

ECLAC SUBREGIONAL  
HEADQUARTERS  
FOR THE CARIBBEAN

# Preliminary overview of the economies of the Caribbean 2019–2020

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Hidenobu Tokuda



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United Nations publication  
ISSN: 1728-5445 (electronic version)  
ISSN: 1727-9917 (print version)  
LC/TS.2020/56  
LC/CAR/TS.2020/2  
Distribution: L  
Copyright © United Nations, 2020  
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Printed at United Nations, Santiago  
S.20-00292

This publication should be cited as: S. McLean and others, "Preliminary overview of the economies of the Caribbean 2019–2020", *Studies and Perspectives series-ECLAC Subregional Headquarters for the Caribbean*, No. 92 (LC/TS.2020/56-LC/CAR/TS.2020/2), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2020.

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## Abstract

This overview examines the economic performance of economies of the Caribbean in 2019 and comprises four chapters. The first chapter provides a comparative analysis across Caribbean economies of the main macroeconomic variables, namely GDP growth, monetary indicators, as well as fiscal and external accounts. The second chapter looks at areas of focus in the Caribbean. The third chapter concludes, while the annex includes individual country briefs that give an overview of the economic situation for the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname and a subregional assessment of the countries of the Eastern Caribbean Currency Union.





## Introduction

### A. The World Economy and its prospects

Following years of slow but steady increases, global growth fell to 2.9% (IMF 2020) in 2019, corresponding to slowdowns in the advanced economies as well as emerging and developing states. Trade tensions throughout 2019 between two of the major trading partners for the Caribbean subregion, China and the United States, impacted on both their economies and global economic activity. The advanced economies grew by 1.7% in 2019, while the emerging and developing economies grew by 3.7% (see Table 1).

The world economy is projected to grow by 3.3% in 2020, following the decrease in 2019. The increase is expected to be driven by recoveries in several emerging and developing economies, along with monetary easing in both the advanced and emerging and developing economies. The advanced economies are projected to slow slightly to 1.6%, while the emerging and developing group will grow by 4.4%. Growth in the Euro area is expected to increase marginally to 1.3%, due to improved performance several economies, including Germany and the United Kingdom. In January 2020, the United Kingdom formally left the European Union, bringing an end to three and a half years of economic uncertainty.

The performance of emerging and developing countries continues to be the main impetus of global growth. However, the decline in 2019 brought the average growth down to 3.7% from 4.5% in the previous year. China's growth, while still high, fell by 0.5 percentage point to 6.1% in 2019. Despite an easing of tensions with the United States, including the signing of a "phase one" trade deal, China is expected to slow slightly to 6.0% in 2020. India's GDP growth fell from 6.8% in 2018 to 4.8% in 2019, as a result of issues in both the banking and non-banking financial sector. India is expected to rebound to 5.8% in 2020 in response to fiscal and monetary policy stimuli.

In Latin America and the Caribbean, growth fell close to zero in 2019. Eighteen of the twenty Latin American economies experienced lower growth in 2019, due primarily to slowdowns in the manufacturing, construction, commerce and mining (which has been in decline for years [ECLAC 2019]).

In the two largest economies of Latin America, Brazil and Mexico, growth fell from 1.3% and 2.0% respectively in 2018 to 1.0% and 0.0% respectively. The former's growth was constrained due to falling consumption, while the latter was affected by a decline in investment resulting from slow government budget implementation and uncertainty arising from trade tensions. In 2020 growth for the entire region is expected to increase to 1.3%.

Downside risks for the 2020 forecasts include re-escalations of tensions between the United States and Iran and continued social unrest in many countries including in Latin America, where protests over social issues erupted in several economies in the second half of 2019.

**Table 1**  
International actual and projected growth rates 2018-2020  
(Percentages)

	Estimate		Projections
	2018	2019	2020
World Output	3.6	2.9	3.3
Advanced economies	2.2	1.7	1.6
Emerging and Developing Economies	4.5	3.7	4.4
Euro Area	1.9	1.2	1.3
Latin America and the Caribbean	1.0	0.1	1.3
China	6.6	6.1	6.0
India	6.8	4.8	5.8
United States	2.9	2.3	2.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; International Monetary Fund (IMF), "World Economic Outlook Database, January 2020 update.

## B. Caribbean growth rates

While the average growth rate of service-producing economies slightly declined from 1.8% in 2018 to 1.7% in 2019 (Table 2), the economies of the ECCU have maintained a positive growth rate averaging 4.1% in 2019. Also, in 2019, six of the nine service-producing economies experienced declines in their GDP growth rates---Anguilla, Antigua and Barbuda, Bahamas, Grenada, Montserrat, and Saint Kitts and Nevis---notwithstanding their positive growth rates.

In 2020, service-producing economies are expected to record a growth rate of 1.4%, a slight decline relative to the growth rate of 1.7% in 2019. It is important to highlight that the ECCU countries have maintained a relatively high growth rate of 4.1%, similar to the growth rate in 2019. Antigua and Barbuda is expected to record the highest growth rate at 6.5% in 2020, followed by Dominica at 4.9%, albeit a decline relative to the 9.0% in 2019 as reconstruction projects slow down.

The largest economy among the service-producing economies, Jamaica, recorded a subdued growth performance at 1.7% in 2019. The Government of Jamaica has decided to make robust and sustainable growth performance its top policy priority upon the expiration of the three-year IMF-backed Stand-By Arrangement (SBA) agreement in November 2019. Despite the continued fiscal reforms and promotion of strong and sustainable growth, Jamaica is projected to grow at a rate of 1.6% in 2020.

The goods-producing economies recorded an average real GDP growth rate of 1.2% in 2019, a slight increase in comparison to the 0.8% in 2018. With the growth rate of 4.5%, Guyana had the highest

growth performance among the latter in 2019, followed by Belize and Suriname with 2.1% each. The largest economy among the goods-producing countries and in the Caribbean, Trinidad and Tobago, is expected to record a growth rate of 0.4% in 2019; although sluggish, it is a slight improvement relative to the negative growth of -0.2% in 2018.

With the discovery and commercialization of oil by ExxonMobil scheduled to start in December 2019, Guyana's growth performance is expected to skyrocket to 85.6% in 2020, thereby driving up growth rates among the goods producing economies. On the other hand, Trinidad and Tobago, is expected to continue its upward trend with a growth rate of 1.5% following an increase in the global prices of energy.

**Table 2**  
**Caribbean: GDP growth rates, 2015-2020**  
(Percentages)

	2015	2016	2017	2018	2019	2020
Anguilla	3.2	-2.5	-6.6	10.9	6.3	4.9
Antigua and Barbuda	3.8	5.5	3.2	7.4	6.2	6.5
Bahamas	0.6	0.4	0.1	1.6	0.9	-0.6
Barbados	2.2	2.3	-0.2	-0.6	0.0	1.3
Belize	3.4	-0.6	1.4	3.0	2.1	1.9
Dominica	-2.7	2.6	-6.8	2.2	9.0	4.9
Grenada	6.5	3.7	4.4	4.1	3.3	4.0
Guyana	3.1	3.4	2.2	4.1	4.5	85.6
Jamaica	0.9	1.4	1.0	1.7	1.7	1.6
Montserrat	1.2	1.3	-3.8	4.0	1.5	1.5
Saint Kitts and Nevis	1.6	1.8	0.9	4.6	3.0	3.5
Saint Lucia	0.3	3.9	3.3	1.5	2.0	3.2
Saint Vincent and the Grenadines	1.3	1.9	1.0	2.2	2.5	2.4
Suriname	-3.4	-5.6	1.8	2.6	2.1	1.7
Trinidad and Tobago	1.8	-6.3	-2.3	-0.2	0.4	1.5
<b>Caribbean</b>	<b>1.2</b>	<b>-1.7</b>	<b>-0.2</b>	<b>1.4</b>	<b>1.4</b>	<b>5.5</b>
<b>Goods Producers</b>	<b>1.2</b>	<b>-5.1</b>	<b>-1.1</b>	<b>0.8</b>	<b>1.2</b>	<b>10.4</b>
<b>Service Producers</b>	<b>1.2</b>	<b>1.5</b>	<b>0.6</b>	<b>1.8</b>	<b>1.7</b>	<b>1.4</b>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official data.

## C. Unemployment

In 2019, unemployment rates fell in three of the five countries for which data was available, namely the Bahamas, Jamaica and St. Lucia (see Table 3). In the Bahamas, preliminary unemployment data shows that unemployment rate fell from 10.7% in 2018 to 9.5% in 2019. However, with the passage of Hurricane Dorian in September of 2019 and its implications for the tourism sector, the pillar of the Bahamian economy, the final unemployment rate figure for 2019 is expected to rise. In St. Lucia, unemployment rate declined from 20.2% in 2018 to 17.1% in 2019 thus far. Similarly, unemployment rate declined in Jamaica from 9.1% in 2018 to 7.9% in 2019.

On the other hand, unemployment rates rose in Belize and Barbados in 2019. In Belize, after recording an unprecedented record low unemployment rate of 7.7% in April of 2019, unemployment rate jumped to 10.4% as of September 2019, due largely to both declining GDP and high labour supply, especially from women, but few job availabilities. In Barbados, public sector reforms coupled with sluggish and unmatched private sector demand for labor have contributed to the rise in unemployment rate to 10.8% in September of 2019.

Countries in the region are also addressing the issue of high youth unemployment rates with varying degrees of success. After recording an unprecedented low youth unemployment of 25.90% in the first quarter of 2019, St. Lucia's youth unemployment increased to 35% in the second and then 34.70% in the third quarter of 2019. As of July 2019, youth unemployment rate in Jamaica stood at 20.2%. In Belize, youth unemployment rate stood at 21.4% as of September 2019. In the Bahamas, youth employment rate stood at 20% as of September 2019. However, with the passage of Dorian, this figure is expected to rise.

**Table 3**  
**Unemployment rates, 2015-2019**  
(Per centages)

	2015	2016	2017	2018	2019
Bahamas	12.0	12.7	10.1	10.7	9.5
Barbados	11.3	9.7	10.0	10.1	10.8
Belize	10.1	8.0	9.0	9.4	10.4
Grenada	29.0	28.2	23.6	20.6	
Jamaica	13.5	13.2	11.7	9.1	7.9
Saint Lucia	24.1	21.3	20.2	20.2	17.1
Suriname	7.2	9.7	7.6		
Trinidad and Tobago	3.4	4.0	4.8	3.8	
<b>Caribbean Average</b>	<b>13.8</b>	<b>13.3</b>	<b>12.1</b>	<b>12.0</b>	<b>11.1</b>
<b>Goods Producers</b>	<b>6.9</b>	<b>7.2</b>	<b>7.1</b>	<b>6.6</b>	
<b>Service Producers</b>	<b>18.0</b>	<b>17.0</b>	<b>15.1</b>	<b>14.1</b>	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official data.

... Data not available.

Suriname: Unemployment rate in the districts of Paramaribo and Wanica.

## I. Macroeconomic performance

This subsection analyses the performance of key macroeconomic indicators in the Caribbean, over the first few months of 2019.

### A. Fiscal and debt

#### 1. Fiscal

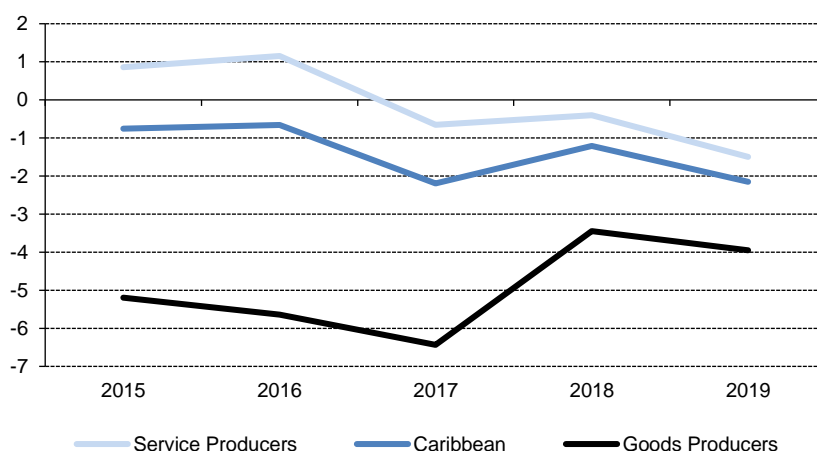
In recent years the region has been striving to reduce its fiscal deficit as a path to restoring healthy public finances, which could not only spur growth, but could reduce country risk and the cost of government borrowing.

Nevertheless, there was some slippage in 2019, with the fiscal position worsening owing to relatively large increases in the deficit in a minority of economies that offset fiscal consolidation in most economies (see Figure 1). Generally, the deficit was higher in the goods-based economies (4.0% of GDP) than in their service-based counterparts (1.5% of GDP).

The deficit expanded by 12.3 and 10.8 percentage points in Montserrat and Dominica. In Dominica this stemmed from continued reconstruction following severe damage from Hurricane Maria in 2017. Most of the other ECCU countries loosened their fiscal stance to upgrade important infrastructure, including roads and airports to boost future growth. The deficit also increased in Suriname due to an increase in public sector wages and the failure to implement the VAT, which would have raised more revenue.

By contrast, the fiscal situation improved in countries, including in St. Kitts and Nevis, Barbados, Trinidad and Tobago, among a few other countries. St. Kitts and Nevis benefited from inflows from its Citizen by Investment Programme. In Barbados, the broadening of the base of the VAT and some new taxes under the Extended Fund Facility led to an improved fiscal position. Meanwhile, Trinidad and Tobago's tax amnesty led to higher tax collections which was further boosted by increased energy revenues, owing to the higher royalty rate that extraction companies were charged. This offset growth in spending.

**Figure 1**  
**Fiscal balance, 2015-2019**  
*(Per cent of GDP)*



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

## 2. Debt

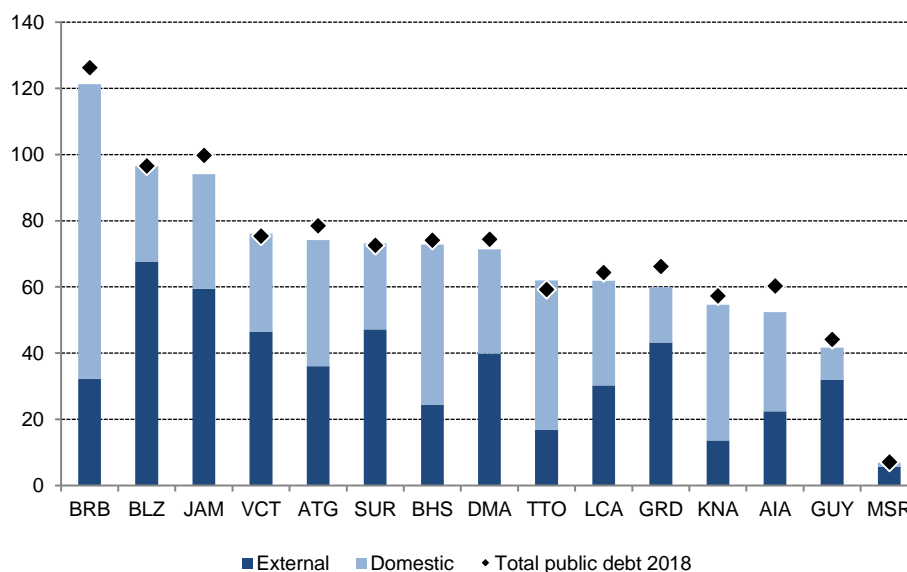
With an average debt-to-GDP ratio of 67.9% in 2019, Caribbean economies moved toward the debt sustainability benchmark of 60%, a 2.6 percentage points decline relative to 2018 (see Figure 2). Many Caribbean countries have made strides in gradually addressing the high debt issue. The average debt ratio in the Caribbean is at its lowest point since 2010. While Guyana, Montserrat and Saint Kitts and Nevis have remained steadfast in keeping their debt-to-GDP ratios below the 60% line, it is important to highlight that Anguilla is gradually following in their footsteps by recording a debt-to-GDP ratio of 52.4% in 2019. Also, in 2019 Jamaica, Barbados, and Belize had the highest debt-to-GDP ratios, notwithstanding their best efforts and ongoing fiscal consolidation efforts.

In 2019, Jamaica public debt to GDP declined by 5.7 percentage points to 94.1% relative to 2018. Similarly, public debt-to-GDP of Barbados declined by 5.1 percentage to 121.2%. On its path to further reducing its public debt ratio, the Government of Barbados agreed in principle to exchange some of its US-dollar denominated bonds into new bonds with longer repayments period in October of 2019.

Public debt-to-GDP ratios of Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago increased by 0.7, 0.6 and 2.7 percentage points relative to 2019. In the case of Trinidad and Tobago, the closure of money-losing State-Owned oil company, Petrotrin, have contributed to the increase in its debt-to-GDP ratio. Noteworthy is that the volatility of the prices of their major commodities in the global market has significantly affected the debt-to-GDP ratios of Goods-producing economies, two of the four them saw an increase in their debt-to-GDP ratios, namely Trinidad and Tobago and Suriname.

Overall, despite fiscal consolidation efforts and declines in the debt-to-GDP ratios in the region, debt remains a major impediment to growth and further development in the Caribbean. To help member States address the debt matter, ECLAC is currently piloting a debt for climate swap initiative with three Caribbean in the first phase, namely Antigua and Barbuda, Saint Vincent and the Grenadines, and St. Lucia. Upon completion of the first phase, it is hoped that the initiative will be extended to more countries in the region.

**Figure 2**  
**Total public debt, 2019**  
*Per cent of GDP*



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

## B. Monetary policy, domestic credit and inflation

This subsection will explore issues relating to the nature and focus of monetary policy-setting in Caribbean economies in 2019, as well as trends in interest rates, money supply, domestic credit and inflation.

In 2019, while there was a mixed approach to monetary policy-setting in the Caribbean, overall the monetary policy stance in the region remained accommodative. Jamaica, for instance, continued to pursue an expansionary monetary policy with the Bank of Jamaica cutting its overnight rates four times in 2019. The overnight rates were reduced from 1.75% in December 2018 to a historic low of 0.50% in August 2019. In contrast, the Central Bank van Suriname increased the reserve requirement for foreign-currency deposits and required that at least half of commercial banks' USD cash deposits and all of the EUR deposits be held at the Bank, in order to maintain a stable exchange rate.

Further, despite the subdued economic activity, the Central Bank of Trinidad and Tobago maintained its monetary policy rate, the repo rate, at 5.00% during the first eleven months of 2019 in consideration of foreign exchange shortages. In the Bahamas, monetary policy was neutral with the Central Bank holding its policy discount rate at 4.00%.

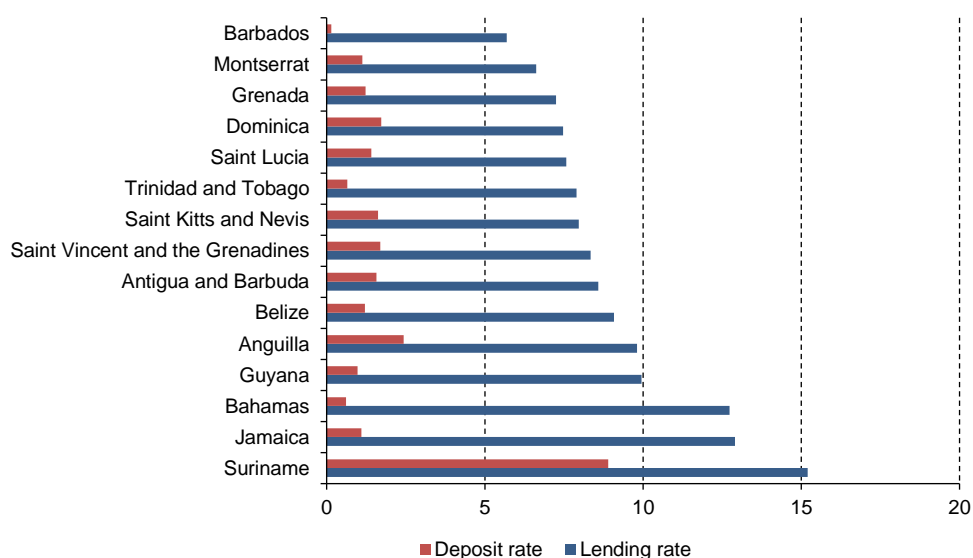
### 1. Interest rates

In 2019, average lending rates in the Caribbean remained unchanged at 9.07%, while the average deposit rate continued its downward trend, with a 7 basis points decline from 2018 to 2019 (see Figure 3). In the Bahamas, lending rate increased by 1.09 percentage from December 2018 to October 2019, partly owing to the economic damage caused by the Hurricane Dorian. Suriname also experienced an increase in lending rate by 0.80% from December 2018 to September 2019. The current account credit rate was responsible for the increase, as it grew from 15.6% in December 2018 to 18.8% by September while all other lending rates stayed relatively stable.

In contrast, other Caribbean countries except Anguilla, Antigua and Barbuda and Belize recorded a decline in the lending rates due to a continuation of the overall accommodative monetary policy stance. In Jamaica, lending rate declined from 13.46% to 12.90% following the aggressive monetary policy easing. Lending rate in Barbados also declined by 0.42% reflecting strengthening of the public finances and a steady improvement in holdings of international reserves.

On account of the continued decline in saving rates and almost flat lending rates, average interest spreads increased by 7 basis points in the Caribbean. Increase in the goods producing economies were 28 basis points, while the service producing economies recorded a slight decline of 1 basis point.

**Figure 3**  
**Lending rate and deposit rate, 2019**  
(Percentage)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

## 2. Monetary supply and credit

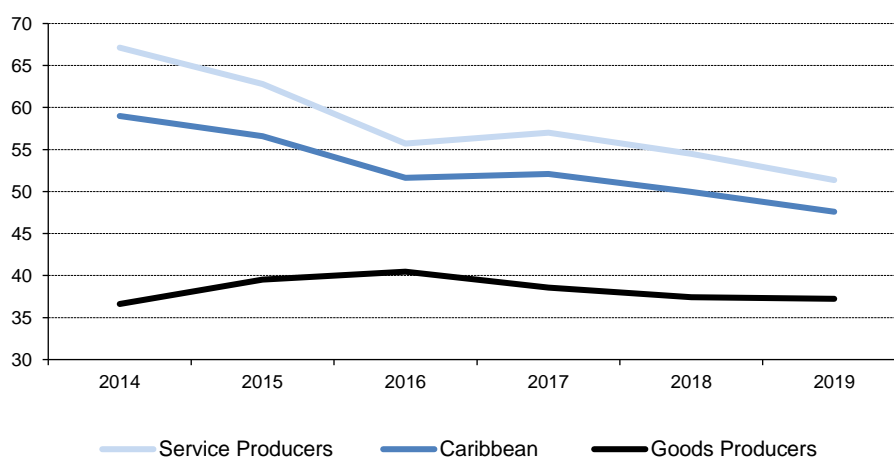
Overall there was a marginal decline in credit to the private sector from 49.4% of GDP in 2018 to 47.6% of GDP in 2019 (see Figure 4). In the service producing economies, the credit to the private sector decreased from 54.5% of GDP in 2018 to 51.4% of GDP in 2019. These economies continued a structural decline since the global crisis, related to weak business confidence that is affected by impediments in the ease of doing business and sluggish economic performance. Also, commercial banks remain largely risk averse, paying considerable attention to reducing the level of non-performing loans.

In the goods producing economies, the credit to the private sector (37.4% of GDP) remained almost unchanged relative to the previous year (37.2% of GDP). While Suriname recorded a decline of 2.7 percentage due to the aforementioned monetary policy tightening, other three goods economies registered an increase in credit to the private sector although the reasons were mixed. In Guyana, private sector credit was supported by the strengthening economic momentum ahead of the oil production in 2020. In contrast, the increase in private sector credit in Trinidad and Tobago was driven by a new consumer loan demand for debt restructuring and a strong mortgage lending due to persistent housing supply shortages, as business lending remained weak.



Owing to the marginal decline in private sector credit, the broad measure of liquidity, M2 (narrow money plus savings deposits and time deposits), decreased from 69.0% of GDP in 2018 to 66.8% of GDP in 2019. While the goods producing economies recorded an increase of 0.8% points, the service producing economies registered a decrease of 3.4% points.

**Figure 4**  
**Domestic credit to the private sector, 2015-2019**  
*(Percentage of GDP)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

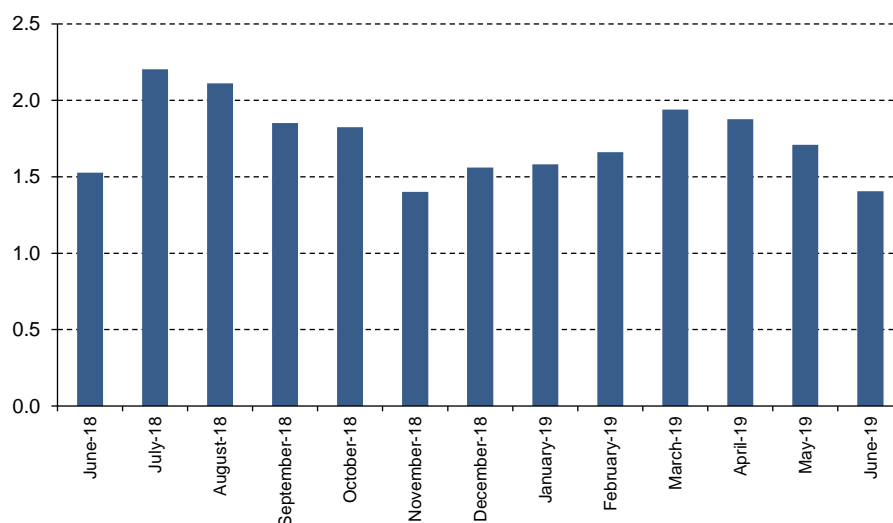
### 3. Inflation

As of June 2019, inflation across the Caribbean averaged 1.7% in 2019, remaining unchanged from the same period in 2018. Although higher food prices pushed Caribbean inflation on an upward trajectory, it was ultimately controlled by declining international energy prices. This is indicative of the general global trend of lower commodity prices, which resulted in lower imported inflation. Low income earners and pensioners are expected to benefit from these lower prices.

Inflation rates among goods producing economies as of June 2019 stood at 1.7% representing a decline from 2.0% in June 2018. Increases in prices of meat, fish and eggs in Guyana pushed inflation up by 0.8 percentage points to 1.8%. For the other goods producing economies inflation remained subdued. For the Trinidad and Tobago economy, the subdued performance was primarily driven by weak economic activity despite an increase in food inflation. Lower cost of home ownership as well as a decrease in the cost of foreign used motor vehicles and stable fuel costs contributed to the deceleration of core inflation. Alternatively, inflation fell for the Surinamese economy from 8.8% as of June 2018 to 4.7% as of June 2019, one of the lowest levels since moving to a floating exchange rate regime in 2016.

Among service producing economies, inflation modestly increased by 0.1 percentage points to 1.7% in June 2019 relative to the same period in 2018. Economies such as Barbados and the ECCU experienced a downward trend in inflation in the first half of 2019. This was driven by falling prices in housing, utilities, and fuel prices for the ECCU economies. In the case of Barbados, the repeal of the National Social Responsibility Levy and stable international food and energy prices lent to the observed decline. Similar trends were observed for the remaining service producing economies.

**Figure 5**  
**Inflation, June 2018-June 2019**  
*(Year-on-year percentage change)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

## C. External Sector

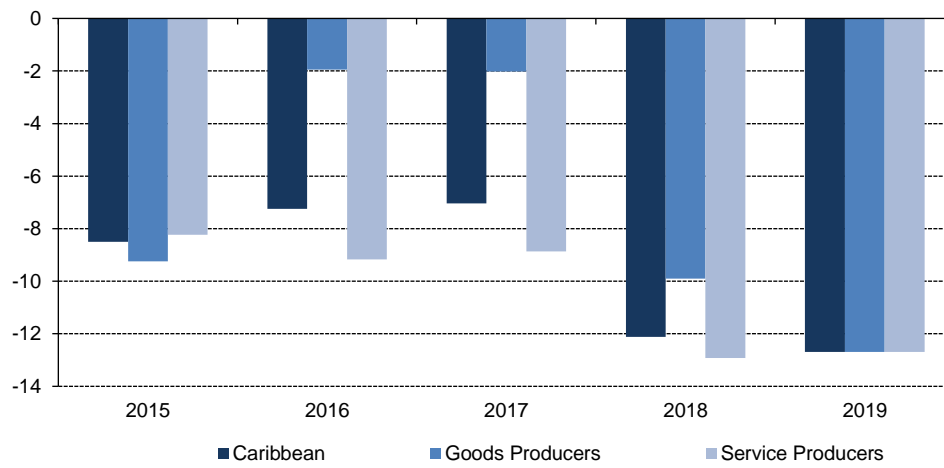
### 1. Current account

The Caribbean has long had a structural current account deficit. The average deficit for the period 2000 to 2018 was 13.2% of GDP, but it trended downward from 2014 to 2017, when it measured 7.0% of GDP. However exceptional developments in Suriname and Guyana contributed to the widening of current account deficit in 2018 and 2019.

The average current account deficit in the Caribbean expanded from 12.1% of GDP in 2018 to 12.7% in 2019 (see Figure 6). The goods producers' deficit grew from 9.9% of GDP to 12.7%, driven by expansions in Guyana and Suriname. The average deficit among the service producers contracted slightly from 12.9% of GDP to 12.7%. The expanded deficits in Suriname and Guyana were both related to increased imports of goods and services related to investments in the mining sectors: gold in the former and oil in the latter. While Dominica's current account deficit remains one of the highest in the Caribbean at 33.5% of GDP, it recorded the largest improvement in 2019, by narrowing 7.4 percentage points from 40.9% in 2018. The improvement was driven by a resumption in soap and paint exports following Hurricane Maria and an increase in travel receipt and visitor arrivals.

The best performance was observed in Trinidad and Tobago, with a current account surplus of 8.0% of GDP. Exports over the first half of the year were lower than the first half of 2018, as energy prices and volume in energy exports both fell. However, a narrowing in the services deficit along with a decrease in imports contributed to an increased current account surplus.

**Figure 6**  
**Current account balance, 2015-2019**  
*(Per cent of GDP)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.



## II. Areas of focus

### A. Transformation of Guyana's Economy

Oil production will have a transformative effect on Guyanese economy, beginning in 2020. The oil production in Guyana's Liza Phase 1 project started in December 2019, and it will reach its potential of 120,000 barrel per day (bpd) in three months. Based on this information, average oil production is expected to be around 102,000 bpd in 2020, which amounts to over 80% of GDP assuming the oil price prevailed in 2006 (the base year of the constant GDP).

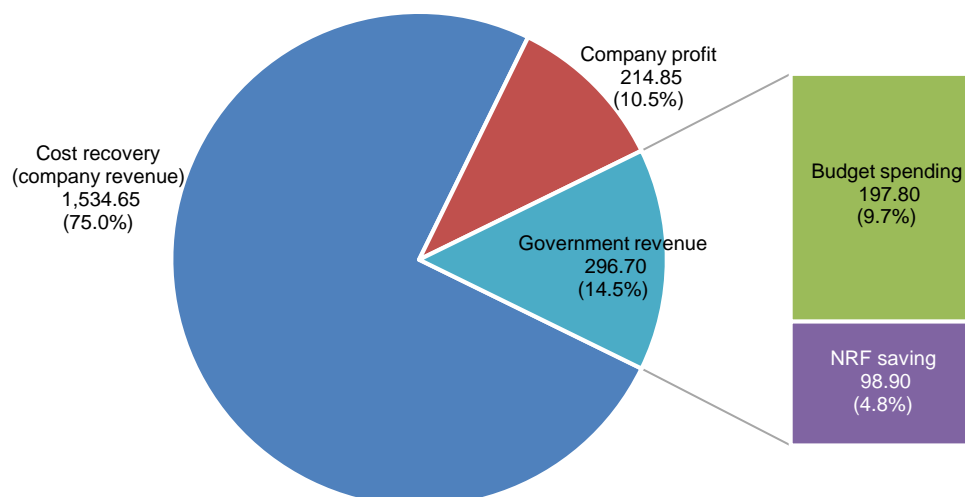
Further, ExxonMobil estimates that it will achieve gross production of over 750,000 bpd from the Stabroek Block by 2025. Specifically, the Liza Phase 1 will produce up to 120,000 bpd and the Liza Phase 2 is expected to start-up by mid-2022 and produce up to 220,000 bpd. Also, Payara start-up could be as early as 2023 and production would reach an estimated 220,000 bpd. Further, there is potential for additional production from significant undrilled targets and plans for rapid exploration and appraisal drilling.

The main direct effect of oil on the economy will be through fiscal revenues. Under the revenue-sharing agreement, 14.5% (12.5% for profit oil and 2% for royalty) of total oil revenue will be allocated to the government revenue (the government revenue share will increase to above 50% after cost recovery), and 67% of the government revenue (9.7% of total oil revenue) will be transferred to fiscal spending at the initial stage (33% will be saved in the Natural resource Fund, and the share of NRF saving will increase as oil production goes up (see figure 7). In 2020, the fiscal spending stemming from the oil revenue could amount to around 5% of 2019 nominal GDP.

Guyana needs to manage the oil revenue effectively to minimize macroeconomic distortions related to Dutch disease, including real exchange rate appreciation that could erode export competitiveness and crowd out private investment. In this regard, the country created a long-term strategy, "Green State Development Strategy: Vision 2040", to efficiently use oil revenues for economic diversification and equal distribution of wealth. The strategy established eight development objectives in three priority areas: "Manage Natural Resource Wealth", "Support Economic Resilience" and "Build Human Capital and Institutional Capacity". Given the scale and cross-cutting nature of the Strategy, its implementation requires a new approach for funding and resource mobilization. Therefore, it is

important to fully mobilize the wide pool of public and private, national and international funding available to Guyana, including climate financing from Green Climate Fund (GCF) and Foreign Direct Investment (FDI).

**Figure 7**  
**Guyana: rough estimates for oil related revenue and budget spending, 2020**  
*(Millions of US Dollars and per cent of total oil revenue)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and IMF.

## B. Hurricane Dorian in The Bahamas

Hurricane Dorian has set back development progress in the Bahamas, especially in Abaco and Grand Bahama, the two severely affected islands. Most of the population of both islands were affected by the hurricane, with an estimated 29,472 persons affected. There were 67 confirmed deaths and 282 persons still missing as of 18 October 2019. Further, 200 persons were reported injured up a week after the passage of the storm.

ECLAC has estimated that the hurricane cost<sup>1</sup> the country over \$3.4 billion, more than 27% of its GDP. The impact cut across different sectors of the economy including the social, infrastructure, productive and environmental sectors.

The social sector bore the brunt of the damage (\$1.8 billion) with Abaco bearing over 85% of the impact. Housing and the private properties (91%) of the impact in the social sector, were severely affected by the hurricane.

The productive sectors were also badly affected by the hurricane with impacts estimated at \$1.04 billion. The mainstay tourism sector in the two islands suffered a significant impact to the tune of \$869.9 million. However, other sectors were also disrupted with impacts of \$147.4 million in commerce and \$23.6 million in fisheries and agriculture. The hurricane also resulted in substantial fall-out in the infrastructure sector, estimated at \$452.5 million, over 13% of the total impact. This stemmed from substantial disruption in the power, transport, telecommunications and water and sanitation sub-sectors.

The hurricane was also projected to lead to important macroeconomic effects. The economy is projected to grow by 0.9%, which is half of the previous projection of 1.8%. Government finances were

<sup>1</sup> The costs include damage, losses and additional costs stemming from the hurricane.

expected to weaken in the short-term owing to a spike in expenditure on relief, rehabilitation and reconstruction. In addition, tax receipts were projected to fall by \$168 million due to a decline in economic activity and tax relief for affected households and businesses. Therefore, the fiscal deficit was expected expand to 5.9% of GDP.

Given repeated hits by hurricanes in recent years, The Bahamas needs to frontload investment in risk reduction, preparedness and a resilient recovery in face of the disaster. There is a need to rethink the levels of risk that key sectors face and the best approach to mitigating them within the constraint of available resources. ECLAC has proposed actions under the five pillars of action to reduce risk and build resilience to future disasters. These pillars are risk identification, risk reduction, preparedness, financial protection and resilient recovery. With respect of to risk identification, it is recommended that The Bahamas establish better data management and sharing procedures to improve access to and use of data disaster risk reduction. Meanwhile, risk reduction could be facilitated by updating safety standards for essential infrastructure to minimize damage from more intense hurricanes. Also, the authorities should schedule and budget for appropriate maintenance of infrastructure, alongside improved zoning of buildings and other facilities. Preparedness could be enhanced by developing sectoral preparedness checklists with proper evacuation procedures.

Financial protection is critical and should be buttressed by a comprehensive multi-year reconstruction plan after Hurricane Dorian. Further, the government should consider mandatory insurance for public infrastructure and to lobby for international development finance institutions to factor in disaster risk management in their lending decisions.

Hurricane Dorian caused unseen levels of destruction but now provides a great opportunity to reimagine resilience in the Bahamas. The Bahamas has an opportunity to reconfigure the setup of its communities and become a leader in resilient reconstruction.

Disaster risk reduction and resilience building, especially in the context of climate change, is important not only for protecting lives but for attracting investors. The Caribbean needs to view measures in these areas as an investment in sustainable development rather than simply a cost and should allocate dedicated financial, technological and human capital resources to reduce the impact of disasters.





### III. Conclusion

The economic performance of the Caribbean in 2019 remained subdued; average growth was below 2%. Despite strong expansions in several of the ECCU economies, anaemic growth in two of the larger economies, Trinidad and Tobago and the Bahamas, kept growth constrained. Despite the continued sluggish performance, unemployment remained on a downward trend in the economies with available data.

On average there was a worsening of the fiscal position in the Caribbean, as relatively larger decreases in the fiscal balance of a few economies offset the gains made in the others. Despite this result, public debt ratios fell across most of the Caribbean. In the monetary sector, interest rate spreads grew and credit to the private sector fell as a per cent of GDP.

The threat from natural disasters remains ever-present in Caribbean economies and the impact from a single storm can be felt over several years. The fiscal balance in Dominica was among the highest in the subregion as a result of spending stemming from 2017's Hurricane Maria, and the Bahamas economy is projected to contract in 2020 as a result of 2019's Hurricane Dorian. Building climate resilience by mainstreaming disaster risk reduction and investing in mitigation projects is essential for the Caribbean.

The growth outlook for the Caribbean is positive for 2020. While some economies will return to trend after a strong 2019, growth is expected to increase in seven economies, headlined by a transformational expansion in Guyana.



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## **Annex**

## Annex 1 Country Notes

### Bahamas

The impact of Hurricane Dorian has dampened economic activity in the Bahamas in 2019 as visitor arrivals and spending declined. As a result, growth for the year is expected to slow to 0.9% from the previously projected 1.8%. Unemployment declined, thanks to the robust activity seen in the first eight months of the year, while inflation increased to 1.8%, partly reflecting the pass-through of higher value added tax (VAT) rates. The steady growth in revenues, which offset higher expenditure, led to the fiscal deficit falling to 2.0% of GDP. Monetary policy remained neutral in the wake of a build-up in liquidity and lower domestic credit, which did not affect the exchange rate. Meanwhile, the balance of payments current account deficit narrowed sharply from 8.7% of GDP in the first half of 2018 to 1.2% of GDP in the same period of 2019, driven by a significant improvement in the service account before the hurricane, higher tourism receipts and lower merchandise imports.

In the aftermath of Hurricane Dorian, the economy is projected to contract by 0.6% in 2020, as the disruption continues to affect the tourism, distribution and other sectors in Abaco and Grand Bahama, which together account for about 12% of total stopover visitors and 18% of sea visitors. Year-on-year visitor arrivals to the Bahamas declined by 12.8% in September 2019. Muted tourism activity is expected to carry over into 2020 as the islands hardest hit by the hurricane have lost room capacity. Unemployment is expected to increase due to job losses in the tourism and distribution sectors, while inflation should stabilize as the effects of the VAT hike become normalized. Furthermore, partly as a result of capacity constraints and prudential requirements relating to the disbursement of funds, reconstruction-related construction will not be able to offset the decline in tourism. Reconstruction spending is expected to push the fiscal deficit up to 5.0% of GDP in fiscal year<sup>2</sup> 2019/20. The external position is expected to worsen in 2020, as growth in reconstruction-related imports result in a widening of the current account deficit, from 7.4% of GDP in 2019 to over 12.0% of GDP in 2020.

There was slippage in the government's fiscal consolidation efforts in fiscal 2018/19. Following a decline of 10% in fiscal 2017/18, government expenditure grew by 7.2% in fiscal 2018/19, linked to a 31.8% hike in spending on goods and services, together with higher outlays for transfers and subsidies, which remain sticky and increased debt interest payments. Capital expenditure was cut by 19.2% in 2018/19, reflecting the public sector's greater leverage over its capital programme compared to current spending. Meanwhile, government revenues rose by 19.7% compared to 2017/18, reflecting a 31.7% jump in VAT receipts and a 28.1% increase in revenues from taxes on goods and services. The fiscal deficit was consequently cut substantially, down from 3.4% of GDP in fiscal 2017/18 to 2.0% of GDP in 2018/19. During the first quarter of fiscal 2019/20, the deficit shrank by one third to 41.8 million Bahamian dollars (B\$). Revenues, boosted by the 7.6% growth in VAT receipts, surpassed expenditures, which grew by 2.7%.

In the wake of Hurricane Dorian, the fiscal stance is expected to ease as the government prioritizes reconstruction efforts. The fiscal deficit is therefore projected to rise to 5.3% of GDP. Given the large scale of rehabilitation and reconstruction work that is required in Abaco and Grand Bahama, government spending is projected to be B\$ 214.2 million, spread over fiscal 2019/20 and 2021/22. In an effort to take away something positive from the disaster, the government is using this opportunity to modernize and diversify the energy sector by investing in cleaner, cost-efficient renewable sources, including solar and wind power.

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<sup>2</sup> 1 July – 30 June.

Monetary policy remained neutral in 2019 with the central bank holding its policy discount rate steady at 4.0%. Banking sector liquidity was strengthened amidst a drop in domestic credit during the first nine months of 2019. Excess liquid assets grew by B\$ 252.9 million, a turnaround from the reduction in 2018. Following strong growth of B\$ 39.1 million in 2018, domestic credit contracted by B\$ 22.2 million in 2019, as loans to the public sector declined by B\$ 33.8 million, which was only partly offset by a B\$ 11.6 million increase in credit to the private sector

Non-performing loans (NPLs) fell by B\$38.4 million (7.4%), leading to a 67 basis points decline in the NPL rate, down to 8.4%. Average interest rate spreads widened to 10.58% in 2019 from 10.5% in 2018.

The balance-of-payments position strengthened in the first half of 2019 relative to 2018. The current account deficit narrowed significantly to 1.2% of GDP, compared to 8.7% of GDP in 2018, underpinned by improvements in the merchandise, services and income accounts. The merchandise deficit declined by 16.4% to US\$ 1262.2 million, reflecting lower payments for imports, due in part to the completion of the Baha Mar project in 2018 and the winding down of some other projects. The services surplus expanded by 12.7% to US\$ 1391.1 million, buttressed by 16.7% growth in net travel receipts, the result of steady growth in visitor arrivals and receipts. The income account deficit contracted by 9.0% to stand at US\$ 312.3 million, linked to lower investment income outflows. The capital and financial account surplus declined sharply by 58% to US\$ 434.3 million. Foreign direct investment (FDI) inflows plummeted by 55% to US\$ 160.9 million, following the completion of key projects and a decline in other investments, including commercial banks and government borrowing. At the end of September 2019, international reserves grew by US\$ 360.1 million, to stand at US\$ 1.6 billion, on the back of foreign exchange and reinsurance receipts, covering 5.3 months of imports, compared to 4.4 months in 2018.

Economic activity had picked up prior to Hurricane Dorian, buoyed by 10.4% growth in total visitor arrivals for the first nine months of 2019. Air arrivals, including high-spending stopover visitors, expanded by 11.6% on the heels of the 16.5% growth seen in 2018. Sea arrivals, which are dominated by cruise ship visitors, were up by 10.1%, surpassing the increase registered in 2018 (6.5%). Growth in tourism had a positive spillover effect on other sectors, including transportation and distribution. Construction activity remained fairly strong, bolstered by varied-scale foreign and domestic investment projects. However, for the latter part of 2019 into 2020, the fallout from the hurricane is expected to depress growth. According to the damage and loss assessment carried out by ECLAC, the hurricane will cause Abaco and Grand Bahama to lose 7.3% and 2.0% of GDP, respectively, in 2019.

Inflation moderated to 1.8% year-on-year to September 2019, compared to 4.2% for the same period in 2018. Inflation is expected to remain relatively low at around 2.0% in 2020, as the impact of the VAT hikes are normalized. The unemployment rate fell from 10.7% in November 2018 to 9.5% in May 2019, reflecting a 1.8% rise in the employed population, to stand at 137,605 persons. The number of discouraged workers also declined amidst improved job prospects as the Baha Mar resort and other hotel properties became fully operational. The unemployment rate is expected to rise as jobs are lost in the tourism and distribution sectors as a result of the impact of the hurricane.

## **Barbados**

Growth in the Barbadian economy remains subdued as a result of the ongoing focus on fiscal consolidation, which remains central to addressing the country's macroeconomic challenges. By the end of 2019, gross domestic product (GDP) growth is estimated to be flat at 0.0%. However, good progress has been made in the implementation of the Barbados Economic Recovery and Transformation (BERT) programme, underpinned by the four-year extended fund facility (EFF) arrangement with the International Monetary Fund (IMF). The EFF arrangement, which provides the country with a total of US\$ 290 million, has shored up international reserves to preserve the currency peg, provided a much-needed source of foreign exchange and is driving economic growth. In support of

the EFF arrangement, the government recently introduced revenue boosting measures and spending reforms that have had positive effects on the economy's fiscal position. By the third quarter of 2019, the fiscal surplus stood at 2.8% of GDP, the primary surplus was 4% of GDP and gross public sector debt was equivalent to 120.9% of GDP. Public debt is expected to be reduced further, while the fiscal surplus and primary surplus are expected to increase, as the effects are felt of additional measures and the recently concluded agreement with external creditors following the suspension of debt payments. Inflation declined to 2.5% as of September 2019, as higher food prices were offset by stable international food prices and lower energy costs. Following public sector layoffs in 2018 and the slow absorption of these workers into the private sector, the unemployment rate rose to 10.8% by the end of the third quarter of 2019 and could increase as further layoffs within State-owned enterprises are expected. GDP growth in 2020 is projected to strengthen to 1.3%, as the government's fiscal consolidation efforts progress, leading to improved investor confidence and domestic spending, and as the impact of lower personal income tax and the gradual payment of tax refunds is felt. Barbados' dependence on external economic factors together with ongoing delays in private sector projects remain downside risks to this forecast.

As part of the government's fiscal consolidation efforts under the EFF agreement, several tax changes have been adopted to boost revenue generation. In particular, the value added tax (VAT) base was broadened, and bus fares and land tax rates were increased. New measures, such as taxes on online transactions, the shared accommodation levy, a tax on gambling winnings and the health service levy, were also introduced. As a result, property tax collections increased five-fold and personal income tax revenues rose by a modest 6%, following the introduction of a 40% tax band. These higher revenues together with the government's spending reforms meant that the fiscal surplus increased from 0.2% in the first half of fiscal year<sup>3</sup> 2018/19, with a primary surplus of 2.8% of GDP, to 2.8% in the first half of fiscal 2019/20, with a primary surplus of 4% of GDP (closer to the primary surplus target of 6% of GDP for fiscal 2019/20). However, this increase was tempered by challenges faced in the implementation of some of those new measures, including the online transactions tax, shared accommodation levy and tax on gambling winnings, and the eventual discontinuation of the 40% tax band in mid-2019. Furthermore, the slower-than-expected implementation of the upgrade of the Automated System of Customs Data Entry, Control and Management (ASYCUDAWorld) hampered the collection of customs' revenues as of the close of the third quarter of 2019.

On the spending side, there was a 25% decline in transfers to State-owned enterprises, one of the main sources of expenditure growth, in the first half of fiscal 2019/20 compared to the first half of 2018/19. Lower interest rates resulting from the restructuring of domestic debt and the suspension of the commercial debt service payments led to a 12.2 percentage point decline in interest payments, bringing it down to 8.4% as a percentage of revenue in the first half of fiscal 2019/20 compared to the same period in 2018/19.

Following the suspension of external debt payments in 2018, the Government of Barbados reached an agreement with creditors to restructure their external commercial debt which included an immediate haircut of 26% on principal and accrued interest, with further a debt reduction in the future as a result of lower interest rates. This is expected to improve investor confidence and help the government to achieve the medium-term debt-to-GDP-ratio target of 80% by 2027/28 and 60% by 2033/34. Moreover, the improved fiscal space allowed the debt to be reduced through the amortization of multilateral and bilateral debt and domestic bonds, and the repayment of domestic arrears. As of September 2019, gross public sector debt stood at 120.9% of GDP, compared to 145.9% of GDP as of September 2018.

Under the EFF arrangement, the Central Bank of Barbados (CBB) drew down the second tranche of funds from the IMF, further strengthening gross international reserves in 2019. This approach

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<sup>3</sup> The fiscal year in Barbados runs from 1 April to 31 March the following year.



continues to underpin the stance of CBB of maintaining the fixed exchange rate peg of 2 Barbados dollars (BDS\$) to US\$ 1. It has also led to greater availability of foreign exchange in the banking system, reducing demand on the central bank's reserves and lowering debt service payments. As of September 2019, gross international reserves stood at US\$ 612.8 million, compared to US\$ 262.8 million in September 2018. After several years of falling short of the recommended 12-week benchmark, import cover was 15.6 weeks as of September 2019, compared to 6.7 weeks at the same point in 2018.

Activity in the financial system mirrored the sluggish performance of the wider economy. As a result, private sector credit growth from deposit-taking institutions fell to 0.9%, with declines in the construction, manufacturing and agriculture sectors. The treasury bill rate dropped to 0.5% as of September 2019, compared to 2.9% as of September 2018, while the average loan rate edged down to 6.4% from 6.7% over the same period. Although aggregate capital buffers remain above the prudential threshold, commercial banks have continued to grapple with rebuilding these buffers following the restructuring of domestic debt.

The current account deficit narrowed substantially to 1.3% of GDP in the first three quarters of 2019, compared to 3.1% of GDP for 2018. Contributing to an increase in tourist arrivals, higher average per capita expenditure on travel and the expansion of the medical tourism sector all contributed to the improvement in the external accounts. Meanwhile, total imports of goods remained flat, as higher imports of food and beverages, construction materials and capital goods were offset by falling fuel imports due to lower international fuel prices.

As of September 2019, the Barbadian economy remained in recession, with GDP growth contracting to -0.2%, compared to growth of 0.3% over the first three quarters of 2018. As expected, the government's ongoing efforts to tighten fiscal policy have dampened economic activity. Public sector capital spending remains low and consumer and investor confidence are weak. Despite the sluggish economic climate, the tourism sector saw modest growth of 1.8%, driven primarily by a 4% year-on-year increase in long-stay arrivals as of September 2019. In particular, the United States and United Kingdom markets grew by 9.4% and 8.5%, respectively. However, concerns persist around falls in other source markets, as well as the reductions in the average length of stay and cruise ship arrivals. Growth in all other sectors decelerated in the first nine months of 2019, compared to the same period in 2018.

The 12-month moving average rate of inflation stood at 2.5% by the end of September 2019, compared to 5.2% in September 2018. Although prices trended upwards in the third quarter of 2019, as a result of heavy rainfall that affected vegetable and seafood production, the observed increases in food prices were offset by the repeal of the National Social Responsibility Levy and stable international food and energy prices. The unemployment rate rose to 10.8% as of September 2019, a year-on-year increase of 1.6 percentage points, following public sector layoffs of almost 1,000 persons in 2018 stemming from the introduction of the BERT programme. The private sector has been slow to absorb these workers. With additional layoffs expected at State enterprises, unemployment is set to continue its upward trend into 2020.

## **Belize**

In 2019, the economy of Belize is projected to grow by 2.1%, a decline with respect to the 3.0% rate posted in 2018. After robust growth of 4% year-on-year in the first quarter of 2019—driven mostly by the primary and tertiary sectors, with growth rates of 10% and 4.6%, respectively—output growth slowed to 0.2% in the second quarter. The lacklustre second-quarter growth was due largely to 5.7% and 15.3% declines in the primary and secondary sectors, respectively, notwithstanding the 3.6% growth of the tertiary sector, which accounted for over 70% of total GDP in both quarters. This sector is reaping the benefits of the country's new marketing strategy in its thriving tourism industry, which has focused more on previously untapped opportunities in non-traditional source countries in South America, as well as an increased number of direct flights to Belize from major cities in Canada, Mexico

and the United States. Overnight tourist arrivals were up by 6.3% and 5.4%, respectively, in the first two quarters of 2019 and the transport and communication category posted year-on-year expansions of 6.7% and 3.2%, respectively, in these two quarters.

Belize recorded a primary fiscal surplus of 82.3 million Belize dollars (BZ\$) (2.3% of GDP) and an overall fiscal deficit of BZ\$ 31.9 million (0.8% of GDP) in calendar year 2018, which was a major improvement from the primary fiscal surplus of BZ\$ 9.1 million (0.2% of GDP) and overall fiscal deficit of BZ\$ 103.4 million (2.8% of GDP) in calendar 2017. The projected primary budget surplus and overall fiscal deficit for fiscal year 2018/19<sup>4</sup> are 2.21% and -0.30%, respectively, thus bettering their respective targets of 2.12% and -0.73%. For fiscal year 2019/20, Belize is targeting a primary surplus of 2.12% of GDP and an overall budget deficit of 0.73% of GDP. In June 2019, the primary fiscal surplus stood at BZ\$ 21.3 million (1.4% of GDP) and the overall fiscal deficit amounted to BZ\$ 40.8 million (2.7% of GDP). That month, current revenues were up by 0.3%, but current expenditure showed a jump of 4.3% year-on-year. The grants component of total revenues decreased by a steep 77.3%, or BZ\$ 14.7 million, on the year-earlier period. High public debt remained a challenge, with the public debt-to-GDP ratio at 93.9% in 2018. By the end of August, Belize had paid US\$ 71.3 million in external debt, with 56.9% going towards interest payments.

The central bank has continued to pursue the consolidation of a sound, inclusive, modern and stable financial system. To preserve the stability of the banking system and safeguard the interests of depositors and other stakeholders, on 12 April 2019 the Central Bank of Belize revoked the licence of Atlantic International Bank Limited to operate as an international bank in the country owing to liquidity concerns and an ongoing investigation into fraud charges in the United States. This was the second revocation in a year, following the withdrawal of the licence of Choice Bank on 29 June 2018. In line with its commitments to financial stability and inclusion, Belize drafted and launched on 17 September 2019 its National Financial Inclusion Strategy 2019–2022, which aims to contribute to improving economic growth and enhance living standards across socioeconomic and demographic groups within the country.

Belize's persistent efforts to create an enabling business environment were rewarded with its removal on 8 November 2019 from the European Union's list of non-cooperative jurisdictions for tax purposes, following adjustments to its taxation system and measures to address other issues of concern to the European Union.

In August 2019, the broad money supply (M2) showed expansion of 4.4%, owing largely to a 21.4% increase in net domestic credit, to US\$ 11.06 million. Loans to the private sector and the central government were up by 21.3% and 14.9%, respectively. Lending rose, on average in year-on-year terms, in the categories of personal loans (34.9%), loans to the tourism industry (28.3%) and loans to the real estate sectors (8.4%), but decreased in the sectors of transport (-26.3%), building and construction (-18.2%), mining and exploration (-16.3%) and agriculture (-7.4%).

Market interest rates were relatively stable. Commercial banks made no major moves to alter the yield on the 3-month Treasury bill, which stood at 1.24% as of November 2019. In August 2019, the deposit rate stood at 1.20%, and the lending rate at 9.13%, both as weighted averages. The exchange rate remained stable during the year, in the context of the currency peg vis-à-vis the United States dollar, which has been in place since 1976 at the fixed rate of BZ\$ 2 to US\$ 1.

The current account deficit increased to 5.3% of GDP in June 2019, compared with 4.2% in June 2018, while the financial and capital account balance widened marginally from 2.7% to 2.8% in that period. Belize recorded an improvement in the balance of trade in goods and services, with the surplus rising to 4.1% of GDP in the first two quarters of 2019, from 2.6% in the prior-year period, largely owing to the booming tourism sector and a decline in the goods trade deficit. Moreover, while inflows of

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<sup>4</sup> The fiscal year in Belize runs from 1 April to 31 March.

foreign direct investment (FDI) increased by 18.8% to US\$ 75.0 million, FDI outflows rose to US\$ 1.4 million during the first two quarters of 2019.

Inflation has been relatively subdued in Belize, with an annual rate of 0.2% in September 2019. The unemployment rate stood at 7.7% in April 2019, a 1.7-percentage-point decline relative to April 2018, with the rates for women and men falling from 14.9% and 5.6%, respectively, in 2018, to 11.2% and 5.2% in 2019. Notwithstanding the declines in both male and female unemployment rates in 2019, the rate was still twice as high for women as for men. The services sector was the largest employer (55.0% of the employed workforce) in 2019, followed by the primary sector (25.1%) and the secondary sector (19.4%).

## ECCU

The Eastern Caribbean Currency Union (ECCU) is expected to achieve eight consecutive years of positive economic outturn, with average growth across the Union forecast to remain steady at 3.9% in 2019 and all ECCU economies again posting positive gains. The robust performance of the tourism sector, as well as the Citizenship by Investment (CBI) programmes and public sector-fuelled construction activity, were the primary drivers of ECCU-wide GDP growth in 2019, with Dominica (9.0%), Antigua and Barbuda (6.2%) and Grenada (3.3%) projected to be among the fastest growing economies in the Caribbean.

The macroeconomic outlook for the ECCU countries continues to be positive in the short to medium term, with real GDP growth forecast to accelerate, reaching 4.2% in 2020. The continued strong performance of the tourism, construction and ancillary sectors, as well as inflows of foreign direct investment (FDI) driven by the member states' CBI programmes, are expected to underpin this expansion in economic activity. However, prevailing downside risks include climate-related natural disasters, subdued global demand owing to lingering trade tensions and uncertainty surrounding Brexit, deferred investment in the face of global economic uncertainty, and challenges to the Union's off-shore financial services sector as a result of the grey- and blacklisting of ECCU economies.

There was a slight loosening of fiscal consolidation and debt reduction efforts in 2019, as ECCU economies sought to fund infrastructure development projects and accelerate economic activity as the Union increasingly focused on achieving its target of 5.0% growth. Consequently, there was a year-on-year widening of the consolidated fiscal deficit of central governments as a percentage of GDP from -0.5% to -1.3% in the first half of 2019. This weakening of the fiscal position was primarily driven by the capital account performance, which saw capital expenditure trending upwards (6.2%) and capital revenue and grants contracting.

The improved fiscal performance of Grenada and Saint Kitts and Nevis were insufficient to offset the worsening fiscal positions of Antigua and Barbuda, Dominica and Saint Vincent and the Grenadines over the period under review. A conservative fiscal policy stance, coupled with the positive knock-on effect of strong real sector activity on revenue collections, underpinned the surplus of 89.1 million Eastern Caribbean dollars (EC\$) generated by Grenada during the first half of 2019, while CBI programme receipts were a major contribution to the overall fiscal surplus of 191.5 million in Saint Kitts and Nevis. Increased tax and non-tax revenues buoyed government current income during the first half of 2019, with higher non-tax revenues driven by CBI programme inflows. For example, CBI collections in Saint Kitts and Nevis increased by 54.2% in the first six months of 2019.

During the first half of 2019, ECCU governments continued to focus on initiatives to upgrade or modernize key economic infrastructure, which fuelled the expansion in capital expenditure. In this connection, the Government of Antigua and Barbuda continued its road rehabilitation and expansion project, port redevelopment and enhancement project, affordable housing project, and reconstruction of public infrastructure and private homes in Barbuda. In Grenada, work is ongoing on government initiatives such as the Climate-Resilient Water Sector project, the rehabilitation of the Maurice Bishop International Airport and the retrofitting of the Hillsborough Health Centre and Princess Royal Hospital

in Carriacou, as well as the Climate Smart Agriculture and Rural Enterprise Programme. Public spending priorities in Saint Kitts and Nevis were the ongoing construction of the second cruise ship pier, phase two of the road improvement and maintenance project, the resurfacing of the airport runway, an urban housing development project undertaken by the National Housing Corporation and the construction of the new Basseterre High School. Major ongoing capital projects in Saint Lucia include the rehabilitation and maintenance of road networks and the Hewanorra International Airport project. While Saint Vincent and the Grenadines embarked on a multimillion dollar (US\$ 27 million) geothermal energy project, with financial resources mobilized by the Caribbean Development Bank (CDB).

There was a concomitant uptick (0.3%) in public debt over the first half of 2019, which is expected to hold through to the end of the year, as many central governments may incur further debt to fund crucial public expenditure elements or offset any budgetary shortfalls. Moreover, during the first half of 2019, central governments' outstanding debt expanded as increased domestic borrowings outstripped a contraction in debt incurred on the domestic market. The Union's debt burden stood at 69.41% of GDP as of the end of June 2019. Notably, Saint Kitts and Nevis saw a 3.5% year-on-year reduction in its debt stock as of September 2019, with no major borrowing anticipated for the rest of the year.

With regard to the monetary sector, during the review period, the monetary policy stance of the Eastern Caribbean Central Bank (ECCB) remained unchanged, primarily pursuing price stability through the maintenance of the fixed exchange rate peg to the United States dollar. The nominal exchange rate between the Eastern Caribbean dollar and the United States dollar was unchanged at its fixed rate of EC\$ 2.7 = US\$ 1 by the end of June 2019.

Another strong, year-on-year, real sector performance during the first half of 2019 contributed to an, albeit sluggish, increase in both the broad (2.17%) and narrow money supply (6.7%) in that period. The observed growth in narrow money was generated by positive outturns in private sector demand deposits and Eastern Caribbean dollar cheques and bankers' drafts which outstripped a fall in currency held by the public. However, quasi-money, which comprises approximately 80% of M2 in Saint Kitts and Nevis, declined marginally during the period under review. Furthermore, commercial bank liquidity across ECCU economies (48.4%) remained well above the mandated threshold of 25%. This relatively high liquidity, coupled with a decline in private sector credit and competition among commercial banks, may have placed downward pressures on both the weighted average lending rate (which decreased by 32 basis points to 8.0%) and the weighted average deposit rate (down by 4 basis points to 1.56%). Commercial banks in ECCU economies remain largely risk averse, paying considerable attention to reducing the volume of non-performing loans.

Economic activity in the real sector of the Union was primarily driven by the tourism and construction sectors, with positive spillovers in ancillary sectors, such as wholesale and retail trade, transport storage and communications. With respect to the tourism sector, total arrivals increased during the first half of 2019, as both cruise ship passenger and stopover numbers trended upwards. Moreover, stopovers increased in Dominica (threefold), Saint Kitts and Nevis (11.9%), Antigua and Barbuda (11.2%), Saint Vincent and the Grenadines (7.7%), Grenada (3.8%) and Saint Lucia (2%). On average, cruise ship visitors account for more than 70% of total visitor arrivals to ECCU countries and, during the review period, cruise ship visitor numbers were up in Dominica (sevenfold increase), Saint Vincent and the Grenadines (6.5%), Saint Lucia (1.0%) and Grenada (0.4%). With regard to three major source markets, stopover arrivals from the United States, the Caribbean and the United Kingdom all increased during the first half of 2019. The number of arrivals from Canada also expanded. Total year-on-year tourist spend rose by 18% (to EC\$ 1.36 billion) during the first quarter of 2019.

There were a number of developments across individual ECCU economies which contributed to the strong tourism outturn. For instance, the marketing budget of the Antigua and Barbuda Tourism Authority was increased, helping to promote its #WhatCoolLooksLike summer campaign for 2019. Additional direct flights from New York, Miami and North Carolina were scheduled, and the Royalton

Antigua and the Hammock Cove Resorts and Spas both opened. Collectively, these initiatives all contributed to a 10% increase in stopover arrivals in Antigua and Barbuda as of the end of September 2019. JetBlue, British Airways, SunWing, Virgin Atlantic and United Airlines all maintained their services to Saint Lucia and in some instances increased their presence at Hewanorra International Airport, while Saint Kitts and Nevis continued to promote sports tourism, particularly golf, in the Canadian and United Kingdom markets. There were also increased airlifts to Grenada, while the Tourism Authority intensified its marketing efforts and efforts continued to focus on rehabilitating and expanding the room stock. Stopover numbers increased in Saint Vincent and the Grenadines thanks to the introduction by Caribbean Airlines of a weekly direct flight from New York to and Air Canada's winter service from Toronto.

Construction activity increased across all ECCU economies in the first six months of 2019, particularly in Antigua and Barbuda, Dominica and Saint Kitts and Nevis. Driven by growth in CBI inflows, private construction activity focused on hotels and tourism-related projects, while the public sector projects aimed to modernize, reconstruct and rehabilitate key infrastructure. There was also a slight improvement in manufacturing activity in ECCU economies in that period, with increased output in Dominica (paints and beverages), Saint Kitts and Nevis (manufactured goods) and Saint Lucia (food, beverages and tobacco) and Saint Vincent and the Grenadines (grains and building materials), but beverage and animal feed production in Grenada declined.

With respect to international trade, annualized half-year data indicates that the merchandise trade deficit of ECCU countries will contract slightly in 2019, as growth in exports, fuelled by re-exports, outstrips that of imports.

The Union's already modest rate of inflation fell from 1.3% at the close of 2018 to 0.7% by the end of June 2019, as housing, utilities and fuel prices trended downwards in most ECCU economies. Moreover, Grenada (-0.3%) and Saint Kitts and Nevis (-0.43%) experienced price deflation during the first half of 2019.

## **Guyana**

Economic activity in Guyana continues to accelerate ahead of the oil boom expected in 2020, with growth projected at 4.5% in 2019, up from 4.1% in 2018. The overall fiscal deficit is projected to deteriorate from 3.6% of GDP in 2018 to 4.9% of GDP in 2019, as an increase in expenditure (16.0%) outweighs improved revenue (up 11.3%). The overall balance-of-payments deficit is likely to contract in 2019, on account of an increase in foreign direct investment (FDI) in the energy sector, despite a higher current account deficit. Inflation is expected to rise moderately, to 2.5% in December 2019 from 1.6% a year earlier, on the back of higher food prices. In 2020, the economy is expected to expand substantially, by 85.6%, as commercial oil production will commence in December 2019. Even the non-oil growth rate is expected to reach 4.8%, owing to a spillover effect of oil production on other sectors.

The government is committed to institution-building to improve revenue collection and create new industries and jobs. The revised 2019 budget shows total revenue (including grant receipts) rising by 11.3%, following a 9.9% increase in 2018, thanks to improved tax collection, mainly from the oil and gas sector. Total expenditure is expected to jump by 16.0% in 2019, a significant rise on the 6.1% increase seen in 2018, reflecting the government's initiative to increase workers' income and promote infrastructure developments. The overall fiscal deficit is projected to deteriorate from 3.6% of GDP to 4.9% in 2019, as expenditure rises faster than revenue, but then will improve significantly in 2020 as oil revenue will outweigh spending increases. Part of the oil revenue will be saved under the Natural Resource Fund (NRF) Act 2019, which was signed into law in January in an effort to build capacities to manage and monitor oil revenues. The Act also established a Public Accountability and Oversight Committee to assess management of the Fund and a fiscal transfer rule to govern the flow of resources from the Fund to the government budget.

The monetary policy stance remained accommodative as redemptions of Treasury bills issued for monetary policy purposes amounted to 24.1 billion Guyana dollars (G\$) during the first half of 2019, exceeding issuances of G\$ 8.2 billion, while the central bank rate was unchanged at 5.0% during the first eleven months of 2019. Under the accommodative monetary stance, Treasury bill rates and commercial bank lending rates fell slightly during the first nine months of 2019. The falling interest rates underpinned the increase in net domestic credit, up 19.0% year-on-year in September 2019. Private sector credit increased by 6.7%, supported by an expansion in loans and advances to individuals and businesses. Public sector credit expanded significantly, by G\$ 28.0 billion, mainly as a result of a worsening central government net credit position. Owing to the uptick in domestic credit, along with a 16.9% increase in net foreign assets, the broad measure of money supply, M2, increased by 14.5%.

The official exchange rate at the Bank of Guyana stood at G\$ 208.50 to US\$ 1 in November 2019, steady since May 2018, although the market exchange rate recorded a small depreciation. The exchange rate is expected to remain stable throughout the rest of 2019 as the government seeks to stabilize prices.

Guyana's overall balance-of-payments deficit is likely to narrow slightly, by US\$ 26.1 million, to US\$ 106.1 million in 2019, owing to a higher surplus on the capital account, despite a higher current account deficit. The current account deficit is expected to increase by US\$ 53.0 million to US\$ 1.379 billion, despite a recovery in gold exports, owing to stronger imports as a result of large investments in the oil and gas sector and higher payments for transportation services. Meanwhile the capital and financial account surplus is expected to widen by US\$ 87.0 million to US\$ 1.273 billion, with higher net inflows of FDI in the energy sector.

The Guyanese economy continued to post robust growth ahead of the oil boom expected in 2020, with growth estimated at 4.0% during the first half of 2019. The construction sector made the largest contribution to growth, reflecting an increase in both private investment and government expenditure on construction activities. The mining and quarrying sector continued to recover, as gold mining expanded in response to improved road conditions and favourable international prices. On the other hand, the agriculture, fishing and forestry sector contracted slightly, as a large livestock producer reduced output of broiler meat to run down stocks. As the growth momentum is likely to continue into the second half of 2019, the growth rate is expected to accelerate to 4.5% for the year overall, from 4.1% in 2018. A hefty 85.6% expansion is projected in 2020, following the start of commercial oil production in December 2019. As the Liza Phase 1 development will likely take three months to reach its potential capacity of 120,000 barrels per day (bpd), average oil production is expected to be around 102,000 bpd in 2020. This amounts to over 80% of GDP, assuming the oil price prevailing in 2006 (the base year for the constant-price GDP measure). The non-oil growth rate is expected to reach 4.8% owing to the spillover effects of oil production on other sectors, as well as continued infrastructure development.

Inflation increased from 1.6% in December 2018 to 2.3% in September 2019, reflecting higher food prices (6.9%), especially for meat, fish and eggs, and is expected to rise a little further—to 2.5%—by December as these drivers continue.

## **Jamaica**

The Jamaican economy posted growth rates of 1.5% in the first quarter of 2019 and 1.0% in the second, and projections are for 1.7% for 2019 overall and 1.6% in 2020. The government's main policy objective in 2019 was to meet the annual requirement of the three-year, US\$ 1.64 billion stand-by arrangement with the International Monetary Fund (IMF) signed in November 2016. The government is not expected to enter into another formal agreement with IMF upon the expiration of the current agreement in November 2019. The overall policy focus going forward will be on promoting economic growth to foster gradual expansion even after the IMF agreement expires. In June 2019, ahead of the sixth and final review under the stand-by agreement, strong programme implementation continued to anchor macroeconomic stability and all quantitative performance criteria and structural benchmarks for the

period were met. Concluding the sixth review on 4 November, the Executive Board of IMF said that Jamaica's sustained policy discipline, together with a fully operational fiscal council and an independent central bank, would help institutionalize the gains achieved under successive Fund-supported programmes.

Fiscal challenges continue to be the main concern as the Government of Jamaica seeks to control its public finances. The primary surplus was almost 7.5% of GDP in fiscal year 2018/19<sup>5</sup>, with the public debt falling to about 95% of GDP at end-March 2019—the lowest figure since financial year 2000/01. Public expenditure control is a major part of the fiscal adjustment strategy and, in the first half of fiscal year 2019/20, most categories of government expenditure were below budget and overall government expenditure was 1.5% under budget. Capital expenditure, the category that has tended to bear the brunt of the adjustment, was 1.8% below budget. This resulted in a primary surplus of 7.8% of GDP, within the IMF target. For 2019, loan receipts were some 11.8% above budget, arising from an increase in external loans, as the Government of Jamaica has leveraged the low-interest regime prevailing internationally to reduce debt service costs. On the tax side, all the revenue components showed increases, and grants went up by 7.8%.

The principal challenge facing the Jamaican economy is the debt overhang, which is still high. External debt was the largest component, at 61.2%, while domestic debt was 38.8%. Strong fiscal discipline and prudent debt management helped to reduce the debt-to-GDP ratio from 135.3% in fiscal year 2012/13 to 101.0% in 2017/18. The ratio has continued to trend steadily downwards and is estimated to have reached 96.4% at the end of March 2019, heading for 90.9% at end-March 2020, 5.1 percentage points below the internal target of 96.0%. Based on the current trajectory, the government is on track to meet its debt-to-GDP target of 60.0% or less by the end of fiscal year 2025/26.

In 2018, the Jamaican dollar experienced at least four cycles of appreciation and depreciation, showing a year-over-year depreciation of 2.2% against the United States dollar at the end of the year, compared with an appreciation (2.7%) at end-2017. In 2019, the currency showed a faster quarter-on-quarter depreciation in the second quarter and closed the third quarter with a weighted average selling rate against the United States dollar of J\$ 131.07 = US\$ 1, reflecting a quarter-on-quarter depreciation of 3.5%.

Currency depreciation will remain a downside risk throughout 2020 but the Bank of Jamaica expects to manage a moderate depreciation as part of its intervention strategy. Depreciation could accelerate should the government fail to meet its fiscal targets by a significant margin, which could affect business confidence and reignite capital flight. Despite IMF recommendations that the central bank intervene less frequently in order to build up reserves, the monetary authorities may step up foreign-exchange sales if they need to contain faster depreciation, imported inflation or rises in external debt servicing costs. Factors such as droughts or floods (which could push up imports) and commodity price swings could also fuel depreciation. Although the depreciation of the Jamaican dollar may be improving the country's competitiveness<sup>6</sup>, especially in light of depressed oil prices, its persistence over time would begin to affect inflation and prompt demands for wage increases, especially among public servants.

The Bank of Jamaica's stated monetary policy objective is to achieve and maintain an inflation target of between 4.0% and 6.0%, a level that is believed will facilitate sustained growth and economic development<sup>7</sup> In 2018, the Bank's monetary policy continued to be accommodative and the policy interest rate was reduced on five occasions, by a total of 150 basis points, to stand at 1.75% at year-end. The Bank then loosened the monetary policy stance further in 2019, aiming to foster greater private sector credit expansion and thereby support stronger economic growth, job creation and the inflation target. In the second quarter, the policy interest rate thus reached a historic low of 0.75%, which

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<sup>5</sup> The fiscal year in Jamaica runs from 1 April to 31 March.

<sup>6</sup> This said, there are limits to the extent to which devaluation can improve competitiveness in a small open economy.

<sup>7</sup> The inflation target was set by the Minister of Finance and the Public Service.

reflected the generally favourable outlook for inflation over the near- to medium-term amid improved macroeconomic fundamentals.

Annual growth in private sector credit by deposit taking institutions at end-June 2019 was 16.8%, up from the 16.1% recorded at the end of the first quarter. This growth was underpinned by a 15.7% expansion in loans and advances, above the 14.8% recorded at end-March 2019, driven mainly by an increase of 16.5% in lending to the productive sector, chiefly in the categories of professional and other business services, and distribution and construction. Credit expansion in the last two quarters of 2019 is expected to be positive but relatively low as the end of the IMF agreement may create a wait-and-see attitude among the business community.

Preliminary data show that Jamaica's current account deficit worsened to 3.1% of GDP in 2018 relative to 2.7% of GDP in 2017. Consequently, the net international reserve position stood at US\$ 3.005 billion at end-2018. It was fairly unchanged at the end of June 2019, at US\$ 3.035 billion, which represented about 24 weeks of projected goods and service imports.

The economic growth rate was 1.7% in 2018 and 1.5% and 1.0%, respectively, in the first two quarters of 2019. In the first quarter, the goods-producing sector posted expansion of 1.8%, with most industries making a positive contribution, and services registered growth of 1.5%, again generally across the board, with tourism in particular performing well. Total visitor expenditure is estimated to have grown by 11.5% to US\$ 945 million, within which stopover expenditure increased by 13% to US\$ 880.9 million. In the second quarter, growth in the goods-producing industry remained flat while real value added for the services industry expanded by 1.4%, with gains made in all segments. The outturn in the real sector was attributed mainly to improved performances in mining and quarrying (4.5%) and manufacturing (1.7%) and a decline of 2.5% in the agriculture, forestry and fishing industry. The latter sector was adversely impacted by drought conditions owing to below-normal rainfall. The growth outlook for 2020 is positive but modest, at 1.6%, driven mainly by tourism receipts and a favourable performance in agriculture and industry.

Inflation was 2.4% in 2018, year-on-year, down from 5.2% in 2017, but picked up in 2019 to 3.4% in the first quarter and 4.2% in the second. This acceleration was mainly due to higher prices for agricultural food items, particularly vegetables, and for electricity. The Bank of Jamaica projects that the inflation rate will average 4.3% over the next eight quarters, before gradually approaching the midpoint of the target range (5.0%) in the medium term. This forecast is predicated chiefly on the impact of low domestic demand conditions and larger declines in international commodity and energy prices.

The unemployment rate fell to 7.8% in July 2019, from 8.0% a year earlier, reflecting growth of 0.9% (11,318 people) in the employed labour force. Given that the labour force increased slightly as a percentage of the population, the proportion of persons aged 14 or over outside the labour force fell from 36.1% to 34.8% in this period.

The breakdown by gender of the unemployment rate shows the historic gap persisting between male and female rates. The unemployment rate remained at 5.8% in both July 2018 and July 2019 for males, while for females it fell from 11.5% to 10.2%. Despite the overall decline in unemployment, youth joblessness remains relatively high, at 17.3% in the 20–24 age group overall in July 2019, with male and female rates standing at 14.1% and 21.4%, respectively.

## Suriname

Economic growth in Suriname is forecast to be 2.1% in 2019, down from 2.6% in 2018, with the agriculture sector making the largest contribution to that growth. The annualized fiscal deficit is estimated to be 11.2% of gross domestic product (GDP), due in part to higher wage and salary payments following the conclusion of the government's salary negotiations with civil servants in 2018. In the external sector, the current account deficit widened as a result of a decrease in the merchandise goods



surplus. The official exchange rate remained steady in 2019 at 7.520 Suriname dollars (Sur\$) to 1 United States dollar (US\$), but the unofficial rate increased to over Sur\$ 8 to US\$ 1 owing to a reduced supply of United States dollars in the economy.

The government once again delayed the adoption of the value added tax (VAT) in 2019, but did reintroduce the road and vehicle taxes in an effort to increase revenue. The fiscal deficit for 2019, using annualized half-year data, is estimated to be 11.2% of GDP, up from 7.9% in 2018<sup>8</sup>. Total revenue fell from 23.1% of GDP to 21.0%, as a 12.6% absolute decline in non-tax revenue offset an 4.8% increase in tax revenue. Total committed expenditure increased from 30.7% of GDP to 32.2%, driven by absolute increases in wages and salaries (20.9%) and payments for other goods and services (31.5%). The total number of civil servants decreased in 2017 and 2018 but had increased slightly by May 2019. This combined with their 25% negotiated pay increase was responsible for the increase in wages and salaries. Subsidies, which is the largest component of expenditure, fell by 8.1%, which went some way to offsetting the increases in the first two components.

Monetary policy in 2019 sought to maintain a stable exchange rate. The central bank's main monetary policy instrument is the commercial bank reserve requirement, but in July 2019 the central bank began using two new market-based instruments, namely gold certificates and central bank certificates of deposit, to influence money supply. In mid-2019 the central bank increased the reserve requirement for foreign-currency deposits so that at least half of the commercial banks' United States dollar deposits and all the euro deposits must be held at the bank.

The interest rate spread increased over the first nine months of 2019, as average lending rates increased from 14.4% in December 2018 to 15.2% by September 2019 on the back of the rise in the current account credit rate, which grew from 15.6% to 18.8% over the same period. All other lending rates stayed relatively stable. Among the individual deposit rates, time deposits of one year or less fell from 11.6% to 10.6%, while those of more than one year fell from 13.6% to 12.9% over that period.

The official exchange rate remained stable over the first nine months of 2019, at around Sur\$ 7.520:US\$ 1. The Sur\$ to euro exchange rate continued to fall in 2019, in line with reduced demand; the euro selling rate fell from Sur\$ 8.564 in January 2019 to Sur\$ 8.303 in October. Demand for euros has been falling since the central bank stopped shipping euros to the Netherlands in order to exchange them for United States dollars after a shipment was held by Netherlands' authorities in April 2018. This has also reduced the supply of United States dollars in the market and a parallel exchange rate has therefore emerged. The unofficial selling rate was approximately Sur\$ 8.05 to US\$ 1 in November 2019. Commercial banks have begun restricting withdrawals of United States dollars to businesses and customers, although cashless transactions are not affected. The central bank has made foreign exchange available to certain importers at the official rate to meet some of the excess demand.

The current account deficit widened in the first half of 2019 compared to same period in 2018, from 0.1% of full-year GDP to 5.3%. While the goods trade balance remained positive, it contracted by 28.3% in nominal terms, down from 7.4% of full-year GDP to 4.6%. The deficit on the services account expanded from 4.9% of GDP to 5.8%, while the income account deficit rose from 4.3% to 5.2% of full-year GDP. The financial account surplus was 6.2% of GDP in the first half of 2018, before reaching 8.9% in the same period of 2019. The global balance surplus fell from 3.1% of full-year GDP in the first six months of 2018 to 0.9% of GDP in the first half of 2019.

International reserves grew by 18.5% over the first 10 months of 2019, up from US\$ 580.7 million, or 3.27 months of import cover, at the end of 2018, to US\$ 688.3 million, or 3.42 months of import cover, by September 2019.

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<sup>8</sup> Data refer to the fiscal deficit excluding statistical discrepancies.

The economy is expected to expand by 2.1% in 2019, down from 2.6% in 2018. The contribution to growth was fairly balanced across sectors, with the largest contributions coming from agriculture, hunting and forestry, and manufacturing (0.7 and 0.6 percentage points, respectively). Mining and quarrying, and transport, storage and communication both contributed negatively to growth (-0.1 percentage points). The poor performance of the mining and quarrying sector was partly due to the temporary suspension of operations at the Rosebel gold mine in September and October following clashes between artisanal miners and police.

Growth is projected to be 1.7% in 2020. The Saramacca mining project is supposed to come on stream before the end of 2019 and will contribute to growth in the next year.

Inflation, measured as the year-on-year change in the consumer price index, remained fairly stable in 2019, falling from 5.5% in January to 4.0% by September. The largest price increases were seen in the health care subcomponent.

## Trinidad and Tobago

Economic activity in Trinidad and Tobago was stagnant during the first quarter of 2019, with the year-on-year growth rate negative by 3.1%. For the year overall, the country is expected to record positive, albeit sluggish, growth (0.4%), owing to spillover effects from the new natural gas project, Angelin, in the downstream energy sector. Higher energy prices and a tax amnesty resulted in an improved budget deficit of 2.5% of GDP in fiscal 2019, while net public debt, which excludes open market operations, increased to 62.0% of GDP at the end of that period. The external current account surplus widened to 8.3% of GDP in the first quarter of 2019, on account of lower profit remittances and reduced services imports, primarily by energy companies. The inflation rate has been low as result of subdued aggregate demand. In 2020, growth is projected at 1.5%, supported by new natural gas projects and increased execution of public sector investment programmes ahead of the general election.

The government budget deficit for fiscal 2019<sup>9</sup> narrowed to 2.5% of GDP, from 3.6% in fiscal 2018. Total revenue jumped 7.9%, owing to improved tax collection resulting from a temporary tax amnesty, which allowed payment of outstanding taxes without penalties and interest. An increase in energy revenues, stemming from a higher royalty rate on the extraction of natural gas introduced during fiscal 2018, and extraordinary payments from Shell following its November 2018 agreement with the government on gas-related issues (such as the gas pricing formula), also contributed to narrowing the budget deficit. Total expenditure increased by 3.4%, driven by an increase in transfers and subsidies, which may be attributed mainly to the shortfall in subsidies in the comparison period relating to the sale of petroleum products, and costs associated with the closure of the refinery of the State-owned Petroleum Company of Trinidad and Tobago (Petrotrin). For fiscal 2020, the government projects a deficit of 3.1% of GDP. Total revenue is expected to rise by 2.6%, mainly thanks to an increase in energy-related non-tax revenues, but this will be offset by an expansion in capital expenditure.

Despite the subdued economic activity, the Central Bank of Trinidad and Tobago maintained its monetary policy rate, the repo rate, at 5.00% during the first 11 months of 2019, in view of foreign-exchange shortages. However, the commercial bank weighted average lending rate decreased from 8.01% in December 2018 to 7.90% in June.

2019, reflecting competition for loan business. Year-on-year growth in credit to the private decelerated to 3.8% during the first eight months of 2019, compared to a rate of 5.9% in the prior-year period, owing to a decline in business lending (by 3.8%) amid weak economic activity. On the other hand, consumer loans (6.6%) and mortgage -5 lending (8.2%) remained strong, driven mainly by debt consolidation and persistent housing supply -7 shortages.

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<sup>9</sup> October 2018 – September 2019.

The foreign-exchange market continued to be tight in 2019. Between January and October 2019, the authorized dealers' purchases from the public—an indicator of foreign-exchange supply—grew by 8.5% on a year-on-year basis, mainly reflecting increased conversions by energy companies. However, foreign-exchange demand also grew, by 8.6%, as the country started to import refined oil products following the closure of the Petrotrin refinery. As a result, the central bank intervened in the market with US\$ 1.270 billion, only 1.2% less than the previous year. Over the same period, the central bank kept the United States dollar selling rate steady at around 6.78 Trinidad and Tobago dollars (TT\$) to US\$ 1.

The current account surplus widened to 8.3% of GDP in the first quarter of 2019, from 3.8% in the year-earlier period. While total exports decreased by 15.4% year-on-year, deficits in the services and primary income accounts narrowed, owing, respectively, to lower repatriation abroad and reduced services imports, primarily by energy companies. As the financial account recorded a large net outflow (14.9% of GDP), influenced by returns-seeking movements in portfolio investment, the overall balance remained in deficit (by 3.8% of GDP), resulting in a decline in international reserves. Gross official reserves fell to 7.9 months of import cover at the end of October 2019, marginally down from 8.0 months at the end of 2018, but still well above the international benchmark of 3 months.

After a run of positive growth from the third quarter of 2017 to the second quarter of 2018 on the back of the launch of several natural gas projects, growth turned negative again as Petrotrin ceased its refinery operations and expansion slowed in natural gas production. During the first quarter of 2019, real GDP shrank by 3.1% year-on-year, dragged down primarily by the energy sector, which recorded negative growth of 8.9%. Non-energy sector growth was sluggish at 0.5%, although this was still an improvement over the 4.9% contraction in the previous quarter. The manufacturing of food, beverages and tobacco products expanded for a fifth consecutive quarter, by 22.5%, while the trade and repair sector grew by 1.5%, a marked turnaround from the hefty 12.5% contraction in the previous quarter. Conversely, construction sector growth declined for the first time in three quarters, by 3.2%, and transport and storage continued its double-digit contraction, reflecting weak aggregate demand. Trinidad and Tobago is expected to record positive, albeit sluggish, growth for 2019 overall, at 0.4%, as the Angelin field, which started gas production at the end of February 2019, should have spillover effects in the downstream energy sector, and the negative impacts of the Petrotrin refinery closure are expected to dissipate. In 2020, growth is projected at 1.5%, supported by new natural gas projects, contingent exploration projects by Shell in the Barracuda field and by EOG Resources in the Toucan field, and increased execution of public sector investment programmes ahead of the general election.

Inflation remained subdued in 2019 amid weak economic activity, although food inflation rose from 0.1% in December 2018 to 1.5% in September 2019, largely owing to a surge in vegetable prices (6.6% in September 2019). Headline inflation increased only slightly, from 1.0% in December 2018 to 1.1% in September 2019, while core inflation eased from 1.3% to 1.0% over the same period, reflecting lower costs of home ownership and foreign used motor vehicles, as well as stable fuel costs.

Employment conditions remained weak in 2018 and 2019. Although the unemployment rate came down to 3.8% in the first half of 2018 from 4.9% in the prior-year period, this reflected the withdrawal of unemployed individuals from the labour market owing to the difficulty of finding a job. The number of employed persons decreased by 900 over this same period, with the losses occurring particularly in the transport, storage and communication sector and in manufacturing. Further, during the first eight months of 2019, the number of retrenched workers, at 834, was similar to those laid off in the year-earlier period (854), while reduced labour demand led to a 9.8% drop in the number of vacancies advertised in the print media over the same period.



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*Catarina Camarinhas and Dwynette D. Eversley*

90. Proposal for a revitalized Caribbean Development and Cooperation Committee – Regional Coordinating Mechanism for Sustainable Development (CDCC-RCM)  
Repositioning CDCC-RCM as the mechanism for sustainable development in Caribbean small island developing States (SIDS)

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LC/TS.2020/56