

ECLAC SUBREGIONAL
HEADQUARTERS
FOR THE CARIBBEAN

Preliminary overview of the economies of the Caribbean 2018–2019

Economic restructuring and
fiscal consolidation as a
platform to increase growth

Sheldon McLean
Dillon Alleyne
Michael Hendrickson
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Hidenobu Tokuda



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

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United Nations publication
ISSN: 1728-5445 (electronic version)
ISSN: 1727-9917 (print version)
LC/TS.2019/60
LC/CAR/TS.2019/3
Distribution: L
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Printed at United Nations, Santiago
S.19-00864

This publication should be cited as: S. McLean and others, "Preliminary overview of the economies of the Caribbean 2018–2019", *Studies and Perspectives series-ECLAC Subregional Headquarters for the Caribbean*, No. 80 (LC/TS.2019/60-LC/CAR/TS.2019/3), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2019.

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Abstract

This overview examines the economic performance of economies of the Caribbean in 2018 and comprises four chapters. The first chapter provides a comparative analysis across Caribbean economies of the main macroeconomic variables, namely GDP growth, monetary indicators, as well as fiscal and external accounts. The second chapter looks at the key development imperatives for the Caribbean. The third chapter concludes, and the final chapter includes individual country briefs that give an overview of the economic situation for the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname and a subregional assessment of the countries of the Eastern Caribbean Currency Union.

Introduction

A. The World Economy and its prospects

A growing optimism premised on robust global GDP in the last few years has given way to pessimism as downside risks have increased. Significant among these are trade tensions among major economies, especially the United States and China. These tensions, combined with concerns about softening global growth prospects, have aided the decline in global equity prices. At the same time, the cost of borrowing for emerging market and developing economies (EMDEs) has increased, as major advanced-economy central banks continue to withdraw policy accommodation in varying degrees (IMF 2019; ECLAC 2019). ECLAC has pointed out that one of the weakest aspects of the external context is the poor rate of world trade growth (around 3.9 per cent in 2018, versus 4.6 per cent in 2017). Trade growth projections are subject to major downside risks, not only from global economic activity but also subject to the impact of trade tensions (ECLAC 2019).

The challenges, meanwhile, to commodity exporters continue¹ as energy prices fell towards the end of 2018. Other commodity prices—particularly metals—have caused a falloff in government revenue for many commodity exporters with its attendant negative impact on investment, employment and the balance of payments deficit. World output growth, which was 3.8 per cent in 2017, and 3.7 per cent in 2018, is expected to decline to 3.5 per cent in 2019 (see table 1). In the case of advanced economies, due to weak prospects, their growth is expected to decline from 2.4 per cent in 2017 and 2.3 per cent in 2018 to 2 per cent in 2019. Among these economies, growth in the United States, a significant trading partner of many Caribbean countries, has remained firm, moving from 2.2 per cent in 2017 to 2.9 per cent in 2018, but will settle to 2.5 per cent in 2019. The Euro Area continues to struggle, with growth expected to fall from 2.4 per cent in 2017 and 1.8 per cent in 2018 to 1.6 per cent in 2019.

¹ According to ECLAC (2019) "Commodity prices, an important factor for Latin American and Caribbean, rose by 11% in 2018, chiefly reflecting a jump of 28% in crude oil prices, while the prices of metals and agricultural goods also rose, albeit by a more modest 5% and 3%, respectively. In 2019, commodity prices are expected to fall by around 7% across the board. Minerals and agricultural products will be affected by slowing global growth, especially in China, a key importer. In the case of oil, as well as the factors weighing on demand, a number of supply constraints have eased. Accordingly, the Energy Information Administration (EIA) is forecasting a decline of 16% on average in the prices of Brent crude and West Texas Intermediate (WTI)".

Table 1
International actual and projected growth rates 2017-2019
(Percentages)

	Estimate		Projections
	2017	2018	2019
World Output	3.8	3.7	3.5
Advanced economies	2.4	2.3	2.0
United States	2.2	2.9	2.5
Euro Area	2.4	1.8	1.6
Emerging and Developing Economies	4.7	4.6	4.5
India	6.7	7.3	7.5
China	6.9	6.6	6.2
Latin America and the Caribbean	1.3	1.2	1.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; International Monetary Fund (IMF), "World Economic Outlook, January 2019 update.

Emerging and developing economies continue to be the main engine of global growth since the global crisis of 2008-2009. The prospects for India continue to be robust, as growth was 6.7 per cent in 2017, 7.3 per cent in 2018, and is expected at 7.5 per cent in 2019. China on the other hand has been experiencing some difficulties even though growth is still predicted to be strong. Chinese growth, which was 6.9 per cent in 2017, fell to 6.6 per cent in 2018 and is expected to decline slightly to 6.2 per cent in 2019. If the Euro Area is excluded, Latin America and the Caribbean, will bring up the rear in terms of regional performance. Growth was 1.3 per cent in 2017, 1.2 per cent in 2018 and is expected to edge upward to 1.7 per cent, in 2019. Policy uncertainty arising from trade tensions among the major economies, reduced capital inflows and depressed commodity prices signal negative prospects for strong medium-term growth in this region.

B. Caribbean growth rates

The Caribbean is not immune from negative external shocks, and growth in the subregion responds directly to several of these including natural disasters and climate change. In 2018 average economic growth in the Caribbean rebounded to 1.9 per cent. This follows a decline of 2.1 percent in 2016 due mainly to large contractions in Suriname and Trinidad and Tobago, and marginal growth of 0.1 per cent in 2017, coinciding with the effects of hurricane Irma in Anguilla and Dominica.

The forecast for the region is positive with growth expected to move from 1.9 per cent in 2018 to 2.1 per cent in 2019 (see table 2). Positive growth is expected among all the economies, led by Dominica which is expected to grow at 9 per cent, no doubt boosted by rebuilding and relief efforts having declined by 4 per cent in 2018. For the service producers in the subregion, growth is expected to move from 1.8 per cent in 2018 to 2.1 per cent in 2019. In the case of the goods producers, growth will remain steady at 2.1 per cent in 2019. This is an improvement over the negative growth of 5.2 per cent in 2016 and 0.8 per cent posted in 2017. Looking ahead, the steady performance of the United States will boost tourism receipts for Caribbean countries for whom this is their major source market, however soft commodity prices will affect the good producers negatively.

Table 2
Caribbean: GDP growth rates, 2014-2019
(Percentages)

	2014	2015	2016	2017	2018	2019
Anguilla	5.1	3.1	-1.3	-7.7	3.7	5.8
Antigua and Barbuda	5.1	4.1	5.3	3.0	5.3	4.7
Bahamas	-0.1	1.0	-1.7	1.4	2.5	2.2
Barbados	-0.2	2.2	2.3	-0.2	-0.5	0.5
Belize	3.7	3.4	-0.6	1.4	2.2	2.1
Dominica	4.4	-2.6	2.5	-9.5	-4.4	9.0
Grenada	7.3	6.4	3.7	5.1	5.2	4.2
Guyana	3.9	3.1	3.4	2.2	3.4	4.6
Jamaica	0.7	0.9	1.4	1.0	1.5	1.8
Montserrat	2.2	-1.9	0.5	-2.8	2.1	1.2
Saint Kitts and Nevis	6.1	2.1	2.3	1.2	2.1	4.1
Saint Lucia	0.0	0.3	3.9	3.7	2.5	2.9
Saint Vincent and the Grenadines	1.0	1.8	1.3	0.7	3.2	1.5
Suriname	0.3	-3.4	-5.6	1.7	1.9	2.8
Trinidad and Tobago	-1.0	1.8	-6.5	-1.9	1.9	1.6
Caribbean	0.3	1.3	-2.1	0.1	1.9	2.1
Goods Producers	-0.2	1.2	-5.2	-0.8	2.1	2.1
Service Producers	0.8	1.4	0.8	1.0	1.8	2.1

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

C. Unemployment

Economic growth and employment usually go hand in hand and not surprisingly, steady growth has improved employment in many countries of the subregion. Of course, it is also important to determine whether these are decent and sustainable jobs given the uncertainties alluded to before. Data are only available for a relative few Caribbean countries and these suggest that average rates have fluctuated between 13 and 14 per cent between 2014 and 2018 (see table 3).

Table 3
Unemployment rates, 2014-2018
(Percentages)

	2014	2015	2016	2017	2018
Bahamas	13.8	12.0	12.7	9.9	10.0
Barbados	12.3	11.3	9.7	10.0	9.2
Belize	11.6	10.1	8.0	9.7	...
Grenada	29.3	29.0	28.2	24.0	20.9
Jamaica	13.8	13.5	12.9	11.3	9.7
Saint Lucia	24.4	24.1	21.3	20.2	21.8
Suriname	5.5	7.2	9.7

	2014	2015	2016	2017	2018
Trinidad and Tobago	3.3	3.4	4.0	4.8	...
Caribbean Average	14.2	13.8	13.3	12.8	14.3
Goods Producers	6.8	6.9	7.2	7.3	...
Service Producers	18.7	18.0	17.0	15.1	14.3

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

... Data not available

Suriname: Until 2008, per centage of the economically-active population, nationwide total. From 2009, unemployment rate in the districts of Paramaribo and Wanica.

The rates for the goods producers was about 50 per cent lower than those of the service producers but these have tended to increase while there has been a decline among the service producers. declining rates have been observed in the Bahamas, Belize and Jamaica. Grenada has experienced strong growth in recent years and its unemployment rate, while still among the highest in the subregion, has been in decline.

I. Macroeconomic performance

This subsection analyses the performance of key macroeconomic indicators in the Caribbean, over the first half of 2018.

A. Fiscal and debt

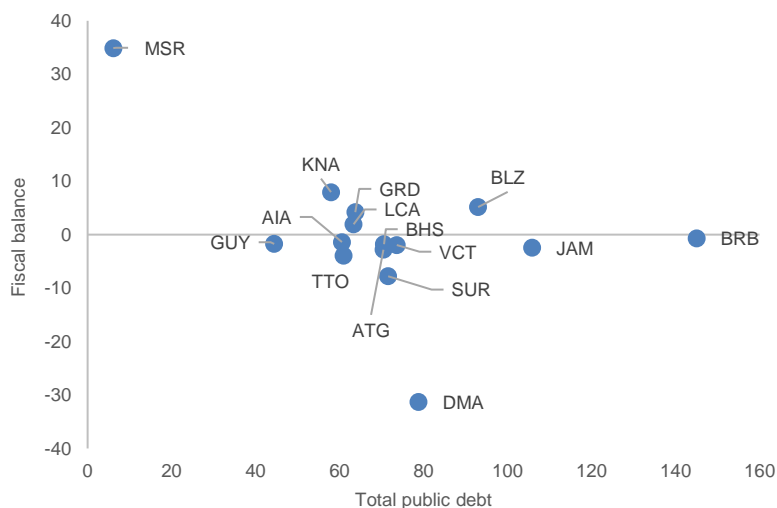
1. Fiscal

The average overall fiscal balance in the Caribbean contracted from -2.4 per cent in 2017 to -0.1 per cent² in 2018, but this was driven by an overall fiscal surplus of 34.9 per cent of GDP in Montserrat, due in turn to a 204 per cent increase in grant aid in the first six months of the year. The median overall balance, on the other hand, contracted to -1.7 per cent of GDP in 2018, from -2.4 per cent in the previous year. Beside Montserrat, three other members of the ECCU achieved positive fiscal balances: Grenada, Saint Kitts and Nevis and Saint Lucia posted overall surpluses of 4.2 per cent, 8.0 per cent and 1.9 per cent respectively. Conversely, Dominica posted the largest fiscal deficit in the Caribbean, at -31.3 per cent of GDP. Dominica's fiscal outcomes stemmed from the impact of Hurricane Maria in 2017 – increased expenditure on relief and recovery activities combined with reduced tax revenue from business activity and Citizenship by Investment inflows. While Jamaica achieved a small fiscal surplus in 2017, it returned to deficit (-2.4 per cent of GDP) in 2018. After recording deficits at or close to 10 per cent of GDP between 2013 and 2016, Barbados continued compressing its deficit and posted an overall deficit of just 0.7 per cent of GDP.

Outside of Dominica, the largest overall deficits were seen in Suriname (-7.8 per cent of GDP) and Trinidad and Tobago (-4.0 per cent of GDP). These economies had the largest deficits in 2017 as well, as their governments continue to struggle with balancing the budget following the impact of falling commodity prices in recent years. Figure 1 displays the fiscal balance of the economies of the Caribbean, along with their public debt ratios.

² Comparing annualized data.

Figure 1
Public debt vs fiscal balance, 2018
(Per cent of GDP)



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

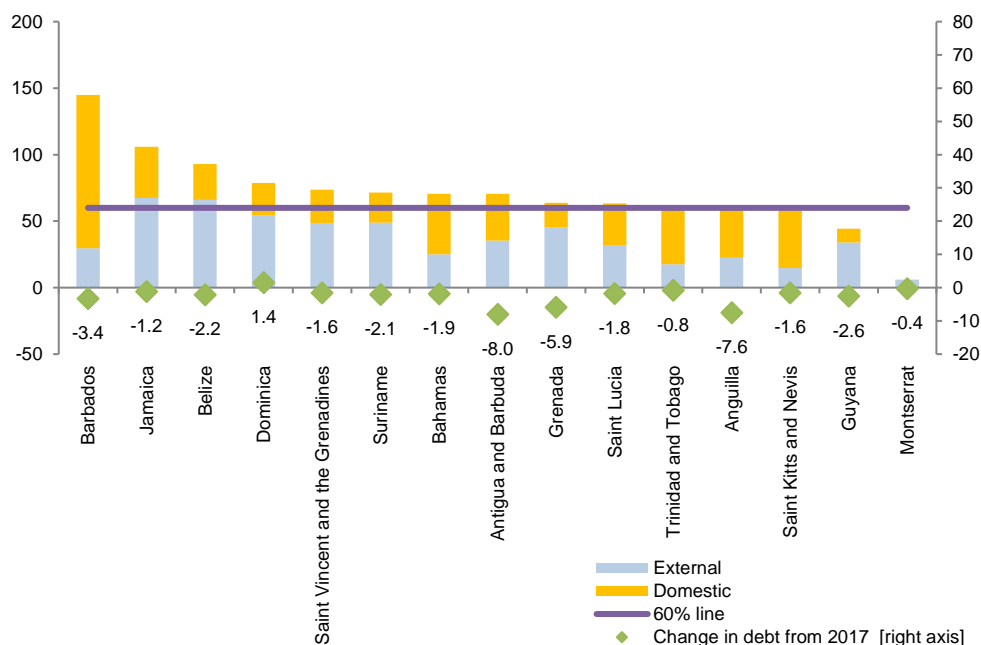
2. Debt

The first three quarters of 2018 saw positive developments in the debt profiles of most Caribbean countries. Average public debt fell from 73.7 per cent of GDP at the end of 2017 to 71.1 per cent in 2018, as illustrated in figure 2. All economies experienced a decrease in their debt ratio except Dominica, which saw its debt increase by 1.4 percentage points of GDP, as government borrowed to finance its substantial overall deficit. The largest declines were in Anguilla and Antigua and Barbuda; In the former the government implemented a freeze on new debt accumulation as amortization continued, while in the latter scheduled amortization and favourable exchange rate movements both contributed to their debt reduction.

The economy with the highest public debt ratio in 2018, Barbados, finalized a four-year Extended Fund Facility with the IMF in October 2018. This arrangement aims to maintain the country's currency peg with the US dollar, implement structural reforms to support macroeconomic performance and accomplish fiscal consolidation.

Despite the progress, in 2018 only three economies' (Saint Kitts and Nevis, Guyana and Montserrat) debt ratios fell below 60 per cent of GDP. Caribbean economies still have a way to go in bringing down their debt burdens to sustainable levels. However, there have been successes over the past five years or so. Grenada, Jamaica and Saint Kitts and Nevis stand out as economies that have managed to significantly reduce their debt ratios over the last six years – by 39.7, 28.4 and 68.2 percentage points of GDP respectively. Grenada applied a strong home-grown adjustment programme, Saint Kitts and Nevis leveraged its successful Citizenship by Investment programme, while Jamaica successfully implemented an IMF-supported programme.

Figure 2
Total public debt, 2018
(Per cent of GDP)



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

B. Monetary policy, domestic credit and inflation

This subsection will explore issues relating to the nature and focus of monetary policy-setting in Caribbean economies in 2018, as well as trends in interest rates, money supply, domestic credit and inflation.

In 2018, while there was a mixed approach to monetary policy-setting in the Caribbean, overall the monetary policy stance in the region remained accommodative. Jamaica, for instance, pursued an expansionary monetary policy with the Bank of Jamaica cutting its overnight rates five times in 2018. The overnight rates were reduced from 3.25 per cent in December 2017 to 1.75 per cent in December 2018. In contrast, for the first time in 30 months, the Central Bank of Trinidad and Tobago raised the repo rate by 25 basis points to 5.00 per cent in June 2018, in consideration of foreign exchange shortages.

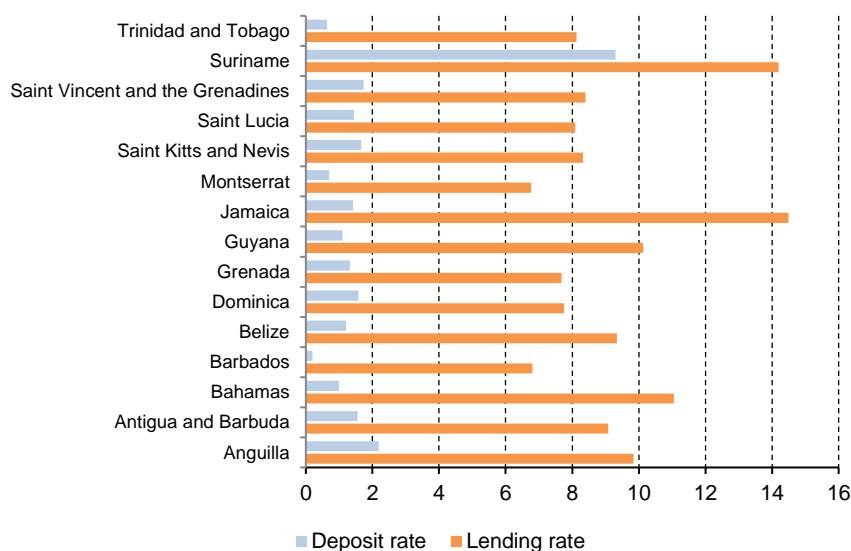
Further, in Barbados, as the government has increased dependence on the Central Bank to finance its deficit in the past, this has limited the ability of the Central Bank to influence interest rates in the Treasury bill market. In the Bahamas, monetary policy was neutral with the Central Bank holding its policy discount rate at 4.00 per cent.

1. Interest rates

In 2018, the average deposit rate (1.80 per cent) in the Caribbean remain almost unchanged relative to the previous year (1.81 per cent), while average lending rates decreased by 12 basis points to 9.34 per cent. Excluding Antigua and Barbuda, Barbados, Belize and St. Lucia, the lending rates for all member States declined from 2017 to 2018. The decline in lending rates was part of a continuation of the overall accommodative monetary policy stance by the monetary authorities in the region.

As a result of the declines in lending rates, average interest spreads decreased by 12 basis points in the Caribbean. Declines in the goods producing economies and the service producing economies were 18 basis points and 9 basis points, respectively (see figure 3).

Figure 3
Lending rate and deposit rate, 2018
(Percentage)



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

2. Monetary supply and credit

Using the M2 monetary base (narrow money plus savings deposits and time deposits) as a measurement of liquidity, the Caribbean-wide liquidity declined from 79.8 per cent of GDP in 2017 to 78.8 per cent of GDP in 2018. For the goods producing economies and the service producing economies, M2 to GDP ratio decreased by 1.3 percentage points and 0.9 percentage points, respectively.

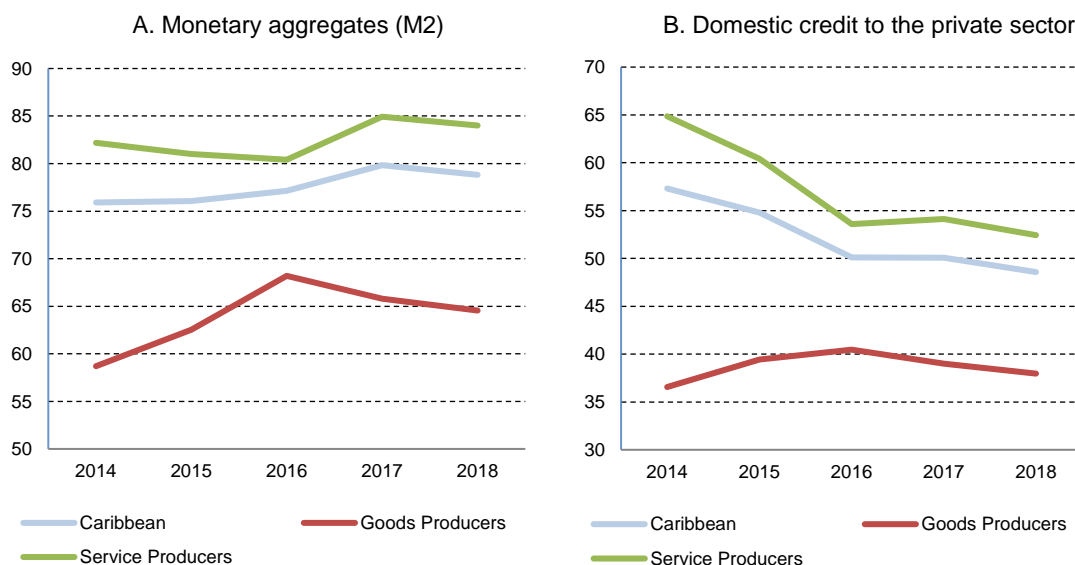
However, excluding the Bahamas, Barbados and Trinidad and Tobago, all member States experienced increases in M2, when expressed in local currency, driven by the accommodative monetary policy stances and economic recovery. For most of these countries, nominal GDP grew faster than M2, resulting in the declines in M2 to GDP ratio. On the other hand, the Bahamas, Barbados and Trinidad and Tobago registered declines in M2, even when expressed in local currency. In these countries, monetary policy stances were neutral or tightened, partly to address shortages in foreign currency availability and maintain sufficient levels of international reserves.

Overall there was a marginal decline in credit to the private sector from 50.1 per cent of GDP in 2017 to 48.6 per cent of GDP in 2018. In the goods producing economies, the credit to the private sector decreased from 39.0 per cent of GDP in 2017 to 38.0 per cent of GDP in 2018. In the service producing economies, the credit to the private sector decreased from 54.1 per cent of GDP in 2017 to 52.4 per cent of GDP in 2018.

While there was an overall decline in private sector credit, the reasons were mixed. For instance, in the Bahamas, private sector credit contracted owing mainly to reductions in mortgages and consumer loans, although the rate of decline was slower than the previous year. In Barbados, weak economic activity

suppressed the growth in private sector credit. In Suriname, the decline in private sector credit was attributed to the reductions in lending of foreign currency stemming from the Central Bank's limiting lending to foreign currency earners. Contrastingly, in Jamaica, private sector credit expanded due to increased loans to businesses and individuals. In Trinidad and Tobago private sector credit growth was driven by the restructuring of consumer loans and the growth in mortgage lending (see figure 4).

Figure 4
Monetary aggregates (M2) and domestic credit to the private sector, 2014-2018
(Percentage of GDP)



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

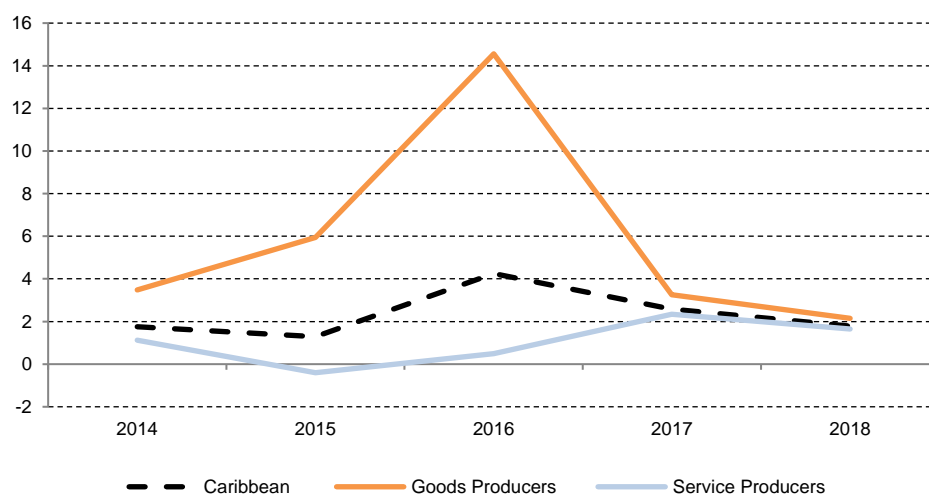
3. Inflation

The average rate of inflation in the Caribbean decreased to 1.8 per cent in 2018 from 2.6 per cent in 2017. For the goods producing countries, inflation declined from 3.3 per cent to 2.2 per cent, while for the service economies it decreased from 2.3 per cent to 1.6 per cent.

The drivers of inflation in each country varied. For instance, in Trinidad and Tobago inflation remained subdued due to the lacklustre economic recovery and the decline in food inflation. In Suriname, inflation continued its slow decline with the economy settling down from the impact of the gradual devaluation starting at the end of 2015. In Guyana, lower food inflation contributed to lower headline inflation. On the other hand, in the Bahamas, inflation picked up owing to the pass-through effect of higher international fuel prices, which impacted transport costs.

The Caribbean average inflation rate (1.8 per cent) was lower than the world average (3.8 per cent according to IMF) in 2018, suggesting sluggish recovery of domestic demand in the Caribbean region (see figure 5).

Figure 5
Inflation, 2014-2018
(December to December percentage change)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.
 Note: Inflation rates for 2018 represents per cent change over the last 12 months in the most recent available month.

C. External Sector

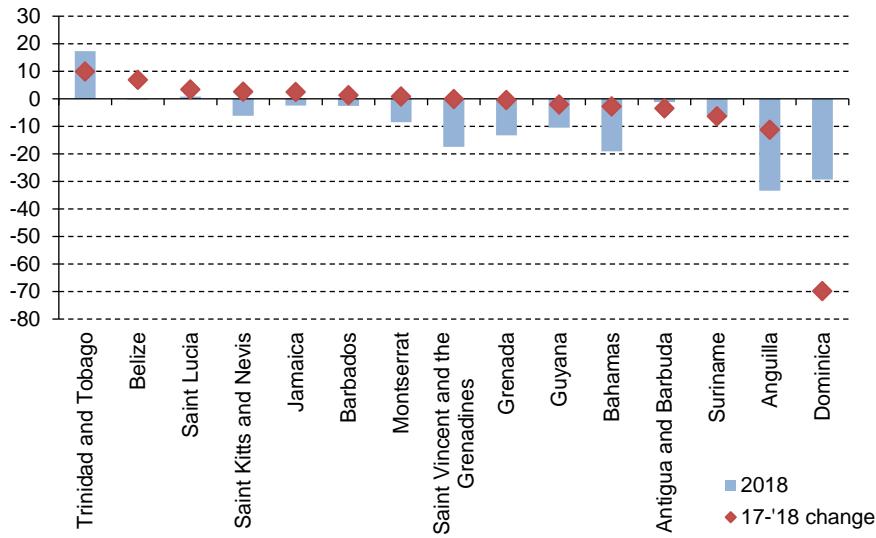
1. Current account

The average current account balance in the Caribbean expanded to -8.8 per cent of GDP in 2018 relative to -4.2 per cent of GDP in 2017. This widening in the current account balance can be attributed to a 7.1 percentage point contraction in the current account deficit among the service producing economies to 12.1 per cent of GDP; primarily driven by a 69.9 and 11.3 percentage point decline in the economies of Dominica and Anguilla, respectively (see figure 6). Alternatively, there was an observed improvement in the goods producing economies as the average current account deficit contracted from 2.0 per cent of GDP to 0.0 per cent. This was primarily driven by a 9.9 percentage point increase in the current account surplus for Trinidad and Tobago as energy exports increased with increasing energy prices and natural gas production. The remaining goods producing economies maintained a current account deficit although Belize narrowed by 6.8 percentage points to a current account deficit of 0.2 per cent of GDP.

2. Foreign Direct Investment

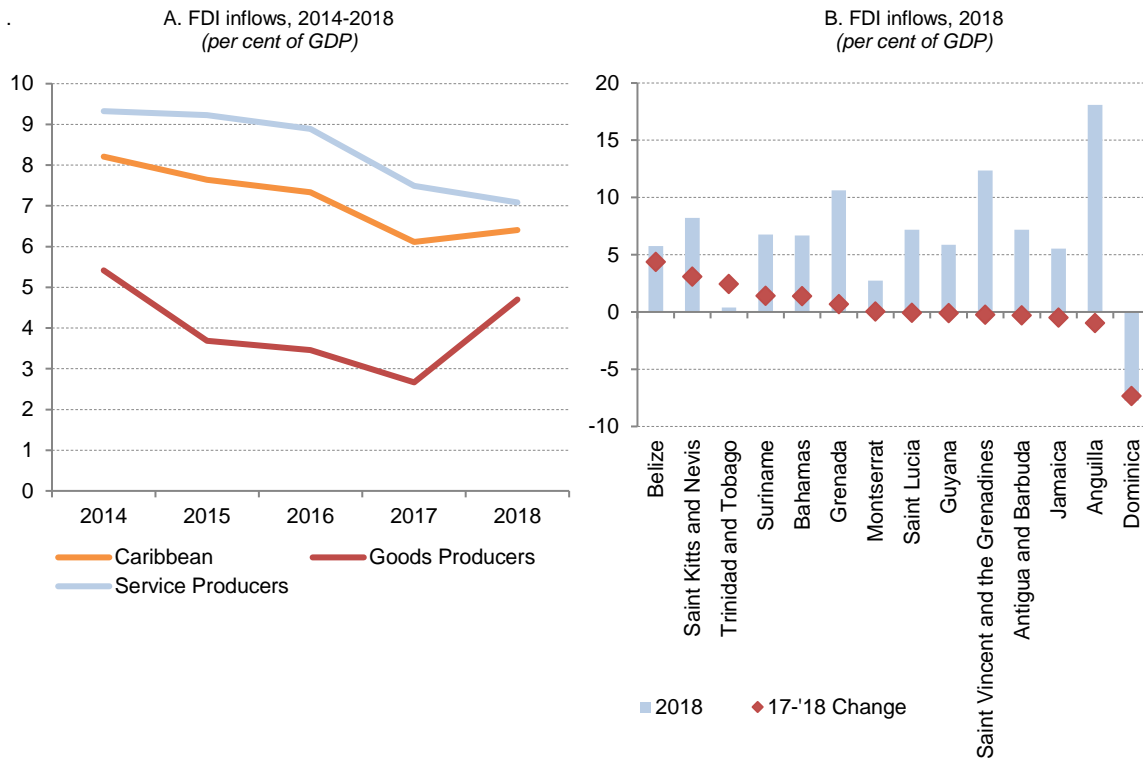
Foreign direct investment (FDI) inflows for the Caribbean marginally increased in 2018, following four years of consecutive declines. When compared to other regions of the world, average FDI inflows remain relatively high in the Caribbean. In 2017, the world average was 1.8 per cent of GDP, while developing economies and Small Island Developing States averaged 2.1 per cent of GDP and 3.7 per cent of GDP respectively. The average FDI inflows, as a per cent of GDP, increased slightly from 6.1 per cent in 2017 to 6.4 per cent in 2018 (figure 7). Among goods producing economies, the average FDI inflows as a per cent of GDP increased by 2 percentage points to 4.7 per cent resulting from investments in oil and other commodities projects. For the service producing economies, FDI inflows declined slightly by 0.4 percentage points to 7.1 per cent of GDP primarily supported by Citizen by Investment programmes in some OECS economies.

Figure 6
Current account balance, 2018
(Per cent of GDP)



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

Figure 7
Foreign direct investment inflows
(Per cent of GDP)



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

Note: Data for 2018 include ECCB estimates for OECS countries, first three quarters (annualized) for Barbados and first two quarters (annualized) for all other countries.

II. Key imperatives for the Caribbean

A. Economic reforms

A number of Caribbean economies made strides in economic restructuring in 2018, including Antigua and Barbuda, Grenada, Jamaica and Trinidad and Tobago. For example, following strong growth in cruise tourism arrivals in recent years, Antigua and Barbuda continued work on its fifth major cruise berth in the Port of St. John's, which is set to open by mid-2019. The construction of the new berth involved major infrastructural work, including the construction of a new sea wall, and renovation of the Heritage Quay area. The new berth will be able to receive the world's largest cruise ships, once completed.

Grenada's chocolate industry has been moving up the value chain in recent years with high value chocolate products. There are currently five "tree-to-bar" companies in operating in Grenada, producing chocolate and semi-processed cocoa products. More recently, a new rum distillery was opened in North East Grenada that will begin production in 2019, and rum will be available for sale from 2021 or 2022. The distillery will provide jobs in a rural area on the east coast of Grenada. Recently, Grenada has also been increasing its focus on the "blue economy" by developing its yachting sector, with ten marinas and five boatyards providing yachting services such as berthing, boat repairs and maintenance, provisioning, electricity and medical services.

In Jamaica, the government entered into a public-private partnership with a Mexican firm to upgrade the country's Norman Manley International Airport (NMIA). The Mexican firm, Grupo Aeroportuario del Pacifico S.A.B. De C.V. (GAP), signed a 25-year concession agreement with the government. The agreement gives GAP the responsibility for modernizing the airport facilities and increasing land and air operational efficiency; the project is estimated to cost US\$ 110 million. The government, in addition to receiving a guaranteed per centage of the airport's gross revenues, will now be responsible for managing the concessions at NMIA.

At the end of November 2018, refining operations at Trinidad and Tobago's state-owned oil company Petrotrin was officially closed. The beleaguered company's profit margins had been negative for some time due to high labour and other operating costs. The government created two new entities,

Heritage Petroleum Co Ltd and Paria Fuel Trading Co Ltd, to continue and expand Petrotrin's oil exploration and exporting activities, respectively. Guaracara Refining Co Ltd was also created to preserve refinery assets and to provide utility services to Paria Fuel Trading. The company hope to save money by importing refined fuel and exporting its crude oil.

B. Reducing structural gaps by fostering private sector development

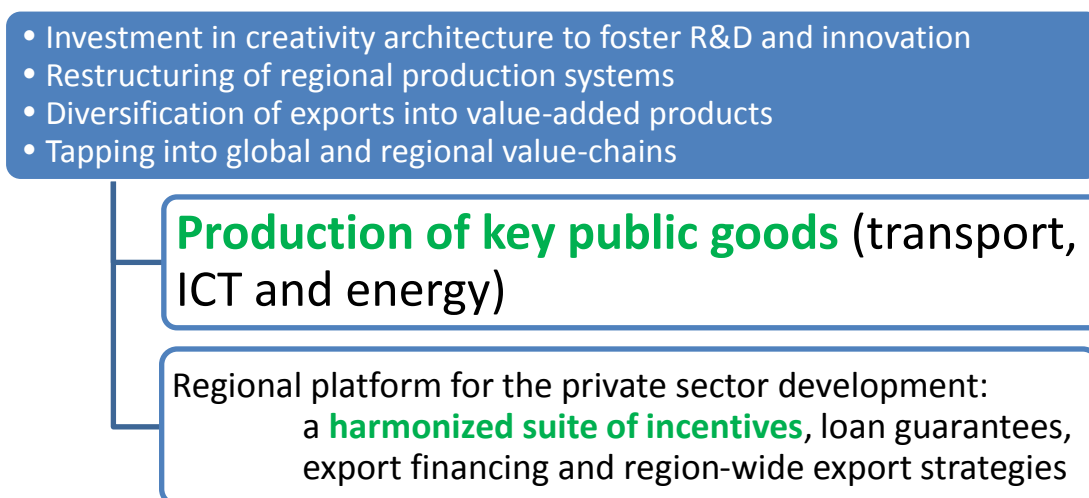
Caribbean economies have not been competitive suppliers of a wide range of goods and services and have consistently been out-paced by many other global trading partners in respect of productivity, competitiveness and innovation. Ensuring that regional integration truly becomes an engine of growth for Caribbean economies necessitates reducing these structural gaps. This would require a restructuring of regional production systems and diversification of exports into value-added products by tapping into global and regional value-chains.

Building economic infrastructure and utilising innovation are the crucial levers for delivering the structural transformation. The inability to modernize key economic infrastructure, such as transport, Information and Communication Technology (ICT) and energy, has adversely affected the productivity and competitiveness of the Caribbean region. Inadequate economic infrastructure has significantly reduced opportunities for trade in intermediate goods, thereby limiting participation in regional or global value chains.

In this regard, establishing modern e-commerce platform in the Caribbean region will provide goods producers and services providers with an online market place which is flexible, adaptable, efficient and profitable. The platform should be complete with promotion facilities, secure and reliable payment facilities, and shipping arrangements targeting all key destination markets.

Reducing structural gaps also requires a regional platform for economic diversification, which would necessitate the private sector development. The harmonized suite of incentives, loan guarantees, export financing and region-wide export strategies should therefore engage the attention of regional policy makers and private sector bodies (see figure 8).

Figure 8
Requirements for reducing structural gaps



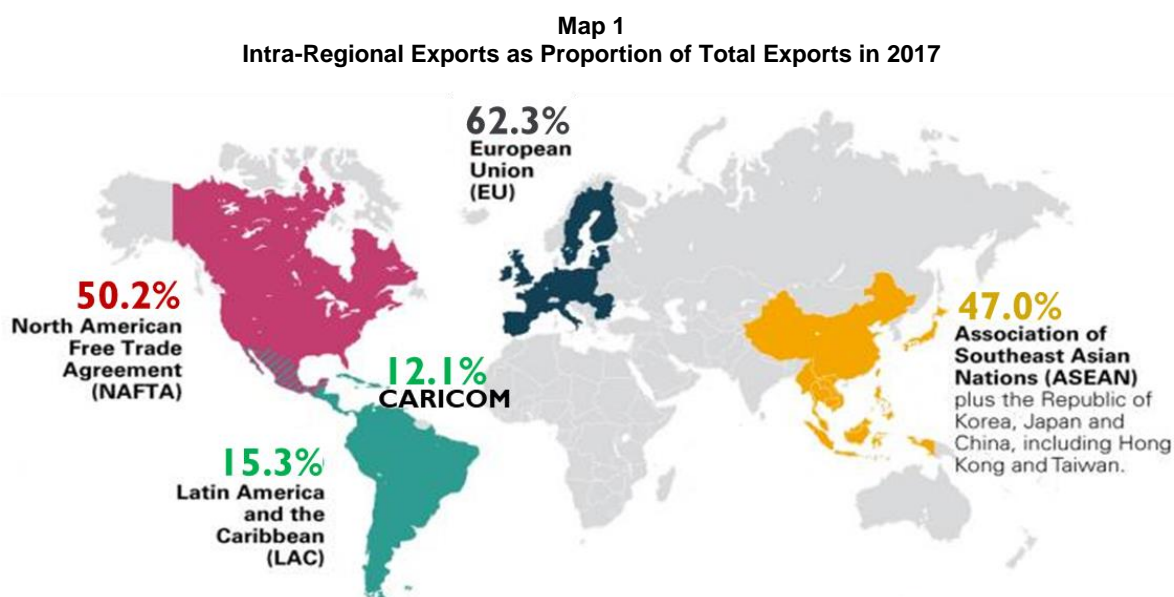
C. Re-energizing Caribbean Integration

In the Caribbean, when selecting countries for deepening trade and economic relations, there has been insufficient consideration of the comparative advantage and trade complementarity, necessary for sustainable trade creation. This inattention to the development of trade complementarity has bedevilled the Caribbean's efforts to increase intra-regional trade and expand the region's share of global commerce.

The focus of regional integration efforts should be on CARICOM and wider Latin America, including Central America. Currently, intra-regional trade within CARICOM and wider Latin America remains at low levels: Only 12.1% and 15.3%, respectively (see map 1). However, Caribbean economies possess relatively higher levels of trade complementarity within these regions, when compared to their major trading partners such as the EU, US and Canada. Hence significant un-tapped opportunities exist for cross-regional production integration and value-chain creation within CARICOM and the wider Latin America (see figure 9).

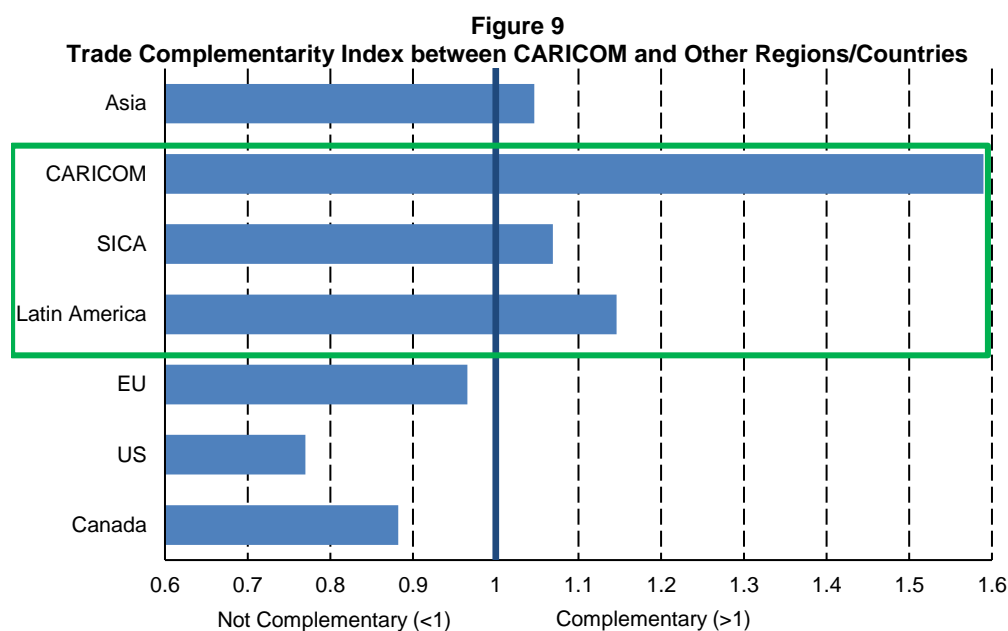
Widening and deepening integration within CARICOM and with Central and Latin America would require a fundamental shift from integration efforts traditionally dominated by considerations of geographical and cultural proximity and shared experiences and destiny as small states, to a dais of regionalism which is predicated upon comparative advantage-based production and complementary trade.

The region must incentivize the institutional machinery of the Caribbean Community and the mechanics of the Single Market to deliver the competitiveness, trade and welfare gains. This implies the need for greater intervention by subregional governments and the private sector in investment in regional public goods (in the form of ICT and e-governance platforms, renewable energy sources, inter and intra-regional transport mechanisms etc.) that are crucial for structural transformation of Caribbean economies.



Source: Comtrade via WITS.

Note: The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.



Source: Calculated by ECLAC based on WITS

Note: Calculation methodology is based on Khadan, Jeetendra & Hosein, Roger, 2013. A value of the trade complementarity index greater than one (1) indicates that there is trade complementarity.

What is equally crucial is formulating a private sector embedded regional industrial policy predicated on a more equitable distribution of the gains of intra-Caribbean market integration amongst its member countries. This means paying attention to local challenges that arise from the regional architecture. This rebalancing should allow the Caribbean Community Secretariat and other regional institutions to seek remedies if there is lack of enforcement. These have increasingly emerged as necessary antecedents to the achievement of production integration and trade-led growth envisaged in the current regional integration process.

In support of the integration process, at the CARICOM Heads of Government meeting in December 2018, member States signed the St Ann's Declaration on the Caribbean Single Market and Economy (CSME). As part of this agreement, agricultural workers, beauty service practitioners, barbers and security guards will now be included in the categories of skilled nationals who are entitled to move freely and seek employment within the community. It was also agreed that those Member States so willing would move towards full free movement within the next three years.

D. Promoting renewable energy investments

Investment in renewable energy offers an opportunity for Caribbean economies to reduce the effects of climate change while potentially addressing the energy insecurity faced by many across the region.

Power generation across the Caribbean receives approximately 87 per cent of its energy production from imported fossil fuels. However, given the high susceptibility to oil price shocks and the burden on governments to support the high cost of imported oil, there should be greater push to explore opportunities in renewable energy. Investments in renewable energy offer an opportunity for Caribbean countries to reduce emissions that cause climate change and reduce their dependence on fossil fuels. Over the years, countries such as Jamaica and Barbados have been working towards increasing their renewable energy production. However, there is room for more to be done across the region.

For example, in Trinidad and Tobago, fossil fuel production is insufficient to meet domestic downstream and electricity demand. By substituting fossil fuels with low cost renewables, there is the potential to save substantial amounts of natural gas that could be channeled to the domestic industry and transformed to high-end value-added products. The creation of a new economic sub-sector through renewables could boost targeted primary sectors and ultimately the economy. By promoting renewables and energy efficiency, there is the potential to create an additional knowledge base, stimulate local investment and attract Foreign Direct Investment; thereby creating opportunities for new and existing businesses that have an overall positive impact on employment and GDP growth.

Over the years, technological, economic, political, and social barriers have hindered Caribbean adoption of renewable energy. The most important barriers are economic and political. Some of these include a lack of regulatory framework, gaps between policy targets and implementation, and high initial investments. However, there are a variety of policy initiatives that can be enacted to combat these barriers.

III. Conclusion

The outlook for the Caribbean economies is positive. Following the negative impacts of the 2017 hurricane season and prolonged contractions in some of the goods producing economies, 2018 experienced the highest average growth rate in the subregion since 2014. While downside risks from inherent vulnerabilities exist, growth is expected to increase in 2019. While high debt levels remain a threat to functions of several Caribbean governments, consistent fiscal consolidation efforts have seen fiscal deficits shrink and debt ratios fall across the subregion.

Despite some progress in 2018, there are some key imperatives for the future. Caribbean economies should invest in key public goods to foster private sector development. In addition, the islands should collaborate in creating a harmonized suite of incentives for investors and take advantage of the opportunity to boost intraregional trade with Latin America.

Climate change and the accompanying weather effects on the Caribbean are important concerns for Caribbean policy makers. Integrating disaster risk reduction practices and investing in mitigation projects are steps in the right direction. Renewable energy projects in the Caribbean can reduce the subregion's dependence on imported energy.

IV. Country Notes

A. Bahamas

Despite the fallout from Hurricane Irma in 2017, growth in the Bahamian economy improved to 2.5% in 2018, compared with 1.4% in 2017, driven by a rebound in the tourism sector—fuelled in part by strong growth in the United States—and increased construction activity. Inflation picked up to 3.4% year-on-year to August 2018. Government finances improved as the overall fiscal deficit fell from 3.4% of GDP in 2017 to 1.8% in May 2018 year-to-date. Monetary developments were marked by liquidity decline amidst growth in domestic credit, a reduction in external reserves and improved banking sector loan portfolio quality. The external position worsened, with the balance-of-payments deficit widening by almost 3 percentage points to 18.9% of GDP.

The economy is projected to grow marginally more slowly, at 2.2%, in 2019. Growth will continue to be driven by tourism and related construction financed by foreign direct investment (FDI). This is expected to lead to a pick-up in employment, while inflation will remain above trend, owing to relatively high fuel prices and the price pressures from the increase in value added tax (VAT). The fiscal deficit is projected to remain stable at around 1.8% of GDP, as measures to grow revenue and contain spending take effect. The balance-of-payments current account deficit is expected to narrow owing to solid travel receipts and slower growth in imports with the winding down of some projects.

The government continues to prioritize fiscal consolidation in order to reduce public debt and generate recurrent savings to contribute to financing capital spending. Parliament has discussed the government's proposed Fiscal Responsibility Act, which sets key targets including a long-term debt ceiling of 50% of GDP and a fiscal deficit of 1.8% of GDP in financial year 2018/19, 1.0% of GDP in financial year 2019/20, and 0.5% of GDP in financial year 2020/21, after which recurrent expenditure is targeted to grow in line with GDP to stabilize the deficit. In an important development, the government raised the VAT rate from 7.5% to 12% in 2018, with a view to strengthening revenues to complement its expenditure adjustment.

Fiscal policy was contractionary in 2018, with the deficit declining from 3.4% of GDP in the first eleven months of financial year 2016/17 to 1.8% of GDP of the same period a year later. This outturn

stemmed from a 2.8% nominal decline in total expenditure and a 1.5% increase in revenue. Nevertheless, the adjustment reflected a cut in capital expenditure, which is a driver of growth, as current spending rose by 3.3%, as government continues to find it difficult reduce wage costs and spending on transfers and subsidies. The increase in total revenue resulted from a 2.0% rise in tax revenue, partly linked to 2.5% growth in VAT receipts. Public sector debt climbed from 66.0% of GDP at end of the second quarter of 2017 to 71.7% of GDP at the same point in 2018.

Monetary policy was neutral, with the central bank holding its policy discount rate at 4.0%. During the first nine months of 2018, monetary developments were marked by a decline in liquidity, owing to an expansion in credit to the government, a decrease in deposits and higher public sector foreign-currency demand to defray steeper fuel costs and for the purchase of the Grand Lucayan Resort. Total domestic credit grew by 67.3 million Bahamian dollars (B\$), reversing the decline of B\$ 17.6 million for the same period of 2017. Credit to the government expanded by B\$ 114.0 million but was partly offset by a B\$ 100.6-million contraction in credit to the private sector. The quality of the commercial bank loan portfolio improved over the first three quarters, with average non-performing loans (NPL) declining to 9.2% from 10.3% for the prior-year period and private credit arrears falling to 14.3% from 15.8% in 2017.

The external position weakened in the first half of 2018, with the current account deficit of the balance of payments widening from 16.0% of GDP in 2017 to 18.9% of GDP in 2018. This outturn stemmed mainly from a deterioration in the income and services accounts. The income account deficit expanded by 64% to US\$ 328.2 million, reflecting a hike in net interest and dividend outflows and higher debt service payments. The surplus on the services account contracted by 15.8% to US\$ 433.5 million, owing to higher net payments for insurance and transportation services. These were partly offset by solid growth (17.5%) in net travel receipts, which were bolstered by a substantial increase in

high-spending stopover visitor arrivals and expenditure. The capital and financial account surplus expanded sharply —by 30.1%— to US\$ 1.337 billion. FDI inflows more than doubled to US\$ 634.3 million, underpinned by dynamic growth in private equity inflows. Similarly, the commercial banks' position reversed from net outflows of US\$ 4.9 million in 2017 to inflows of US\$ 19.9 million in 2018. International reserves contracted by US\$ 91.9 million to US\$1.316 billion at the end of September, covering 5.7 months of merchandise imports.

Economic growth strengthened to 2.5% in 2018, following the 1.4% rate in 2017, thanks to a recovery in tourism, buoyant construction and stability in the offshore financial services sector. Visitor arrivals grew by 5.4% during the first eight months of 2018, reversing the decline of 2.8% for the year-earlier period. In a welcome development, air arrivals, which include the high value-added stopover component, expanded by a substantial 15.1%, after contracting by 6.3% in 2017. Tourist arrivals were boosted by stronger growth in the United States, the Bahamas' main market, and the partial opening of the Baha Mar megaresort, which significantly increased room capacity in the country. Meanwhile, sea arrivals, comprising mainly cruise visitors, posted muted growth of 2.4%. An interesting development in the sector is the growth in Airbnb properties, which will provide some competition to hotels, at the lower end of the market. As at September this year, 2,511 active listings were identified, with an average occupancy rate of 32.6%, not far from the rate of 35.5% for hotels. Construction was boosted by FDI- financed tourism projects.

Inflation spiked to 3.4% year-on-year to August, compared with 1.4% for the prior-year period. This reflected the pass-through effect of higher international fuel prices, which impacted transport costs. The rate of unemployment edged down by a tenth of a percentage point to 10.0% for the period November 2017–May 2018.

B. Barbados

In 2018, much-needed fiscal and debt sustainability efforts have accelerated; however, economic activity weakened despite the robust performance of the tourism sector, and GDP is estimated at -0.5% by the end of the year. Contributing to this result was a 10.5% decline in the construction sector, which offset the modest growth in the tourism and manufacturing sectors. In the framework of fiscal consolidation efforts, the newly elected Government of Barbados entered into a four-year extended fund facility (EFF) arrangement with the International Monetary Fund (IMF), which is expected to shore up international reserves in order to preserve the currency peg, attain meaningful fiscal consolidation and implement structural reforms with the aim of improving the macroeconomic performance in the medium term. A variety of revenue-boosting measures were also taken under the conditions of the IMF arrangement. By the third quarter of 2018, the fiscal deficit stood at 4.5% of GDP, the primary surplus at 3% of GDP, and gross public sector debt at 155.8% of GDP. As the new measures take effect, the fiscal deficit and public debt are expected to decline while the primary surplus should increase. Inflation rose to 5.2% after the National Social Responsibility Levy (NSRL)—a tax on goods imported into Barbados and on manufactured domestic goods—was increased to 10%. Unemployment stood at 9.2% by the end of the third quarter but is expected to increase as commitments for the EFF arrangement continue to be implemented. In the context of the ongoing fiscal consolidation efforts, GDP growth in 2019 is projected to turn positive but remain subdued at around 0.5%.

In the second quarter of 2018, the newly elected government approached IMF for endorsement of its homegrown economic recovery and transformation plan. Following these discussions, IMF approved a four-year EFF arrangement for Barbados on 1 October 2018. This arrangement, built around maintaining the currency peg, aims to achieve strong fiscal consolidation and structural reforms to strengthen macroeconomic performance in the medium term. Revenue-boosting budgetary measures introduced by the new administration included increases in the corporate and income tax, along with new charges on fuel, levies on air travel and VAT on online purchases of goods and services. Although measures by the previous administration contributed to the fall in the fiscal deficit from 5.8% in financial year 2016/17 to 4.8% in financial year 2017/18, with a primary surplus of 3.3% of GDP, the shift in fiscal policy and new measures introduced by the current government are expected to substantially reduce the fiscal deficit and increase the primary surplus further by the end of the fiscal year.

As part of its efforts to expand the fiscal space and reduce indebtedness, the Government of Barbados suspended payments on external commercial debt and announced plans to pursue a comprehensive restructuring of its domestic and external liabilities. By the end of the third quarter of 2018, the government successfully completed a debt-swap offer for its domestic debt securities and accumulated domestic arrears. As part of this exchange, interest rates and selected principals were reduced and maturities were extended. Plans for a debt swap of foreign-currency-denominated commercial debt are still ongoing, after which external debt service payments will resume. As of September 2018, gross public sector debt represented 155.8% of GDP.

The Central Bank of Barbados (CBB) continues to support the fixed exchange-rate peg of 2 Barbados dollars (BDS\$) to US\$ 1 by maintaining sufficient levels of international reserves. The EFF arrangement with IMF, which was built on maintaining this anchor, further confirms this stance. At the end of the third quarter of 2018, international reserves were down by US\$ 23 million year-on-year to US\$ 577.1 million, representing 7.4 weeks of import cover (below the 12-week benchmark). Early in

the year it appeared that reserves would fall further, but their steady decline was slowed by the suspension of external debt service payments in June. This, combined with the adequacy of commercial banks' foreign-exchange holdings to meet customer demand without turning to the central bank's stock of reserves, allowed the international reserves to recover. Accordingly, by end-2018, following the drawdown of the first tranche of the IMF facility, import cover should increase to 8.4 weeks.

The Government of Barbados has increasingly relied upon the central bank to finance its deficit, which has, in turn, limited the ability of CBB to influence interest rates in the Treasury bill market. By the end of the third quarter of 2018, the effective interest rate stood at 2.9%. Private sector credit growth increased to 4% by the end of the third quarter, primarily reflecting the financial consolidation of a finance and trust company with its parent company. Apart from that operation, weak economic activity has kept private sector credit growth subdued.

The current account deficit narrowed marginally to 2.6% of GDP in the first three quarters of 2018, compared with 3.0% of GDP for 2017. Several factors contributed to the improvement in the external accounts. These included recovery in international reserves due to the suspension of external debt service payments, a slight increase in credits on the travel account, a decline in merchandise imports which offset the increase in fuel imports driven by high oil prices, and a substantial increase in capital inflows as the private sector engaged in increased foreign borrowing.

The constraints of tight fiscal policy have contributed considerably to dampened economic activity in the Barbados economy. As of September 2018, GDP growth contracted to -0.5%. Modest growth in the tourism and manufacturing sectors, of 1.4% and 3.0%, respectively, was offset by a 10.5% decline in the construction sector. Long-stay arrivals grew by 2.9% in the first nine months of 2018 relative to the same period in 2017, bolstered by modest growth in arrivals from the main source markets of United States (8.6%), Canada (3.1%) and the United Kingdom (1.8%). In contrast, the construction sector suffered from a lack of new large-scale private sector projects and the reduction in public capital expenditure on infrastructure owing to the government's financing limitations. At the close of 2018, GDP growth is expected to remain around -0.5% as the economic adjustment efforts continue to dampen activity. However, the forecast for 2019 is somewhat brighter as investor confidence is expected to increase with the implementation of the EFF arrangement with IMF and subsequent disbursements. Other major private sector activities expected to boost the economy in 2019 include the relocation of Ross University School of Medicine to Barbados and various fixtures of the 2019 cricket tour of the West Indies by the England team.

Inflation has been steadily increasing since the hike of the NSRL rate to 10% in 2017 and, by September 2018, was up 5.2% year-on-year relative to 3.7% for the same month in 2017. Following the abolition of NSRL by the new administration, inflation is expected to fall; however, this may be offset by the introduction of the income and corporate tax, which has the potential to push up consumer prices. Unemployment stood at 9.2% as of September 2018, down from 10.0% a year earlier. This figure is, however, expected to rise by the close of 2018 and into 2019, as government has begun laying off workers as part of the IMF-supported economic recovery and transformation plan and to review the operations of large State-owned enterprises.

C. Belize

Belize recovered from the devastating effects of Hurricane Irma and posted a real GDP growth rate of 1.4% in 2017—after a contraction in 2016—and is projected to grow by 2.2% in 2018. In the first two quarters of 2018, real GDP expanded by 3.4%, as a slump in the agriculture and fishing sectors (-1.2%) was offset by upturns in tertiary (4.2%) and secondary (6.4%) industries.

The Central Bank of Belize continued to pursue an expansionary monetary policy, with a reduction in reserve requirements for commercial banks, which underpinned an increase in loans and advances to the public. Moreover, the Government of Belize continued its fiscal consolidation efforts aimed at reducing its public sector wage bill by 431 million Belize dollars (BZ\$) through staff attrition and cuts in administrative costs, while pledging to continue funding social programmes in health and education. In addition, new taxes were introduced on products that did not fall under the previous tax regime, with a view to boosting revenue. In the second quarter of 2018, total revenues were up by 6.3% year-on-year, while expenditures were down by 4.1%.

Public debt remained a challenge in 2017. The total public-debt-to-GDP ratio increased from 86.6% in 2016 to 94.2% in 2017 and is expected to rise further in 2018.

Despite the 1.4% gain in real GDP, creating a fiscal space for long-term major projects remains difficult. In 2017, the primary balance improved to 1.8% of GDP, from -1.8% of GDP in 2016. The overall fiscal balance shrank from 4.2% of GDP to 1.0% in that period. The Government of Belize is targeting a primary surplus of 2.2% and an overall deficit of 0.7% of GDP for fiscal year 2018/2019, which will be a major turnaround from the overall and primary deficits of 4.22% and 1.75%, respectively, recorded during fiscal year 2016/17. In the first half of 2018, government revenues and grants increased by 10.1%, while total expenditures declined by 2.6%, in comparison to the same period in 2017. This led to overall and primary surpluses of BZ\$ 15.2 million (1% of GDP) and 73.7 million (4.9% of GDP), respectively.

Total public debt increased from 86.6% of GDP in 2016 to 94.2% in 2017. Two recent major developments are likely to swell the country's debt stock in 2018. First, the ruling of the Caribbean Court of Justice (CCJ) ordering the Government of Belize to pay BZ\$ 90 million to Belize Bank on an initial loan of BZ\$ 29 million contracted in 2004 by Universal Health Services Limited (UHS), a private hospital, on which the Government had acted as guarantor. Second, the Government of Belize is expected to pay off the balance on the agreed amount of US\$ 81.2 million for the renationalization of Belize Telemedia Limited (previously Belize Telecommunications Limited) before the end of 2018, which will likely increase domestic debt.

In 2017, the central bank pursued an expansionary monetary policy to stimulate economic growth while sanitizing the banking sector by closing non-performing banks and writing off bad loans. As of August 2018, M2 money supply had expanded by 3.9% relative to the same month in 2017. Moreover, semi-annual coupon payments of BZ\$ 26 million on the 2034 sovereign bond led to a decline of 20.8% in central bank net foreign assets, whereas the net foreign assets of domestic banks increased by 43.9%, buoyed by increases in tourism receipts and the purchase of several banana farms by the Irish multinational firm Fyffes in March 2018.

Loans and advances expanded by 1 percentage point to the building and construction sector, but declined by 4 percentage points to the agricultural sector, with the sugar industry receiving the largest share (49.65%) of that lending. Noteworthy was a 21-percentage-point decline in loans to the banana industry in August 2018 relative to the same month in 2017.

In 2017, the exchange rate remained stable in the context of the currency peg vis-à-vis the United States dollar, which has been in place since 1976 at the fixed rate of BZ\$ 2 to US\$ 1.

Belize continued to improve its external position, as its current account deficit shrank from 8.3% of GDP in 2016 to 7.0% in 2017. In June 2018, the trade surplus on goods and services was up by 34.8% relative to the prior-year period, while the current account deficit declined from 2.0% to 0.3% of GDP. Though production of sugar increased by 2.2% between January and August 2018 relative to the year-earlier period, its export values declined by 22.1%, owing to the abolition of the European Union sugar quota on 30 September 2017. Moreover, production and export values of maritime products slumped by 21.2% and 8.0%, respectively. After recording an increase in its balance of payments surplus, from US\$ 60.3 million in 2016 to US\$ 64.6 million in 2017, in the first two quarters of 2018 the country posted a balance of payments deficit of US\$ 4.1 million (0.3% of GDP), compared to the surplus of US\$25.9 million (1.7% of GDP) in the same period in 2017.

After a difficult year in 2016, growth performance improved in 2017 with a real GDP growth rate of 1.4%, which is projected to rise to 2.2% by the end of 2018. As of the second quarter of 2018, the real GDP growth rate stood at 3.4%, driven by stronger production in the secondary (6.4%) and tertiary (4.6%) sectors. Weaker production in the agricultural and fishing sector in the first quarter of 2018—due to citrus greening disease and torrential rains—was offset by the 9.0% surge in the second quarter relative to the year-earlier period.

The annual inflation rate was 1.0% in 2017. As of August 2018, inflation remained around 1%, driven mostly by rises in the costs of health (4.6%), transport (2.7%), gas and other fuels (1.1%), and restaurants and hotels (4.7%).

Total unemployment stood at 9.7% in 2017, almost 2 percentage points higher than the 8% in 2016. Noteworthy was the high unemployment rate for women (13.6%), almost twice the rate for men (7.1%). In April 2018, the unemployment rate stood at 9.4%, with female joblessness remaining much higher (14.9%) than the rate for males (5.6%).

D. Eastern Caribbean Currency Union (ECCU)

The Eastern Caribbean Currency Union (ECCU) is projected to generate economic growth of 2.8% in 2018, marking its seventh consecutive year of positive economic outturn. This growth is driven primarily by increased economic activity in the tourism, construction, manufacturing and agriculture sectors. Led by Antigua and Barbuda (5.3%) and Grenada (5.2%), all the ECCU member States are projected to post positive growth in 2018, except Dominica (-4.4%), owing to the significant damage caused to the country's productive sectors and economic infrastructure by the hurricanes of 2017.

In the short to medium term the macroeconomic outlook for the ECCU is positive, with real GDP growth expected to quicken to 4.2% in 2019, fuelled by continued strong performance of the tourism, construction, agriculture and other ancillary sectors, as well as inflows of foreign direct investment (FDI), influenced by the member States' Citizenship by Investment (CBI) programmes. Economic growth is, however, expected to be uneven across the grouping. Barbuda and Dominica, which were affected by Hurricanes Irma and Maria, are expected to continue rebuilding efforts into 2019. Key downside risks for the Union include natural disasters, challenges to business competitiveness, and potential further loss of correspondent banking relationships (de-risking), which has already impacted some members' offshore financial services sector and CBI programmes.

With respect to fiscal operations, ECCU generated an overall fiscal deficit of 0.1 million Eastern Caribbean dollars (EC\$) during the first half of 2018. This represented a reversal relative to the EC\$ 10.7-million surplus posted over the same period in 2017 and was attributable largely to the weaker performance on the capital account. In this regard, capital expenditure trended upwards as public investment in infrastructure increased and capital grants fell. In respect of the former, Antigua and Barbuda, Grenada and Saint Lucia, for example, have embarked on various roadbuilding and restoration projects; Antigua and Barbuda began its port upgrade; Dominica and Antigua and Barbuda continued reconstruction work in the aftermath of the 2017 hurricanes; and work is ongoing in Saint Vincent and the Grenadines to establish a geothermal plant on the island. Over the review period, Saint Vincent and the Grenadines reported a smaller deficit, while Grenada, Saint Kitts and Nevis and Saint Lucia recorded larger overall surpluses. This notwithstanding, the improved collective fiscal performance of these countries was insufficient to offset the worsening fiscal deficits recorded in Antigua and Barbuda and Dominica.

The overall fiscal balance of ECCU is expected to deteriorate further as governments increase capital expenditure, particularly on public infrastructure in efforts to address key structural gaps in transportation, connectivity and energy. For instance, the Government of Antigua and Barbuda is embarking on a road rebuilding programme, as well as the reconstruction of Barbuda. In addition, the Antigua and Barbuda Port Authority received approval in June 2018 for the financing of a EC\$ 100-million upgrading project.

The Government of Grenada is currently focusing on climate-smart agriculture and upgrading of hospitals. In addition, the China Development Bank has signalled its intention to finance the construction of a highway connecting the major towns on Grenada's main island, deep-water ports that could accommodate a large number of cruise and cargo ships, a large wind farm to replace diesel-fuelled

generators and a modernized airport with more, longer runways. The Government of Saint Lucia is engaged in road restoration projects, and in Saint Vincent and the Grenadines, work is ongoing on a geothermal power plant, as noted above.

ECCU experienced a small contraction of 0.9% year-on-year in public debt during the first six months of 2018, with the total standing at EC\$13.395 billion by the end of June, mainly because reduced central government borrowings offset the increased debt incurred by public corporations. However, many members of the Union will incur debt to finance the infrastructure projects alluded to earlier, as well as any budgetary shortfalls. Therefore, public debt may be expected to increase in some ECCU economies through to the end of 2018 and into 2019.

On the monetary front, a strong performance of the real sector during the first half of 2018 contributed to a year-on-year increase in both broad money (4.2%) and narrow money (10.8%) as at the end of June. Concomitantly, year-on-year, by the end of June 2018, commercial bank liquidity improved (1.7 percentage points), while the weighted average lending rate and weighted average deposit rate declined.

The nominal exchange rate between the Eastern Caribbean dollar and the United States dollar was unchanged at its fixed rate of EC\$ 2.7 = US\$ 1 at the end of June 2018.

The buoyancy of the real sector in ECCU during the first half of 2018 was largely due to stronger performances in tourism-related activities and construction. There was an overall increase in tourism arrivals, which was driven by an improvement in cruise and yachting arrivals, particularly in countries that were not hit by hurricanes in 2017. Construction activity also increased in the first six months of 2018 in Anguilla, Antigua and Barbuda, Dominica and Grenada, mainly in hotels, tourism-related infrastructure and public infrastructure that had been damaged by Hurricanes Irma and Maria in 2017.

Manufacturing also showed a marginal improvement in ECCU in the first half of 2018, with contributions made by favourable performances in Saint Kitts and Nevis (for example, in the production of beverages), Grenada (beverages, chemicals and paint, and animal feed), Saint Lucia and Saint Vincent and the Grenadines (beverages and building materials).

In the agricultural sector, collectively, the ECCU recorded a slight improvement in the first half of 2018. In the banana industry (one of the Union's main agricultural export crops), increased output in Saint Lucia, Saint Kitts and Nevis and Saint Vincent and the Grenadines offset the significant contraction in the output of Dominica as a result of Hurricane Maria. The improved performance of the tourism, construction, manufacturing and agriculture sectors fostered stronger economic activity in wholesale and retail trade, transport, storage and communications, and in the real estate, renting and business activities sectors.

With respect to international trade, growth in re-exports drove an exceptionally strong expansion of ECCU exports —by 46.2%, from EC\$ 536.7 million to EC\$ 784.7 million. However, in absolute terms, this was insufficient to offset the 16.3% increase in imports, from EC\$ 3.606 billion to EC\$ 4.194 billion, driven by higher payments for mineral fuels and related materials (due to stronger oil prices), machinery and transport equipment and manufactured goods. The trade deficit is also likely to widen as demand for construction-related materials and equipment rises during the second half of 2018 and into 2019.

Despite stronger oil prices, the already modest rate of inflation in ECCU slowed to 0.46% by the end of June 2018, compared with 0.51% a year earlier, reflecting slower price growth in the first half of 2018 than in the first half of 2017.³

³ Inflation in ECCU is generally low. In fact, the Union's average annual inflation rates for 2015, 2016, and 2017 were -0.77%, -1.56%, and 0.92%, respectively.

E. Guyana

Economic growth in Guyana accelerated to 4.5% in real terms during the first half 2018, outstripping the year-earlier rate of 2.5%. This positive outturn was fuelled by strong domestic demand, as well as by increased output in livestock and other crops, as well as the forestry, bauxite and other mining, construction, wholesale and retail trade and other services sectors, and offset a contraction in the output of sugar and a decline in gold declarations. A high rate of spending under the public sector investment programme (PSIP) in 2018 also drove economic activity, particularly since the government has traditionally been the largest spender in the economy. Guyana's economy is projected to post real GDP growth of 3.4% for 2018 overall, compared to 2.2% in 2017. Marginal increases in food, fuel and housing prices are expected to push overall inflation to 2.0%, which is nevertheless below the 2.4% previously forecasted.

With regard to fiscal operations, the Government of Guyana ran a fiscal surplus of 3.088 billion Guyana dollars (G\$) in the first half of 2018, considerably less than the G\$ 8.259 billion incurred during the same period in 2017. The current account surplus rose to G\$ 16.337 billion, as a result of higher tax receipts and current revenues offsetting current expenditure. The capital account deficit widened in this period, owing to contraction in capital revenue and high capital expenditure. However, through to the end of 2018, flat capital expenditure, coupled with a significant improvement in public sector revenue (by G\$ 1.9 billion) and grants (G\$ 1.2 billion), expected to lead to an improvement in the non-financial public sector deficit, from G\$ 47.0 billion to G\$ 45.3 billion (5.9% of GDP). In this respect, the restructuring of the Guyana Revenue Authority and the institution of a tax amnesty (which ended in September) in 2018, are collectively projected to yield a G\$ 28.3 billion increase in tax revenue relative to 2017.

In 2018 the Government of Guyana continued to focus on managing its borrowings and debt servicing obligations. Consequently, gross central government debt contracted from 47.1% of GDP in 2017 to 44.6% by the end of June 2018, and at the end of 2018 the public debt-to-GDP ratio is projected to be 2.6 percentage points down on end-2017. The total stock of public debt, however, is projected to increase marginally (by 0.8%) to US\$ 1.68 billion, with the external debt stock expanding by US\$ 56.5 million. External debt servicing obligations remained manageable in 2018, at 7.7% of government revenue. Year-on-year in 2018, the stock of domestic debt is forecast to decrease (by 10.1%) to US\$

386.8 million, owing to a decline in the issuance of Treasury bills.

In the monetary sector, both narrow and broad money are projected to expand in 2018 (by 6.7% and 4.2%, respectively), as demand deposits and currency in circulation, as well as time and savings deposits, all reported increases in 2018. During the first half of the year, reserve or base money expanded by 6.0%, largely owing to an increase in net domestic assets.

Both the nominal deposit and lending rates declined during the first half of 2018 and this is expected to hold through to the end of the year, with domestic credit projected to increase. However, credit to the private sector has been sluggish in recent years, a trend which continued in 2018 with a 0.3 percentage point decline in this lending category in the first half-year. Lending to the mining and quarrying and manufacturing sectors is projected to contract in 2018, by 11.9% and 3.7%, respectively, while credit to the agriculture and services sectors is carded to expand. Credit to households and credit instruments such as credit cards are both projected to increase in 2018, reflecting the improved performance of the economy and rising domestic demand.

Guyana's balance of payments deficit is likely to more than double to US\$ 180.7 million 2016 at the end of 2018, largely on account of a significant deterioration of the current account deficit reflecting a widening of the merchandise trade deficit. The country saw lower earnings from merchandise exports during the year, as earnings from gold, rice and sugar exports declined and

merchandise imports expanded. However, the capital account is expected to yield an improved surplus, as a result of stronger foreign direct investment inflows.

The unweighted nominal exchange rate Capital and financial balance for the Guyana dollar depreciated to G\$ 215.78 per US\$ 1 by the end of June 2018, relative to G\$210.50 per US\$ 1 at end-June 2017.

In the real sector, there was an uptick in the international price of both sugar and rice in 2018. However, domestic sugar production contracted by a hefty 25.2% in 2018, as a consequence of industry restructuring. However, the recapitalization of three estates now under way is expected to lead to a resurgence of the sector, with a rise in output from the projected 98,000 tons for 2018 to around 145,000 tons by 2021. In contrast, rice production will likely rise marginally in 2018, as the gains from the introduction of higher-yielding varieties begin to materialize.

The price of timber edged up by 1.1%, which provided impetus for the increase seen in domestic output. Overall, buoyed by strong performances in the forestry, livestock and other crops subsectors, growth in the agriculture, fishing and forestry sector is expected to rise to 1.1% in 2018.

Despite a robust outturn (26.3% growth) in the bauxite subsector, output in the extractive industries is projected to contract by 2.3% in 2018. A fall in gold declarations from small- and medium-scale miners will likely outweigh the projected 4.3% uptick in the output of the large mining companies, resulting in a 13.1% contraction in gold output for the year. Poor weather, through its impact on the transport network, hurt the operations of the small and medium-sized mining operations, which accounted for 64% of declarations in 2017.

Increased domestic demand, precipitated by the strong expansion (12%) in construction activity—thanks to faster implementation of the government's public sector investment programme—underpinned an increase in sand and stone output. This, along with strong diamond declarations, is expected to push the output of other mining significantly upward in 2018.

Growth (5.2%) in non-sugar and rice value added will drive a slight uptick in the manufacturing sector in 2018, as output of food items, beverages, building materials and pharmaceuticals is projected to increase.

The services sector has continued its positive growth trajectory in 2018, with wholesale and retail trade and other services (up 6.2% and 15.0%, respectively) being major drivers of this outturn.

Within other services, cultural, sport and conference tourism, as well as the petroleum industry, led an increase in visitor arrivals.

Inflation in Guyana stood at 0.9% at mid-year 2018. However, marginal increases in food, fuel and housing prices are expected to push overall inflation to 2.0% for the year overall, which is nevertheless below the previous forecast of 2.4%.

F. Jamaica

The Jamaican economy posted growth rates of 1.2%, in the first quarter of 2018 and 1.8% in the second quarter, with a projection for the year overall of 1.5%, followed by 1.8% in 2019. The government's main policy objective in 2019 will be to meet the annual requirement of the three-year US\$ 1.64 billion stand-by arrangement with the International Monetary Fund (IMF) signed in November 2016. The government is not expected to enter into a formal agreement with IMF upon the expiration of the current agreement, which ends in 2019. The positive growth posted so far in 2018 has improved business optimism and the latest Survey of Business and Consumer Confidence report suggests rising confidence in the economy. Accordingly, the government's overall focus on promoting economic expansion underpins the hope that growth will continue to build gradually after the IMF agreement expires. In April 2018, the third review of the IMF arrangement found that strong programme implementation continued to anchor

macroeconomic stability, after all quantitative performance criteria and structural benchmarks for end-December 2017 had been met. The Jamaican authorities have treated the stand-by arrangement as precautionary, that is, effectively an insurance policy against unforeseen economic shocks that are beyond their control. Inflation was 5.2% in 2017 and is likely to come in at a lower rate in 2018. A higher rate than this would likely be linked to increased energy prices and exchange-rate depreciation, despite fiscal restraint.

Fiscal challenges continue to be the biggest concern as the Government of Jamaica seeks to control its public finances, with public expenditure control being a major strategy of the adjustment. In fiscal year 2017/18, most categories of government expenditure were below budget and overall government expenditure was 1.4% below budget. Capital expenditure—the category that has tended to bear the brunt of the adjustment—was 3.5% below budget. This resulted in a primary surplus of 7.8% of GDP, which met the IMF target. In the framework of the reduction in borrowing requirements, loan receipts were some 3.2% below budget. With respect to taxation, the revenue and grants component was 1.3% above budget; in fact, all categories of revenue outperformed the budget. Meanwhile, non-tax revenue was 1.8% below budget.

The economy's main challenge is the debt overhang, which stood at 121.2% of GDP in fiscal year 2016/17 and is projected at 94.3% in 2018/19. External debt accounts for the largest component, at 61.20%, versus 38.8% for domestic debt. The government has been leveraging the low interest rates in international markets to reduce debt service costs: for example two Eurobonds were opened in August 2017, raising US\$ 869 million, which will be used to retire more expensive debt maturing in 2019–2025. The long-anticipated increase in United States interest rates will also adversely affect debt repayment costs, since some 34.6% of Jamaica's total debt is subject to interest-rate variations.

The exchange rate appreciated by 2.8% in 2017, compared to a depreciation of 6.3% in 2016. At May 2018, the six-month average of the exchange rate with the United States dollar appreciated by 2.0%, relative to the same measure at May 2017. The bilateral exchange rate, which stood at 136.9 Jamaican dollars (J\$) per US\$ 1 in August 2018, was J\$ 131.75 in October 2018. Under the Foreign Exchange Intervention and Trading Tool (B-FXITT), the system of foreign-exchange management introduced in 2017, the Bank of Jamaica conducts weekly (pre-announced) interventions that reflect market conditions.

Exchange-rate depreciation will remain an upside risk throughout 2019, but the central bank intends to manage a moderate depreciation as part of its intervention strategy. Faster depreciation would occur should the government miss fiscal targets by a significant margin, which would damage confidence and reignite capital flight. Despite recommendations by IMF that the central bank intervene less frequently in order to build up reserves, the monetary authorities are expected to step up foreign-exchange sales if they need to contain faster depreciation, imported inflation or higher external debt servicing costs. Factors such as severe weather—which would increase imports—and commodity price swings could also accelerate depreciation. While the currency depreciation may be improving competitiveness^{4,1} especially in light of falling oil prices, it may also add to inflation, increase the foreign-exchange component of debt service and fuel demand for wage increases.

Monetary policy in 2017 turned accommodating, owing to the significant moderation in inflation that resulted mainly from lower international oil prices. The central bank continued to refine its monetary policy framework to strengthen the relationship between the policy rate and market interest rates. In this regard, in July 2017 it transitioned to using the interest rate payable on overnight deposits as the signal rate. The signal rate was subsequently reduced twice, to 3.50% and 3.25%, in the third and fourth quarters of 2017, from 3.75% as at July 2017, reflecting the generally favourable outlook for inflation over the near- to medium-term amid improved macroeconomic fundamentals.

⁴ There are limits to which devaluation can improve competitiveness in a small open economy.

In 2018, commercial bank credit to the private sector expanded, registering an annual rate of 19.3% in the second quarter. The increase was reflected in loans and advances to both businesses and individuals. Business lending increased by 17.4% and went largely to the mining, electricity, gas and water, and agriculture and fishing industries.

In the context of higher international oil prices and the nascent recovery in domestic demand in the second half of the year, the current account deficit of Jamaica's balance of payments deteriorated in 2017, after five consecutive years of improvement. Net international reserves stood at US\$ 3.208 billion at end-2017; gross reserves amounted to US\$ 3.781 billion and represented 27.0 weeks of projected goods and services imports, relative to 24.7 weeks at end-2016.

The economic growth rate picked up from 1.0% in 2017 to 1.2% in the first quarter of 2018 and 1.8% in the second. The strongest growth driver in the first quarter was the goods-producing sector, with expansion of 3.0%—to which most industries made a positive contribution—, while the service-producing sector grew by 0.7%, again with positive contributions across the board and a strong growth performance from tourism in particular. More specifically, apart from tourism, growth was driven by increased capacity utilization especially in the manufacturing and mining and quarrying industries; as well as major infrastructure works, including road rehabilitation and expansion projects; and construction and renovation of hotels and residential and commercial buildings. The outturn in the second quarter represented the strongest quarterly growth in two years and marked 14 consecutive quarters of positive growth. Improved weather conditions; the positive impact of resumption in the fourth quarter of 2017 of operations at the Alpart Refinery, Jamaica's largest producer of alumina; and higher levels of construction activities all contributed to this growth. However, further growth was stymied by plant downtime, which impacted output in the manufacturing industry, as well as a decline in the average length-of-stay by foreign nationals, which hurt real value added in the hotels and restaurants industry. The growth projection is 1.5% for 2018 overall and 1.8% for 2019, on the back of continued tourism growth and increasing credit expansion by the domestic private sector.

Inflation was 5.2% in 2017 and is likely to be lower in 2018, as the June figure was 2.5% year-on-year. The monthly inflation rate did not exceed 1.1% between March and October 2018. A higher-than-anticipated rate for the year overall would be linked to increased energy prices and exchange-rate depreciation despite fiscal restraint.

Wage restraint has been an important part of the agreement with IMF. For fiscal year 2017/18, the wage and salaries bill amounted to J\$ 178 billion, which is 1.3% lower than the budget and represented 9% of GDP. Given its commitment to maintain the ratio of public debt to GDP on a downward path over the medium term, the risk of fiscal fatigue may make it hard for the government to keep the wage bill from growing while pursuing public sector reforms.

Jamaica's unemployment rate fell to 9.7% at April 2018, 2.5 percentage points below the rate a year earlier. This reflected growth of 1.2% (14,700 people) in the employed labour force, combined with a decline of 1.5% (20,700) in the labour force. In this context, the number of unemployed persons declined by 21.3%, while the labour force participation rate fell by 1.1 percentage points to 64.3%.

By gender, the historic disparity between male and female rates of unemployment remained evident, despite a larger fall in the rate for women: from 15.2% to 11.4%, compared to a drop from 8.0% to 5.8% for men, between July 2017 and July 2018. Notwithstanding the overall decline in joblessness, youth unemployment rates continue to be relatively high: 19.4% in the 20–25 age group in July 2018, with male and female rates of 15.7% and 24%, respectively.

G. Suriname

Suriname's economy has largely stabilized in 2018. The exchange rate steadied at around 7.5 Suriname dollars (Sur\$) per US\$ 1 for the first 10 months of the year, which has allowed the inflation rate to settle further into single-digit territory. Growth is estimated at 1.9% for 2018, up from 1.7% in 2017 and -5.6% in 2016. The annualized fiscal deficit remained largely unchanged at 7.9% of GDP, as increased revenues were offset by increased expenditure, particularly on subsidies and transfers. The current account deficit over the first half of 2018 expanded, but international reserves grew nonetheless.

The fiscal deficit for 2018, using annualized half-year data, is estimated to be unchanged from 2017 at 7.9% of GDP. Total revenue held steady at 20.0% of GDP. Indirect taxes were up largely owing to increased import duties on the back of stronger imports. Total expenditure edged up, from 26.7% of GDP in 2017 to 26.9% in 2018. Current expenditure grew—for just the second time in five years—from 23.4% of GDP in 2017 to 25.4% in 2018, driven by an increase in transfers and subsidies, the latter by 12.6% of GDP, compared with 7.1% the previous year. The increased transfers and subsidies went in particular to the Ministries of Agriculture, Natural Resources and Finance. More than 55% of the public deficit was financed by domestic sources.

Average lending rates for domestic currency loans remained fairly steady in 2018, edging down from 14.3% in January to 14.3% in September. Average deposit rates rose slightly from 9.1% in January to 9.3% in September. Net domestic credit fell by 10.9% between December 2017 and September 2018, driven by contractions in lending to both the public sector—by 20.1% in that period, after growth of 56.9% in 2017—and the private sector—by 5.4%, after marginal 0.2% growth in 2017. The decline in credit was partially due to reduced foreign-currency lending stemming from the central bank's limiting lending to foreign-currency earners.

Suriname's exchange rate vis-à-vis the United States dollar also fluctuated little over the first nine months of 2018. The official selling rate increased from Sur\$ 7.523 per US\$ 1 in January to Sur\$7.530 in February, then fell to Sur\$ 7.520 by October 2017.

After increased gold exports narrowed the current account deficit to almost zero in 2017, this deficit expanded again in the first half of 2018 and by June stood at -2.8% of full year GDP, compared to a surplus of 2.4% of GDP in the year-earlier period. Exports in the first half of 2018 were up by 11.8% year on year, owing once again to the performance of the gold and oil sectors, compared to a 47% jump in imports, which was spread across the major export categories: food and live animals; mineral fuels, lubricants and related products; machinery and transport equipment; and commodities and transactions (which includes gold). Much of the surge in imports reflected increased imports of capital goods by oil exploration firms. The service account deficit widened, owing to reduced travel receipts.

The financial account surplus expanded to US\$ 239 million in the first half of 2018, compared to a surplus of US\$ 98.8 million over the same period in 2017. Direct investment increased to US\$ 116.4 million in the half year from US\$ 53.1 million at the halfway mark of 2017, with investments going mainly to infrastructure and the mining sector.

International reserves grew from US\$ 424.4 million, or 2.3 months of import cover, at the end of 2017, to US\$ 540.7, or 3.0 months of import cover, by September 2018.

Economic growth is estimated at 1.9% for 2018, up from 1.7% in 2017. The largest contributor to growth, accounting each for 0.9 percentage points, were manufacturing and agriculture, hunting and forestry, while the government sectors contributed -0.3 percentage points. The government sectors have contributed negatively to growth every year since 2015. Growth in 2019 is projected at 2.8%, based on 7.3% growth in the mineral sector and 2.2% in the non-mineral sector.

Prices remained much more stable in 2018, following the very high inflation in the two years prior, after the gradual devaluation of the currency starting at the end of 2015. Inflation continued its slow

decline over the first nine months of 2018, falling from 9.1% in January to 5.5% by September. The smallest price rises were seen in the housing and utilities subcomponent of the consumer price index, which fell from a 1.2% year-on-year change in January to 0.6% in September 2018. The largest changes occurred in transportation, which fell from a 13.4% year-on-year change in January to 10.0% in September.

H. Trinidad and Tobago

Trinidad and Tobago is expected to return to positive, albeit sluggish, growth (1.9%) in 2018 for the first time in three years, largely driven by a recovery in the energy sector. Thanks to the government's efforts at fiscal consolidation and an increase in energy revenue, the budget deficit decreased to 4.0% of GDP in fiscal 2018 and net public debt, which excludes open market operation instruments, improved to 60.9% of GDP at the end of fiscal 2018. The external current account surplus widened to 17.3% of GDP in the first half of 2018 on account of increased natural gas production. However, the inflation rate has been low owing to still-lacklustre economic recovery and a decline in food inflation. In 2019, growth is projected to be 1.6%, despite the closure of the oil refinery of the State-owned company, Petrotrin. Although this growth projection is slightly down on 2018, as the effect of a number of new natural gas projects will abate, the energy sector will continue its expansion and, more importantly, the growth drivers will gradually shift from the energy sector to the non-energy sector.

The government budget deficit for fiscal 2018 narrowed to 4.1% of GDP, from 9.0% in fiscal 2017. Total revenue increased from its fiscal 2017 level of 24.2% of GDP to 27.8% of GDP in fiscal 2018, owing to higher commodity prices, as well as the government's fiscal consolidation efforts, including the introduction of a new tax bracket for commercial banks, a new royalty rate on the extraction of natural gas and a sale of bonds by the National Investment Fund (NIF). Total expenditure decreased from 33.2% of GDP in fiscal 2017 to 31.9% in fiscal 2018, reflecting decreases in wages and salaries and in expenditure on transfers and subsidies. As a result of the decline in the budget deficit and a pick-up of nominal GDP growth, the debt-to-GDP stabilized at 60.9% at the end of fiscal 2018. For fiscal 2019 the government projects a deficit of 2.5% of GDP, mainly on account of an increase in taxes from oil companies. Although the forecast was predicated on a modest oil price assumption of US\$ 65 per barrel and a gas price of US\$ 2.75 per MMBtu, uncertainty has grown given the steep oil price decline and the gas price increase in November 2018.

Despite the lacklustre economic recovery, especially in the non-energy sector, the Central Bank of Trinidad and Tobago slightly tightened its monetary policy stance in consideration of foreign-exchange shortages. For the first time in 30 months, the central bank raised the repo rate, its main monetary policy tool, by 25 basis points to 5.00% in June 2018. Partly influenced by the repo rate hike, the yield on 3-month Treasury bills increased from 1.21% in December 2017 to 1.30% in October 2018. However, the commercial banks' weighted average lending rate came down from 8.20% in December 2017 to 8.13% in June 2018, reflecting competition for loan business. Year-on-year growth in credit to the private sector accelerated to 7.0% in August 2018 from 4.6% in December 2017, but was largely driven by an increase in debt consolidation and consumer loan refinancing (18.4% and 17.7%, respectively, in August 2018) and growth of mortgage lending (9.1%), stemming from persistent housing supply shortages. Growth of business lending remained slow (3.8%), reflecting the weak economic activity in the non-energy sector.

Although the foreign-exchange market remained tight in 2018, some of its pressures have been eased by the improvement in the energy sector. Over the period from January–October 2018, authorized dealers' purchases from the public, an indicator of foreign-exchange supply, grew by 16.8% on a year-on-year basis, reflecting higher energy exports. As demand grew more slowly (8.5%) than supply, the central bank injected US\$ 1,285 million into the market, 17.4% less than the previous year.

Over the same period, the central bank kept the United States dollar selling rate steady at around 6.78 Trinidad and Tobago dollars (TT\$) to US\$ 1.

The current account surplus widened to 17.3% of GDP in the first half of 2018, from 8.1% of GDP in the first half of 2017. Total exports grew by 31.5% year-on-year, on the back of increased energy exports boosted by higher prices and natural gas production. While the financial account recorded a small net inflow (0.05% of GDP), the

overall balance remained in deficit by 4.7% of GDP, owing to a large negative figure (22.1% of GDP) in the net errors and omissions line, resulting in a decline in international reserves. Gross official reserves fell to 8.0 months of import cover at the end of October 2018, down from 9.7 months at the end of 2017, although this was still well above the international benchmark of 3 months.

Growth in Trinidad and Tobago is projected at 1.9% in 2018, which is still sluggish after two consecutive years of negative growth: -1.9% in 2017 and -6.5% in 2016. Energy sector growth rallied to 2.2% in 2018, from 0.0% in 2017, driven by increased natural gas production stemming from the launch of the Juniper platform in August 2017, the Starfish programme in May 2018 and the Dolphin field in August 2018, despite a contraction in oil extraction and refining activity. The growth of the non-energy sector was almost flat, at 0.1% in 2018, although this was still an improvement over the 2.9% contraction in 2017. The manufacturing of food, beverages and tobacco products expanded 5.6% in 2018, a marked turnaround from a heavy 12.0% contraction in 2017. Growth in the trade and repairs sector remained negative for the third consecutive year, but by a narrower 1.2% in 2018, after contractions of 11.3% in 2017 and 7.2% in 2016. The largest contribution to growth in 2018, however, came from taxes less subsidies on products, which were up by 30.7%, reflecting a reduction in the fuel subsidy and an increase in VAT collection. In 2019, growth is projected to be 1.6%, supported by a new natural gas project, Angelin, which will come on stream in the first quarter, and increased implementation of public sector investment programmes, despite the closure of the oil refinery of the State-owned company Petrotrin.

Inflation remained subdued in 2018 due to the lacklustre economic recovery, as well as a decline in food inflation. Headline inflation increased only slightly, from 0.9% in January 2018 to 1.2% in September, while core inflation rose from 0.5% to 1.4% over the same period. A higher cost of home ownership and an increase in the cost of motor vehicles contributed to the uptick in core inflation. On the other hand, food inflation came down from 2.6% in January to 0.0% in September, owing to greater supply of some food items amid favourable weather conditions and increased issuance of land leases for agricultural purposes. The flooding throughout the country in October 2018, however, could exert upward pressure on food inflation in the short term.

Employment conditions remained weak in 2017, as the unemployment rate climbed to 4.4% in the fourth quarter of 2017, from 3.6% in the same quarter of 2016. Weakness in the domestic economy led to job losses, particularly in the construction and the petroleum and gas sectors, which shed 14,700 and 5,700 jobs, respectively.

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