

ECLAC SUBREGIONAL  
HEADQUARTERS  
FOR THE CARIBBEAN

# Economic Survey of the Caribbean 2019

Dillon Alleyne  
Michael Hendrickson  
Sheldon McLean  
Maharouf Oyolola  
Machel Pantin  
Nyasha Skerrette  
Hidenobu Tokuda



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**ECLAC**

This document has been prepared under the supervision of Sheldon McLean, Coordinator of the Economic Development Unit of the Economic Commission for Latin America and the Caribbean (ECLAC) subregional headquarters for the Caribbean, with the assistance of Dillon Alleyne, Deputy Chief; Maharouf Oyolola, Michael Hendrickson and Hidenobu Tokuda, Economic Affairs Officers; and Machel Pantin and Nyasha Skerrette, Economic Affairs Assistants.

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## Abstract

This survey examines the economic performance of economies of the Caribbean in 2018 and comprises six chapters. The first chapter gives an overview of global, regional and subregional economic performance as well as unemployment in the Caribbean. The second provides an analysis of governments in the subregion's fiscal performance and debt burden. The third looks at monetary policy and variables. The fourth is focused external sector and its factors. The fifth chapter concludes, while the final chapter 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.





## I. Global and subregional performance

### A. Global analysis and performance

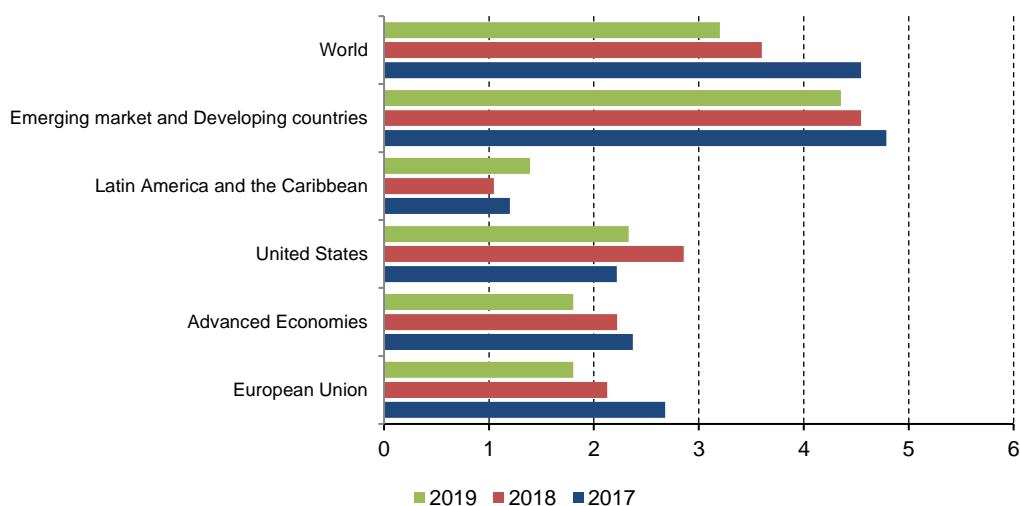
Since the publication of the International Monetary Fund's World Economic Outlook update in July 2019 a great deal has changed. Trade tensions between the US and China has escalated and Brexit uncertainties continue to grow. The forecast for the world economy is 3.6% growth in 2018 and 3.2% in 2019; however this must be seen in the perspective of a 4.5% growth in 2017. A number of factors explain this decline and among the most significant are the following:

- (1) Continuing trade tensions arising from tariff imposition and retaliation between the United States and China.
- (2) Growing risk aversion in the financial sector and lower investment due to dampened demand.
- (3) Lower oil prices that have been aggravated by geopolitical tensions

The bright light has been growing global services which has supported employment growth and the sector has remained resilient.

The forecasts for all regions except Latin America and the Caribbean are for lower growth in 2019 relative to 2017. For example, for advanced economies the growth rate in 2017 was 2.2% as against 1.8% in 2019. The European Union continues to struggle at 2.1% in 2018 and is forecast at 1.8% in 2019. Growth in the United States has improved since 2017 and in 2019 it will be 2.3% which is above the global average. The Emerging and developing economies are still powering the world economy but at a slower pace since 2017. Growth was 4.5% in 2018 and is forecast at 4.4% in 2019. Latin America and the Caribbean bring up the rear with 1.0% in 2018 and 1.4% in 2019 (See figure 1 and table 1).

**Figure 1**  
Global economic prospects, 2017-2019  
(Percentages)



Source: International Monetary Fund, World Economic Outlook Database, July 2019.

Note: Projections for 2019.

**Table 1**  
Global economic prospects, 2017-2019  
(Percentages)

	2017	2018	2019
European Union	2.7	2.1	1.8
Advanced Economies	2.4	2.2	1.8
United States	2.2	2.9	2.3
Latin America and the Caribbean	1.2	1.0	1.4
Emerging market and Developing countries	4.8	4.5	4.4
World	4.5	3.6	3.2

Source: International Monetary Fund, World Economic Outlook Database, July 2019.

Note: Projections for 2019.

## B. Caribbean growth performance and prospects

The performance of the Caribbean remains mixed as growth continues to be low but steady. Overall average growth was 2.0% in 2018 and is forecast at 2.1% in 2019. The goods producers posted growth of 2.2% in 2018 and this fell to 2.0% in 2019. The continuing outcome of soft commodity prices has been the main challenge to this group of Caribbean countries. The service producers have seen some improvement as growth is anticipated to move from 1.8% in 2018 to 2.2% in 2019 and much of this has been due to the resilience of services despite the effects of hurricanes in the region. All countries in the region are expected to experience positive growth with at least six countries posting growth between 3 and 9.9%. Some of this expansion, as in Antigua and Barbuda, also reflects the impact of reconstruction efforts on growth and the impact of citizenship by investment programmes on investment. Among the

goods producers, Guyana continues to post very strong growth from 4.1% in 2018 to 4.6% in 2019 and this will pick up speed in the near term as the economy begins to develop its vast oil resources (See table 2).

**Table 2**  
**Caribbean GDP growth rates, 2018-2019**  
(Percentage)

	2018 <sup>1</sup>	2019 <sup>2</sup>
Anguilla	10.9	8.8
Antigua and Barbuda	7.4	5.9
Bahamas	1.6	2.2
Barbados	-0.6	0.1
Belize	3.0	2.1
Dominica	4.0	9.9
Grenada	4.1	3.3
Guyana	4.1	4.6
Jamaica	1.7	1.9
Montserrat	5.2	1.6
Saint Kitts and Nevis	2.4	3.1
Saint Lucia	1.5	2.0
Saint Vincent and the Grenadines	2.2	2.5
Suriname	1.9	2.1
Trinidad and Tobago	1.9	1.6
<b>Caribbean</b>	2.0	2.1
<b>Goods Producers</b>	2.2	2.0
<b>Service Producers</b>	1.8	2.2

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

<sup>1</sup> Preliminary.

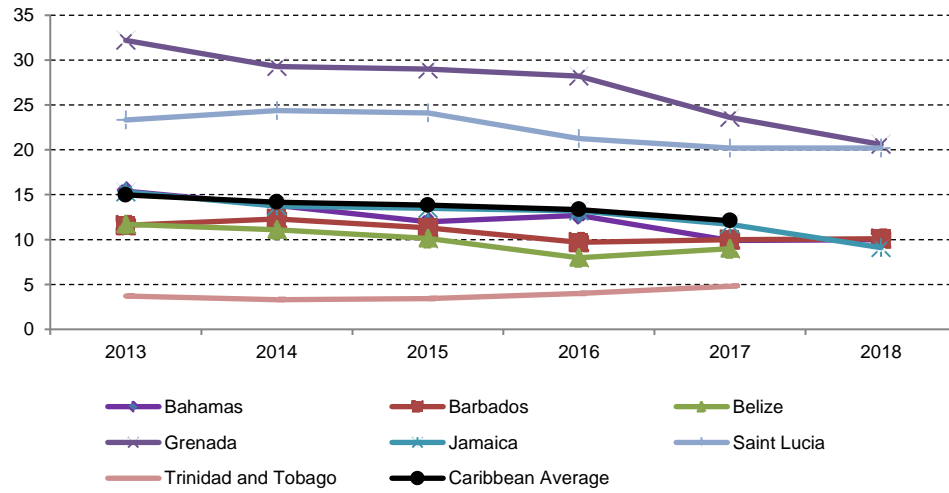
<sup>2</sup> Forecast.

## C. Unemployment

As expected, improved growth will reduce unemployment especially for the service economies that have seen improved performance. The overall average unemployment rate, as seen in figure 2, shows definite downward tendency falling from 15% in 2013 to 12.1% in 2017 (Data are not available for all countries).

This has been due mainly to the decline in unemployment among the service economies as unemployment fell from 19.6% in 2013 to 14% in 2018. For the goods economies it has hovered around 7% but countries like Trinidad and Tobago, that have had historically low levels of unemployment, have seen a rise in unemployment from 3.7% in 2013 to 4.8% in 2017. In countries for which data are available, it is important to note that youth unemployment continues to be unacceptably high despite the overall decline in unemployment.

**Figure 2**  
**Unemployment rates, 2013-2018**  
*(Percentages)*



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

## II. Fiscal and debt performance

Fiscal policy in the subregion was generally conservative in 2018. Most governments were focused on containing or reducing fiscal deficits. The average fiscal deficit shrunk, and as a result most economies public debt ratios improved relative to the previous year.

### A. Fiscal

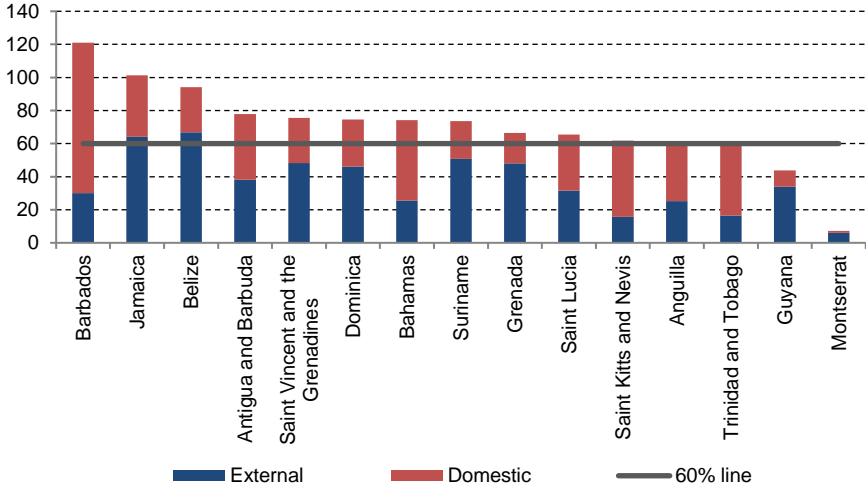
The fiscal situation in the Caribbean improved, in general, from 2017 to 2018. The average overall fiscal balance in the Caribbean contracted -2.4% of GDP to -2.0%. This was driven mainly by improvements in Trinidad and Tobago, Saint Kitts and Nevis and Barbados. The average deficit for the goods producing economies was 4.9% of GDP, while the average for the service producing economies was 0.9%.

In Barbados, the government restructured its domestic debt and suspended commercial external debt payments, leading to a fall in expenditure and an overall fiscal deficit of 0.3% of GDP. This was a significant improvement from an average deficit of 7.4% of GDP over the previous five years. An increase in taxes and royalties from energy companies led to 16.8% increase in revenue and a shrinking of the deficit in Trinidad and Tobago to 3.4% of GDP, down from 9.0% in the previous year. In Saint Kitts and Nevis, an expansion in inflows to the Citizenship by Investment Programme resulted in an 84% increase in non-tax revenue and a 5.4 percentage point improvement in the overall fiscal balance, leading to a surplus of 7.4% of GDP in 2018. Surpluses were also observed in Anguilla (0.3%), Grenada (4.3%) and Jamaica (1.2%).

Worsening balances were observed in Montserrat, Suriname, Dominica and, to a lesser extent, Anguilla. Montserrat's fiscal balance fell from a surplus of 1.2% of GDP in 2017 to 7.4% in 2018, as increases in spending on goods and services (38.6%) and transfers and subsidies (16.4%) offset a modest rise in current revenue. In Suriname the government settled several arrears, leading to increased expenditure: salary settlements with teachers, lecturers and civil servants, and additional settlements to the state-owned power company. This resulted in a fiscal deficit of 11.3% of GDP: the largest in the Caribbean in 2018. In Dominica capital expenditure expanded by almost one third due to rehabilitation



**Figure 4**  
**Total public debt, 2018**  
*(Per cent of GDP)*



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





### III. Monetary Policy

The monetary policy stance of the Caribbean economies in 2018 was largely unchanged. It remained relatively accommodative, but the scope for further monetary easing was limited to maintain stable exchange rate. Most of the economies, namely, the Bahamas, Belize, Eastern Caribbean Currency Union (ECCU) and Suriname, did not change main monetary policy instruments, in order to balance the dual objectives of stimulating growth and achieving price stability through the fixed or stable exchange rates.

Three countries, namely, Jamaica, Barbados and Guyana, eased the monetary policy stance. Jamaica lowered the policy interest rate five times in 2018 and four times in 2019 (by the end of September) to an historic low of 0.50% to stimulate an expansion in private sector credit and support inflation returning to the centre of the inflation target of 4.0% to 6.0%. Barbados reduced securities reserve ratio for commercial banks from 20% to 17.5% in November 2018, as the Government's fiscal situation improved. Guyana kept the central bank lending rate at 5.00% but allowed a net redemption of G\$ 56.9 billion in treasury bills issued for monetary purposes in 2018, injecting liquidity into the financial system.

On the other hand, Trinidad and Tobago tightened its monetary policy stance slightly in view of foreign exchange shortages and raised the repo rate by 25 basis points to 5.00% in June 2018, the first rise in 30 months.

#### A. Interest Rates

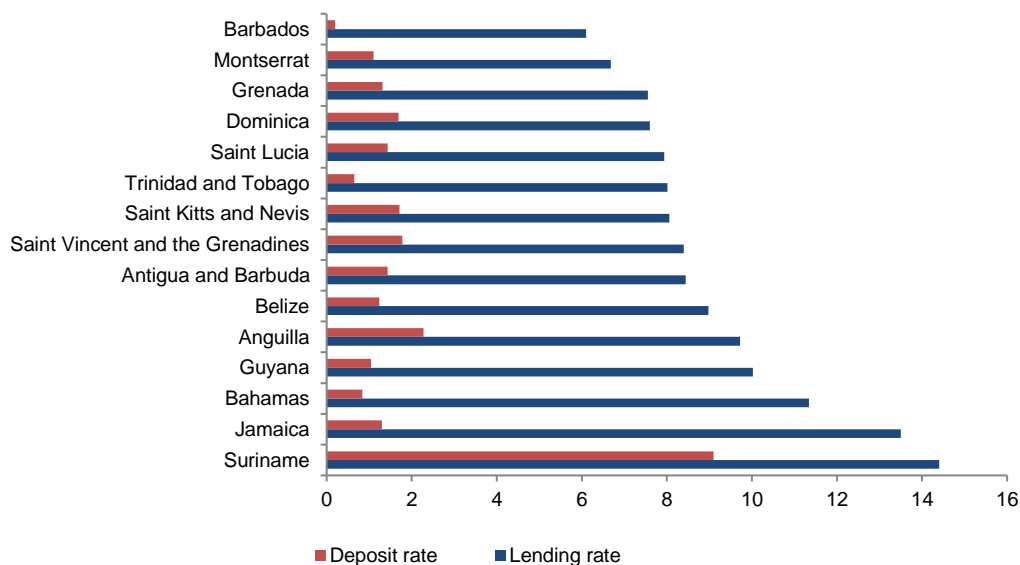
Due to the continued accommodative monetary policy stance in the Caribbean, commercial bank lending rate and deposit rate decreased in 2018. The Caribbean's average lending rate stood at 9.12%, which was 0.29 percentage points lower than the 9.41% average lending rate of 2017. The average deposit rate stood at 1.81%, relative to its 1.85% in 2017. As a result, the interest rate spread contracted by 0.25 percentage points from 7.56% in 2017 to 7.31% in 2018. (See figure 5).

There was a contraction in the lending rates for both goods producing countries and service producing countries over the review period. The lending rates in the goods producing economies declined by 0.16 percentage points from 10.51% in 2017 to 10.35% in 2018, while the service producing economies recorded a larger 0.34 percentage points decline in the lending rates, from 9.01% in 2017 to 8.67% in 2018. In 2018, Suriname and Jamaica reported the highest lending rates in the region of 14.40% and 13.50% respectively.

The average deposit rate in the goods producing countries stayed at 3.01% in 2018. On the other hand, the service producing economies recorded a contraction in their average deposit rates from 1.43% in 2017 to 1.37% in 2018. Out of all the countries, Jamaica recorded the largest change in the lending rate, deposit rate and interest rate spread of -1.09 percentage points, -0.30 percentage points, and -0.79 percentage points respectively.

There was a contraction in the average interest rate spread for both goods producing countries and service producing countries. The observed interest spread contraction was more acute for the service producing countries shrinking by 0.28 percentage points from 7.58% in 2017 to 7.30% in 2018. The goods producing economies interest rate spread stood at 7.35% in 2018, a 0.15 percentage points decline. In 2018, Jamaica and the Bahamas reported the largest interest rate spreads of 12.20% and 10.50% respectively.

**Figure 5**  
**Lending rate and deposit rate 2018**  
(Percentage)



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

## B. Money supply and credit

Using the M2 (narrow money plus savings deposits and time deposits) as a measurement of liquidity, the Caribbean-wide liquidity declined from 70.6% of GDP in 2017 to 69.2% of GDP in 2018. In the goods producing economies M2 to GDP ratio stood at the same level as in 2017, while in the service producing economies M2 to GDP ratio decreased by 1.8 percentage points. (See table 3).

However, excluding the Bahamas, Barbados and Saint Kitts and Nevis, all member States experienced increases in M2, when expressed in local currency, driven by the accommodative monetary

policy stances and economic recovery. For most of these countries, nominal GDP grew faster than M2, resulting in the declines in M2 to GDP ratio. On the other hand, the Bahamas, Barbados and Saint Kitts and Nevis registered declines in M2, even when expressed in local currency. In these countries, the decline in the money supply reflected a contraction in deposits due to the relatively low interest rates.

Overall there was a decline in credit to the private sector from 52.5% of GDP in 2017 to 50.1% of GDP in 2018. In the goods producing economies, the credit to the private sector decreased from 39.0% of GDP in 2017 to 37.3% of GDP in 2018. In the service producing economies, the private sector credit decreased from 57.4% of GDP in 2017 to 54.7% of GDP in 2018.

While there was an overall decline in private sector credit, the reasons were mixed. For instance, Suriname recorded a relatively large decline in private sector credit owing to the depressed economic activity following the fiscal crisis of 2015 and 2016. In the Bahamas, credit to the private sector contracted for the seventh consecutive year, as banks maintained their conservative stance and households continued to deleverage. In Jamaica, on the other hand, the credit to the private sector grew strongly, in line with the active monetary policy easing and increasing economic activity. When expressed in local currency, Guyana also recorded a robust increase in private sector credit, but growth in nominal GDP outpaced it.

**Table 3**  
**Monetary aggregates and domestic credit to the private and public sector, 2017-2018**  
(Per cent of GDP)

	M1		M2		Domestic Credit to the Private Sector		Domestic Credit to the Public Sector	
	2017	2018	2017	2018	2017	2018	2017	2018
Anguilla	9.8	9.0	40.9	36.7	87.5	73.3	-16.8	-12.1
Antigua and Barbuda	23.3	22.3	77.0	73.3	47.9	44.4	10.8	9.9
Bahamas	21.8	22.0	55.7	54.0	49.2	47.4	23.5	24.3
Barbados	91.6	89.8	109.2	106.7	81.9	80.4	25.2	20.7
Belize	42.0	41.6	78.9	78.5	54.2	53.9	16.0	16.4
Dominica	31.8	30.1	116.5	109.1	57.0	52.0	-30.9	-10.5
Grenada	20.6	22.3	67.7	68.4	51.3	50.8	-11.6	-15.9
Guyana	21.4	21.7	50.0	49.0	30.8	29.0	3.8	6.8
Jamaica	10.9	12.4	24.1	25.9	29.9	32.2	2.4	4.4
Montserrat	37.7	40.6	145.2	145.3	51.9	52.6	-52.4	-50.5
Saint Kitts and Nevis	22.2	20.9	81.9	78.6	58.3	56.9	-52.8	-54.1
Saint Lucia	18.7	19.9	57.7	57.3	65.4	61.8	-7.4	-8.3
Saint Vincent and the Grenadines	22.2	23.6	68.3	68.3	51.5	50.3	-0.5	0.2
Suriname	16.5	18.0	27.9	30.4	34.0	29.5	18.4	16.2
Trinidad and Tobago	29.2	28.4	57.5	56.4	37.2	36.8	1.7	3.5
<b>Caribbean</b>	28.0	28.2	70.6	69.2	52.5	50.1	-4.7	-3.2
<b>Goods Producers</b>	27.3	27.4	53.6	53.6	39.0	37.3	10.0	10.7
<b>Service Producers</b>	28.2	28.4	76.7	74.9	57.4	54.7	-10.0	-8.3
<b>ECCU</b>	23.3	23.6	81.9	79.6	58.9	55.3	-20.2	-17.6

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

In contrast, there was an increase in the credit to the public sector in the Caribbean region from -4.7% in 2017 to -3.2% in 2018. For the goods producing economies and the service producing economies, the public sector credit to GDP ratio increased by 0.7 percentage points and 1.7 percentage points, respectively. The largest increase (20.4 percentage points) was recorded in Dominica to support public

sector reconstruction and recovery efforts. In Guyana, the public sector credit also expanded, mainly as a result of a worsening central government net credit position stemming from higher capital expenditure. On the other hand, Barbados recorded a 4.5 percentage point decrease, largely due to the improved fiscal outturn and the domestic debt restructuring.

### C. Inflation

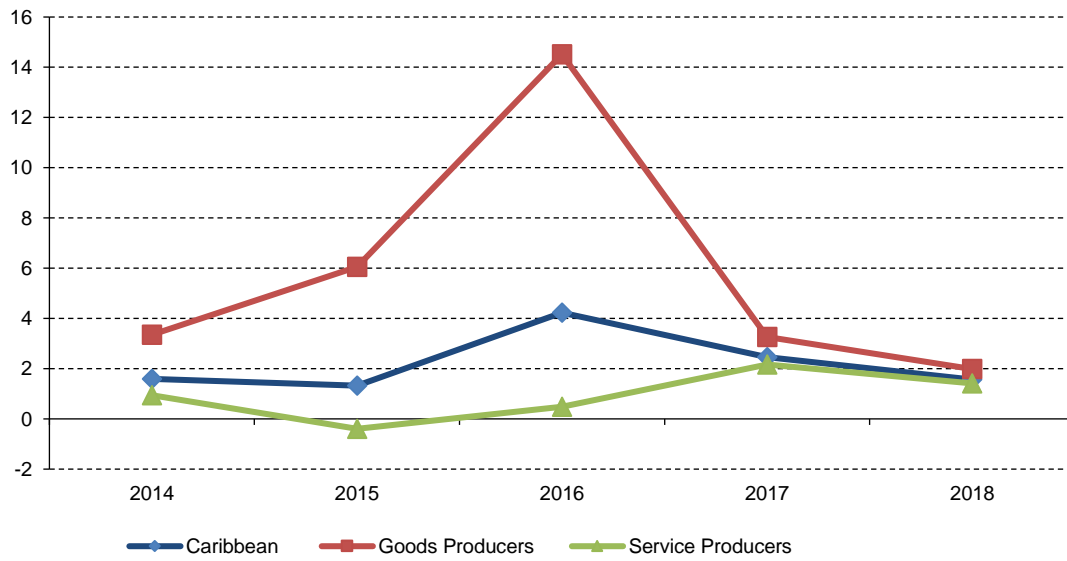
In 2018, the Caribbean region recorded an average inflation of 1.6%. This was a 0.9 percentage points decline from the 2.5% inflation recorded in 2017. If Suriname is excluded from the Caribbean average, the average inflation would stand as 1.3% in 2018, down from 2.0% in 2017. The decline in inflation over the 2017 to 2018 period was driven by both the goods producing economies and the service producing economies. Inflation in the goods producing economies declined from 3.3% in 2017 to 2.0% in 2018. Again, if Suriname is not included, there would be a decline in the average inflation of the goods producing countries from 1.3% in 2017 to 0.8% in 2018. In the service producing countries, inflation decreased from 2.2% in 2017 to 1.4% in 2018. (See figure 6).

Barbados and Jamaica experienced significant decreases in inflation. In Barbados, the fall in inflation from 6.6% in 2017 to 0.6% in 2018 was driven by the repeal of the National Social Responsibility Levy (NSRL) in July 2018 and the softening in international fuel prices. In Jamaica, the decline in inflation from 5.2% in 2017 to 2.4% in 2018 was primarily due to lower inflation in energy prices as well as agricultural food prices associated with a strong improvement in supplies. In addition, there was limited pass-through of the improved domestic demand conditions to prices largely due to continued fiscal consolidation.

Further, Anguilla, Belize and Saint Kitts and Nevis recorded deflation of 0.4%, 0.1% and 0.8%, respectively, in 2018. In Anguilla, the decrease in prices was driven by lower costs of a telephone call, cell phones and fuel and lubricants as well as promotional incentives for TV services. In Belize, higher prices for fuels, Liquefied Petroleum Gas, healthcare, and home rentals were offset by a sharp drop in international airfares. In Saint Kitts and Nevis, the decline in prices was influenced by reduced average prices (2.8%) in Nevis tempered by higher prices (0.3%) in Saint Kitts.

The effects of the devaluation that occurred in November 2015 led to Suriname's inflation being exceedingly high in 2016, standing at 52.4%. Although Suriname managed to reduce its inflation to 9.2% in 2017 and 5.4% in 2018, it was still the highest inflation rate in the Caribbean region. Dominica (4.0%) also recorded a relatively high rate of inflation in 2018. The increase in inflation from -1.5% in 2017 to 4.0% in 2018 was largely attributable to an increase in the price of housing, utilities, gas and fuels (11.0%).

**Figure 6**  
**Inflation, 2014-2018**  
*(Percentage)*



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



## IV. External sector developments

### A. Tourism arrivals

Following the effects of hurricanes Irma and Maria in 2017, Caribbean tourism rebounded in 2018. Growth in tourist stay-over arrivals grew to 4.6% in 2018 from 2.0% in 2017. Two countries affected by the hurricanes that experienced contractions in 2017 saw significant turnarounds in 2018: Antigua and Barbuda and The Bahamas. Antigua and Barbuda received severe damage on the island of Barbuda and saw stayover arrivals fall by 6.7% in 2017, while in The Bahamas they fell by 2.1%. In 2018 stayover arrivals grew in those economies by 8.7% and 7.9% respectively. Conversely, Dominica's tourism product is not yet back to pre-hurricane levels, and the arrivals to this island fell by 9.8% in 2018 following a 7.2% contraction in the previous year.

Among the 10 countries with available data, the largest growth in stayover arrivals was experienced in Belize and Grenada, with 12.6% and 10.0% respectively (figure 7). In Belize there were an increased number of flights from the US, Canada and Mexico; Mexico's global airline, Aeromexico introduced seasonal direct flights twice a week from November to April. Grenada's increase was due to a rebound in European visitors and strong growth from North American markets.

Cruise tourism to the wider Caribbean also rebounded well from the 2017 season. The total number of cruise passengers grew by 5.7% to a total of 28.9 million. Despite a slower start to the year, the number of passengers gradually increased as repairs were made to cruise ship facilities and the ships returned to the subregion.

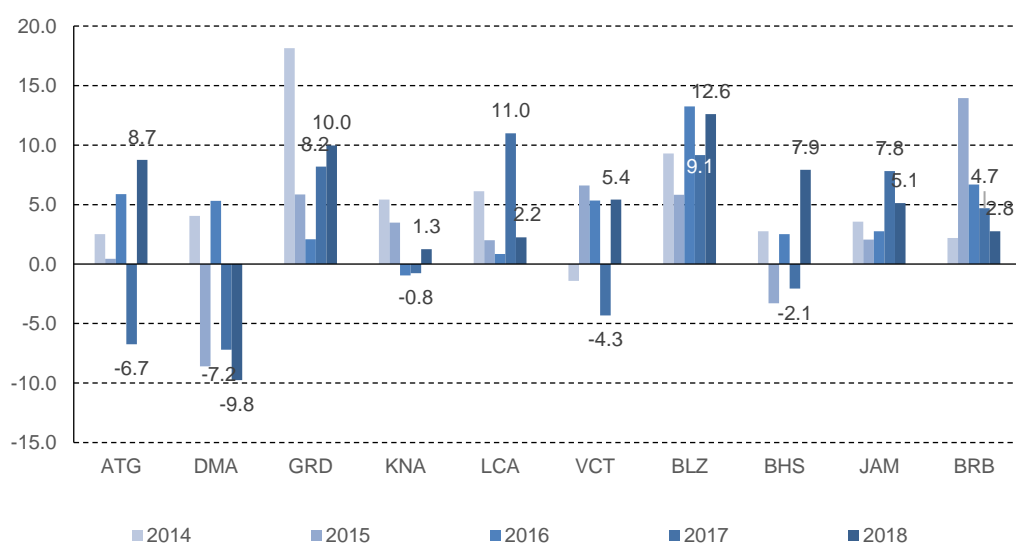
While the United States remains the Caribbean's largest source market for Caribbean tourism, the largest expansion in tourism arrivals for 2018 came from its Northern neighbour, Canada, which sent 5.7% more travellers, and 3.9 million in total to the wider Caribbean<sup>1</sup> in 2018. The increase in visitors was

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<sup>1</sup> The wider Caribbean includes Anguilla, Antigua and Barbuda, The Bahamas, Barbados, Belize, British Virgin Islands, Cayman Islands, Curacao, Dominica, Grenada, Haiti, Jamaica, Martinique, Montserrat, Puerto Rico, St. Eustatius, St. Kitts and Nevis, St. Lucia, St. Maarten, Sint Martin, St. Vincent and the Grenadines, Trinidad and Tobago, and Turks and Caicos.

due to improved economic performance, strong marketing efforts and expanded airlift capacity to the Caribbean.

**Figure 7**  
Year-on-year growth in tourism stay-over arrivals, 2014-2018  
(Percentage)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official data; Eastern Caribbean Central Bank; Bahamas Quarterly Statistical Digest May 2019; Central Bank of Barbados Press Release March 2019, Caribbean Tourism Organization.

## B. Foreign direct investment

Between 2017 and 2018, FDI inflows in the Caribbean increased from 8.2% to 10.2% of GDP, a 2 percentage points increase. Service-producing countries recorded FDI inflows of 12.0% of GDP in comparison to the 5.8% of GDP for goods-producing countries in 2018. Among the service-producing countries, Anguilla recorded a staggering FDI inflows of 50.2% of GDP in the aftermath of the Hurricane Irma in 2017, which severely damaged major public infrastructure, including homes, hotels and government buildings. The mix of British aid<sup>2</sup> for the repair of the ferry terminal to Sint Martin and other public infrastructure, and the revitalized tourism sector – renovations and expansions of major hotels – are the main contributors to the increased in FDI inflows. With the inception of the Anguilla Residency by Investment Programme in June 2019, the FDI inflows is expected to continue this upward trend. Besides Anguilla, the following service-producing countries recorded positive increases (in percentage points) of their FDI inflows: Bahamas (1.6%), Grenada (0.8%), Montserrat (1.5%) and Saint Kitts and Nevis (5.7%).

On the other hand, the four goods-producing countries recorded increases in FDI inflows as a percent of GDP (in percentage points) between 2017 and 2018: Guyana (6.7), Belize (4.9), Trinidad and Tobago (0.7) and Suriname (0.3). FDI inflows sharply increased in Guyana from US\$212.2 to US\$494.8 million between 2017 and 2018. With the discovery of offshore oil reserves in 2017 by Exxon Mobil,

<sup>2</sup> The majority of the approved £66 million British Government aid package for its Caribbean territories went to Anguilla for the repairs of the Sint Martin Ferry Terminal and other public infrastructure.



Guyana has become a major FDI destination in the Caribbean. Furthermore, although the discovery of oil and increased investment in the energy sector – China Railway First Group, British Whitefox Technology, and Brazilian Green, among major investors in the sector – have brought a bright future prospect to the Guyanese economy, traditional FDI-recipient sectors such as agriculture, transportation and communications are gradually being relegated to the backseat.

Following the nationalization of Belize Telemedia Limited and the final settlement of payment of USD 98.9 million and the repatriation of the funds in 2017, which considerably increased FDI outflows, Belize's FDI inflows increased almost five-fold between 2017 and 2018.

### **C. Financial sector concerns (de-risking/EU blacklisting)**

In response to the growing problems of money laundering and funding of global terrorism, more stringent regulatory financial frameworks were put in place in several countries. As a result of the new regulatory landscape, some international banks have withdrawn their correspondent banking services in regions and countries that are deemed 'high risk'. The Caribbean region was one of the most affected with the loss of many CBRs.

The severance or termination of correspondent banking relationships (CRBs) have presented major challenges for financial institutions in the Caribbean in the last few years (McLean et al 2017; Skerrette 2016). Despite relentless efforts aimed at addressing the de-risking issue, several Caribbean countries continue to appear on the Blacklist of EU and USA, which has had a negative impact on the economies of the region. In 2018, seven of the fifteen countries on the EU blacklist were from the Caribbean: Aruba, Barbados, Belize, Bermuda, Dominica, Dominica, Trinidad and Tobago, and the US Virgin Islands. Moreover, eight of the thirty-four countries on the EU's greylist<sup>3</sup> – Anguilla, Antigua and Barbuda, Bahamas, British Virgin Islands, Curacao, Cayman Islands, Saint Kitts and Nevis, and Saint Lucia – are in the Caribbean.

Disagreements between the EU and CARICOM<sup>4</sup> were apparent after the release of the list of noncompliant countries of the EU's 'tax good governance' on 12 March 2019 which featured four CARICOM member states: Belize, Barbados, Dominica and Trinidad and Tobago. Also, the EU placed seven Caribbean islands on its watchlist for reforms by the end of 2019: Antigua and Barbuda, the Bahamas, Saint Kitts and Nevis, Saint Lucia, Anguilla, British Virgin Islands and Cayman Islands.

With the loss of correspondent banks as a result of de-risking, economies across the Caribbean have been negatively impacted as purchasing of foreign goods and services have become increasingly difficult. In addition to loss of Government revenues, FDI and reduction in remittances, cross-border services offered by International Financial Institutions (IFIs) have been affected. Although some of many domestic banks have replaced their lost CBRs with the United Kingdom's bank Crown Agents, there is concern that the looming Brexit has the potential to destabilize the banking sector in the region should Crown decide to pull out of the region altogether.

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<sup>3</sup> On the EU Greylist are countries that have committed themselves to improve their transparency standards and agreed to the monitoring practices of the EU.

<sup>4</sup> Statement from CARICOM on the revised EU Blacklist: <https://caricom.org/media-center/communications/press-releases/caricom-statement-on-revised-eu-blacklist-of-members-of-the-community>.



## V. Conclusions

After years of sluggish performance, economic growth in the Caribbean is beginning to recover. The growth in 2018 is driven by Citizenship by Investment programmes, post-hurricane reconstruction efforts and increased FDI in some economies. To ensure sustainable and inclusive growth in the future, there needs to be a strengthening of domestic investment, particularly capital investment. This must include building technical capacity for prioritizing and managing the capital investment programmes. Key traditional sectors such as tourism need to be upgraded through improved training and infrastructure. At the same time the domestic private sector should expand exports in non traditional areas such as education and health care through trade facilitation.

In 2018 the Caribbean achieved some success in reducing fiscal deficits and public debt ratios. Governments used different methods of fiscal consolidation to attain this positive result, but the gains must be locked in through institutional reform. Social security programmes must be strengthened to reduce crime and citizen and business insecurity.



## VI. Country notes

### A. Bahamas

#### 1. General trends

The Bahamian economy continued to recover in 2018 with growth firming to 1.6%, compared with 0.1% in 2017. Growth was driven mainly by the strong performance of the tourism sector, which recorded the largest increase in visitor arrivals in eight years. Tourism was supported by small and medium-sized construction projects financed by foreign direct investment (FDI). Activity in the offshore financial services sector remained stable as the authorities continued to adjust to increased international regulation that has contributed to some consolidation in the sector. Inflation picked up to 2.0% in 2018, from 1.8 % in 2017, on the heels of the increase in the value added tax (VAT) rate and in international fuel prices. An increase in the number of employed was offset by the growth of the labour force, so that the rate of unemployment rose to 10.4% in 2018, from 10.0% in 2017. Fiscal policy was contractionary, with the deficit narrowing from 5.6 % of GDP in fiscal year 2016/17 to 3.4 % in fiscal year 2017/18, reflecting declines in both current and capital spending, with the latter normalizing after post-hurricane reconstruction outlays in 2017. The external position deteriorated; the balance-of-payments current account deficit widened to 13.9% of GDP in 2018 from 12.9% in 2017, owing to larger merchandise and income account deficits, which offset an increase in the services surplus.

With continued growth in tourism, driven by demand from the United States, additional room capacity and strong construction activity, the economy is projected to grow by 2.2% in 2019. The high value-added stopover tourism segment is expected to continue to recover, producing a positive multiplier effect on distribution, transportation and other sectors. This will be further supported by growth in cruise tourist arrivals. Construction will be bolstered by varied-scale projects, including the development at The Pointe and the cruise port being built by the Carnival Cruise Line in Grand Bahama. Growth in activity is expected to lead to a decline in the rate of unemployment. Influenced by the fiscal responsibility legislation aimed at controlling spending and measures to strengthen revenue collections,

the fiscal deficit is projected to be contained to under 2.0% of GDP in fiscal year 2018/19<sup>5</sup> and to around 1.0% of GDP in fiscal year 2019/20. Monetary developments will be influenced by continued high liquidity, partly reflecting sluggish growth in credit as banks maintain a prudent lending stance to improve their loan portfolio quality. This is expected to dampen domestic private investment. The balance-of-payments current account deficit is expected to narrow marginally, reflecting reduced imports of construction materials and higher tourism receipts. The economic outlook could be affected by downside risks from the trade dispute between the United States and China, which could have spillover effects on United States growth, as well as by other shocks, potentially including storms and hurricanes.

## 2. Economic policy

### (a) Fiscal policy

Fiscal policy was contractionary in 2018, as the government implemented spending containment measures to facilitate the orderly reduction of public debt. The deficit declined from 5.6% of GDP in fiscal year 2016/17 to 3.4% in fiscal year 2017/18, although this still exceeded the budgeted target of 2.6% of GDP. The reduction in the deficit resulted from cuts in both capital and current expenditure, as the government prioritized fiscal consolidation. Capital spending contracted by 31.1%, reflecting a near-halving of spending on infrastructure, which returned to trend following exceptional outlays for post-hurricane rehabilitation in 2017. Meanwhile, current expenditure fell by 6.8% to represent 17.9% of GDP, with a sharp fall in spending on goods and services, which normalized after hurricane-related outlays in 2017. By contrast, spending on wages and salaries rose by 2.0%, partly reflecting arrears payments.

Total revenue contracted marginally, by 1.4%, owing largely to declines of 0.3% and 10.4%, respectively, in tax and non-tax revenues. Proceeds from taxes on international trade fell due to lower receipts from excise and import taxes. This was only partly offset by an increase of 6.6%, or 42.3 million Bahamian dollars (B\$), in VAT revenues. The decline in non-tax revenues, to B\$ 200.6 million, was due to a 50% fall in income from dividends and other sources.

Public sector debt edged up to 66.2% of GDP, from 64.9% in 2017. Central government debt rose by 4.4%. The debt of public corporations increased by 4.2%, reflecting government guarantees for loans extended to two utility companies.

During fiscal year 2018/19, the government implemented key measures to entrench fiscal consolidation, including an increase in the VAT rate from 7.5% to 12.0% and the enactment of the Fiscal Responsibility Act in October 2018. The fiscal deficit contracted substantially —by 47.8%, to B\$ 122.5 million— in the first 10 months of fiscal year 2018/19, relative to the year-earlier period. Total revenue was bolstered by a 16.1% (B\$ 245.0-million) increase in tax receipts, spearheaded by a B\$ 123.5-million rise in proceeds from VAT and a spike in receipts from stamp taxes.

Total expenditure climbed by 8.4% to B\$ 2.1 billion. Recurrent expenditure expanded by 12.6% to B\$ 1.9 billion, as the government paid off a significant portion of its arrears and increased spending on goods and services and social assistance. Meanwhile, capital expenditure contracted by 27.3%, to B\$ 147.6 million. Given that capital spending is an important contributor to growth, the government needs to better balance the fiscal adjustment between current and capital expenditure. For fiscal year 2018/19 overall, the deficit is projected to narrow to B\$ 229 million (1.8% of GDP), just overshooting the budgeted target of B\$ 237.6 million.

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<sup>5</sup> The fiscal year runs from 1 July to 30 June of the following year.

## **(b) Monetary and exchange-rate policy**

Monetary policy remained neutral in 2018, with the central bank holding its policy discount rate steady at 4.0%. The central bank decided not to adjust its monetary policy stance, noting that key headwinds facing the economy—a possible slowing of the United States economy due to trade disputes with major partners, a tightening of that country's monetary policy and fallout from the withdrawal of the United Kingdom from the European Union (Brexit)— could be countered by positive developments, such as a potential early settlement of the trade disputes, which would limit their impact on United States growth, sound external reserve cover and improved banking sector credit quality.

Monetary developments in 2018 were marked by a decline in banking sector liquidity, as there was a small (0.7%) increase in domestic credit demand alongside a 0.7% decline in the broad money supply (M2). The turnaround in credit demand following the 3.2% decline in 2017, reflected a 5.9% increase in credit to the public sector, as credit to the private sector fell by 1.8%. Although the downturn in private sector credit was smaller than the 3.1% contraction in 2017, this trend over recent years remains a cause for concern, as it could suggest that businesses are not accessing the funding necessary to upgrade their production. By segment, personal loans, which account for 79.2% of the total, declined by 2.4% (B\$ 124.0 million), contrasting with increases in credit for distribution, manufacturing and transport. The small decline in the broad money supply reflected a 6.8% contraction in time deposits, as relatively low interest rates act as a disincentive for savers to hold these longer-term deposits. Savings deposits increased by 4.1% to B\$ 1.427 billion. Bank loan portfolio quality continued to improve in 2018, with non-performing loans falling by 8.9% to B\$ 517 million, reflecting debt restructuring, sales of these portfolios and improved debt collections.

The weighted average interest rate spread narrowed by 25 basis points to 10.5% in 2018, reflecting a 41-basis-point fall in the average loan rate to 11.34%, which surpassed the 16-basis-point decline in the deposit rate to 0.84%.

The central bank continued its policy of phased capital account liberalization. In 2018, businesses were allowed to maintain deposit accounts in foreign currency at local commercial banks, for amounts of up to B\$ 100,000 to be used for making payments. In addition, the exchange control policies were amended to permit commercial banks to open Bahamian dollar deposit accounts for non-resident individuals for up to B\$ 50,000, in order to facilitate financial inclusion.

## **(c) Other policies**

The government budget for 2018/19 outlined key proposals to facilitate stable and equitable growth in the context of sustainable public finances. Growth-focused measures included facilitating small business development through the Small Business Development Centre (SBDC); the government allocated B\$ 5 million to this sector, with prospects for raising the amount to B\$ 8.5 million in the 2019/20 budget cycle. Other measures aimed at improving the ease of doing business have included simplifying business licence renewal, smoothing property registration procedures, protecting minority investors and facilitating trade across borders, especially the export of services via digital platforms. Further, the government is promoting the development of renewable energy, including the use of light-emitting diode (LED) street lights to reduce the cost of public lighting, which accounts for over 30% of electricity consumption in the Bahamas.

## **3. The main variables**

### **(a) The external sector**

The balance-of-payments current account widened from 12.9% of GDP in 2017 to 13.9% in 2018, influenced by substantial income outflows and a higher merchandise deficit, which offset the increase in the services account surplus. The income account deficit almost doubled to US\$ 711.1 million,

representing 5.7% of GDP, driven mainly by significant private sector interest and dividend outflows, reflecting higher repatriation of funds by commercial banks and non-bank institutions. Government interest payments to foreign creditors also increased, in line with growth in the public debt. The merchandise deficit expanded by 4.6% to US\$ 2.656 billion, underpinned by 6.5% (US\$ 203 million) growth in imports, which surpassed the 14.9% (US\$ 84.8 million) increase in exports. Imports were propelled by higher payments for fuel, which rose by 32.9%, reflecting an increase in the volume purchased.

After declining the previous year, the services account surplus grew by 23.5% in 2018, to US\$ 1.710 billion, or 13.8% of GDP. This performance reflected a 12.5% (US\$ 328 million) expansion in net travel receipts, associated with a hike in stopover visitor arrivals and smaller construction payments, with the winding down of work on the Baha Mar mega-resort. Net current transfers rose by 28.6% to US\$ 71 million, representing 0.6% of GDP, owing to the normalization of private non-remittance transfers, after the extraordinary inflows due to the hurricane in 2017. The capital and financial account surplus, including errors and omission, contracted by 27.3% to US\$ 1.511 billion, the equivalent of 12.2% of GDP. This mainly reflected a reversal in public sector debt operations, from substantial borrowing of US\$ 809.4 million in 2017 to a net repayment of US\$ 49.8 million in 2018. This was only partly offset by a substantial (US\$ 186.8 million) increase in net direct investment inflows to US\$ 491.4 million, partly linked to higher equity inflows. International reserves declined by 15.6% to US\$ 1.196 billion, owing to higher foreign-exchange demand by the private sector and public sector transactions, leading to a fall in the reserve cover to 17.5 weeks of merchandise imports, albeit still well above the international benchmark of 12 weeks.

### **(b) Economic activity**

Economic recovery strengthened in 2018, with growth of 1.6%, compared with 0.1% in 2017, driven by a strong expansion in tourism, supported by wholesale and retail trade and financial services. Value added in the hotel and food services sector, a proxy for tourism, expanded by 31.6%. This was underpinned by a 7.9% increase in total visitor arrivals, to 6.6 million in 2018, a significant turnaround from the decline of 2.1% in 2017 and the strongest growth since 2010. Total visitor arrivals were boosted by high-spending stopover arrivals, which rose by 10.2%, reversing the 2.9% decline in 2017. Growth in stopover arrivals was accompanied by an improvement in hotel performance in New Providence and Paradise Island, where total room revenue rose by 34.0% and the occupancy rate increased by 1.0% following a 6.8% decline in 2017. Also, the average daily room rate (ADR) was up by 4.7% to B\$ 250.60. Cruise visitor arrivals grew by 5.4% to 4.9 million, relative to a 1.4% fall in 2017.

Construction activity tapered off owing to the completion of work on the Baha Mar mega-resort. Nevertheless, the sector benefited from a number of small and medium-scale FDI-financed projects, including The Pointe development in Nassau and the Carnival cruise ship port in Grand Bahama.

### **(c) Prices, wages and employment**

Propelled by the increase in the VAT rate and higher fuel prices, the rate of inflation increased to 2.0% in 2018 from 1.8% in 2017. The index for housing, water, electricity, gas and other fuels rose by 2.7%, while the costs of food and non-alcoholic beverages increased by 1.2%. Meanwhile, the cost of transport and communications declined by 1.1% and 4.0%, respectively.

The pick-up in activity boosted job growth by 3.4%. However, unemployment increased by 0.6 percentage points in 2018, to 10.4%, owing to a large number of entrants into the labour market.

The employment rate is expected to continue rising in 2019, thanks to ongoing growth in tourism and buoyant construction activity, which should bring down the rate of unemployment.



## B. Barbados

### 1. General trends

At the beginning of 2018, the Barbadian economy was in the midst of a fiscal crisis characterized by low economic activity, weak investor confidence, inadequate levels of international reserves, rising public sector debt levels and an overreliance on financing from the Central Bank of Barbados and the National Insurance Scheme (NIS). To stem the impact of this crisis, the newly elected Government of Barbados embarked on external commercial debt suspension and domestic debt restructuring, entered an agreement with the International Monetary Fund (IMF) and introduced the Barbados Economic Recovery and Transformation (BERT) Plan. The tighter fiscal measures and delay in project implementation offset modest gains in the tourism sector and dampened economic activity. Consequently, the economy remained in recession and GDP growth as of March 2019 was negative at -0.2%; unchanged relative to March 2018. However, by the close of fiscal year 2018/19,<sup>6</sup> the fiscal deficit stood at 0.3% of GDP; an improvement from the 4.8% figure of the previous fiscal year. The primary surplus exceeded the target of 3.3% of GDP by the end of fiscal year 2018/19, at 3.6%. Debt restructuring efforts, which included a domestic debt exchange offer, contributed to the sizeable decrease in the debt stock, and in March 2019, gross public sector debt was 23.4 percentage points down on the year-earlier figure, at 125.4% of GDP.

Based on available data, the average unemployment rate increased marginally to 10.1% by December 2018, following the retrenchment of 1,500 public workers. The repeal of the National Social Responsibility Levy (NSRL) offset the effects of rising international fuel prices, resulting in a decline in the moving average rate of inflation as of March 2019, relative to 4.7% during the same period in 2018. Several factors are expected to contribute to increased economic activity in 2019, such as improvements in the macroeconomic indicators associated with the BERT Plan and new private sector tourism projects. Therefore, economic growth is projected to move into positive territory to 0.1% in 2019. This forecast has some downside risks, as fiscal adjustment activities continue and the start of some large commercial projects has been delayed.

### 2. Economic policy

#### (a) Fiscal policy

In 2018, the newly elected Government of Barbados introduced an IMF-endorsed recovery programme aimed at addressing instability in the economy: the Barbados Economic Recovery and Transformation (BERT) Plan. The effort to stabilize the public finances is central to the Plan and the government committed to achieving a primary surplus of 3.3% of GDP by the close of the fiscal year. In conjunction with this scheme, the government suspended external debt payments to commercial creditors and restructured domestic debt during fiscal year 2018/19, contributing to a 50% reduction in interest payments. By the close of that fiscal year, the fiscal deficit stood at 0.3% of GDP, down from 4.8% of GDP in 2017/18. Further, modest gains in revenue and expenditure containment yielded a primary surplus of 3.6% of GDP, thereby meeting the target. During fiscal year 2018/19, total revenue increased by 0.4 percentage points year-on-year to 30.6% of GDP. New tax measures introduced in the 2018 budget boosted revenue intake, but these gains were offset by the resumption of tax refund payments and dampened import demand. Revenue from corporate taxes increased by 29.2%, owing to growth in first-time payments by recently registered international companies. Property taxes and personal income tax rose by 17.2% and 4.2%, respectively, as taxpayers took advantage of the extension of the tax amnesty. Government refunds for income tax and value added tax (VAT) amounted to US\$ 27

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<sup>6</sup> The fiscal year in Barbados runs from 1 April to 31 March the following year.

million and US\$ 9 million, respectively, translating into lower-than-expected collections. Excise revenue and import duties also declined, by 10.5% and 2.2%, respectively. Driving the 9.5% decline in current expenditure was the debt restructuring and the suspension of external interest payments, which led to a 50% decline in interest payments overall. In addition, there was a small 2% decline in spending on goods and services. However, the savings gained from these expenditure reductions were offset by a 3.7% increase in outlays on wages and salaries, partly owing to a 5% wage hike granted to public sector workers.

As of March 2019, gross public sector debt stood at 125.6% of GDP; down from 149% in March 2018. The sharp decrease in the debt stock may be attributed primarily to debt restructuring efforts; this included an exchange offer for domestic debt launched in September 2018 which resulted in the write-off of US\$ 1.465 billion in debt held by the central bank and NIS. As part of the exchange, loans, treasury bills, treasury notes and debentures of the central government and loans and bonds of eligible State-owned enterprises were exchanged for a new series of amortizing bonds. The result was lower interest rates, an extension of the government's debt maturity profile, and the creation of much-needed fiscal space in the short to medium term. External debt payments to commercial creditors were also suspended; however, negotiations regarding these are ongoing. As of January 2019, following the successful completion of the domestic debt restructuring, the regional credit rating agency Caribbean Information and Credit Rating Services Limited (CariCRIS) upgraded Barbados' local currency rating from CariD (default) to CariBB, with a stable outlook. Standard & Poor's also raised its long- and short-term local-currency sovereign credit ratings on Barbados to B-/B from SD/SD (selective default) and assigned a B- local-currency rating to the domestic debt issued in the recent debt exchange.

### **(b) Monetary and exchange-rate policy**

The IMF Extended Fund Facility arrangement entered into by the Government of Barbados was built on maintaining the fixed exchange-rate peg of US\$ 2 = 1 Barbados dollar (BDS\$), along with fiscal consolidation measures and implementation of structural reforms. To maintain the exchange-rate peg, the international reserves needed to be bolstered significantly after a precipitous decline over the last few years. Balance-of-payments support from IMF and policy-based loans from the Caribbean Development Bank and the Inter-American Development Bank provided a much-needed boost to the gross international reserves and helped to reduce reliance on central bank financing. The suspension of commercial external debt service payments and positive net sales of foreign exchange by commercial banks to the central bank were additional factors that supported a positive outturn in the international reserve levels. By March 2019, gross international reserves had risen to US\$ 531.5 million, representing 14 weeks of import cover, slightly above the internationally accepted benchmark of 12 weeks.

The effective interest rate averaged 3.3% in the first quarter of 2019. Growth in credit to the private sector remained weak despite low interest rates, up by a mere 4% year-on-year at the end of 2018. The weighted average deposit rate remained unchanged as of March 2019 relative to March 2018. The average loan rate decreased marginally to 6% as of March 2019 relative to 6.3% in March 2018.

## **3. The main variables**

### **(a) The external sector**

The current account surplus improved to 2.7% of GDP in March 2019; up from 1.7% of GDP in March 2018. An increase in travel earnings attributed to higher tourist arrivals and improved room rates, along with the impact of the opening of the Ross University School of Medicine, were central to the improvements of the external accounts. Total imports decreased marginally, by 0.6 percentage points to 27.1% of GDP, by the close of the first quarter of 2019, compared to a stronger decline in the same period in 2018. Although dampened import demand resulted in lower imports of consumer goods, capital goods imports were boosted by higher imports of machinery and imports of intermediate goods

rose owing to increases in purchases of fuel, electronic components and construction materials. By March 2019, the financial account deficit narrowed to 0.1% of GDP from 0.6% of GDP a year earlier, as an expansion in net public inflows from lower external debt service offset declines in private sector inflows. Borrowings from IMF helped to boost international reserves and liquidity.

### **(b) Economic growth**

Economic growth in the Barbadian economy has been largely subdued over the last few years, and in 2018 the economy slipped into recession. Major contributors to these conditions were tighter fiscal consolidation measures implemented by the government, weaker consumption and investor confidence and structural economic deficiencies. Tourism continues to be the backbone of the Barbadian economy, but it too has been impacted by changes in target markets, while weak performances in other sectors have offered limited support.

During 2018, real economic activity contracted by 0.6% year-on-year as weak performances in the manufacturing and construction sectors offset modest gains in tourism. Value added growth in the tourism sector slowed to 0.6% in 2018, from 2.2% in 2017. Long-stay arrivals increased by 2.8% over 2017, primarily because of intensive marketing and increased airlift. However, expansion in the sector was contained by a 1% decline relative to 2017 in the average length of stay, as visitors from shorter-stay markets (such as the United States) increased. The sector was further impacted by a 9.7% decline in cruise visitors as cruise ships that had been re-routed following the severe hurricane season of 2017 returned to their regular itineraries. The manufacturing sector remained mostly stagnant while construction declined by 7% relative to 2017, reflecting a slowdown in infrastructure development in the public and private sector.

In the first quarter of 2019, the economy remained in recession, with GDP growth negative by 0.2%, which was unchanged from the same period in 2018. The tourism sector expanded by 2.2% in the first quarter, a slowdown relative to the 5.7% growth in the prior-year period. This modest growth in tourism was further offset by continued contractions in the construction sector. Later-than-expected start-up of investment projects led to layoffs in this sector and its economic activity was over 9% down on the same quarter in 2018.

Several factors support an improved outlook for the Barbadian economy in 2019. These include an upturn in macroeconomic indicators, such as the fiscal deficit and primary surplus, associated with the BERT Plan; new private sector tourism projects; the new thrust in medical education services with the recent opening of Ross University School of Medicine; events such as the English cricket tour; the expected increase in port stops; and new projects such as the Kooyman retail complex and the Sagior Retirement Village. However, the manufacturing and non-tradable sectors are expected to remain subdued. Consequently, economic growth is projected to improve to 0.1% by the end of 2019, although this is not without downside risks. These include still-dampened economic activity stemming from ongoing fiscal consolidation efforts, delays in the start of large commercial projects, uncertainty in international oil prices, fallouts from international developments and ongoing global trade tensions. Growth is critical to the stability of the Barbadian economy, as fiscal measures alone are insufficient to lower its debt burden in the long term.

### **(c) Prices, wages and employment**

As of December 2018, the average unemployment rate edged up to 10.1%, from 10.0% a year earlier. In the last quarter of 2018, the Government of Barbados began laying off 1,500 public sector workers and has announced further layoffs in 2019, which may contribute to higher unemployment this year.

The repeal of the National Social Responsibility Levy (NSRL) offset the rise in international energy prices, contributing to the drop observed in the moving average rate of inflation to 2.5% as of

March 2019, compared with 4.7% a year earlier. For 2019 overall, lower energy prices, along with the stabilization of the exchange-rate peg, are expected to contain the inflation rate. An important downside risk is the institution of new revenue-boosting measures to offset the removal of the NSRL.

Following advocacy on the part of the public service unions, public sector salaries increased by 5% in August 2018, at a cost of approximately US\$ 30 million to the government. Wage rises in the private sector were more modest, with hotel workers receiving a 2.5% increase in the third year of their collective agreement.

## C. Belize

### 1. General trends

Belize's economy continued its upward trend in 2018, with a real GDP growth rate of 3.0% after modest growth of 1.4% in 2017 following the devastating effects of Hurricane Earl in 2016. Growth in 2018 was driven mainly by the tertiary sector, especially the thriving tourism industry, which benefited from the increased number of direct flights to Belize from major cities in Canada, Mexico and the United States, and the effects of the new tourism marketing strategy, which focused on untapped opportunities in non-traditional source countries in South America.

Following a contraction of 8.9% in the first quarter of 2018 due to adverse weather conditions, ageing fruit trees and loss of acreage, output in the primary sector increased in the last three quarters of the year. While production of sugarcane increased by 2.2% in 2018 due to favourable weather conditions and more efficient factory milling, exports of sugar decreased by 24%. Banana production and exports by value, which had rebounded in 2017 after a sharp contraction in 2016 due to the devastation caused by Hurricane Earl, decreased by 7.6% and 9.2%, respectively, in 2018. The papaya industry continued its downward trend after Fruta Bomba and Belize Fruit Packers closed operations in Belize after over 20 years in the country, and papaya production and exports both plummeted in 2018: the latter by 32.6% and 29.5% by volume and value, respectively, relative to 2017. Citrus production declined by 22% in 2018, as a 10% increase in grapefruit production was offset by a 24% decline in production of oranges. Conversely, in the secondary sector, although manufacturing and construction declined in 2018, electricity, gas and water, and mining and quarrying gained 5.9% and 1.1%, respectively, in value.

Belize recorded a primary fiscal surplus of 88.3 million Belize dollars (BZ\$) (2.3% of GDP) and an overall fiscal deficit of BZ\$ 31.9 million (0.8% of GDP) during calendar year 2018. This was a major improvement on 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) during calendar 2017. The projections for fiscal year 2018/19 are for a primary surplus of 2.21% and an overall fiscal deficit of 0.30%, which would outperform the respective targets of 2.12% and -0.73%. High public debt remained a challenge for Belize in 2018.

In 2018, Belize maintained a neutral monetary policy stance with the reserve requirement kept at 23% of deposit liabilities, of which 8.5% in cash and 14.5% in other liquid assets. The commercial banks made no major moves to alter the 1.22% yield on the three-month treasury bill.

The balance-of-payments current account deficit increased marginally, from 7.7% of GDP in 2017 to 8.0% in 2018, while the financial and capital account surplus improved from 3.3% in 2017 to 6.9% in 2018.

Inflation was subdued in 2018, at an average annual rate of 0.3%. As of April 2018, the unemployment rate stood at 9.4%, with the rate for women roughly triple the male rate.

## 2. Economic policy

### (a) Fiscal policy

Creating a fiscal space for long-term projects remained a major challenge in Belize. The primary fiscal surplus improved from 0.2% to 1.7% of GDP between calendar years 2017 and 2018. The overall fiscal deficit shrank from 2.8% to 1.3% of GDP between the two years and total revenues increased by 2.5%. The bulk of government revenues stem from tax revenue collection, which accounted for 90.5% of current revenues. In 2018, general taxes on goods and services accounted for 56% of total taxes collected. Moreover, apart from a 6.7% decline in the take from property taxes, tax revenue collection rose across the board between 2017 and 2018. To streamline tax collection and increase transparency, the government approved the consolidation of the income tax and general sales tax departments into a single new entity, the Integrated Tax Administration System (ITAS).

Total expenditure narrowed from 31.6% to 30.9% of GDP between 2017 and 2018. In 2018, outlays on wages and salaries amounted to 36.2% of total expenditure, a 2.2% increase relative to 2017. Despite the fiscal consolidation efforts aimed at reducing wages and salaries in the public sector, the wage bill edged up, highlighting difficulties facing the government in addressing socioeconomic issues while endeavouring to bring this budget item to a sustainable level.

Belize is projected to record a primary surplus of 2.3% of GDP and an overall fiscal deficit of 0.8% of GDP during calendar year 2018. During fiscal year 2018/19, the country is expected to post a gain in total revenues, owing largely to an increase in tax revenues, more specifically taxes on goods and services and on income and profits.

Public debt remained high in 2018, posing a threat to growth as well as macroeconomic stability. The total public debt-to-GDP ratio stood at 93% in 2018, with external and domestic debts accounting for 66.1% and 26.9%, respectively. Between 2017 and 2018, interest payments on the debt increased by 4.8%. Two major payments contributed to the high public debt in 2018: (i) the settlement, for US\$ 6 million, of the claim by NEWCO Belize Ltd for breach of contract over the cancellation of a concession to manage and expand the Philip Goldson International Airport (the sum of US\$ 4.2 million initially awarded by the arbitration tribunal in 2008 plus interest); (ii) the out-of-court settlement—for US\$ 2.5 million—of a long-running lawsuit brought by GDG Acquisitions over breach of a contractual agreement for the provision of telecommunications equipment for the government's wide area network in 2002.

### (b) Monetary and exchange-rate policy

The broad money supply (M<sub>2</sub>) rose by 2.7% in 2018, owing largely to a 3.3% increase in net domestic credit to US\$ 87.4 million. Loans to the government and the private sector increased by 10.2% and 2.5%, respectively. By sector, whereas loans to manufacturing, transport, tourism and building and construction edged up, loans to agriculture and the maritime sector declined in 2018. On average, the sugar industry received 47% of the loans distributed to the agricultural sector, followed by grains (19%) and bananas (17%). Lending to the banana industry was down by a hefty 24 percentage points in December 2018 relative to December 2017. The weighted average deposit rate was 1.21% in 2018 and the weighted average lending rate was 9.12%, resulting in a spread of 7.92 percentage points.

The Central Bank of Belize drafted a national financial inclusion strategy in 2018, with the aim of modernizing the country's financial system and increasing access to financial services. As part of financial modernization efforts, a debit scheme and management system will be set up to facilitate payments between transacting parties.

The central bank has continued to pursue the consolidation of a sound and safe financial system and in 2018 revoked the licence of Choice Bank Limited to operate in Belize as an international bank,

citing liquidity concerns. Conversely, accreditation was extended to Spanish Lookout Credit Union to operate as a credit union.

### **(c) Other policies**

Following the publication in October 2017 of *Harmful Tax Practices - 2017 Progress Report on Preferential Regimes* by the Organization for Economic Cooperation and Development (OECD), in which the assessment conducted by the Forum on Harmful Tax Practices (FHTP) listed Belize as a country having a harmful international business companies regime, the Government of Belize reviewed and satisfactorily amended that regime. Belize also took the opportunity to replace its Export Processing Zone Act, which contained certain harmful business practices, with a new Designated Business Processing Areas Act, which was passed in December 2018.

A referendum was held in Belize on 8 May 2019 to determine whether the long-standing territorial dispute with neighbouring Guatemala should be referred to the International Court of Justice, and the proposal was approved by 55% of the voters. However, the anticipated hiring of a legal team and court proceedings are likely to impose huge financial costs on the country.

## **3. The main variables**

### **(a) The external sector**

The balance-of-payments current account deficit widened marginally, from 7.7% to 8.0% of GDP, between 2017 and 2018. While the trade deficit on goods widened by 13.9% to US\$ 445.4 million, the trade surplus on services increased by 31.6% to US\$ 395.0 million. In 2018, goods exports were dominated by food and live animals, which accounted for 86.7% of total export values, followed by mineral fuel and lubricants (6.3%) and chemical products (3.1%). By value, goods exports declined by 11.6% to US\$ 393.91 million, whereas imports of goods increased by 4.9% to US\$ 1915.48 million, and were composed chiefly of machines and transport equipment (20.4%), goods entering through commercial processing zones (16.9%), mineral fuel and lubricants (14.8%), manufactured goods (12.8%) and food and live animals (11.5%). While the United Kingdom (36.3%), the United States (23.0%) and the Caribbean Community (CARICOM) (18.8%) were the top three destinations for Belize's exports, the United States (42.5%), China (12.0%) and other Central American countries (11.2%) were its top three sources of imports. Altogether, Belize's trade deficit on goods and services narrowed from 3.2% to 1.7% of GDP between 2017 and 2018, partially reflecting increases in inflows from tourism and other services (including government goods and services).

In 2018, Belize recorded a capital account surplus (US\$ 24.0 million) and a financial account deficit (US\$ 109.2 million). In 2017, outflows of foreign direct investment (FDI) had increased to US\$ 114.34 million, following the final settlement payment (US\$ 98.9 million) and repatriation of funds for the nationalization of Belize Telemedia Limited (a formerly privately-owned telecommunications company). In 2018, while FDI inflows increased by 9.1% to US\$ 151.5 million, FDI outflows declined by 71.2% to US\$ 32.9 million, resulting in five-fold increase in net FDI to US\$ 119.54 million between the two periods. Moreover, reserve assets shrank by 72.5% to US\$ 17.8 million in 2018, owing largely to a US\$ 17 million decline in net foreign assets of the central bank.

### **(b) Economic activity**

In 2018, the Belizean economy grew by 3.0%, following the modest but encouraging growth rate of 1.4% in 2017. Growth in 2018 was driven mainly by the tertiary sector, spearheaded by expansion in tourism-related activities, followed by the primary and secondary sectors. Buoyed by 12.6% and 19.1% increases in both stop-over arrivals and cruise-ship passengers, the tourism industry also benefited from an increase in the number of direct inbound flights from Canada, Mexico and the United States. For

instance, in August 2018, Aeroméxico, Mexico's flag carrier airline, announced the start of seasonal direct flights twice weekly from Mexico to Belize, from November to April. Moreover, within the tertiary sector, restaurants and hotels, wholesale and retail commerce, and transport, storage and communications expanded by 12.9%, 5.9% and 2.9% respectively.

Following contractions in agriculture, hunting and forestry (by 4.4%) and fishing (41.2%) in the first quarter of 2018, the primary sector rebounded and contributed 3.6% of real GDP in 2018. Despite adverse weather conditions and loss of acreage in first quarter, banana production declined by only 7.6% in 2018 and gradually approached pre-Hurricane-Earl normal production levels. Increased production by Santander Sugar Group contributed to a 2.2% rise in sugarcane production in 2018 relative to 2017. Citrus production declined by 22.1%, owing mostly to a 24% decrease in production of oranges, notwithstanding the 10% increase in grapefruit production. Exports of marine products increased by 2.5%, mostly reflecting higher exports of farmed shrimp and apparent success in fighting early mortality syndrome (EMS), a bacterial disease that has plagued the industry since 2014. The livestock industry thrived, with 25% and 24.6% increases in the production of slaughtered beef and pork, respectively, in 2018.

The secondary sector improved marginally relative to 2017. While mining and quarrying and electricity, gas and water expanded their output by 1.1% and 5.9%, respectively, manufacturing and construction contracted by 3.6% and 0.7%, respectively. The downturn in construction was partially attributable to a major slowdown in work in some of the municipalities in the third quarter of 2018.

### (c) Prices, wages and employment

Average annual inflation rate was 0.3%, a 0.8-percentage-point decline on 2017. While the costs of communication, transport, restaurants and food, and alcoholic beverages and tobacco declined, health and education costs remained high.

As of April 2018, the overall unemployment rate stood at 9.4%, slightly down on the 9.7% recorded in 2017. However, the level of unemployment in Belize displays a major gender disparity, with a rate of 5.6% for men, as against 14.9% for women. The gap is also reflected in low labour force participation by women (52.8%) relative to men (78.3%).

## D. Eastern Caribbean Currency Union (ECCU)

### 1. General trends

The Eastern Caribbean Currency Union (ECCU)<sup>7</sup> generated its eighth consecutive year of positive outturn in economic activity in 2018. The Union quickened its recovery from the pervasive growth-dampening impact of Hurricanes Irma and Maria (2017), with economic growth accelerating to 3.7%, up from 1.8% in the previous year. This positive performance was underpinned by an expansion in economic activity in the tourism, construction, manufacturing and agriculture sectors, in which all ECCU economies posted positive growth. Continuing robust performance of the tourism sector and construction activity fuelled by Citizenship by Investment (CBI) programmes are expected to drive ECCU-wide GDP growth of 3.3% again in 2019. Antigua and Barbuda (5.9%) and Grenada (3.7%) are projected to be amongst the fastest-growing economies in the Caribbean. Key downside risks include natural disasters; challenges to the competitiveness of the Union's financial sector, including greylisting and blacklisting of ECCU economies; the pending restructuring of the regional airline Leeward Islands

<sup>7</sup> Refers to the six ECCU countries which are members of the Economic Commission for Latin America and the Caribbean (ECLAC): Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

Air Transport (LIAT); and the current stable but fragile environment with regard to the loss of correspondent banking relationships (de-risking).

ECCU economies continued to balance fiscal consolidation and debt reduction imperatives with the need to further stimulate economic activity. Strong inflows from CBI programmes drove the current account surplus upwards, offsetting increased capital spending and improving the overall fiscal position. In this regard, the aggregate fiscal balance shifted from a deficit position in 2017 to a surplus of 21.19 million Eastern Caribbean dollars (EC\$) in 2018. In addition, the Union's debt burden continued its downward trajectory towards achieving the targeted debt-to-GDP ratio of 60% set by the Monetary Council of the Eastern Caribbean Central Bank (ECCB).

The Union's monetary policy stance remained unchanged, focusing on the maintenance of the fixed exchange-rate peg with the United States dollar. Further, the strong performance of the real sector, coupled with increased inflows from CBI programmes in 2018, fuelled an expansion in the broad money supply (2.8%). However, private sector time deposits continued to decline, suggesting that interest rates remain unattractive, with the weighted average deposit rate remaining steady at 1.6%. In addition, the international trade performance of ECCU worsened in 2018, as both the overall and merchandise trade deficit widened.

Despite stronger oil prices, inflation in ECCU remained constrained at 1.15% in 2018. A combination of a slowing in global growth—which is expected to moderate oil prices—and continued fiscal prudence on the part of member governments should contain inflationary pressures in 2019. Unemployment rates continued to trend downward owing to the pick-up in economic activity and the implementation of targeted, training-based employment creation programmes in some countries.

## **2. Economic policy**

### **(a) Fiscal policy**

The ECCU economies continued to delicately balance fiscal consolidation and debt reduction initiatives with the need to further stimulate economic activity in domestic economies. Improvements in the current account performance, which led to an enhanced current account surplus at the end of 2018 relative to the previous year, counterbalanced increased capital expenditure. This allowed the overall fiscal balance of the ECCU to shift from a deficit position in the previous year to a surplus of EC\$ 21.19 million in 2018. On the revenue side, an estimated EC\$ 778.31 million in inflows from CBI programmes fuelled an increase in current revenues of just over EC\$ 0.5 billion (or 11.4%) year-on-year in 2018. Antigua and Barbuda, Grenada, Saint Lucia and Saint Kitts and Nevis all made downward adjustments to their threshold for the single contribution option, which sparked renewed interest in the Union's CBI programmes.

On the expenditure side, at the aggregate level growth in current expenditure was largely kept in check. Current expenditure remained flat in Antigua and Barbuda and increased by 1.3% in Grenada, with the former curtailing transfers to State-owned enterprises. In Saint Kitts and Nevis, however, the payment of an extra month's salary in December 2018 (which is expected to be repeated in 2019); the introduction of the Poverty Alleviation Programme (under which every household earning less than EC\$ 3000 per month is eligible for an EC\$ 500 subvention); and the ongoing Skills Training Empowerment Programme (STEP) have put upward pressure on current expenditure. Concomitantly, in Saint Lucia increased spending on transfers and subsidies, as well as goods and services, underpinned a 13% upswing in current expenditure.

Governments across ECCU persisted in their efforts to repair, upgrade or modernize key economic infrastructure in 2018, causing capital expenditure to increase by just under EC\$ 1 million. This trend has continued in 2019, with further capital spending on public infrastructure in an effort to address key structural gaps in transportation, connectivity and energy. For instance, in Antigua and Barbuda the



road rebuilding programme, the reconstruction of Barbuda and the EC\$ 100 million upgrade of the deep-water harbour at Saint John's are all ongoing; while the government of Grenada has been upgrading hospitals and implementing its Climate Smart Agriculture and Rural Enterprise Programme. The Government of Saint Lucia will continue implementing road restoration projects and the rehabilitation of the Hewanorra International Airport (HIA); while work is ongoing on a geothermal power plant in Saint Vincent and the Grenadines; and the reconstruction effort following Hurricanes Irma and Maria (2017) has gained momentum in Dominica. Public expenditure in Saint Kitts and Nevis will continue to centre on the ongoing construction of the second cruise ship pier, phase II of the road improvement and maintenance project, a housing development project being undertaken by the National Housing Corporation and the construction of the new Basseterre High School.

The debt burden of ECCU continued its downward trajectory in 2018, contracting by a further 2.04 percentage points to 68.61% of GDP, suggesting that the Union is well on its way to achieving the aforementioned debt-to-GDP ratio of 60% by 2030, the target set by the Monetary Council of ECCB. This notwithstanding, total public sector debt stood at EC\$ 13.1 billion at the end of 2018, which represented a 2.5% year-on-year increase as both domestic and external borrowings rose. Consistent with the concerted effort of ECCU governments at prudent debt management, both the consolidated central government and public corporation debt burdens continued to contract in 2018, the former for the fourth consecutive year. On the other hand, additional debt is expected to be incurred to finance infrastructural and other capital projects, as well as any budgetary shortfalls in some economies in 2019. The volume of public debt may thus increase further in some ECCU economies.

#### **(b) Monetary policy**

The Eastern Caribbean Central Bank has overarching responsibility for designing and implementing monetary policy in ECCU. During the review period, the Bank's monetary policy stance remained unchanged, with continued focus on price stability through the maintenance of the fixed exchange-rate peg with the United States dollar (EC\$ 2.70 = US\$ 1). The nominal exchange rate between the two currencies was unchanged at the end of 2018.

The strong performance of the real sector, coupled with increased inflows from CBI programmes in 2018, which more than compensated for sluggish domestic credit growth, was reflected in a year-on-year increase in the broad money supply (2.8%), which stood at EC\$ 15.6 billion. This expansion in money supply was underpinned by growth in narrow money (6.8%) owing to positive outturns in currency held by the public (5.5% growth) and private sector demand deposits (7.3%); as well as quasi-money (1.4%). In respect of the latter, private sector time deposits continued their decline suggesting that interest rates remain unattractive. Concurrently, commercial bank liquidity improved year-on-year and the weighted average lending rate declined by three basis points while the weighted average deposit rate remained steady at 1.6%.

#### **(c) Other policies**

An emerging downside risk to growth in ECCU has been the issue of restructuring the regional airline LIAT, given that the Caribbean Community is the Union's second largest tourism source market. The requirements of the airline's restructuring plan, which was designed by the Caribbean Development Bank (CDB) (the airline's largest creditor), include: reduction of the airline's US\$ 60 million debt burden; implementation of a minimum revenue guarantee payable annually (in particular, on routes that are not commercially viable); reduction in management and pilot remuneration of up to 10%; and greater efficiency systemwide, including workforce reduction and the re-fleeting of 10 new ATR aircraft.

Efforts to rescue LIAT are being led by the Government of Antigua and Barbuda, which currently holds a 34% share of the airline and is poised to become the majority shareholder as it is presently in

negotiations to purchase the bulk (90%) of the 49% stake held by Barbados. At the time these negotiations commenced, the airline was in talks with 11 of the 15 destination countries regarding the introduction of a minimum revenue guarantee to ensure profitability. This would mean that governments would have to pay for unprofitable flights to their country. The focus has been on getting these guarantees accepted and implemented.

In the education services sector, in an effort to systemically address the challenge of ECCU having the lowest rates of youth tertiary education enrolment and the highest rates of youth unemployment in the region, in 2017 the Government of Antigua and Barbuda made a proposal to establish and host the University of the West Indies (UWI) Five Islands Campus. The goal is to promote national and subregional economic and social development, with a focus on the robust expansion of its social capital. The Five Islands Campus will admit its first cohort of some 800 students in September 2019.

In financial services, in February 2019, the ECCB signed an agreement pioneering the world's first blockchain-backed currency issues by a central bank. The ECCB FinTech Working Group has been developing the initiative in partnership with Barbados fintech firm Bitt Inc. The project will create a digital version of the Eastern Caribbean dollar (DXCD), which will eventually be phased into public use. The development and testing phase, which is expected to last around 12 months, will be followed by a six-month rollout and implementation in selected pilot countries.<sup>8</sup> Apart from reducing reliance on cash and lowering overall transactional costs, it is anticipated that the digital currency will enhance the growth and development of the financial sector in the Union.

Lastly, with respect to efforts to mitigate climate change and utilize geothermal energy in ECCU, in November 2018, Saint Vincent and the Grenadines signed a US\$ 20-million drilling contract with Iceland Drilling Company, under which work began in the second quarter of 2019, with the aim of completing four wells. Dominica also expects to bring drilling projects on stream in 2019.<sup>9</sup>

### **3. The main variables**

#### **(a) The external sector**

The ECCU merchandise trade deficit widened by 9.9% to EC\$ 270.8 million (33.3% of GDP) in 2018, owing to an increase in import payments and an accompanying decline (9.2%) in export receipts. Growth in imports was largely on account of increased payments for mineral fuels and related materials (given higher oil prices), machinery and transport equipment and manufactured goods. The merchandise trade deficit is likely to widen again in 2019, as demand for construction-related materials and equipment rises. An expansion in gross travel receipts was the main driver of a 20.1% improvement in the services surplus to EC\$ 136 million, which underpinned a 5-basis-point contraction in the goods and services deficit to 16.6% of GDP. This notwithstanding, the current account deficit deteriorated in 2018.

#### **(b) Economic activity**

The Union generated its eighth consecutive year of economic growth in 2018, with the rate quickening to 3.7%, from 1.8% in 2017. This positive outturn was underpinned by strong economic activity in the tourism, construction, manufacturing and agriculture sectors, which posted positive growth in all the economies.

A combination of CBI-funded projects and capital expenditure made construction activity (which grew by 7.5%) a major driver of growth in the real economy in 2018, with positive spillovers into the

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<sup>8</sup> See [online] <https://stluciar.com/eccb-launches-digital-currency/>.

<sup>9</sup> See [online] <https://pressroom.oecs.org/video-update-advancing-geothermal-energy-in-the-oecs-for-economic-development-and-resilience>.

transport, storage and communication (5.0%) and wholesale and retail (5.7%) sectors. The Union's economic growth was largely built on strong economic activity at the country level in Antigua and Barbuda and in Grenada.

Private sector projects such as the Royalton Hotel and the Hammock Cove Resort and Spa, as well as public sector initiatives such as the road rehabilitation and expansion project, the affordable housing project and the reconstruction of public infrastructure in Barbuda underpinned a 20% expansion in construction sector output in Antigua and Barbuda, with a further 15% expansion projected for 2019. In Grenada, the CBI programme continued to be a major source of FDI, financing several tourism sector projects and providing a source of grant funding for capital projects. As a result, although the rate of GDP growth cooled, construction sector output expanded 15% in 2018, with the wholesale and retail sector growing by 10%.

In Dominica, growth of 60% in the construction sector and 15% in wholesale and retail trade was largely due to public reconstruction activities, as well as CBI-financed tourism projects such as the Jungle Bay Hotel and the Anichi Resort and Spa. Although slowing somewhat, this positive outturn is expected to continue in 2019.

ECCU tourist arrivals increased in 2018, pushing visitor spending upwards by 10.9% to EC\$ 3.9 billion, thanks to higher numbers of cruise-ship passengers (10.0%) and stay-over visitors (4.2%). As a consequence, the hotels and restaurants sector returned to positive growth (2.1%) in 2018. Antigua and Barbuda, Saint Lucia and Grenada dominated the Union's stay-over arrivals, as the former reaped the benefits of additional airlift out of New York, Miami and North Carolina, which accompanied marketing and branding by the Antigua and Barbuda Tourism Authority; while major airlines such as JetBlue, Delta, British Airways, Sun Wing, Virgin Atlantic and United Airlines continued to maintain their presence in Saint Lucia. Grenada has recently begun receiving flights from the United States (JetBlue) and Canada (SunWing), and has increasingly sought to improve the quality and volume of its room stock, as well as engaging in marketing efforts.

The manufacturing sector returned to positive growth in 2018 following a decline in output in 2017. This positive outturn was derived from a favourable performance in Saint Kitts and Nevis (for example, in production of beverages), Grenada (beverages, chemicals and paint, and animal feed), Saint Lucia, and Saint Vincent and the Grenadines (beverages and building materials). ECCU recorded a slower rate of contraction in agricultural output in 2018, with banana production (one of the Union's main agricultural export crops) growing by 8.24% following a 2.44% contraction in the previous year.

GDP growth of 3.3% in 2019 is expected to be driven by a continuing robust performance of the tourism sector, as well as CBI-fuelled construction activity and the concomitant positive spillovers into key ancillary sectors such as wholesale and retail, and transport, storage and communications. Economic growth is, however, projected to be uneven across member States with Antigua and Barbuda (5.9%) and Grenada (3.7%) expected to be among the fastest-growing economies in the Caribbean, and the economy of Dominica projected to expand by just over 2%.

### **(c) Prices, wages and employment**

Despite stronger oil prices, inflation in ECCU remained relatively flat at 1.15% in 2018, when compared to 1.13% the previous year. Notably, Saint Kitts and Nevis experienced price deflation of 1%, continuing a downward trajectory in price levels begun in 2014. Improving domestic demand in ECCU economies is expected to provide endogenous inflationary pressure in 2019. However, a combination of slowing global growth (expected to moderate oil prices) and continued fiscal prudence on the part of member governments will likely constrain inflation.

Statistics on wage levels are generally not available. High unemployment, particularly among youth, has been a major structural challenge for ECCU economies. However, in recent

years, unemployment rates have been trending downward thanks to the pick-up in economic activity and the implementation of targeted training-based employment creation programmes such as the Short-Term Employment Programme in Saint Lucia and the Skills Training Empowerment Programme in Saint Kitts and Nevis (both known as “STEP”) and New Imani in Grenada. In Saint Lucia, while the unemployment rate remained flat at 20.2% in 2018, youth unemployment fell by 2.2 percentage points to 36.3%. Further, in Grenada the private sector share of employment has steadily increased, reaching 52.4% in 2018, and the unemployment rate fell from 23.6% in 2017 to 21.7% in 2018, with youth unemployment declining by 1.9 percentage points to 37%.

## E. Guyana

### 1. General trends

Economic activity in Guyana is accelerating ahead of the oil boom expected in 2020, with growth estimated at 4.1% in 2018, up from 2.1% in 2017. The construction sector made the largest contribution to economic growth, reflecting an uptick in private investment, particularly in residential houses. While the restructuring of State-owned sugar company, Guyana Sugar Corporation (GuySuCo), led to a cut in sugar production, the agriculture, fishing and forestry sector saw positive growth, largely on the back of the strong rebound in the livestock sector following the influx of hardier breeds and improved production practices. Despite the continued weakness in gold extraction, the mining and quarrying sector returned to positive growth for the first time in two years, owing to a significant increase in bauxite, diamond, sand and stone production, underpinned by stable global and local demand. Growth is projected to accelerate in 2019, reaching 4.6%, as the major sectors continue to flourish and the negative effects of the restructuring of GuySuCo and the supply constraints on gold extraction abate. However, recent political uncertainty in the country poses a risk to economic activity, as some private businesses have postponed investment decisions.

Even though public spending expanded, the central government’s fiscal deficit narrowed modestly to 3.6% of gross domestic product (GDP) in 2018, down 4.5% in 2017, owing to higher tax receipts. Current expenditure rose by 10.1%, reflecting higher contributions to local and international organizations, while tax revenue increased by 16.0%, largely owing to the improved tax collection following the restructuring of the Guyana Revenue Authority (GRA). The Government of Guyana expects the deficit to widen to 5.0% of GDP in 2019, mainly driven by higher capital expenditure, which is forecast to expand by 25.7%.

The monetary policy stance remained accommodative in 2018, as net redemptions of treasury bills issued for monetary policy purposes amounted to 56.9 billion Guyana dollars (G\$), while the central bank rate was unchanged at 5.00%. Commercial interest rates fell slightly and year-on-year net domestic credit had expanded by 15.7% in December 2018. Inflation increased slightly, up from 1.5% in December 2017 to 1.6% in December 2018, reflecting higher food prices and fuel costs. The inflation rate is expected to rise moderately to 2.5% in 2019. However, the government recognizes that unexpected inflationary pressures could arise as economic activities pick up in anticipation of the first oil production in 2020 and, if necessary, it will respond to keep inflation rates stable.

The current account deficit rose from 8.4% of GDP in 2017 to 18.0% of GDP in 2018, largely as a result of increases in merchandise imports and net service payments, including large investments in oil and gas sector. The merchandise trade deficit widened from 5.8% of GDP to 11.9% of GDP, owing to higher payments for imports of fuel and lubricants and capital goods, as well as lower receipts from gold and sugar exports. The services trade deficit widened from 10.5% of GDP to 19.3% of GDP as a result of

higher payments for other business services, including oil exploration services. The current account deficit is expected to contract in 2019, partly thanks to a recovery in gold and sugar exports.

## **2. Economic policy**

### **(a) Fiscal policy**

Commercial oil production in Guyana is expected to start in early 2020. In anticipation of an oil boom, the Government of Guyana is pursuing institution-building to ensure that oil revenues are invested in order to boost growth and create new industries and jobs. In 2019, the government is continuing to reform the tax administration, establishing a new public investment management framework and institutions to manage oil revenues, modernizing public procurement mechanisms, and improving government accounting processes and treasury management. The government is also committed to facilitating private sector development, promoting green economy initiatives, developing infrastructure and human capital, and enhancing public security.

According to the 2019 budget, total revenue (including grant receipts) is expected to increase by 9.7%, following a 9.8% increase in 2018, thanks to improved tax collection following the reform of the tax administration. Tax revenues are expected to increase by 12.6%, mainly driven by higher income tax (13.3%) and value-added tax and excise duty (13.3%) receipts. Meanwhile, non-tax revenue is projected to decline by 19.1%, as a result of a decline in revenue transfers from statutory bodies.

Total expenditure is expected to jump by 14.2% in 2019, up significantly on the 6.2% increase seen in 2018, as a result of hikes in personal emoluments (18.0%), other goods and services payments (16.7%) and capital expenditure (25.7%). The rise in personal emoluments is the result of the government's initiative to increase workers' income, while capital expenditure has been pushed up by infrastructure developments to facilitate economic activities and build resilience to natural disasters.

Although the current account balance is expected to maintain a surplus of 2.0% of GDP in 2019, the overall fiscal deficit is projected to deteriorate from 3.6% of GDP to 5.0% of GDP, owing to higher capital expenditure. As a result, the public debt-to-GDP ratio is expected to worsen slightly but remain below its 2017 level of 47.0%.

### **(b) Monetary policy**

The Bank of Guyana has maintained an accommodative monetary policy stance since the 2008–2009 global financial crisis. Although the central bank lending rate, the bank rate, has remained at 5.00%, treasury bill rates declined in 2018, following the G\$ 56.9 billion net redemptions of treasury bills issued for monetary purposes. For example, the 182-days treasury bill rate decreased from 1.11% in December 2017 to 0.96% in December 2018. The average small savings rate and the weighted average lending rate also fell from 1.11% to 1.04% and from 10.19% to 10.02%, respectively. Furthermore, during the first four months of 2019, most of the interest rates continued to follow this gradual downward trend.

Falling interest rates underpinned the surge in net domestic credit, up 15.7% in 2018, as more loans were granted to both the public and private sector. Private sector credit increased by 4.2% in 2018, mainly driven by higher credit to the distribution sector and real estate mortgage loans. Public sector credit expanded significantly by G\$ 26.6 billion, mainly as a result of a worsening central government net credit position. Despite a 5.0% decline in net foreign assets, the broad measure of money supply, M2, increased by 7.5% in 2018 owing to the uptick in domestic credit.

While the monetary policy stance is expected to remain accommodative during the rest of 2019, it could start to tighten as economic growth and inflation will increase ahead of the oil boom in 2020.

### (c) Exchange-rate policy

The central bank's exchange rate stood at G\$ 208.5 to US\$ 1 in December 2018, a 1% depreciation year-on-year. The official rate remained constant over the first five months of 2019, although the market exchange rate recorded a small depreciation. Throughout the rest of 2019, the exchange rate is expected to remain stable as the government seeks to stabilize prices.

### (d) Other policies

The government is undertaking institutional reforms to build capacities to manage and monitor oil revenues. In 2018, the Green Paper on Managing Future Petroleum Revenues and Establishment of Fiscal Rule and a Sovereign Wealth Fund was published and the natural resource fund bill was submitted to parliament. Pursuant to the adoption of that bill, the government is in the process of establishing the Public Accountability and Oversight Committee to assess management of the sovereign wealth fund, including investment decisions and utilization of withdrawals from the Fund.

As part of the government's restructuring of GuySuCo, following continued losses, the workforce will be reduced three of its six sugar estates will be privatized. In addition, the focus of a new business plan for 2018–2020/21 will be on modernizing the three remaining estates by cogenerating electricity using sugar cane bagasse, producing value-added sugars and investing in packaging facilities. The ongoing recapitalization of these estates is anticipated to result in production rising from 98,000 tons by the end of 2018 to nearly 145,000 tons by 2021.

However, recent political uncertainty in Guyana could delay private sector investment decisions. On 21 December 2018, the National Assembly passed a motion of no confidence by a slim 33 to 32 majority, triggering a new general election within three months. However, the Attorney General filed legal proceedings in the High Court to determine whether the motion was validly passed. That Court found that it was, but the Court of Appeal overturned that ruling, stating that an absolute majority of 34 votes was required. On 18 June 2019, the Caribbean Court of Justice (CCJ), the final appellate court for Guyana, ruled that the motion was valid and ordered both parties to reach a consensus on a way forward. If the two parties cannot agree, the CCJ will fix an election date.

## 3. The main variables

### (a) The external sector

The current account deficit widened from 8.4% of GDP in 2017 to 18.0% of GDP in 2018, as a result of temporary disruptions to sugar and gold exports, increases in imports and higher service payments, following large investments in oil and gas sector.

The merchandise trade deficit jumped from 5.8% of GDP to 11.9% of GDP, reflecting a 4.4% decline in merchandise exports and a 11.0% increase in merchandise imports. The drop in exports can be explained by a 6.2% decrease in gold exports, when heavy rainfalls made roads impassable, and a 44.1% fall in sugar exports, stemming from GuySuCo's restructuring. Meanwhile, there was a 20.6% surge in imports of fuel and lubricants, and capital goods imports rose by 12.0% as a result of large investments in the oil and gas sector.

The net services deficit expanded, up from 10.5% in 2017 of GDP to 19.3% of GDP in 2018, as the factor services account deficit increased slightly from 0.3% of GDP to 0.7% of GDP and that of the non-factor services account widened from 10.1% of GDP to 18.5% of GDP, due to higher payments for other business services, including oil exploration services.

Although net inflows on the capital account increased from 6.4% of GDP in 2017 to 14.8% of GDP in 2018, thanks to larger inflows of foreign direct investment to the mining and oil sector, the overall balance of payments deficit widened from 2.0% of GDP to 3.5% of GDP, due to the increase in the

current account deficit. The balance of payments deficit was largely financed by a drawdown on the central bank's net foreign assets, bringing international reserves down to 2.3 months of import cover by the end of 2018.

A surplus in the balance of payments is expected in 2019 for the first time since 2012, against a backdrop of a lower current account deficit and continued net capital inflows. Projections for the current account deficit are that it will contract as gold and sugar exports recover and growth in imports slows. Meanwhile the capital account surplus is expected to remain high, although lower than in 2018, with net inflows of foreign direct investment in the energy sector. As a result of the recovery in exports, international reserves had improved to 2.9 months of import cover by the end of March 2019.

### **(b) Economic activity**

Guyana's economic growth improved significantly, reaching 4.1% in 2018, up from 2.2% in 2017, based primarily on robust activity in the construction sector and an uptick in wholesale and retail trade and other services sectors. After posting 11.4% growth in 2017, the construction sector grew by 11.0% in 2018, driven by private sector investment. The wholesale and retail trade and other services sectors grew by 8.1% and 14.0%, respectively, on the back of continued consumer confidence and increased visitor arrivals linked to events including national celebrations.

In spite of the severe 23.8% contraction in sugar production as a result of the restructuring of GuySuCo, a drop in the supply of quality canes and poor weather conditions, the agriculture, fishing and forestry sector recorded positive overall growth of 1.5% thanks to the rebound in the livestock subsector due to strong consumer demand for poultry meat, as well as the influx of hardier breeds and the adoption of improved production practices by pork producers. The mining and quarrying sector also expanded by 2.9%, as the increase in the production of bauxite and other minerals offset the drop in gold extraction. Buoyant demand for bauxite led to a 31.9% increase in output, while higher demand for sand and stone in the construction sector and for diamonds also led to strong growth of 45.9% in other mining subsectors. Meanwhile, total gold declarations fell by 6.2% reflecting fewer declarations by small- and medium-scale miners, who were hampered by poor road conditions following heavy rain fall.

Growth is projected to be 4.6% in 2019, as the momentum in the key sectors looks set to continue and the negative effects of supply constraints in sugar production and gold extraction abate. Sugar production is expected to recover in the wake of the recapitalization of GuySuCo's three remaining estates and it is predicted that the construction sector will grow in response to an expansion of the public sector investment programme. However, the aforementioned domestic political uncertainty poses a risk to economic activity, as some private businesses have postponed their investment decisions.

### **(c) Prices, wages and employment**

Inflation increased slightly from 1.5% in December 2017 to 1.6% in December 2018, reflecting higher food prices and fuel costs. Food prices rose by 3.1%, affected by the poor weather conditions. The housing component of the consumer price index, which includes domestic gas, kerosene and electricity, increased by 1.1%, while transport and communication rose by 1.9%, driven by higher operation and personal transport costs (tyres, gas, parts and repairs). Inflation is expected to rise moderately to 2.5% in 2019 on the back of further moderate increases in food and fuel prices.

The job cuts at GuySuCo (-39.2%) and other central government agencies (-0.9%) contributed to a 11.1% fall in total public sector employment in 2018. In the private sector, employment in the local gold mining sector fell, but jobs were created in other major sectors such as construction, distribution and other services.

As the government is committed to improving wages and salaries, wage increases for public servants were announced in 2018, ranging from 7% for those earning less than G\$ 100,000 a month

to 0.5% for those with monthly salaries of G\$ 1 million and above. This pledge was reiterated in the 2019 budget.

## **F. Jamaica**

### **1. General trends**

The Jamaican economy posted positive growth of 1.7% in 2018, compared with 1.0% in 2017. It was the strongest expansion for a calendar year since 2011, capping more than 12 consecutive quarters of positive growth, and was owed primarily to a faster pace of growth in mining and tourism. There was also significant growth in construction, driven by various road rehabilitation projects and a rebound in domestic agriculture production, which had declined because of adverse weather conditions in 2017. In 2019, growth is expected to be 1.9%, assuming that tourism remains buoyant and agriculture is not affected by inclement weather.

Economic policymaking continues to be influenced by the government's three-year stand-by arrangement with the International Monetary Fund (IMF), which was signed in November 2016 and will come to an end in 2019. This agreement, valued at US\$ 1.64 billion, replaces a US\$ 932 million, four-year extended fund facility which ended in March 2017. The government has treated the stand-by arrangement as precautionary, meaning that no drawdowns would be made unless economic conditions deteriorated sharply. This was designed to boost confidence in the economy while the fiscal consolidation programmes and other structural reforms continue.

The annual average inflation rate was 2.4%, which was significantly lower than the 5.2% seen in 2017. Over the course of 2018, the Bank of Jamaica continued to ease monetary policy, lowering the policy interest rate on five occasions —by a total of 150 basis points— to 1.75% at year end. The further loosening of the monetary policy stance was intended to foster greater credit expansion with a view to boosting growth. The bank is transitioning towards an inflation-targeting regime and has set a target range of 4%–6%.

The public debt overhang, despite trending downwards, remains a significant challenge to economic performance. By 31 March 2019, Jamaica's debt-to-GDP ratio had fallen to 96%, its lowest level and the first time below 100% in nearly two decades. Consequently, the fiscal consolidation programme designed to curb expenditure and increase revenue is still needed to stabilize debt and bring it down to manageable levels.

Throughout 2018, the exchange rate was characterized by cycles of appreciation and depreciation, with the Jamaican dollar (J\$) experiencing at least four cycles of upswings followed by downswings. At end-2018, the Jamaican dollar had depreciated by 2.2% year-on-year against the United States dollar, compared with a point-to-point appreciation of 2.7% at the end of 2017. By December 2018 the US dollar was being sold at J\$ 127.7= US\$ 1.

At the end of 2018, net reserves amounted to US\$ 3.532 billion and stood at 110.5% of the IMF Assessing Reserve Adequacy (ARA) metric. Net reserves represented approximately 19.0 weeks of projected goods and services imports at the end of 2018, relative to 23.0 weeks at end of 2017.

### **2. Economic policy**

#### **(a) Fiscal policy**

Jamaica's medium-term macroeconomic programme and policies are supported by a three-year stand-by arrangement with IMF, which replaced the extended fund facility and is slated to conclude at the end of 2019. One major change under the new arrangement is that formal reviews of the quantitative performance criteria and structural benchmarks are now semi-annual instead of quarterly. The



Government of Jamaica is treating the IMF funding as precautionary, but it affords access to approximately US\$ 1.6 billion (1,195.3 million special drawing rights (SDR), or 312% of the country's quota) under certain conditions. In April 2019, the Executive Board of IMF concluded its fifth review under the stand-by agreement and concluded that Jamaica had met all performance criteria as at end-December 2018. IMF supported the reduction in the primary surplus target by 50 basis points to 6.5% of GDP to facilitate higher spending on social assistance, citizen security and rural infrastructure in the budget for fiscal year 2019/20.

In the framework of fiscal adjustment, in 2018 overall expenditure relative to budget was down by 2.2%, with almost all categories down on the budgeted amounts. At the same time capital spending was 3.8% below budget. Overall revenues and grants edged up by 0.2% relative to the budget, with the biggest percentage increase seen in grants, although tax revenue slipped by 0.3% relative to budget. At the same time, interest payments were down by 5.2% and amortization down by 11%. Central government operations for April to December 2018 resulted in a fiscal surplus of 0.8% of GDP, which was above the budgeted deficit (supplementary) of 0.2% but within the IMF target.

Despite trending downwards, the public debt overhang remains a significant challenge to economic performance. Fiscal discipline contributed to the reduction in the debt-to-GDP ratio from 135.3% in fiscal year 2012/13 to 101.0% in fiscal year 2017/18. The debt trajectory has maintained a steady decline and is estimated to stand at 96.4% at the end of fiscal year 2018/19 and at 90.9% at the end of 2019/20, which is 5.1% below the internal target of 96.0%. All other things being equal, the government is on track to meet the debt-to-GDP target of 60.0% or less by the end of fiscal year 2025/26.

The total debt service as a share of revenue and grants is estimated at 45.8% for end-2018/19, down from 65.5% in the previous period. The projected reduction in this ratio over the medium term implies improved capacity on the part of the government to meet its debt service obligations.

Among the important tax measures announced in the last budget were the abolition of the minimum business tax of J\$ 60,000 a year on specified taxpayers, the raising of the general consumption tax threshold to J\$ 10 million and the replacement of the ad valorem stamp duty by a flat fee. These were designed to stimulate business activity.

## **(b) Monetary policy**

The Bank of Jamaica maintained its accommodative monetary policy stance in 2018 to spur economic recovery. The bank lowered the policy interest rate by year end to an historic low of 1.75% to quicken the pace of credit expansion in support of higher levels of growth and job creation, which were consistent with the inflation target. During the March quarter of 2019, the policy interest rate was lowered to 1.25% in an effort to stimulate an expansion in private sector credit.

The Bank of Jamaica's monetary policy objective is to bring and maintain inflation within the target of 4.0% to 6.0% set by the Minister of Finance and the Public Service. Inflation at this level will facilitate the sustained growth and development of the economy. In a first step towards codifying a full-fledged inflation-targeting regime, amendments to the Bank of Jamaica Act were brought before Parliament in October 2018.

In line with increasing economic activity, narrow money (M1J) grew by 24% and 22% in the March and December quarters of 2018 and by 13% in the March quarter of 2019. At the same time, demand deposits grew by 29%, 29% and 15.9% over the same periods. Meanwhile, growth in the broad Jamaican dollar money supply (M2J) also increased by 18.9%, 13.9% and 11.6% in the same periods respectively.

In 2018, the stock of commercial bank credit to the private sector grew by 15.3% as against 11.1% in 2017. Meanwhile, growth in credit to households remained strong at 12.0%, although at a slower rate

than the 16.7% seen in 2017. Annual growth (year-on-year) in private sector lending by deposit-taking institutions was 14.4% at March 2019. The expansion in credit was underpinned by 15.2% growth in loans and advances, up from the 13.4% and 13.8% recorded at the end of December 2018 and the end of March 2018, respectively. The acceleration in overall private sector lending was mainly attributable to a 16.7% increase in lending to the productive sector, compared with the 15.4% increase at December 2018.

With regard to the integrity of the banking system, the Bank of Jamaica reported that deposit-taking institutions were largely resilient to macroprudential stress tests, thanks to their capital position. This augurs well at a time when the economy has begun a slow recovery.

On the monetary policy front, a number of important changes are being considered. The central bank has been moving towards a transparent and more market-based exchange-rate pricing mechanism via a floating exchange-rate system. This is likely to improve competitiveness in the foreign exchange market and facilitate the bank's market-based purchase of international reserves. Another initiative of the bank is to further enhance financial sector supervision and crisis preparedness and strengthen the framework for combatting money laundering and the financing of terrorism. The central bank is also supporting legislation that will strengthen its independence.

### **(c) Exchange-rate policy**

Throughout 2018, the exchange rate was characterized by periods of appreciation and depreciation, with the Jamaican dollar experiencing at least four cycles of upswings followed by downswings. At the end of 2018, the Jamaican dollar had depreciated by 2.2% year-on-year against the United States dollar, compared with an appreciation of 2.7% at the end of 2017. The exchange rate appreciated during the March quarter of 2019.

Despite IMF recommendations that the central bank intervene less in order to build up reserves, the monetary authorities are expected to step up foreign-exchange sales if there is a need to contain acceleration in currency depreciation, imported inflation or rises in external debt-servicing costs. The weighted average selling rate of the Jamaican dollar against the United States dollar was J\$ 126.47 = US\$ 1 at the end of the March 2019 quarter, reflecting an appreciation of 0.98% relative to the previous quarter and a depreciation of 0.38% relative to the end of the March 2018 quarter.<sup>10</sup>

### **(d) Other policies**

In the budget presentation of March 2018, the Minister of Finance and the Public Service mentioned a number of initiatives geared towards stimulating growth and building resilience, including the Bank of Jamaica (Amendment) Act 2018, currently before a joint select committee of Parliament, which aims to modernize the central bank, strengthen its governance and ensure capital adequacy; the establishment of a fiscal council to monitor compliance with the rules instituted in 2010, as the government seeks to strengthen the fiscal responsibility framework; and the development, by the Ministry of Finance, of a public financial management policy for natural disaster risk, which is intended to provide layers of protection that include a natural disaster fund, contingent credit available in the event of a natural disasters and catastrophe bonds or catastrophe-linked insurance. This policy is critical in light of the challenge posed by climate change.

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<sup>10</sup> In June 2018, the Bank of Jamaica introduced and successfully implemented the Bank of Jamaica Foreign Exchange Intervention and Trading Tool (B-FXITT), which allows the central bank to conduct its intervention operations at a market-determined price that accurately reflects market conditions at the time of the operation. 4 Economic Commission for Latin America and the Caribbean.

### 3. The main variables

#### (a) The external sector

The provisional data suggest a widening of the current account deficit to 3% of GDP in 2018 as against 2% in 2017, reflecting a deterioration in the goods and services balance by 5% from 2017 on the heels of increased fuel prices and increased imports driven by higher domestic demand. However, the goods and services deficit was slightly narrower than in 2017. Closer inspection of the goods and services balance shows that although there was a slight deterioration in the goods balance, there was an improvement in the services balance (9%) driven by higher tourism earnings and remittances.

The Bank of Jamaica estimates net earnings from services to have increased to US\$ 1.315 billion, up from US\$ 1.197 billion in 2017. At end-2018, net reserves amounted to US\$ 3.532 billion and represented 110.5% of the IMF Assessing Reserve Adequacy (ARA) metric. Gross reserves represented approximately 19.0 weeks of projected goods and services imports at end-2018, relative to 23.0 weeks at end-2017.

#### (b) Economic activity

The Jamaican economy grew by 1.7% in 2018—following an increase of 1.0% in 2017—thanks to a faster pace of growth in mining and tourism. There was also significant growth in construction. In addition, domestic agriculture outturn improved after having suffered the effects of unfavourable weather conditions in May, June and November 2017. The economy was bolstered by positive performances in each quarter, with total value added at constant prices growing 1.4%, 2.2%, 1.9% and 2% respectively. In the January to March quarter, the goods-producing sector grew by an estimated 2.8%, with all segments registering improvements in real value added during the review quarter. The services sector was estimated to have grown by 0.9%, reflecting increases in real value added in all segments, including finance and insurance services and the hotels and restaurants segment, which grew by an estimated 1.9%.

In the second quarter, in terms of real sector developments, the goods-producing sector is estimated to have grown by 7.2% year-on-year. This was largely attributed to performances in the agriculture, forestry and fishing industry, which was up by 12.5% thanks primarily to favourable weather conditions, and mining and quarrying, which expanded by an estimated 31.6% on the back of increased production of both crude bauxite and alumina. The services sector was estimated to have edged up by 0.7%, with growth registered in all segments.

During the July to September quarter, the goods-producing industries grew by 5.3%, while real value-added for the services industry expanded by 0.8%. The improved economic performance was driven mainly by gains in mining and quarrying (52.9%), construction (3.8%), and hotels and restaurants (2.1%). Growth slowed to 0% in the agriculture, forestry and fishing industry, reflecting the negative impact of drought conditions that led to low yields and crop losses. In the services sector, growth was seen in all segments, with the exception of electricity and water supply, which slipped by 0.1%.

In the final quarter, the goods-producing sector grew by 4.9% and the services sector by 1.1%. All segments showed positive growth, except for electricity and water supply.

#### (c) Prices, wages and employment

The annual inflation rate was 2.4% in 2018, down from 5.2% in 2017. The largest increases were seen in the prices of food and beverages (2.3%), water supply (9.5%), and electricity, gas and other fuels (5.6%). In most other categories, inflation was lower than that registered in 2017.

Annual inflation at March 2019 accelerated to 3.4%, but remained below the floor of the central bank's target range of 4.0% to 6.0%. This rate largely reflected the impact of higher prices for

agricultural foods, processed foods and other services, which was partly offset by a decline in electricity costs. The Bank of Jamaica projects that over the next eight quarters, inflation will average 4.5%, dipping below the floor of the target range at various points during the period, then gradually approach the 5.0% target. This forecast is mainly predicated on domestic demand that is lower than capacity, although demand is improving, and moderate increases in international commodity prices. However, inflation is likely to be in the upper range of the target in 2019, as fuel prices may rise and domestic demand could increase.

The trade unions representing over 95% of public sector employees have signed a four-year wage deal for the period 2017–2021. This will help to maintain wage stability and boost certainty in the public sector. The Minister of Finance, in the last budget presentation, said that the government will be conducting a review of public sector compensation to simplify, streamline and make it more transparent and equitable, while addressing imbalances and inequities over time. All this is designed to maintain the public sector wage bill at the target rate of 9% of GDP for fiscal year 2018/19, in line with the fiscal responsibility law.

There was a significant improvement in labour market conditions, as the unemployment rate fell to 8% in January 2019, sliding from 9.6% in January 2018 and 8.7% in October 2018. The employed labour force stood at 1,219,700 in October 2018, representing a year-on-year increase of 14,400 (1.2%). The rise in employment among women was more than twice that among men. The number of employed men was up by 4,300 to 672,400, while the number of employed women jumped by 10,100 to 547,300. Employment increased the most in the occupational group “professionals, senior officials and technicians”, which grew by 3.1% to 261,800 between October 2017 and October 2018. Women accounted for 7,600 of the 7,800 new jobs in this group. Despite the significant reduction in unemployment, the rates still vary when disaggregated by gender and age group. For example, the jobless rate was 6.1% for men in January 2019, compared with 10.3% for women. In the 20–24 age group, the overall rate was 19.7%, breaking down into 16.1% for men and 24.0% for women in the same period.

## **G. Suriname**

### **1. General trends**

Following the crisis of 2015 and 2016, Suriname’s economy began to stabilize in 2017, and this continued into 2018. Economic growth is estimated at 1.9% for 2018, a small improvement on the 1.7% seen in 2017. Commodity exports remain the backbone of the economy, with gold, oil and agricultural production contributing most to the expansion. The growth forecast for 2019 is 2.1%, based on continued gold and oil production and exploration.

The government has had difficulty in containing the fiscal deficit in recent years and 2019 is no exception. After falling to 8.7% of gross domestic product (GDP) in 2017, it was expected to be 11.1% of GDP in 2018, mainly as a result of an increase in subsidy payments and in wages and salaries following salary negotiation settlements. Containing the deficit may prove even more difficult in 2019 as expenditure is expected to increase in the lead-up to the general election in 2020.

Public debt fell to 73.6% of GDP by the end of 2018 based on the national definition, although the share of domestic debt within that total rose as the government began to switch to local sources of financing. In June 2018, the State-owned oil company, Staatsolie, repaid the central government loan received in 2016 using funds borrowed on the international capital market. The central government was then able to repay some of its own debts.

The official exchange rate remained stable at around 7.5 Suriname dollars (Sur\$) to 1 United States dollar (US\$) in 2018, but a limited supply of United States dollars in the financial system resulted in higher unofficial rates. Foreign reserves continued to rise, however, partly thanks to the repayment of the Staatsolie loan, reaching 3.3 months of import cover by the end of 2018.

The current account deficit grew to 4.8% of GDP in 2018, as a 16.1% increase in imports, mainly capital equipment by mining companies, outweighed a 4.7% rise in exports. The growth in exports was boosted by re-exports of machinery and transport equipment, as well as higher oil and gold exports.

Inflation continued its downward trend, falling from 9.1% in January 2018 to 5.4% by December, reaching 4.1% in March 2019.

## **2. Economic policy**

### **(a) Fiscal policy**

Fiscal policy was expansionary in 2018. The government had intended to introduce a value added tax (VAT) in January 2018, but this was initially postponed to July 2018 and then again to 2019. The delays were attributed to setbacks in the preparation of the VAT law and in the upgrade of the tax service computer system.

Despite budget estimates of an improved fiscal balance, the overall deficit expanded to 11.1% of GDP in 2018, up from 8.7% in 2017. A 3.7 percentage point jump in expenditure, as a percentage of GDP, heavily outweighed the increase in total revenues (0.1 percentage points of GDP). While spending on other goods and services saw an absolute decrease of 14.2%, it increased in all other expenditure categories, with a notable 25.6% growth in wages and salaries, and a 58.1% hike in subsidies. The increase in wages and salaries is largely attributed to salary settlements with teachers, lecturers and civil servants, made in an effort to restore some of their purchasing power which has been eroded in the years since the crisis. A large portion of the hike in subsidies was for additional payments to the State-owned power company, NV EnergieBedrijven Suriname (EBS), related to settlements. Capital expenditure grew by 34%, most of which was spent on roads and bridges together with capital investment in the energy and various economic and social sectors.

After total revenues increased by almost 50% in 2017, this growth slowed in 2018 (17.2%). Tax revenues were up 16.6%, as direct and indirect taxes increased by 7.4% and 28.9%, respectively. Mining revenues accounted for 35.8% of the total, while the remaining 64.2% came from non-mining sectors.

The government has presented an expansive budget for 2019, with expenditure set to increase by 71%, compared to actual spending in 2018, but current revenues are projected to grow by just 8.7%. The rise in spending will be driven by growth in capital expenditure, while the deficit will be financed by higher borrowing.

After rising to 78.5% of GDP in 2017, public debt based on the national definition fell to 73.6% by the end of 2018, due mainly to an increase in nominal GDP. Higher domestic borrowing to finance several infrastructural projects led to a hike in the absolute value of the public debt. In June 2018, after securing a US\$ 625 million syndicated loan on the international capital market, the State-owned oil company, Staatsolie, repaid the US\$ 261.5 million loan provided by the central government in 2016 and paid US\$ 76 million to purchase the government's 4.8% share in the Newmont gold mine. In turn, the central government used part of this windfall to settle some of its own debts. The share of domestic debt in the total debt stock was 31.0% in 2018, up from 26.3% in 2016 and 29.9% in 2017. Domestic debt jumped again in the first quarter of 2019 as the Central Bank of Suriname made Sur\$ 670 million available to the government. This was the first loan of its kind since the memorandum of understanding signed in April 2016 which stated that the central bank would not finance the government. By the end of March 2019, domestic debt accounted for 34% of the total debt burden.

## **(b) Monetary policy**

The reserve requirement remains the central bank's main policy instrument, and the ratios for both Sur\$ and foreign currencies did not change in 2018, standing at 35% and 50%, respectively.

The average lending rate generally held steady over the course of 2018, fluctuating slightly between 14.2% and 14.4%. The average deposit rate was equally stable, varying between 9.1% and 9.4%. With regard to individual lending rates, rates on personal loans changed the most in 2018, up from 14.9% in January 2018 to 16.1% by December. After rising almost 65 basis points in 2017, the average interbank rate fell 85 basis points in two months, from 18.6% in October 2018 to 10.1% in December, its lowest value since May 2016.

Growth in net domestic credit was negative in 2018. Credit to the private sector contracted by 3.9%, down from sluggish growth of 0.2% in 2017; this is indicative of the depressed economic activity following the crisis. Credit to the central government shrank by 9.2%, partly as a result of the large repayment by Staatsolie in June, while credit to other public institutions grew by 72%, as Staatsolie borrowed from local banks. Bank lending to the government is set to rise in 2019, in line with debt financing from the central bank. From the end of 2018 to March 2019, credit to the public sector and the central government was up by 21% and 23.1%, respectively. Growth in credit to the private sector was sluggish, at just 0.3%.

## **(c) Exchange-rate policy**

Following the devaluations in 2015–2016, the official Sur\$ to US\$ exchange rate has largely stabilized. The rate was flat in 2018, with only very minor fluctuations from the mean selling rate of Sur\$ 7.525 to US\$ 1. However, there has been a growing shortage of United States dollars in the financial system since early 2018. Since 2013, the central bank had been facilitating money shipments on behalf of commercial banks in order to exchange euros for United States dollars, but this was halted in April 2018 when a flight containing 19.5 million euros, a portion of which was meant to be exchanged for United States dollars, was seized by the Dutch authorities. The reasons for holding this shipment have not been clearly conveyed to the Surinamese authorities, but to date, the central bank has been unable to retrieve this money or to send further euros for exchange. As a result, demand for euros has fallen significantly, and the exchange rate dropped from Sur\$ 9.090 in April 2018 to Sur\$ 8.406 by December 2018, and then to Sur\$ 8.349 by March 2019. It has also been increasingly difficult to access United States dollars and the cash exchange rate in the foreign exchange offices has risen to over Sur\$ 8 for US\$ 1. Commercial banks have begun restricting withdrawals of United States dollars to businesses and customers. Cashless transactions, such as wire transfers, are not affected. In the interim, the central bank has made foreign currency available to pay for essential imported goods. The bank has also entered into an arrangement with commercial banks to supplement their foreign currency balances, "nostro accounts", at local banks.

Foreign exchange reserves continued growing steadily in 2018, as they have been since the devaluations of 2015 and 2016. Official reserves stood at US\$ 580.7 million or 3.3 months of import cover at the end of 2018, up from US\$ 424.4 million or 2.8 months of import cover at the end of 2017. Official reserves spiked to US\$ 761.7 million in May 2018, following the Staatsolie loan payment, but fell sharply in the following month to US\$ 533.4 million as a result of government debt service obligations.

## **3. The main variables**

### **(a) The external sector**

Following the fall in international prices of its main commodity exports, Suriname's current account deficit widened significantly in 2015. It shrank over the course of the following two years, reaching 0.1% of GDP in 2017. However, it increased once again in 2018, up to 5.6% of GDP. Exports were up by 4.7%,

but this failed to offset import growth of 16.1%, the largest year-on-year increase since 2012. The growth in exports in 2018 was driven by increases in exports of oil (15.7%), nonmonetary gold (1.4%), wood products (16.9%) and other goods (28.6%). The largest increase in imports seen in investment goods (18%), which includes machinery and equipment, oil (23.7%) and other products (28.6%). Imports of capital goods for oil exploration and other mining companies were responsible for large inflows and subsequent re-exports of machinery and transport equipment.

The transfer surplus shrank slightly in 2018 to 2.6% of GDP, and inflows consisted largely of remittances from the Netherlands. The income deficit narrowed slightly to 11.6% of GDP, driven by the retained earnings of mining firms and external interest payments by both the government and the private sector.

The financial account surplus expanded from 5.3% of GDP in 2017 to 9.3% in 2018. Foreign direct investment (FDI) inflows grew by US\$ 29.4 million or 18.3%, following a 48% decrease in 2017. New exploration and production agreements between Staatsolie and Exxon Mobil and Hess are expected to boost FDI inflows in the short to medium term.

### **(b) Economic activity**

The economy is expected to grow by 1.9% in 2018, a minor increase over the 1.7% posted in 2017. The largest contributions to growth came from the agriculture, hunting and forestry sector and the manufacturing sector (which includes production of refined gold and oil), which both expanded by 0.9 percentage points. The agriculture subsector grew by 9.6%, thanks to increased logging activity. Wholesale and retail trade shrank by just 1.4%, a major improvement over the contractions of 41.3% and 18.7% seen in 2016 and 2017, respectively. This sector has not experienced positive growth since 2013, but the gradual stabilization of inflation over the last few years has helped to curb that contraction and the erosion of consumers' purchasing power. Meanwhile, a fall in the production of gold ore led to a 2.2% contraction in the mining and quarrying sector, which contributed -0.1 percentage points to growth. The government sector contracted by 3% and contributed -0.3 percentage points to growth.

Economic growth is projected to be 2.1% in 2019. The IAMGOLD won a concession for further gold exploration at the Rosebel gold mine, which should commence in 2019 and contribute to economic growth.

### **(c) Prices, wages and employment**

The consumer price inflation rate fell gradually over 2018, from 9.1% in January to 5.4% in December (values are missing for May and June owing to a strike by Statistics Bureau staff). At the beginning of 2018, the largest year-on-year growth was posted by the following subcomponents: food and non-alcoholic beverages (12.3%); transportation (13.4%); communication (11.1%); recreation, culture and education (11.2%); food away from home (13.4%); and miscellaneous (16.5%). By December 2018, the year-on-year increases for all these subcomponents were below 10%, while the change in the healthcare subcomponent of the consumer price index was 13%, up from 6.2% in November. By March 2019, inflation was back to 4.1% for the first time since October 2015.

The 2018 unemployment rate for Paramaribo and the Wanica district is not available yet, but the latest available data would indicate that it has continued to improve, falling from 9.7% in 2016 to 7.6% in 2017.

## H. Trinidad and Tobago

### 1. General trends

The economy of Trinidad and Tobago returned to positive growth (1.9%) in 2018 for the first time in three years, largely driven by a recovery in the energy sector. The commencement of new natural gas projects —specifically the launch of the Juniper platform in August 2017 and production from the Starfish and Dolphin fields in May and August 2018, respectively— revived energy output. In 2019, the growth rate is projected to decrease slightly to 1.6% following the shutdown of the refinery of the State-owned Petroleum Company of Trinidad and Tobago (Petrotrin) at the end of November 2018 and a decrease in the number of new natural gas projects. However, the economic recovery is expected to become more broad-based as the driver of growth gradually shifts from the energy sector to the non-energy sector.

Thanks to the government's fiscal consolidation efforts and an increase in energy revenue, the overall fiscal deficit narrowed to 3.4% of GDP in fiscal 2018, from 9.0% in fiscal 2017. Total revenue increased by 16.8% on the back of higher commodity prices as well as fiscal consolidation measures, including a sale of bonds by the National Investment Fund (NIF). Total expenditure decreased by 4.2%, owing mainly to lower outlays on wages and salaries and on transfers and subsidies. Net public debt, which excludes open market operation instruments, fell from 62.7% of GDP at the end of fiscal 2017 to 61.0% of GDP at the end of fiscal 2018 as a result of the shrinking of the budget deficit and an uptick in nominal GDP growth. In the 2019 Mid-Year Budget Review, the government forecast an overall fiscal deficit of 4.57 billion Trinidad and Tobago dollars (TT\$) for fiscal 2019 (2.8% of GDP), mainly because of lower-than-projected oil revenue. At the end of the first quarter of fiscal 2019, however, the debt-to-GDP ratio increased to 62.2%, as the central government issued two bonds, primarily to finance the closure of the Petrotrin refinery, and guaranteed several loans contracted by State-owned enterprises.

The inflation rate has been low owing to the lacklustre economic recovery and a decline in food inflation. Headline inflation decreased slightly from 1.3% in 2017 to 1.0% in 2018. The central bank tightened its monetary policy stance slightly in view of foreign exchange shortages. For the first time in 30 months, the bank raised the repo rate, its main monetary policy tool, by 25 basis points to 5.00% in June 2018. However, it kept the United States dollar selling rate steady at around TT\$ 6.78 to US\$ 1 to avoid price volatility. The monetary authority is expected to maintain the policy rate at 5.00% in 2019, in the light of low inflation and the United States Federal Reserve's pause in monetary policy tightening.

Despite an increase in energy exports, the external current account surplus narrowed to 4.7% of GDP in the first three quarters of 2018, from 5.9% of GDP in the same period of 2017. This was due to a decline in non-energy exports, an increase in fuel imports and a deterioration in the primary income account. Against a backdrop of a rebound in gas production, the current account is expected to maintain a surplus in 2019.

The unemployment rate climbed to 4.8% in 2017 —the worst level in five years. The rise in unemployment is explained by a decrease in the number of employed persons, mainly in the oil and gas and construction sectors. At the same time, the participation rate slipped from 59.7% in 2016 to 59.2% in 2017, which could be an indication of workers leaving the labour force, discouraged by the difficulty of finding work.

### 2. Economic policy

#### (a) Fiscal policy

The Government of Trinidad and Tobago is continuing its fiscal consolidation efforts to bring deficits down to sustainable levels. In fiscal 2019, the government will establish the Revenue Authority with a



view to stemming the revenue collection leakages inherent in the Inland Revenue Division and the Customs and Excise Division. On the expenditure side, the government is identifying cost savings in education, health and social services and will redirect them to the most vulnerable segments of society and to growth-enhancing investment programmes.

According to the Mid-Year Budget Review, total revenue is expected to increase by 12.4% in fiscal 2019, down slightly on the 16.8% upturn seen in 2018, which was driven by higher tax revenues and royalties collected from energy companies. Royalties on oil and gas, in particular, are projected to double for two consecutive years following the introduction in fiscal 2018 of a standardized, statutory 12.5% royalty rate on the extraction of crude oil and natural gas. The fluctuation in oil prices since November 2018, however, has raised uncertainty about the government revenue outlook. The budget was predicated on an oil price of US\$ 60 per barrel and a gas price of US\$ 3.00 per MMBtu.

Total expenditure in fiscal 2019 is projected to increase (9.4%) for the first time since fiscal 2015, when plummeting oil prices forced the government to take austerity measures. The increase in total expenditure has been driven by spending on goods and services, transfers and subsidies, and capital expenditures stemming from efforts to diversify the economy, build human capital and foster public security through, inter alia, the modernization of infrastructure such as highways, hospitals and ports and the increased use of technology in police operations.

As a result of increased revenue, the overall fiscal deficit is projected to narrow for the second consecutive year to 2.8% of GDP in fiscal 2019, down from 3.4% of GDP in fiscal 2018 and 9.0% of GDP in fiscal 2017. The smaller deficit should stabilize the debt-to-GDP ratio in fiscal 2019 despite the 1.2-percentage-point increase in the first three months of fiscal 2019, which was largely attributable to the issuances of new bond to finance the closure of the Petrotrin refinery. In the long term, however, further fiscal consolidation efforts—including the full operationalization of the Revenue Authority—will be necessary because the improvement of fiscal situation in 2019 will still depend on the recovery of international energy prices.

## **(b) Monetary policy**

Despite the weak economic recovery in the non-energy sector, the Central Bank of Trinidad and Tobago tightened its monetary policy stance slightly in view of foreign-exchange shortages and raised the repo rate by 25 basis points to 5.00% in June 2018, the first rise in 30 months. In 2019, the benchmark rate is likely to remain on hold, as the central bank continues to support the economic recovery while addressing foreign-exchange shortages.

Liquidity levels in the domestic banking system, which are measured as commercial banks' holdings of excess reserves at the central bank, edged up from TT\$ 3.063 billion in 2017 to TT\$ 3.282 billion in 2018, as net domestic fiscal injections, the main driver of liquidity, increased for the first time in three years owing to higher energy revenues. Further, in a shift towards indirect policy instruments, the central bank removed the 2% secondary reserve requirement on banks' deposit liabilities in August 2018, boosting liquidity in the financial system. Compared to 2017, when there was a net injection of TT\$ 7.125 billion, the central bank absorbed TT\$ 951 million in liquidity from the financial system via open market operations.

The weighted average lending rate in the commercial banking system decreased from 8.20% in December 2017 to 8.01% in December 2018, reflecting competition among commercial banks for credit business. Amid sluggish economic recovery, private sector credit increased by 4.3% in 2018, slightly lower than the 4.6% growth in 2017. Growth in business lending slowed to 0.2% in 2018 from 1.3% in 2017, dragged down by weak lending to the construction and manufacturing sectors, while real estate lending grew by 6.6%, a slower pace than the previous year (8.0%). Growth in consumer credit accelerated from 5.1% to 6.0%, but was largely driven by an increase in debt consolidation and

consumer loan refinancing. Despite slowing credit growth, greater liquidity in the financial system led to an uptick in money supply. The broad measure of money supply, M2, rose by 3.1% in 2018, compared to a 2.1% decrease in 2017.

### **(c) Exchange-rate policy**

The central bank kept the selling rate steady at around TT\$ 6.78 to US\$ 1 between December 2017 and May 2019. The nearly constant exchange rate, along with persistent interest rate differentials between short-term rates in Trinidad and Tobago and the United States, could encourage capital outflows and intensify pressures in the local foreign-exchange market.

Notwithstanding the higher foreign-exchange inflow from the energy sector, the supply of foreign currencies in the foreign-exchange market remained tight in 2018. Purchases of foreign exchange from the public by authorized dealers increased to US\$ 4.101 billion in 2018, a 13.7% jump from 2017. This was primarily the result of improved revenues in the energy sector, which is the main source of foreign-exchange supply to the market. Meanwhile, authorized dealers sold foreign currency worth US\$ 5.677 billion to the public over the course of 2018, an increase of 9.3% compared to 2017, with a net sales gap of US\$ 1.576 billion, which is slightly narrower than it was in 2017. The retail and distribution sector and the settlement of credit card transactions absorbed more than half of foreign-exchange sales. The central bank supported the market by selling US\$ 1.501 billion to authorized dealers.

As the central bank continued to sell United States dollars, the level of net official reserves declined to US\$ 7.318 billion at the end of April 2019, from US\$ 8.370 billion at the end of December 2017. The level of reserves at the end of April 2019 was equivalent to 8.3 months of imports, which is above the international benchmarks of 3 months. Throughout 2019, the rate of decline in net official reserves is expected to slow as energy exports, the main supplier of foreign exchange, pick up.

### **(d) Other policies**

The government has set out several new strategies to transform the economy from energy sector dependence to a more diversified production structure, including a draft trade policy for 2019–2023, which follows the guiding principles charted in the National Development Strategy 2016–2030, Vision 2030. The recently completed draft trade policy document covers broad areas, including market access, diversification of export products and markets, trade facilitation, e-commerce and physical infrastructure. Coordination among government agencies and the private sector will play a key role in implementing the policy measures and achieving its goal of export diversification and growth.

As part of ongoing trade negotiations, the government signed the CARIFORUM-UK Economic Partnership Agreement (EPA) on 1 April 2019, which will ensure continued access to the United Kingdom market following that country's withdrawal from the European Union. Furthermore, negotiations for a partial scope trade agreement (PSTA) with Chile are expected to continue in 2019 and PSTAs with Guatemala and El Salvador will be implemented upon enactment of the required legislation.

Negotiations are ongoing with the Bolivarian Republic of Venezuela to supply natural gas from its Dragon field, which will provide a much-needed supply to the liquified natural gas (LNG) and petrochemical sectors in Trinidad and Tobago. Following the finalization of heads of agreement in March 2017, a term sheet was signed in August 2018 between Petróleos de Venezuela (PDVSA), the National Gas Company (NGC) of Trinidad and Tobago and Shell. While the government is working to finalize a gas sales agreement, recent political developments in the Bolivarian Republic of Venezuela could affect the pace of the discussions and delay the first delivery of gas, originally planned for sometime in the second half of 2021.

### 3. The main variables

#### (a) The external sector

The current account surplus narrowed to US\$ 817.8 million, or 4.7% of GDP, in the first three quarters of 2018, compared with the previous year's surplus of US\$ 977.5 million (5.9% of GDP). This was due to a decline in non-energy exports (29.4%), an increase in fuel imports (41.2%), and a deterioration in the primary income account. From a surplus of US\$ 100.2 million in the first three quarters of 2017, the primary income account slipped into a deficit of US\$ 635.9 million for the same period of 2018, largely as a result of higher reinvested earnings and dividend payments by foreign-owned energy companies. Meanwhile, energy exports increased by 23.2% over the same period, driven by the recovery in gas production and international energy prices.

The current account surplus was offset by net outflows on the financial account. The net outflow of US\$ 588.9 million (3.4% of GDP) registered in the first three quarters of 2018 was a reversal of the net inflow of US\$ 14.7 million (0.1% of GDP) recorded in the same period of 2017. Foreign direct investment outflows from Trinidad and Tobago totalled US\$ 327.1 million (1.9% of GDP), which is explained by repayments on inter-company loans by resident enterprises, despite an increase in reinvestment of earnings in the energy sector. Portfolio investment also registered a net outflow of US\$ 562.6 million (3.2% of GDP). This net outflow was driven by domestic investors and, more specifically, by portfolio investments abroad by the Heritage and Stabilisation Fund (HSF), mutual funds and commercial banks. However, a net inflow of US\$ 422 million (2.4% of GDP) was recorded in the other investment liabilities category, due in part to higher loans, trade credits, and other accounts owed to non-residents by domestic entities. Furthermore, the persistently large outflow under the net errors and omissions item, in the amount of US\$ 1.134 billion (6.5% of GDP), resulted in an overall balance deficit of US\$ 904.5 million (5.2% of GDP). Overall, the current account is expected to maintain a surplus in 2019 thanks to increased gas production.

#### (b) Economic growth

For the first time in three years, Trinidad and Tobago returned to positive, albeit sluggish, growth (1.9%) in 2018, following two consecutive years of contraction: 1.9% in 2017 and 6.5% in 2016. Energy sector growth rose to 2.2% in 2018, from 0.0% in 2017, driven by an increase in natural gas production from the newly-launched Juniper platform, the Starfish platform and the Dolphin field, and despite a drop in oil extraction and refining activity. The increased availability of natural gas also improved activity in the midstream and downstream sectors, including LNG and methanol production.

The growth of the non-energy sector was almost flat, at 0.1% in 2018, although this was still an improvement over the 2.9% contraction in 2017. The manufacturing of food, beverages and tobacco products expanded by 5.6% in 2018, a marked turnaround from a heavy contraction of 12.0% in 2017. While growth in the trade and repairs sector remained negative for the third consecutive year, the contraction narrowed to 1.2% in 2018, down from 11.3% in 2017 and 7.2% in 2016. The largest contribution to growth in 2018, however, came from taxes less subsidies on products, which increased by 30.7%, reflecting a reduction of the fuel subsidy as well as an increase in value-added tax (VAT) collection.

In 2019, growth is projected to edge down to 1.6% as a result of the shutdown of the State-owned Petrotrin refinery at the end of November 2018 and fewer new natural gas projects. However, the current economic upturn is expected to persist and become more broad-based thanks to a new natural gas project Angelin, which produced first gas in the first quarter of 2019, and to increased implementation of public sector investment programmes.

### **(c) Prices, wages and employment**

Inflation remained subdued in 2018 due to the lacklustre economic recovery as well as a decline in food inflation. Headline inflation decreased slightly, from 1.3% in 2017 to 1.0% in 2018. While core inflation increased from 0.8% to 1.3%, food inflation decreased from 3.6% to 0.0% over the same period owing to greater supply of some food items amid favourable weather conditions and increased issuance of land leases for agricultural purposes. However, an increase in housing costs and a hike in the price of super gasoline following the budget presentation in September 2018 contributed to the uptick in core inflation. Throughout 2019, inflation is expected to edge up gradually because of the sluggish recovery in domestic demand, although a severe drought in the first half of the year will exert some upward pressure on food prices.

Labour market conditions worsened during 2017, as the unemployment rate increased to 4.8%, up from 4.0% in 2016. Weakness in the domestic economy led to job losses, particularly in the construction and energy sectors. Of 9,900 net job losses, 4,600 corresponded to persons who left the labour force discouraged by the difficulty of finding work. Under the severe labour market conditions, wage increases slowed in 2017 compared to the previous year. Based on collective agreements registered with the Industrial Court of Trinidad and Tobago, the median wage increase was 3.0% in 2017, down from a 4.0% increase in 2016. In 2018, the unemployment rate is expected to have remained relatively high because the number of retrenched workers rose by over 40%, partly as a result of the closure of the Petrotrin refinery.

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