	19.8	18.6	19.7	23.7	24.0	19.7
Current expenditure	20.5	21.8	20.9	20.1	20.5	20.6
Capital expenditure and net lending	0.6	1.3	1.6	1.4	3.9	1.5
Primary balance	1.1	(2.4)	(0.1)	4.6	2.2	0.1
Overall balance	(1.3)	(4.5)	(2.7)	2.2	(0.4)	(2.4)
General government gross debt	86.7	94.9	102.1	98.2	86.2	86.8
In millions of EC dollars						
Memo						
Nominal GDP at market value	3,270.8	3,220.9	3,444.1	3,669.8	3,954.5	4,077.2
Dominica						
Annual percentage change unless otherwise indicated						
Real Sector						
Real GDP	(1.1)	(0.6)	4.4	(2.6)	2.5	(9.5)
Nominal GDP	(3.0)	3.3	4.3	3.3	6.4	(13.7)
Consumer prices (end of period)	1.3	(0.4)	0.5	(0.7)	0.7	0.6
Consumer prices (period average)	1.4	(0.0)	0.8	(0.9)	0.1	0.5
Annual percentage change unless otherwise indicated						
External Sector						
Current account (percent of GDP)	...	...	(7.1)	(1.9)	0.8	(12.5)
International reserves (millions of U.S. dollars)	94.6	87.1	101.4	126.2	221.9	212.3
In percent of GDP						
Public Sector						
Total revenue	27.7	28.3	32.1	29.7	49.7	47.1
Current expenditure	24.1	26.0	25.2	25.8	25.5	33.2
Capital expenditure and net lending	12.8	11.9	8.6	5.6	10.3	19.4
Primary balance	(7.6)	(7.5)	0.1	(0.0)	15.6	(3.8)
Overall balance	(9.2)	(9.6)	(1.7)	(1.7)	13.9	(5.4)
General government gross debt	72.4	80.1	78.7	75.3	71.7	82.7
In millions of EC dollars						
Memo						
Nominal GDP at market value	1,312.2	1,355.3	1,413.6	1,460.2	1,553.8	1,341.2

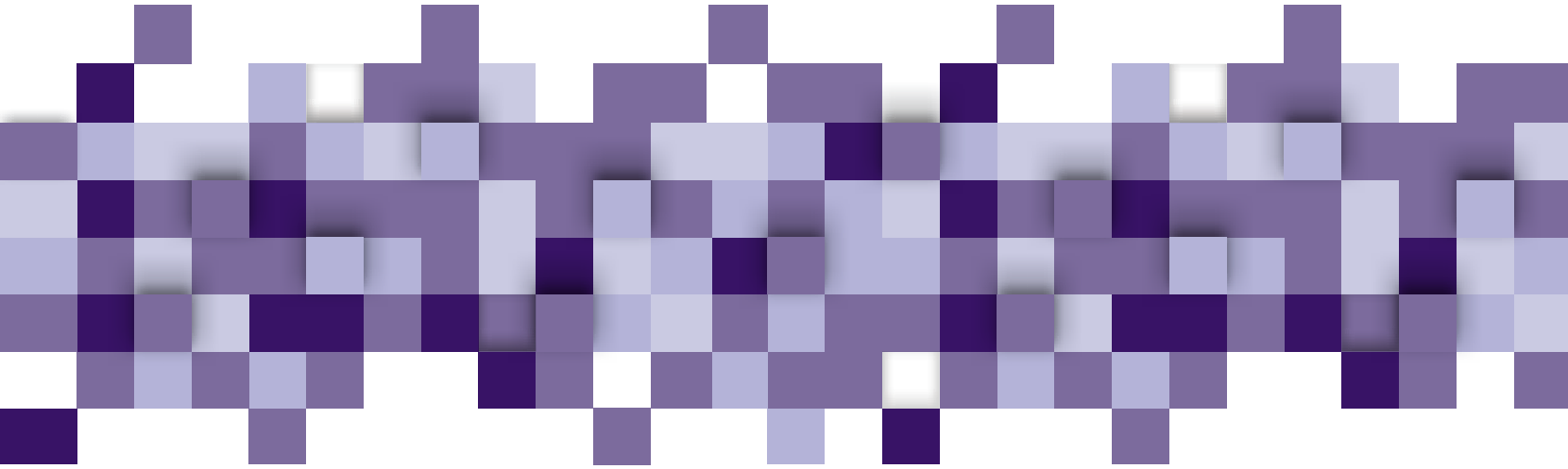
Sources: Eastern Caribbean Central Bank; and International Monetary Fund, October 2018 *World Economic Outlook.*
Note: R: revised; projections.

	2012	2013	2014	2015	2016 (R)	2017 (P)
			Grenada			
			Annual percentage change unless otherwise indicated			
Real Sector						
Real GDP	(1.2)	2.4	7.3	6.4	3.7	5.1
Nominal GDP	2.7	5.3	8.2	9.4	6.5	6.1
Consumer prices (end of period)	1.8	(1.2)	(0.6)	1.1	0.9	0.5
Consumer prices (period average)	2.4	(0.0)	(1.0)	(0.5)	1.6	0.9
			Annual percentage change unless otherwise indicated			
External Sector						
Current account (percent of GDP)	…	…	(4.4)	(3.8)	(3.2)	(6.8)
International reserves (millions of U.S. dollars)	119.5	150.6	169.9	198.0	207.7	199.1
			In percent of GDP			
Public Sector						
Total revenue	20.7	20.6	24.5	24.5	26.2	25.6
Current expenditure	21.2	20.3	20.0	17.3	19.7	19.7
Capital expenditure and net lending	5.0	6.8	9.2	8.3	4.7	2.6
Primary balance	(2.1)	(3.4)	(1.2)	2.1	4.7	5.8
Overall balance	(5.5)	(6.5)	(4.7)	(1.2)	1.8	3.2
General government gross debt	103.3	108.1	101.8	90.1	82.0	70.4
			In millions of EC dollars			
Memo						
Nominal GDP at market value	2,159.7	2,275.1	2,461.0	2,691.9	2,866.4	3,042.6
			St. Kitts and Nevis			
			Annual percentage change unless otherwise indicated			
Real Sector						
Real GDP	(0.7)	5.5	6.1	2.1	2.3	1.2
Nominal GDP	(2.5)	6.1	7.9	2.1	2.4	3.4
Consumer prices (end of period)	0.5	0.6	(0.5)	(2.4)	0.0	0.2
Consumer prices (period average)	0.8	1.1	0.2	(2.3)	(0.7)	0.6
			Annual percentage change unless otherwise indicated			
External Sector						
Current account (percent of GDP)	…	…	(4.5)	(9.1)	(10.7)	(10.1)
International reserves (millions of U.S. dollars)	263.5	302.0	327.3	288.4	320.5	365.1
			In percent of GDP			
Public Sector						
Total revenue	38.9	42.9	40.1	37.6	33.3	31.5
Current expenditure	25.3	24.4	25.1	25.3	27.1	24.4
Capital expenditure and net lending	3.3	6.2	5.2	6.5	3.5	5.2
Primary balance	15.7	15.8	12.9	7.7	9.6	3.4
Overall balance	10.3	12.3	9.7	5.8	2.6	1.9
General government gross debt	137.9	101.1	75.2	66.1	61.5	62.9
			In millions of EC dollars			
Memo						
Nominal GDP at market value	2,161.1	2,293.6	2,475.5	2,528.0	2,589.2	2,678.4

Sources: Eastern Caribbean Central Bank; and International Monetary Fund, October 2018 *World Economic Outlook.*
Note: R: revised; projections.

	2012	2013	2014	2015	2016 (R)	2017 (P)
St. Lucia						
Annual percentage change unless otherwise indicated						
Real Sector						
Real GDP	(0.3)	(2.0)	0.0	0.3	3.9	3.7
Nominal GDP	(0.1)	3.0	4.1	6.4	2.9	7.2
Consumer prices (end of period)	5.0	(0.7)	3.7	(2.6)	(2.8)	2.0
Consumer prices (period average)	4.2	1.5	3.5	(1.0)	(3.1)	0.1
Annual percentage change unless otherwise indicated						
External Sector						
Current account (percent of GDP)	...	...	3.4	6.9	(1.9)	1.3
International reserves (millions of U.S. dollars)	232.0	192.2	257.7	317.5	305.5	321.8
In percent of GDP						
Public Sector						
Total revenue	21.6	22.1	23.1	22.9	22.8	22.9
Current expenditure	21.3	21.2	21.2	20.0	20.1	19.4
Capital expenditure and net lending	6.2	6.9	5.2	4.9	3.1	4.4
Primary balance	(2.7)	(2.7)	0.2	1.3	2.8	2.2
Overall balance	(5.9)	(6.0)	(3.3)	(2.1)	(0.5)	(1.0)
General government gross debt	67.2	69.5	70.7	67.8	69.2	70.7
In millions of EC dollars						
Memo						
Nominal GDP at market value	3,882.3	3,999.1	4,164.5	4,430.5	4,558.3	4,887.4
St. Vincent and the Grenadines						
Annual percentage change unless otherwise indicated						
Real Sector						
Real GDP	1.4	1.8	1.0	1.8	1.3	0.7
Nominal GDP	2.5	4.1	0.6	4.3	1.3	1.7
Consumer prices (end of period)	1.0	-	0.1	(2.1)	1.0	3.0
Consumer prices (period average)	2.6	0.8	0.2	(1.7)	(0.1)	2.2
Annual percentage change unless otherwise indicated						
External Sector						
Current account (percent of GDP)	...	...	(25.7)	(14.9)	(15.8)	(14.8)
International reserves (millions of U.S. dollars)	111.0	135.1	157.4	166.0	192.3	182.0
In percent of GDP						
Public Sector						
Total revenue	27.0	26.9	29.4	28.0	30.8	30.4
Current expenditure	26.1	25.2	26.0	25.1	24.9	26.8
Capital expenditure and net lending	2.9	7.8	5.5	4.2	3.8	4.2
Primary balance	0.3	(3.7)	0.3	0.9	4.3	1.8
Overall balance	(2.1)	(6.2)	(2.1)	(1.3)	2.2	(0.6)
General government gross debt	72.5	75.0	79.4	79.4	82.8	73.8
In millions of EC dollars						
Memo						
Nominal GDP at market value	1,870.9	1,947.3	1,959.9	2,043.5	2,070.6	2,106.4

Sources: Eastern Caribbean Central Bank; and International Monetary Fund, October 2018 *World Economic Outlook.*
Note: R: revised; projections.



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