REGIONAL ECONOMIC SUMMARY 2018

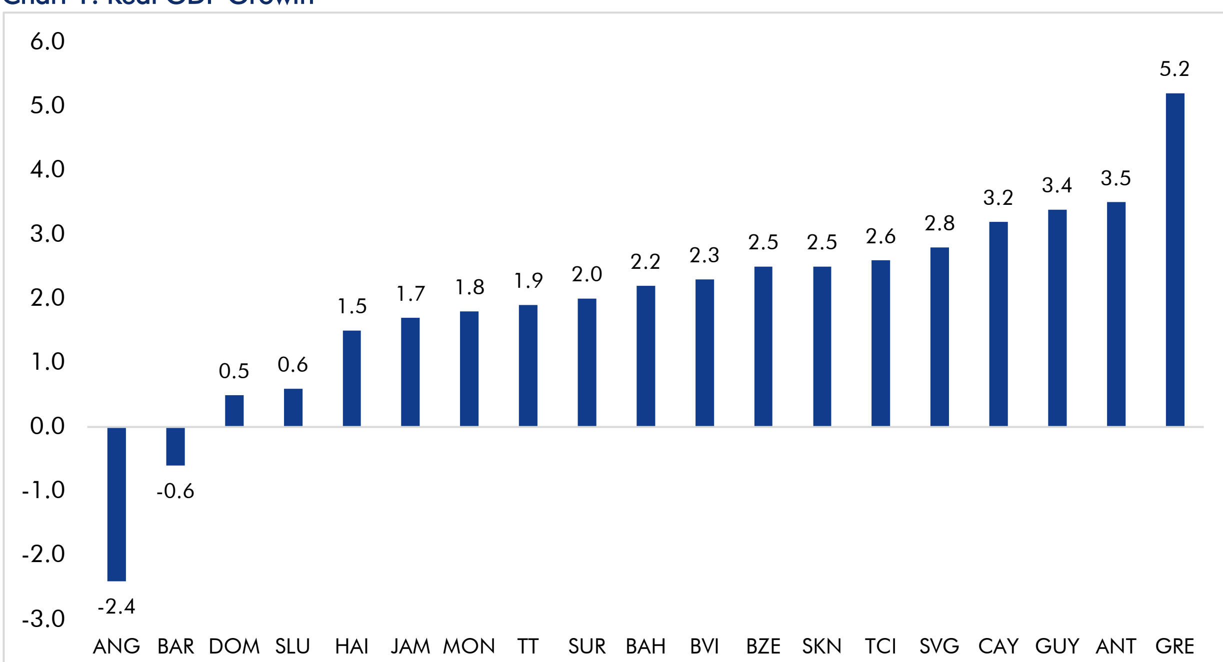
OVERVIEW

This document contains Country Briefs for each of the Caribbean Development Bank's (CDB) 19 Borrowing Member Countries (BMCs). The Country Briefs are also available as separate documents. They contain CDB's summary assessment of economic performance in 2018, as well as forecasts for 2019. Assessments are made on the latest available data at time of publication, and are subject to revision as new data become available.

ECONOMIC PERFORMANCE

Economic performance in the Caribbean is set against a background of slowing global economic growth. The current international economic environment is characterised by escalating trade tensions, volatile commodity markets, and policy uncertainty with respect to both BREXIT and U.S. trade. In spite of all these developments, in 2018 most of CDB's BMCs recorded positive economic growth. Growth averaged 1.9%, an improvement on 0.5% in 2017. The fastest growing economies were Grenada (5.2%), Antigua and Barbuda (3.5%) and Guyana (3.4%). For Antigua and Barbuda and some of the other BMCs that were affected by the 2017 hurricane season, reconstruction efforts contributed to their upturn.

Chart 1: Real GDP Growth



Source: Central Banks, Ministries of Finance, Statistical Offices, IMF, CDB

Conversely, real gross domestic product (GDP) contracted in Barbados despite modest gains in tourism, one of its key sectors. This contraction was attributed to the impact of fiscal consolidation and the fall in construction activity. Anguilla's economy also contracted, due to an almost 40% fall-off in visitor arrivals, following hurricane damage to the hotel stock in 2017. For the same reason, the British Virgin Islands experienced a 50% decline in visitor arrivals. However, real GDP grew by over 2.0% as a result of buoyant business and financial services activity.

Most other BMCs enjoyed increased visitor arrivals. Overnight visitor arrivals increased by 15% in Belize, and by about 10% in the Cayman Islands and in Grenada.

In the commodity exporting countries, higher oil production and prices drove increased growth in Suriname and in Trinidad and Tobago. Buoyant gold prices also benefited Suriname. Growth in Guyana was linked mainly to robust construction activity, in advance of the beginning of commercial production of oil in 2020.

Rates of unemployment fell in some BMCs, but rose in others. In Jamaica, unemployment fell to a record low in 2018, on the back of greater macroeconomic stability and improvements in the doing-business environment. Across the Region, unemployment rates were generally higher for women than for men, and the rate of youth unemployment remained worryingly high, with about one in five young people seeking but unable to find employment.

FISCAL PERFORMANCE AND DEBT

Fiscal performance varied across the Region. Debt as a percentage of GDP decreased in 13 BMCs, although the ratio continued to exceed the international benchmark of 60% in 11 countries. Public finances in some BMCs continued to be affected by the impacts of the 2017 hurricanes. Tax revenues fell in Anguilla, while expenditure, much of it related to recovery, rose. In Antigua and Barbuda, rising public expenditure was accompanied by lower non-tax revenues, especially from the Citizenship by Investment (CBI) programme. Indeed, it was only in St. Kitts and Nevis that CBI revenues rose, following the launch of a new fund in late 2017.

In Grenada, the fiscal position continued to improve, reflecting strengthened expenditure management and tax compliance. Sustained economic growth contributed to better fiscal performance in Suriname and in Trinidad and Tobago. As part of the first stage of the economic recovery plan in Barbados, debt restructuring and fiscal restraint helped to achieve an increased primary surplus. Belize also recorded a primary surplus, attributable to revenue enhancement measures taken to meet the targets agreed with creditors as part of its 2017 debt restructuring programme.

EXTERNAL PERFORMANCE

External positions improved in most BMCs, as did the level of foreign reserves. The current account situation improved in Suriname, and Trinidad and Tobago due to higher oil and gas prices. Suriname's external position also benefitted from higher gold prices. This helped the external reserves position to rise above the international benchmark of three months of imports. The same happened in Barbados as a result of external loan disbursements. In Belize and Guyana, the level of reserves was just above three months.

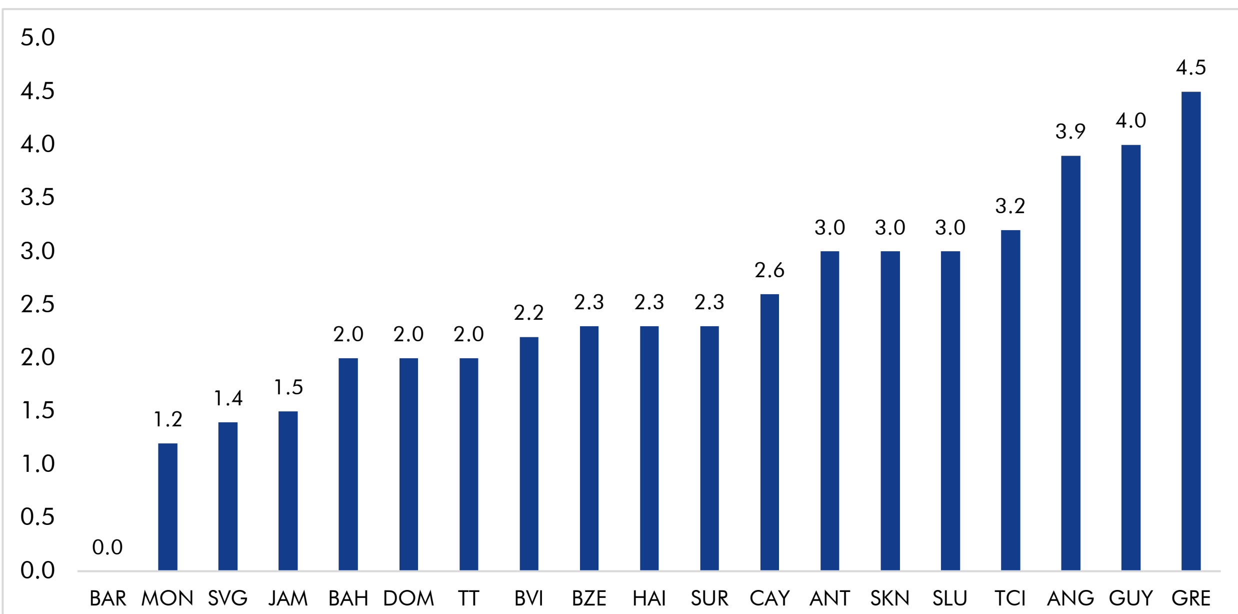
FINANCIAL SECTOR

Generally, monetary growth increased in 2018, consistent with domestic credit expansion in Barbados; Guyana; Jamaica; Suriname; and Trinidad and Tobago. Credit contracted in The Bahamas and Saint Lucia. The regional banking system remained relatively stable. Bank capitalisation continued to be satisfactory, with capital adequacy ratios above prudential guidelines. However, some vulnerabilities persisted, with increasing levels of non-performing loans (NPLs) in some BMCs.

OUTLOOK

Despite projections of deceleration in global economic activity, the 2019 economic outlook for CDB's BMCs is positive. CDB is projecting that real GDP growth will be 2.1%, as construction, tourism, and the extractive industries, such as gold and oil, are expected to expand. The expectation is that all but one of the BMCs will grow, once again led by Grenada. The rate of growth will be higher in Guyana, as the country prepares for commercial oil production starting in 2020. The one exception is Barbados, where the level of activity will remain the same.

Chart 2: Real GDP Growth 2019 forecasts



Source: CDB

The following sections provide more detail for each BMC. CDB intends to provide a brief update in the middle of 2019.

ANGUILLA

$ refers to Eastern Caribbean Dollars (EC$). US$1 = EC$2.70.

ANGUILLA ECONOMIC BRIEF 2018

OVERVIEW

Anguilla's economy contracted by 2.4% in 2018, even as construction activity surged. The impact of the passage of Hurricane Irma in 2017 was evident in the steep decline in tourism arrivals and in the Government of Anguilla's (GOA) fiscal performance. The current, primary, and overall balances weakened. The fiscal imbalance was financed with an external loan and domestic resources. During the year, the debt level rose slightly and foreign assets dwindled. Overall consumer prices increased marginally and private sector borrowing contracted.

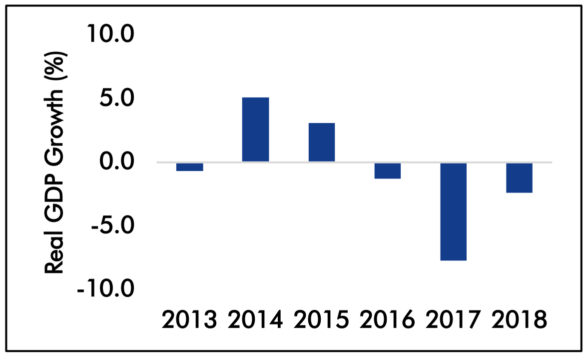
The economic outlook is positive with output projected to increase by 3.9% in 2019. The planned reconstruction of critical public infrastructure and the recovery of the tourism industry should drive economic growth. Although fiscal conditions are likely to improve as GOA's tax administration strengthens, financing gaps are expected to remain in 2019.

KEY DEVELOPMENTS IN 2018

The economy contracted for the third consecutive year (see Chart 1). After losing an estimated 97% of gross domestic product (GDP) due to damage caused by Hurricane Irma, economic recovery in Anguilla was slow in 2018. It is estimated real GDP shrank by 2.4%, compared with the 7.7% contraction of 2017.

Traditional economic engines have not yet rebounded to pre-hurricane levels. Growth was near stagnant in the transport and real estate sectors, while activity slowed in tourism. Despite efforts to repair the island's most productive industries from the devastating impact of Hurricane Irma, most hotels were closed during the 2017/18 peak season. While the Clayton J. Lloyd Airport reopened within a week of the Hurricane, air access through St. Maarten – a critical hub – was limited until October 2018. As at November, tourist arrivals stood at 45,399, a 31% decline from the figures for the first 11 months of the previous year. As a result, there was less demand for air, land and sea transportation.

Chart 1: Real GDP Growth



Source: Eastern Caribbean Central Bank (ECCB), CDB.

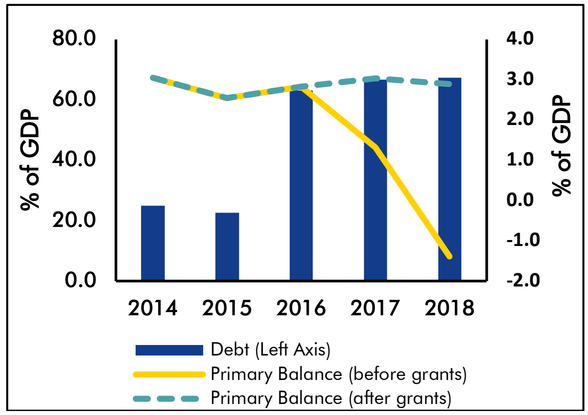
Losses in tourism-based industries depressed spending on other economic activities. While power and water supply were restored island-wide towards the start of 2018, demand was constrained by the low tourist numbers and high local unemployment. At the end of 2017, an estimated 2,000 hospitality workers – over 10% of the population – were displaced. These jobs would have been slow to return in 2018, as some hotels reopened late in the year. Lower domestic demand adversely impacted wholesaling and retailing activities in 2018. The financial intermediation sector also declined.

Massive rebuilding work tempered the overall contraction of the economy. The private sector's reconstruction efforts propelled an over 20% expansion in the construction industry. The majority of hotels were operational by the start of the 2018/19 peak tourist season. While some repairs began on key public infrastructure (including the hospital and airport), financial resource constraints limited the work.

The general price level remained relatively stable. Based on the Anguilla Statistics Department's Consumer Price Index (CPI), consumers paid 0.2% more for goods and services in December 2018, relative to a year earlier. Prices varied for items in the heaviest weighted categories in the CPI basket. The falling cost of housing (-0.2%) and communication services (-1.4%) largely dampened the effect of price increases for transport and food.

Government fiscal operations resulted in a widening of the overall deficit to 0.8% of GDP in 2018. This outturn resulted in the primary balance slipping from a surplus of 1.3% of GDP in 2017 to a primary deficit of 1.4% in 2018. (See Chart 2). Hotel and business closures significantly eroded the base for taxing domestic goods and services. Accommodation taxes, which accounted for a tenth of recurrent income in 2017, fell from 2.6% of GDP to 0.7% of GDP. However, the increase in construction activity provided a small boost in other revenue streams. Revenue from import and customs duties expanded from 10% to 12% of GDP, while revenue from licensing, fees and permits increased from 5% to 6% of GDP. On the recurrent expenditure side, salaries and interest payments increased. Grant financing mitigated the fiscal slippages associated with reconstruction efforts post-Hurricane Irma. In 2018, Anguilla received over $33 million (mn) in grants from CDB, the European Development Fund, and the United Kingdom Government (UKG), as well as a $750,000 insurance payout.

Chart 2: Fiscal and Debt Performance



Source: GOA, CDB.

Public sector debt levels rose slightly in 2018. The ratio of debt to GDP increased from 66.7% to 67.0%. Rising debt has been an ongoing challenge since the bank resolution[1] of 2016. In 2018, a loan of $40.2 mn from CDB provided direct budgetary support to close GOA's financing gap[2].

Domestic credit provided by the financial sector decreased. In particular, loans to the private sector contracted by 2.9%. In the year to October, the money supply[3] had declined by 0.2% compared with an expansion of 2.2% in the corresponding period of 2017. While the total net foreign assets of the banking

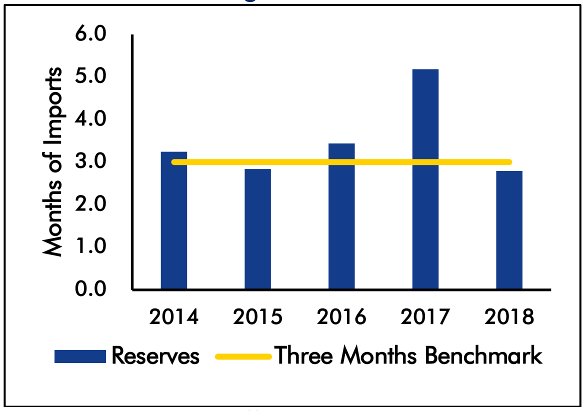
[1] In 2013, ECCB assumed control of two heavily insolvent, indigenous banks in Anguilla. In 2016, GOA incurred significant debt in order to fund the resolution of the banks and to stabilise the financial sector.

[2] Anguilla remains non-compliant with all three legislated borrowing limits under its Framework for Fiscal Sustainability and Development agreed with UKG.

[3] Monetary liabilities (M2) measures the money supply of an economy, accounting for cash, checking deposits, savings deposits, money market securities, mutual funds, and other time deposits.

system expanded by 10.6% in the year to September, this growth was solely driven by an improvement of the net asset position of the commercial banks.

Chart 3: Gross Foreign Reserves[4]



Source: ECCB, CDB Staff calculations.

Reserves fell below the recommended benchmark of three months of imports (see Chart 3). From the start of the year to October, the Central Bank's net foreign assets declined by 15%. The merchandise trade deficit expanded over the year to \$537.2 mn, primarily due to an increase in imports, particularly fuel, food and manufactured goods.

OUTLOOK

CDB projects growth of 3.9% in 2019, driven by an anticipated rise in tourist arrivals. The Medium-term Economic and Fiscal Plan (MTEFP) for 2018-2020 highlights a number of investments , including upgrading both the Blowing Ferry Terminal and the airport to increase tourism numbers through marketing and access Similar growth is expected in the sea and air transport industries. Although public sector reconstruction projects should accelerate in 2019, much of private sector rebuilding would have tapered off, leading to an overall slight contraction in the sector.

Sound public financial management and debt sustainability are GOA priorities. In the MTEFP, GOA acknowledged the need for fiscal resilience and economic diversification. The Government plans to divest its shares in the sole electricity utility, Anguilla Electricity Company, raising an estimated \$23.9 mn – close to a tenth of annual inflows. Similarly, planned tax reforms and strengthening of the tax administration will also increase revenue and improve the overall sustainability of public finances.

Going forward, additional external financing is planned as GOA executes its fiscal reform agenda. GOA is expected to receive grant aid of £60 mn from UKG to facilitate capital investments in the medium term.

[4] Calculations use ECCB's imputed reserves as at December 2014, 2015, 2016, 2017, and September 2018. Imports for each period estimated as an average of monthly merchandise imports in the year to date.

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. The 2018 data are CDB estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	-0.7%	5.1%	3.1%	-1.3%	-7.7%	-2.4%
Average Inflation (%)	0.1%	-0.3%	-1.0%	-0.5%	1.5%	-0.2%
Primary Balance *Before Grants* (% of GDP)	-0.5%	3.0%	2.5%	2.8%	1.3%	-1.4%
Primary Balance *After Grants* (% of GDP)	1.6%	3.0%	2.5%	2.8%	3.0%	2.9%
Public Sector Debt (% of GDP)	28.5%	24.9%	22.6%	63.0%	66.7%	67.4%

Sources: GOA, ECCB, CDB.

Notes: e – estimate.

ANTIGUA & BARBUDA

$ refers to Eastern Caribbean Dollars (EC$). US$1 = EC$2.70.

ANTIGUA AND BARBUDA ECONOMIC BRIEF 2018

OVERVIEW

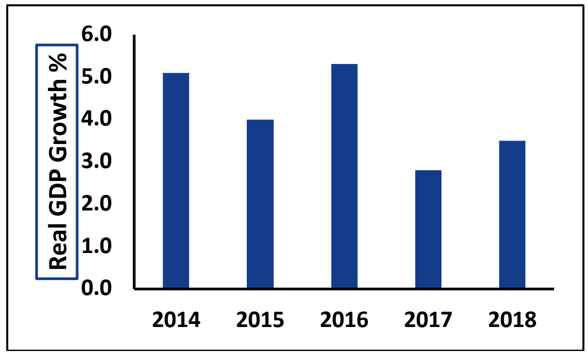
Antigua and Barbuda's economy grew in 2018, driven by activity in the tourism and construction sectors. Moderate inflation and improved labour market conditions also contributed to macroeconomic stability. Domestic demand was constrained by a deteriorating fiscal position. The fiscal deficit widened against a backdrop of high public debt and increasing gross financing needs.

Building macroeconomic resilience remains a significant challenge. The Caribbean Development Bank (CDB) projects moderate economic growth in 2019, with key downside risks in the short term. Anguilla's vulnerability to global economic shocks and adverse weather conditions poses significant risk to medium-term prospects. As a result, the authorities are encouraged to build resilience planning into their budget and economic development initiatives.

KEY DEVELOPMENTS IN 2018

Gross domestic product (GDP) is estimated to have grown by 3.5% in 2018, compared with 2.8% for 2017, (see Chart 1). The improved GDP position is due to increased buoyancy in tourism and construction activity. According to the Caribbean Tourism Organization, stayover arrivals grew by 9.1% to 239,797 January-November 2018. Key source markets– Canada (up 83.0% on the previous year) and the United States of America (USA) (up 7.6%) - provided more visitors. Both benefited from an in strategic marketing and subsequent improved airlift, such as the addition of Sunwing out of Canada. Conversely, visitor numbers from Europe fell 2.7%, reflecting major competition from other destinations, and volatility of the British Pound as uncertainty surrounding BREXIT continued.

Chart 1: Real GDP Growth



Source: IMF, CDB staff estimate.

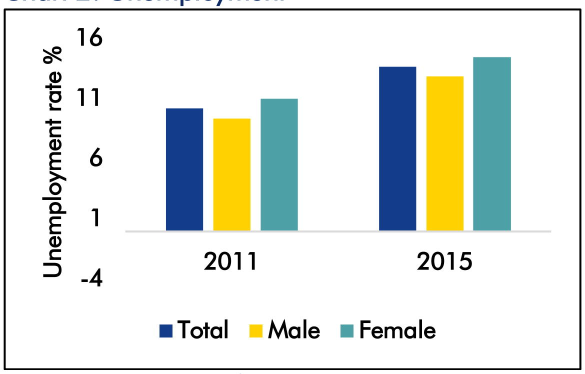
Similarly, cruise ship passenger arrivals grew by 13.5% to 768,838 (January-October 2018). This was due in part to earlier investments in port infrastructure to accommodate larger cruise ships. The cruise industry also benefitted from additional calls because of port closures in the Northern Caribbean due to Hurricanes Irma and Maria. Construction activity increased. Of significant note were hotel developments; the reconstruction efforts in Barbuda; and major road rehabilitation and expansion works. Ancillary sectors such as wholesale and retail; and transport, storage and communications also recorded positive growth.

Inflation grew by 1.3% at the end of September 2018, year-on-year. Overall price rises were registered in the food, housing and utilities, household and furniture equipment indices.

Unemployment is expected to have fallen in 2018. The last official unemployment data indicated a rate of 13.7% as at December 2015, with 14.5% of women and 12.9% of men unemployed. Youth unemployment

(33.9%) was more than double the national rate (see Chart 2). However, anecdotal evidence from Antigua and Barbuda's Social Security Board statistics suggests a moderate uptick in active employment coinciding with the increased economic activity and demand for labour in 2018.

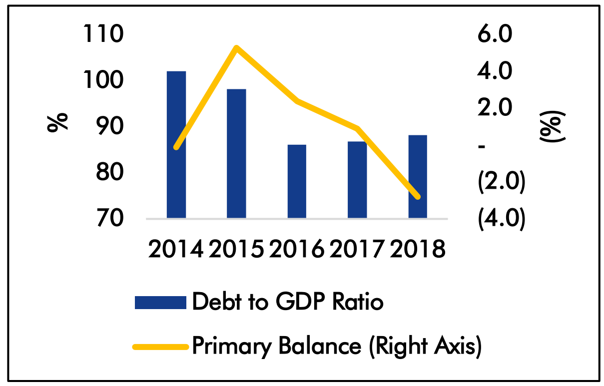
Chart 2: Unemployment



Source: Government of Antigua and Barbuda (GOAB).

Antigua and Barbuda's fiscal position worsened, prompting an urgency toward consolidation. A primary deficit of 2.3% of GDP is estimated for 2018, due in large part to higher recurrent expenditure, capital spending and a reduction in non-tax revenue collection (see Chart 3). Recurrent expenditure grew by 1.7% ($10.3 million [mn]) for the first nine months of 2018, due to increases in personal emoluments (16.1%), a consequence of a 5.0% pay rise for public officers, and interest payments (7.0%). Similarly, capital expenditure grew by 26.7% ($9.3 mn) to $44.1 mn, mainly to support the Government's road rehabilitation and expansion programme, and an affordable housing project. Current revenue grew by 2.0% ($11.9 mn) over the first nine months of 2018, associated with higher receipts from taxes on income and profits, domestic goods and services, and international trade. However, the better revenue take was tempered by an 11.2% ($10.7 mn) fall in non-tax revenue collection. Citizenship by Investment Programme (CIP) receipts are decelerating, with the September 2018 collection of $35.6 mn below the four years average of $49.1 mn.

Chart 3: Fiscal and Debt Performance



Source: GOAB, IMF.

Public sector debt, remains burdensome. According to the IMF, the public debt-to-GDP ratio is estimated at 88.2% in 2018, compared with 86.8% in 2017. Over the past five years, debt servicing (interest and amortisation) has accounted for an average of 53% of revenue collected on an annual basis, with interest payments alone accounting for roughly 12%. GOAB will need to find new ways to raise revenue and manage expenditure in order to ensure fiscal and debt sustainability.

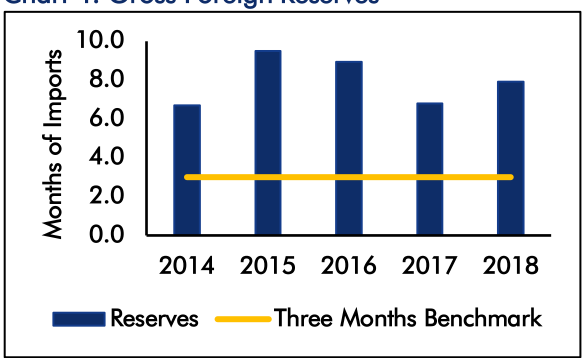
Money supply[5] grew by 6.3% during the first nine months of 2018. Private sector credit, the largest share of domestic credit, grew by 2.2% to $1.9 billion reflecting more loans and advances to both businesses (distributive trades and tourism) and households (durable goods and other personal loans). The

[5] Monetary liabilities (M2) is a calculation of the money supply that includes cash and checking deposits, savings deposits, money market securities, mutual funds and other time deposits.

banking system was more resilient in 2018, with improvements in commercial banks' asset quality and profitability. The banking system's ratio of gross non-performing loans to total loans fell to 7.0% as at end of September; and banks, with a Capital Adequacy Ratio of 37.1%, were well capitalised.

Gross international reserves exceeded the three months of imports international benchmark. International reserves grew to an estimated 7.8 months of import cover as at September 2018, compared with 6.8 months in December 2017 (see Chart 4).

Chart 4: Gross Foreign Reserves



Source: Eastern Caribbean Central Bank (ECCB).

The current account deficit is expected to have widened, due in part to higher imports, some of which was related to the post-hurricane relief effort. The merchandise trade deficit grew by 18.0% to $942.0 mn in the first nine months of 2018, on account of increased imports of food, fuels, manufactured goods, machinery and transport equipment. Increased tourism receipts, associated with the larger number of stay-over visitors, helped to narrow the current account deficit.

OUTLOOK

CDB projects real GDP to be 3.0% in 2019. Global economic growth slowdown is likely to translate into dampened travel demand. Buoyancy in the tourism industry will depend largely on economic prospects in the main source markets (USA, Canada, Europe); additional airlift into Antigua and Barbuda; and upgrades to the existing hotel stock.

However, on the domestic end, public and private sector-related construction activities are expected to mitigate any fallout from reduced travel demand. Key construction activities include the continuation of the road rehabilitation project; reconstruction in Barbuda, and the affordable housing project. Private sector construction activity will be focused on a few CIP-funded real estate developments, enhancements to the hotel stock, and residential construction.

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 (%)	5.1	4.0	5.3	2.8	3.5
Average Inflation (%)	1.1	1.0	-0.5	2.5	1.3
Unemployment (%)	n.a	13.7	n.a	n.a	n.a
Primary Balance (% of GDP)	-0.1	5.3	2.4	0.9	-2.8
Public Sector Debt (% of GDP)	102.1	98.2	86.2	86.8	88.2

Sources: GOAB, ECCB, IMF, CDB.

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

REGIONAL ECONOMIC SUMMARY 2018

BAHAMAS

$ refers to Bahamian Dollars. US$ refers to United States Dollars. US$1 = B$1.00.

BAHAMAS ECONOMIC BRIEF 2018

OVERVIEW

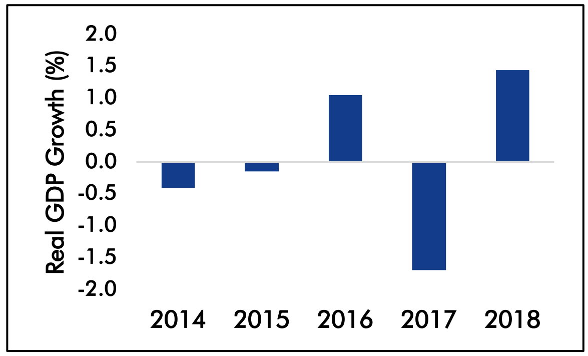
The Bahamas economy grew by 2.3% in 2018. The main drivers of the recovery were higher growth in the United States (US), increased room capacity in the tourism industry, and increased construction activity. Consequently, there was a slight decrease in the unemployment rate. Inflation rose in line with higher economic activity.

The fiscal performance of the Government of The Commonwealth of the Bahamas (GOCB) improved in 2018. As a percentage of gross domestic product (GDP), the primary balance improved. Central Government (CG) debt was slightly higher at 57.4% of GDP. External balances also improved as a result of increased tourism receipts. In addition, the financial sector remained profitable and well capitalised, although private sector credit continued to decline.

KEY DEVELOPMENTS IN 2018

The Bahamas economy recovered in 2018. Real GDP grew by an estimated 2.3%, following low and volatile growth rates over the previous five years (see Chart 1). The economy is largely dependent on tourism, which constitutes a 42.0% share of GDP; and growth is highly correlated with economic performance in the US, the main source market for tourism. Consistent with this, in 2018 tourism benefited from higher U.S. growth. In addition, the economy was boosted by increased room capacity from the recently completed Baha Mar Resort, as well as more activity in the construction sector. There were a number of small-to-large scale foreign investment and domestically-financed projects, including tourism-related initiatives underway. Visitor arrivals (both air and sea) up to the end of September amounted to $4.9 million (mn), 8.5% more than the $4.5 mn recorded in the corresponding period in 2017. It is estimated that performance for the final quarter was also positive.

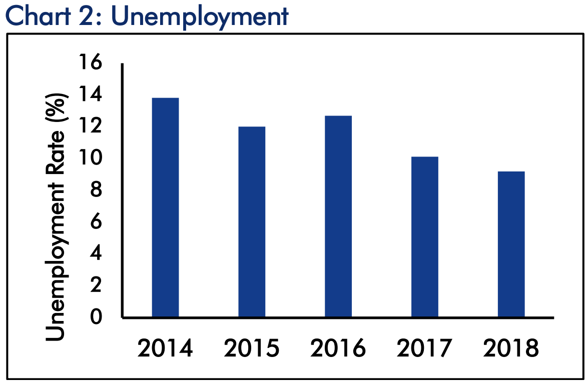
Chart 1: Real GDP Growth



Source: GOCB, CDB estimates.

In 2018, inflation rose and unemployment fell. Consumer prices rose by 2.4%, compared with1.8% in 2017. This was driven by higher costs of housing, water, gas, electricity and other fuels. The unemployment rate decreased from 10.1% in 2017 to 9.2% (see Chart 2). However, unemployment among youths remained elevated at 24.1% as at May 2018.

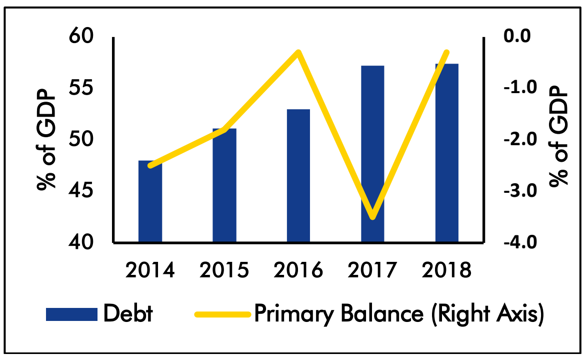
Chart 2: Unemployment



Source: GOCB, the International Monetary Fund (IMF).

The fiscal performance of GOCB improved significantly in 2018, in line with the commitments made in its 2017 budget communication. As a percentage of GDP, the primary deficit narrowed from 3.5% to an estimated 0.3% (see Chart 3). The overall deficit improved from 5.8% of GDP to an estimated 2.7%. In addition, GOCB enacted Fiscal Responsibility Legislation (FRL), which will support efforts to safeguard fiscal sustainability and reduce public debt. GOCB also plans to establish a disaster relief fund to enhance fiscal preparedness and risk management against natural disasters. In the Budget for Fiscal Year 2019, GOCB outlined its intention to pursue further fiscal consolidation, with a target deficit of 1.8% of GDP. The decline in the fiscal deficit slowed the growth of debt. CG debt is estimated to have increased only marginally from 57.2% in 2017, to 57.4% in 2018.

Chart 3: Fiscal and Debt Performance



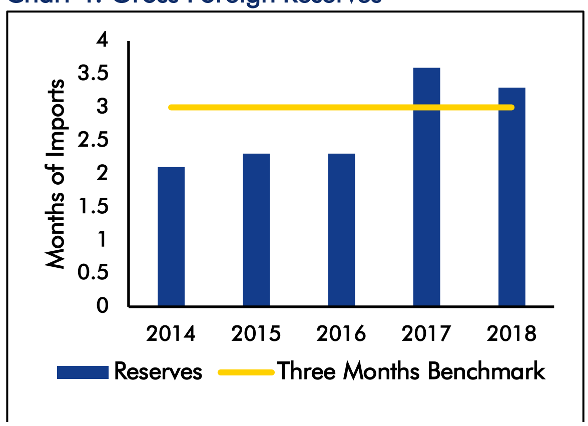
Source: IMF, GOCB.

The financial system remained stable, sound, and well-capitalised in 2018. As at June, the average capital to risk-weighted assets ratio across domestic institutions was 34.0%, which is above the regulatory target ratio of 17.0%. Non-performing loans (NPLs), as a percentage of total loans, declined from 12.3% in December 2017, to 8.5% as at September 2018, a continuation of the steady improvement over the last few years. However, commercial banks slightly increased their total provisions from 6.8% of total loans in December 2017, to 6.9% as at September 2018. As a result, the ratio of provisions to NPLs rose from 74.6%, to 81.0% over the same period.

Private sector credit continued to decline, while loan quality improved in 2018. As at the end of September 2018, private sector credit was $5.9 mn, which represents a 1.6% decline relative to December 2017. As was the case in 2017, personal loans constituted the largest share of credit, followed by government and the construction sector. Profitability improved marginally, owing to a fall in operating costs.

The current account deficit decreased in 2018, contributing to the maintenance of adequate international reserves (see Chart 4). External balances improved slightly.

Chart 4: Gross Foreign Reserves



Source: IMF.

The current account deficit declined from 16.4% of GDP in December 2017, to 15.2% in September 2018. The decline largely reflected an improvement in the services trade balance. The financial account surplus decreased significantly to $767.2 mn in September 2018. Gross international reserves fell slightly to 3.3 months of import coverage.

OUTLOOK

The medium-term outlook for The Bahamas is positive, albeit with a number of risks. Continued growth is envisaged, with 2.0% projected in 2019 and over the medium term. This growth will be largely based on tourism industry performance, emanating from increased air tourist arrivals and from expanded room capacity. Growth will also be driven by increased construction activities, as well as higher private investment and consumption.

GOCB recently enacted the FRL, which should lend important support to fiscal consolidation. The Caribbean Development Bank (CDB) estimates that the primary and overall balances will improve to 0.5% and - 2.0%, respectively, in 2019. In addition, CG debt should decline marginally to 57.0% of GDP.

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. The 2018 data are CDB estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	0.0	-0.4	-0.1	1.0	-1.7	2.3
Average Inflation (%)	1.0	0.2	2.0	0.8	1.8	2.4
Unemployment (%)	15.8	13.8	12	12.7	10.1	9.2
Primary Balance (% of GDP)	-4.1	-2.5	-1.8	-0.3	-3.5	-0.3
Public Sector Debt (% of GDP)	47.8	48.0	51.1	53	57.2	57.4

Sources: IMF, GOCB, CDB.

REGIONAL ECONOMIC SUMMARY 2018

BARBADOS

$ refers to Barbados Dollars (B$) throughout. US$1 = B$2.00

BARBADOS ECONOMIC BRIEF 2018

OVERVIEW

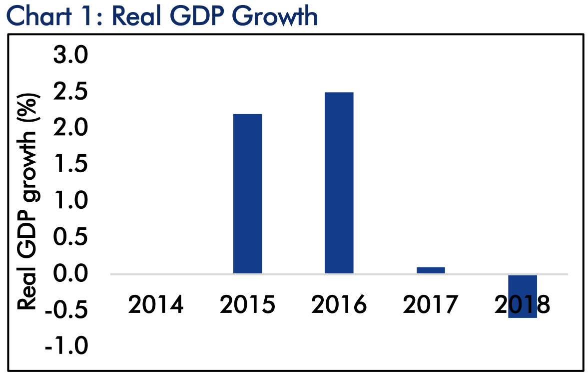
In 2018 Barbados strengthened its reform impetus to start addressing its precarious balance of payments and fiscal situations. In response to the worsening fiscal and external liquidity position, the Government of Barbados (GOBD) announced in June the Barbados Economic Recovery and Transformation Plan (BERT), which aims to restore macroeconomic stability and place the economy on a path of strong, sustainable and inclusive growth, while safeguarding the financial and social sectors. Included in BERT was the suspension of payments due on debt owed to external commercial creditors and a comprehensive domestic and external debt restructuring.

Fiscal austerity measures related to BERT and the challenging macroeconomic situation negatively impacted the non-traded sectors. These effects more than offset modest gains in tourism and led to economic contraction of 0.6% in 2018. Inflation fell, but remains above its long-term trend, while public sector layoffs may have contributed to rising unemployment in the fourth quarter (Q4) of the year. The public finance outturn improved due to deeper fiscal austerity measures, and contributed to a decline in public debt. Gross international reserves returned to the international benchmark of three months of import cover.

KEY DEVELOPMENTS IN 2018

Real gross domestic product (GDP) contracted by an estimated 0.6% in 2018, (see Chart 1). Despite modest gains in the tourism sector (where activity grew by 0.6%), the decline in overall GDP was due to a 7.0% fall in construction output and declines in other non-traded sectors such as distribution; business and services; transportation; storage; and communication. The number of overnight arrivals was 2.8% higher than in 2017, due to increased marketing and additional airlift. However, growth in tourism was constrained by reduced length of stay as more visitors arrived from the United States and Canadian markets compared with the longer-staying visitors from the United Kingdom (UK). This may be due in part to slower economic growth in the UK and a weaker Pound sterling. Cruise ship passenger arrivals were down, as the number of ship visits fell by almost 10.0%, after the re-routing of vessels in 2017, related to the impact of Hurricanes Irma and Maria.

Chart 1: Real GDP Growth

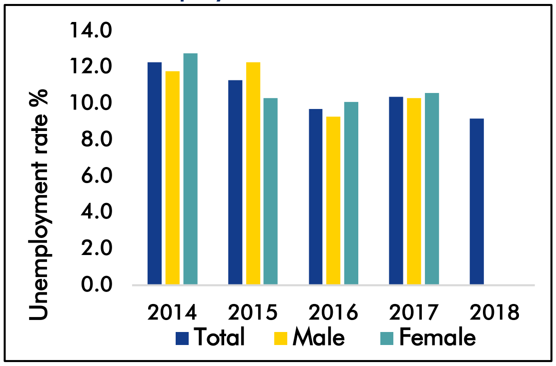


Sources: Central Bank of Barbados (CBB), Barbados Statistical Service (BSS), CDB staff estimates.

Fiscal austerity measures related to BERT and concerns about the challenging macroeconomic situation adversely impacted the performance of the non-traded sectors. Large-scale public and private sector projects were delayed, and the public sector layoffs in the final quarter of 2018 impacted domestic consumption with negative pass-through effects to the rest of the economy.

Inflation pressures eased in the second half of the year. Inflation declined to 3.7% from 4.5% in 2017. These are higher price increases than the trend in previous years, and are mainly due to the impact of the National Social Responsibility Levy (NSRL) and higher international crude oil prices. The removal of NSRL in July 2018, and the softening in international crude oil prices in Q4, both helped to reduce the domestic inflation rate.

Chart 2: Unemployment



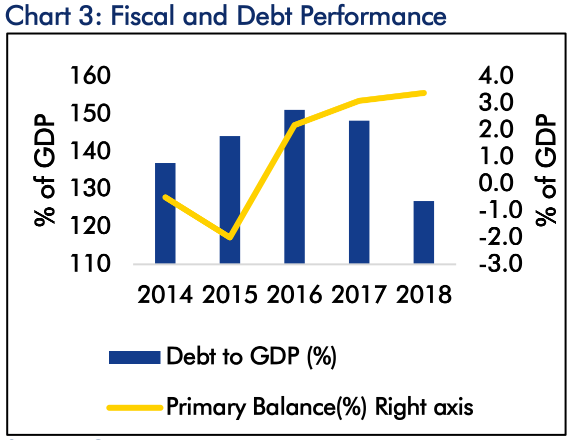
Source: CBB.

The average unemployment rate fell to 9.2% for the four quarters ending September 2018, (See Chart 2). However, public sector layoffs in Q4 may have contributed to a higher unemployment rate in December 2018.

The fiscal outturn improved as a result of deeper austerity. The primary balance strengthened to 3.4% of GDP for the nine month period to December 2018, above both the targeted primary balance of 3.3% for Fiscal Year (FY) 2018/19[6] and 3.1% in the previous FY, (see Chart 3). The fiscal austerity programme was underpinned by lower interest payments associated with the sovereign debt restructuring[7] and reduced transfers and subsidies, particularly to state-owned enterprises (SOEs). Broad-based reforms[8] to SOEs are underway, on a phased basis, to streamline their operations.

On the revenue side, increased collections (due mainly to a boost in corporate tax receipts[9]) also contributed to better fiscal performance. New taxes[10] were introduced to widen the tax base and the NSRL was removed. Corporate tax rates were also revised as a result of the Organisation for Economic Cooperation and Development's Base Erosion and Profit Shifting initiative. The improved fiscal performance contributed to the public sector debt declining to 126.9% of GDP at the end of December, from 148.4% in March. BERT targets a public sector debt-to-GDP ratio of 100% by FY 2022/23 and 60% by FY 2033/34.

Chart 3: Fiscal and Debt Performance



Source: CBB.

Commercial banks continued to be characterised by high levels of excess

[6] FY represents the period April to March.

[7] The domestic debt restructuring exercise achieved unanimous acceptance of the debt exchange proposal with 97% participation by creditors. The external debt restructuring exercise is still in the process of negotiation.

[8] These reforms include: reviewing user fees; exploring options for mergers and acquisitions; and strengthening oversight.

[9] Several new firms in the international business sector paid taxes for the first time.

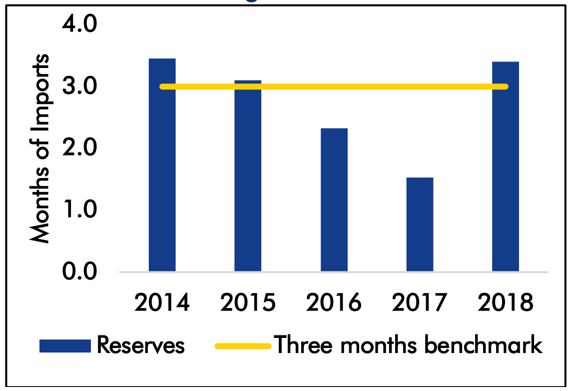
[10] Among the new taxes include: a levy on the shared accomodation sector; fuel tax levy; imposition of a new income tax bracket; and a fee on the transfer or sale of motor vehicles. Capital expenditure remained below budgeted allocations.

liquidity. The excess cash reserve ratios of commercial banks increased to 16.2% as at December 2018 from 14.1% in the same period in 2017. In the same period, credit to the private sector increased by $227.1 million to $5.8 billion. Meanwhile, the ratio of non-performing loans to total loans increased slightly to 11.2% at the end of 2018, from 7.9% at the end of 2017. The reported capital adequacy ratio declined slightly to 15.6%, having been 17% one year before.

The Central Bank of Barbados (CBB) eased its monetary policy stance by lowering the reserve requirement. Improvements in the government fiscal position in 2018 prompted CBB to ease its monetary policy stance. This was a reversal of the December 2017 phased increased in the Barbados dollar securities reserve requirement ratio, which had been intended to provide liquidity support to GOBD. CBB reduced the securities reserve requirements ratio for commercial banks from 20% to 17.5%, effective November 2018. The debt restructuring came in the immediate aftermath of the adoption of the new accounting standards – International Financial Reporting Standard (IFRS) 9 – with implications for the balance sheets of institutions that held government securities. In particular, IFRS9 requires financial institutions to make loss provisions against all exposures with inherent credit risk, rather than against only those assets that have actually defaulted. These implications have been reduced somewhat following recent improvement in the country's credit rating.

Gross international reserves were boosted with the support of international financial institutions. These reserves, which reached a low of 5-6 weeks of import coverage at end of May 2018, more than doubled to 3.4 months as at December 2018 (see Chart 4). Accumulation of international reserves was helped, in part, by external financing from the Caribbean Development Bank (CDB), the International Monetary Fund, and the Inter-American Development Bank.

Chart 4: Gross Foreign Reserves



Source: CBB.

Barbados received its first domestic credit rating upgrade in several years. Standard & Poor's (S&P) raised its long and short-term local currency sovereign credit ratings on Barbados to 'B-/B' from 'SD/SD' (selective default) in November 2018. S&P also affirmed its 'SD/SD' long and short-term foreign currency credit ratings on the island, and its 'D' (default) ratings on Barbados' foreign-currency issues. The foreign currency rating will remain at Selective Default until Barbados resolves its foreign debt restructuring.

OUTLOOK

CDB expects real GDP growth to be flat in 2019. Economic activity is premised on favorable tourism performance due to growth in major tourism source markets, the opening of Ross University School of Medicine (RUSM), and an anticipated expansion of airlift. The influx of medical students associated with RUSM may also positively impact other industries such as distribution and transport. This will more than offset the expected drag on economic activity related to the commencement of the next phase[11] of BERT and the continuation of fiscal austerity measures. There is notable upside risk to the forecast depending on the timing of planned private sector projects and possibly higher external demand for financial services as investor confidence strengthens. If the planned private sector projects materialise in the first half of 2019, growth is likely to be positive. On the downside, tensions in the United States of America and Europe (BREXIT) could dampen growth prospects. Also, the Barbados economy remains vulnerable to changes in the price of international commodities and the adverse impacts of climate change and sea level rise. The negotiation of the external debt restructuring is also important for external financing flows.

[11] The continued review and analysis of Central Government and SOE expenditures will be an important component of BERT Phase III.

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. The 2018 data are CBB estimates.

Selected Indicators

	2014	2015	2016	2017	2018^{e}
Real GDP Growth (%)	0.0	2.2	2.5	0.1	-0.6
Average Inflation (%)	1.8	-1.1	1.5	4.5	3.7
Unemployment (%)	12.3	11.3	9.7	10.0	9.2*
Primary Balance (% of GDP)	-0.5	-2.0	2.2	3.1	3.4
Public Sector Debt (% of GDP)	137.0	144.2	151.2	148.4	126.9

Sources: CBB, BSS.

**Data as at September 2018. e: estimate.*

BELIZE

$ refers to Belizean Dollars (B$). US$ refers to United States Dollars. US$1 = B$2.00.

BELIZE ECONOMIC BRIEF 2018

OVERVIEW

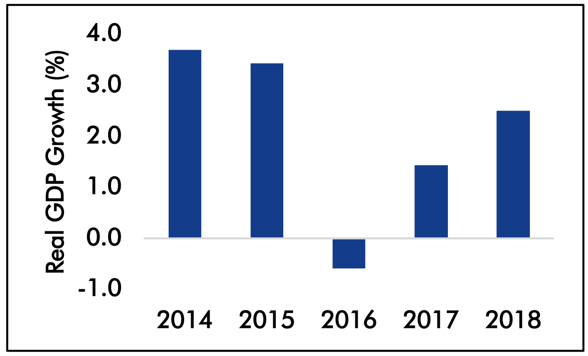
In 2018, economic growth in Belize was led by increased tourism activity. There were increases in overnight and cruise ship visitors. Output from the other main sectors declined. The external deficit narrowed slightly; but there was a further drawdown of international reserves. The fiscal accounts improved, as the Government of Belize (GOBZ) sought to meet the conditions of its 2017 commercial debt restructuring. Debt remained above 90% of gross domestic product (GDP).

Unlocking growth remains a challenge. Higher growth is necessary to rebuild gross international reserves. With limited fiscal space, GOBZ will need to prioritise public expenditure more effectively. Further fiscal consolidation may be necessary.

KEY DEVELOPMENTS IN 2018

Economic growth in 2018 was higher than in the previous year (see Chart 1). Full-year growth is estimated to have been 2.5%, an improvement on 1.4% in 2017. Tourism was again the main contributor. Overnight arrivals increased by 14.6% to 489,261, helped by a new direct flight from Canada. Cruise ship arrivals were up 19.1% to 1,208,137, due to additional ship calls in Belize City and Harvest Caye. However, primary production fell. Sugar output was affected by the 2017 abolition of the European Union's quotas on local production. Citrus and banana returns suffered lower prices and adverse weather conditions, respectively. Marine production fell, mainly due to ongoing problems with early mortality syndrome affecting the shrimp industry. Manufacturing contracted, with notable falls in production of juices and soft drinks.

Chart 1: Real GDP Growth



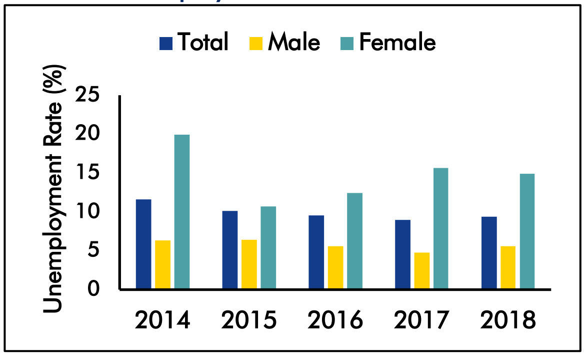
Source: Statistical Institute of Belize (SIB), CDB staff estimates.

Inflation slowed to 0.3%[12] in 2018 from 1.2% in 2017. The price of transport (airfares and fuel) remained relatively unchanged, having increased by 10% in 2017. The cost of housing (including fuels) rose slightly, and the increase in the price of alcoholic beverages was less than in the previous year when new excise taxes were introduced.

Unemployment rose slightly in 2018, and was much higher for women than for men. According to the April Labour Force Survey (LFS), the unemployment rate rose to 9.4% from 9.0% the previous April (see Chart 2). The female unemployment rate fell from 15.6% to 14.9% but was still much higher than the male rate, which increased from 4.8% to 5.6%. Similarly, the rate of underemployment (working less than 18.3 hours per week) was much higher for women (20.2%) than for men (10.3%). Youth unemployment (ages 14-24) was 21.3% - (13.8% for young men and 32.4% for young women).

[12] Average January to October.

Chart 2: Unemployment

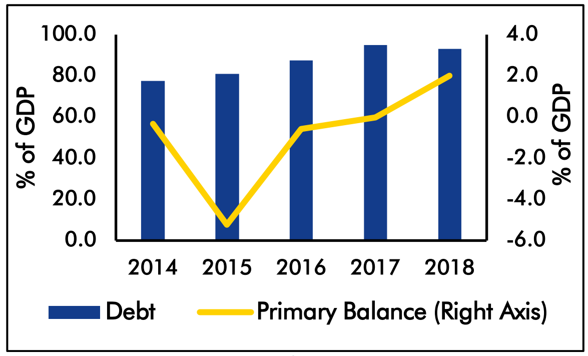


Source: SIB.

Belize's fiscal position continued to improve; but further consolidation may be necessary. Following debt restructuring in March 2017[13], GOBZ committed to tightening its fiscal stance in order to meet primary surplus targets of 2% for Fiscal Year 2018-19[14] and the next two years. New measures outlined in the 2017 and 2018 budgets have improved the primary balance to the 2.0% target. While Central Government (CG) revenue and grants have not risen in line with expectations, expenditure has declined mainly due to a reduction in capital outlays.

Although public sector debt fell in 2018, it remains elevated and could rise again. The ratio of debt to GDP fell from 95.0% to 92.9% (see Chart 3). New bilateral financing included budget support from the Republic of China/Taiwan and from the Petrocaribe initiative. Multilateral resources funded infrastructure projects. In addition, GOBZ recognised an increase in debt, following a 2017 Caribbean Court of Justice ruling that it should pay $90 million (mn) to a local bank, related to a government guarantee provided in the 1990s. As of December 2018, the payment had not been made. In addition, GOBZ is contesting legacy claims worth about 5% of GDP, and which could lead to large public and external financing needs.

Chart 3: Fiscal and Debt Performance



Source: The Central Bank of Belize (CBB).

Net credit from the banking system increased. Loan quality worsened slightly but banks were stronger. Net credit to CG declined by $10.7 mn in the 10 months to October, but increased by $40.7 mn for the wider public sector, mainly due to funding for Belize Telemedia Limited's network expansion. Domestic banks' private sector net credit was up $44.5 mn. This included the booking of a $40 mn loan facility for a beverage manufacturer. The ratio of gross non-performing loans to total loans was 6.5% at the end of September (2.9% net of provisions), slightly higher than 6.4% at the end of 2017 (2.4% net of provisions). In the same period, the banks' reported that the capital adequacy ratio improved from 24.2% to 25.2%.

The pressure on Correspondent Banking Relationships (CBRs) continued to ease but commercial banks remain vulnerable. All banks previously affected by the loss of CBRs have found alternative arrangements to process cross-border transactions. However, the situation is still fragile, since most of the banks in Belize rely on the same overseas correspondent bank. While the authorities

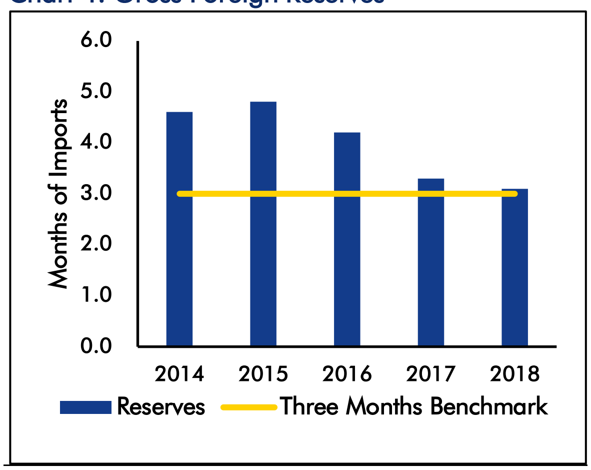
[13] Under the restructuring of the US$526 mn bond, interest payable fell, and principal repayments were pushed back to 2030-2034.

[14] April to March.

have taken measures to strengthen the Anti-Money Laundering/Combating the Financing of Terrorism Framework, further measures may be necessary to protect the banks' access to global markets.

Gross international reserves fell to just above the benchmark of three months of imports (see Chart 4). The current account deficit improved only slightly to 6.2% of GDP. The merchandise trade deficit widened because of falling exports and rising imports, especially fuel.

Chart 4: Gross Foreign Reserves



Source:The International Monetoray Fund (IMF), CBB.

This deficit was partially offset by increased tourism receipts. The financial account surplus mainly reflected inward foreign direct investment. The overall balance of payments deficit was financed by drawing down US$5 mn of reserves. Going forward, improved export performance will be necessary to help rebuild reserves, and protect the economy from external shocks.

OUTLOOK

CDB projects growth of 2.3% in 2019 but there are downside risks. Tourism activity will likely continue to grow, and a recovery in agriculture is expected. Construction is anticipated to increase as the tourism product expands and diversifies, with some larger global brands entering the market for the first time. The external deficit is expected to narrow; but international reserves could fall below the benchmark. Further fiscal measures will be required if growth is insufficient to reduce debt below 90% of GDP, or if the terms of the debt restructuring are not met. These measures may, in turn, negatively impact growth. Other risks include a slowdown in U.S. growth and extreme weather events.

Enhanced growth is vital. A better business environment will help achieve this. Belize ranks 125th out of 190 countries in the 2019 World Bank Doing Business index. Energy costs need to come down, and improvements are needed in the speed of getting construction permits, and trading across borders. Resilient economic infrastructure will also enable growth. Financing from CDB and the United Kingdom Caribbean Infrastructure Partnership Fund will support investment in road infrastructure from 2019. In addition, CDB will lend for investments in agriculture, energy, water, and small business development. With limited fiscal space, GOBZ will need to prioritise further development expenditure.

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. With the exception of unemployment, the 2018 data are estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	0.9	3.7	3.4	-0.6	1.4	2.5
Average Inflation (%)	0.5	1.2	-0.9	0.7	1.2	0.3
Unemployment (%)[15]	12.7	11.6	10.1	9.6	9.0	9.4
Primary Balance (% of GDP)	0.7	-0.3	-5.2	-0.6	0.0	2.0
Public Sector Debt (% of GDP)	78.5	77.6	80.8	87.3	95.0	92.9

Sources: IMF, SIB, CBB, CDB.

Notes: e – estimate.

[15] Between 2013 and 2017 average of April and September LFS. For 2018 April LFS only.

BRITISH VIRGIN ISLANDS

US$ refers to United States Dollars

BRITISH VIRGIN ISLANDS ECONOMIC BRIEF 2018

OVERVIEW

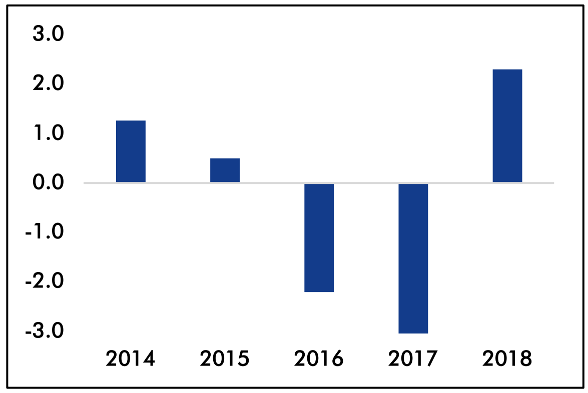
Economic growth in the British Virgin Islands (BVI) rebounded in 2018. Following damage inflicted by Hurricanes Irma and Maria in 2017, there was increased construction activity related to recovery. Tourism, activity also increased, although not to pre-hurricane levels. Growth in company incorporations remained robust, contributing to improved financial services' performance.

Public sector finances improved; but increased spending will be necessary to complete the post-hurricane recovery. Financing the Recovery and Development Plan (RDP) is expected to place additional pressures on fiscal and debt sustainability. . Despite progress made in finalising the RDP and the establishment of the Recovery and Development Agency (RDA) in 2018, capacity constraints have delayed the start of the projects. A fully operational RDA, supported by an appropriate financing and debt strategy, which takes into account a potential guarantee from the United Kingdom Government (UKG), could help advance the reconstruction efforts[16].

KEY DEVELOPMENTS IN 2018

It is estimated that gross domestic product (GDP) grew by 2.3% in 2018. (See Chart 1). Following the two hurricanes in 2017, private rehabilitation and reconstruction efforts drove activity in the construction sector. Tourism continued to recover, but in spite of the reopening of a number of properties and the return of some major cruise lines, stay-over and cruise arrivals remained below the pre-2017 hurricane levels[17]. In addition, there was growth in the financial services industry. At the end of June, the number of active companies registered in BVI had reached 403,004, representing a 16.0% year-on-year increase in new incorporations. An update of the Limited Partnership Legislation also contributed to higher limited partnership company registrations.

Chart 1: Real GDP Growth



Source: MOF, BVI, CDB staff estimates.

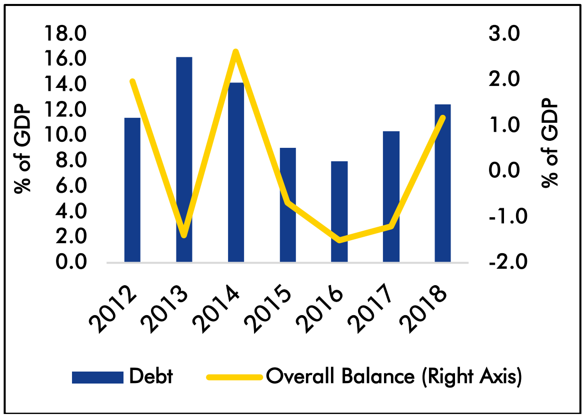
Inflation ticked up to 2.1% in 2018, above the historical five-year average of 1.3%. General price increases were observed in housing and utilities, communications, food and transportation. This partly reflected higher demand related to reconstruction activity.

The fiscal position improved in 2018. (See Chart 2). It is estimated that the Government of the Virgin Islands (GOBVI) achieved an overall surplus of 1.2% of GDP. Total revenue, buoyed by receipts from the offshore financial sector, grew by 27% compared with 2017. Revenue performance also reflected

[16] BVI has access to total of US$400 mn in loan guarantees from UKG. However, the territory has not yet borrowed against these guarantees.
[17] Stayover arrivals fell by 55.3% between January and October 2018; Cruise arrivals dropped by 84.5% over the same period.

changes to a number of taxes and fees[18]. Total expenditure was higher than in 2017, reflecting higher capital expenditure, and transfers and subsidies. Perennial implementation challenges continued to hinder execution of the capital programme, which remained below budgeted levels.

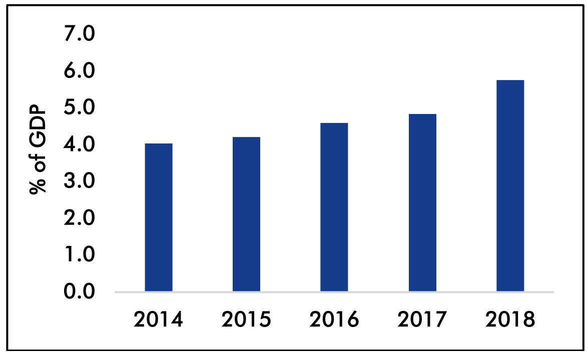
Chart 2: Fiscal and Debt Performance



Source: MOF, BVI.

At the end of 2018, the Reserve Fund balance reached US$70 million (mn), (see Chart 3). The fiscal surplus enabled GOBVI to contribute US$13.1 mn to the Fund. The Reserve Fund acts as a fiscal buffer which can be used in the event of an external shock.

Chart 3: Reserve Fund Balances



Source: MOF, BVI.

Central Government (CG) debt[19] rose to 12.5% of GDP at the end of 2018. Increased development finance[20] and revenue gains during the year were utilised to pay off more expensive debt. Debt servicing costs reflected the payment of a commercial credit line. As GOBVI contracts additional debt for the reconstruction, debt-servicing costs are likely to rise.

Financial sector performance remained strong during the first half of 2018. Deposits remained above loans and advances. Total deposits grew by 16.7% year-on-year at the end of June, reflective of increased insurance payments emanating from the 2017 hurricanes. Over the same period, loans and advances fell due in part to tightening of credit standards and lower demand. Bank profitability indicators remain positive despite the ratio of non-performing loans to total loans rising to 8.1% from 4.4% at the end of June 2017.

Challenges in the financial services sector remain acute as regulatory pressures related to de-risking practices continue. The most imminent threat emanates from the European

[18] In 2017, GOBVI introduced a number of new tax and fee measures, including an increase in hotel accommodation tax, work permit fees, cruising permits, and the introduction of an environmental/tourism levy. In January 2018, financial service fees were also increased.

[19] CG debt does not include Parastatals' Risk Weighted debt.

[20] GOBVI accessed a Policy-based Loan (US$50 mn) and an Immediate Response Loan (US$2.25 mn) from CDB in 2018.

Union's (EU) attempts to list the Territory as a Non-cooperative Jurisdiction for Tax Purposes, and the UK's Sanctions and Anti-Money Laundering Act. The European Union also requires evidence of economic substance, and more specifically for UK Overseas Territories, the publication of beneficial ownership registers. In response to the requirements of the EU Code of Conduct Group, BVI has enacted new legislation setting out an economic substance test for tax-resident entities effective from January 2019.

OUTLOOK

The outlook for BVI is optimistic. CDB projects that GDP will grow by 2.2% in 2019. Private and public sector construction activity will lead growth. The RDP will guide public sector reconstruction. Continued rehabilitation and reconstruction in the private sector, particularly the hotels and accommodation sector, will help boost tourism. The return of some major cruise lines during the last quarter of 2018, will also contribute to tourism growth. The financial services sector performance is also expected to remain strong.

The overall fiscal and debt position is likely to weaken in 2019. GOBVI will contract new borrowing for implementation of the RDP. It is anticipated that the UKG guarantee will be accessed during 2019. The medium-term fiscal strategy that takes this guarantee into account will be important for debt sustainability.

Downside risks are related to the regulatory requirements that are being imposed on the financial services sector. Capacity constraints, particularly labour, will likely continue to adversely affect the pace of reconstruction. Additional risks from the external environment, including a global economic slowdown and extreme weather events in 2019, would place additional pressures on the recovery.

BVI's RDP, while focusing broadly on reconstruction, is also aligned with the main pillars of the Medium-Term Development Strategy (MTDS). Embodied in both the RDP and MTDS is the need to build resilience into all projects and activities. While the RDP focuses primarily on reconstruction, GOBVI should also prioritise long term development needs in human and social development, improving the doing business environment and environment and climate change issues.

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 (%)	1.7	0.8	7.1	(3.7)	2.3
Average Inflation (%)	1.9	0.9	1.1	1.2	2.1
Unemployment (%)	2.8	2.8	2.8	2.8	n.a.
Primary Balance (% of GDP)	2.9	(0.3)	(1.2)	(0.8)	1.7
CG Debt (% of GDP)	14.2	9.1	8.0	10.4	12.5

Sources: MOF, BVI.

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

CAYMAN ISLANDS

$ refers to Cayman Islands Dollars (CI$). US$ refers to United States Dollars. US$1 = CI$0.83.

CAYMAN ISLANDS ECONOMIC BRIEF 2018

OVERVIEW

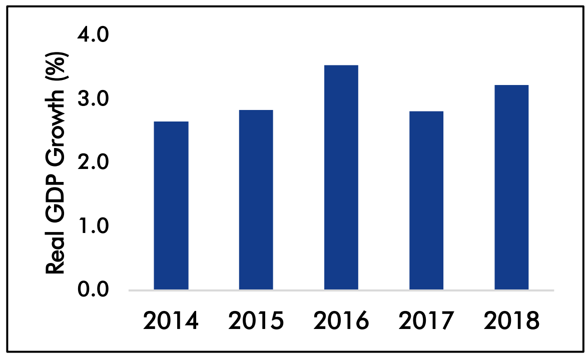
Economic growth in the Cayman Islands accelerated in 2018. Growth was hinged mainly on record tourism arrivals, and financial services, which performed well despite ongoing challenges. The construction sector contributed significantly to economic growth, with a number of hotel and public infrastructure projects under way.

Pending regulatory changes could adversely affect the operating environment of the financial services industry. The risks to the industry from a rapidly changing international regulatory environment were once again underlined by newly-adopted economic substance legislation[21]. Recently, the United Kingdom (UK) deferred the requirement to publish beneficial ownership registries for international business companies.

KEY DEVELOPMENTS IN 2018

Economic growth is estimated to have been 3.2% in 2018, a pick-up from 2.8% in the previous year. (See Chart 1). Real gross domestic product (GDP) grew by 4.0% between the first quarter of 2017, and the first quarter of 2018. Tourism was again the main contributor, with the hotels and restaurants sector performing very well. Overnight arrivals increased by 10.7% to a record high of 463,001, helped by new direct flights from Denver and Fort Lauderdale. Cruise ship arrivals were also up[22]. Professional, technical and scientific services, the financial sector, real estate activities, and the construction sector all contributed to economic growth. The financial sector remained the most important sector with a share of 25.3% of total value added, followed by professional, scientific and technical services with a share of 14.7%.

Chart 1: Real GDP Growth



Source: Economics and Statistics Office (ESO), CDB staff estimates.

Inflation increased to 4.1% in 2018, from 2.0% in the previous year. A strong rise in the cost of transport– due to increasing oil prices – was the main reason for the jump in inflation; and significant increases in the prices for housing and utilities, and in the prices of food and non-alcoholic beverages also contributed.

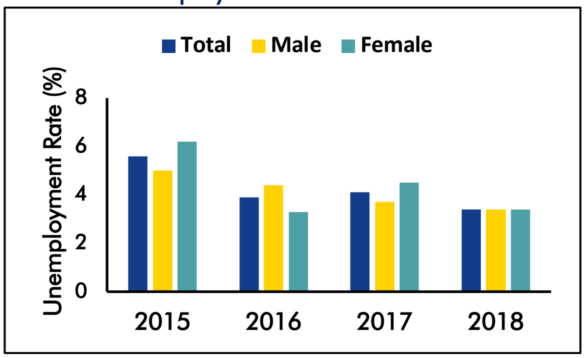
Unemployment declined in 2018, after a 2017 increase, and was the same rate for both women and men. The Spring Labour Force Survey in April 2018 points to a decline in the unemployment rate to 3.4% from 4.1% the previous April, (see Chart 2). The female unemployment rate fell from 4.5% to 3.4%, bringing it in line with the male rate, which declined from 3.7% to 3.4%. The rate of

[21] The International Tax Co-operation (Economic Substance) Bill was approved on December 18, 2018, as a result of commitments made with the European Union in December 2017, requiring Cayman-registered companies to have "adequate" economic activity on the Islands.

[22] By 11.1% year-on-year to 1,921,057.

underemployment (working part-time although desiring full-time work) declined from 4.1% to 2.3%, but remains slightly higher for women (2.4%) than for men (2.1%). Youth unemployment (ages 15-24) was 9.1%.

Chart 2: Unemployment

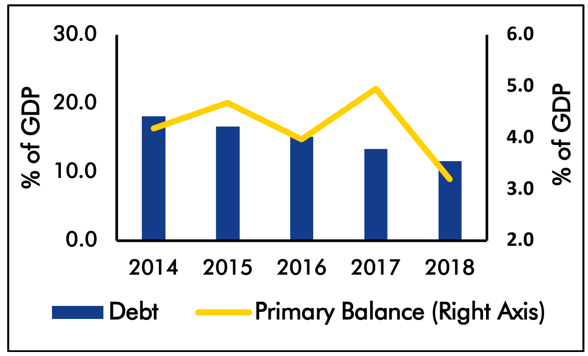


Source: CDB, ESO.

The fiscal position of the Government of the Cayman Islands' (GOCI) remained robust in 2018, although the primary surplus as a percentage of GDP declined to 3.4% from 5.0% in the previous year. The smaller primary surplus was due to a 14.4% increase in total expenditure, when compared with a 5.2% jump in total revenue. In terms of expenditure, recurrent spending increased by 9.6%. Net capital outlays more than doubled over the previous year (to 2.7% of GDP), reflecting an increase in public infrastructure projects, including the airport; the sea port; highways; a health care facility; a school; and a waste management facility. On the revenue side, taxes on international trade and on domestic goods and services – which include licensing fees for financial services – increased significantly, but non-tax revenue was less than expected. Government was fully compliant with its Framework for Fiscal Responsibility.

Public sector debt continued to fall in 2018, further lowering the ratio of debt to GDP from 13.4% to 11.7%, (see Chart 3). GOCI has not required any new financing since 2011.

Chart 3: Fiscal and Debt Performance



Source: CDB, ESO.

Domestic credit from the banking system substantially increased at the start of 2018. While credit to GOCI declined by 16.8% in the 12 months to March 2018, credit to the private sector increased by 16.7%, leading to overall credit growth of 14.1%. Credit to households displayed moderate to robust growth due to increased borrowing for domestic properties, motor vehicles, and education and technology. At the same time, credit growth to businesses outpaced new credit to households. Among the business sectors, the services sector and trade and commerce registered very strong credit growth. Credit increases were fastest in the accommodation, food, bar and entertainment services and in the wholesale and retail trade.

The credit boom in the private sector went hand in hand with an increase in domestic interest rates. The prime lending rate increased by 75 basis points in the 12 months to March 2018, to 4.7%, pushing the average weighted lending rate up by 64 basis points to 7.7%, while the weighted average deposit rate increased only marginally to 0.3%. The credit quality of the household sector improved at the start of 2018. The foreclosure rate for residential mortgages declined to 2.1% from 2.3% one year before.

The performance of the financial services sector was generally positive, although the number of banks declined by 5.8%[23]. The number of insurance companies increased by 0.8%; registrations of mutual funds increased by 4.1%; and the number of stocks listed increased by 30.9%. Company registrations increased by 28.7%, although the UK law on public registries for ownership information added to the uncertainty in the sector.

Cayman Islands has a highly dollarised economy, that is there is a high degree of usage of US dollars for domestic transactions. Unlike many other Caribbean jurisdictions, US dollars are readily available. US dollar-denominated net foreign assets stood at the equivalent of $4.3 billion as of March 2018, corresponding to close to 120% of GDP.

OUTLOOK

CDB projects that the economy will grow by 2.6% in 2019. Construction activity is expected to become the main driver in 2019, with major projects including public infrastructure as well as private projects such as hotel developments and the Cayman Enterprise City expansion. Professional business services are expected to be the second major growth driver. Tourism and financial services will also contribute to growth, but at declining rates given the economic slowdown expected in the United States of America, Cayman's biggest trading partner.

On the fiscal side, GOCI is engaging in discussions with the UK Government to provide additional flexibility in the Fiscal Framework for Responsibility. Under the current framework, the redemption of a US$312 million bullet bond in November 2019 will lead to a breach of the debt service ratio. This ratio is meant to limit payments of interest and principal for the whole public sector to 10% of Central Government revenue. The ratio, which was 8.6% in 2018, is projected to rise to 46.7% in 2019. GOCI is seeking to amend the legislation to exclude large one-time debt repayments from the calculation of the ratio. In addition, GOCI proposes to refinance 50.0% of the bond in order to avoid running down its precautionary cash balance.

[23] The year-on-year percentage growth rates in the financial services sector refer to March 2018 for the number of stocks listed, September 2018 for banks, November 2018 for company registrations, and the full year 2018 for the number of insurances and mutual funds.

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. The 2018 data are CDB estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	1.3	2.7	2.8	3.5	2.8	3.2
Average Inflation (%)	2.2	1.2	-2.3	-0.7	2.0	4.1
Unemployment (%)[24]	6.3	4.6	4.2	4.2	4.9	3.4
Primary Balance (% of GDP)	3.6	4.2	4.7	4.0	5.0	3.4
Public Sector Debt (% of GDP)	20.2	18.1	16.6	15.2	13.4	11.6

Sources: CDB, ESO.

Notes: e – estimate.

[24] Unemployment rates refer to end of year estimates.

REGIONAL ECONOMIC SUMMARY 2018

DOMINICA

$ refers to Eastern Caribbean Dollars (EC$). US$1 = EC$2.70.

DOMINICA ECONOMIC BRIEF 2018

OVERVIEW

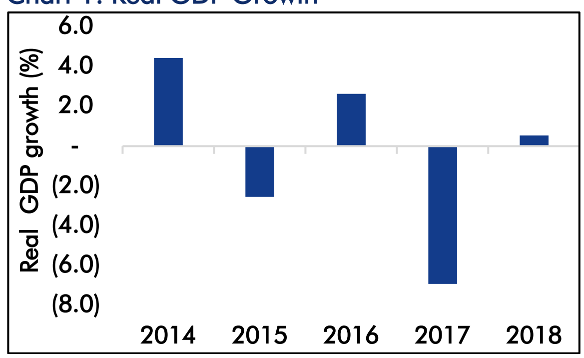
Economic growth in Dominica was positive in 2018, exceeding expectations. Overall, growth was 0.5%. Post Hurricane Maria-related construction led the way, and this will likely continue into 2019. Value added in the wholesale and retail sector also increased significantly. Output from all of the other main sectors declined. Central Government (CG) operations resulted in an overall deficit, notwithstanding a reduction in total public debt. Fiscal conditions remain uncertain as some pledges of international financial assistance, following the recent weather events, remain unfulfilled. On the external side, the current account balance deteriorated over the period largely due to a ballooning trade deficit. Vulnerabilities in the financial sector, particularly the non-bank financial sector, persist.

GOCD's primary focus is on building climate and economic resilience. This is necessary to reduce the volatility of the country's economic growth trajectory. Dominica consistently ranks among the most vulnerable countries in the world, because of its high susceptibility to natural hazards. The commitment of Government of the Commonwealth of Dominica (GOCD) to "Build Back Better" and develop strategies to encourage resilient infrastructure must be sustained.

KEY DEVELOPMENTS IN 2018

Economic activity in the aftermath of Hurricane Maria remained subdued but shows signs of recovery. (See Chart 1). The passage of the hurricane in 2017 had devastating effects on the Dominica economy, resulting in a gross domestic product (GDP) contraction of 9.5%. Output began to recover in the second half of 2018, placing GDP marginally (0.5%) above its 2017 level. Construction activity was the main contributor, growing by 33.0%. The wholesale and retail sector increased by 15.0%. The traditional lead sectors recorded declines in output. Total visitor arrivals up to September stood at 74,243, down by 68.0% relative to the same period in 2017[25]. Dominica suffered the departure of Ross University School of Medicine (RUSM), a major contributor to economic activity. Value added generated by private education declined by 85.0%.

Chart 1: Real GDP Growth



Source: Eastern Caribbean Central Bank (ECCB).

Inflation rose compared to 2017. The consumer price index increased by 1.6% during the first three quarters of 2018, compared with a 0.6% jump in the corresponding period of 2017. This was largely attributable to an 8.1% increase in the food and non-alcoholic beverage sub-index.

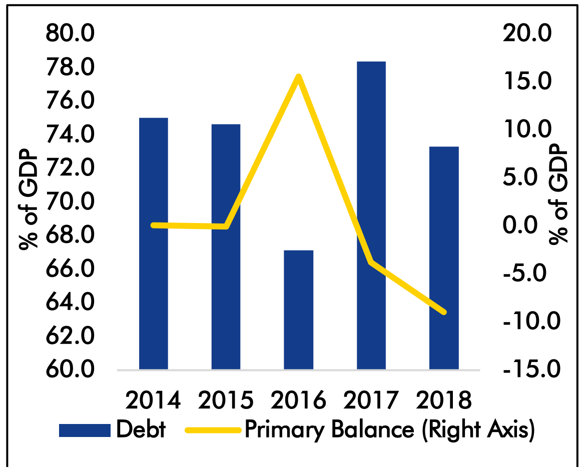
GOCD's fiscal operations resulted in an overall deficit of $140.2 mn by the end of September 2018, up considerably from a deficit of $18 mn in the corresponding period

[25] Stay-over arrivals stood at 39,463 at the end of September 2018, representing a decline of 36.0%.

of 2017. Similarly, the primary deficit stood at $121.8 mn (or 9.0% of GDP) at the end of the third quarter of 2018, up from $0.58 mn in the same period of 2017. (See Chart 2.) The increase in the deficit is mostly explained by a rise in capital spending related to post-hurricane reconstruction and rehabilitation efforts. Capital expenditure increased by 40.8% in the first three quarters of 2018, relative to the same period in 2017. Public works included rehabilitation of the Douglas Charles Airport, construction of the West Bridge in Roseau, house building, and dredging of rivers. Total revenues declined by 6.5% during the period under review, driven largely by a 25% reduction in Citizenship-By-Investment Programme (CBI) receipts. Tax revenues actually increased by 4.6%, showing improvement in all main sub-categories except tax receipts on income and profits.

Public sector debt fell in 2018. Total disbursed outstanding debt stood at $1.0 billion at the end of October 2018. As a percentage of GDP, debt fell from 78.4% to an estimated 73.3%. This was attributable to declines in debt owed by both CG and public corporations.

Chart 2: Fiscal and Debt Performance



Source: ECCB.

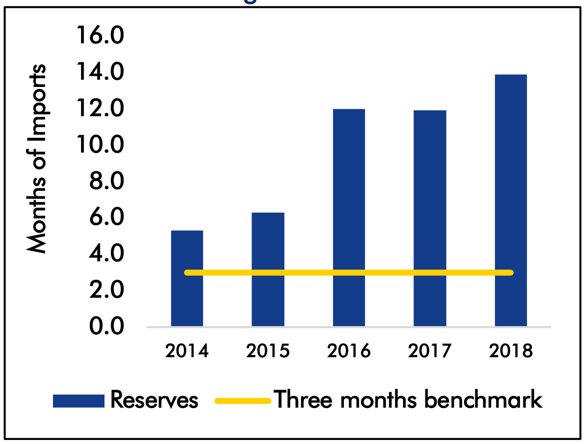
Domestic credit increased by 40.8% year-on-year at the end of the third quarter of 2018. This was mainly due to a 56.9% decrease in the net deposit position of GOCD as it drew down on deposits. Credit to the private sector increased by 0.6%, reflecting the offsetting effects of a 4.4% reduction in credit to households, and a 9.4% increase to businesses. Net foreign assets increased by 8.3% over the first three quarters of 2018. The ratio of gross non-performing loans (NPLs) to total loans was 16.5% at the end of September, up from 13.8% recorded one year earlier. With increased poverty and unemployment, falling incomes, and a struggling insurance sector, risks to the financial sector abound. NPLs are down relative to the second quarter of 2018, but it is too early to make a judgement about whether the financial sector is showing signs of recovery.

Dominica's gross international reserves[26] increased from 11.9 to 13.9 months of import cover (see Chart 3). The merchandise trade deficit expanded over the year due to a 10% reduction of exports and a 59% increase in imports up to the third quarter of 2018.

[26] Gross international reserves are apportioned to Dominica as part of the Eastern Caribbean Currency Union.

These developments were related to hurricane relief and reconstruction efforts, in particular the importation of machinery and transportation equipment, and food and manufactured goods.

Chart 3: Gross Foreign Reserves



Source: ECCB.

A current account deficit of $379.9 mn is estimated for 2018. As the country improves its impaired productive base, export performance will be critical to ensuring that growth is sustained over the medium-to-long term.

OUTLOOK

Dominica's economic outlook is favourable. Growth is projected at 2.0% for 2019. This is based on an expected pickup in reconstruction and rehabilitation efforts. Several projects in the planning stages since late 2017 are expected to come on stream in 2019. Private sector activity will be a major contributor to construction as individuals repair and rebuild their homes, and hotel construction of Jungle Bay and Range Developments continue. Growth in agriculture is conditional on favourable weather and the success of replanting efforts.

The Climate Resilience Execution Agency for Dominica, established in 2018, is expected to result in greater rationalisation of scarce human and material resources, and improve the rate of project implementation. Low human resource capacity is a perennial risk to project implementation in Dominica. The decline in CBI flows and continuing uncertainty about international financial assistance also present considerable risks to the growth forecast.

The loss of RUSM directly impaired the private education sector and negatively impacted the ancillary business services and real estate sectors in Portsmouth. At the same time, potentially transformative investments in geothermal energy and other economic and climate resilience projects provide some grounds for optimism.

Building economic, social and climate resilience are critical. GOCD has recognised the need to make investments that build in resilience to natural hazards and climate change more broadly. In this regard, GOCD has embarked on several initiatives to build more resilient public and private infrastructure. Financing from the Caribbean Development Bank (CDB) and its development partners will support the development of a comprehensive water sector strategy that builds in resilience and identifies and prioritises investments. CDB and its development partners will also provide support to housing reconstruction and school rehabilitation.

$ refers to Eastern Caribbean Dollars throughout. US$1 = EC$2.70

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. The 2018 data are CDB estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	-0.6	4.4	-2.5	2.6	-6.9	0.53
Average Inflation (%)	-0.03	0.04	-0.05	0.06	0.05	0.17
Unemployment (%)	16.9	n.a	13.8	12.1	n.a	n.a
Primary Balance (% of GDP)	-7.5	0.1	0.0	15.6	-3.8	-9.0
Public Sector Debt (% of GDP)	75.4	75.0	74.7	67.2	78.4	73.3

Sources: GOCD, ECCB.

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

GRENADA

$ refers to Eastern Caribbean Dollars (EC$). US$1 = EC$2.70.

GRENADA ECONOMIC BRIEF 2018

OVERVIEW

Gross domestic product (GDP) grew by 5.2% in 2018, driven by increased economic activity in the construction, tourism, private education and manufacturing sectors. As a result, the unemployment rate fell. Consumer prices rose by 2.8%.

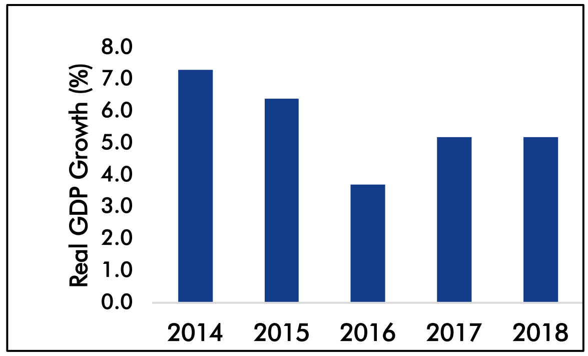
Fiscal performance was strong in 2018, underpinned by the Fiscal Responsibility Act (FRA). The primary surplus increased to 6.2% of GDP. Public debt as a percentage of GDP declined to 62.7%. The external current account deficit widened, largely as a result of rising aggregate demand and international commodity prices. The financial sector remained sound, stable, and well capitalised. Loan quality improved as non-performing loans (NPLs) fell; but there was also a drop in domestic credit, despite ample liquidity in credit markets.

KEY DEVELOPMENTS IN 2018

In 2018 Grenada continued to be the fastest growing economy in the Region (see Chart 1). Growth was estimated at 5.2% for the year, which translates to a five-year average of 5.0%. This strong outcome was driven by rising economic activity in the construction; private education and manufacturing sectors, and was above the Government of Grenada's (GOGR) forecast in the 2017 Budget.

The construction sector expanded once more. Economic activity in the construction sector in 2018 was 14.9% higher than the previous year. Growth was driven by the ongoing implementation of some key projects including the St. George's University Expansion Project, Silver Sands Resort (Phase One) and the Parliament Building (Phase One).

Chart 1: Real GDP Growth



Source: GOGR, CDB estimates.

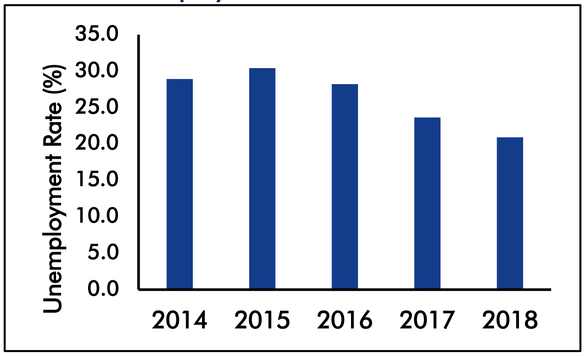
The tourism sector expanded once more. Based on data for the first nine months of 2018, stay-over arrivals rose 10.3% over the same period in 2017, with all major source markets supplying more customers. Cruise ship passenger arrivals were an estimated 27.2% higher than the same period in 2017. These developments enabled further growth in the hotel and restaurant sector, which also benefited from Grenada hosting several regional and international events, including the Grenada Invitational Athletics Meet, Dive Fest, Pure Grenada Music Festival and SpiceMas.

The private education and agriculture sectors produced mixed results. Private education, which constituted the largest share of GDP (19.8%) in 2018, expanded by 4.3%. Manufacturing sector activity was up 2.0%. However, data for the first six months of 2018 indicate a fall in agricultural production compared with the same period in 2017, which was attributed to adverse weather patterns affecting major crops such as nutmeg and cocoa.

In 2018, inflation rose while unemployment fell. The Consumer Price Index increased by 2.8%, driven by higher international oil and food prices, as well as by rising U.S. inflation. In addition, the 2018 Labour Force Survey indicates that the unemployment rate fell from

23.6% in 2017, to 20.9% in 2018 (see Chart 2).

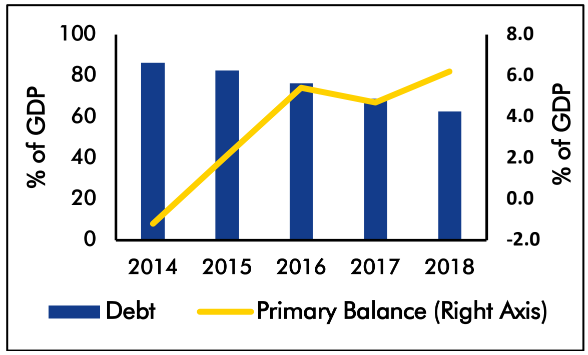
Chart 2: Unemployment



Source: GOGR.

Fiscal performance continued to improve in 2018. At the end of the year, the primary balance (after grants) was estimated at $199.9 million (mn) or 6.2% of GDP, which exceeds the 3.5% of GDP required by the fiscal rule (see Chart 3). This outcome is higher than the $172.6 mn recorded in 2017. In addition, the overall surplus (after grants) rose to $136.3 mn (or 4.2% of GDP) in 2018, which is higher than the $91.6 mn outcome for 2017. Both the primary and overall positions were better than projected, thanks to reductions in GOGR's discretionary spending and enhanced tax compliance and enforcement. Total Revenue and Grants increased in 2018 to $849.8 mn, while total expenditure rose to $713.5 mn. Expenditure on goods and services shrank by 9.6% relative to 2017. Personal emoluments were 4.0% higher, due largely to a 3% salary uplift at the start of the year. There was also a 5.7% expansion in transfers, reflecting a larger Government contribution to the National Insurance Scheme and pension payments. However, as a result of debt restructuring and reprofiling, interest payments were 21.9% less than the 2017 outturn.

Chart 3: Fiscal and Debt Performance



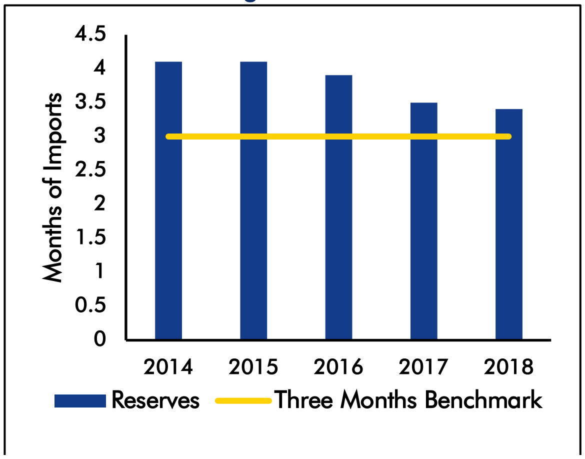
Source: GOGR.

Debt stayed on the downward trajectory. Total public sector debt fell by 6.2 percentage points to 62.7% of GDP in 2018.

The financial system was stable, sound, and well capitalised in 2018. Notwithstanding, the sector is still challenged by poor credit supply. Based on data up to June 2018, domestic credit declined. The capital adequacy ratio also fell, from 13.8% in 2017, to 13.1% in September 2018; however, this remains comfortably above the regulatory requirement. Credit quality has improved markedly in recent years. As at September 2018, the NPLs ratio was 2.6%, which was below the 5.0% prudential limit for the second successive year and represents the lowest figure recorded since June 2009. Liquid assets, as a percentage of total assets, increased by four percentage points to 44.9% in the nine months to September 2018.

The current account deficit worsened in 2018, although international reserves remain adequate (see Chart 4). The deficit widened to 7.4% of GDP, relative to 6.7% in 2017. Based on data up to June 2018, this deterioration reflected a growing trade deficit as a result of a faster growth in imports relative to exports. The expansion in imports was attributed to the increase in oil prices, as well as higher import demand. Exports were adversely impacted by poor performance in the agricultural sector. International reserves remained adequate, at 3.4 months as at end 2018.

Chart 4: Gross Foreign Reserves



Source: The International Monetary Fund (IMF), GOGR.

OUTLOOK

The medium-term outlook for Grenada is positive. For 2019, the Caribbean Development Bank (CDB) projects economic growth of 4.5%, with similar outcomes expected over the medium term. The construction, tourism, agriculture and private education sectors will also drive performance. In terms of construction, there should be further momentum from major road network upgrades and ongoing private sector projects. The tourism sector should continue to expand as a result of increased room capacity and higher demand. The agriculture sector should recover, reflecting the start of projects aimed at mitigating the effects of weather conditions. Notwithstanding, economic growth is still expected to be tempered by the decline in private sector credit in 2018.

Fiscal performances in 2019 should continue to benefit from GOGR's adherence to the Fiscal Responsibility Act (FRA). The primary and overall surpluses are projected to be 5.5% and 3.5% of GDP, respectively. This would represent continued adherence to GOGR's policy of fiscal sustainability. In addition, debt sustainability is expected to be restored over the medium term by means of further fiscal consolidation. Public debt is projected to be 59.6% in 2019.

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. The 2018 data are CDB estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	2.4	7.3	6.4	3.7	5.2	5.2
Average Inflation (%)	-1.2	-0.6	1.1	1.7	1.7	2.8
Unemployment (%)	32.2	28.9	30.4	28.2	23.6	20.9
Primary Balance (% of GDP)	-3.4	-1.2	2.1	5.4	4.7	6.2
Public Sector Debt (% of GDP)	101.7	86.2	82.4	76.3	68.9	62.7

Sources: IMF, GOGR, CDB.

Notes: e – estimate

REGIONAL ECONOMIC SUMMARY 2018

GUYANA

$ refers to Guyanese Dollars (G$). US$ refers to United States Dollars. US$1 = G$208.5.

GUYANA ECONOMIC BRIEF 2018

OVERVIEW

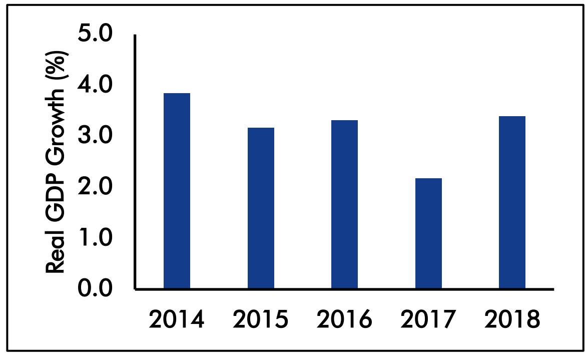
Economic growth in Guyana increased to 3.4% in 2018. This was mainly due to increased construction activity. Sugar output fell as restructuring of the industry continued, while there was mixed performance in the extractive industries. Fiscal performance was boosted by a tax amnesty, which increased revenues and helped stabilise the overall deficit. Public debt as a percentage of gross domestic product (GDP) increased.

Prepration for oil production continues. Commercial production is due to commence in 2020. This will increase economic growth and provide windfall revenues for the Government of the Co-operative Republic of Guyana (GOGY). The proposed Natural Resources Fund (NRF) is supposed to help manage the risks associated with this new development, including minimising negative impacts on other non-oil industries. Reforms to the doing business environment are also necessary to ensure that non-oil industries can become more competitive. Other risks include political uncertainty.

KEY DEVELOPMENTS IN 2018

Economic growth is estimated to have risen in 2018. Based on Ministry of Finance data, GDP grew by 3.4%, compared with 2.2% in 2017 (see Chart 1). This partly reflected preparation for the first commercial oil production in 2020. Construction activity rose by 12%. Output from other services was up 15%, linked to increased visitor arrivals. Of the traditional main industries, sugar output fell by nearly 30%. Restructuring of the Guyana Sugar Company (GuySuCo) was financed by a 5-year external bond issue for $30 billion (3.7% of GDP). This restructuring includes reducing the workforce and divesting assets, in order to reduce subsidies. The mining industries had mixed fortunes. Gold extraction declined, mainly due to falling declarations by small and medium-scale miners. However, bauxite production was up, and declarations of diamonds, sand and stone increased.

Chart 1: Real GDP Growth



Source: GOGY.

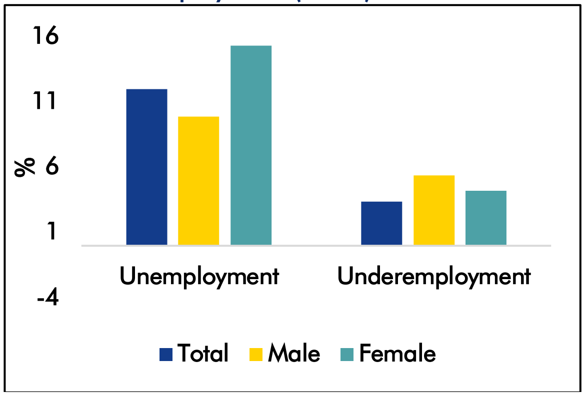
Following consultation, a NRF bill was laid before the National Assembly in November 2018. The purpose of the NRF is to help GOGY manage the significant revenues from oil production, to improve the lives of all Guyanese. A consultation paper set out proposals for how the fund should be administered, including which institutions would be responsible, as well as proposing reporting requirements. According to the Ministry of Finance, the NRF would follow generally accepted best practices.

Inflation averaged 1.4% in 2018, compared with 1.6% in 2017. The decrease reflected lower price rises for food and for housing. Inflationary pressures are expected to increase in the next two years, as the country readies itself for oil production.

Unemployment was much higher for women than for men. Data published by the Guyana Bureau of Statistics (GBS) in 2017 in its Labour Force Survey (LFS) showed that overall unemployment was 12.0%, and that unemployment was higher for women (15.3%) than for men (9.9%), (see Chart 2).

For young people (aged 15 – 24), female unemployment was 28.0% and male unemployment was 17.3%. The LFS also reported gender disparities in earnings, noting that this was partly due to men working longer hours.

Chart 2: Unemployment (2017)

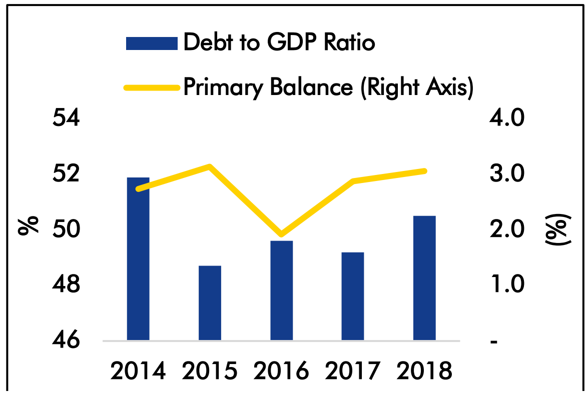


Source: GBS.

A tax amnesty boosted revenue collection, allowing the fiscal deficit to stabilise. Between January and September 2018, interest and penalties on outstanding tax liabilities were waived. This resulted in extra collections worth about 1.0% of GDP. Total revenue collected was 11.0% more than in 2017. Total expenditure was 8.7% higher, mainly due to an increase in transfers. Capital expenditure was up 0.7%, although slightly below budget. Performance in public enterprises deteriorated, and their combined deficit grew. Sugar production at GuySuCo fell, and Guyana Power and Light and Guyana Oil Company both faced higher fuel costs.

The debt stock rose, as did servicing costs. However, with the economy growing, the ratio of debt to GDP fell to 44.5% in 2018. In addition, Government overdraft was about 6% of GDP (see Chart 3). External debt service increased because of higher principal payments to bilateral and multilateral lenders, rising interest rates, and exchange rate depreciation. The fall in domestic debt reflected a lower stock of treasury bills.

Chart 3: Fiscal and Debt Performance

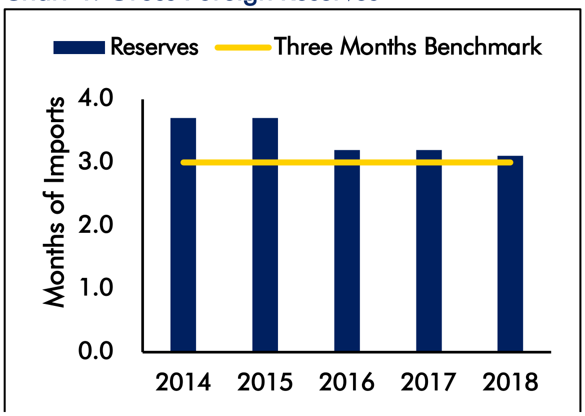


Source: BOG.

Net credit from the banking system increased. Meanwhile, further measures were taken to strengthen the financial sector. Net domestic credit grew by 13.6% in the first 10 months of 2018, reflecting higher loans to both Central Government and the private sector. Commercial loans were up for agriculture, manufacturing and construction but down for mining. The ratio of gross non-performing loans to total loans was 12.8% at the end of June, 22 basis points less than in June 2017. Bank capitalisation continued to be satisfactory, with the Capital Adequacy Ratio improving from 29.2% to 30.6% in the year to June. To help strengthen financial sector resilience, four bills were submitted to Parliament in April. In addition, the Bank of Guyana (BOG) established a Financial Stability Unit to monitor and identify risks. The pressure on Correspondent Banking Relationships continued to ease, although charges for some cross-border transactions increased and some of the banks received limited services.

Gross international reserves fell to just above three months of imports (see Chart 4). The overall deficit tripled to 4.9% of GDP. The current account deficit worsened as export earnings fell and imports rose, especially fuel. The services deficit also deteriorated. The financial account surplus strengthened, thanks to higher foreign direct investment and loan disbursements. The balance of payments deficit was funded by debt relief and debt forgiveness worth US$76.6 million, as well as the drawdown on international reserves.

Chart 4: Gross Foreign Reserves



Source: BOG.

OUTLOOK

Guyana is on the verge of a sharp increase in economic growth but immediate prospects partly depend on ending political uncertainty. In the November 2018 budget speech, the Ministry of Finance (MOF) was targeting 4.6% GDP growth in 2019, with all major sectors contributing. However, increased political uncertainty in early 2019 may dampen this momentum. The National Industrial and Commercial Investments Limited bond issue will push total public and publicly guaranteed debt above 60% of GDP in 2019 but that ratio is projected to decline sharply after 2020.

Business reforms are needed to improve competitiveness and facilitate inclusive growth. Although efforts are being made to increase linkages between the oil industry and the rest of the domestic economy, there is a risk that oil production could dominate exports and lead to exchange rate appreciation, which in turn could harm the competitiveness of other sectors. The NRF can help to manage some of these risks but business-sector reforms will also be necessary[27]. Improvements are needed in reducing energy costs, the speed of getting construction permits, and trading across borders.

[27] Guyana ranks 134 out of 190 countries in the 2019 World Bank Doing Business Index.

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. The 2018 data are CDB estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP growth (%)	5.2	3.8	3.2	3.3	2.2	3.4
Average Inflation (%)	2.4	1.0	0.0	-0.1	1.6	1.4
Unemployment (%)[28]	n.a	n.a	n.a	n.a	12.0	n.a
Primary balance (% of GDP)	3.2	2.7	3.1	1.9	2.9	3.1
Public sector debt (% of GDP)	58.0	51.9	48.7	49.6	49.2	50.5

Sources: BOG, GBS, MOF, CDB.

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

[28] 2013-17 average of May and September LFS. May 2018 LFS only.

HAITI

US$ refers to United States Dollars

HAITI ECONOMIC BRIEF 2018

OVERVIEW

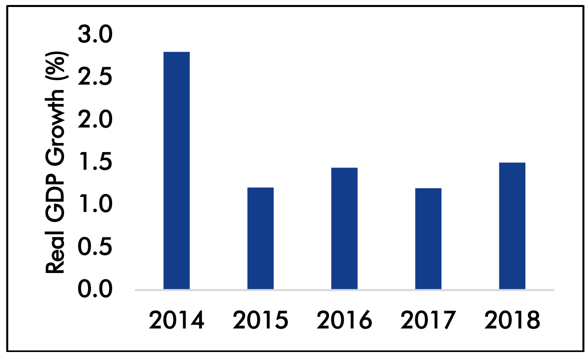
Haiti's economy recorded modest growth of 1.5% in Fiscal Year[29] (FY) 2017-18. The agriculture sector continued its recovery, increasing by 1.0%, a slight improvement over 0.8% in the previous FY. Output from the other main sectors increased modestly. The current account deficit improved slightly, but remains high at 4.0% of gross domestic product (GDP). The fiscal deficit widened to 2.2% of GDP as efforts to improve tax collection and remove energy subsidies were foiled by social unrest. As access to concessionary finance is slowly declining, public debt has been rising. The Government of Haiti (GOH), while cognisant of the population's sensitivity to economic shocks, will need to find ways to raise revenue and reduce subsidies in order to achieve debt and fiscal sustainability.

Political instability remains a significant challenge. GOH's removal of fuel subsidies[30] in July resulted in mass protest, a policy reversal, and the resignation of the Prime Minister. Social unrest continued in October. Political and policy uncertainty are downside risks that constrain the ability of GOH to attract investment and create jobs.

KEY DEVELOPMENTS IN 2018

Economic growth in 2018 was only marginally higher than in the previous FY (see Chart 1). According to Haitian Institute of Statistics and Informatics (IHSI) data, GDP grew by 1.5% in FY 2017-18, compared with 1.2% in the previous year. Agriculture, building and public works, and the commerce, restaurant and hotel sectors were the main contributors to this outturn. Manufacturing output grew by 1.2% owing to a more stable industrial climate in 2018, when compared with 2017.

Chart 1: Real GDP Growth



Source: The International Monetary Fund (IMF), IHSI.

Inflation remained perennially high at 13.7% in 2018, down from 14.7% in 2017. A relatively weak exchange rate and rising fuel prices are the main contributing factors. Inflation mostly affects the poor, given that food accounts for over 50% of the consumer price index basket.

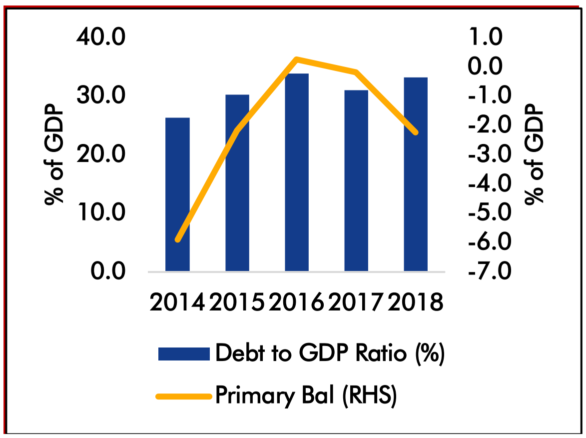
Haiti's fiscal imbalances widened over FY 2017-18. The primary deficit increased to 2.2% of GDP, up by two percentage points when compared with the previous FY. The deficit widened as expenditures on recovery from Hurricane Matthew in 2016 continued, and support was provided for the Fuel Stabilisation Fund. Revenue collection, which averages 18% of GDP, and revenue growth were low, while expenditure roseat a faster

[29] Haiti's FY runs from October to September.
[30] Subsidy removal would have resulted in increases of 38% increase in gasoline prices, 47% in diesel prices, and 51% in kerosene prices.

rate to sustain much needed public investment.

Although still relatively low, public sector debt, continued its upward trend in 2018. The ratio of debt to GDP climbed from 31.0% to 33.2% (see Chart 2). Access to concessionary finance is declining and, with Haiti's urgent infrastructure needs, the rise in public debt is likely to continue over the medium term. In May 2018, the Republic of China on Taiwan agreed to provide GOH with US$150 million (mn) in direct assistance. Additionally, the IMF committed to providing a 6-month line of credit, yielding a disbursement of US$96 mn, pending the removal of fuel subsidies. This decision was subsequently reversed. GOH's Budget for FY 2018-19 proposed new spending of US$2.3 billion, including on two large hospitals and 63 new health centres. The Budget did not address spending on fuel subsidies and proposed no new taxes.

Chart 2: Fiscal and Debt Performance



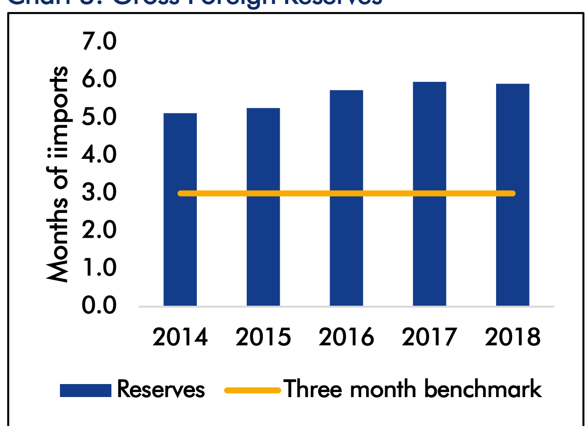
Source: IMF.

The Bank of the Republic of Haiti (BRH) maintained a relatively tight monetary policy stance in an effort to mitigate inflationary pressures arising from exchange rate depreciation and fuel price induced hikes in food costs. During 2018, BRH kept interest rates for bonds of different maturities unchanged (6% on 7-day bonds, 8% on 28-day bonds, and 12% on 91-day bonds) in order to contain double-digit inflation. However, BRH tightened its monetary policy stance by raising reserve requirements for the Gourde and US dollar deposits in an effort to reduce liquidity.

The Gourde depreciated significantly during 2018. On December 31, 2018, it stood at G77.35:US$1, a nominal depreciation of 21.4% from G63.7:US$1 at the end of 2017. This occurred in part due to an executive decree by GOH directing that all domestic transactions be conducted in Gourdes. This policy is part of a plan to dedollarise.

Gross international reserves stood at just under six months of import cover (see Chart 4). The current account deficit was unchanged at its 2017 level of 4.0% of GDP. Notwithstanding rising fuel costs and the costs of importing goods and services for hurricane-related reconstruction, the merchandise trade deficit was significantly offset by increasing remittances spurred from the United States of America (as well as conditions in Haiti).

Chart 3: Gross Foreign Reserves



Source: IMF, World Bank.

Higher inward transfers (including remittances) contributed to a transfer surplus amounting to 27.1% of GDP. This almost completely offset the trade deficit (27.8% of GDP). In the short-to-medium term, the balance of payments is expected to be bolstered by modest foreign direct investment and inflows of development aid. This trend is not expected to be sustained as donor assistance is not likely to be maintained at current levels in the long term.

Conditional on a stable industrial climate, and given the extension of the HOPE[31] II Act (which grants duty free access to the US market for Haitian textile products) to 2025, exports are expected to rebound in FY 2018-19.

OUTLOOK

The Caribbean Development Bank (CDB) projects a modest improvement in growth to 2.3% in 2019. Activity in the textile industry is expected to increase, based in part on additional investment in the sector, as well as a more competitive exchange rate. Private consumption should be buoyed by a consistent and high level of workers' remittances from abroad. Public investment in infrastructure is expected to increase over the near-to-medium term. However, institutional weakness and human resource capacity constraints pose significant risks for the implementation of Government's capital investment programme. Higher agricultural output will largely depend on the level of rainfall. The 2.3% forecast is based on an assumption of political stability and a relatively calm industrial climate.

Enhanced growth and resilience are vital. Overall, Haiti faces considerable deficits in infrastructure, energy, food security, and human resource capacity. Haiti is also highly susceptible to natural disasters.

Improvements in the capacity of the state to deliver infrastructure projects and provide public education are necessary for longer-term growth and development. In addition, GOH needs to continue its efforts to boost productivity in agriculture.

[31] Haitian Hemispheric Opportunity through Partnership Encouragement Act.

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

	2013	2014	2015	2016	2017	2018
Real GDP Growth (%)	4.2	2.8	1.2	1.4	1.2	1.5
Average Inflation (%)	6.8	4.6	9.0	13.8	14.7	13.7
Unemployment (%)	n.a	n.a	n.a	n.a	n.a	n.a
Primary Balance (% of GDP)	-6.7	-2.2	0.3	-0.2	-2.2	-2.2
Public Sector Debt (% of GDP)	21.5	26.3	30.2	33.9	31.1	33.3

Sources: IMF, IHSI, Economist Intelligence Unit, BRH.

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

JAMAICA

$ refers to Jamaican Dollars (JM$). US$ refers to United States Dollars

JAMAICA ECONOMIC BRIEF 2018

OVERVIEW

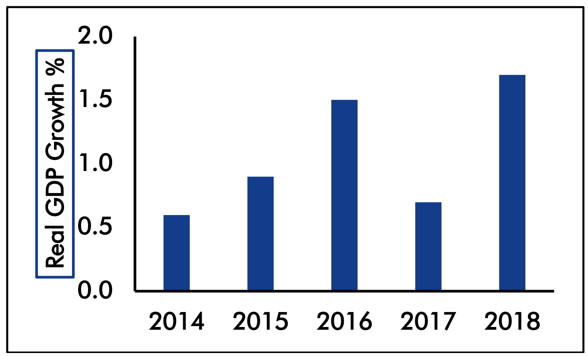
Jamaica's economy grew by 2.4% in 2018. This was led by increased tourism and construction activity. Inflation decreased as food prices fell, while unemployment was lower than in the previous year. An accommodative monetary stance contributed to credit growth, which coincided with improvements in doing business conditions and an increase in consumer confidence. Fiscal performance was strong; and debt as a percentage of gross domestic product (GDP) declined. The external trade deficit worsened; but the level of foreign exchange reserves was still comfortably above the required threshold. The medium-term outlook remains positive, underpinned by a combination of higher investment and productivity growth supported by ongoing reforms. However, key downside risks, including macroeconomic and weather-related shocks, policy reversal of the structural reforms, and high crime rates can derail growth prospects.

KEY DEVELOPMENTS IN 2018

Real GDP is estimated to have expanded by 1.9% in the year to September 2018 (see Chart 1). The increased activity reflected positive growth in tourism, construction and mining. The increase in tourism was evident from a higher number of stopover visitor arrivals (2.21 million) (mn) over the period January to November 2018, up 5.3%[32], associated with an increase in airlift to the island. Construction performance was largely driven by a rise in public capital expenditure, as well as other domestic investments.

Headline inflation decreased to 2.4% in the year to December 2018, compared with 5.2% the previous twelve months. This outturn was on account of a decline in prices for agricultural products (in the food sub index), associated with an increase in supplies as Jamaica recovered from adverse weather conditions[33] in the second half of 2017. This decline was partly offset by higher energy costs associated with the lagged impact of increases in oil prices.

Chart 1: Real GDP Growth



Sources: Statistical Institute of Jamaica (STATIN), Planning Institute of Jamaica (PIOJ), and the International Monetary Fund (IMF).

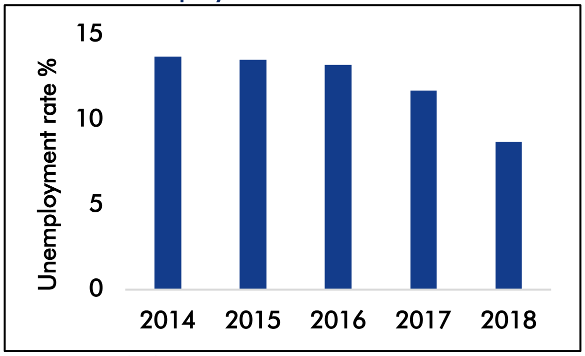
Unemployment fell once again. Latest available data from the Statistical Institute of Jamaica (STATIN) show that the unemployment rate dropped to 8.7% in October 2018, 1.8 percentage points below the rate at October 2017 (see Chart 2). In July, the rate had fallen to an all-time low of 8.4%. The construction and wholesale and retail sectors accounted for the largest increases in employment. Construction provided increased youth employment, as did business process outsourcing. Increased labour market participation was a result of

[32] Whereas cruise passengers numbered 1.62 mn (5.6% decline from 2017).

[33] Over the last two decades, the frequency and intensity of hurricanes and high-intensity rainfall events have increased, with the country averaging at least one storm event per annum, resulting in cumulative damage and loss estimated at JM$121 billion (bn) (2% of GDP) and the loss of 72 lives.

improvements in the doing business environment and macroeconomic stability.

Chart 2: Unemployment

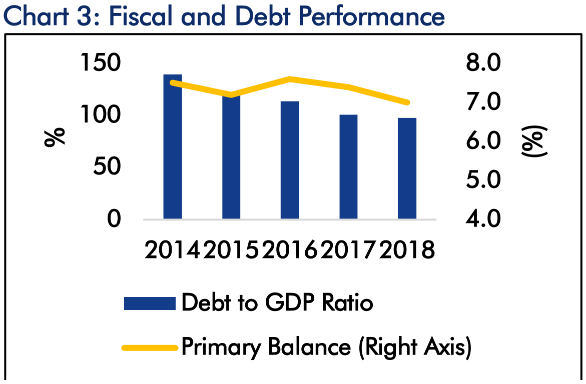


Sources: STATIN.

Central Government operations recorded a surplus for the first six months of the fiscal year (April-September 2018). This improved fiscal outcome is linked to a primary surplus of $73.8 billion (bn) or 3.6 % of GDP, above the 3% outturn for the same period in 2017 (see Chart 3). The primary surplus reflected the better-than-expected performance of international trade taxes, production and consumption taxes, and the containment of discretionary recurrent expenditure. Revenues from taxes on income and profits were marginally lower than expected.

Public debt for Fiscal Year (FY) 2018/19 is projected to drop to 97.4%, compared with the 104.1% in FY 2017/18, thus falling below 100% of GDP for the first time since FY 2000/01. Based on the current trajectory, public debt is on track to reach 60% of GDP by FY 2025/26.

Chart 3: Fiscal and Debt Performance



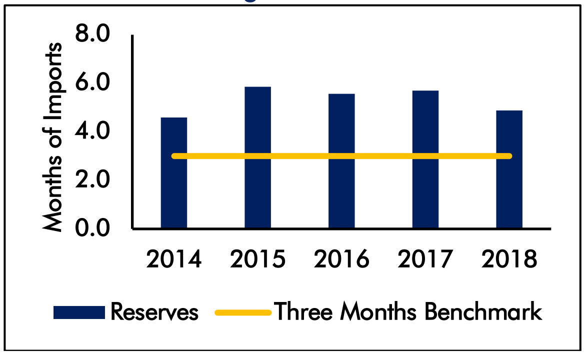
Sources: Ministry of Finance, Bank of Jamaica (BOJ), and IMF.

Noting the improvements in the macroeconomic and fiscal indicators, the rating agencies upgraded their credit ratings and outlooks. Fitch's reported a B+ rating with a positive outlook (January 2019); Standard & Poor's upgraded its rating to B with a positive outlook (September 2018); and Moody's assigned a rating of B3 with positive outlook (July 2018).

Accommodative monetary conditions as well as increased competition in the market for loanable funds continued to support growth in overall financing. Private sector credit grew by 16.2% in the year to the end of September 2018, compared with an expansion of 11.5% in the previous year. The growth in private sector credit reflected increased loans and advances to both businesses (utilities, tourism and manufacturing) and households (mortgage loans and instalment credit). Consistent with the relatively favourable macroeconomic environment, the commercial banks' asset quality and profitability improved.

The current account deficit widened, due in part to an increase in imports. The merchandise trade deficit grew by 7.6% to US$4.1 bn in the first 11 months of 2018, on account of increased imports of food, fuels, manufactured goods, machinery and transport equipment. However, the growth in tourism receipts, associated with increased stay-over visitors and remittance inflows, partially offset the current account deficit. This deficit was partly financed by private investment inflows. Inward FDI was estimated at US$578.8 mn for the period January to September 2018. This was supported by a drawdown of foreign reserves, which still comfortably exceeded the international benchmark of three months of imports. Reserves fell to an estimated 4.9 months (compared with 5.7 months in December 2017) (see Chart 4). Nevertheless, the import cover was marginally higher than the December 2014 level of 4.6 months.

Chart 4: Gross Foreign Reserves



Sources: BOJ and IMF.

OUTLOOK

The medium-term outlook is positive, with 1.7% growth projected for FY 2018/19. Tourism, manufacturing, agriculture, and construction are the sectors most likely to drive growth in the short term. The productivity-enhancing reforms and public investments that have been undertaken during the implementation of GOJ's reform programme are expected to contribute to increased domestic demand. At the same time, enhancements in agricultural productivity, especially through priority investments in infrastructure (including irrigation), will generate direct and indirect increases in incomes and a reduction in poverty. However, key downside risks, such as a slowdown in global growth, macroeconomic and/or weather-related shocks, policy reversal of the structural reforms, and high crime, could derail growth prospects.

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 (%)	0.6	0.9	1.5	0.7	1.7
Average Inflation (%)	8.3	3.7	2.3	4.4	3.4
Unemployment (%)34	13.7	13.5	13.2	11.7	8.7
Primary Balance (% of GDP)	7.5	7.2	7.6	7.4	7.0
Public Sector Debt (% of GDP)	139.7	121.3	113.6	101.0	97.4

Sources: STATIN, PIOJ, and IMF.

Notes: e – estimate.

REGIONAL ECONOMIC SUMMARY 2018

MONTSERRAT

$ refers to Eastern Caribbean Dollars (EC$). US$1 = EC$2.70.

MONTSERRAT ECONOMIC BRIEF 2018

OVERVIEW

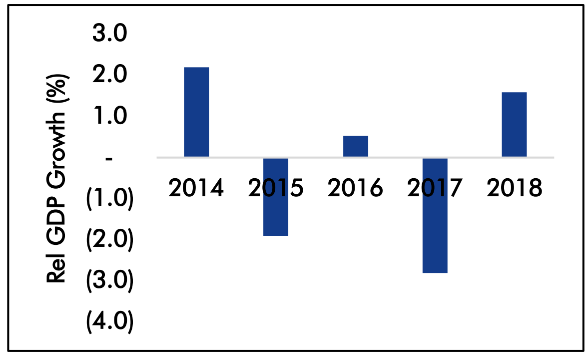
Economic growth in Montserrat for 2018 is estimated at 1.6%, representing a reversal fof the contraction of 2.8% in 2017. The outturn was led by a significant turnaround in construction activity, supported by expansions in the real estate and the transport and storage subsectors. Fiscal balances improved and public debt as a percentage of gross domestic product (GDP) remained negligible. Commercial bank credit to the private sector grew; and the spread between lending and deposit rates widened. The external current account remained in deficit.

The economic outlook for 2019 is positive. Output growth is projected to accelerate slightly, reaching 2.0% in 2019, and fiscal conditions should remain on par with the 2018 outturn. However, the balance of risks to the outlook is slightly negative.

KEY DEVELOPMENTS IN 2018

Preliminary data from the Eastern Caribbean Central Bank (ECCB) show that GDP expanded by 1.6% in 2018 (see Chart 1). The expansion was supported by a 5.0% growth in construction activity, following a decline of 33.0% in 2017. Output in the transport and storage sub-sector rose by 7.5% on account of the improved reliability of the ferry service and increased construction activity. Additionally, real estate activity grew by 1.5%. However, a 1.0% fall in public administration, the country's largest contributor to GDP, acted as a drag on economic performance.

Chart 1: Real GDP Growth

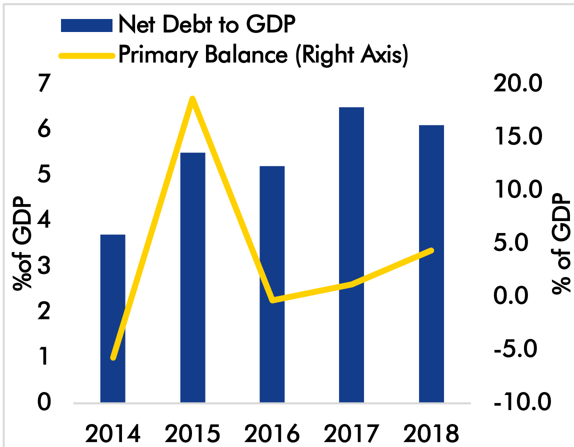


Source: ECCB.

Quarterly data to September 2018, indicate that Montserrat experienced price deflation. Based on the Consumer Prices Index (period average), prices declined by an average of 0.2% on account of price drops in all major sub-indices relative to 2017. As at September, prices for housing, utilities, gas and fuels; transport; and food and non-alcoholic beverages had fallen by 2.1%; 1.1%, and 0.7%, respectively.

Preliminary estimates of Central Government's operations through to the third quarter of 2018 show a healthier fiscal position. Provisional ECCB data indicate that the overall deficit narrowed to approximately 3.8% of GDP as at September 2018, from a 6.9% of GDP in 2017. With interest payments being marginal, the primary deficit moved in tandem with the overall balance (see Chart 2).

Chart 2: Fiscal and Debt Performance



Source: ECCB and Caribbean Development Bank (CDB) Staff calculations.

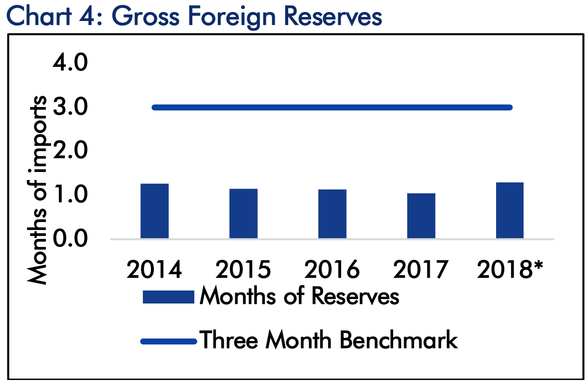
The United Kingdom Government funds over 62% of Montserrat's budget via official grant transfers. A 2.3% year-on-year increase in total grants to $61.6 million (mn) mainly explains the improved fiscal balances. The outturn was also supported by a 9.5% growth in current revenue to $38.3 mn. As such, total revenue and grants stood at $99.9 mn, 4.9% higher than the comparable period of 2017. Meanwhile, total expenditure grew by 1.2% over the same period to $104.7 mn. All spending categories, except interest payments, posted increases but outlays on goods and services, which grew by 12.6% year-on-year as at September 2018, recorded the largest increase.

Public sector debt fell slightly. Data from ECCB as at June 2018, indicate that the stock of public sector external debt stood at $10.3 mn (6.1% of annualised GDP) at the end of June 2018, compared with a balance of $10.5 mn (6.5% of GDP) at the end of December 2017. The slight reduction in debt outstanding is related to the amortisation of existing debt.

Outcomes in the financial sector were largely positive. Provisional data as at September 2018, indicate that commercial banks' lending to the private sector increased by 2.4% relative to end-December 2017 outturn. Borrowing was done mainly by households to finance investments in property. Meanwhile, the ratio of gross non-performing loans to total loans fell to 5.2% from 5.7% at the end of 2017. The liquidity position as measured by the ratio of liquid assets to total assets was 73.6%. The prime lending rate remained unchanged at 8.0% through the first three quarters of 2018. Meanwhile, compared with the end 2017 rates, the spread between the weighted average lending and deposit rates widened by 28 basis points to 6.0%.

Preliminary estimates for the external sector suggest that the external current account deficit continued to narrow since its recent spike in 2016. The deficit narrowed to 8.6% of GDP, compared with 9.4% of GDP at end 2017. Available data from ECCB as at September 2018 put estimates for imputed international reserves at $135.1 mn, representing roughly 1.3 months of import cover, well below the standard 3-month threshold.

Chart 4: Gross Foreign Reserves



**Data as at September 2018.*
Source: ECCB.

OUTLOOK

Growth prospects are good, albeit with slight downside risk. The economy is projected to grow by 2.0% in 2019, due largely to public sector construction activity. Consequently, growth in ancillary economic activity should trend higher, further supporting growth outcomes. Fiscal conditions are expected to remain stable. Higher levels of expenditure, mainly capital spending, will be funded primarily through additional grant receipts. Uncertainty surrounding BREXIT and the vulnerability to adverse weather conditions present downside risks.

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[e]	2018[e]
Real GDP Growth (%)	2.2	-1.9	0.5	-2.8	1.6
Average Inflation (%)	-0.3	-1.0	-0.5	1.3	0.2
Unemployment (%)	n.a.	n.a	n.a	n.a	n.a
Primary Balance (% of GDP)	-6.2	18.8	-0.4	1.2	-3.8
Public Sector Debt (% of GDP)	3.7	5.5	5.2	6.5	6.1

Sources: ECCB, CDB.
e: estimate; n.a.: not available.

CARIBBEAN DEVELOPMENT BANK

SAINT LUCIA

$ refers to Eastern Caribbean Dollars (EC$). US$1 = EC$2.70.

SAINT LUCIA ECONOMIC BRIEF 2018

OVERVIEW

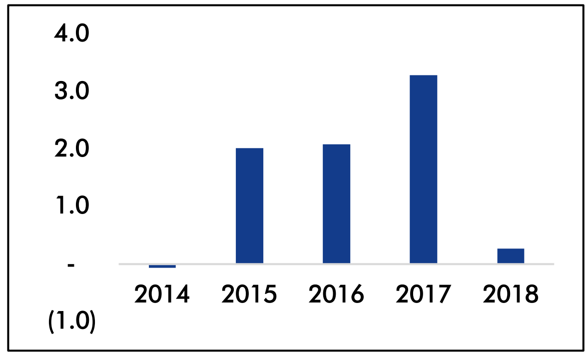
Economic activity in Saint Lucia decelerated to 0.6% in 2018 from 3.7% in 2017. This slowdown was mainly due to a significant downturn in the construction sector. Headline inflation[35] increased, while Central Government (CG) operations resulted in improved fiscal balances; and public debt as a percent of the gross domestic product (GDP) was slightly lower. Commercial bank credit to the private sector contracted in 2018; and the spread between lending and deposit rates widened. The external current account was in surplus, while gross reserves as a percentage of imports contracted.

The economic outlook is positive. Growth is projected to rebound to 3.0%, and fiscal conditions should improve in 2019. However, risks to the outlook are tilted to the downside.

KEY DEVELOPMENTS IN 2018

It is estimated that GDP expanded by 0.6% in 2018 (see Chart 1). This deceleration in activity was driven mainly by unfavourable outturns in the main growth sectors. Delays in private and public sector construction projects resulted in a steep sector decline of 17.0%, in contrast to a robust expansion of 11.4% in 2017. Meanwhile, the pace of growth in tourism-related activities slowed to 4.3%, compared with the 10.3% recorded in 2017. Consequently, key ancillary activities such as wholesale and retail, and transport and storage, either contracted or recorded lower expansion in 2018. Conversely, the buoyant growth in agricultural output (11.4%) mitigated the slowdown in economic activity. This outturn represented a considerable turnaround in the agricultural sector which had recorded an average decline of 2.0% over the previous five years.

Chart 1: Real GDP Growth



Source: Central Statistics Office (CSO), ECCB.

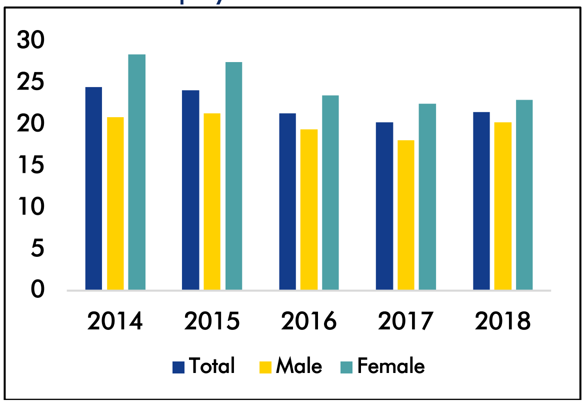
The Consumer Price Index (CPI) (period average) increased by 1.7% during the first three quarters of 2018, compared with the end of 2017 outturn. This was attributable to higher prices in the three most heavily weighted sub-indices. As at September, prices in the food and non-alcoholic beverages and housing; utilities, gas and fuels; and transport sub-indices were up by 3.6%, 12.7%, and 0.8%, respectively.

Weaker economic conditions compromised employment performance in 2018. Data from the Central Statistics Office? (CSO) show that, on a year-on-year basis, the unemployment rate rose to 20.9% in the third quarter of 2018, compared with 16.8% for the same period in 2017[36] (see Chart 2). Job losses were recorded in all major sectors except public administration. On an annualised basis, unemployment was estimated to be approximately 21.5% in 2018, marginally up from 20.2% in 2017.

[35] Inflations is measured by the year-on-year rate of change in CPI.

[36] CSO data is available only up to the third quarter of 2018.

Chart 2: Unemployment



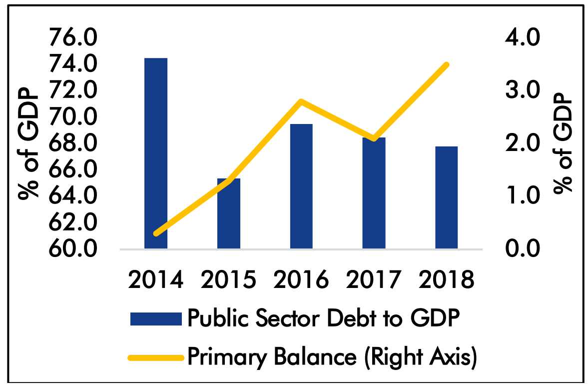
Source: CSO.

CG operations resulted in improved fiscal outcomes in 2018. Preliminary estimates from the Ministry of Finance (MOF) indicate that the overall balance switched to a surplus position of 0.3% of GDP as at September 2018, from a deficit of 0.8% as at the same period in 2017, while the primary surplus improved to 3.5% of GDP from 2.4% over the comparable period (see Chart 3). The improved fiscal balances resulted from expansion in total revenue and grants, which grew by 9.3%, outpacing the 4.6% growth in total expenditure. Notable revenue performances were recorded in value-added tax (VAT), which rebounded by 4.9% following a 9.4% decline in 2017 when the rate was reduced to 12.5% from 15.0%[37]. Collections from the Citizenship by Investment Programme were particularly strong. September 2018 figures indicate a more than sevenfold rise to $60.2 million (mn) from $7.0 mn for the same period a year earlier. On the expenditure side, a number of categories recorded growth. Spending on goods and services, which grew by 45.8% year-on-year as at September 2018, recorded the largest increase.

[37] The VAT rate reduction became effective in February 2017.

Public sector debt was estimated to be 67.8% of GDP at the end of 2018, slightly down from 68.5% a year earlier. The reduction in debt was consistent with improvements in fiscal outturns, and a reduction in borrowing requirements for 2018.

Chart 3: Fiscal and Debt Performance

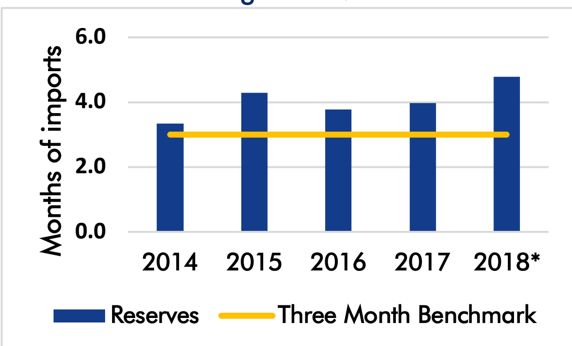


Source: MOF and Caribbean Development Bank (CDB) Staff Calculations.

Outcomes in the financial sector largely reflected the slowdown in economic activity. Commercial banks' lending to the public and private sectors declined as at end of September 2018. Credit to the private sector contracted by 1.7%, while lending to CG fell by 7.0%. At the same time and, consistent with lower economic activity, currency with the public recorded a 10.2% decline. The prime lending rate increased by 200 basis points to 9.0%, and the spread between the weighted average lending and deposit rate widened by 10 basis point to 6.62%. Meanwhile, the ratio of gross non-performing loans to total loans declined to 10.3% from 12.5% at the end of 2017. The capital adequacy ratio moved up to 19.2%.

The external current account recorded a small surplus for the first time in three years. The surplus was 0.8% of GDP compared with a deficit of 2.5% at the end of 2017. This outturn was aided by higher exports of services, which offset the decline in goods and merchandise trade. Data as at September 2018 show that imputed gross reserves ticked up to an equivalent of 4.8 months of imports (see Chart 4).

Chart 4: Gross Foreign Reserves



**Data as at September 2018.*
Source: ECCB.

OUTLOOK

Economic growth of 3.0% is expected in 2019. Growth appears poised to increase in large part due to private and public sector construction programmes coming back on stream. Tourism activities are projected to expand and agriculture output will remain buoyant. Consequently, growth in ancillary economic activities, such as wholesale and retail and transport and storage, will likely trend upwards. Higher levels of expenditure, mainly capital spending, could lead to a slight deterioration in fiscal conditions with an adverse impact on public debt. Moreover, a bunching of debt service payments could present challenges in 2019. Projected global economic slowdown and the island's high susceptibility to natural hazard events present major downside risks.

$ refers to Eastern Caribbean Dollars (EC$) throughout. US$1 = EC$2.70.

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. Data for 2018 are based on available data as at September, and are subject to revision.

Selected Indicators

	2014	2015	2016	2017[e]	2018[e]
Real GDP Growth (%)	0.0	0.3	3.9	3.7	0.6
Average Inflation (%)	3.5	(1.0)	(3.1)	0.1	1.7
Unemployment (%)	24.5	24.1	21.3	20.2	21.5
Primary Balance (% of GDP)	0.3	1.3	2.8	2.1	3.5
Public Sector Debt (% of GDP)	74.5	65.4	69.5	68.5	67.8

Sources: CSO, ECCB, CDB.
e: estimate.

ST. KITTS & NEVIS

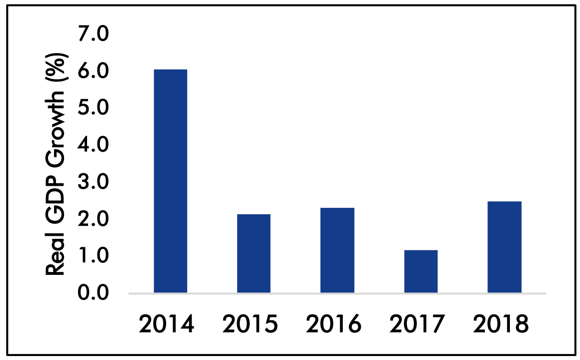
OVERVIEW

Economic growth in St. Kitts and Nevis increased in 2018. Growth hinged mainly on the tourism industry. There was a significant increase in airlift, additional room stock, and strong growth in cruise ship arrivals at the start of the year. The transport sector also displayed robust growth, while construction activity decelerated after a strong 2017 performance.

KEY DEVELOPMENTS IN 2018

It is estimated that economic growth in 2018 increased to 2.5% from 1.2% in the previous year (see Chart 1). Tourism was the main contributor, with the hotel and restaurants sector performing very well, followed by the transport, storage and communications sectors. Overnight arrivals increased by 4.2% year-on-year[38], helped by additional direct flights from Atlanta, New York and Miami. Cruise ship arrivals were also up[39]. The room stock was enhanced by the first full year of operation of a new luxury hotel[40]. Growth in the construction sector fell following the completion of this hotel in 2017. Major public investments included completion of the East Line Bus Terminal, ongoing rehabilitation of the island main road, and the start of the construction of the second cruise ship berth (all in St. Kitts). The real estate and business activities sectors added very little to economic growth, as did the financial sector, which was burdened by high levels of non-performing loans (NPLs).

Chart 1: Real GDP Growth



Source: Eastern Caribbean Central Bank (ECCB),CDB staff estimates.

Inflation was negative in 2018. Consumer prices dropped by 1.1% following a 0.5% increase in 2017. The main reasons for the fall in prices - inflation had already been negative in the years 2015 and 2016 – were the declines in the prices for transport, housing and utilities. Transport prices fell by 7.7% and prices for housing and utilities declined by 1.3%, while prices for food and non-alcoholic beverages increased by 5.6%.

The introduction of the People Employment Programme in 2012 (two years ago renamed and reorganised as the Skills Training and Empowerment Programme (STEP)), has lowered unemployment significantly. No official unemployment data have been published since 2009, but according to the Government of St. Kitts and Nevis (GOSKN) the STEP still employed 2,000 persons as at February 2018, giving major relief to the labour market.

[38] By 6.7% in 2018 to close to 150,000 according to the West Indies News Network; Source: https://www.winnfm.com/news/local/28682-rlb-to-undergo-expansion.

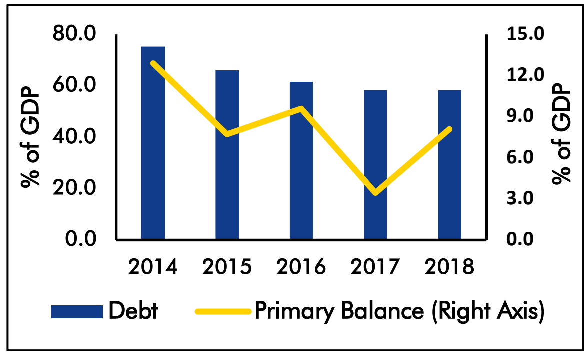
[39] By 4.2% year-on-year to 1,103,571. Source: https://www.thestkittsnevisobserver.com/featured/visitors-arriving-by-air-sea-break-records/.

[40] The Park Hyatt St. Kitts Christophe Harbour opened in November 2017. 2018 was the first full year of operation.

Central Government's fiscal position improved following the introduction of a new citizenship-by-investment (CBI) option. The 2018 launch of the Sustainable Growth Fund led to a strong rise in CBI revenue flowing directly to the Consolidated Fund[41]. GOSKN achieved a primary surplus of $195 million (mn) – or 7.1% of gross domestic product (GDP) – and an overall surplus equivalent to 5.6% of GDP. (See Chart 2). While full-year data are not yet available for CBI receipts, inflows reached $287 mn – or 39% of total GOSKN revenue – between January and September. Total revenue rose 23.5%, mainly due to the CBI-driven 84.0% increase in non-tax revenue, while tax revenue was just 8.0% higher. Total expenditure rose by 11.4%, as capital expenditure and net lending increased by 29.3%.

Total public sector debt as a percentage of GDP remained stable in 2018. The ratio of debt to GDP fell marginally from 58.4% to 58.2%. This partly reflected restructuring of a portion of the Nevis Island Administration's debt. Domestic debt represented 75.0% of total debt and the remaining 25.0% was foreign debt. New debt included the financing of the second cruise ship berth, as well as loans for the National Housing Corporation and a water-drilling project in Nevis.

Chart 2: Fiscal and Debt Performance



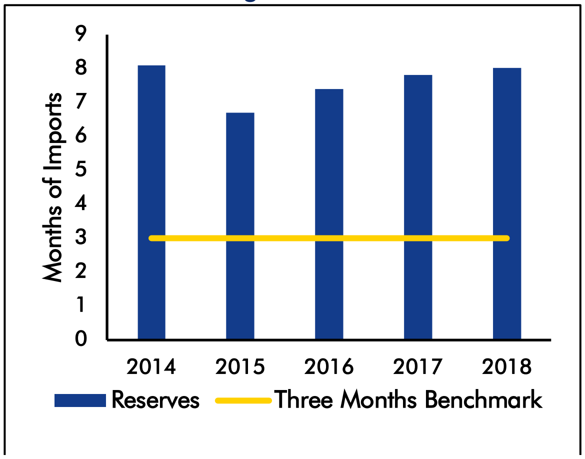
Source: CDB, IMF, GOSKN.

The domestic banking system remains under pressure from worsening asset quality. The ratio of NPLs to gross loans increased from 16.5% in September 2017, to 24.9% in September 2018. Net of loan loss provisions, NPLs as a percentage of banks' capital rose from 33.4% to 55.7% putting banks' solvency at higher risk. Against the backdrop of worsening credit quality, domestic banks raised their precautionary liquidity provisioning by increasing their liquid assets as a proportion of total assets to 58.6%. The regulatory capital of banks in terms of their risk-weighted assets, increased slightly from 19.2% to 19.8%.

Gross international reserves were comfortably above the recommended benchmark of three months of imports. (See Chart 3). The current account deficit improved slightly to 6.4% in 2018 from 8.7% of GDP in 2017, due to stronger services exports, including tourism.

[41] Until 2017, CBI contributions to the Sugar Industry Diversification Foundation (SIDF) citizenship option were booked under SIDF.

Chart 3: Gross Foreign Reserves



Source: CDB, IMF.

The capital account surplus increased from $91.8 mn to $140.2 mn, mainly because of stronger CBI inflows. These inflows also contributed to a $78.3 mn rise in international reserves.

OUTLOOK

CDB projects an increase in growth to 3.0% in 2019, mainly on the back of expanding construction and tourism activities. Construction activity is expected to accelerate with ongoing public infrastructure investments at the St. Kitts airport and seaport, and on each of the islands' main roads. The strong 2018 CBI inflows and resulting construction activity in hotel and condominium projects, are expected to add to sector growth this year, as is the planned start of a $162 mn medical facility at Christophe Harbour.

Tourism activity is expected to rise following a further increase in airlift, including a new direct flight from Minneapolis. The hotels and restaurants sector and the transport sector will be the main beneficiaries of this expansion.

GOSKN is targeting a lower primary surplus for 2019. With total revenue expected to decline by 8.1% and total expenditure likely to grow by 5.7%, the primary surplus is projected to fall to 2.1% of GDP. The decline in revenue is due to a projected 29.1% drop in non-tax revenue – mainly CBI receipts – although this will remain the main revenue category. On the expenditure side, capital expenditure is expected to increase by 21.8%, with one third of the funds being earmarked for improving the public infrastructure. Major proposed investments include the rehabilitation of the main roads on both islands, the upgrade to the airport and the construction of the second cruise ship berth in St. Kitts, and the expansion of the hospital in Nevis.

The main risks to the macroeconomic and the fiscal outlook stem from external factors. The growth of the tourism industry could decelerate significantly if there is a stronger than expected slowdown in global economic activity. Fiscal consolidation may be necessary if the CBI programme or the financial sector are adversely affected by the international regulatory environment.

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. The 2018 data are CDB estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	5.5	6.1	2.2	2.3	1.2	2.5
Average Inflation (%)	0.9	0.0	-2.1	-0.5	0.5	-1.1
Unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Primary Balance (% of GDP)	15.8	12.9	7.7	9.6	3.4	7.1
Public Sector Debt (% of GDP)	101.1	75.2	66.1	61.5	58.4	58.2

Sources: ECCB, CDB, IMF, GOSKN.

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

REGIONAL ECONOMIC SUMMARY 2018

SURINAME

$ refers to Suriname Dollars (SR$).

SURINAME ECONOMIC BRIEF 2018

OVERVIEW

Suriname is experiencing a recovery led by the mining sector. Much of this recovery is due to strengthened activity in the gold industry, which is also contributing to dynamism in other sectors, including manufacturing, electricity, gas and water and transportation.

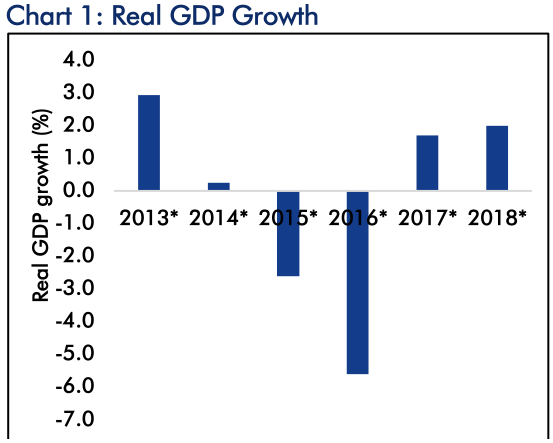
Inflation and the exchange rate have stabilised from their sharp spikes in 2015, contributing to increased stability in the macroeconomic environment. Although the pace of fiscal consolidation has slowed, the fiscal deficit is narrowing. Commercial banks' financial soundness indicators are improving but critical vulnerabilities remain.

KEY DEVELOPMENTS IN 2018

Gross domestic product (GDP) grew by an estimated 2.0% in 2018. (See Chart 1). This improved performance was led by the extractive sector, as higher commodity prices (crude oil and gold) and favourable prospects for the Suriname-Guyana Basin[42] contributed to increased investment in the sector. Investment activity in the petroleum industry was predominantly in pre-exploration activity, including seismic surveys, evaluation of the data, and bids for offshore acreage. Crude oil production levels at Staatsolie Maatschappij Suriname N.V. (Staatsolie) was maintained at 16,300 barrels per day, with heightened focus on finding new reserves and mapping new production close to existing production fields. Heightened exploration activity in nearby Guyana is also likely to increase the demand for diesel in Suriname. Production levels at the Newmont/Merian[43] gold mine remained relatively unchanged, but progress was made in improving productivity. This involved the construction of a primary crusher in 2018 to process harder ores that will be recovered as the mine gets deeper.

In the non-mining sector, there was increased activity in manufacturing (mainly gold and food processing) and agriculture – with rice and bananas being the two main agricultural export commodities.

Chart 1: Real GDP Growth



Source: IMF.

Inflation declined to 6.5% in 2018, as the exchange rate stabilised. The spike in inflation in the previous two years (peaking at 79.2% in October 2016) had been due mainly to the sharp depreciation of the exchange rate and the higher cost of utilities.

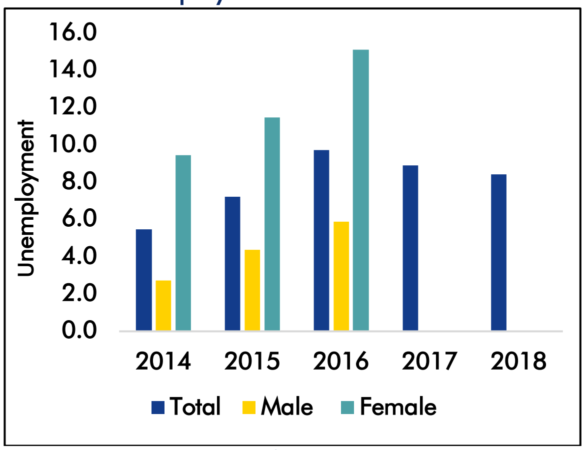
The unemployment rate declined to an estimated 8.4% in 2018 from 8.9% as at

[42] The United States Geological Survey estimates that the Suriname-Guyana Basin has 13.6 billion barrels of crude oil, which makes it the second most prospective, unexplored oil basin in the world.

[43] Based on current gold reserves, Newmont Suriname projects a mine life of approximately 15 years for Merian.

December 2017. (see Chart 2). A moderate increase in output growth contributed to the higher demand for labour and a slight rise in wage employment. Notably, there has consistently been a higher rate of unemployment for women than for men in recent years.

Chart 2: Unemployment

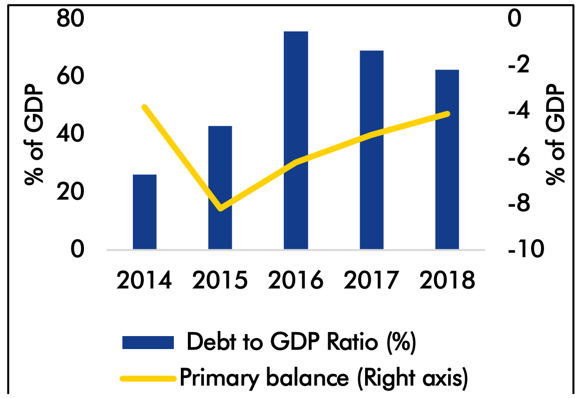


Source: General Bureau of Statistics (GBS) and IMF.

There remains considerable scope to improve the doing business environment. In the World Bank's Doing Business Index 2019, Suriname's rank remained unchanged, at 165th out of 190 countries. "Starting a Business" was the only one of the 10 areas examined that improved.

Fiscal deficits are narrowing but pressures remain on the public debt, pointing to the need for stronger fiscal consolidation. Despite increased mining revenue and efforts to improve tax administration, the fiscal accounts remained in deficit (5.7% of GDP) in 2018, although lower than in previous years. The main pressures on government spending relate to the public wage bill and transfers and subsidies, particularly the subsidy on electricity. Persistent fiscal deficits and exchange rate depreciation in 2016 contributed to the sharp upward trajectory of GOS' external debt. The IMF estimates the debt-to-GDP ratio at 62.5% in 2018, compared with 26.3% in 2014 (see Chart 3).

Chart 3: Fiscal and Debt Performance



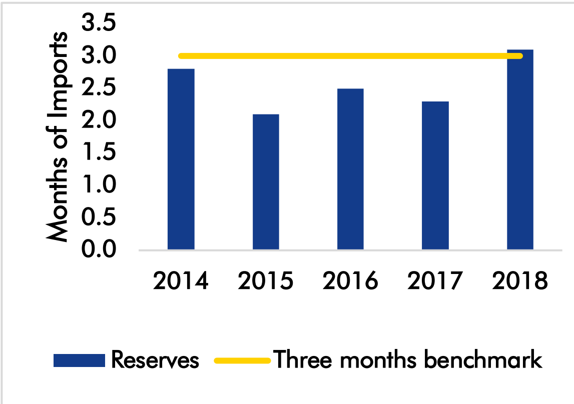
Source: Ministry of Finance and IMF.

Financial soundness indicators point to an improvement in the banking system, although critical vulnerabilities remain. The stagnation in the real economy contributed to a near-crisis in 2016. Since then, financial soundness indicators have improved, although performance varies widely across institutions. The average capital ratio rose to 9.1% of risk-weighted assets in June 2018 from 5.5% in 2016. Non-performing loans, at 12% of gross loans in June 2018, are high. The average return on assets (0.5%) is relatively low.

The Central Bank of Suriname (CBVS) has intensified its monitoring and is making progress on its Anti-Money Laundering/Countering the Financing of Terrorism Framework. These actions are geared towards ensuring that commercial banks meet macro-prudential requirements, and strengthen their safeguards to ensure continued stability in the macroeconomic and financial system.

Gross international reserves rose in 2018. (See Chart 4). International reserves rose to an estimated 3.1 months of import cover as at December 2018, compared with 2.3 months in the previous year. Both Fitch Ratings and Standard and Poor's maintained their credit ratings of B- and B respectively in 2018, but raised their outlooks from negative to stable.

Chart 4: Gross Foreign Reserves



Source: CBVS.

OUTLOOK

CDB expects real GDP growth of around 2.3% in 2019, but some downside risks remain in the short term. Real GDP is expected to improve as favourable commodity prices, expansion in the Iamgold mine, and prospects related to the shared Guyana-Suriname oil basin spur foreign direct investment and gold production levels. Strong economic activity in the mining and quarrying sector will have positive spillover effects into non-mining economic sectors such as manufacturing, electricity, gas and water, and transportation. Ongoing efforts by GOS to revive the agricultural sector should also result in improved economic activity. Planned maintenance operations at Staatsolie in the third quarter of 2019 will negatively impact crude oil production levels and exports, and dampen overall growth prospects.

In the short term, downside risks remain. With general elections due by 2020, pressure on the authorities to ease fiscal austerity measures and delay the implementation of critical reforms could mount. This could have adverse implications for debt levels.

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 (%)	0.3	-2.6	-5.6	1.7	2.0
Average Inflation (%)	6.9	55.5	22.0	7.5	6.5
Unemployment (%)	5.5	7.2	9.7	8.9	8.4
Primary Balance (% of GDP)	-3.8	-8.2	-6.2	-5.0	-4.1
Public Sector Debt (% of GDP)	26.3	43.0	75.8	69.3	62.5

Sources: CBVS, GBS and IMF.

Notes: e – estimate.

ST. VINCENT & THE GRENADINES

$ refers to Eastern Caribbean Dollars (EC$). US$1 = EC$2.70.

ST. VINCENT AND THE GRENADINES ECONOMIC BRIEF 2018

OVERVIEW

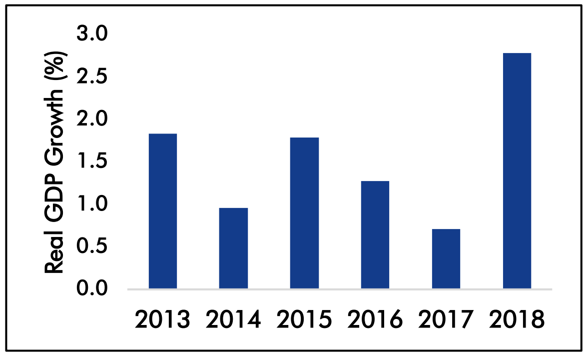
Economic growth in St. Vincent and the Grenadines (SVG) increased in 2018, driven by increased tourist arrivals, and a surge in regional demand for manufactured building materials in the aftermath of the devastating 2017 Atlantic hurricane season. The fishing sector also contributed to growth, registering an increase in fish landings. Growth was accompanied by steady inflation.

The fiscal deficit remained low following narrowing in recent years, as the Government of St. Vincent and the Grenadines (GOSVG) continued efforts to stabilise public finances and improve debt sustainability. In May, Moody's Rating Services maintained SVG's B3 rating and stable outlook.

KEY DEVELOPMENTS IN 2018

The Caribbean Development Bank (CDB) estimates that growth in real gross domestic product (GDP) picked up from 0.7% in 2017, to 2.8% as tourism and investor interest rebounded. (See Chart 1). Total visitor arrivals increased, reflecting significant growth in cruise passengers[44] and port calls, coupled with a recovery in stayover visitors[45] from 2017's decline. This rebound was helped by improved connectivity and easier access from external markets as a result of extra airlift. The international airport, which opened in 2017, has significantly enhanced air transport capacity, permitting for the first-time direct flights between SVG and key external source markets – Canada, New York and Miami. The yachting sub-category, a small but growing segment, also expanded, boosted in part by new berthing infrastructure in the Grenadine Islands, the main ports of entry for yachts. There were positive spill-overs from the growth in tourism to other sectors. Transportation and retailing activities were the key areas to benefit from the upsurge in visitors.

Chart 1: Real GDP Growth



Source: GOSVG, CDB staff estimates.

Improved air connectivity helped facilitate greater use of ocean resources. Coupled with the privatisation of the fisheries complexes and improved fisheries management, including the setup of a new seafood packaging facility, these spurred strong growth in the landing, processing and export of fish products.

Construction activity strengthened with new tourism developments, road projects and ongoing geothermal development. Manufacturing output also rose, with notable increases in the production of building materials. Flour, animal feed and beverage (with the exception of beer) production declined, reflecting the impact of increasing competition within the Organisation of Eastern Caribbean States sub-region.

44 By 81% to 149,451 year-on-year at end-October.

45 By 4.5% to 62,997 year-on-year at end-October.

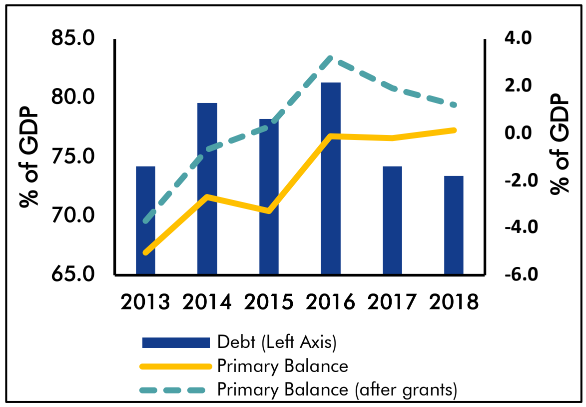
Crop production declined, hampered by lower rainfall as well as ongoing trading difficulties in a key regional export market. During the year, local farmers and small traders continued to face foreign exchange difficulties with their crops sold into the Trinidad and Tobago market. At year-end, a special clearing facility was put in place by the Eastern Caribbean Central Bank (ECCB) to facilitate currency exchanges for farmers.

Average consumer price inflation steadied at 2.3%, after trending up to 2.2% during 2017. The rise in the price level reflected increases across most of the consumer price categories, including food, beverages, fuels, utilities, housing, transport, and household furnishings. Clothing and footwear was the only category to decline. In the six years prior to 2017, average inflation had been lower. The uptrend from 2017 was the result of regulatory price adjustments including higher taxation, and the slight recovery of oil prices.

The fiscal deficit widened, from 0.5% to 1.1% of GDP in 2017. Although total expenditure was reduced, mainly due to a 21.9% fall in capital outlays, total revenues and grants also declined. Wages and salaries increased by 2.6%. In 2018, the wage bill amounted to 13% of GDP and accounted for 44.8% of total expenditures, while interest payments amounted to 8.4% of current revenue and 2.3% of GDP. The primary balance (before grants) improved, turning from a small deficit of 0.2% of GDP in 2017, to a surplus of 0.1% of GDP (see Chart 2).

Central Government's (CG) fiscal deficit narrowed gradually from 6.2% of GDP in 2013, mainly due to tax policy and compliance efforts. These measures increased tax revenue to 24.2% of GDP in 2017, from 21.6% of GDP in 2013. New revenue measures in 2018 turned in mixed performances. Collectively, a Climate Resilience Levy of $8 per night on stay-over visitors, a lowerering of the value-added tax (VAT) threshold on electricity consumption, lower personal and corporate income tax rates, an increase in the personal income tax threshold, and the introduction of a tax amnesty netted lower tax revenues in 2018 relative to 2017.

Chart 2: Fiscal and Debt Performance



Source: GOSVG, CDB.

Public sector debt was 73.4% of GDP at the end of 2018. The stock of public debt outstanding increased by 3.2% to $1.62 billion. Of this, CG debt accounted for 86.2%. Government's debt service obligation rose to 30.8% of revenue on account of new loans and interest rate increases.

Improved economic conditions supported favourable outcomes in the financial sector. Over the 10 months to October, domestic credit increased by 2.0% reflecting higher lending to Government, private households, construction and retail. Financial soundness indicators for capital adequacy and non-performing loans improved and remained in line with regulatory requirements, although key vulnerabilities remain in the banking sector. De-risking, in particular, and the attendant constraints on banking business, continues to present risks to stability.

Government revised its tax regime for the international financial services sector in 2018 in order to avoid a blacklisting by the European Union (EU). Amendments to the legislation led to GOSVG levying, for the first time, corporation taxes on previously exempt international business companies and trusts. This measure was in response to the EU's Code of Conduct for Business Taxation, which includes new guidelines aimed at increasing tax transparency and reducing preferential tax measures. The new tax regime could lead offshore companies to re-domicile in competitor jurisdictions.

Export receipts rose at a faster pace than imports during the nine months to September 2018, reflecting an increase in the exports of manufactured goods and higher travel income. However, the current account deficit is likely to have widened due to the heavier weighting of imports[46].

OUTLOOK

Growth is projected at 2.0% in 2019. Economic activity is expected to benefit from initiatives to improve competitiveness in agriculture and tourism, new construction work in hotel development, the reopening of a luxury hotel closed in 2016, and the implementation of some large capital projects including the construction of the geothermal energy plant and a new port facility in Kingstown.

SVG is reducing vulnerabilities through deliberate policy action. In 2017, GOSVG set up a Fiscal Contingency Fund to help offset the potential cost of damage in the future from natural disasters. Coupled with its ongoing climate adaptation investment programme, these actions will help to moderate risks. As GOSVG scales up investment spending to improve competitiveness and boost sustainable growth over the medium term, the fiscal framework will need to be strengthened further. In addition to increasing the efficiency of public spending, possible measures should include the imposition of a limit on the growth in the wages and the pension bill, and better targeting of social safety nets. Such measures will be key to restraining expenditure growth, generating fiscal surpluses, and keeping the debt ratio on a downward path.

[46] Import of goods account for over 80% of merchandise trade.

DATA

The table below summarises the key economic indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. The 2018 data are preliminary, and are subject to revision.

Selected Indicators

	2013	2014	2015	2016	2017	2018e
Real GDP Growth (%)	1.8	1.0	1.8	1.3	0.7	2.8
Average Inflation (%)	0.5	0.2	-1.7	-0.2	2.2	2.3
Primary Balance, after grants (% of GDP)	-3.7	-0.7	0.3	3.2	1.9	1.2
Public Sector Debt (% of GDP)	74.2	79.6	78.2	81.4	74.2	73.4

Sources: GOSVG, CDB.

Notes: e – estimate.

REGIONAL ECONOMIC SUMMARY 2018

TRINIDAD & TOBAGO

US$ refers to United States Dollars.

TRINIDAD AND TOBAGO ECONOMIC BRIEF 2018

OVERVIEW

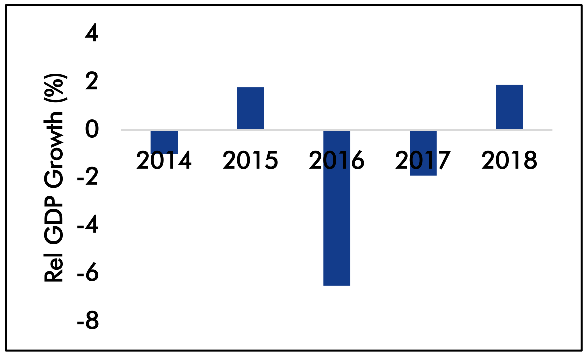
Provisional estimates of economic activity in Trinidad and Tobago (T&T) point to a turnaround, with growth estimated at 1.9% in 2018. The reinvigoration was largely underpinned by recovery in the manufacturing sector (mainly energy and energy-related). Headline inflation slowed. Sustained fiscal consolidation efforts resulted in a smaller fiscal deficit. Net public debt contracted as a percentage of gross domestic product (GDP). Commercial bank credit to the private sector continued to grow. The Central Bank of Trinidad and Tobago (CBTT) raised the repo rate by 25 basis points to 5.0% in June. Transactions with the rest of the world resulted in an external current account surplus; but the gross reserves recorded further contraction.

Economic outlook is cautiously upbeat. Output growth is projected to tick up to 2.0% in 2019; and the improvement in fiscal conditions is expected to be sustained. However, risks to the outlook are mainly tilted to the downside.

KEY DEVELOPMENTS IN 2018

According to the Central Statistical Office (CSO), GDP is estimated to have expanded by 1.9% in 2018 (see Chart 1). Preliminary data show that manufacturing was the lead growth sector. Following two consecutive years of contraction, manufacturing expanded by 7.3%. Production of petroleum and chemical products recorded the strongest growth (9.0%) in the sector. The other notable increase came from the manufacturing of food, beverages and tobacco, which expanded by 5.6%. The reversal was a consequence of increased production and slightly higher average global prices for petroleum products in 2018. The non-energy sector recorded a marginal uptick of 0.1%.

Chart 1: Real GDP Growth



Source: CSO, CDB estimates.

Data to September 2018 indicate that headline inflation[47] (period average) was contained at 1.0% year-on-year. In September, food inflation was zero, after declining for the first time in seven years in August (-0.1%). Core inflation rose by 1.4% in September, from 0.8% in April, reflecting increased costs of home ownership and higher prices for fast food meals. Over the same review period, the Producer Prices Index fell by 0.9%, following a slightly steeper fall in June, lending further support to the low inflationary environment at the retail level.

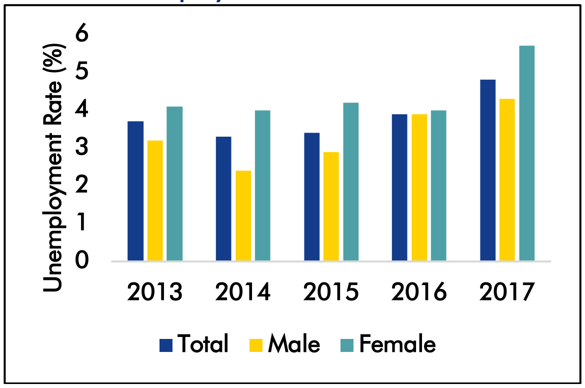
Weak economic conditions compromised employment performance prior to 2018. No data is yet available for 2018[48]. Data for 2017 point to an increase in the unemployment rate to 4.4% in the fourth quarter, from 3.6% in the corresponding period of 2016 (see Chart 2). On an

[47] As measured by the All Items Retail Price Index.

[48] CSO unemployment data is available only up to the last quarter of 2017.

annualised basis, the unemployment rate was 4.8% in 2017, up from 4.0% in 2016.

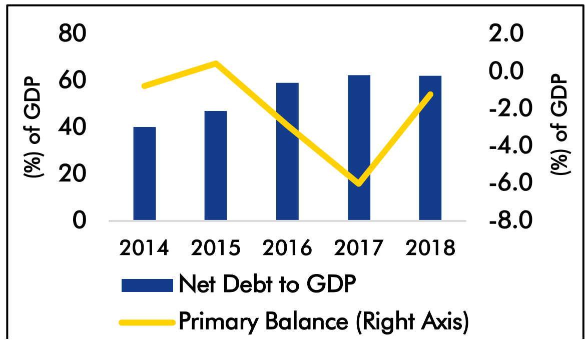
Chart 2: Unemployment



Source: CSO.

Ongoing fiscal consolidation efforts led to improved fiscal balances. Preliminary estimates indicate that the overall deficit reached 4.0% of GDP in fiscal year (FY) 2018, compared with 9.1% in FY 2017[49], while the primary deficit narrowed to 1.2% of GDP from 6.0% over the same period (see Chart 3). The Government achieved an overall reduction in expenditure of 1.7%, with cuts across most categories – most notably, an 8.2% decrease in wages and salaries, and a 5.9% reduction in transfers and subsidies. Meanwhile, total revenues increased by 17.8%, mainly based on the introduction of a 35.0% tax bracket for commercial banks; increased receipts from oil companies; and goods and services taxes. Most of the deficit was financed domestically.

Chart 3: Fiscal and Debt Performance



Source: CBTT and Caribbean Development Bank (CDB) Staff Calculations.

Net public sector debt[50] was estimated at 62.2% of GDP at the end of FY 2018, down from 62.7% a year earlier. The improvement in the debt position is consistent with better fiscal outturns, and the resulting reduction in borrowing requirements for FY 2018.

Monetary conditions tightened somewhat during the course of 2018. Citing a positive economic outturn during the first half of the year, as well as credit growth, low inflation and higher external interest rates, CBTT raised the repo rate by 25 basis points to 5.0% in June. The median prime lending rate also increased by 25 basis points to 9.3%.

Outcomes in the financial sector were mixed in 2018. Provisional data as at October indicate that net credit from the banking system continued its upward trend, although nonperforming loans (NPLs) also increased. Lending to the private sector grew by 3.4% on account of an expansion in credit extended to businesses, and relatively buoyant consumer lending throughout the year. The ratio of gross NPLs to total loans, still one of the lowest in the Region, rose to 3.3% from 2.9%

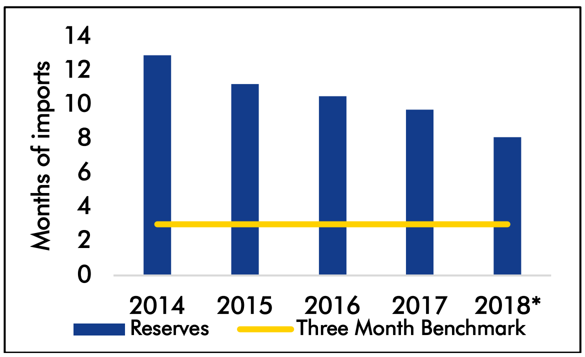
[49] FY runs from October to September.

[50] Excludes all sterilised debt (Treasury Bills, Treasury Notes, Treasury Bonds and Liquidity Bonds).

at the end of 2017. The reported capital adequacy ratio remained relatively stable at 24.3%.

Net official international reserves, although still well above the standard three-month threshold, continued to decline in 2018 (see Chart 4). Compared with the end of 2017, reserves fell by 9.5% to US$7.6 billion at the end of 2018, the equivalent of eight months of imports. Data to June show that there was a marked improvement in the external current account surplus, which climbed to 17.2% of GDP from 7.4% of GDP in 2017. This outturn was aided by a combination of higher exports and slightly lower imports.

Chart 4: Net Official Reserves



Source: CBTT.

OUTLOOK

The economic outlook for T&T is one of cautious optimism. Real GDP is projected to grow by 2.0% in 2019. Despite the restructuring at Petrotrin, the energy sector is expected to drive growth, particularly in light of increased natural gas output as the Angelin project comes on stream. The performance of the energy sector will likely result in positive spillover effects into the non-energy sector.

In the near-term, fiscal and debt conditions will continue to improve as energy-related revenues strengthen, and efforts to contain expenditures are maintained. Credit growth is likely to rise, creating positive feedback loops to economic activity. Increased output from the energy sector is expected to also lead to improvements in the external current account and foreign reserve positions. However, with the energy industry still dominant, the country is vulnerable to a downturn in energy prices. This could negatively impact production, and is therefore a downside risk.

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[e]	2018[e]
Real GDP Growth (%)	-1	1.8	-6.5	-1.9	1.9
Average Inflation (%)	5.7	4.7	3.1	1.9	1.0
Unemployment (%)	3.3	3.4	4.0	4.8	5.0
Primary Balance (% of GDP)	-0.7	0.5	-2.9	-6.0	-1.2
Public Sector Debt (% of GDP)	40.4	47.1	59.3	62.7	62.2

Sources: CSO, CBTT, CDB.
e: estimate.

TURKS & CAICOS ISLANDS

US$ refers to United States Dollars

TURKS AND CAICOS ISLANDS ECONOMIC BRIEF 2018

OVERVIEW

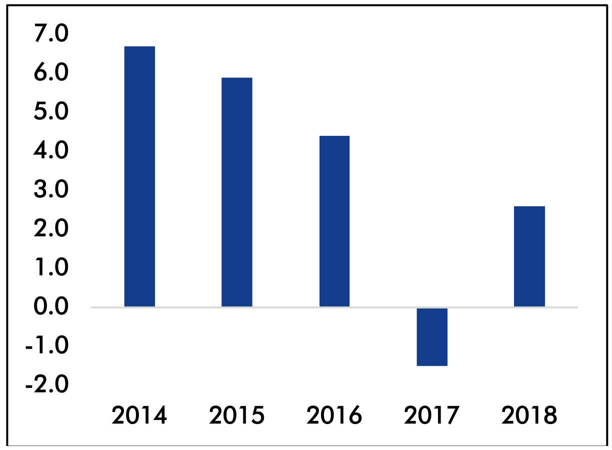
Economic growth returned to Turks and Caicos Islands (TCI) in 2018. Increased activity in the tourism and construction sectors contributed to the recovery. Fiscal performance remained strong as debt continued to decline. Increased economic activity is anticipated in 2019, as tourism-related investments 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[51] and cruise ship passengers[52] 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.

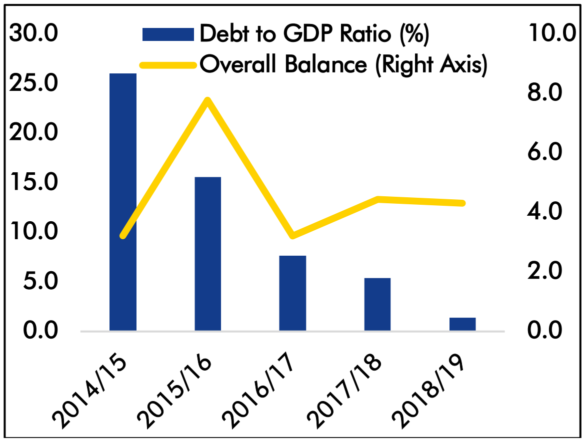
Fiscal surpluses have averaged 8.0% of GDP annually since 2012. TCI's fiscal position is expected to remain strong in Fiscal Year[53] (FY) 2018/19, with an overall surplus of 4.3% of GDP[54]. Higher-than-projected revenues and lower-than-budgeted expenditures, particularly capital expenditures, will contribute to the positive outturn. Government debt fell from $55.0 mn (5.4% of GDP) at the end of December

[51] Stayover arrivals increased by 10.0 % to 458,100 visitors for the full year 2018 (estimated by the Economist Intelligence Unit).
[52] Cruise ship arrivals increased by 23.5% to1.0 mn visitors for the full year 2018.

[53] FY runs from April to March.
[54] An operating surplus of $52 mn was recorded at the end of September 2018 (the first half of the fiscal year).

2017 to $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[55].

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.

[55] 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.