CARIBBEAN DEVELOPMENT BANK

TURKS AND CAICOS ISLANDS

ECONOMIC BRIEF

United States Dollar (US$)

Overview

Turks and Caicos Islands' economic recovery continued in 2022. Real gross domestic product (GDP) grew by 6.2%, driven mainly by improved tourism performance and spillovers to the ancillary sectors. Inflationary pressures continued resulting in the need for continued fiscal policy responses to mitigate cost of living pressures on the vulnerable. An overall fiscal surplus was attained for fiscal year (FY) 2022/23 and public debt remained negligible. The merchandise trade deficit widened due to higher imports. The financial sector continues to be highly liquid and have adequate capital buffers.

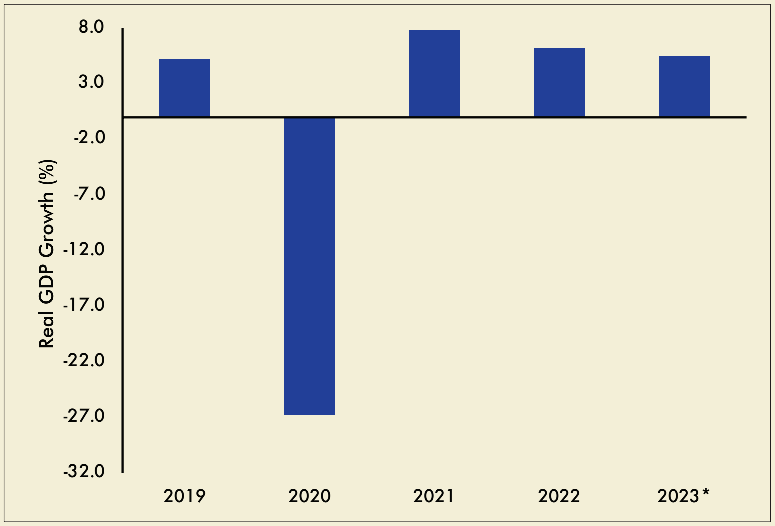
Improved macroeconomic conditions are projected to continue in 2023, amid downside risks. Real GDP growth of 5.5% is forecasted for 2023, buttressed by a further recovery in stayover visitor arrivals and public and private sector construction activity. However, risks to the outlook are titled to the downside including an abrupt global slowdown which could hinder tourism prospects and the ever-present threat of weather-related hazards.

KEY DEVELOPMENTS IN 2022[1]

The economy grew in 2022 albeit at a slower pace as the recovery moderates. Real GDP rose by 6.2% in 2022 compared with 9.0% recorded in 2021. Hotels and restaurants, which account for around 33% of GDP, grew by 15.8%, bolstered by the easing of COVID-19 restrictions. Stayover visitor arrivals grew by 41.7% to reach 573,300. Cruise ship arrivals increased to reach 247 ships compared with 15 in 2021, bringing in 734,446 cruise passengers, up from 26,573 a year earlier.

Improved tourism performance resulted in positive spillovers to the ancillary sectors. Wholesale and retail trade grew by 2.5% in 2022. At the same time, value added in both the transport, storage and communication and real estate sectors rose by 2.2%. Value added in the construction sector grew by 2.5% bolstered by port infrastructure projects.

Chart 1: Real Gross Domestic Product Growth



Sources: *Statistics Department. *Caribbean Development Bank (CDB) estimate.*

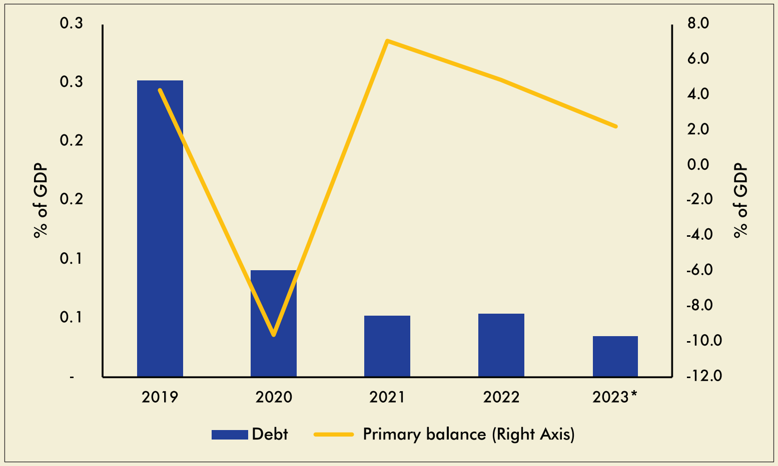
Average inflation, as measured by the consumer price index (CPI), rose by 6.0% relative to 4.5% in 2021. Higher freight costs and elevated global food and fuel prices exacerbated by the ongoing war in Ukraine contributed to escalating inflationary pressures. The Government responded to the rising prices by introducing measures to reduce the cost of living, including reducing the fuel tax and waiving import duties and customs fees on essential goods in the CPI basket. The Government also provided direct financial assistance through a citizen inflation adjustment stimulus, with the one-off payment intended to assist citizens with their general living expenses.

Labour market conditions improved in 2022. The unemployment rate trended down to 8.0% from 9.0%, as the tourism and ancillary sectors continue to recover.

[1]All comparisons are with respect to 2021, unless otherwise stated.

Fiscal conditions weakened slightly in FY[1] 2022/23 (see Chart 2). The overall surplus for the FY narrowed to $54.8 million (mn) (4.8% of GDP) from $73.6 mn (7.1% of GDP), as the growth in expenditure outpace that of revenue collection. Total revenue grew by an estimated 3.8% to reach $413.8 mn bolstered by a 23.7% rise in import duties – which accounts for around 23% of total revenue collected – to $96.1 mn. In addition, collections from tourism-related activities made significant gains, reflected by an 18.7% increase in the Hotel and Restaurant Tax. Total expenditure increased, boosted by current spending which grew by an estimated 12.5% to reach $340.9 mn, in line with higher total personnel costs (10.3%). On the other hand, capital expenditure fell by 18.2% to reach $18.2 mn. Public debt continued to remain low, standing at $0.6 mn (0.1% of GDP) at the end of FY 2022/23.

Chart 2: Fiscal and Debt Performance



*Sources: Ministry of Finance (MOF). *CDB estimate.*

The merchandise trade deficit widened on account of higher import payments. The deficit rose to $678.8 mn, a 43.2% increase when compared with the same period a year earlier. Exports were valued at $2.6 mn, down from $11.3 mn. At the same time, merchandise imports reached $681.4 mn, representing an increase of $196.0 mn or 40.4%. This outturn was bolstered by a rise in imports of mineral fuels, lubricants and related materials, and manufactured goods.

The financial sector remained well-capitalised and non-performing loans (NPLs) trended downwards. The liquid assets to total assets ratio remained elevated but fell marginally from 62.2% in 2021 to 61.0%. Moreover, financial institutions remained well capitalised with a capital adequacy ratio of 31.4% relative to 25.4% recorded a year earlier. The ratio of NPLs to gross loans continued to trend downwards reaching 3.0%, down from 4.5% in 2021. Total banks' deposits grew (10.7%), as did credit (1.7%), reflecting increases in loans and advances to businesses (construction and land development and public utilities) and households for house and land purchases and other personal loans.

2023 OUTLOOK

The economy is projected to continue to record a strong recovery during 2023, however risks are titled to the downside. Continued robust performance in the tourism sector will likely support an estimated 5.5% increase in real GDP in 2023. This outturn is also supported by expected positive performances in the real estate and construction sectors. The economy is expected to be boosted by the implementation of key capital projects, including the redevelopment of the Howard Hamilton (Providenciales) International Airport and the South Dock Port. Despite the expected continued recovery, there remains downside risks as inflationary pressures due to the ongoing global challenges could weaken aggregate demand and constrain anticipated growth. A further slowdown in global economic activity particularly in key source markets and weather-related hazards could further compromise recovery.

[1] FY: April 1 to March 31.

DATA

The table below summarises the key economic indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. The 2023 data are preliminary estimates and are subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	5.3	-26.8	9.0	6.2	5.5
Average Inflation (%)	2.2	2.3	4.5	6.0	3.5
Unemployment (%)	7.0	11.0	9.0	8.0	7.0
Primary Balance (FY, % of GDP)	4.3	-9.6	7.1	4.8	2.2
Public Debt (% of GDP)	0.3	0.1	0.1	0.1	0.0

Source: *MOF.*

Note: e-estimate.