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S E R I E S

# STUDIES AND PERSPECTIVES

ECLAC SUBREGIONAL  
HEADQUARTERS  
FOR THE CARIBBEAN

## Economic Survey of the Caribbean 2018

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UNITED NATIONS



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## Abstract

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Driven by a rebound in global trade, Global Gross Domestic Product (GDP) growth strengthened to 3.7 per cent in 2017, Global growth for 2018 is projected to remain at 3.7 per cent (WEO 2018 October), but the balance of risks has shifted to the downside due to elevated policy uncertainty including increasing trade barriers.

With regard to the Caribbean region, average real growth was 0.0 per cent in 2017, up from -1.9 per cent in 2016, despite the effects of Hurricanes Irma and Maria on several Caribbean economies. Service Producers continued to demonstrate resilience in 2017, with growth estimated to be 1.1 per cent. Growth among the goods producers was negative (-1.2 per cent) in 2017, but this was an improvement from a 4.7 per cent decline in 2016. In 2018, the Caribbean economies are expected to improve further, with growth forecasted at 1.7 per cent. The goods producers are forecasted to grow by 1.9 per cent driven by better commodity prices while the service producers will grow by 1.6 per cent. In light of the sluggish economic recovery, the region's unemployment rate fell to 12.5 per cent in 2017, relative to the 13.2 per cent experienced in the previous year. Significant declines have been seen in Grenada and Jamaica, while unemployment rates have increased in Barbados which is experiencing a recession.

Fiscal constraints continue to be a challenge for the Caribbean region. Although the fiscal balance of the service producers was boosted by high surpluses in Montserrat and Dominica over the last three years, their improvements were dependent on external factors such as grant receipts and the inflows by "Citizenship by Investment" (CBI) programme. Without these inflows, the fiscal balance for the service producers would be in deficit. The fiscal deficit of Goods Producers continued to worsen in fiscal 2017 due to depressed commodity prices.

The region's public debt-to-GDP ratio declined by 1.4 percentage points in 2017. The decline in the debt was driven mainly by the service producing economies as their fiscal consolidation programmes have gradually borne fruit in some countries, while the public debt-to-GDP ratio of goods producers marginally increased by 0.4 percentage points. As part of the continuing fiscal consolidation efforts, the region's external debt service payments remain high, absorbing on average 27.4 per cent of government revenue in 2017. With regards to fiscal space, the region's fiscal flexibility improved with the flexibility index rising to 31.9 in 2017 from 29.2 in 2016, although the index is still far below the medium level of

50. Flexibility increased in the Bahamas and Dominica, reflecting lower interest payments. Anguilla also registered a large improvement due to lower spending on wages and salaries and transfers and subsidies.

Monetary policy adopted by Caribbean economies in 2017 was largely focused on balancing economic growth and price and exchange rate stability. To this end, most of the central banks in the subregion maintained their exchange rates and/or discount rates. There was marginal decline in the average lending rates, the deposits rates and the interest rate spread for the Caribbean over the 2016 to 2017 period. Notwithstanding the relatively high financial sector liquidity in the Caribbean, private sector credit as a percentage of GDP continued to decline in 2017. However, excluding the extreme case of Suriname, there was a moderate increase in the Caribbean's average inflation rate from 0.8 per cent in 2016 to 2.1 per cent in 2017, largely driven by food and energy prices.

Turning to the external sector, the average current account deficit in the Caribbean narrowed to 4.0 per cent of GDP in 2017 from 8.9 per cent of GDP in 2016. This improvement in the current account balance was heavily supported by a turnaround in the service producing economies where the average current account deficit improved from 10.5 per cent in 2016 to 5.1 per cent in 2017. There was also an improvement in the goods producing economies, as the average current account deficit contracted from 4.3 per cent of GDP to 1.2 per cent. Meanwhile, average Foreign Direct Investment (FDI) inflows for the Caribbean fell from 7.4 per cent of GDP in 2016 to 5.5 per cent in 2017, marking the third year of decline after an increase in 2014. For the goods producers FDI inflows fell from 3.1 per cent of GDP to 0.8 per cent, and for the service producers it fell from 8.9 per cent to 7.3 per cent.

Section I of this survey analyses the performance of the Caribbean subregion to the global economy. It provides a comparative analysis of global economic growth, commodity price performance, Caribbean growth performance, and unemployment. This is then followed by a subsection on fiscal policy and public debt. Subsequent subsections elaborate on monetary policy, and the external sector.

Section II presents country briefs for the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago, together with the member states of the Eastern Caribbean Currency Union (ECCU).

A statistical appendix follows to support the subregional analysis and country briefs.

## I. Subregional analysis and performance

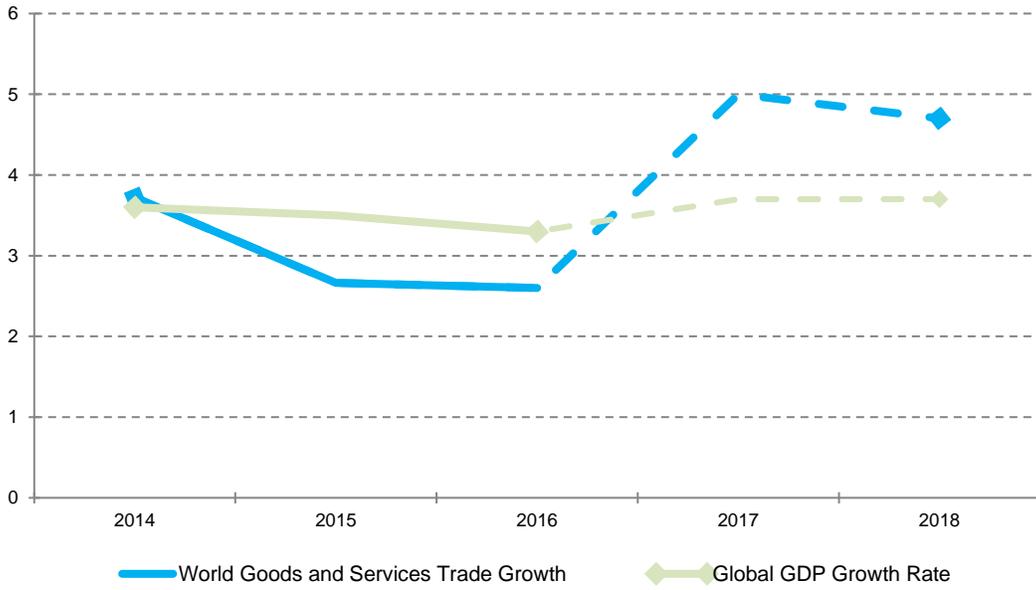
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The world economy has been posting positive but weak growth and there are growing downside risks. The balance of risks to the global growth forecast has shifted to the downside due to elevated policy uncertainty. Several of these arise from increasing trade barriers and a reversal of capital flows to emerging market economies with weaker fundamental and higher political risk. These have become more pronounced in the last two years. According to the IMF (WEO 2018 October) the potential for upside surprises has receded, given the tightening of financial conditions in some parts of the world, higher trade costs, slow implementation of reforms recommended in the past, and slowing growth.

Normally world goods and service trade growth tend to lead world GDP growth and while between 2014 and 2016 GDP growth was above world trade, the opposite has been the case since then. However world trade growth has not been able to pull along real GDP growth. Real GDP growth is forecasted to be no more than 3.7 in both 2017 and 2018.

Low oil prices have helped improve the current account balance of countries that are heavy oil importers while it has depressed the incomes of countries that depended largely on oil exports. The recent rise in oil prices has assisted oil exporters with oil prices rising from a low of less than 40 dollars a barrel in 2014 to 60 plus dollars in 2018.

**Figure 1**  
**World trade annual growth and global growth rate, 2014-2018**  
*(Percentage)*



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

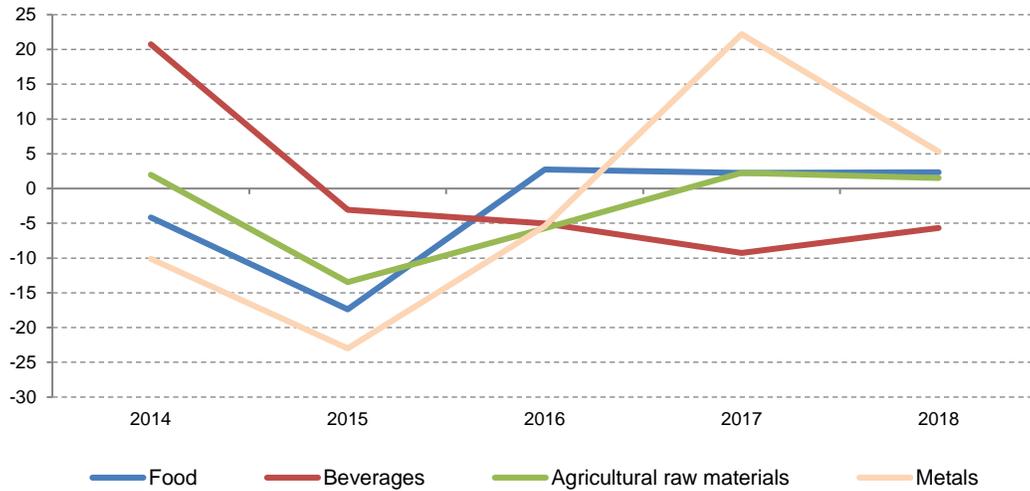
**Figure 2**  
**Crude oil prices, Q1 2010-Q3 2018**  
*(Dollars per barrel)*



Source: United States Department of Energy Information Administration.

The fortunes of non-oil commodity prices have not been very good. Metal prices have fallen since 2017 after rising since 2015 and as the graph below shows, other non-oil commodity prices, as agricultural raw materials and food have remained flat. The trajectory of beverages are an exception as after a precipitous decline since 2014 there was upward movement in 2018.

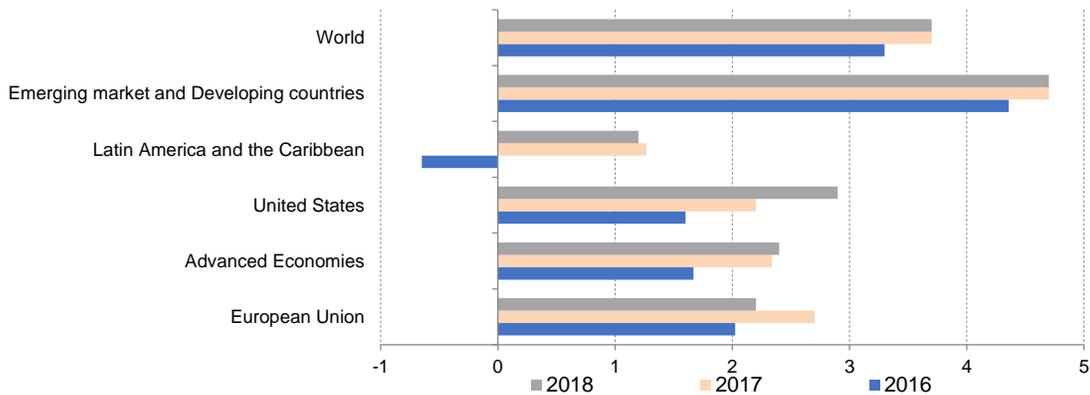
**Figure 3**  
**Global non-oil commodity prices, 2014-2018**  
*(Annual percentage change)*



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

The pattern of global growth has remained the same with emerging markets and development economies making the largest contribution. This group, driven by India (7.3%) and China(6.6%), is expected to grow at 4.7% in 2018 which was similar to the expansion in 2017. Advanced economies will grow at 2.4% but the European Union will see positive but low growth of 2.2% which is less than the 2.7% posted in 2017. The United States is expected to pick up steam and this is good news for the Caribbean. The US is anticipated to grow at 2.9% in 2018. Latin America and the Caribbean is expected to do better than the -0.6% posted in 2017 and growth is anticipated to be 1.2%.

**Figure 4**  
**Global economic prospects, 2016-2018**



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

## A. Caribbean growth performance and prospects

The economic performance of the subregion in 2018 is expected to be positive but not stellar and growth was anticipated at 1.7%. This was much better, however, than the 0.0% growth experienced in 2017. When the subregion is distinguished between goods and commodity exporters, the goods producers posted a growth rate of 1.9% and the service producers 1.6 percent. For the service producers this was a recover from the 0.9% posted in 2017. Among the outstanding contributors to positive growth were Antigua and Barbuda and Grenada which have posted consistent positive growth since 2014. This was also the case for Jamaica although growth has generally been weak and except for 2018 below 1%. A number of countries which posted positive growth have experienced some improvement in 2018 relative to 2017. These were Antigua and Barbuda, The Bahamas, Belize, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Vincent and the Grenadines Suriname and Trinidad and Tobago with the exceptions being Barbados. The weak performance of the service producers can be linked to relatively weak tourism performance. Interestingly the CTO Tourism report for the first quarter of 2018 reveals that tourist arrivals for the world and for major subregions was positive with the exception of the Caribbean where it was down by 8.7%. According to the CTO, the most recent data from Caribbean destinations indicated that international tourist arrivals in the first six months of 2018, reached a total of 15.4 million, 1.2 million fewer than during the same period last year. On the other hand, for commodity producers, improved prices have helped to boost growth.

**Table 1**  
**Caribbean GDP growth rates, 2013-2018**  
(Percentage)

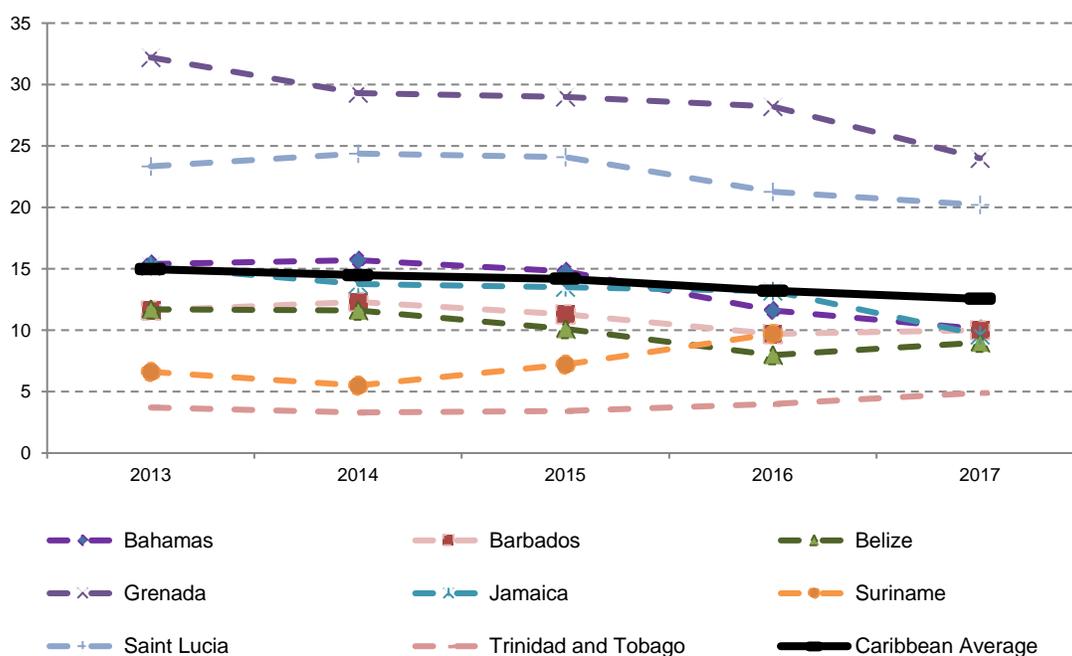
	2013	2014	2015	2016	2017	2018
Anguilla	-0.7	5.1	3.1	-1.3	-7.7	-5.0
Antigua and Barbuda	-0.1	5.1	4.1	5.3	3.1	4.2
Bahamas	-0.4	-0.1	1.0	-1.7	1.4	2.5
Barbados	0.0	0.0	0.7	1.8	0.6	0.0
Belize	0.7	4.0	3.8	-0.5	0.7	2.6
Dominica	-0.6	4.4	-2.6	2.5	-9.5	-6.4
Grenada	2.4	7.3	6.4	3.7	5.1	3.5
Guyana	5.0	3.9	3.1	3.4	2.2	3.0
Jamaica	0.5	0.7	0.9	1.4	0.6	1.3
Montserrat	5.3	2.2	-1.9	0.5	-2.8	3.7
Saint Kitts and Nevis	5.5	6.1	2.1	2.2	1.3	2.4
Saint Lucia	-1.3	3.6	-0.9	3.4	3.8	2.1
Saint Vincent and the Grenadines	1.8	1.0	1.8	1.3	0.5	1.3
Suriname	2.9	0.3	-2.6	-5.1	1.5	2.7
Trinidad and Tobago	1.0	-0.3	1.5	-6.0	-2.3	1.5
<b>Caribbean</b>	<b>0.9</b>	<b>0.7</b>	<b>1.1</b>	<b>-1.9</b>	<b>0.0</b>	<b>1.7</b>
<b>Goods Producers</b>	<b>1.6</b>	<b>0.4</b>	<b>1.1</b>	<b>-4.7</b>	<b>-1.2</b>	<b>1.9</b>
<b>Service Producers</b>	<b>0.3</b>	<b>0.9</b>	<b>1.2</b>	<b>0.8</b>	<b>0.9</b>	<b>1.6</b>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official data.  
Note: Weighted growth rates presented for Caribbean, goods producers and service producers.

## B. Unemployment

Unemployment data are not available for all Caribbean countries, but for countries for which such data are available it appears that the unemployment rate has generally been trending down. This expected tendency was the case for the service producers for whom data are available. The unemployment rate fell from 19.5% in 2013 to 12.5% in 2017. Significant declines since 2016 have been seen in Grenada and Jamaica. Meanwhile unemployment rates have increased in Barbados which is experiencing a recession.

**Figure 5**  
Unemployment rates, 2013-2017  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.  
Note: Trinidad and Tobago's unemployment in 2017 is the first half of the year.

## C. Fiscal policy and public debt

This section of the survey analyses recent fiscal performance and policy in the Caribbean. It evaluates changes in key fiscal indicators, including the deficit, public debt and debt service payments, to gauge the extent of the region's progress with fiscal consolidation, aimed reducing deficits and public debt.

Fiscal consolidation to achieve sustained medium to longer-term debt reduction remained the main aim of fiscal policy in 2017. Countries continue to implement a mix of IMF-assisted or home-grown programmes. Nevertheless, there was some slippage as the median fiscal deficit increased from 1.6% of GDP in 2016 to 2.3% of GDP in 2017 (see tables 1 and 2 and figure 1 below). The stemmed from a deterioration in the goods-producing economies as the service producers registered a marginal improvement. The deficit expanded by 1.25 percentage points to 6.2% in the goods producers, mainly reflecting weakened positions in Dominica, Trinidad and Tobago, the Bahamas and St. Kitts and Nevis. Dominica experienced a major turn-around from a substantial surplus to a sizeable deficit, influenced in part by the collapse in revenues, including from the Citizen's by Investment and capital outlays for reconstruction after Hurricane Maria. Trinidad and Tobago was affected by lower non-energy receipts, which offset modest growth in energy receipts and reduced capital spending.

Economic management in the country continues to be buffeted by sluggish recovery in energy receipts. Meanwhile, the deficit expanded in the Bahamas, owing to post-hurricane reconstruction and election spending. The surplus in St. Kitts and Nevis narrowed due to lower proceeds from its Citizen by Investment Programme (CIP).

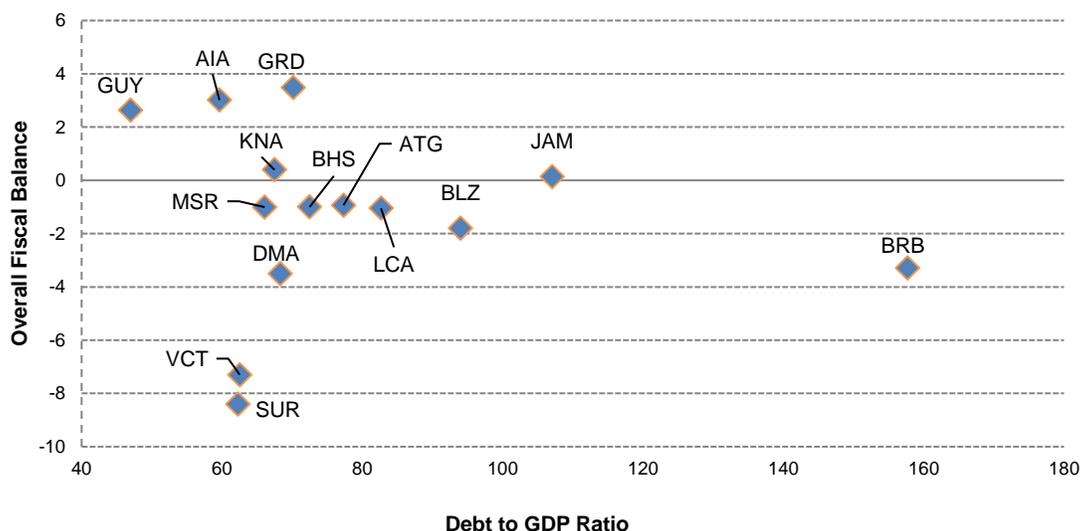
Eight of the 15 countries experienced a decline in their deficit. There was a major turnaround in Montserrat, which posted a surplus of 30.8% of GDP following a small deficit in 2016, owing to substantial grant receipts and reduced capital spending. Barbados reduced its deficit by over 5 percentage points as the government undertook expenditure cuts and revenue-enhancing measures to address the burgeoning debt. Jamaica and Suriname also lowered their deficits, in line with reduced debt interest charges in Jamaica as it continues to lower its debt under the Stand-By Arrangement with the IMF. Meanwhile, Suriname implemented cuts in current and capital spending.

**Table 2**  
**Overall Fiscal balance, 2012-2017**  
(Percentage of GDP)

	2012	2013	2014	2015	2016	2017
Anguilla	1.5	0.7	2.5	0.4	-0.4	0.5
Antigua and Barbuda	-1.3	-4.5	-2.7	2.2	-0.4	-2.3
Bahamas	-4.2	-5.1	-4.7	-3.2	-2.6	-5.5
Barbados	-5.5	-10.3	-8.3	-9.6	-8.7	-3.3
Belize	-0.8	-1.2	-2.9	-7.8	-3.3	-3.0
Dominica	-9.2	-9.6	-1.7	-1.8	32.4	-5.8
Grenada	-5.5	-6.5	-4.7	-1.2	1.8	3.2
Guyana	-4.7	-4.4	-5.5	-1.4	-4.4	-4.5
Jamaica	-4.1	-0.7	-0.5	4.7	-2.5	1.4
Montserrat	-7.0	-17.0	-6.2	19.5	-0.4	30.8
Saint Kitts and Nevis	11.2	13.2	10.5	6.2	4.6	2.0
Saint Lucia	-7.7	-7.3	-4.4	-3.2	-1.6	0.3
Saint Vincent and the Grenadines	-2.1	-6.2	-2.1	-2.6	1.2	-0.6
Suriname	-2.3	-4.5	-4.7	-9.7	-9.3	-7.8
Trinidad and Tobago	-1.3	-2.7	-2.5	-1.7	-5.4	-8.4
<b>Caribbean</b>	<b>-2.9</b>	<b>-4.4</b>	<b>-2.5</b>	<b>-0.6</b>	<b>0.1</b>	<b>-0.2</b>
<b>Goods Producers</b>	<b>-2.3</b>	<b>-3.2</b>	<b>-3.9</b>	<b>-5.2</b>	<b>-5.6</b>	<b>-5.9</b>
<b>Service Producers</b>	<b>-3.1</b>	<b>-4.8</b>	<b>-2.0</b>	<b>1.0</b>	<b>2.1</b>	<b>1.9</b>

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

**Figure 6**  
**Public debt vs fiscal balance, 2017**  
*(Percentage of GDP)*



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

**Table 3**  
**Caribbean central government fiscal expenditure by categories, 2016-2017**  
*(Percentage of GDP)*

	Current expenditure		Capital expenditure		Interest Payments	
	2016	2017	2016	2017	2016	2017
Anguilla	21.3	21.7	0.7	2.4	1.4	1.8
Antigua and Barbuda	20.6	20.3	3.1	1.5	2.6	2.4
Bahamas	16.9	19.2	2.0	3.2	2.3	2.2
Barbados	34.1	33.0	2.0	1.7	8.0	8.0
Belize	26.1	27.0	5.7	4.5	2.7	3.0
Dominica	25.2	29.3	10.2	17.0	1.7	1.5
Grenada	19.8	19.9	4.2	2.7	2.9	2.6
Guyana	23.5	24.7	6.4	8.0	0.9	1.1
Jamaica	26.2	26.7	2.4	2.6	7.9	7.2
Montserrat	68.2	70.2	12.5	3.2	0.0	0.0
Saint Kitts and Nevis	27.0	25.6	4.1	5.4	1.6	1.6
Saint Lucia	20.4	19.7	3.2	3.2	3.3	2.5
Saint Vincent and the Grenadines	24.9	26.1	3.8	3.3	2.1	2.3
Suriname	23.5	14.3	2.7	2.6	1.8	1.8
Trinidad and Tobago	32.6	31.3	3.0	2.4	2.5	3.0
<b>Caribbean<sup>a</sup></b>	<b>27.4</b>	<b>27.3</b>	<b>4.4</b>	<b>4.2</b>	<b>2.8</b>	<b>2.7</b>
<b>Goods producers<sup>a</sup></b>	<b>26.5</b>	<b>24.4</b>	<b>4.5</b>	<b>4.4</b>	<b>2.0</b>	<b>2.2</b>
<b>Service producers<sup>a</sup></b>	<b>27.7</b>	<b>28.4</b>	<b>4.4</b>	<b>4.2</b>	<b>3.1</b>	<b>2.9</b>

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

<sup>a</sup> Simple Average.

## 1. Fiscal Flexibility

The fiscal flexibility index<sup>1</sup> is a measure of government's discretionary spending as a proportion of total expenditure. Fiscal flexibility in the region continues to be constrained by limited space to stabilise in non-discretionary spending, including wage commitments, debt interest payments and welfare-maintaining transfers and subsidies.

A concern for the region is that fiscal flexibility has been tightening in the last few years, falling from 35 in 2014 to 31.9 in 2017, which is far below the medium level of 50 (see table 3 below). Flexibility improved in 2017, with ratio rising to 31.9 from 29.2 in 2016. This implies that although countries were not able to achieve the improved fiscal positions that they targeted, they were able to better manage non-discretionary spending. Flexibility fell in the goods producers but increased in the service producers. The Bahamas, Anguilla and Dominica registered the largest improvements in the flexibility indicator. Flexibility increased in the Bahamas, reflecting lower debt interest costs. Anguilla's indicator reflected lower spending on wages and salaries and transfers and subsidies, while Dominica benefited from lower interest payments.

**Table 4**  
**Fiscal flexibility index, 2013-2017**

	2013	2014	2015	2016	2017
Anguilla	26.5	25.1	26.3	26.2	32.4
Antigua and Barbuda	25.6	23.3	20.0	29.2	21.3
Bahamas	37.3	33.3	33.8	25.2	34.0
Barbados	15.2	17.0	19.4	19.8	18.8
Belize	40.8	42.7	46.7	36.2	31.9
Dominica	52.3	48.9	41.0	50.8	56.2
Grenada	37.3	41.6	43.4	34.7	30.4
Guyana	50.9	49.3	41.4	43.1	45.0
Jamaica	10.8	5.5	7.1	8.3	8.7
Montserrat	55.0	44.7	46.6	46.8	40.9
Saint Kitts and Nevis	42.8	38.5	41.4	31.6	36.3
Saint Lucia	39.5	35.0	35.0	29.2	24.2
Saint Vincent and the Grenadines	33.9	30.6	27.8	26.3	26.0
Suriname	33.3	36.4	36.7	31.1	32.1
Trinidad and Tobago	27.2	26.2	26.2	22.1	18.8
<b>Caribbean</b>	<b>35.2</b>	<b>33.2</b>	<b>32.9</b>	<b>30.7</b>	<b>30.5</b>
<b>Goods Producers</b>	<b>38.0</b>	<b>38.7</b>	<b>37.8</b>	<b>33.1</b>	<b>31.9</b>
<b>Service Producers</b>	<b>34.2</b>	<b>31.2</b>	<b>31.1</b>	<b>29.8</b>	<b>29.9</b>

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

<sup>1</sup> The fiscal flexibility index is defined as:  $FFI = (1 - NDE/TGE) * 100$ , NDE is non-discretionary expenditure defined as outlays on wages and salaries, transfers and interest payments and TGE is total government expenditure. The maximum value of the uncorrected index is 100, reflecting total fiscal flexibility. IMF (2012) "The Challenges of Fiscal Consolidation and Debt Reduction in the Caribbean", Amo-Yartey et.al, Working Paper WP/12/276.

## 2. Public debt

The region continued on the path of fiscal consolidation with reduction of its public debt to sustainable levels. Total public debt-to-GDP ratio declined from 74.8% in 2016 to 73.4% in 2017. However, while service producers experienced a 2 percentage points fall in their debt-to-GDP in 2017 relative to 2016, the Goods producers' ratio marginally increased by 0.4 percentage points.

Among the service producers, Jamaica's IMF-backed<sup>2</sup> fiscal reforms have gradually borne fruit with significant reduction in its debt-to-GDP ratios and improvement in the overall fiscal deficits over the last three years. The public debt-to-GDP of Jamaica continued its downward trend with marked decline from 122.3% in 2016 to 107.1% in 2017. Notably, foreign and domestic shares of the public debt declined from 74.8% and 47.4% in 2016 to 66.8% and 40.2% in 2017, respectively. While Jamaica has managed to significantly reduce its debt-to-GDP ratios, Barbados, on the other hand, was still struggling to bring down its public debt to a manageable level. The newly elected Barbadian Government reached an agreement with the IMF in September 2018 on a staff-level USD 290 million economic assistance program as part of the Extended Fund Facility.<sup>3</sup> Moreover, there is an ongoing discussion with domestic creditors to renegotiate the domestic debt, which amounted to 124.8% of its total debt-to-GDP of 157.7% in 2017.

The public debt of the goods producers marginally increased by 0.4 percentage points between 2016 and 2017. All the four categorized as goods producers -Belize, Guyana, Suriname and Trinidad and Tobago- experienced an increase in their public debt ratios in 2017. Belize's public debt-to-GDP ratio increased from 86.6% in 2016 to 94% in 2017. Two new developments are likely lead to further increase in Belize's public debt in 2018 and beyond: (i) the unfavorable ruling of the Caribbean Court of Justice (CCJ) ordering the Belizean Government to pay BZ\$90 million to Belize Bank Limited on an initial of BZ\$29 million contracted in 2004 by the Universal Health Services Limited (UHS), a private hospital, in which the Government acted as a guarantor; (ii) the issuance of new US\$90 million securities to settle the remaining balance on the re-nationalization of Belize Telemedia Limited. Additionally, Trinidad and Tobago's public debt increased from 59.4% in 2016 to 62.3% in 2017. In light of the new development in the country, such as the shutdown of the marketing and refinery units of the state-owned Petrotrin and the looming final payment of US\$850 million due in August 2019 on a bond issued in 2009, this upward trend in public debt is not expected to end soon.

In 2017, 2 out of the 8 members of the Eastern Caribbean Currency Union (ECCU) have had public debt-to-GDP ratios below the sustainable level of 60%, more specifically Anguilla (59.6%) and Montserrat (6.2%). Moreover, Public debt-to-GDP marginally increased in Antigua and Barbuda, Dominica, Saint Kitts and Nevis by 0.4, 0.7 and 2.9 percentage points, respectively between 2016 and 2017. Noteworthy, the slowly recovering economy of Dominica from the devastating effects of hurricanes Irma and Maria was dealt a major blow in April 2018 with the announcement of future relocation of the American offshore University, Ross University School of Medicine (RUSC) from Dominica to Barbados after over 40 years of operation, which will be a major loss of foreign currency for the country. Another member of the ECCU, Grenada, has seen a downward trend in its public debt started since the implementation of its Home-grown reform of 2013 under the auspices of the IMF and other development partners. Grenada's public debt-to-GDP declined from 80.4% in 2016 to 70.2% in 2017.

<sup>2</sup> The initial four-year Extended Fund Facility (EFF) of 2013 (ended in March 2017) signed under the auspices of the IMF has been replaced by the Stand-by Arrangement (SBA), signed in November 2017.

<sup>3</sup> An IMF program designed to aid countries with: (i) serious payments imbalances due to structural impediments; (ii) slow growth and an inherently weak balance of payments position.

**Table 5**  
**Caribbean: total public sector debt, 2015-2017**  
*(Percentages of GDP)*

	2015			2016			2017		
	Foreign	Domestic	Total	Foreign	Domestic	Total	Foreign	Domestic	Total
Anguilla	18.2	5.6	23.9	23.5	39.0	62.5	21.5	38.1	59.6
Antigua and Barbuda	38.7	43.1	81.8	34.7	42.1	76.9	36.9	40.4	77.3
Bahamas	18.5	44.8	63.3	20.0	46.7	66.7	26.6	45.9	72.5
Barbados	34.9	113.8	148.8	35.0	127.4	162.4	32.9	124.8	157.7
Belize	66.2	13.9	80.1	66.0	20.5	86.6	66.4	27.6	94.0
Dominica	52.8	22.4	75.3	46.5	21.2	67.6	47.9	20.4	68.3
Grenada	61.5	27.1	88.6	57.0	23.4	80.4	47.7	22.5	70.2
Guyana	35.8	12.4	48.1	33.2	12.5	45.7	34.9	12.1	47.0
Jamaica	74.9	51.9	126.8	74.8	47.4	122.3	66.8	40.2	107.1
Montserrat	5.7	0.0	5.7	5.1	0.0	5.1	6.2	0.0	6.2
Saint Kitts and Nevis	24.3	42.6	66.9	21.7	41.6	63.2	20.4	45.7	66.1
Saint Lucia	30.8	35.4	66.2	31.7	35.3	67.0	35.6	31.8	67.5
Saint Vincent and the Grenadines	52.7	26.3	79.0	59.6	23.5	83.1	57.4	25.3	82.7
Suriname	29.8	23.2	52.9	53.3	19.0	72.3	46.4	16.2	62.5
Trinidad and Tobago	10.3	40.7	51.0	15.7	43.7	59.4	17.0	45.3	62.3
<b>Caribbean</b>	<b>37.0</b>	<b>33.5</b>	<b>70.5</b>	<b>38.5</b>	<b>36.2</b>	<b>74.8</b>	<b>37.6</b>	<b>35.8</b>	<b>73.4</b>
<b>Goods Producers</b>	<b>35.5</b>	<b>22.5</b>	<b>58.0</b>	<b>42.0</b>	<b>23.9</b>	<b>66.0</b>	<b>41.2</b>	<b>25.3</b>	<b>66.4</b>
<b>Service Producers</b>	<b>37.6</b>	<b>37.5</b>	<b>75.1</b>	<b>37.2</b>	<b>40.7</b>	<b>77.9</b>	<b>36.3</b>	<b>39.6</b>	<b>75.9</b>

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

### 3. Debt service payments

External debt service payments cost a whopping USD1,930.8<sup>4</sup> million in 2017, which is still below the staggering payments of million 3,777.3 million in 2015, driven largely by Jamaica. Service producing countries' external debt service payments accounted for 69% of the total external debt service payments in 2017; noticeably, Jamaica's payments of US\$ 1051.1 million accounted for 79% of the service producing payments and 54% of the total Caribbean debt service payments. Among the service producers, Antigua and Barbuda's external debt service payments increased from US\$ 55.7 million in 2016 to US\$ 90.4 million in 2017, a 62% increase relative to 2016. Also, the cost of the external debt service payments absorbed 62.8% of the Government revenue in 2017.

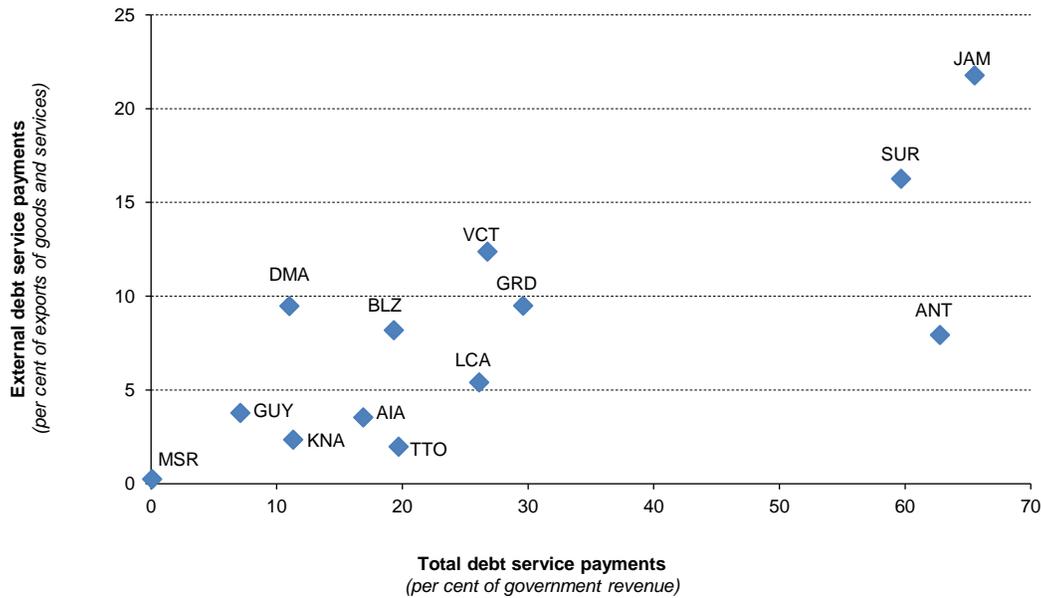
Among the goods producing countries, notwithstanding the 18 percentage points decline in 2017, Suriname's external debt service payments still consumed 59.7% of the Government total revenues.

<sup>4</sup> Data missing for Bahamas (2017) and Barbados (2016 and 2017).

Conspicuously, Trinidad and Tobago’s external debt service payment to Government revenue doubled between 2016 and 2017, reflecting lower revenue receipts but higher debt service payments. On the other hand, in Belize, the debt service payment to Government ratio increased from 17.9% in 2016 to 19.3% in 2017.

Overall, despite the continuing fiscal consolidation efforts made in the Caribbean region to bring down public debt to a manageable level, debt servicing costs remain high. In 2017, external debt services payment absorbed on average 27.4% of the total Government revenues. Whereas it declined by 2 percentage points in goods producing countries, in service producing countries it marginally increased from 26.3% in 2016 to 27.8% in 2017. With the challenges of natural disasters and sluggish global commodity prices, the recovery of goods producing countries remains slow.

**Figure 7**  
**Debt service payment ratios for the Caribbean in 2017**



**Table 6**  
**Debt service payment ratios for the Caribbean, 2012-2016**

	External debt service payments (dollars M)					External debt service payments (per cent of exports of goods and services)					Total debt service payments (per cent of revenue)				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Anguilla	2.6	2.7	3.7	6.7	7.2	1.8	1.4	1.8	3.2	3.5	8.3	7.9	9.2	22.3	16.9
Antigua and Barbuda	27.3	47.7	38.9	55.7	90.4	5.0	4.6	3.8	5.4	7.9	38.8	33.7	42.7	54.8	62.8
Bahamas	117.0	122.5	143.2	165.5		3.2	3.4	4.2	4.9		47.3	73.4	39.0	45.5	
Barbados	141.0	145.0	225.3			7.2	7.7	11.5			49.8	50.8	61.4		
Belize	61.9	76.3	125.0	83.9	85.1	5.9	7.1	12.1	8.8	8.2	16.3	17.0	27.1	17.9	19.3
Dominica	11.3	14.3	15.5	26.9	22.1	5.8	5.3	6.1	10.5	9.5	12.5	12.5	12.1	7.8	11.0
Grenada	40.7	38.3	40.1	52.5	55.4	19.0	8.0	7.9	10.0	9.5	32.7	32.7	23.9	27.5	29.6
Guyana	45.9	167.5	98.4	53.8	60.8	3.0	12.4	7.6	3.3	3.8	8.4	24.1	13.1	7.0	7.1
Jamaica	710.6	960.5	2,721.8	977.5	1,051.1	16.7	21.8	63.1	22.2	21.8	54.6	51.5	102.8	43.0	65.5
Montserrat	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1
Saint Kitts and Nevis	15.9	39.4	70.4	24.4	12.4	4.9	6.8	13.4	4.8	2.3	14.6	23.1	25.5	11.9	11.3
Saint Lucia	69.0	44.8	47.2	46.3	53.3	11.4	4.7	4.7	4.9	5.4	38.6	26.2	26.3	27.3	26.1
Saint Vincent and the Grenadines	25.2	26.9	26.8	27.0	35.0	13.9	10.5	9.5	9.2	12.4	25.2	27.5	24.7	23.1	26.8
Suriname	33.5	50.9	53.6	226.2	238.8	1.3	2.2	2.9	13.9	16.3	11.5	10.2	40.4	77.6	59.7
Trinidad and Tobago	312.6	153.4	167.2	169.0	219.0	1.6	0.9	1.3	1.8	2.0	9.7	8.8	9.9	9.8	19.7
<b>Caribbean</b>	1,614.6	1,890.2	3,777.3	1,915.5	1,930.8	6.7	6.5	10.0	7.4	7.9	24.5	26.6	30.5	26.8	27.4
<b>GoodsProducers</b>	453.9	448.1	444.2	533.0	603.7	2.9	5.7	6.0	7.0	7.6	11.4	15.0	22.6	28.1	26.4
<b>ServiceProducers</b>	1,160.7	1,442.1	3,333.0	1,382.5	1,327.1	8.1	6.8	11.5	7.5	8.1	29.3	30.9	33.4	26.3	27.8

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

## D. Monetary policy, domestic credit and inflation

This sub-section examines monetary policy-setting in the Caribbean and the extent to which economies have been able to successfully use monetary policy tools to achieve their macro-economic objectives. The performance of key monetary indicators such as interest rates, money supply and credit in the Caribbean for 2017 will also be reviewed.

Across countries the monetary policy stance of the Caribbean economies in 2017 was relatively unchanged and remained largely geared towards fostering economic growth and price stability. For instance, the monetary policy of the Eastern Caribbean Central Bank (ECCB) continued to be focused on maintaining the fixed exchange rate peg the Eastern Caribbean Currency Union (ECCU) at EC\$ 2.70 to US\$1; as well as ensuring the stability of and confidence in the Union's financial sector. Similarly, the Central Bank of Barbados made no change to its fixed exchange rate of BD\$2 to US\$ 1. In order to achieve this, the Central Bank attempted maintaining adequate levels of international reserves and there is fiscal consolidation. However, there was a BD\$ 274 million loss of reserves in 2017, largely due to a rise in imported fuel prices, which increases the difficulty in defending the exchange rate.

The Bank of Guyana, on the other hand, maintained its focus on price and exchange rate stability. It also allowed Guyana's reserve money to expand by G\$4,357 million or 2.7 per cent in 2017 to help finance economic activity in the country. The Central Bank of Trinidad and Tobago kept its repo rate at 4.75 per cent, resulting in the median prime lending rate remaining at 9 per cent in 2017. The Central Bank continued to allow the exchange rate of the Trinidad and Tobago (T&T) dollar to the United States (US) dollar to marginally decline to TT\$ 6.77 to US\$1 (selling rate) in 2017 from TT\$ 6.67 to US\$1 in 2016. It noteworthy that the monetary stance sought to maintain financial stability while guarding against capital flight.

Notwithstanding a reduction in the foreign assets of the banking system, the Central Bank of Belize (CBB) kept Belize exchange rate with the United States dollar (selling) unchanged at B\$ 2.0175 to US\$ 1. The CBB also left the statutory and cash reserve requirements unchanged at 23.0% and 8.5%, respectively. Correspondent banking services were restored to all domestic banks in Belize, allowing cross-border payments to return to normalcy.

In Jamaica, in an attempt to support growth in credit to the private sector, the Bank of Jamaica (BOJ) continued its accommodative monetary policy stance in 2017. In order to enhance the effectiveness of monetary policy, on 01 July 2017, BOJ transitioned to using the interest rate payable on overnight deposits as the signal rate. This interest rate was reduced in the third and fourth quarters of 2017 by 25 basis points (bps) to 3.50 per cent and 3.25 per cent respectively. This reduction reflected the BOJ's expectation that headline inflation would be contained to between 4 and 6 per cent. Other significant monetary policy developments in Jamaica were the implementation of the BOJ's Foreign Exchange Intervention and Trading Tool (B-FXITT), a rule based multiple-price foreign exchange intervention framework; and the BOJ raising of the cash reserve for deposit taking institutions (DTIs) foreign currency prescribed liabilities in order to limit the growing trend in dollarization.

While the Central Bank of the Bahamas generally operated an accommodative monetary policy in 2017 allowing for the expansion of international reserves, it remained focused on strengthening its financial regulatory environment. Nevertheless, the potential loss of correspondent banking relationships remains the most significant risk to the financial sector, which could significantly impact the country's international financial transactions. In addition, following a lowering its discount rate from 4.5 per cent in December 2016, the Central Bank of the Bahamas maintained the rate at 4 per cent throughout 2017. The country's exchange rate regime with the United States dollar also remained fixed. Although the US dollar declined against some major currencies in 2017, since the US is Bahamas largest trading partners and is a source market for over 84 per cent of Bahamas' imports, such factor had little impact upon the country's terms of trade.

## 1. Interest Rates

In 2017 the Caribbean's average commercial bank lending rate stood at 9.46 per cent, which was a 0.22 percentage point decline from the 9.8 percent average lending rate of 2016. The average deposit rate stood at 1.79 per cent, relative to its 1.86 percent in 2016. As a result, the interest rate spread marginally contracted by 0.14 percentage points from 7.81 per cent in 2016 to 7.67 per cent in 2017.

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 0.08 percentage points from 10.66 per cent in 2016 to 10.58 per cent in 2017 as these economies sought to stimulate economic activity. However, the service producing economies recorded a larger 0.26 percentage points decline in the lending rates, from 9.32 per cent in 2016 to 9.06 per cent in 2017. In 2017, Jamaica and Suriname reported the highest lending rates in the region of 14.59 per cent and 14.3 per cent respectively.

The goods producing countries recorded a rise in their average deposit rates from 2.91 per cent in 2016 to 3.01 per cent in 2017. The service producing economies recorded a contraction in their average deposit rates from 1.48 per cent in 2016 to 1.35 per cent in 2017. Out of all the countries, Jamaica recorded the largest change in the lending rate, deposit rate and interest rate spread of -1.61 percentage points, -0.31 percentage points, and -1.31 percentage points respectively.

There was a contraction in the average interest rate spread for the Caribbean region from 7.81 per cent in 2016 to 7.67 per cent in 2017. The observed interest spread contraction was most acute for the goods producing shrinking by 0.18 percentage points from 7.75 per cent in 2016 to 7.57 per cent in 2017. The service producing economies interest rate spread stood at 7.70 per cent in 2017; a 0.14 percentage points year-on-year decline. In 2017, Jamaica and the Bahamas reported the largest interest rate spreads of 13.59 per cent and 10.78 per cent respectively. (table 7 and figure 7 refer).

**Table 7**  
**Lending rate, deposit rate and spread, 2016-2017**  
(Percentages)

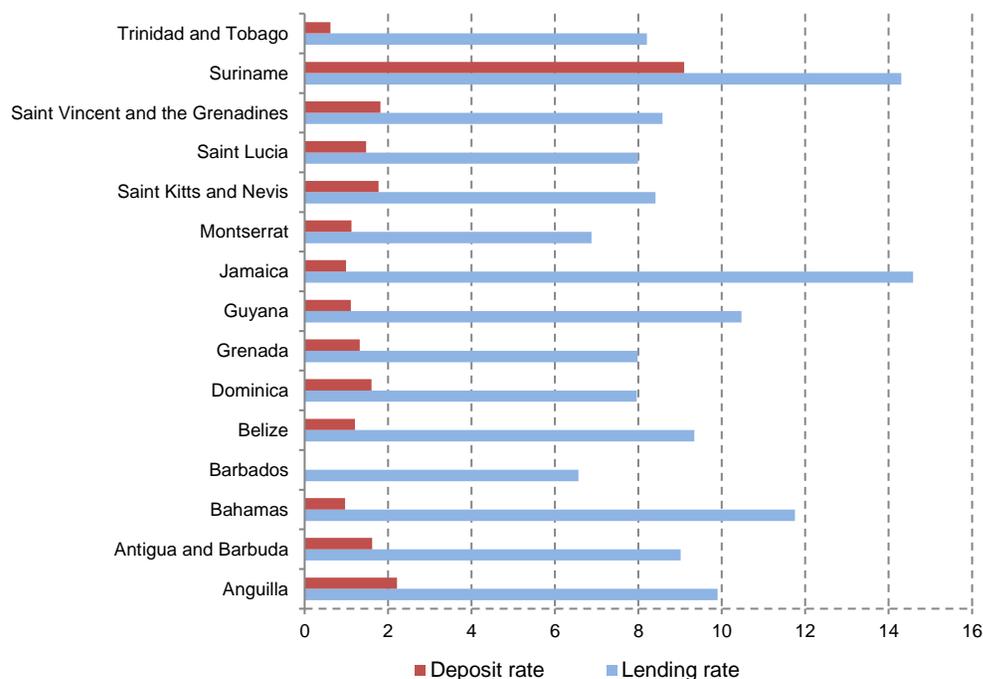
	2016			2017		
	Lending rate	Deposit rate	Spread	Lending rate	Deposit rate	Spread
Anguilla	8.77	2.35	6.42	9.90	2.21	7.69
Antigua and Barbuda	9.10	1.68	7.42	9.01	1.62	7.39
Bahamas	12.49	1.24	11.25	11.75	0.97	10.78
Barbados	6.73	0.20	6.53	6.56	0.00	6.56
Belize	9.66	1.3	8.38	9.34	1.2	8.13
Dominica	8.11	1.69	6.42	7.96	1.60	6.36
Grenada	8.42	1.44	6.98	7.98	1.32	6.66
Guyana	10.65	1.26	9.39	10.47	1.11	9.37
Jamaica	16.20	1.30	14.90	14.59	0.99	13.59
Montserrat	7.06	1.09	5.97	6.88	1.12	5.76
Saint Kitts and Nevis	8.55	1.84	6.71	8.41	1.77	6.64
Saint Lucia	8.15	1.62	6.53	7.99	1.47	6.52
Saint Vincent and the Grenadines	8.90	1.82	7.09	8.58	1.82	6.76
Suriname	14.10	8.50	5.60	14.30	9.10	5.20
Trinidad and Tobago	8.24	0.60	7.64	8.20	0.62	7.58
<b>Caribbean</b>	<b>9.68</b>	<b>1.86</b>	<b>7.81</b>	<b>9.46</b>	<b>1.79</b>	<b>7.67</b>

Table 7 (concluded)

	2016			2017		
	Lending rate	Deposit rate	Spread	Lending rate	Deposit rate	Spread
<b>Goods Producers</b>	10.66	2.91	7.75	10.58	3.01	7.57
<b>Service Producers</b>	9.32	1.48	7.84	9.06	1.35	7.70

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

**Figure 8**  
**Lending rate and deposit rate 2017**  
*(Percentage)*



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

## 2. Money supply and credit

With regard to the monetary supply, in 2017 the ratio of M1 (narrow money) to GDP stood at 25.9 percent. This was a 0.5 percentage point increase relative to the value reported for 2016. This marginal increase was driven by the service producing economies as their narrow money supply to GDP ratio increased from 23 percent in 2016 to 24 percent in 2017. This overall increase in the Caribbean's narrow money supply to GDP ratio was partially tempered by the contraction experienced in the goods producing economies from 31.3 percent in 2016 to 31 percent in 2017.

Reflecting the fall in lending to businesses, and overall sluggishness of the private sector, there was a decline in the domestic credit to the private sector from 50.4 per cent of GDP in 2016 to 48.96 per cent of GDP in 2017. This was driven mainly by the goods producing economies as their credit to the private sector fell from 40.08 per cent of GDP in 2016 to 38.37 per cent of GDP in 2017, a -1.71 percentage point change. In the service producing economies, there was also a decline in the private sector credit from 54.16 per cent of GDP in 2016 to 52.82 per cent of GDP in 2017.

In contrast, there was an improvement in the credit to the public sector in the Caribbean region from -1.7 per cent in 2016 to -0.8 per cent in 2017. There was an improvement in public sector credit in both goods producing economies and service producing economies. Within the Eastern Caribbean Currency Union (ECCU) region, there was an expansion of credit focused on the development of public infrastructure. The goods producing economies recorded an average 2.6 percentage point increase as its average public sector credit increased from 7 per cent in 2016 to 9.6 per cent in 2017. (See table 8).

**Table 8**  
**Monetary aggregates and domestic credit to the private and public sector, 2016-2017**  
(Percent of GDP)

	M1		M2		Domestic Credit to the Private Sector		Domestic Credit to the Public Sector	
	2016	2017	2016	2017	2016	2017	2016	2017
Anguilla	7.26	8.39	33.78	34.83	73.36	74.56	-13.1	-14.3
Antigua and Barbuda	20.06	22.36	73.2	73.8	48.91	45.87	10.4	10.3
Bahamas	20.33	22.58	84.37	82.05	52	49.06	24.8	23.4
Barbados	51.92	50.95	32.57	31.13	60.35	59.66	41.2	42.7
Belize	40.43	42.13	81.04	79.05	55.24	54.28	14.4	16.1
Dominica	19.26	28.85	85.64	105.6	50.84	51.69	-25.2	-28
Grenada	20.26	20.69	69.96	68.09	54.3	51.59	-10.8	-11.6
Guyana	20.02	21.43	48.51	50.02	30.28	30.54	1	3.7
Jamaica	11.87	10.9	21.38	24.23	23.92	20.69	6.8	7.2
Montserrat	37.12	35.69	141.41	137.37	47.94	49.13	-56.7	-49.6
Saint Kitts and Nevis	23.1	22.11	84.78	81.54	59.51	58.12	-23.4	-21.7
Saint Lucia	19.1	19.68	62.35	60.82	72.18	68.97	-6.1	-7.8
Saint Vincent and the Grenadines	23.22	22.32	69.64	68.57	52.46	51.65	-1.9	-0.5
Suriname	34.14	30.95	80.81	70.25	38.93	31.21	13.4	16.8
Trinidad and Tobago	30.51	29.4	59.59	57.96	35.85	37.44	-0.7	1.7
<b>Caribbean</b>	<b>25.24</b>	<b>25.9</b>	<b>68.6</b>	<b>68.35</b>	<b>50.4</b>	<b>48.96</b>	<b>-1.7</b>	<b>-0.8</b>
<b>Goods Producers</b>	<b>31.27</b>	<b>30.98</b>	<b>57.76</b>	<b>64.82</b>	<b>40.08</b>	<b>38.37</b>	<b>7</b>	<b>9.6</b>
<b>Service Producers</b>	<b>23.05</b>	<b>24.05</b>	<b>69.01</b>	<b>69.82</b>	<b>54.16</b>	<b>52.82</b>	<b>-4.9</b>	<b>-4.5</b>
<b>ECCU</b>	<b>21.17</b>	<b>22.51</b>	<b>77.6</b>	<b>78.83</b>	<b>57.44</b>	<b>56.45</b>	<b>-15.84</b>	<b>-15.39</b>

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

### 3. Inflation

In 2017, the Caribbean region recorded an average inflation of 2.6 per cent. This was a 1.6 percentage points decline from the 4.2 per cent inflation recorded in 2016. If Suriname is excluded from the Caribbean average, the average inflation would stand as 2.1 per cent in 2017. The decline in inflation over the 2016 to 2017 period was driven by the goods producing economies. In fact, inflation in the goods producing economies declined from 14.6 per cent in 2016 to 3.3 per cent in 2017. Again, if Suriname is not included, there would be a decline in the average inflation of the goods producing countries from 1.9 per cent in 2016 to 1.2 per cent in 2017. The contraction in inflation was partially tempered by the rise in price in the service producing countries, for which inflation increased from 0.5 per cent in 2016 to 2.3 per cent in 2017.

The effects of the devaluation that occurred in November 2015 led to Suriname's inflation being exceedingly high in 2016, standing at 52.4 per cent. Although Suriname managed to reduce its inflation to single digit levels of 9.3 per cent in 2017, it was still the highest inflation rate in the Caribbean region. Barbados (7.1 per cent) and Jamaica (5.2 per cent) also recorded relatively high rates of inflation in 2017. In Barbados, the increase in inflation from 3.9 per cent in 2016 to 7.1 per cent in 2017 was driven by higher international energy prices, as well as the implementation of higher indirect taxes.

In Jamaica, the uptick in inflation from 1.7 per cent in 2016 to 5.2 per cent in 2017 was primarily due to an increase in agricultural food prices associated with excessive rains, as well as higher energy and transport costs associated with the rebound in oil prices.

Within the ECCU region, there was an average deflation of -0.1 per cent in 2016, and low inflation of 1.5 per cent in 2017. The gradual rebound in oil and fuel prices contributed to the marginal increase in inflation in the ECCU region as the ECCU economies all import hydrocarbon-based fuels. (See table 9).

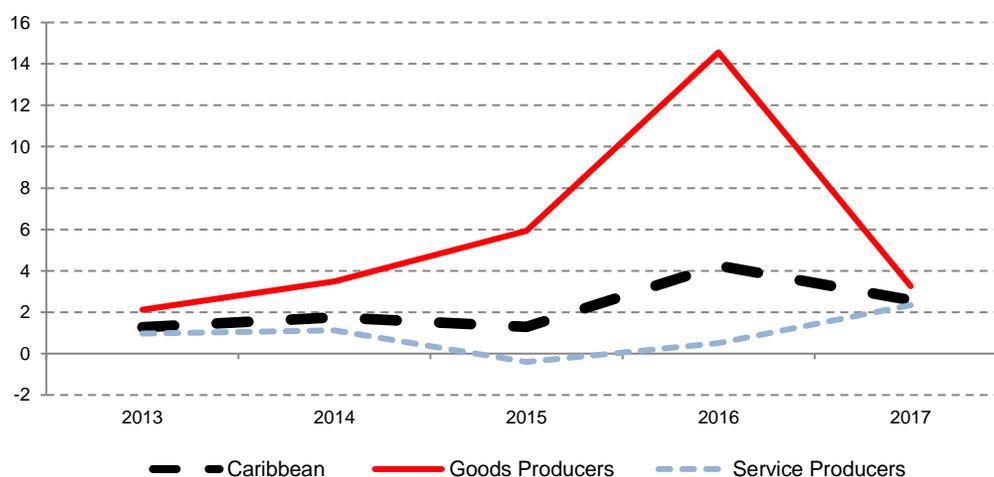
**Table 9**  
**Inflation**  
(Percentage)

	2013	2014	2015	2016	2017
Anguilla	0.8	-0.9	-1.7	1.7	1.3
Antigua and Barbuda	1.1	1.3	0.9	-1.1	2.4
Bahamas	0.5	1.2	1.9	0.8	1.8
Barbados	1.2	2.4	-2.5	3.9	7.1
Belize	1.4	0.4	-1.0	1.3	0.9
Dominica	-0.4	0.5	-0.7	0.7	0.6
Grenada	-1.2	-0.6	1.1	0.9	0.5
Guyana	0.9	1.2	-1.8	1.4	1.5
Jamaica	9.5	6.4	3.7	1.7	5.2
Montserrat	-0.5	-1.0	-0.1	-1.3	1.6
Saint Kitts and Nevis	0.6	-0.5	-2.4	0.0	0.2
Saint Lucia	-0.7	3.7	-2.6	-2.8	2.0
Saint Vincent and the Grenadines	0.0	0.1	-2.1	1.0	3.0
Suriname	0.6	3.9	25.1	52.4	9.3
Trinidad and Tobago	5.6	8.5	1.5	3.1	1.3
<b>Caribbean</b>	<b>1.3</b>	<b>1.8</b>	<b>1.3</b>	<b>4.2</b>	<b>2.6</b>
<b>Goods Producers</b>	<b>2.1</b>	<b>3.5</b>	<b>5.9</b>	<b>14.6</b>	<b>3.3</b>
<b>Service Producers</b>	<b>1.0</b>	<b>1.1</b>	<b>-0.4</b>	<b>0.5</b>	<b>2.3</b>

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

Note: Inflation is the year-on-year change in the CPI from December to December. Barbados inflation data represents the CPI annual average.

**Figure 9**  
**Inflation**  
(Percentage)



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

## E. Balance of Payments

### 1. Current account

The average current account balance in the Caribbean narrowed to -4.0 per cent of GDP in 2017 relative to -8.9 per cent of GDP in 2016. This improvement in the current account balance was heavily supported by a turnaround or narrowing of the current account deficit in many service producing economies where the average current account deficit improved from 10.5 per cent in 2016 to 5.1 per cent in 2017. There was also an improvement in the goods producing economies, as the average current account deficit contracted from 4.3 per cent of GDP to 1.2 per cent.

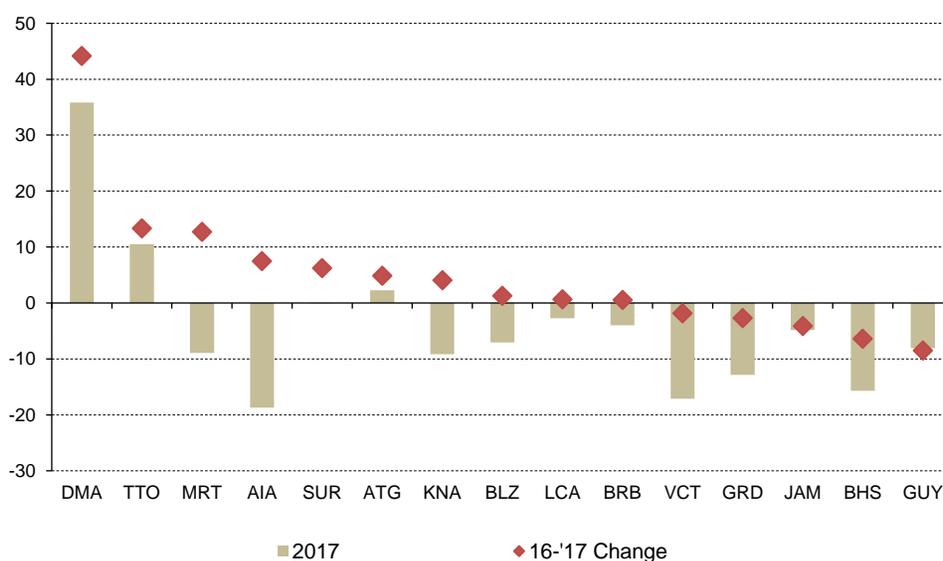
The improved current account balance performance of the service producing economies, was driven by Dominica, which recorded a 44.2 percentage point increase in its current account balance to surplus of 35.8 percent of GDP at the end of 2017. This was a due to increased grants in support of the hurricane relief along with greater inflows from the Citizen by Investment programme. However, Bahamas had the largest expansion in its current account deficit among the service producing economies as the current account deficit worsened from 9.3 per cent of GDP in 2016 to 15.7 per cent of GDP in 2017. This was a result of higher imports which lent itself to a widening of the trade deficit and further reinforced by a reduction in the services account surplus. As non-oil imports rose by 8.8 percent, partly reflecting higher capital goods imports for tourism projects and post-hurricane reconstruction, the trade deficit expanded by 11.8 percent to US\$2,404.1 million. Payments for oil imports also increased substantially by 31.5 per cent as international fuel prices increased. Similarly, for Jamaica, which had the second largest deterioration in the current account balance with a 4.1 percentage point decline to -4.8 per cent of GDP, the deficit worsened as increased fuel prices driven by higher domestic demand resulting in a 17 per cent decline in the goods balance.

Among the goods producing economies, Trinidad and Tobago recorded the largest improvement (13.4 percentage point increase) in current account balance, leading to a surplus of 10.5 per cent of GDP. Higher energy exports, driven by the recovery of crude oil and natural gas prices, along with falling capital imports due to a slowdown in government infrastructural projects, were the primary factors. Alternatively, Guyana reported the largest expansion, shifting from a slight surplus of 0.4 per cent of GDP to a deficit of 8.1 per cent of GDP. The key factors contributing to this result was a widening of the merchandise trade deficit as imports as a share of GDP increased by 5.1 percentage points while exports as a share of GDP

fell by 0.5 percentage points. The largest increases in imports were in the Parts and accessories, Petroleum and Other categories while exports of sugar declined by 33.9% stemming from restructuring in the Guyana Sugar Corporation.

Although the overall 2017 current account deficit for the region appeared to improve, an exclusion of Dominica's unusually high surplus shows that the deficit remained unchanged relative to 2016. Despite these results, many countries saw a contraction in their current account deficits in 2017. However, in 2018, the current account balance across the region has the potential to worsen as grants fall for hurricane affected countries, fuel prices continue to increase and as exports decline for one of the region's largest net exporters, Trinidad and Tobago, following the closure of its oil refinery operations.

**Figure 10**  
**Current account balance 2017**  
(Percentages)



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

## 2. Foreign direct investment

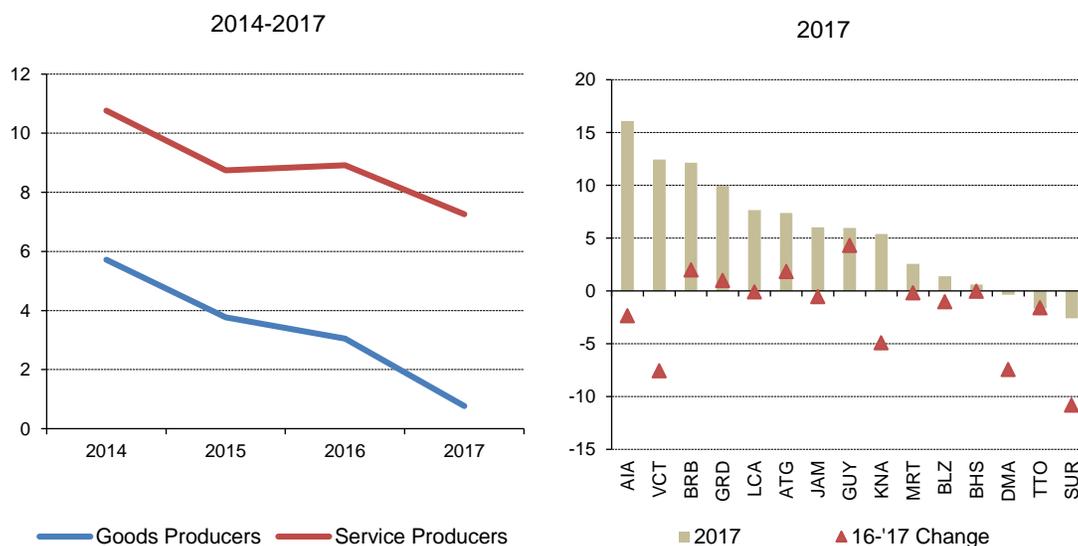
Foreign direct investment inflows declined in 2017, continuing a three-year trend. For the Caribbean, average FDI inflows, as a per cent of GDP, fell from 7.4% in 2016 to 5.5% in 2018. Both the goods producing and service producing economies followed the same trend (see figure 10). In fact, FDI increased in just four out of the fifteen Caribbean economies: Antigua and Barbuda, Barbados, Grenada and Guyana.

The average FDI inflows for the service producers fell by 1.7 percentage points, 7.3% of GDP in 2017. The growth of FDI in Antigua and Barbuda, Barbados and Grenada was small, and was offset by decreases in the other service producing economies. Notwithstanding the declines, the largest FDI inflows as a per cent of GDP were seen in the service producing economies and were concentrated on the tourism sector or Citizenship by Investment programmes. Anguilla received inflows of 16.1% of GDP, on account of the acquisition and renovation of one of the major luxury hotels by Belmond Ltd, a British hotel and leisure company, as well as reconstruction work by some hoteliers after hurricane Irma. Saint Vincent and the Grenadines received inflows of 12.4% of GDP; this was a fairly significant decline from its 2016 value of 20% of GDP but was due to the completion in early 2017 of the new international airport, which began construction in 2008.

The largest FDI inflows in absolute terms were in Jamaica (US\$ 886 million) and Barbados (US\$ 286 million). About one quarter of the investment in Jamaica was in the mining sector, as Chinese investors reopened the Alpart alumina plant, which had been closed since 2009. The tourism sector, which received a record number of tourists in 2017, was the recipient of US\$ 173 million in FDI inflows for hotel projects, while the energy sector’s foreign investment inflows went into the construction of natural gas and photovoltaic power plants. In Barbados, FDI was focused on hotel projects in the tourism sector, which also received a record number of tourists in 2017.

Among the goods producers, FDI inflows were quite low, averaging just 0.8% of GDP in 2018, down from 3.1% in the previous year. Trinidad and Tobago registered negative FDI inflows, reflecting increased holdings of foreign equity instruments by domestic firms. FDI fell by 6.6 percentage points of GDP in Suriname, due partly to repayment of investment by foreign direct investment enterprises in the mining sector. Guyana recorded the largest growth as a per cent of GDP, growing from 1.7% in 2016 to 6.0% in 2017. In absolute terms foreign direct investment almost quadrupled, from US\$ 58 million to US\$ 212 million, \$90 million of which went to the energy sector, in connection to Guyana’s recently discovered oil reserves.

**Figure 11**  
**Foreign direct investment inflows**  
*(Per cent of GDP)*



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

## II. Country Briefs

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### A. Bahamas

#### 1. General characteristics of recent trends

Economic growth strengthened to 1.4% in 2017, compared with 0.2% in 2016. Activity was bolstered by growth in construction based on a range of foreign investment projects in tourism, headlined by the efforts to complete the mega Baha Mar resort. Growth was also boosted to by reconstruction works following the passage of Hurricanes Matthew in 2016 and Irma in 2017. By contrast value added in tourism was dampened by decline in high-spending stopover visitor arrivals and lower cruise ship passenger arrivals, owing to diversion of ships to other regions following the hurricanes in 2017. Meanwhile, the offshore financial services sector remained buoyant, despite challenges posed by intense regulation and higher compliance costs. Inflation picked up from 0.8% in 2016 to 1.8% in 2017 driven by higher global fuel prices. Employment was boosted by the resumption of work on the Baha Mar project and post-hurricane rehabilitation and reconstruction. This led to a 1.5 percentage point decline in the unemployment rate to 10.1% November-on- November. Driven by post-hurricane reconstruction and election spending, the fiscal deficit increased to 5.5% of GDP in 2016/17 from 2.6% of GDP in 2015/16, overshooting government's more conservative projection of 0.8% of GDP. Following the lowering of the discount rate in 2016 to stimulate activity, monetary policy was neutral in 2017 as the rate held steady. The main development in the financial sector was the significant increase in external reserves mainly due to government's external borrowing. The balance of payments current account deficit widened by 6.4 percentage points to 15.7% of GDP from 9.3% of GDP in 2016.

The economy is expected to build on the momentum of 2017 to grow by 2.5% in 2018. Growth will be propelled by a recovery in tourism, reflecting the stronger growth in the United States, the Bahamas' major market and the opening of the Baha Mar resort, which has added some 1700 rooms to the hotel room stock and witnessed good occupancy levels of between 65 to 70%. Construction activity is expected to buoyed by smaller-scale foreign investment projects in tourism and government office buildings, road upgrades and docks in the Family islands. Activity in the offshore financial services sector is expected to remain stable as the sector continues to consolidate and upgrade regulation to meet international standards.

The rate of unemployment is expected to decline with increased employment with the opening of the Baha Mar and buoyant construction activity. Inflation is expected to pick up marginally, due to higher oil prices stemming partly from lower global supply. The fiscal deficit is expected to decline to around 2.5% of GDP as government introduce fiscal responsibility legislation and targets consolidation to stabilise public debt. Monetary policy is expected to remain neutral in 2018, as with all indications pointing to moderate growth, the Central Bank is not expected to adjust its policy rate. Monetary developments would reflect the impact of continued sluggish growth in private sector credit amidst growth in banking sector liquidity as banks remain risk averse in their lending, as they focus on reducing their non-performing loans (NPLs). The current account deficit of the balance of payments is projected to narrow somewhat as imports of construction and other materials taper off with the completion of work on the Baha Mar project and post-hurricane reconstruction.

## **2. Economic policy**

### **a) Fiscal policy**

Reflecting the impact of post-hurricane reconstruction and election-spending fiscal policy was expansionary in 2017, following the contractionary stance in 2016. The overall fiscal deficit increased from 2.6% of GDP in FY2015/16 to 5.5% of GDP in FY2016/17, an increase of B\$ 359 million in nominal terms. This deficit overshot the budgeted amount and reflected a spike in expenditure that surpassed firm growth in revenue. Total expenditure expanded by 21.9% to B\$2,729.9 million, the equivalent of 22.4% of GDP, underpinned by higher post-hurricane and election spending. Capital spending grew by more than 66% to B\$ 390.2 million, including outlays on repairs and reconstruction after Hurricane Matthew in 2016 and acquisition of new defence force vessels. Current spending rose by 16.7% to \$2,339.7 million. Higher government consumption was linked to sharp (63%) increase in purchases of goods and services, associated with increased spending on rent, communications and utilities and the implementation of the National Health Insurance (NHI) plan.

Total revenue posted firm growth of 6.8% to B\$ 2,060.5 million, buttressed by a 9.8% increase in tax receipts. This largely reflected a 15.1% hike in proceeds from taxes on international trade & transactions to B\$ 582.7 million, in line with growth in imports. Property taxes rose by 16.2% on the heels of measures to improve tax administration and collect arrears. Meanwhile, VAT receipts registered marginal growth of 1.6% to B\$ 638.0 million.

Government reduced its guaranteed allocations to some public entities in 2017, which led to a 4.1% (B\$30.4 million) reduction in its contingent liabilities. This helped to contain growth in public debt to 5.6 percentage points to 72.3% of GDP, compared with 66.76% of GDP in 2016. Foreign currency debt represented 39.5% of the total debt.

The government made some progress at fiscal consolidation in the first half of FY2107/18. The fiscal deficit contracted by 36.0% to B\$ 195.6 million. This was facilitated by a 7.2% (B\$ 83.3 million) cut in spending, supported by a 3.1% (B\$ 26.7 million) increase in revenues. Expenditure normalised owing to a 50% cut in capital spending following exceptional hurricane-related spending in the previous fiscal year. Revenues were bolstered by 3.3% (B\$ 9.9 million) increase in VAT receipts and proceeds from motor vehicle taxes, while lower imports led to reduced receipts from taxes on international trade and transactions.

The government has introduced fiscal responsibility legislation to contain growth in the deficit and public debt. The recent 2018/19 budget communication highlighted the specific objectives of the legislation. These include: reducing the long-term debt to 50% of GDP; to reduce the overall fiscal balance to 0.5% of GDP from FY2020/21 onwards; after achieving the 0.5% of GDP target for the fiscal balance, to contain growth in recurrent expenditure in line with growth in nominal GDP. These are ambitious targets, which if met would contribute significantly to debt sustainability as a platform for stable growth.

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

Monetary policy was neutral in 2017, as the Central Bank did not adjust its policy discount rate following the reduction in 2016 aimed at stimulating activity. The most significant monetary development was the dynamic growth in banking sector liquidity and external reserves, which were boosted by government's

borrowing abroad and sluggish growth in domestic credit. Government issued an external bond in the amount of US\$ 750 million in November 2017.

Growth in the broad money supply (M2) slowed to 2.1%, reflecting reduced growth (5.8%) in savings deposits and a 4.5% fall in the value of fixed deposits. Domestic credit declined by 3.1% (B\$ 284.5 million), as government used a portion of its foreign borrowing to reduce its domestic debt and asset sales contributed to a fall in private sector borrowing. Credit to the private sector contracted by 3.1%, mainly reflecting the transfer of a financial entity's non-performing loan to government's special purpose vehicle (SPV), Bahamas Resolve Corporation. Personal loans which account for over 81% of the total declined by 1.2% and loans to construction and transport, among other sectors also fell. There was a marked improvement in banks' credit quality during the year, with non-performing loans falling by 22.2%, associated with debt restructuring, loan write-offs and resolutions.

The weighted average interest rate spread contracted by 47 basis points to 10.78%. A 74 basis points decline in the average loan rate to 11.75% outweighed the 27 basis points fall in the deposit rate to 0.97%. Narrowing of the spread was influenced by high liquidity alongside subdued loan demand.

In 2017, the Central Bank continued its phased liberalization of the exchange rate control regime. The policy aims to improve economic efficiency and competition, while maintaining the integrity of the fixed exchange rate regime. There was further liberalization of capital account transactions, which allowed Bahamian business and resident entities access to foreign currency financing of up to B\$ 5 million.

### **c) Other policies**

The government has tabled a White Paper aimed at restoration and revitalisation of the Over-the-Hill inner-city community. Key pillars of the programme include a social empowerment that is focused on anti-poverty policies and actions; economic empowerment through including a mix of job creation, self-employment and small entrepreneurship; rejuvenation of the community by improving the physical surroundings and the upgrading and preservation of historical and cultural assets. The programme also aims to empower youths and the elderly through more targeted investments in social intervention programmes.

The government has also embarked on a "Digital Bahamas Initiative" in collaboration with the IDB. The project aims to improve the country's competitiveness by reducing the costs of doing business with the government. This would be promoted in a number of ways including: streamlining government's procedures and providing them online to reduce costs; increasing the use of ICTs in the public sector; increasing the transparency of government operations and improving auditing and control mechanisms. The project will lead to the establishment of a single national identity number and identity card that will facilitate transacting business in the public and private sectors.

## **3. Trends in the principal variables**

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

External imbalance worsened in 2017, with the current account deficit of the balance of payments widening to 15.7% of GDP from 9.3% of GDP in 2016. Higher imports led to a widening of the trade deficit, which was reinforced by a reduction in the services account surplus. The trade deficit expanded by 11.8% to US\$ 2,404.1 million, as non-oil imports rose by 8.8%, partly reflecting higher capital goods imports for tourism projects and post-hurricane reconstruction. Payments for oil imports rose sharply (31.5%) in line with the increase in international fuel prices.

The tourism sector suffered setbacks due to the loss of room capacity in Grand Bahama after the hurricane and increased regional competition. This led to lower visitor arrivals, especially in the high value added stopover segment which contributed to a 2.4% fall in net travel receipts to US\$ 2,206.5 million, which contributed to a 10.7% decline in the services account surplus. The surplus was also affected by reduced inflows of offshore companies' local expenses and higher net payments for miscellaneous services and transportation.

The deficit on the income account contracted by 17.2% to US\$ 364.3 million, mainly due to investment-related payments. Private sector net payments fell by 24.0%, while net payments for official

transactions rose by 5.4%, linked to an increase in the Central Bank's investment income. Current transfers normalised to net outflows from significant net receipts in the previous year because of re-insurance claims from Hurricane Matthew.

After narrowing by 23.5 % in 2016, the capital and financial account surplus, including errors and omissions expanded by a substantial 93.8% to US\$ 2422.9 million. This major reversal stemmed from government external borrowing that expanded public sector receipts more than threefold to US\$ 823.2 million. Meanwhile, net foreign direct investment remained stable at US\$ 73.6 million, partly reflecting the winding down of some tourism projects. International reserves grew substantially by 56.9% to 1418.4 million, covering 23 weeks of merchandise imports, compared with 16.5 weeks in 2016. Underpinned by tourism receipts, reserves expanded by US\$ 189 million in the first quarter of 2018.

### **b) Economic Activity**

The economy returned to positive growth of 1.4% in 2017, following the decline of 1.7% in 2016. Growth was bolstered by a pickup in construction activity, whose value added grew by 24.6% up from 2.6% in 2016. Construction was boosted by the resumption of work to complete the mega Baha Mar resort, other varied-scale tourism projects and rehabilitation and reconstruction works after Hurricane Matthew. Value added in the wholesale and retail sector rose by 4.4%. By contrast, output in the accommodation and food services sector that reflects value added in tourism declined by 12%, furthering the contraction of 3.4% in 2016. The tourism sector was buffeted by increased competition from regional competitors, many of which are more affordable than the Bahamas and also the loss of hotel room capacity in Grand Bahama, owing to the impact of the hurricane. As a result, tourist arrivals fell by 2.1% to 6.1 million visitors. However, the major impact came from a 4.0% decline in air arrivals, which includes the high value added stopover arrivals segment. This was reflected in the performance of hotels in New Providence and Paradise Island, where average room occupancy fell by 6.8% to 60.7% and the average daily room rate declined by 0.8% to B\$ 239.2. Cruise ship passenger arrivals contracted by 1.5% to 4.8 million.

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

The rate of inflation increased from 0.8% in 2016 to 1.8% in 2017, mainly driven by higher international fuel prices. Housing, water, electricity, gas and other fuels, the most heavily weighted sub-index increased by 2.9%, compared with a 2.0% increase in 2016. Increased fuel costs also provided impetus for higher costs of transport and communication, which increased by 4.9% and 2.7%, respectively. Costs in the restaurants and hotels sector increased by 7.9% in 2017. Meanwhile, health costs fell by 11.9% and the costs of clothing and footwear declined by 5.7%.

Recovery in activity, particularly construction, led to a fall in the rate of unemployment by 1.5 percentage points to 10.1% in November of 2017, compared with the similar month for 2016. This stemmed from a 5.9% (11,345 persons) being employed, which surpassed a 4.1% growth in the labour force to 226, 680 persons. To date the Baha Mar Resort has hired over 4,000 persons. The unemployment for women at 11.1%, remained higher than that for men at 9.2%.

## **B. Barbados**

### **1. General characteristics of recent trends**

The economic landscape for Barbados remains very challenging. Much needed fiscal consolidation measures implemented in 2017, while necessary to address the high fiscal deficit, has contributed to a slowdown in economic activity. Consequently, GDP growth in 2017 fell to 0.6% relative to 1.8% in 2016. Growth in the tourism sector of 1.2% and the construction sector of 6.3% were the primary contributors to this modest outturn. By the first quarter of 2018, GDP growth fell by 0.7% relative to 3.2% growth during the same period in 2017, primarily because the observed increase in long stay arrivals was offset by a reduction in the overall average length of stay as growth in the shorter staying United States market continued to pick up.

The government's main challenge continues to be addressing the fiscal deficit and bringing debt levels to manageable levels. Fiscal adjustment measures implemented in 2017 yielded modest improvements to the fiscal deficit but fell short of expected targets. The fiscal deficit narrowed slightly by 0.3 percentage points of GDP to 4.2% of GDP; 4.5 percentage points of GDP lower than the expected fiscal surplus of 0.3% of GDP. The gross central government debt, which includes borrowings from the Central Bank of Barbados (CBB) and the National Insurance Scheme (NIS) increased by 3.6 percentage points to reach 151% of GDP as of March 2018. At the end of the first quarter of 2018, the Central Bank of Barbados' stock of international reserves had fallen by 40% to US \$211.7 million relative to the same period in 2017 representing 6.9 weeks of import cover. The newly elected Barbados Labour Party is seeking debt restructuring assistance with the International Monetary Fund. During the debt restructuring process, they also indicated their intention to suspend debts owed to external commercial creditors and only pay interest payments on domestic debt while asking domestic creditors to roll over principal maturities.

The annual inflation rate at the end of the first quarter of 2018 increased by 1.6 percentage points to 4.5% relative to the same period in 2017 largely due to rising energy prices and stricter fiscal consolidation measures. By the end of 2017, the unemployment rate increased to 10.2% relative to 9.7% in 2016; a reflection of the slowdown in economic activity. Given the downturn in tourism during the first quarter of 2018, continued delays in tourism-related projects, waning investor confidence and the ongoing fiscal challenges, economic growth is projected to further slow to 0% in 2018. At this critical juncture, the Barbados economy needs decisive measures to address the public finances and in turn, stabilize and grow the economy.

## **2. Economic policy**

### **a) Fiscal policy**

The government of Barbados continues to focus on fiscal consolidation to address the high fiscal deficit and bring the debt to manageable levels. Fiscal adjustment measures implemented in 2017 yielded modest improvements to the primary balance and fiscal deficit but fell short of expected targets. By the end of FY 2017-18, the government of Barbados aimed to achieve total revenue of 35.5% of GDP and total expenditure of 35.5% of GDP; which equates to an overall fiscal surplus of 0.3% of GDP and a primary balance of 7.7% of GDP. Instead, the estimated outcome for total revenue fell short by 4.9 percentage points; yielding 30.9% of GDP. The total expenditure was 0.5 percentage points higher than expected at 35.5% of GDP. In the end, the fiscal deficit stood at 4.2% of GDP; 4.5 percentage points short of the expected 0.3% of GDP surplus target. The primary balance also fell short by 3.8 percentage points, instead yielding 3.9% of GDP. This outcome was attributed to continued delays in the divestment of state assets, the overall underperformance of revenue, particularly the National Social Responsibility Levy (NSRL) and Value Added Tax (VAT) and higher than expected interest expenditure.

For FY 2017-18, total revenue expanded by 6.5% in large part due to a 13.7% increase in indirect taxes associated with the fiscal consolidation efforts. The NSRL, one of the primary fiscal consolidation measures, contributed 56.3% of the observed increase in indirect taxes but fell short of expected targets. The revenue shortfall can be attributed to exemptions from the tax for certain categories of goods and the fall in non-oil imports during the latter half of 2017 which dampened overall collection. Similarly, VAT yields increased by 36% but fell short of the expected targets for similar reasons as the NSRL. Alternatively, import duties fell by 7.5% and non-tax revenue and grants fell by 13.6%. In terms of direct taxes, corporation taxes increased by 9.2% partly because of improved profitability of some financial institutions and effects from the reduction in the carry forward period for group taxes. However, this increase translated into a marginal increase in overall direct taxes. On the expenditure side, current expenditure expanded by 3.7% primarily because of a 3.7% increase in domestic interest payments and a 7.9% increase in transfer and subsidies, particularly grants to individuals and public institutions.

The gross central government debt, which includes borrowings from the Central Bank of Barbados (CBB) and the National Insurance Scheme (NIS) increased by 3.6 percentage points to reach 151% of GDP as of March 2018. Most of this increase was related to issuance of securities to cover resolution costs to protect policy holders of CLICO International Life Insurance Ltd. Further increases stemmed from the creation of a contingent liability by guaranteeing the payment of the principal and interest of the bonds issued by New Life

Investment Company Inc. Other increases in debt were related to efforts to protect British American Insurance Company Ltd. policy holders.

In May 2018, the Barbados Labour Party won the general elections and as part of their Public Debt Restructuring Plan, they announced that they will be seeking debt restructuring assistance with the International Monetary Fund (IMF). They also indicated their intention to suspend debts owed to external commercial creditors while only paying interest payments due on domestic debt and asking domestic creditors to roll over principal maturities until the debt restructuring efforts have concluded. Following this announcement, regional rating agency, The Caribbean Information and Credit Rating Services Limited (CariCRIS) placed Barbados on a “rating watch” and listed the island’s credit worthiness as “poor”. Therefore, both the foreign and local currency ratings now stand at “CariC”.

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

The Central Bank of Barbados (CBB) continues to hold firm with its support of the fixed exchange rate peg of US\$ 2: BDS \$ 1; a position typically achieved by maintaining adequate levels of international reserves. However, there has been a precipitous fall in international reserves which stood at US\$ 211.7 million as of March 2018. This represents 6.9 weeks of import cover; much less than the internationally accepted benchmark of 12 weeks.

The weak import cover coupled with government financing of the fiscal deficit through indirect purchase of government debt and money creation has increased pressure on the CBB to maintain the currency peg. In light of this, in 2017, the CBB embarked on a drastic reduction in government financing of the fiscal deficit by increasing the Barbados dollar securities requirement for commercial banks from 10% to 15% as of June 2017 which has increased the commercial bank domestic financing by 171.1%. By the end of FY 2017-18, the CBB’s government financing declined by 90.8% to US\$ 36.3 million relative to the previous fiscal year. The NIS’s government financing also declined by 98.3% to US\$ 1.6 million relative to the previous fiscal year. CBB and NIS financing were, however, replaced by commercial bank financing, which increased by 171.3% to US\$ 154.5 million relative to the previous. Despite the sizeable decline in government financing, the CBB government financing persists. Therefore, as the fiscal deficit remains at unmanageable levels, demand for local government securities wane, and external debt service payments approach, reliance on the CBB may persist. Should this occur, there is potential for an unsustainable expansion of the monetary base and depletion of the international reserves. This reinforces the need for the government of Barbados to take active measures to address the high fiscal deficit to ensure that reliance on Central Bank financing for fiscal year 2018-19 is further reduced and the currency peg maintained.

Government’s financing of the fiscal deficit has limited the CBB’s ability to influence interest rates in the Treasury bill market. The effective interest rate has averaged 3.3% in the first quarter of 2018. Growth in credit to the private sector remains weak despite low interest rates, growing by a mere 3.6% by the end of the first quarter in 2018 relative to the same period in 2017. The weighted average deposit increased marginally to 0.5% as of February 2018 relative to 0.3% in February of 2017. Similarly, the weighted average loan rate remained mostly unchanged at 6.7% as of February 2018.

## **3. Trends in the principal variables**

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

The primary focus of the CBB has been to boost the stock of international reserves given the precipitous decline over the last few years. At the end of the first quarter of 2018, international reserves stood at US\$ 211.7 million representing a 40% decline relative to the same period in 2017. This value represents 6.9 weeks of import cover; well below the internationally accepted precautionary benchmark of 12 weeks. The CBB has indicated that the significant fall in reserves is attributed to higher than usual public-sector debt service obligations.

Currently, efforts to divest government assets, namely the Barbados National Oil Terminal Limited and the Hilton Hotel, as a short-term measure to shore up the reserves have stalled. In the meantime, the CBB has indicated its intention to turn to the private sector to bolster the level of international reserves by allowing them to pledge their foreign assets to the Bank. This strategy mimics one conducted in the early

1990s where private sector entities voluntarily came together to help the CBB maintain liquidity levels during an adjustment phase after which funds were returned to these parties. The CBB hopes to yield approximately US\$ 60 - \$ 70 million from this initiative, which is only expected to stabilize the was estimated to have declined to US\$ 188.6 million (2.0% of GDP); appreciably down from US\$ 205.8 million (4.5% of GDP) in 2016. This outturn was heavily supported by a 3.4% growth in the service surplus but slightly offset by 24.5% increase in fuel imports reflecting increasing energy prices.

### **b) Economic activity**

Weak GDP growth has become an longstanding component of the Barbados economic landscape owing to fiscal instability and much needed structural reform. As expected, the recent fiscal consolidation measures have dampened economic activity. As a result, GDP growth in 2017 fell to 0.6% relative to 1.8% in 2016 and is forecasted to fall further by the end of 2018. The modest performance in 2017 was primarily supported by an estimated 1.2% growth in the tourism sector and 6.3% growth in the construction sector. A solid performance in long stay arrivals, particularly in the first three quarters of 2017, resulted in growth of 4.4% with a cumulative growth in the United States and Canada markets of 11.2% and 7.7%, respectively. Cruise passenger arrivals were also up by 14.7% stemming from increased cruise ship calls at the Bridgetown Port. However, arrivals from the United Kingdom, Barbados' main tourism source market, were slightly down by 1.2%; a partial result of uncertainty surrounding Brexit. Further, in contrast to the increased growth in overall long stay arrivals, the average length of stay of visitors from all major non-regional source markets fell by 5.6%.

By the first quarter of 2018, economic activity contracted by 0.7%. Value added in the tourism sector declined by 1% in the first quarter of 2018 relative to 4.5% growth during the same period in 2017. Despite long stay arrivals increasing by 5.8% as of February 2018, the overall average length of stay reportedly fell as arrivals from the shorter staying United States market continued to increase.

For the construction sector, the 6.3% growth in 2017 was largely due to new investment in tourism and commercial properties. However, by the first quarter of 2018, large scale tourism projects such as the Sandals Royal were completed and other ongoing projects such as the Hyatt and Wyndham Grand continued to be delayed. In turn, value added in the construction sector weakened, falling by 1% in the first quarter of 2018 relative to the same period in 2017. Overall, economic performance in all other sectors was subdued and further dampened by a delayed sugar harvest.

The outlook for economic growth for 2018 is very challenging given the downturn in tourism during the first quarter and ongoing delays in tourism-related projects. Consequently, economic growth for Barbados is projected to be 0% by the end of 2018 as efforts to address the fiscal deficit progress and investor confidence wanes from repeated credit downgrades and policy uncertainty given the newly elected government's intention to pursue debt restructuring with the assistance of the IMF. At this time, the Barbados economy is in need of decisive measures to address the public finances to stabilize and grow the economy.

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

After two years of declines, the unemployment rate increased in 2017, averaging 10.2% relative to 9.7% in 2016. There were notable increases declines in Construction, Mining and Quarrying and Wholesale and retail. Stricter austerity measures coupled with a subdued economic performance in 2017 would have contributed to this increase. Moreover, given the need for further fiscal adjustment measures and slow progress of large scale tourism-related infrastructure projects, there is potential for unemployment to further increase in 2018.

Invariably, with international energy prices trending upwards and the implementation of stricter fiscal consolidation measures translating to higher prices, the year-on-year annual inflation rate in 2017 increased by 2.5 percentage points to 4.0%. By the end of the first quarter of 2018, inflation stood at 4.5% relative to 2.9% during the same period of 2017. Further increases can be expected as the impact of austerity measures persist in 2018.

Public sector wages and salaries have progressively fallen over the last five years. In fiscal year 2017/18, there was a marginal fall by less than 1% year-on-year. Trade unions have been keen on

acquiring increased wages for workers, however, it is unlikely for this to materialize given the limited fiscal space.

## C. Belize

### 1. General characteristics of recent trends

After experiencing a contraction in 2016 and a slow recovery in 2017, the Belizean economy is projected to grow by 2.6% in 2018, which is a slight increase from the 1.2% growth rate in 2017. The anemic economic performance was driven chiefly by the services sector, which contributed to 67% of the GDP in 2017, followed by the secondary and primary sectors with 14.8% and 10.2%, respectively. Buoyed by a vibrant and expanding tourism sector, Belize experienced an increase of 9% and 1% in the number of stop-over and cruise-ship passengers in 2017, respectively, in comparison to 2016. Despite an increase in the total annual visitors' stayover by 9.1% and its second position as foreign exchange earner (behind receipts from exports of goods), value added in tourism declined, owing to increased demand for lower cost of accommodations, which reduced visitors' spending. Apart from "hotels and services" that recorded a 1% decline, the tertiary sector experienced growth across all services.

Output in the primary sector increased by 6.2%, due in part to the surge in the production of sugarcane (13%) and banana (13%) and increase in the quantity of bananas exported by 17%. Notably, while the production of banana has gradually recovered from the devastating effects of Hurricane Harvey in 2016, the production of sugarcane in 2017 was boosted by the entry of new players in the sector, more specifically *Santander* and *American Sugar Refineries/ Belize Sugar Industries* (ASR/BSI). Additionally, the increase in sugar production is partially due to the quality of cane delivered to the sugar producers and the favorable weather conditions in the northern part of Belize, the hub of the sugarcane production. Following the withdrawal of *Fruta Bomba* and *Belize Fruit Packers* after over twenty years of operation in Belize, the quantity produced and exported of papaya continue to decline, which put which put the country on the brink of losing its third place on the global market for papaya. The citrus industry continued to suffer from the devastation caused by Hurricane Earl in 2016 and the citrus greening infestation. The secondary sector contributed 14.8% of the GDP (constant of 2000) in 2017, a slight decline in comparison to 2016 (15% of GDP). Exports of chemical products and manufactured goods were encouraging with 80% and 86% increase in the value of exports, respectively.

The Central Bank of Belize continued to pursue an expansionary monetary policy with a reduction in the reserve requirements for commercial banks, which increased loans and advances to the public. On the other hand, in a spending-reduction effort, the government raised tax revenues by introducing new general sales taxes (GST) and excise duties on products that did not fall under the previous tax regime; among other lubricating oils, jet fuel and mobile data services.

Total unemployment rate stood at 9.7% in 2017, which was almost 2 percentage points higher than the 8% in 2016. Noteworthy is the high unemployment rate of female (13.6%), almost twice the rate for males (7.1%).

### 2. Economic policy

#### a) Fiscal policy

Despite the modest 1.2% increase in real GDP growth, creating a fiscal space for long-term major projects remains a challenge. In 2017, the primary balance improved from -0.6% of the GDP in 2016 to 0.0% of the GDP. Also, the overall fiscal balance shrunk from 3.4% of the GDP to 3.1% of the GDP in 2017. Between 2016 and 2017, total tax revenues increased by 4%; the bulk of the revenues stems from general taxes on goods and services, which netted BZ\$ 517m out of the BZ\$ 948m in total tax revenues collected in 2017. The country also recorded an increase in taxes on income, profits and capital gains collected between 2016 (BZ\$ 260m) and 2017 (BZ\$ 267m). Notwithstanding the encouraging trend in the total tax revenues, taxes on international trade and transactions declined by 18% in 2017. To streamline the tax

collection on international trade and transactions and avoid the unpredictability of duties for the traders, the government is on the verge of amending its Trade Licensing Act by proposing a fixed fee system.

Total expenditure narrowed from 33.2% of GDP in 2016 to 32.2% of GDP in 2017, which is a 1 percentage point improvement. In 2017, outlays on wages and salaries amounted to 36% of the total expenditure, 2 percentage points increase in comparison to 2016; Thus, reflecting the final salary increase that was awarded to civil servants in the Collective Bargaining Agreement signed in February 2014 between the Government and Unions representing public officers and teachers. Subsidies and transfers increased by 6% while interest payments on public debt increased by 14%, reflecting a 0.3% of the GDP.

Belize is projected to record a primary surplus of BZ\$ 32.9 million during the fiscal year 2017/2018, a major turnaround from the deficit of BZ\$ 41.3 million that was recorded during the Fiscal Year 2016/2017. In 2018/2019, the Government aims to reduce spending while raising an additional BZ\$ 20.5 m (US\$ 10.25m) through the reform of the tax regime. To boost tax revenues, taxes on products that did not fall under the previous tax regime were introduced. For instance, instead of raising the current 12.5% General Sales Tax (GST) rate, under the new tax reform, taxes will be imposed on products such as lubricating oils, jet fuel, mobile data services and business process outsourcing companies. While the government aims to raise total revenue from 29.1% of GDP in 2017/2018 to 30.3% of GDP in 2018/2019, spending control is one of its top fiscal priority. Over the next fiscal year, the government intends to reduce public-sector wage bill by BZ\$ 431million through staff attrition and cuts in administrative costs while pledging to continue funding social programs in health and education, such as high school subsidies; tuition assistance; construction of new classrooms, health posts and hospitals. Moreover, the Government of Belize targets a primary surplus of 2.2% of GDP and an overall deficit of 0.7% during the fiscal year 2018/2019.

High public debt remains a major threat to growth and macroeconomic stability in Belize. Total external debt in 2017 is projected to increase by US\$ 53million, which is a 4% increase relative to the 2016 (USD 1203 m) debt-stock. At US\$ 86million, debt service costs in 2017 was a major constraint on fiscal space for undertaking public investment and social programmes. While the debt-to-GDP ratio is projected to reach 87.5% by the end of 2017, two major developments are likely to lead to the ballooning of the debt stock of Belize in 2018. First, the ruling of the Caribbean Court of Justice (CCJ) ordering the Belizean Government to pay BZ\$ 90million to Belize Bank Limited on a loan of BZ\$ 29million contracted in 2004 by the Universal Health Services Limited (UHS), a private hospital in which the Government acted as a guarantor. Secondly, the financing of the remaining balance on the compensation settlements for the re-nationalization of the Belize Telemedia Limited, settled through issuance of US\$ 90 million new securities and the sale of part of its share in BTL and Belize Electricity Limited (BEL).

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

The Central Bank of Belize pursued an expansionary monetary policy through a reduction in reserve requirements for the commercial banks; therefore, increasing credit growth and money supply. Despite the stated policy, the broad money supply M2 declined by 0.4% at the end the 2017 year, which was a rare occurrence since the drop of the same size in 2010. Weighted average lending rate fell from 9.7% in 2016 to 9.3% in 2017. Domestic banks' loans and advances slightly increased from BZ\$ 2015.0 million to BZ\$ 2018.2 million in 2017, with 99% of the latter going to the private sector. The trend on the sectoral distribution of loans and advances has remained almost constant with a slight increase in the average loan made to the agricultural sector in 2017 (averaging 11.71% of the total loans disbursed). Buoyed by its resilience and continued growth, the tourism sector remained the fifth loans and advances recipient from commercial banks in 2017, behind building and construction (1<sup>st</sup>), personal (2<sup>nd</sup>), real estate (3<sup>rd</sup>) and agriculture (4<sup>th</sup>). With the restoration of the correspondent banking after the adverse effects of the de-risking phenomenon in 2015 and 2016, the deposits in foreign currency almost tripled in 2017, from USD 225.4 m in 2016 to USD 685.8 m. The continued sanitization of the banking sector with the closure of four Credit Unions and further decline in Non-Performing Loans (NPL) ratio, from 3% to 2.4%, contributed to doubling commercial banks' profits from US\$ 10.1 million to US\$ 20.8 million in 2017.

In 2018, the Central Bank has remained steadfast in its pursuit of an expansionary monetary policy to stimulate economic growth while also sanitizing the banking sector by closing nonperforming banks and writing off bad loans.

### **c) Other policies**

Belize has continued to maintain diplomatic ties with the Taiwan Province of China, which in turn has rewarded the country by providing technical assistance to papaya producers in agribusiness management skills as well as financial support. In 2017, the Taiwan Province of China was the top bilateral creditor of Belize with BZ\$ 2964.9 million, which is slight increase from the BZ\$ 2928.7 million disbursed in 2016.

## **3. Trends in the principal variables**

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

Belize continued to improve on its external position with the shrinking of its current account deficit from 8.3% of GDP in 2016 to 7.0% of GDP in 2017. More importantly, while recording a trade deficit of US\$ 388.3 million on goods, Belize had a trade surplus of US\$ 340.75 million on services; Thus, recording a balance on goods and services of US\$ 47.6 million in 2017. Eighty-seven percent of Belize's exports was composed of food and live animals, followed by mineral fuel and lubricants (5%), chemical products (4%), crude materials (2%) and manufactured products (2%). Although the total value of imports edged down by 4% in 2017, the composition of imports remained the same in comparison to 2016: Machinery and transport equipment (21%), commercial processing zone (17%), manufactured goods (13%), mineral fuel and lubricants (12%) and food and live animals (12%).

In 2017, Belize recorded surpluses on capital (US\$ 3.8 million) and financial accounts (US\$ 16.1 million). While inflows FDI declined by US\$ 1.4million relative to 2016, outflow FDI stood at US\$ 52.3 million in 2017. Not only the country is not receiving enough FDI but profits are being repatriated or reinvested outside the country. Overall, the balance of payments deficit of Belize widened in 2017, from US\$ 60.3 million in 2016 to US\$ 64.6 million in 2017. Additionally, the Central Bank's gross international reserves declined by 17% to US\$ 300 million, representing 4.0 months of merchandise imports, due in part to the compensation payments of US\$ 98.2 million for the final acquisition of BTL to the Ashcroft group of companies and higher net loan repayments by the private sector (Central Bank of Belize Annual Report, 2018).

### **b) Economic activity**

After experiencing a contraction of 0.5% in 2016, the Belizean economy rebounded in 2017 with growth of 1.2%. This turnaround is spearheaded by the service industry with a 67% contribution, followed by the secondary (14.8%) and primary (10.2%) sectors. Moreover, growth was bolstered by 6.2% and 2.5% surge in production in the primary sector and tertiary sectors, respectively. Primary activity picked up owing to a recovery in export agriculture, which offset lower output in the fisheries subsector. Sugar production posted dynamic growth of 13% to 1,644, 405 long tons.

After experiencing a dip in activities due to damaging effects of Hurricane Earl in 2016, the tourism sector recovered in 2017. Belize welcomed 912,809 cruise-ship passengers and 389,158 stop-overs in 2017, which were 1% and 9% increase relative to 2016. While 82% of the stop-over passengers travelled to Belize by air, lands and seas were used by 16% and 2% in 2017. Availability of additional flights from the USA and Canada contributed to the rise in the number of stopover passengers in 2017.

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

Annual average inflation rate in 2017 was 1.0%, a slight increase from the 0.7% of 2016. While the annual average costs of healthcare, education and food and non-alcoholic beverages have declined, the costs of alcoholic beverages & tobacco, transport, communication and hotels and restaurants have increased. The increase in the latter could be attributed to the introduction of new taxes levied on the goods and services.

Total unemployment rate stood at 9.7% in 2017, which was almost 2 percentage points higher than the 8% in 2016. Noteworthy is the high unemployment rate of female (13.6%), almost twice the rate for males (7.1%). This disparity is also reflected in the low labor force participation rate of female (50.7%)

relative to their male counterpart (77.5%). The gender disparity is more pronounced in rural areas where 17.9% of female are unemployed relative to male unemployment rate of 6.1%.

## **D. Eastern Caribbean Currency Union (ECCU)**

### **1. General characteristics of recent trends**

The economies of the Eastern Caribbean Currency Union (ECCU) continued to demonstrate resilience in 2017, with GDP growth estimated at 2.13%.<sup>5</sup> Although this outturn was weaker than in 2016 (2.93%), it was achieved amid significant damage and losses and decreased private sector activity in the islands affected by Hurricanes Irma and Maria. Growth was largely fuelled by strong construction and, to a lesser extent, tourism activity, which had a positive impact in some member States. Concomitantly, value added also grew in transport, storage and communications, as well as in the wholesale and retail sectors. Forecasted robust global economic activity, coupled with anticipated improvements in airlift and positive economic developments in the major source markets, makes for a positive short-term outlook for the tourism industry in ECCU.

A decrease in current revenues in 2017 led to a deterioration of the current account surplus relative to 2016, thereby narrowing the overall fiscal surplus generated by the Union. This notwithstanding, the overall debt stock fell on account of a drop in external indebtedness. Following deflationary conditions in 2016 (-0.2%), inflationary pressures began to build across the ECCU economies in 2017, albeit to differing degrees, as food, gas and fuel prices trended upwards. This resulted in an average rate of inflation of 1.4% in 2017.

Dampened by a further 7.03% economic contraction in Dominica, real growth in ECCU is projected to rise to 2.54% in 2018, fuelled by several private sector tourism-related and public sector infrastructure projects in Antigua and Barbuda, Grenada, Saint Lucia and Saint Kitts and Nevis. In addition, positive ECCU-wide outturns are projected for the tourism and manufacturing sectors. Antigua and Barbuda is expected to be the fastest-growing ECCU economy in 2018, followed by Grenada.

### **2. Economic policy**

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

The fiscal performance of the eight ECCU economies weakened in 2017, with the overall surplus (after grants) generated from fiscal operations contracting to 0.2% of GDP in 2017, from 3.7% of GDP the previous year. Without Anguilla and Montserrat, the overall fiscal balance shows a deficit of 0.2% of GDP, following a 3.9% surplus in 2016. Fiscal deficits were recorded in Antigua and Barbuda, Dominica, and Saint Vincent and the Grenadines, while surpluses were recorded in Grenada, Saint Kitts and Nevis, and Saint Lucia during 2017.

The current account surplus deteriorated from 5.7% of GDP in 2016 to 2.6% in 2017. Non-tax revenue contracted by 34% in the face of declining Citizen by Investment Programme (CIP) inflows in Dominica and Saint Kitts and Nevis. There was a concomitant marginal Union-wide increase in current expenditure, while capital expenditure trended upwards in some territories, particularly on infrastructure projects.

There was an uptick of 0.3 percentage points in Antigua and Barbuda's current account deficit, to 1.2% of GDP in 2017, underpinned by a 3.6% increase in current expenditure due to higher interest payments; increased spending on goods and services driven by reconstruction and development works in Barbuda; and increased transfers and subsidies to offset the costs associated with the relocation of Barbudans to Antigua amid the devastation caused by Hurricane Irma. This notwithstanding, current expenditure as percentage of GDP declined in 2017. Current revenue expanded by 2.0%, buoyed by a 11% rise in non-tax revenue receipts. In this regard, receipts from the Citizen by

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<sup>5</sup> Weighted average for the eight economies of the Union: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

Investment Programme (CIP) increased as the threshold for investments in the National Development Fund was lowered from US\$ 250,000 to US\$ 100,000 in response to competitive pressures.

Dominica saw a deterioration of the overall surplus (32.4% of GDP) generated in 2016 to a deficit of 5.8% of GDP in 2017, largely due to a decline in both tax and non-tax revenue. Tax revenue was particularly hard hit in the aftermath of Hurricane Maria in September 2017. Further, CBI inflows, the main driver of non-tax revenue, fell by 48.4% in 2017 to 279.2 million East Caribbean dollars (EC\$).

On the other hand, Grenada's home-grown structural adjustment programme and its focus on expenditure restraint and more efficient revenue collection provided impetus for the expansion of its fiscal and current account surpluses in 2017. On the revenue side, although the rate of growth of current revenue decelerated in 2017, the positive effects of growth in the real sector and changes in tax policy continued to be felt. CBI receipts increased in 2017 with an estimated EC\$ 113.7 million paid into the Treasury, compared with EC\$ 34.1 million in 2016.

Saint Kitts and Nevis' overall fiscal (2.0% of GDP) and primary (3.6% of GDP) surpluses both contracted over the review period owing to a narrowing of the current account surplus. This was due to a fall in non-tax receipts and a rise in capital expenditure in 2017. It is worth noting that the observed 14.5% decline in non-tax revenue was driven primarily by a fall in CBI inflows, which contracted from EC\$ 175 million in 2016 to EC\$ 149 million in 2017.

Despite the weakened fiscal position of ECCU in 2017, the debt stock declined (0.1%) as external obligations fell by 1.7%. There was, however, a slight uptick (0.7%) in domestic borrowing. Consequently, the ECCU debt-to-GDP ratio fell by 2.3 percentage points to 71.4%. During the review period the public debt stock fell in Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines.

Moreover, Grenada reached agreements with the United Kingdom and the Russian Federation, which completed the restructuring of all its Paris Club debt in 2017 and its debt-to-GDP ratio continued to fall during the first quarter of 2018. Antigua and Barbuda continued to implement its debt management strategy and concluded negotiations to reschedule or settle several liabilities. Antigua and Barbuda also developed a draft public debt management bill to underpin the institution of a legislative framework for public debt management.

### **b) Monetary policy**

In 2017, the Eastern Caribbean Central Bank (ECCB) continued to gear its monetary policy management towards maintaining the fixed exchange-rate peg and financial sector stability in the Union. ECCU saw growth of 0.1 percentage point in broad money (M2) as a share of GDP, to 86.1%, or a 3.6% nominal increase. M1 increased by 10.7% in 2017, compared to 7.4% the previous year. In addition, commercial bank liquidity, measured by the ratio of liquid assets to total deposits plus liquid liabilities, climbed by 3.2 percentage points to 47.8%, far exceeding the 25.0% minimum set by ECCB.

Domestic credit declined in ECCU in 2017, mirroring the overall Caribbean-wide trend. This decline was driven largely by a fall in lending to governments, with net credit to the central government shrinking by 13%, as well as a 7.5% decline in lending to businesses, which offset growth in consumer credit observed in the review period. Further, following the 2015 decision by the ECCB Monetary Council to reduce the minimum deposit rate to 2.0%, the average interest rate spread narrowed by 3 basis points to 6.72%. Both the weighted average deposit and lending rates continued to fall in 2017, with nominal deposit and lending rates at 1.6% and 8.3%.

### **c) Other policies**

Through the policy interventions of ECCB, the exchange rate between the East Caribbean dollar and the United States dollar remained fixed at EC\$ 2.7 to US\$ 1 during 2017. ECCB made progress towards assuming anti-money-laundering (AML) and combating the financing of terrorism (CFT) responsibilities for all institutions licensed under the Banking Act, as decided by the Monetary Council in July 2016.

Grenada, in July 2017, commenced exploratory petroleum drilling operation in its waters; formulated a public sector management reform strategy for the period 2017-2019; and in December reduced the personal income tax rate for individuals earning between EC\$ 36,000 and EC\$ 60,000 annually from 15% to 10%. In 2017, the Government of Saint Lucia made the policy decision to increase the excise tax on gasoline and diesel.

In 2017, the Government of Saint Vincent and the Grenadines established a disaster contingencies fund and instituted a 1% disaster levy on consumption as a means of capitalizing it. Further, the VAT standard rate was reduced to 12.5% in February 2017. Saint Kitts and Nevis formulated a five-year yachting sector strategic plan and an additional implementation plan, which will guide the development of the sector over the period 2017-2022.

### **3. Trends in the principal variables**

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

Driven by the combination of declining exports and rising imports, the Union's merchandise trade deficit widened by 6.4% year-on-year in 2017. The observed 5.4% expansion in imports was fuelled by increased payments for foreign machinery and transport equipment, manufactured goods and articles, and food and live animals. Within the Union, the value of imports increased in Antigua and Barbuda, Grenada and Saint Lucia. Antigua and Barbuda's trade deficit, for instance, climbed by 30.0% to EC\$ 1.5 bn (37.0% of GDP) relative to 2016, as its import bill rose by 26.6% to EC\$ 1.7 bn, which offset a marginal increase in exports.

There was similar widening of Grenada's merchandise trade deficit from 30.3% of GDP or EC\$ 0.87 billion in 2016 to 35.3% of GDP or EC\$ 1.07 billion in 2017. The country's imports stood at EC\$1.1 billion, which represented an increase of 19.9% over the previous year. This was tied to growth in construction activity and in vehicle imports, as well as a 24% rise in the value of fuel imports. Revenue from agricultural exports contracted (by 20.3%), owing to declining export volumes of several commodities and manufactured exports were down (by 4.2%), reflecting reduced receipts from flour.

Saint Lucia, on the other hand, registered a smaller deficit in 2017 as a marginal increase in its imports was offset by a 6.1% rise in the value of exports, largely driven by re-exports. The trade deficits in Dominica, Saint Kitts and Nevis and Saint Vincent and the Grenadines also contracted to varying degrees in 2017.

Furthermore, a fall in stay-over arrivals from the United Kingdom and United States markets were the major driver of the 1.3% drop in gross tourist receipts recorded in ECCU in 2017. Dominica and Antigua and Barbuda were the hardest hit in terms of the fall in tourist receipts, with declines of 19.5% and 6.7%, respectively, due primarily to the direct impacts of tropical storm Erika and Hurricane Maria.

In addition, there was an expansion in external debt repayment, which outstripped an increase in gross external disbursement to the central government, thereby leading to a contraction (EC\$ 8.2 m) in the net disbursement position, which stood at EC\$ 26.7 m at the end of 2017. Increased grant inflows in Antigua and Barbuda, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines led to a climb in gross receipts of official grants in 2017.

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

While all ECCU economies with the exception of Dominica (-4.21%) posted positive growth in 2017, the rate for the Union slowed to 2.13%. There was, however, stronger growth in the construction sector and increased cruise-ship arrivals in some member States. Value added also grew in transport, storage and communications; as well as in the wholesale and retail sectors. The short-term outlook for the tourism industry in ECCU remains positive.

Within the real sector of ECCU, construction activity, the main driver of economic growth in the Union, grew by 12.0% in 2017. Value added in the construction sector was up in Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, and Saint Lucia. This offset weaker construction activity in

Saint Vincent and the Grenadines with the completion of the Argyle International Airport during the first quarter of 2017.

The ECCU-wide overall uptick in construction activity was fuelled largely by private sector investment in hotels and other tourism-related projects, as well as increased capital expenditure, especially on schools, government buildings, roads and infrastructure development. Furthermore, within ECCU, the spillover effects of the positive outturn in the construction sector boosted value added in mining and quarrying; storage and communications; and wholesale and retail activity.

Across ECCU, due to an uptick in the number of cruise-ship calls in Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia, tourism visitor arrivals rose in 2017, following a contraction in 2016. Buoyed by increased visitor numbers from Canada and the Caribbean, there was a marginal rise in stay-over arrivals in ECCU. A 6.7% fall-off in visitors to Antigua and Barbuda was in part due to competition from other destinations and trepidation on the part of leisure tourists in the aftermath of Hurricane Irma.

Manufacturing output in ECCU marginally improved in 2017, driven by positive outturns from the grains, beverages and building material subsectors in Saint Vincent and the Grenadines. These positive outturns collectively offset declining manufacturing output in Dominica (32.7%) and Saint Kitts and Nevis (6.5%). In respect of the latter, export of alcoholic beverages declined significantly in 2017, other manufacturing exports declined (8.5%) and electronics exports contracted (2.7%), which more than offset the positive outturn of exports of electronic manufactures observed during the first half of the year. In addition, while value added in Grenada's manufacturing sector grew by 2.6%, rum production fell by 14.0%; and growth in value added in Antigua and Barbuda and Saint Lucia's manufacturing sectors was weak in 2017. Furthermore, increased enrolment at St. George's University propelled growth in the education sector of Grenada.

Dampened by further 7.03% economic contraction in Dominica, due to the devastating impact of Hurricane Maria on the agricultural, manufacturing and tourism sectors as well as economic infrastructure, real growth in ECCU is projected at 2.54% in 2018. Without Dominica, average growth of the other seven ECCU economies is projected at 3.39% in 2018.

This increased economic activity is expected to be fuelled by several private sector tourism-related and public sector infrastructure projects in Antigua and Barbuda, Grenada, Saint Lucia and Saint Kitts and Nevis. In addition, positive outturns are projected for the tourism and manufacturing sectors. Moreover, the Sustainable Growth Fund in Saint Kitts and Nevis, a new modality introduced in March 2018 under the citizenship by investment programme, is intended to strengthen domestic growth.

Against the backdrop the favourable global outlook and in view of the country's high growth correlation with the business cycles of the United States, United Kingdom and euro area economies as well as positive developments in the domestic construction and tourism sectors, Antigua and Barbuda is forecast to be the fastest growing economy in ECCU in 2018, followed by Grenada.

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

A modest increase in the general price level occurred in ECCU, underpinned by higher costs for transport and food, linked to the rebound in international commodity prices in general and in domestic market petroleum prices in particular. As such, ECCU posted inflation of 1.4% in 2017, compared to a 0.2% deflation in 2016. Inflation remained relatively subdued in Grenada (0.48%) and Saint Kitts and Nevis (-1.1%) during the first quarter of 2018.

There was an overall decline in the unemployment rate in ECCU in 2017. For instance, robust economic growth, particularly in construction with positive spillovers in the retail sector, fuelled a fall in the unemployment rate in Grenada from 26.8% in 2016 to 23.6% in 2017. Moreover, in 2017 youth unemployment stood at 39.9%, down from 50.4% in the previous year. Similarly, led by increased construction activity, the unemployment rate in Saint Lucia fell from 21.3% in 2016 to 20.2% in 2017. However, youth unemployment increased marginally from 38.4% in 2016 to 38.5% in 2017.

## **E. Guyana**

### **1. General characteristics of recent trends**

The Guyanese economy is estimated have grown by 2.2% in 2017, down from 3.4% growth in 2016 and much lower than the 3.8% estimated in the budget for the year. The construction sector made the largest contribution to economic growth (1.1 percentage points), while economic expansion was lower than expected in the sugar sector and in mining and quarrying, which was hurt by the impassability of roads to the mining sites in the interior. The sugar sector contracted substantially, as the State-owned sugar firm, GUYSUCO, implemented major structural adjustments in order to reduce government subsidies to the company. The restructuring also contemplates the shedding of around 7,000 workers from the firm's sugar estates.

The central government fiscal deficit was 4.7% of GDP, up slightly from the previous year's deficit of 4.5%. A 12.8% increase in tax revenue offset an 8% decline in non-tax revenue, along with 6.7% and 26% increases in current and capital expenditure, respectively. Despite slow implementation of the public sector investment programme, capital expenditure, over 50% of which occurred in the fourth quarter, was 26% higher in 2017 than in 2016.

The monetary policy stance remained accommodative in 2017, as the central bank rate was unchanged at 5%. Commercial interest rates fell slightly and net domestic sector credit expanded by 9.9%. Inflation was subdued in 2017, falling from 2.3% in January to 1.5% in December.

The current account deficit expanded by 7.7 percentage points to 8.1% in 2017, as an 11% increase in imports outweighed a 0.1% rise in exports. Among the exports, an increase in rice production, stemming from good weather conditions and favourable international prices, offset a major decline in sugar exports.

### **2. Economic policy**

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

The central government overall fiscal deficit expanded to 4.7% of GDP in 2017, from 4.5% in 2016. Current revenue grew by 8.7%, driven by a rise in collections of income taxes (1.4%), import duties (3.5%) and value added and excise taxes (0.4%). Non-tax revenue declined by 7.8%. A point to note is that the central bank, the Bank of Guyana, changed its classification of capital revenue in 2017, to ensure congruence with that of the Ministry of Finance, disaggregating it into domestic (capital revenue) and external (grants) components.

Total central government expenditure expanded by 11.8% in 2017, owing to increases in transfer payments, capital expenditure, employment costs and other goods and services, as well as interest payments. Current expenditure grew by 8.2% as staff costs, which represent 30.0% of this item, rose by 10.0%, making them the main driver of the current spending rise in 2017. The interest component of current expenditure rose by 19.7%, as external interest payments increased by 25.1%. However, interest payments made up just 4.4% of current expenditure.

Capital expenditure expanded by 24.7%, coming after an increase of 52% in 2016. The implementation of the public sector investment programme (PSIP) was slow over the first half of 2017, but accelerated in the second half and over 50% of the government's capital expenditure was recorded in the fourth quarter. In 2017, 58 billion Guyana dollars (G\$) were spent on capital projects, exceeding the previous high of G\$ 56 billion in 2012. There was also a decrease in expenditure and revenue collection from public enterprises, stemming from contraction at the Guyana Sugar Corporation (GUYSUCO) and reduced spending by Guyana Power and Light, Inc.

The total non-financial public sector debt-to-GDP ratio at the end of 2017 was 47.1% of GDP, up slightly from the 47.6% a year earlier. This primarily reflected a rise in external debt, due to higher disbursements from several lenders, including the Export-Import Bank of China, the Inter-American Development Bank (IDB), and the Caribbean Community (CARICOM) Caribbean Development Fund (CDF). The domestic debt stock grew marginally in absolute terms, owing to the issuance of a new 91-day Treasury bill, but fell in GDP terms, from 12.5% in 2016 to 12.1% in 2017. Total debt service as percentage of government revenue stood at 8.0% in 2017.

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

Monetary policy remained accommodative in 2017. The Bank of Guyana's bank rate has remained at 5% since 2013 and is not expected to change in 2018. The Bank's 91-day Treasury bill rate declined from 1.68% in January 2017 to 1.54% in February, where it remained until the end of the year and into the first three months of 2018. The commercial bank average small savings rate declined from 1.26% in January 2017 to 1.11% by December and again marginally to 1.10% by March 2018. The commercial weighted average lending rate fell from 10.44% in January 2017 to 10.19% by the end of the year, but then rose slightly to 10.21% by March 2018.

The fall in interest rates during the review period helped spur an increase in domestic borrowing. Net domestic credit expanded by 9.9% in 2017, contributing to 4.6% growth in M2. Currency in circulation grew by 11% and savings deposits increased by 2.1%, while time deposits contracted by 1%. The growth in domestic credit was fuelled by increases in both public and private sector credit, the latter of which grew by 2.3%. Credit to all private sector categories increased, except for manufacturing, construction and engineering, and the catch-all category of other.

#### **c) Exchange rate policy**

The exchange rate remained constant throughout 2017. However, it depreciated slightly, from G\$ 206.50 to G\$ 208.50 per US\$ 1 in early 2018.

### **3. Trends in the principal variables**

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

The current account deficit expanded from 0.4% of GDP in 2016 to 8.1% of GDP in 2017. This was driven mainly by an expansion in the merchandise trade deficit, as imports increased by 3.9 percentage points of GDP, while exports fell by 0.7 GDP points. The export performance was marked by a 33.9% decline in sugar exports, stemming from GUYSSUCO restructuring, along with declines in exports of gold, timber, molasses and others. Increases were seen in exports of bauxite (11%), rice (11%), shrimp (20.4%) and rum (16.3%). The higher imports were driven by rises of 12% in imports of consumer goods and 15% in intermediate goods, while capital goods imports edged up 1%. In the intermediate goods category, imports of food declined by a hefty 14%. The major contributors to the increase in imports were the largest components, namely parts and accessories (37%), petroleum (14%) and others (24%).

The net services deficit expanded by 22%, as an improvement in the factor services account offset decreases in the non-factor services and unrequited transfers accounts. The income deficit expanded by 30%, while the transfers surplus declined by 12%.

The capital account swung from a deficit of 0.4% of GDP in 2016 to a surplus of 6.4% of GDP in 2017, as a result of larger inflows of foreign direct investment (FDI), which grew from 5.3% of GDP in 2016 to 6.0% in 2017. FDI inflows are expected to continue rising in the medium term as investment in the energy sector ramps up.

Gross reserves amounted to 3.2 months of import cover at the end of 2017, down from 3.8 months at the end of 2016. The decline in reserves continued in early 2018, to 2.8 months of import cover by March.

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

Guyana's economic growth is estimated at 2.2% for 2017, based primarily on robust activity in the construction sector and an improved performance in rice production and the service industries. The

construction sector improved on its 6.3% growth in 2016, with an expansion of 11.4% in 2017. Driven by increased public investment, the construction sector made the largest contribution to economic growth, with 1.1 percentage points. Rice production, up by 18%, benefited from favourable weather conditions and rising international prices over the year. The wholesale and retail trade sector grew by 8.7% and contributed 1 percentage point to growth in the services sector, emerging as the main driver of increased services activity for 2017. Some of the growth in wholesale and retail trade reportedly stems from commercial activity by the recent influx of Cuban visitors, retailers and wholesalers.

Despite the increase in rice production, the agriculture, hunting, forestry and fishing sector grew by just 0.4% in 2017. While this was a turnaround from the 10.3% contraction in 2016, the expansion was heavily tempered by a 25% decline in sugar production, resulting from structural reforms at GUYSUCO. The largest contraction in the Guyanese economy —by 8.8%— occurred in mining and quarrying, with declines seen in the production of bauxite, diamonds and gold. Gold production increased over the first three quarters of 2017, but declined in the fourth owing to impassable roadways in the mining districts, which hindered production.

Growth is projected to be 3.0% in 2018. Sugar output is expected to continue declining as the industry adjusts. The performance of the forestry sector is expected to improve on that of 2017, on account of new market access in Latin America and increased productivity.

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

Inflation remained low throughout 2017, falling from 2.3% in January to 1.5% in December. The main driver of inflation was the food component, which began 2017 at 6.2%, but fell over the year to 2.8% by December. The year-on-year change in the housing component of the urban consumer price index remained below 1% throughout the year, while transportation and communication fluctuated around 1% over the course of 2017. The miscellaneous component of the price index recorded negative year-on-year growth for all but three months in 2017.

In late 2017, the Government of Guyana announced wage increases for approximately 14,000 public servants, ranging from 8% for those earning between G\$ 55,555 and G\$ 99,999 per month to 0.5% for those earning between G\$ 800,000 and G\$ 1,000,000 per month. Wages of over G\$ 1,000,000 were not increased.

The structural reforms at GUYSUCO led to major downsizing among the sugar estates, which left as many as 7,000 workers jobless. There was also retrenchment in the logging industry.

## **F. Jamaica**

### **1. General characteristics of recent trends**

The Jamaican economy posted a disappointing growth rate of 0.5% in 2017, but the first quarter results for 2018 were positive, at 1.2%, thanks to a number of factors, including improved expansion in the mining and agricultural sectors and greater investment arising from lower interest rates.

Growth is expected to remain positive for the year overall but, despite high initial expectations, may come in at no more than 1.3% owing to the prospect of increasing energy costs and inclement weather conditions. Achieving stronger growth than this will depend on improved tourism receipts, lower energy costs and higher remittance flows.

Economic policymaking continues to be influenced by the government's three-year stand-by arrangement with the International Monetary Fund (IMF) signed in November 2016. This agreement, which is valued at US\$ 1.64 billion, replaces a US\$ 932-million, four-year extended fund facility which ended in March 2017. The government intends to treat the stand-by arrangement as precautionary and to make no drawdowns unless economic conditions deteriorate sharply. This is largely aimed at boosting confidence in the economy while the fiscal consolidation programmes and other structural reforms continue.

The inflation rate jumped from 1.7% in 2016 to 5.2% in 2017; however, the Bank of Jamaica, Jamaica's central bank, expects lower inflation in 2018 and has adopted a more accommodative monetary policy stance. The policy rate, which tracks interbank borrowing, was lowered to 2.50% in May 2018, in a move designed to boost growth by reducing the cost of investment.

The public debt overhang trended downwards and the debt-to-GDP ratio is projected to be 109.7% of GDP in fiscal year 2018/19, down from 122.3% in fiscal year 2016/17. This high debt remains a significant challenge to economic performance and the fiscal consolidation programme designed to restrain expenditure and increase revenue is still necessary to stabilise and reduce it to manageable levels.

The exchange rate appreciated by 2.8% at the end of 2017, compared to a depreciation of 6.6% in 2016, and settled at 128.44 Jamaican dollars (J\$) to US\$ 1. The central bank's strategy is to intervene in the event of significant deviations between the two currencies, since excessive depreciation gives rise to inflation and greater economic uncertainty.

Turning to the external sector, in 2017 the current account deficit widened, chiefly because of the deterioration in the goods and service balance. In the context of higher official capital inflows, the central bank net international reserves increased by US\$ 488.9 million to US\$ 3.208 billion at end-2017. Gross reserves amounted to US\$ 3.781 billion and represented 27.0 weeks of projected goods and services imports.

## 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 that concluded in March 2017. One major change with the new arrangement is that the formal reviews of the quantitative performance criteria and structural benchmarks will now be semi-annual instead of quarterly, as previously. 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 Jamaica's quota in IMF) under certain conditions. In October 2017, the Executive Board of IMF completed the second review under the stand-by arrangement, concluding that the country had successfully met all targets as at end-June 2017. According to the Bank of Jamaica, the continuation of this remarkably strong performance under the IMF-supported economic programme points to an improving economy and consolidation of macroeconomic stability. The central bank cites the improving equities market, greater exchange-rate flexibility and high levels of investor confidence.

In line with the fiscal adjustment under the IMF programme, the performance in fiscal year 2017/18 reflected further expenditure compression and attempts to increase revenue. Overall expenditure relative to budget was down by 1.4%, with almost all categories down on the budgeted amounts—capital spending by as much as 3.5%. On the revenue side, overall revenues and grants were up by 1.3% relative to the budget, with the biggest percentage increase being capital revenue arising from the sale of government assets. At the same time, interest payments were down by 1.7% and amortization up by 3.8%.

In addition, the primary surplus of US\$ 143.9 billion represented 7.8% of GDP, which exceeded the IMF target.

Although narrowing, the public debt overhang remains a significant challenge to economic performance. The debt-to-GDP ratio is projected as 102.1% of GDP for fiscal year 2018/19, down from 122.3% in 2016/17. The debt-to-GDP ratio that year was 39.3% for domestic debt and 60.7% for external debt, a high share that implies foreign-exchange risks. The implied average interest on debt was 6.3%<sup>6</sup> of GDP as of December 2017 and had been trending downwards from 10.9% of GDP in 2010/11. Notwithstanding, debt service payments including interest and amortization for fiscal year 2017/18 represented 66% of total expenditure and 72.6% of total current expenditure.

<sup>6</sup> See Government of Jamaica, Medium-Term Debt Management Strategy 2018/19-2020/21.

In light of the ongoing adjustment, no new tax measures were introduced in the new budget for fiscal year 2018/19. However, new pressures are emerging from the public sector for wage increases in order to regain lost ground from the long period of adjustment. The 2018/19 budget proposed an expenditure of J\$ 773.7 billion, with non-debt spending at J\$ 484.7 billion and debt expenditure at J\$ 289.0 billion, which demonstrated the continuing challenge represented by debt.

### **b) Monetary policy**

In 2017 the central bank's monetary policy continued to be accommodative, especially in light of low inflation expectations. In an effort to enhance the effectiveness of monetary policy in the Jamaican economy, in 2017 the central bank continued to refine its policy operations in order to strengthen the transmission of its policy interest rate to market rates.

In March 2017, the central bank took the first step towards transitioning its policy rate to an overnight interest rate, replacing use of the benchmark 30-day certificate of deposit, by reducing the overnight lending rate (the rate at which commercial banks can borrow from each other) from 7.25% to 7.0% and increasing the overnight deposit rate from 3.0% to 4.0%.

The Bank of Jamaica then lowered the rate on overnight deposits to 2.75% in February 2018 and again to 2.50% in May. This policy stance reflects the central bank's assessment of inflation for the next four quarters and beyond: in this case, that inflation will fall slightly below the lower end of its target range of 4.0%–6.0% over the next three quarters, before rising towards the centre of the target in the following quarter.

Narrow money (M1J) grew by 13.8% in 2017, reflecting growth of 10.3% in cash in circulation and 16.6% in demand deposits. Meanwhile, growth in the broad Jamaican dollar money supply (M2J) also increased to 30.2% in 2017, up from 12.9% in 2016.

In 2017, the stock of commercial bank credit to the private sector grew by 37.3%, a much faster rate than the 13.8% in 2016, and was largely denominated in Jamaican dollars. Meanwhile, the weighted average lending rate fell marginally, from 16.5% in 2016 to 14.9% in 2017, and the deposit rate rose from 1.4% to 1.6%, causing the interest rate spread to narrow from 14.77 to 13.26 percentage points.

Total loans and advances to the private sector expanded by 30.5% in 2017 relative to 13.8% in 2016. The expansion for 2017 reflected an increase in the supply of credit to businesses (15.7%) and a significant increase in loans to individuals (45.7%). By destination sector, the Bank of Jamaica reported that loans and advances grew 29.5% to professional and other services, 17.9% to tourism and 42.1% to the manufacturing sector.

With regard to the integrity of the banking system, deposit-taking institutions were largely resilient to macroprudential stress tests, thanks to their capital position.<sup>7</sup> This augurs well at a time when the economy seems to be on the upswing.

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

### **c) Exchange rate policy**

The exchange rate appreciated by 2.8% in 2017, compared to a depreciation of 6.3% in 2016, mainly owing to increased United States dollar supply which offset periodic bouts of increased demand, particularly during the first three quarters of the year. These stronger foreign-exchange supplies originated primarily from large tourism inflows, as well as the structural reforms aimed at deepening the foreign

<sup>7</sup> Annual report of the Bank of Jamaica, 2017 (see [http://boj.org.jm/uploads/pdf/boj\\_annual/boj\\_annual\\_2017.pdf](http://boj.org.jm/uploads/pdf/boj_annual/boj_annual_2017.pdf)).

exchange market. As a result, intervention sales fell to US\$ 594.9 million, from US\$ 870.2 million in 2016.

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 an acceleration in currency depreciation, imported inflation or rises in external debt-servicing costs. The weighted average selling rate of the Jamaican dollar closed the March 2018 quarter at J\$ 125.98 = US\$ 1, reflecting a depreciation of 0.8% relative to the previous quarter and an appreciation of 2.1% relative to end-March 2017.

In June 2017, the Bank of Jamaica successfully implemented the its Foreign Exchange Intervention and Trading Tool (B-FXITT), a mechanism that allows the bank to conduct its intervention operations at a market determined price that accurately reflects market conditions at the time of the operation.

The stability of the currency and lower inflationary expectations should help improve the performance of several sectors, including manufacturing.

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

In the budget presentation of March 2018, the Minister of Finance and the Public Service referred to a number of initiatives and projects which should stimulate growth, including bauxite investments by Jiuquan Iron and Steel (JISCO); investments by China Harbour Engineering Company Limited (CHEC) in the North-South Highway development projects; the South Coast Highway improvement project; town revitalization in Morant Bay; a public bodies investment programme; and the establishment of Naggo Head Technology Park, which is designed to facilitate business process outsourcing (BPO). In addition, a tax reform working group has been set up, comprising representatives from both major private sector organizations and key ministries, to examine customs reform and tax compliance.

In light of the depressed government investment spending, these projects are expected to provide an important boost to infrastructure development.

### **3. Trends in the principal variables**

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

The provisional data show a widening of the current account deficit, reflecting a downturn in the goods and services balance as a result of increased fuel prices and higher imports, driven by higher domestic demand. The result on the goods and services balance reflects the combination of a deterioration by 3.7% of GDP in the goods balance and an improvement of almost 1% of GDP in the services balance, thanks to higher tourism earnings and remittances.

The Bank of Jamaica estimates net earnings from services to have increased by US\$ 138.7 million (11.8%) to US\$ 1.165 billion in 2017. The estimated inflows primarily reflected an increase of US\$ 246.8 million in receipts from travel. Notably, while the length of stay of tourists has decreased, earnings have increased.

The deficit on the income account narrowed owing to lower repatriation of profits on foreign direct investment, while the surplus on the current transfers account rose owing to growth in remittances.

In the context of higher official capital inflows, the central bank's net international reserves increased by US\$ 488.9 million to US\$ 3.208 billion at end-2017. Gross reserves amounted to US\$ 3.781 billion and represented 84.1% of the IMF assessment of reserve adequacy (ARA) measure. Gross reserves represented 27.0 weeks of projected goods and services imports at end-2017, compared with 24.7 weeks at end-2016.

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

The Jamaican economy grew by 0.5% in 2017, following an expansion of 1.4% in 2016. The 2017 performance was largely driven by a 0.9% upturn in the services sector, while the goods sector declined by 0.5%.

Within the goods sector, all subsectors posted positive growth except mining and quarrying (4.0%) and agriculture, forestry and fishing (-4.6%), which usually make a relatively large contribution to growth. In the case of agriculture, there was a fall in domestic crop production, while traditional export agriculture registered growth. The outturn reflected declines in all quarters, largely as a result of unfavourable weather conditions, in particular flood rains in May 2017, as well as agricultural pests on some crops.

All the services subsectors registered positive growth in 2017. The strongest gains were posted by the hotels and restaurants segment (3.7%), which far outstripped its previous year's performance (2.1%), reflecting an 8.7% jump in arrivals of foreign nationals relative to 2016, although the average length of stay declined from 8.7 to 8.4 nights between the two years, which partially offset the value added of the industry. The increase in foreign national arrivals was primarily attributed to growth in source markets and the introduction of additional flights on both existing and new routes. Meanwhile, electricity and water supply decreased by (0.9%).

In 2018, growth in private consumption—which usually contributes some 80%–85% of GDP—will likely increase, owing to rising remittances and the slowing of the unemployment rate. On the other hand, government consumption will be restrained by the ongoing fiscal consolidation programmes.

The outlook for growth in the Jamaican economy continues to be positive and economic growth is projected to be 1.3% in 2018, reflecting the anticipated impact of improvements in the international economy and in the domestic business environment, including recovery from supply shocks that affected agriculture in 2017. In the first quarter of 2018 growth was reported at 1.2%, largely thanks to increased external demand from Jamaica's main trading partners, which supported increased exports of some goods and services, particularly tourism; meanwhile, greater hotel room and air seat capacity facilitated growth in stopover visitor arrivals. Capacity utilization also increased, especially in manufacturing and mining and quarrying (production at the Alpart alumina refinery resumed in the final quarter of 2017) and some major infrastructure works are under way, including road rehabilitation and expansion projects. Despite increasing confidence, there are such downside risks such as the impact of weather-related events on agriculture and pressure for wage increases from public servants, which could affect the fiscal consolidation efforts.

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

Inflation picked up slightly in 2017, ending the year at 5.2%, and is expected to average between 4% and 6% in 2018 owing to higher commodity price rises, local-currency depreciation and slightly stronger domestic demand. The sharp decline in inflation in the past few years largely reflected the reduction in international crude oil prices and depressed domestic demand. Annual inflation at March 2018 was 3.9%, representing a slowdown relative to the 5.2% at end-December 2017; this was due to a decline in agricultural prices as supplies picked up following adverse weather conditions in the June and December 2017 quarters.

The start of wage negotiations between the government and unions representing public sector workers in late March 2017 is proving contentious in light of the prolonged fiscal austerity, which has already lasted four years. Government efforts to merge some departments also could increase frustration, as the process is likely to involve job cuts. The government has reinforced the social protection components of its loan agreement with IMF; however, without significant economic growth in the short term, the public will be frustrated. The government reached an agreement with the Jamaica Teachers' Association for a 16% pay rise over four years, with a percentage to be paid retroactively in 2018. The government is offering public sector workers in general a 16% increase over four years, with 5% in the first year, a further 2% in the second year, and 4% and 5%, respectively, in the third and fourth years. However, given the history of inflation in Jamaica, the unions are reluctant to commit to so long a period.

Labour market conditions improved significantly in 2017, as the unemployment rate declined by 1.5 percentage points to 11.7%, relative to the previous year. This reflected growth of 2.3% in employment, which outweighed the expansion of 0.5% in the labour force. It was also associated with a decline of 1.2 percentage points in the job-seeking rate relative to 2016. Employment rose in all industries except for mining, quarrying and refining; electricity, gas and water; and wholesale and retail trade, where

it remained flat. Jamaica's unemployment rate fell further in January 2018, to 9.6 %, 2.1 percentage points below the figure at October 2016 and the lowest rate since December 2007. The fall in unemployment reflected growth of 1.9% (22,600 people) in the employed labour force, combined with a decline of 1.6% (21,200) in the overall labour force. Despite the significant reduction in unemployment, the rates are still high when disaggregated by gender and age group. For example, the jobless rate was 7.5% for men, compared with 12.1% for women, and in the 20-24 age group, the overall rate was 34.9%, breaking down into 32.8% for men and 37.8% for women.

## **G. Suriname**

### **1. General characteristics of recent trends**

After years of stagnation brought on by falling commodity prices, culminating in an 5.1% contraction in 2016, Suriname's economy is showing signs of stabilizing. Economic growth returned to positive territory in 2017, and is estimated at 1.5%. The rebound is attributed mainly to production from the Merian gold mine, which opened in late 2016, along with buoyant gold prices. While the increased production and some other indicators point to a minor recovery, challenges remain for the Surinamese economy.

Consumer price increases stabilized in 2017, and by the end of the year inflation fell to single digits for the first time since 2014. Inflation may need to remain subdued for a time, along with sustained economic growth, if consumers' purchasing power is to be restored. The wholesale and retail sector continued to decline as consumers struggled with the economic conditions. Imports did increase slightly, owing mostly to machinery and transport goods. Exports increased by a larger amount as a result of increased gold and rice production, leading to an expansion in the trade balance. Official reserves climbed to 3.1 months of import cover in April 2018, from 2.7 months in 2016 and 1.5 months in 2015.

The government made some progress in addressing fiscal imbalances in 2017, as the fiscal deficit fell from 10.8% of GDP in 2016 to 8.0% of GDP. In April 2016, the Government of Suriname entered into a two-year, US\$ 481-million agreement with the International Monetary Fund (IMF). Just over a year into the arrangement, amid concern on the part of IMF about the government's performance and anti-austerity protests from the public, the government ended the agreement in favour of a homegrown adjustment strategy. Notwithstanding, the country has entered into a number of other loan agreements, and government debt has been increasing, and debt service along with it.

The growth outlook for 2018 is positive, with higher exports due to improved international competitiveness and stable commodity prices. The government will face the challenge of reducing its deficit amid calls for wages increases and the need to reduce expenditure.

### **2. Economic policy**

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

The fiscal deficit contracted to 8.0% of GDP in 2017, down from 10.8% in 2016 and 10.6% in 2015. Total expenditure fell slightly from 25.8% of GDP in 2016 to 25.5% in 2017. Most of the government's cost cutting came from expenditure on other goods and services and from transfers. In contrast, capital expenditure rose moderately, from 2.7% of GDP in 2016 to 3.3% of GDP in 2017.

Total government revenue grew significantly, from 16.7% of GDP in 2016 to 17.4% of GDP in 2017, on the back of strong non-tax revenues. Tax revenues, in turn, registered a modest gain in absolute terms and relative to GDP, edging up from 12.4% of GDP to 12.6% of GDP.

The government hoped to reduce the fiscal deficit and increase income stability in 2018, on the basis of new fiscal measures, including the introduction of a value added tax (VAT). The legislation introducing VAT also included the reduction of the income tax and a number of VAT-exempt items. However, on 15 April 2018, the government announced the postponement of the VAT, which was to be introduced at the start of July 2018, owing to complications in its

preparation. The postponement of VAT has in fact left the government with more income instability instead of the anticipated reduction.

Total central government debt has been rapidly increasing since the start of Suriname's Economic crisis. The debt-to-GDP ratio increased almost 20 percentage points, from 33.3% in 2014 to 52.3% in 2015, stemming from a fall in nominal GDP along with a rise in the debt stock, then to 57.5% in 2016. These trends continued in 2017, with overall debt rising further, to an estimated 69.8% of GDP.

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

The government introduced Treasury bill auctions in 2016 as a tool of monetary policy to help keep inflation at a moderate level. The auctions produced interest rates of 25% on three-month Treasury bills. After climbing throughout 2016, the average lending rate fell slightly from 14.7% in January 2017 to 14.3% by December. The average lending rate remained constant in early 2018, until the most recent data from March. The average deposit rate rose slightly, from 8.9% in January 2017 to 9.1% by year-end. By March 2017, the average deposit rate had climbed to 9.2%. Real interest rates returned to positive territory with the normalization of inflation in 2017.

Despite the rebound in the economy in 2017, a slowdown in private sector was evident. Credit to the private sector increased by 0.2%, after a 27.4% jump in 2016. Net domestic credit overall grew by 15.3%, driven by a 56.9% increase in credit to the public sector, after a net repayment of domestic debt in 2016 resulted in a 4.6% decline.

Required reserve ratios remained unchanged in 2017 and early 2018, at 35% for Suriname dollars (Sr\$) and 46% for United States dollars. The reserve ratio for euros fell slightly, from 28.6% in 2016 to 27.6% in 2017 and then rose to 28.1% by April 2018.

#### **c) Exchange rate policy**

Suriname's exchange rate was largely stable in 2017. The selling rate depreciated by just over 1 percentage point from January 2017 (Sr\$ 7.530 per US\$ 1) to April (Sr\$ 7.611 per US\$ 1), and then appreciated by 1.44 points by August (Sr\$ 7.501 per US\$ 1). Since then, the exchange rate has been slowly depreciating. By January 2018 it stood at Sr\$ 7.523 to the United States dollar, and then increased slightly to Sr\$ 7.530 by April 2018. Downside risks to exchange-rate stability include a sudden unexpected fall in the price of gold, which would bring down the terms of trade.

### **3. Trends in the principal variables**

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

Following a 12.9% decline in 2016, exports grew by 41.4% in 2017, driven by a 55.2% increase in exports of non-monetary gold, and an 18.9% increase in crude oil exports. After a 38.3% decline in 2016, imports rose as well, though only by 8.8%. In 2016 all import categories had exhibited declines, ranging from 24.7% for food products to 57.0% for transport equipment. In 2017, all import categories showed an increase, except beverages and tobacco (-0.6%), mineral fuels, lubricants and related products (-40.5%), manufactured goods (-0.7%) and commodities and transactions (-18.4%). The largest increase in imports was seen in machinery and transport equipment (26.1%), largely owing to stronger mining activity. The trade balance achieved its highest value since 2012.

The services deficit rose slightly, from 8.6% of GDP in 2016 to 9.5% in 2017. The income deficit expanded significantly, from 5.4% of GDP to 13.6%, while the transfers surplus contracted from 3.1% of GDP to 3.0%.

The financial account surplus narrowed from 15.0% of GDP to 5.0% of GDP. Foreign direct investment (FDI) inflows fell from 9.4% of GDP to 4.9% as a result of repayment of investment by FDI enterprises in the mining sector. The government is currently operationalizing the investment promotion company InvestSur, which will focus on attracting FDI into the economy in the future. The overall surplus on the balance of payments fell from 2.4% of GDP to 0.6% of GDP.

Official reserve assets, which saw a boost after the IMF disbursement in June 2016, continued rising throughout 2017. Recorded at US\$ 398.6 million or 2.8 months of import cover in January 2017, reserves climbed to US\$ 424 million (3.0 months of import cover) by December. The increase has continued into 2018, and reserves stood at US\$ 448.2 million (3.1 months of import cover) in April 2018, which is still only 42.1% of its peak value in 2012.

### **b) Economic activity**

The economy is expected to grow by 1.5% in 2017, due to increased gold production and higher gold and oil prices. Production by the Newmont gold mine, which opened in late 2016, made a positive contribution in 2017. Indeed, mining and quarrying made an evident turnaround, with growth of 16.4%, contributing 0.9 points of GDP growth. Manufacturing grew by 5.9% and contributed 1.1 GDP points. Agriculture also grew by 3.9% and contributed 0.3 points. Increased rice production due to good weather and strong international prices, as well as stronger fish exports, were responsible for the performance in this sector.

Although inflation abated in the second half of the year, purchasing power still fell significantly in 2017, and the wholesale and retail trade sector contracted by 1.9% and contributed -0.2 percentage points to growth. While this was an improvement from the contractions of 10.5% and 28% in 2015 and

2016, respectively, it nevertheless marked the fourth consecutive year of decline for this sector. Construction also shrank by 4.0%, slightly better than the 9.0% contraction in 2016. The government sector contributed -0.8 percentage points to growth, due in large part to large contractions in the education and health and social work sectors.

For 2018 growth is projected to be 2.7%, based on continued strong commodity prices and ongoing expansion in the mining and quarrying and manufacturing sectors.

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

Inflation began to decline in October 2016, one year after the exchange-rate shock, continued to fall in 2017, and reached single digits by year-end. The fall overall in 2017 was from 48.7% in January to 9.3% in December. While inflation declined across all consumer good categories, the level of decline was not constant. Price rises for alcoholic beverages and tobacco, clothing and footwear, housing and utilities, household furnishings and health care all fell to below 6%. However, information for food and non-alcoholic beverages; recreation, culture, and education; food away from home; transportation; and miscellaneous goods and services were all up by over 10%, the latter two by 16.6% and 16%, respectively.

By March 2018, inflation had fallen to 8.7% overall, but remained over 10% for Food and non-alcoholic beverages; transportation; communications; and food away from home. While prices are expected to remain fairly stable, risks for higher inflation are the introduction of VAT, increases in public or private salaries or any exchange-rate changes.

Like economic growth, the unemployment rate is stabilizing. Unemployment in Suriname had evolved as expected in an economic slowdown, increasing from 6.9% in 2014 to 7.2% in 2015 then to 8.2% in 2016. However, in 2017 this rise came to a halt and the rate stabilized at around 8.1%.

## **H. Trinidad and Tobago**

### **1. General characteristics of recent trends**

The Trinidad and Tobago's economy was still in recession in 2017, with growth rate estimated at -2.3%. The primary cause of the subdued economic performance was reduced output in the energy sector due to a lackluster recovery of energy prices and downtime by a large gas producer. The commencement of new natural gas projects, however, revived energy output in late 2017, resulting in improved growth rate compared to a large contraction of 6.0% in 2016. In 2018, the economy is projected to post a positive growth for the first time in three years, growing by 1.5%. The recovery will be largely supported by the stronger upstream gas production and continued recovery of energy prices.

Oil price recovery in 2017 was not strong enough to reduce the central government's fiscal deficit. Even though total expenditure was cut by 4.7%, overall fiscal deficit increased from 5.3% of GDP in fiscal 2016 to 8.5% of GDP in fiscal 2017, pushing up debt to GDP ratio to 62.7% at the end of fiscal 2017. Two credit rating agencies, Moody's and Standard & Poor's, downgraded Trinidad and Tobago one notch in April 2017, citing the deterioration in oil and gas prices and the economy's high dependence on oil and gas revenue for public finances. For fiscal 2018, the government projects an improvement of a deficit to 2.5% of GDP, assuming a modest oil price increase and collection of the bail-out funds lent to a private financial company in 2009.

The sluggish economic activity and restrained demand led to lower inflationary pressures. Notwithstanding the reduction of the fuel subsidy effective October 2017, inflation rate dropped from 3.1% in 2016 to 1.3% in 2017, and to 0.8% year-on-year in March 2018. The central bank, however, maintained its neutral monetary policy stance in light of foreign exchange shortages. After the gradual depreciation during 2016, which did little to alleviate foreign exchange shortages, the TTD/USD selling rate has fluctuated within a narrow range around TT\$ 6.78/US\$ 1.

The current account recorded a surplus of 10.5% of GDP in 2017, in contrast to the previous year's deficit of 2.9% of GDP, mainly reflecting the recovery of energy prices. In the context of continued energy price recovery and improved gas production, the current account is expected to keep a surplus in 2018.

The unemployment rate reached 5.3% in the second quarter of 2017, the worst level in five years. The increase of unemployment rate was due to a decline of the number of employed persons, mainly in the oil and gas and construction sectors. At the same time, the participation rate fell to 59.5% in the second quarter of 2017 from 60.0% in the same period of 2016, indicating that some workers left the labour force out of discouragement at difficulty of finding work.

## **2. Economic policy**

### **a) Fiscal policy**

The government of Trinidad and Tobago is pursuing fiscal consolidation by aligning expenditures with available revenues under the lower energy price environment, while maintaining capital expenditures to stimulate economic activity by utilizing available financing options. In fiscal 2018, the government is implementing several fiscal measures, including establishment of the new Revenue Authority, implementation of property tax system, further reduction of fuel subsidy, cut of public servants' wages, finalization of new gambling legislation, a rate determination exercise for public utility subsidies and rationalization of royalty regime applicable to natural gas production.

In the fiscal 2018 budget, the total revenue is expected to increase by 20.9%, supported by a modest increase of energy revenue under the oil price assumption of US\$ 52 per barrel, and recover of bail-out funds which were disbursed to a private financial group after the global financial crisis. The government applied to the court to wind up the financial group, so that its assets could be liquidated for the repayments. As the legal issues have been largely resolved, about TT\$ 10 billion (over 6% of GDP) would be available for future financing. In the short term, the government plans to monetize over TT\$ 4 billion by the end of July 2018.

Total expenditure in the fiscal 2018 budget is maintained almost the same as in the fiscal 2017 outturn. While expenditures on wages and subsidies are budgeted to decrease largely due to the cut of public servants' wages and the reduction of fuel subsidy, expenditure on goods and services and capital expenditure will increase in efforts to diversify the economy and build human capital. These efforts include upgrade programme for hotel and guest rooms, business development incentive programme for SMEs, modernization of public transportation and housing construction incentive program.

Based on the increased revenue and the restrained expenditure, overall fiscal deficit is projected to narrow from 8.5% of GDP in fiscal 2017 to 2.5% of GDP in fiscal 2018. It is also expected that the combination of the smaller deficit and the higher nominal growth would stabilize debt to GDP ratio in fiscal 2018. In fact, net public sector debt, which excludes Treasury securities issued for Open Market Operations, decreased to 60.3% of GDP in April 2018 from 62.7% of GDP at the end of fiscal 2017. In

the long term, however, further fiscal consolidation efforts would be necessary because the improvement of fiscal situation in fiscal 2018 mostly depends on the aforementioned one-off revenue flow, namely the collection of bail-out funds.

### **b) Monetary policy**

Despite the persistent weakness in the economy, the Central Bank of Trinidad and Tobago maintained its neutral monetary policy stance in consideration of foreign exchange shortages. The Central Bank held its main monetary policy tool, the repo rate, unchanged at 4.75% over the January 2016 to March 2018 period. Previously in 2015, the Central Bank increased its repo rate six times, to guard against capital flight in response to increasing interest rates in the United States. In the short term, the benchmark rate is likely to remain on hold, as the Central Bank should support the economic recovery while addressing foreign exchange shortages. However, a tightening cycle should begin when interest rate differentials with the US widen further.

Liquidity levels in the domestic banking system, which are measured as commercial banks' holdings of excess reserves at the Central Bank, decreased in 2017 owing to the low net domestic fiscal injections, the main driver of liquidity. To ward off the lower liquidity levels, the Central Bank eased its liquidity management by allowing net maturities of TT\$ 7.1 billion in open market instruments to return to the banking system. Further, the Central Bank's repurchase facility was more frequently accessed by commercial banks.

The weighted average lending rate for commercial banks decreased from 8.24% in December 2016 to 8.20% in December 2017. In an environment of sluggish economic activity, private sector credit increased by 4.6% in 2017, only slightly higher than the 3.3% growth in 2016. Although growth in real estate lending accelerated from 4.4% in 2016 to 8.0% in 2017, growth in business lending increased marginally, dragged down by weak lending to construction and manufacturing sectors. Consumer credit slowed in 2017, especially in lending for motor vehicles and home improvement and renovation. As credit growth and net domestic fiscal injections remained subdued, measures of the money supply continued to trend downwards. M2, the broad measure of money supply, declined by 2.1% in 2017, compared to 3.2% increase in 2016.

### **c) Exchange policy**

The Central Bank has kept the TTD/USD selling rate steady at around TT\$ 6.78/US\$ 1 over December 2016 to April 2018 period. The nearly constant exchange rate, along with persistent interest rate differentials between TT and US short term rates, could encourage capital outflows and intensify pressures in the local foreign exchange market.

The foreign exchange market continued to experience tight conditions in the supply of foreign currencies in 2017. Purchases of foreign exchange from the public by authorized dealers declined to US \$ 3,607 million in 2017, a decrease of 15.9% from 2016. The decrease was largely due to the subdued revenues in the energy sector, which remains the main source of foreign exchange supply to the market. Meanwhile, authorized dealers sold US\$ 5,190 million to the public over 2017, a decline of 10.2% compared to 2016, resulting in the increased net sales gap of US\$ 1,583 million. The Central Bank supported the market by selling US\$ 1,834 million to authorized dealers. Further, in May 2018, the government established the Forex Facility of the Export-Import Bank of Trinidad and Tobago (EXIMBANK), which was capitalized with US\$ 100 million, to facilitate exports by supplying foreign exchanges to exporters.

As the Central Bank continued to sell US dollars, the level of net official reserves declined to TT\$ 7,987.9 million at the end of March 2018 from TT\$ 9,465.8 million at the end of December 2016. The pace of the depletion prompted an international credit rating agency, Standard and Poor's, to change its credit outlook on Trinidad and Tobago to "Negative" from "Stable" in April 2018, while net official reserves remained adequate by international benchmarks and were equivalent to 9.0 months of imports. Throughout 2018, the rate of decline in net official reserves is expected to slow because output of the energy sector, the main supplier of foreign exchange, will improve. Indeed, foreign reserves slightly increased between March and April 2018.

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

Given the persistence of subdued energy prices, the government is trying to transform the economy from being dependent on the energy sector to having more diversified production structure. To achieve this objective, the government is laying out several new strategies, including “National Quality Policy” and new “Trade Policy and Strategy,” following the guiding principles charted in “Vision 2030: The National Development Strategy (2016-2030).”

The government is committed to expanding and deepening trade agreements, as one of the main tools for diversifying the economy. After signing Partial Scope Trade Agreements (PSTAs) with Guatemala and El Salvador in 2015, the government is negotiating a new PSTA with Chile. In addition, CARICOM and Cuba agreed on the expansion of preferential access in 2017 under the Trade and Economic Cooperation Agreement.

Significant progress was made in negotiations with Venezuela on the supply of natural gas from Dragon field, which is located within Venezuela’s maritime territory, just off the north-west coast of Trinidad and Tobago. Following the finalization of Heads of Agreement in March 2017, a Gas Sales Agreement is expected to be executed in 2018. With the first gas expected to be transported to Trinidad and Tobago in 2020, the project will provide a much-needed supply for the LNG and the petrochemical sectors in Trinidad and Tobago.

### **3. Trends in the principal variables**

#### **a) External sector**

Trinidad and Tobago’s current account recorded a surplus of US\$ 2,325.1 million or 10.5% of GDP in 2017, improving from the previous year’s deficit of US\$ 653.2 million or 2.9% of GDP due to the improved performance of energy exports. Energy exports climbed from US\$ 6,430.8 million to US \$ 7,633.3 million over the same period, driven by the recovery of crude oil and natural gas prices. Meanwhile, total imports decreased by 11.0% as capital imports continued to wane, influenced by a slowdown in the pace of government’s infrastructural projects.

The current account surplus was partially offset by net outflows on the financial account. The financial account registered a net outflow of US\$ 863.9 million in 2017, a reversal of the net inflow of US\$ 1,460.4 million recorded in 2016, as foreign investors lowered their portfolio holdings of debt securities in Trinidad and Tobago. Meanwhile, net FDI outflows increased, reflecting increased holdings of foreign equity instruments by domestic firms.

Over 2018, the current account will continue to improve in the light of energy price recovery and improved gas production. However, net outflows on the financial account will continue as the widening of interest rate differentials, as a result of the monetary policy tightening in the US, would encourage financial outflows.

#### **b) Economic growth, with emphasis on its drives**

Although Trinidad and Tobago’s GDP decreased by 2.3% in 2017, the pace of contraction eased compared to the 6.0% decline in 2016, reflecting new natural gas projects which began production during 2017. Natural gas production increased for the first time in three years, boosted by BP Trinidad and Tobago’s Juniper and Trinidad Onshore Compression (TROC) projects. Further, the increased availability of natural gas improved activity in the midstream and downstream sectors, including LNG and methanol production. Consequently, the contraction of total energy output narrowed to 3.1% compared with the 11.1% decline in 2016.

Activity of non-energy sector also contracted by 1.5% in 2017, which narrowly improved on its 1.9% contraction in 2016. The rate of decline in construction activity marginally slowed due to a pickup in activity on public sector projects in late 2017. Contraction of Electricity and Gas industry sector also narrowed, partly because the effect of the closure of the ArcelorMittal iron and steel plant abated. On the other hand, contraction of Trade and Repairs industry widened to 9.4% in 2017, following the 7.4% fall in 2016, largely due to the decrease in discretionary spending among citizens. While Financial and Insurance industry

posted a positive growth for the fifth year in a row, the growth rate was lower in 2017 than in 2016, reflecting weak private sector credit growth under the challenging domestic economic environment.

In 2018, the economy is projected to grow by 1.5%, which represents the first positive growth in three years, driven by the stronger gas production. During the first quarter of 2018, natural gas production increased by 13.4% on a year-on-year basis. Contraction of non-energy sector is also likely to narrow due to increased public-sector construction projects, durable goods consumption by Venezuelan migrants and financial activity boosted by recovering corporate capital expenditures.

### **c) Inflation, wages and employment**

Inflationary pressures eased considerably in 2017 mainly due to the ongoing subdued domestic demand. Headline inflation stood at 1.3% in December 2017, which represented significant slowdowns from the rates of 3.1% in December 2016. Despite food supply disruptions caused by flooding in late October 2017, food inflation slowed to 3.6% in December 2017 from 6.7% in December 2016 as the base effect of VAT reintroduction on zero-rated items in early 2016 was canceled out. Meanwhile, core inflation dropped from 2.3% to 0.9% over the same period. For the first quarter of 2018, headline inflation slowed further to 0.8% in March 2018. Throughout 2018, inflation is expected to remain contained given the sluggish recovery of domestic demand.

Labour market conditions worsened during the first half of 2017, as the unemployment rate increased to 5.3% in the second quarter of 2017 from 4.4% in the same quarter of 2016. Weakness in domestic economy led to job losses, particularly in the construction sector and the energy sector. Further, of 9.5 thousand total job losses, 3.9 thousand persons left the labour force discouraged by 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, median wage increase was 3.00% in 2017, down from 4.00% increase in 2016. Although retrenchment notices decreased during 2017, which would represent a sign of future improvement in labour market, the unemployment rate is expected to remain relatively high throughout 2018 compared to the previous five years' average.

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