COUNTRY ECONOMIC REVIEW 2018

TURKS & CAICOS ISLANDS

OVERVIEW

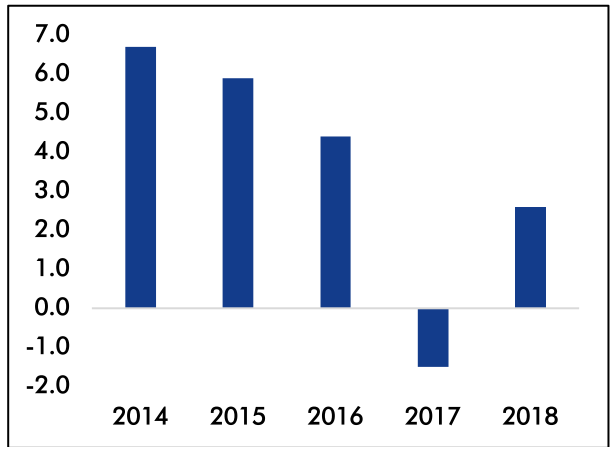
Economic growth returned to Turks and Caicos Islands (TCI) in 2018. Increased activity in the tourism and construction sectors contributed to the recovery. Fiscal performance remained strong as debt continued to decline. Increased economic activity is anticipated in 2019, as tourism-related investments and reconstruction activity gain traction.

The Government of Turks and Caicos Islands (GOTCI) is focused on economic recovery and inclusive growth following damage caused by Hurricanes Irma and Maria in 2017. Key investments in education, primary healthcare, border protection and security, and social development are in line with TCI's sustainable development objectives. The economic recovery programme will be financed primarily from cash reserves.

KEY DEVELOPMENTS IN 2018

Real gross domestic product (GDP) is estimated to have grown by 2.6% in 2018 (see Chart 1). The main driver was construction. Value added in this sector increased by 10%, buoyed primarily by large-scale tourism projects. A firm recovery in tourism after the first quarter of the year, was supported by the reopening of hotels following the 2017 hurricanes. Stayover arrivals[1] and cruiseship passengers[2] recovered in 2018. New services by interCaribbean Airways connecting Salt Cay, Grand Turk and South Caicos, contributed to increased connectivity between the islands. Additional airlift from American Airlines and Delta in late 2018 is expected to bring a higher number of tourist arrivals in 2019.

Chart 1: Real GDP Growth



Source: Ministry of Finance (MOF).

Average inflation rose to 3.2% in 2018 which is above the four-year (2014-17) average of 2.1%. Import prices, coupled with heightened demand for construction-related activity, labour and real estate, contributed to higher prices.

Fiscal surpluses have averaged 8.0% of GDP annually since 2012. TCI's fiscal position is expected to remain strong in Fiscal Year[3] (FY) 2018/19, with an overall surplus of 4.3% of GDP[4]. Higher-than-projected revenues and lower-than-budgeted expenditures, particularly capital expenditures, will contribute to the positive outturn. Government debt fell from $55.0 mn (5.4% of GDP) at the end of December 2017 to

[1] Stayover arrivals increased by 10.0 % to 458,100 visitors for the full year 2018 (estimated by the Economist Intelligence Unit).

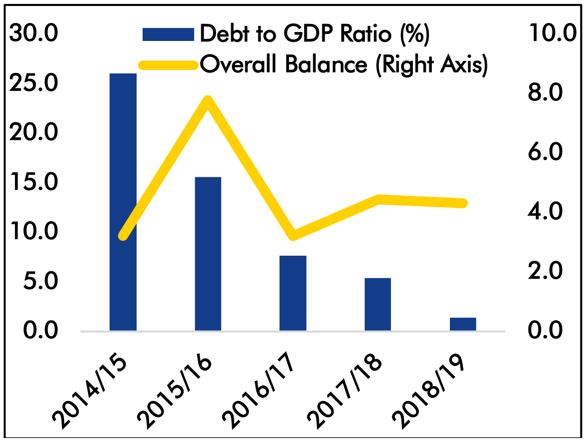
[2] Cruise ship arrivals increased by 23.5% to1.0 mn visitors for the full year 2018.

[3] FY runs from April to March.

[4] An operating surplus of $52 mn was recorded at the end of September 2018 (the first half of the fiscal year).

$14.6 mn (1.4% of GDP) at the end of September 2018, (see Chart 2).

Chart 2: Fiscal and Debt Performance



Source: MOF.

The National Wealth Fund (NWF), established in 2017, was capitalised with $8.0 mn in FY 2018/19. The NWF is expected to be funded at the end of each financial year through surplus revenue and assets acquired and earned from investments. Funds from the NWF may be withdrawn when the accumulated total is equal to 25% of GDP. As at September 2018, a total of $211 mn (19.4% of GDP) was held in liquid assets[5].

Financial sector developments were positive in 2018. After several years of decline, domestic credit grew in the year to September 2018, mainly reflecting increased lending to public utilities. In the same period, total deposits grew by 10.2%. Loan performance, coupled with higher bank liquidity, contributed to an improvement in the risk-weighted, capital-adequacy ratio. Asset quality was also better, as the ratio of non-performing loans to total loans declined from 7.7% in September 2017, to 5.9% a year later. Overall, liquid assets to total assets and deposit ratios improved while profits grew almost threefold.

Challenges with Correspondent Banking Relationships continued in 2018. The costs of investing in technology in order to comply with regulatory requirements contributed to further consolidation efforts. Bank closures in Grand Turk and Grace Bay in September 2018 reflected these circumstances.

OUTLOOK

GOTCI is projecting growth of 3.5% for 2019, based on an anticipated escalation in construction activity. This will be led by tourism-related and public sector rebuilding projects. Tourism is also expected to remain buoyant. Downside risks to the outlook are linked to weaker global economic conditions and increasing geopolitical tensions. In addition, weak implementation capacity, particularly in Central Government, may hinder execution efforts on key public sector investments.

TCI remains vulnerable to weather-related events. The allocation of $8.0 mn to the NWF and continued coverage under the Caribbean Catastrophe Risk Insurance Facility are prudent initiatives which can help to stabilise the economy immediately after an external shock or natural disaster. Additional measures needed to build greater resilience include expanding insurance coverage and enforcing building codes.

[5] This includes cash and investments held in the Consolidated, Development, National Forfeiture and NWFs.

DATA

The table below summarises the key economic (and social) indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. Some are subject to revision.

Selected Indicators

	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	6.7	5.9	4.4	-1.5	2.6
Average Inflation (%)	2.3	2.2	2.0	2.1	3.2
Unemployment (%)	12.0	11.0	7.0	6.0	n.a.
Overall Balance (% of GDP)*	7.6	3.2	3.2	4.4	4.3
Public Sector Debt (% of GDP)	26.0	15.6	7.6	5.4	1.4

**FY.*

Sources: MOF.

Notes: e – estimate; n.a. – not available.