

05

The Commonwealth
Caribbean





5.1 Recent macroeconomic developments and outlook

Overview

The 12 countries that comprise the Commonwealth Caribbean are also members of the Caribbean Community (CARICOM) regional trade bloc and have considerable economic potential and growth opportunities. The region has an educated, multilingual workforce and sophisticated financial systems, and is in the sphere of the large and growing markets of the USA and Central America. Its natural beauty and vibrant cultures have made it one of the world's leading tourist destinations. Meanwhile, the region is also beginning to develop its services, logistics, agriculture and creative and digital sectors. While most of the 12 Commonwealth countries are small groups of islands, which can prove logistically challenging, this also means they can respond quickly to opportunities for innovation and to improve their competitiveness.

However, the region is extremely vulnerable to climate change and natural disasters, and for some nations the damage can surpass annual gross domestic product (GDP). Indeed, natural disasters cost the region an estimated US\$8.6 billion between 1996 and 2015. Since then, major hurricanes, including Irma and Maria in 2017, have caused even more damage. Investing to prepare for climate change and natural disasters will be critical to the region's resilience and the reduction of human and economic costs. The Caribbean Community Climate Change Centre coordinates the Caribbean region's response to climate change via effective solutions and projects to combat its environmental impacts and global warming.

Economic performance

Against a backdrop of relatively desirable conditions globally, Commonwealth Caribbean members have experienced an overall improvement in economic activity in the past three years, originating largely from improved performance of some key economic sectors.

Annual GDP growth will average an estimated 2.9 per cent across the Commonwealth Caribbean in 2019, ranging from a high of 8.0 per cent in Dominica to a contraction of -0.1 per cent in Barbados. There is expected to be significant real growth in Dominica – a total turnaround on the negative double-digit decline of -12.0 per cent in 2018 after the independent island nation was hit especially hard by Hurricane Maria a year earlier. Grenada continues to experience above-average Commonwealth Caribbean real GDP growth rates. The International Monetary Fund (IMF) estimates that its economy will expand by 4.2 per cent this year.

Real GDP per capita across the Commonwealth Caribbean in 2017 ranged from US\$3,871 in Guyana to \$26,539 in The Bahamas. This was the result of a compound annual growth rate of 0.07 per cent over a three-year period (2015–2017). A large decline in growth of about -10 per cent is attributed to Dominica, while Grenada and Saint Lucia experienced the highest growth in their GDP per capita (World Bank, 2019). Nominal GDP per capita in 2019 is estimated at US\$13,334, representing a compound annual growth rate of 1.94 per cent between 2017 and this year (2019) (IMF, 2019).

Prices, wages and employment

Apart from St Kitts and Nevis, all member countries are expected to experience inflationary conditions during 2019. Increases in consumer prices in 2018 ranged from 1.1 per cent in Trinidad and Tobago to 3.6 per cent in Jamaica. Caribbean members functioning under elevated price conditions over 2.0 per cent were Guyana (2.9 per cent), The Bahamas (2.6 per cent), St Vincent and the Grenadines (2.0 per cent) and Antigua and Barbuda (2.0 per cent). In Grenada and St Kitts and Nevis, construction activity is prominent and employment levels are projected to increase.

According to the Eastern Caribbean Central Bank, preliminary estimates point to reduced unemployment levels in Dominica and Saint Lucia, where the number of persons employed

has increased, particularly in the public service. On average, however, the unemployment rate may have edged downwards. Structural impediments in the labour market persist and, while the region has made small strides in the area of employment, a more targeted regional approach is necessary to drive down unemployment and underemployment to sustainable levels for the long-run survival of its social security systems.

Trade developments

The Commonwealth Caribbean's outlook remains hinged on global developments, of which China–US trade tensions are most likely to play an important role. The region continues to experience a negative trade balance, although 2017's nominal net trade in goods and services was an improvement on the 2016 trade balance. The only member countries in the Caribbean that have had an improved trade position for the same period are Antigua and Barbuda, Saint Lucia and Trinidad and Tobago. When trade in services is omitted, only Trinidad and Tobago held a favourable trade position in 2017.¹

The third consecutive negative balance of trade (goods and services) was realised for this Commonwealth region in 2017 – that is, an outflow of domestic currency to foreign markets.² The current account balance for the Caribbean in 2019 is estimated to be US\$0.23 billion (IMF, 2019). The only territory with a positive estimate is Trinidad and Tobago (US\$0.15 billion representing 0.65 per cent of its GDP), while the largest deficit, in terms of US dollars, was recorded in The Bahamas (–US\$1.51 billion).

Fiscal developments

IMF estimates show that for 2019 central governments will operate on a shortfall; however, this is significantly lower than the shortage presented in the past three years. A current account deficit persists in the Commonwealth Caribbean, a position that has worsened marginally compared with 2018 but that is also the second-worst position at least in the past decade. Of the 12 Caribbean

member countries, Trinidad and Tobago has held a current account surplus more frequently than the other members. Guyana, according to IMF estimates, is projected to become the most improved relative to its current account's balance of payments through 2024, as newly discovered offshore oil come on stream. The Bahamas is expected to experience the largest current account deficit of the Caribbean this year.

Gross general government debt is expected to decline steadily in the medium run. According to IMF staff estimates, the Commonwealth Caribbean's general government gross debt is 74.9 per cent of GDP in 2019, the lowest in the past decade. Trinidad and Tobago currently experiences the lowest ratio (49.8 per cent of GDP) whereas Jamaica and Barbados hold the highest, near an unsustainable level of 100 per cent of GDP during the same period. The sub-region's debt as a share of GDP is expected to decline to 67.7 per cent in the next five years. Four of the 12 Caribbean member countries – Antigua and Barbuda, St Kitts and Nevis, Saint Lucia and Trinidad and Tobago – may expect an increase in their government debt to GDP ratios in the short to medium term.

Antigua and Barbuda can expect 99.2 per cent of its GDP as its gross general government debt in the next five years according to IMF estimates, compared with Trinidad and Tobago's 54.8 per cent. Conversely, Trinidad and Tobago's net government debt shows a considerably favourable position for the twin island state. Its financial assets corresponding to debt instruments outweigh its debt. Barbados and Grenada are expected to have the most improved debt to GDP ratios of the Caribbean members in the short to medium term.

Outlook

Several risks threaten the growth outlook, beginning with changes to trade terms with the global north, such as the USA and the UK (uncertainty over Brexit). The Consumer Price Index (CPI) is estimated to rise by 1.8 per cent in 2019, relative to an

increment of 2.4 per cent in 2017. This is related generally to the more volatile sub-indices, such as food. Persistent financial shortfalls intensify financing needs and may hinder the capacity of specialists to execute capital ventures, battle and oversee wrongdoing, execute changes to enhance the commerce environment and foster a feasible business environment.

As with projections related to Commonwealth Caribbean and regional efforts to increase growth, improvement is expected in economic activity in the short to medium term. It is anticipated that the improvement will be influenced by resilience in the construction sector, reinforced by improvement in the wholesale and retail trade sectors, hotels and restaurants, agriculture, transport and real estate. Progress in tourism is likely to have encouraging spill-over impacts on other sectors – an added boost for the Commonwealth Caribbean.

5.2 Eastern Caribbean

Antigua and Barbuda

Country data	
Population (millions) (2017)	0.10
Area '000 km ²	0.4
GDP (US\$, billion, 2018)	1.62
GDP per capita, PPP current international US\$ (2018)	25,160
Currency	Eastern Caribbean dollar (XCD)

Buttressed by favourable global conditions and a year free of natural disasters, both the tradable and non-tradable sectors in Antigua and Barbuda thrived in 2018. Real growth accelerated to more than double the 2017 outturn on the back of broad-based economic expansion. Higher food prices drove inflation up to 2.4 per cent, however.

The overall fiscal deficit widened as a result of a substantial increase in expenditure, including a 5 per cent public servant salary increase, which overshadowed revenue gains and led to an increase in public debt for the year. Wage movements in the public sector in Grenada, where a 3.0 per cent raise, coupled with a one-time payment of US\$750, was given to public servants, did not result in a similar outcome. Altogether, the tabled 2019 budget for Antigua and Barbuda targets an improved fiscal stance through both revenue boosting and expenditure-cutting measures. The economy's growth outlook is positive, contingent on sustained favourable economic conditions in key advanced economy trading partners.

Additional room stock and greater capital injections could potentially bolster the growth upswing in the most productive sectors, such as tourism, which contributes about 60 per cent of GDP and 40 per cent of investment. Downside risks to the near-term outlook include unforeseen slowdown in the economic growth in the USA, the UK and the Euro Area, heightened geopolitical tensions and uncertainty over Brexit. As in the country's Commonwealth Caribbean neighbours, adverse weather shocks to Antigua and Barbuda could constrain project implementation and ward off tourist arrivals.

Economic performance

Real GDP is estimated to have grown by 6.5 per cent in 2018, more than double the 3.0 per cent expansion registered a year earlier. The growth momentum owed to robust multi-sectoral performance, including expansion in construction; wholesale and retail trade; real estate; renting and business activities; hotels and restaurants; and transport, storage and communications. Construction sector activity was driven upward to 13.7 per cent of GDP by public and private investments in housing development, the enhancing of maritime infrastructure and hotel and resort development. Between 2005 and 2017, Antigua and Barbuda's Human Development

Index (HDI) value increased from 0.766 to 0.780, an increase of 1.8 per cent. Its 2017 HDI of 0.780 is above the average of 0.757 for countries in the high human development group and above the average of 0.758 for countries in Latin America and the Caribbean.

Directly linked to robust activity in construction, mining and quarrying activities were up by 22 per cent. The 2017 contraction in the hotels and restaurants sector was reversed to growth of 5.2 per cent to reach 13.5 per cent of GDP. Increases in both stay-over arrivals (8.8 per cent) and cruise passenger arrivals (7.5) and a combined increase of 7.6 per cent in visitor expenditure bode well for the tourism sector. Together, the trade, transport, communications and storage, real estate and renting and business activities sectors contributed an increased 37.7 per cent to GDP, with a doubling of the rate of growth in the latter two sectors.

Barring no exogenous shocks, the quickened pace of economic activity is expected to continue through 2019 as activity in the construction and tourism sectors will remain robust, benefiting from joint public-private projects and increased marketing and destination branding.

Prices, wages and employment

Disinflation resulted in 2018, as the CPI rose at a decelerated rate of 1.5 per cent (compared with 2.4 per cent in 2017). The sub-indices for food (3.9 per cent) and housing (2.2 per cent) registered the highest increases, while the lowest were noted for transport and communications (0.2 per cent) and clothing and footwear (0.9 per cent). The sub-indices for alcoholic beverages and tobacco (1.5 per cent) and personal services (4.2 per cent) decreased. Moderation in global economic activity and the stabilisation of oil prices should keep inflationary pressure subdued.

During 2018, retroactive payments and a 5 per cent wage hike for public servants cost the government an estimated EC\$53 million. Proxy indicators for employment point to increased

job creation in the construction sector, as well as in the transportation, accommodations, wholesale and education sub-sectors.

Fiscal developments

At 2018 year end, preliminary estimates are evidence of a widened overall fiscal deficit, equal to 2.3 per cent of GDP, for the government of Antigua and Barbuda. While the value of the deficit was up to EC\$101.5 million in 2018 from \$96.8 million, its share of GDP was virtually unchanged (from 2.4 per cent in 2017). The combination of revenue underperformance, current expenditure over-performance and lower capital grants explains the deficit overshooting projections by 18.8 per cent. Current revenue has increased by 2.9 per cent, 7 per cent below expectations, despite the highest intake in tax revenue in a decade. Improvement in tax administration can be credited with this improved tax revenue performance (up by 5.9 per cent year on year). A minimal decline in the ratio of tax revenue to GDP to 15.2 per cent reveals a lack of tax buoyancy. Improved tax collections have been worsened by worsened non-tax collections owing to reduced fees and charges on varied public services.

Though the nominal value of the outstanding public sector debt increased at end-December 2018 (year on year), the debt to GDP ratio dipped from 80.6 per cent at 2017 year end to 77.2 per cent a year later. Domestic debt increased in response to the issuance of securities on the Regional Government Securities Market and increased borrowing from two local financial institutions. External debt also increased, reflecting disbursements from the Caribbean Development Bank (CDB), China EXIM Bank and Treasury Bills. Arrears to some Paris Club credits and local institutions added to the debt stock.

Trade developments

Antigua and Barbuda's trade deficit widened to 39.9 per cent of GDP at the end of 2018, from 35.3 per cent of GDP in 2017.

Construction and tourism-related imports drove the import bill up by 22.7 per cent from 2017 levels. Increased imports of mineral fuels; lubricants and related materials; manufactured goods; machinery and transport; food and live animals; and machinery and transport equipment contributed to the higher bill. Exports decreased minimally, by 1 per cent. Further widening of the deficit is expected owing to higher imports to support increased construction and tourism activity. The current account has registered a net outflow of EC\$4.3 million.

Key development challenges

Building macroeconomic resilience remains a significant challenge. Antigua and Barbuda's vulnerability to global economic shocks and adverse weather conditions poses significant risk to medium-term prospects. Foremost among the downside risks to growth prospects is lower-than-anticipated global economic growth, especially in the USA, UK and Euro Area, and continued uncertainty over Brexit.

The realisation of these risks could restrain demand in tourist travel and reduce foreign direct investment flows, ultimately slowing the pace of economic activity. Meteorological disasters and the resultant damage to infrastructure could erode gains in capital accumulation, redirect construction activity to rebuilding, rather than expanding, and severely compromise the tourism product.

Other structural issues include persistent fiscal deficit that constrain the execution of capital projects, crime management and reforms to the business environment and employment creation.

Antigua and Barbuda is an accredited entity of the Green Climate Fund. The twin-island state has engaged with the International Renewable Energy Agency and has received funding from the United Arab Emirates for its renewable Barbuda project, all in an effort to finance its climate change projects and policies.

Dominica

Country data	
Population (millions) (2017)	0.07
Area '000 km ²	0.8
GDP (US\$, billion, 2018)	0.50
GDP per capita, PPP current international US\$ (2018)	10,680
Currency	Eastern Caribbean dollar (XCD)

Dominica consistently ranks among the most vulnerable countries in the world, because of its high susceptibility to natural hazards. Economic activity in post-Hurricane Maria Dominica remained subdued in 2018, but signs of recovery are evidenced by a reversal of negative growth for the first time since the hurricane. Hurricane Maria was a Category 5 hurricane, one of the strongest to hit the island. It devastated the island in 2017, destroying entire crops and disrupting water and power supply. Rebuilding efforts in the aftermath of the hurricane spurred positive, albeit minimal, growth. Increased activity in the wholesale and retail trade sectors also contributed to the turnaround. With unfulfilled pledges of international financial assistance, an overall fiscal imbalance prevailed, and the fiscal outlook is uncertain, notwithstanding a reduction in public debt. Construction-driven imports have caused the trade deficit to balloon and current account deficit to widen.

Further improvement in economic activity is expected in 2019 as sectors recover. Further deterioration in the fiscal and external balances is expected in order to sustain reconstruction. Going forward, the government's primary focus is on building climate and economic resilience including 'Building Back Better'. This is necessary to reduce the volatility of the country's economic growth trajectory.

Economic performance

The magnitude of the destruction from Hurricane Maria – estimated to be 226 per cent of Dominica's 2016 GDP – quashed economic activity in the member country. The result was a 9.5 per cent contraction in real GDP in 2017. Output recovery in the second half of 2018 was promising and should continue through to 2019. Post-Hurricane Maria-related construction and value added in the wholesale and retail sector were enough to crowd out declines in all other major sectors, netting Dominica a real positive growth rate of 0.5 per cent. Construction activity grew by 33 per cent and wholesale and retail trade expanded by 15 per cent, while visitor arrivals plummeted by 68 per cent.

Public sector construction was preoccupied with recovery and rebuilding efforts, while private sector construction activity centred around construction of three hotels and, to a lesser extent, home repair and reconstruction. Construction-related sectors such as transport, storage and communications benefited from 2.4 per cent growth, while expansions in public administration, defence and compulsory social security and financial intermediation contributed to the marginal increase in output.

A sharp drop in visitor arrivals – following the destructive Tropical Storm Erika and Hurricane Maria – have contributed to four consecutive years of contraction and a 40 per cent fall in visitor expenditure. The manufacturing sector has also experienced four consecutive years of depressed economic activity – it contracted by 25 per cent in 2018. The departure of Ross University School of Medicine was a significant loss to the economy, with an 85 per cent fall in value added from private education. Output in the real estate, renting and business activities and electricity and water sectors has also declined by 9.8 per cent and 25.9 per cent, respectively, owing to damage sustained to dwellings and the departure of the university.

Prices, wages and employment

Consumer prices rose by 2.8 per cent at 2018 year end, more than four times the rate of increase recorded for 2017 (0.6 per cent). Inflationary pressures were generated by the prices of food and non-alcoholic beverages (10.4 per cent), housing, utilities, gas and fuels (1.5 per cent) and transport (1.5 per cent).

Public sector employment rose by 1.5 per cent by the end of 2018 to reverse the previous year's 6.3 per cent decline. Notably, the increase was in temporary workers and contractors.

Fiscal developments

Government operations resulted in a widening of both the overall and the primary fiscal deficits equivalent to 9.8 per cent and 7.9 per cent of GDP, respectively. The increased deficits were attributed mostly to a 40.8 per cent increase in capital spending on post-hurricane reconstruction for the first nine months of 2018, relative to the same period in 2017. Capital expenditure on public works included rehabilitation of the Douglas Charles Airport, construction of the West Bridge in Roseau, house-building and dredging of rivers. Payments for goods and services associated with building maintenance, the purchase of medical and office supplies and equipment and professional consultancy fees as well as higher transfers and subsidies added to the surge in public spending (to 34.8 per cent of GDP). On the revenue side, collections fell by 6.5 per cent, in large part because of a 25 per cent decline in receipts from the Citizenship by Investment Programme. This was only minimally offset by a 4.6 per cent increase in tax collections, mainly receipts of taxes on domestic taxes on goods and services. Import duties on higher import intakes contributed to the enhanced tax revenue performance.

In 2018, public debt to GDP fell to 76.3 per cent from 77.8 per cent in 2017, mainly because of decreased indebtedness of public corporations (8 per cent).

Trade developments

The merchandise trade imbalance in 2018 deteriorated to 56.3 per cent of GDP (EC\$765.5 million), the worst deficit in Dominica's history. A surge in import payments amounting EC\$815.4 million in the aftermath of Hurricane Maria was driven by reconstruction-related imports. To compound the imbalance, export receipts followed the disruption in domestic production, sinking by 10 per cent. Exports reduced in bananas (EC\$0.3 million), beverages (EC\$9 million) and paints (EC\$1 million), barely offset by an EC\$1.8 million increase in soap exports after the plant was rebuilt following 2015's Tropical Storm Erika.

Key development challenges

With the cost of disaster recovery more than doubling real production in Dominica, reducing vulnerability to shocks of this nature is key to the realisation of the country's growth potential. The government has acknowledged the need to invest in resilience to natural hazards and climate change more broadly. With support from development partners, it has embarked on several initiatives to build more resilient infrastructure and will embark on initiatives for a more comprehensive water sector and provide support for housing reconstruction and school rehabilitation. The operationalisation of the Climate Resilience Execution Agency of Dominica is likely to boost the government's capacity for implementing projects.

In the near to medium term, risks to growth recovery are skewed to the downside. These include a slowdown in revenue from the Citizenship by Investment Programme and delays in recovery and reconstruction efforts from fewer grants or delays in the disbursement of grant funds, as well as global uncertainty from the fallout associated with geopolitical tensions and Brexit.

Grenada

Country data	
Population (millions) (2017)	0.11
Area '000 km ²	0.3
GDP (US\$, billion, 2018)	1.21
GDP per capita, PPP current international US\$ (2018)	14,270
Currency	Eastern Caribbean dollar (XCD)

Largely tourism-based, over the past two decades Grenada has shifted from agriculture-dominant to services-dominant, with tourism serving as the leading foreign currency-earning sector. Buoyed by gains in the construction, tourism, private education and manufacturing sectors, Grenada's economy remained robust in 2018, despite a minimal deceleration in the rate of growth. Enhanced economic activity in select selectors paved a downward trajectory for unemployment. Consumer prices rose by 1.0 per cent at 2018 year end. The fiscal outturn was doubly positive, with an increase in the primary surplus to reach 6.2 per cent of GDP and a decrease in public debt as a percentage of GDP to 62.7 per cent. The merchandise trade deficit widened during 2018, pushed open by rising import demand and higher oil prices. Economic growth is expected to slow moderately in the medium term to 4.5 per cent on the back on of strong performance in construction, tourism, agriculture and education. The positive correlation between the Grenadian and global economies makes stable economic growth globally a condition for the realisation of positive forecasts. Grenada's HDI value for 2017 put the country in the high human development category.

Economic performance

In 2018, Grenada continued its record as the fastest-growing Commonwealth Caribbean economy. Real growth amounted to 4.8 per cent in 2018, marginally slower than the rate of growth of 5.1 per cent registered in 2017, bringing the five-year average (2014–2018) to 5.0 per cent. Economic growth was bolstered by developments in construction, tourism, manufacturing and education. Governance also played a crucial role through budgetary assistance and support from the Public Sector Investment Programme and increased investment in tourism and manufacturing. In fact, the pace of expansion in construction, private education and manufacturing overshot the government's budget forecasts.

The construction sector continued to be an impetus for growth. Value added in the sector expanded by 14.9 per cent in 2018, relative to its 2017 outturn, driven by the implementation of key projects, most notably the St George's University Expansion Project, Silver Sands Resort and the Parliament Building. Notably, this outturn was a deceleration from the rate of growth of 29 per cent recorded in 2017.

The tourism sector grew by 7.8 per cent in 2018, a faster pace than the 5.1 per cent realised in 2017. Sectoral activity was spurred by a five-year high in visitor arrivals, from increased arrivals in both cruise (14.5 per cent) and stay-over (10 per cent) visitors. Calls from seven new cruise lines in the aftermath of the 2017 hurricane season benefited the sector in Grenada. Stay-over tourists from all major northern markets and regional markets increased.

Decreased enrolment at St George's University slowed the rate of growth in the education sector in 2018. Still, the sector grew by 3.6 per cent and contributed the largest share to GDP, at 18.3 per cent. This slowdown had direct spill-over effects on the real estate, renting and business activities

sectors, where growth slowed slightly from 2.5 per cent in 2017 to 2.2 per cent in 2018. The forward linkages from tourism, construction and education catalysed growth in transport, storage and communications (6.4 per cent) and wholesale and retail trade (10 per cent). Together, these two sectors contributed 21.5 per cent of GDP.

Value added in the manufacturing sector shot up by 7 per cent in 2018, more than two and half times the growth rate of the previous year. The production of chemicals and paints recorded the largest increase, of 8.1 per cent, while the beverage sector featured increased production in all categories, except rum, which contracted by 4.5 per cent. Economic activities in manufacturing and real estate contributed to a 3.6 per cent expansion in value added in the electricity and water sector. Contrastingly, agriculture, livestock and forestry recorded its third consecutive year of decline, with contraction of 3.8 per cent in 2018.

Prices, wages and employment

In 2018, consumer inflation doubled but remained subdued. Growth in consumer prices closed 2018 at 1 per cent, up from 0.5 per cent in 2017. The largest increases were registered in the sub-indices for education (6.0 per cent) and health (3.1 per cent). The largest weighted sub-index – namely, housing, utilities, gas and other fuels – advanced by 1.5 per cent. Higher airfares pushed the transportation sub-index up by 1.7 per cent.

In honouring its collective bargaining agreements, the government granted a 3 per cent salary increase to public services, along with a one-time payment as compensation for the sacrifices made during structural adjustment. Doing so cost it EC\$7.3 million. The unemployment rate declined from 23.6 per cent at 2017 year end to 20.6 per cent at 2018 year end, underpinned by job creation in the tourism and construction sectors.

Fiscal developments

The government continued to reap returns from the Home Grown Structural Adjustment Programme, with the highest overall surplus observed since the programme's implementation. All fiscal targets set by the Fiscal Responsibility Act – the wage bill, primary surplus and primary expenditure – were met during 2018. An overall surplus equal to 4.2 per cent of GDP was realised in 2018, an increase from the 3.0 per cent of GDP noted in 2017. The surplus is explained by higher-than-anticipated revenues and reduced capital expenditure.

A surplus, equal to 6.2 per cent of GDP, also presented in the primary account, far exceeded the minimum target of 3.5 per cent of GDP. This laudable performance was the combined result of enhanced compliance, greater enforcement in revenue collection and contained discretionary spending. The surplus was used to service debt and augment the contingency fund. Growth in current revenue was stronger than that of current expenditure, netting a surplus in the current account, though current revenue as a percentage of GDP remained unchanged at 23 per cent. All line items contributing to current revenue registered increases during the period under review. Budget estimates put the overall surplus lower at approximately 3.8 per cent of GDP in 2019. Similarly, the primary surplus will also trend downwards, to 6.0 per cent of GDP, still well above primary balance target of 3.5 per cent of GDP. Higher primary surpluses, together with successful debt restructuring, led to a reduction of the public sector debt stock to 64.3 per cent of GDP at the end of 2018.

Trade developments

Higher import demand pushed the merchandise trade deficit open to 35.2 per cent of GDP. The import bill increased by 85 per cent, influenced by higher outlays for mineral fuels and related materials and manufactured foods. The increase in imports was only partially offset by a 4.3 per cent

increase in exports. Domestic export growth came as receipts from agricultural exports (47.7 per cent), particularly for cocoa and fish, and manufactured exports (10.3 per cent), most notably animal feed, climbed.

Travel receipts grew at an increasing rate of 10.1 per cent in 2018, compared with 6.8 per cent in 2017. Concessional lending from the World Bank and CDB increased external inflows to the government, but outflows to creditors overshadowed receipts. The commercial banking sector also netted an outflow in short-term capital.

Key development challenges

While Grenada boasts a more diversified economy than its Organisation of East African States (OECS) neighbours, with thriving multi-sectoral growth in construction, tourism, manufacturing and education, it shares the downside risks of its regional counterparts. On account of a reliance on a few key source markets for tourist visitors and destination markets for exports, growth prospects are clouded by any macroeconomic slowdown in any of these markets. Grenada's economic performance is also tied to positive economic trends globally, which come under threat from oil price volatility and geopolitical tensions. Lower-than-projected foreign direct investment, via the Citizenship by Investment Programme, will also be a likely result of unfavourable global conditions and will have negative ripple effects in the fastest-growing sectors (construction and tourism).

High levels of debt relative to real output eat up hard-earned surpluses and create external imbalances, but, promisingly, the debt stock is on the decline and trending towards sustainable levels, barring adverse shocks that prompt emergency borrowing. Unique to Grenada's reality, fiscal targets could be at risk if introduction of the National Insurance Scheme causes fiscal expenditure to overshoot expectations.

Like its neighbours, Grenada is highly vulnerable to the economic and environment shocks of natural disasters. Its growth

prospects may be squashed by a direct hit from a single hurricane, as was Dominica's 2017 experience. Plans to mitigate the risks of the increased frequency and intensity of natural disasters for the productive sectors and populace are key to the development agenda.

Grenada's record-setting growth has not translated to increased employment, with persistently high unemployment rates continuing to challenge the authorities. Weak institutional capacity is another structural hindrance.

Saint Lucia

Country data	
Population (millions) (2017)	0.18
Area '000 km ²	0.6
GDP (US\$, billion, 2018)	1.88
GDP per capita, PPP current international US\$ (2018)	12,970
Currency	Eastern Caribbean dollar (XCD)

Saint Lucia been able to attract foreign business and investment, especially in its offshore banking and tourism industries. The Commonwealth member country has experienced anaemic growth since the onset of the global financial crisis in 2008, largely because of a slowdown in tourism. There was an overall deceleration in economic activity in Saint Lucia in 2018. Real GDP was only marginally higher in 2018, relative to 2017 levels. The slowdown owed largely to a reversal in the construction sector, which almost completely offset gains in other significant contributing sectors – namely, tourism, manufacturing and agriculture. On a year-end basis, inflation rose by 1.6 per cent, largely because of inflationary pressures from housing, utilities, gas and fuel consumption. A smaller current account surplus and improvements in the capital

account contributed to the narrowing of the overall fiscal deficit. Public debt increased in 2018, reflecting increased borrowing by the central government.

Notwithstanding downside risks, economic growth is expected to pick up in 2019. Private sector activity is expected to be an impetus for recovery of activity in the construction sector, including hotel construction and renovation. Public sector support, via a major airport rehabilitation project and other infrastructural rehabilitation and maintenance works, will also contribute to the sector's turnaround. Positive forecasts in tourism arrivals and buoyant performance in other productive sectors will support growth. A deterioration of the fiscal stance is anticipated, and could compromise prevailing economic conditions, as the overall deficit is projected to persist, and the debt level remains on its upward trajectory.

Economic performance

The tourism industry remained buoyant for a second straight year. Valued added in hotel and restaurants increased by an estimated 4.3 per cent in 2018 – 6 per cent slower than the growth recorded in the previous year. The sector's contribution to GDP is relatively stable, at around 10 per cent. This outturn reflected an increase in visitor arrivals of 10.2 per cent, partially owing to 13.6 per cent more cruise ship passengers than in 2017. There was a sharp decline in stay-over visitors (year on year), which grew five times slower than it had in the previous year. Fewer visitors arriving from Canada explained the slowdown as arrivals from all other key northern and regional source markets increased.

The manufacturing and agriculture sectors also expanded. Manufacturing activity picked up and grew by 6 per cent in 2018 – 8.5 times faster than the 2017 rate of expansion. The uptick is attributed to increased output in manufactured goods (8.9 per cent) and miscellaneous manufactured articles (16.9 per cent). Activity in the agriculture, livestock and forestry sector was up by 11.4 per cent. This performance reflected growth in all

sub-sectors except fishing. The crop sub-sector registered the largest increase, of 11.8 per cent, owing to higher banana output.

The downside of the growth performance featured a contraction in the value added in the construction sector of 17 per cent, to reverse the previous year's 11.4 per cent growth, and an associated decline in the mining and quarrying sector of 5.8 per cent, which contrasts with growth of 14.6 per cent in the previous year.

Prices, wages and employment

Prices of goods and services in Saint Lucia had increased by 1.6 per cent at 2018 year end. Increases in the sub-indices for housing, utilities, gas and fuels (9.1 per cent), alcoholic beverages, tobacco and narcotics (5.2 per cent), health (4.0 per cent) and food and non-alcoholic beverages (3.7) more than offset declines in the sub-indices for clothing and footwear (9.4 per cent), hotels and restaurants (4.4 per cent) and recreation and culture (3.8 per cent).

The unemployment rate was estimated to have fallen sharply (by 23.2 per cent at the end of 2017) to 16.5 per cent at the end of 2018. The youth unemployment rate also declined, from 38.5 per cent to a still-high 36.3 per cent over the same period. Declines notwithstanding, the rate of unemployment in Saint Lucia is higher than that of its regional counterparts. This owes to high unit labour costs and the lingering effects of the 2008 global crisis. Police recruitment contributed to increased employment of 1.2 per cent in the public sector.

Fiscal developments

The central government's operations resulted in an overall deficit equal to 0.9 per cent of GDP, an improvement on the deficit of the previous year, which stood at 1.2 per cent of GDP. This marginally improved fiscal stance was explained by a 33.8 per cent cut in capital spending to reach 2.8 per cent of GDP and a slightly higher primary surplus equivalent to 2.2 per cent of GDP (compared with 1.9 per

cent of GDP in the previous year). The current account yielded a surplus (1.3 per cent of GDP), albeit 35.7 per cent smaller than the outturn at the end of 2017. Underpinned by an increased outlay on good and services, transfers and subsidies, interest payment and public sector wages, current expenditure increased by 13 per cent. Current revenue increased at a slower rate of 8.3 per cent by 2018 year end, from increases in both tax and non-tax revenue. The slowdown in revenue performance came as property tax collection fell by 14.8 per cent during 2018.

Saint Lucia's debt to GDP ratio has increased marginally, from 65.1 as at 2017 year end to 65.9 as at 2018 year end. Outstanding debt of public corporations declined, while the central government increased its debt holdings.

Trade developments

The merchandise trade deficit widened nominally but remained around 29 per cent of GDP. An increase in the value of imports of minerals, fuels, lubricants and related materials put upward pressure on the import bill. Total exports increased at a decreasing rate of 4.4 per cent, reflecting a 3.6 and 5.6 per cent increase in domestic exports and re-exports, respectively. Banana exports were up 7.7 per cent over 2018, with increased export volumes to the UK.

In the private sector, foreign earnings from travel receipts grew by an estimated 12.7 per cent, while commercial banks registered a net outflow. In the public sector, external debt repayment more than doubled, while external loan disbursements to the government declined from 2017 levels. The net effect was reversal of the net disbursement position in 2017 to a net outflow position in 2018.

Key development challenges

Risks to the outlook tilt to the downside and include exogenous shocks, a precipitous decline in foreign investments, inability of the Citizenship by Investment Programme to deliver according to expectations, the adverse impact of global warming and climate change,

labour market and other social impediments like crime and poverty. High levels of public debt and debt-servicing costs resulting from past expansionary spending have constrained the government, and relatively high tariffs and nontariff barriers limit market openness. Saint Lucia also faces chronic levels of unemployment, especially among its youth. Persistent high levels of debt erode foreign reserves and are on an upward trend.

St Kitts and Nevis

Country data	
Population (millions) (2017)	0.05
Area '000 km ²	0.3
GDP (US\$, billion, 2018)	1.04
GDP per capita, PPP current international US\$ (2018)	30,120
Currency	Eastern Caribbean dollar (XCD)

Buttressed by an upswing in tourist activity, its main contributor to GDP, the economy of St Kitts and Nevis grew at an accelerated rate in 2018, *vis-à-vis* 2017. Real GDP grew at least twice as fast in 2018, compared with performance in the previous year. This outturn reflected expansion in the key economic sectors – hotels and restaurants, construction and manufacturing – with positive linkages to the wholesale and retail and transport, storage and communications sectors. Notwithstanding downside risks, hotels and restaurants and construction, in addition to agriculture, are expected to spur upward momentum in 2019.

Activity in the public sector will lead the charge in the construction sector, with the resurfacing of roadways, the renovation and construction of public buildings and completion of work on a second cruise pier, while the tourism industry will benefit from investments in increasing room stock and increases in airlift. However, the authorities should be aware of

the downside risks of the growth outlook. Chief among these is a strengthening of global prices for food and fuel and the resultant impact on the cost of doing business locally and the overall fiscal balance. Structural damage and impairment of the key producing sectors as a result of adverse weather events also threaten the growth trajectory. Barring any jarring exogenous shocks, the realisation of downside risks is forecast to slow growth rather than reverse it, though.

A surge in non-tax revenue, supplemented by higher tax revenue, pushed the government's overall balance into a surplus. Public debt holdings increased in 2018. A more modest outlook for non-tax revenue and sustained public sector capital expenditure, resilient tax review (reflecting expansion in the real sector) and budgeted higher current expenditure are anticipated to translate to a narrower fiscal surplus.

Economic performance

Real GDP in the economy of St Kitts and Nevis rose by an estimated 3 per cent in 2018, more than twice the 1.2 per cent recorded for 2017. The tourism industry was the biggest contributor to this accelerated rate of growth. Hotels and restaurants (read tourism sector) expanded by 9.9 per cent in 2018, a whopping 14 times larger than the previous year's expansion (0.7 per cent). Tourist arrivals jumped by 7 per cent during the year, mostly from a strengthening in stay-over visitor arrivals in total (1.5 per cent), and specifically from the USA (3.2 per cent), reversing the previous year's declines. The industry benefited from increased airlift in major gateway destinations. Regional tourist arrivals got a boost from special events.

The impact of Brexit, as in its OECS neighbours, presents uncertainty in St Kitts and Nevis, however: arrivals from the UK sank by 11.5 per cent year on year on 2018. The construction sector expanded but at a decreased rate of 0.8 per cent, almost six times slower than 2017's 4.7 per cent. The sector maintained its largest contribution to GDP, at 18 per cent. Construction

activity in the public sector was preoccupied with roadworks and accelerated progress on a second cruise ship pier to ensure completion before the 2019 cruise season. Private activities on both islands focused on renovation and expansion of hotels and resorts.

The manufacturing sector recovered by 3 per cent to reverse the previous year's decline of 6.5 per cent on the back of increased production in electronics and beverages. The agriculture sector was stable, with marginally higher output in 2018 (0.2 per cent) relative to 2017. Together, the expansion of tourism, construction, manufacturing and agriculture filtered to related sectors, including wholesale and retail trade (11.1 per cent); transport, storage and communications (4.2 per cent); and renting and business activities (2.2 per cent), which together contributed 30.8 per cent to GDP in 2018.

Prices, wages and employment

In 2018, consumer prices dipped by the same margin by which they went up in 2017 (0.8 per cent). Decreases in the highest weighted sub-indices explained the decline. Most significantly, the sub-indices for transport (2.7 per cent), housing, utilities, gas and fuel (1.5 per cent) and education (7.3 per cent) all declined. Falling prices also brought down the sub-indices for recreation and culture (1.8 per cent), hotels and restaurants (1.2 per cent) and communication (0.4 per cent). The declines were only partially offset by increasing prices for food and non-alcoholic beverages (1.8 per cent), household furnishings (1.3 per cent) and alcoholic beverages, tobacco and narcotics (1.9 per cent).

Though no official statistics are available, the 2,000 persons employed under the Skills Training and Empowerment Programme have clearly eased the unemployment situation. Enhanced activity in the tourism and construction sectors is estimated to have had a similar effect.

Fiscal developments

In 2018, the central government's fiscal stance was bolstered by a strengthening of Citizenship by Investment (CBI) receipts via the launch the Sustainable Growth Fund, which directly fed into the Consolidated Fund. In the first nine months of 2019, CBI inflows contributed 39 per cent to government revenue. A 23.5 per cent increase in government revenue owed primarily to the CBI-driven 84 per cent increase in non-tax revenue and a supplementary 8.5 per cent increase in tax revenue. Total expenditure was up by 11.4 per cent, while capital expenditure increased by 34.6 per cent. The result was an increase in the overall surplus to 6.7 per cent of GDP, up from 1.9 per cent of GDP in 2017, while the primary surplus more than doubled from 3.4 per cent of GDP in 2017 to 8.1 per cent of GDP in 2018. The outturn in the current account was an almost three-fold increase relative to the 17.5 per cent contraction in 2017.

Total outstanding public debt increased by 1.2 per cent in 2018, less than half the rate of increase registered in 2017 (3.1 per cent). Greater indebtedness of public corporations reflected investments in the construction of the new cruise ship pier and a housing development project by the National Housing Corporation. Central government's indebtedness declined but still accounted for 74.4 per cent of total debt.

Trade developments

The visible trade account deficit widened to reach 26.5 per cent in 2018. The value of both imports and exports increased, but the former outpaced the latter. Imports cost 7.1 per cent more in 2018, on account of increases in the value of imports of machinery and transport equipment, manufactured goods, food and live animals and chemicals. Exports earned 9.5 per cent more in 2018, influenced by increases in the value of exports of machinery and transport equipment, live food and animals and beverages and tobacco. Trade volumes also increased by 21.5 per cent.

Gross international reserves were comfortably above the benchmark of 3 months of imports. The current account deficit narrowed slightly to 6.4 per cent of GDP, partly as a result of stronger services exports, including tourism. Foreign currency was earned by a 15.2 per cent increase in gross travel receipts and net inflows from commercial banks' transactions, to reverse 2017's net outflows. Currency was lost to a net outflow from government transactions; however, this was a smaller outflow than the previous year.

Key development challenges

Risks to St Kitts and Nevis' growth prospects are largely external, although there are some structural issues to contend with. The downside risks are not unique. A higher-than-anticipated slowdown in global economic conditions, and especially in northern markets, will dampen expected growth in tourism. An escalation of trade tension, the tightening of global financial and conditions and higher commodity prices temper the positive outlook. More stringent financial conditions will, in all likelihood, affect CBI inflows, to the detriment of the central government's fiscal accounts.

Several resorts, hotels and villas are under construction or renovation or are carded to begin in 2019. This, together with positive brand destination exposure that has been garnered, is expected to deliver a further boost to the industry. However, with the outlook hinged on expansion in tourism, the onslaught of a natural disaster has the potential not simply to impair activity in the sector but to set it back. It is key that the thrust to increase room stock be done with sustainable building and resilience in mind.

The CBI programme remains a major catalyst for tourism-related foreign investments. In the past, weak monitoring of these types of programmes has brought them into disrepute. Confidence has rallied, but any further diminution in the attractiveness of the programme threatens prospects for construction and other projects funded by CBI inflows. Another major structural

impediment in general, and to tourism and CBI programmes in particular, is persistently high crime and violence that compromise the feeling of security and safety in what is being marketed as a high-end destination. Moreover, efforts to address crime require significant government resources.

Crime and security is the fourth pillar of the regional integration process of the Caribbean Community with the Council for National Security and Law Enforcement coordinating security and law enforcement arrangements across the Community. CARICOM's Strategic Plan for 2015–2019 identifies as areas for immediate focus deepening crime prevention initiatives and programmes; facilitating justice reform; pursuing functional cooperative security engagements to tackle and manage shared risks and threats; enhancing human resource capabilities; strengthening regional security systems; strengthening CARICOM borders; and enhancing maritime and airspace awareness.

St Vincent and the Grenadines

Country data	
Population (millions) (2017)	0.11
Area '000 km ²	0.4
GDP (US\$, billion, 2018)	0.81
GDP per capita, PPP current international US\$ (2018)	13,210
Currency	Eastern Caribbean dollar (XCD)

Dependent on agriculture, tourism, construction, remittances and a small offshore banking sector, the momentum of growth in St Vincent and the Grenadines picked up strongly in 2018 after a lacklustre 2017. Though fairly broad-based, the increase was underpinned by a rise in tourist arrivals and a surge in demand for building materials from regional counterparts in the throes of recovery from the 2017 hurricane season.

The economy remains vulnerable to global price fluctuations and natural disasters. Growth was accompanied by steady inflation as consumer prices rose by 1.4 at year end. Contingent on global and domestic developments, growth is expected to be moderate in 2019.

Central government's operations resulted in a marginally narrower overall fiscal deficit and a higher stock of public debt, particularly central government debt. The government's fiscal stance is expected to deteriorate in the near term in response to increased expenditure from budgeted initiatives for 2019 and the full impact of fiscal incentives announced in 2018.

Economic performance

Real GDP in St. Vincent and the Grenadines accelerated more than four-fold to 3.2 per cent in 2018, up from a marginal 0.7 per cent in the year prior. This outturn reflected multi-sectoral positive trends. The 18.2 per cent contraction in value added in the hotels and restaurants sector in 2017 rebounded to a 3.8 per cent expansion in 2019, buoyed by the first full year of operations of Argyle International Airport. The rebound followed a similar movement in stay-over visitor arrivals – particularly from North American markets – which reversed 2017's 4.3 per cent contraction to a 5.4 per cent expansion in 2018. Arrivals from the largest source market, the USA, climbed by 13 per cent, 12 per cent higher than the previous year, and accounted for the largest share of total arrivals. Arrivals from Canada increased at a similarly remarkable rate of 13 per cent. The introduction of non-stop direct flights from New York and direct flights from Air Canada Rouge during the winter season gave arrivals from both markets a further boost. Growth in stay-over arrivals was accompanied by expansion in both the cruise (25.1 per cent) and yachting (10.7 per cent) segments of visitors.

Manufacturing continued along its upward trajectory, expanding by 5.8 per cent in 2018, compared with 3.2 per cent in 2017. Increased external demand spurred the increased

output of building materials, which was accompanied by increases in the production of beer and flour. Gains were tempered by declines in banana and feed production. A delay in the implementation of public infrastructure projects and a slowdown in residential construction moderated activity in construction, which grew by 2.2 per cent, following a more robust pace of 6.4 per cent a year earlier. Growth was subdued in the real estate, renting and business activities sector (1.4 per cent) and negative in agriculture (–1.7 per cent), hampered by foreign exchange shortages in Trinidad and Tobago.

Prices, wages and employment

Relative to 2017, inflation moderated. On an end-of-year basis, the CPI increased by half as much as it did in the previous year. Increases in the sub-indices for beverages, tobacco and narcotics (3.5 per cent), transport (3.3 per cent) and housing, electricity, gas and other fuels (2.3 per cent), reflecting higher prices for wines, spirits and local beers and higher oil prices and regional airfares were mitigated by decreases for food and non-alcoholic beverages (0.03 per cent) and clothing and footwear (0.2 per cent).

Data for the National Insurance Services suggest that employment, proxied by the total insured population, increased by 4.2 per cent. Advances were registered in all sectors but mining and quarrying, with the largest increase registered for self-employed persons.

Fiscal developments

The government's overall deficit narrowed slightly from 1.7 per cent of GDP in 2017 to 1 per cent of GDP in 2018. In contrast, the primary surplus widened from 0.7 per cent of GDP in 2017 to 1.2 per cent in 2018, reflecting increases in current revenue (2 per cent). Current revenue reached 27.1 per cent of GDP after expansions in taxes on goods and services, sales of goods and services, property incomes and other current revenue. For the first time, the government levied taxes on previously exempt international business

companies and trust in response to the EU's Code of Conduct for Business Taxation.

This new tax regime could push offshore companies to competitor jurisdictions. Current expenditure rose by 1.7 per cent to reach 26.1 per cent of GDP, reflecting a higher wage bill (mainly because of the recruitment of police officers), higher transfers and subsidies associated with the operations of Argyle International Airport and slightly higher interest payments, particularly to service domestic obligations. Investment in the government's capital programme decreased for a fourth consecutive year (29.6 per cent) owing to delayed implementation of large infrastructure projects.

The public debt stock rose to by 1.3 per cent in 2018, in nominal terms, but the debt to GDP ratio fell to 73.1 per cent, from 75.3 at 2017 year end. The central government's debt service obligation rose to 30.8 per cent of revenue and accounted for 86.2 per cent of total public debt.

Trade developments

The merchandise trade deficit worsened to 38.1 per cent of GDP in 2018, relative to a deficit of 36.9 per cent of GDP in 2017. The widening deficit is attributed to a higher import bill, which rose by 7.2 per cent, double the rate of growth of export earnings. The most significant increase was in the value of imports of mineral fuels and related material, which ballooned by 64.2 per cent, while marked increases were recorded in the value of imports of miscellaneous manufactured articles (16 per cent) and animal and vegetable oils (12.6 per cent). Decreases in the import value of machinery and transport equipment (9.6 per cent) and food and live animals (0.4 per cent) were only partially offsetting. The expansion in exports was driven by an 8.7 per cent increase in domestic exports, especially of beer, agricultural produce and building materials. These expansions were moderated by a decline in flour and rice exports.

Gross travel receipts, which increased by 9.8 per cent, and a net inflow from government's

external debt added to international reserves, while a net outflow from commercial banking activity reduced the reserve balance. The outturn in the banking sector was a reversal of 2017's net inflow position.

Key development challenges

The government of St Vincent and the Grenadines is taking decisive policy action to moderate some key development challenges. The implementation of previously delayed capital projects, including the construction of a geothermal energy plant and a new port facility in the capital as well as initiatives aimed at improving competitiveness in the tourism and agriculture sector, is projected to be beneficial to the growth outlook. A strengthening of the fiscal framework to achieve these ends is of paramount importance. This strengthening should have as its priorities increasing the efficiency of public expenditure, limiting the growth of the public wage and pension bill and better targeting of social programmes. Collectively, these measures should aid in reversing persistent fiscal imbalances and putting downward pressure on chronic high debt levels.

To mitigate the inherent threat of natural disaster-related economic shocks, the government has established a Fiscal Contingency Fund and an ongoing climate adaptation investment programme. Similar funds have been set up in other CARICOM territories.

5.3 Other Caribbean

The Bahamas

Country data	
Population (millions) (2017)	0.39
Area '000 km ²	1.0
GDP (US\$, billion, 2018)	12.16
GDP per capita, PPP current international US\$ (2018)	30,920
Currency	Bahamian dollar (BSD)

In 2015, The Bahamas was ranked the 10th most tourist-dependent economy in the world by the World Travel and Tourism Council. Tourism accounts for approximately 44 per cent of GDP, almost 52 per cent of employment and around 62 per cent of exports. The economy's next largest earner is the financial sector. As an archipelagic nation, with concentrated earning centres and limited source and export markets, The Bahamas is faced with a trifecta of vulnerabilities: the increased frequency and intensity of natural disasters with even more disastrous environmental and economic effects; the threat of unfavourable global financial conditions that would undermine the local sector; and the risk of depressed tourist arrivals from northern visitors facing adverse economic conditions at home. Robust economic conditions in the nearby USA contributed to much improved economic growth in 2018 but the risks loom large.

With the second highest gross national income (GNI) per capita in the Commonwealth Caribbean (bettered only by Trinidad and Tobago), The Bahamas scored above the region average with an HDI of 0.778 that put the country in the high human development category. However, a decade of low growth and fiscal wastage has had an unfavourable impact on social indicators. Poverty rates are on the rise, with higher levels in the southern Family Islands, for young adults (where unemployment is especially high) and in female-headed households.

Economic performance

Amid sound macroeconomic policies and progress on fiscal reforms, the IMF asserts that The Bahamas achieved strong economic performance in 2018. Real GDP expanded by 1.6 per cent in 2018, up from 0.1 per cent in 2017. This is a major improvement over the decade average of 0.3 per cent. In the 10 years prior to the 2018 uptick, a fall-off in tourist arrivals and higher operational costs in the financial sector owing to stricter international regulations combined to produce low growth rates and escalating

levels of debt. However, the rebound comes on the back of higher tourism earnings and increased foreign direct investment inflows surrounding the completion of the Baha Mar Luxury Hotel, which significantly spurred construction activity.

Increased high-end room capacity drove up revenue per room by 30 per cent and new direct flight routes contributed to a 16 per cent increase in air tourist arrivals. Listings for vacation rentals were up 20 per cent, with occupancy rates trending above 40 per cent. Growth is expected to reach 1.9 per cent in 2019 before settling at 1.5 per cent in the medium term. However, these growth prospects may be dampened by slowing growth in the USA, Canada and the UK, which together account for 90 per cent of tourist arrivals.

Prices, wages and employment

The CPI increased by 2.2 per cent on average in 2018, mainly because of the value added tax (VAT) rate increase from 7.5 to 12 per cent in July 2018. Higher fuel prices also caused some inflationary pressure, but core inflation remained controlled. Inflation is expected to decline to 1.6 per cent in 2019, as the impact of the VAT rate hike tapers.

A minimal decline in the unemployment rate to 10.7 per cent is evidence of a persistent mismatch in the pace of job creation and labour force growth (IADB, 2019), with the latter outstripping the former. Despite the dip, the archipelagic state has among the highest unemployment rate in the Commonwealth Caribbean. The labour force participation rate has increased by 8.7 per cent over the past five years (2014–2018), almost double that of the increase in employment (4.7 per cent) over the same period. Youth unemployment is especially high: 24.1 per cent for 18–24-year-old women and 22.4 per cent for 18–24-year-old men as at November 2018. Not peculiar to The Bahamas, youth unemployment in the Caribbean is among the highest in the world. In The Bahamas there are supply- and

demand-side factors, which include the skills mismatch between employers and workers as well as fragmented workforce development policy and low effectiveness of existing labour intermediation initiatives. High youth unemployment has also led some youth to give up on their job search and is helping feed the rising crime and murder rates.

Fiscal developments

The budget deficit narrowed to 3.4 per cent of GDP in FY2017/18, down from 5.5 per cent a year earlier. This was the combined result of a concerted effort to reduce public spending by 10 per cent and improving tax collection. Government expenditure also stabilised as the bulk of the hurricane rebuilding efforts neared an end. Enhanced tax revenue performance is expected to continue to close the deficit, bringing it down to 2.3 per cent of GDP by FY 2018/19.

Central government debt increased to 63.3 per cent of GDP in FY2017/18 from 54.4 per cent in FY2016/17. The government has announced a plan for fiscal consolidation and fiscal responsibility legislation to the end of bringing the budget deficit and stock of debt down to sustainable levels. Worthy of mention is the public pension bill. At an estimated 160 per cent of GDP, this is underfunded and poses a significant long-term challenge.

Trade developments

Increased foreign earnings from the pick-up in tourist activity were offset by higher construction-related imports and an increased oil import bill resulting in a weakened external position. The current account deficit widened to 16.4 per cent of GDP in 2018. The higher import bill and the refinancing by a public sector entity of foreign currency with local currency debt pushed reserves down by US\$222 million in 2018. The completion of the Baha Mar Hotel is expected to bring about a decline in construction-related imports going forward, while its full opening gives a welcome boost in tourism receipts. Together, fiscal consolidation and lower oil prices are expected to contribute to the narrowing of the

current account deficit, converging to 5 per cent of GDP, while foreign exchange reserves are estimated to stabilise at 2.9 months of imports, below the international import cover benchmark of 3 months and one of the lowest in the Caribbean.

Key development challenges

Development in The Bahamas is challenged by an overreliance on tourism and on a limited number of tourism markets, heightened vulnerability to environmental shocks, the geographic makeup of the country with numerous islands and cays, low levels of investment and entrepreneurship, high financing costs, low levels of productive human capital, weak governance, fiscal inefficiencies and mounting debt.

The dependence on key trading partners presents a downside risk as a slowdown in demand for tourist services or a tightening of financial conditions will have adverse effects on growth potential. Rebuilding efforts after Hurricanes Joaquin, Matthew and Irma cost an estimated total of US\$750 million and destabilised public expenditure. In addition to the displacement of the lives of affected citizens, natural disasters could wreak havoc on the tourism-based economy in terms of physical damage to natural attractions, access to the island and the financial burden to repair or rebuild.

It also has implications for attracting more foreign direct investment in the sector. The geographic expanse of the islands, with weak infrastructure, poses a challenge in public service provision, especially in the areas of air and maritime connectivity and water and sanitation. Transfers to inefficient state-owned enterprises have drained government coffers of much-needed resources to improve service provision across the islands.

Low levels of investment and entrepreneurship derive from low levels of return from economic activity outside of the tourism industry and an inadequately trained workforce. High financing costs are prohibitive to the private credit needed to

spur activity and to accessing international finance. Additionally, the private sector must grapple with high energy costs, frequent power outages, limited infrastructure, poor public services, elevating levels of crime and low levels of public-private coordination. In the absence of a thriving private sector, the potential to diversify to mitigate the island's dependence on exogenous factors is diminished.

The government has deployed cost-cutting and revenue-generating measures but more work is needed to better manage state resources, use more competitive procurement methods, improve monitoring of government-issued contracts and strengthen state institutions. Deficiencies in human capital, as a result of poor training of school leavers, leave the island without adequate resource cover for essential health services and the labour market, outside of low-paying service jobs, with a staggering skills gap.

Barbados

Country data	
Population (millions) (2017)	0.29
Area '000 km ²	0.4
GDP (US\$, billion, 2018)	4.67
GDP per capita, PPP current international US\$ (2018)	17,640
Currency	Barbados dollar (BBD)

A high-income country at the southern end of the Caribbean archipelago, Barbados is well ahead of its CARICOM neighbours in the social sphere. Barbados is classified as having attained high human development, ranking 58th (of 188) on the HDI. A falling GNI coefficient that reached 0.32 in 2016, high life expectancy of 75.8 years (2015) and the halving of extreme poverty from 6.8 per cent to 3.4 per cent between 2010 and 2016 all contribute to a high quality of life for the people of Barbados. The country ranks in the top 80th per centile on most World Governance Indicators to be on par with

Organisation for Economic Co-operation and Development countries. However, its progress has been slowed by recent macroeconomic and fiscal hurdles, which have their origins in the global financial crisis of 2008. The Barbados economy derived half of its GDP in 2017 from the tourism and financial services sectors, both of which are vulnerable to exogenous shocks. Volatility in oil prices, one of the top two imports, also puts the country at risk.

As a hub of offshore financial activity in the region, Barbados has been trapped in a cycle of low or negative growth and ballooning debt since the crisis. Things seemed to come to a head when, by end-May 2018, public debt reached a staggering 160 per cent of GDP and international reserves plummeted to between 5 and 6 weeks' import coverage. Since then, the government has embarked on an ambitious and comprehensive Economic Recovery and Transformation plan, with programmatic support from the IMF. By March 2019, all quantitative performance criteria under the IMF's Extended Fund Facility were met, thanks to swift progress made by the government of Barbados. The passing of key financial sector legislation, domestic debt restructuring and the doubling of international reserves from its May 2018 levels are notable strides made. The outlook is cautiously optimistic as growth is expected to rebound and private sector confidence is on the rise despite elevated downside risks.

Economic performance

Since 2010, growth of the Barbados economy has averaged 0.3 per cent. In real terms, the Barbados economy shrank by 0.6 per cent in 2018. A moderate gain in the tourism sector was counterweighted by a loss in other services. An increasing number of tourist arrivals was not enough to overcome a shorter average length of stay, thereby curbing gains in the sector. Output is expected to continue to contract in 2019, albeit minimally. Continued growth in the tourism sector and a boost in private sector activity are expected

to be countered by the throughput of fiscal tightening. With reduced policy uncertainty and expectations of inflows from international investors, the IMF estimates that growth will return to the medium-term average of 2 per cent.

Prices, wages and employment

At end-June 2018, inflation reached 4.9 per cent, owing to higher oil prices and increased tax measures. However, average inflation slowed to 3.7 per cent in 2018, as the impact of higher oil prices was countered by the removal of a temporary consumption tax later in the year.

A crucial part of the fiscal restructuring plan is the rationalisation of state-owned enterprises (SOEs), which necessarily includes reducing the wage bill by severing employees and merging cross-enterprise functions. It is expected that unemployment levels will increase as a direct result.

Fiscal developments

The rapid completion of the domestic phase of debt restructuring has allayed concerns of economic uncertainty. This, together with the renegotiation of terms with creditors, has reversed the upward momentum in the stock of public debt. The debt restructuring has recovered 3.7 per cent of GDP, as interest on public debt declined from 7.5 per cent in FY2017/18 to 3.8 per cent in FY2018/19. The debt to GDP ratio has fallen by 30 per cent, while gross financing needs have fallen by 35 per cent.

Suspension of servicing of the external commercial debt contributed to a sharp rebound in international reserves in the second half of 2018 to reach about 3 months' import coverage and 100 per cent of the Assessment of Reserve Adequacy metric. Sustaining this will require fully restored confidence in Barbados' macroeconomic outlook. The suspension has caused downgrades in the Barbados' international credit rating, with S&P further downgrading global bonds in 2019 and 2022 from CC to D (default).

A primary surplus of approximately 3.5 per cent of GDP was realised over FY2018/19, owing to a lower interest bill and revenue over-performance of VAT and customs import taxes. However, revenue performance was dampened by higher-than-expected tax refunds and lower-than-expected performance in several new taxes introduced (airline travel fee, room levies, fuel tax, health service contribution). A series of fiscal consolidation measures include reforming SOEs by tightening reporting requirements, shedding excess staff and merging compatible entities. Other measures include reviewing tariffs and fees charged by SOEs, reforming the customs department and public pension scheme and amending the central bank law. The FY 2019/20 target for the primary surplus is 6 per cent of GDP. However, this hinges on the timely implementation of fiscal consolidation measures, and new taxes measures delivering review performance as expected.

Trade developments

With a large fuel and food import bill, Barbados historically records a current account deficit, but this has been narrowing in recent years. The current account deficit closed from -9.2 per cent in 2013 of GDP to -3.8 per cent of GDP in 2017. By end-June 2018, the deficit was even lower, at -1.7 per cent of GDP. The further decline can be attributed to a lower interest bill from the suspension of payment to external creditors and reduced import demand. Volatile oil prices threaten the reversal of this trend.

Key development challenges

While Barbados outperforms many of its neighbours on social and institutional development indicators, it shares the challenges of low levels of economic diversification and competitiveness as well as susceptibility to environmental shocks, with ripple effects throughout the economy, and a weak business climate – although business confidence is on an upward trajectory in response to swift fiscal progress. Added to

that, downside risks to the medium-term outlook include reduced access to financing owing to successive credit rating downgrades, higher interest rates in the USA and instability in the UK market – a key source of tourist arrivals – over the polarising Brexit issue.

Above all, fiscal consolidation, while generating a more sustainable position for the central government, will have a negative impact on the economy in the near term. The thrust to reduce public expenditure will likely erode gains made in the social sectors, particularly with the reduction of transfers and subsidies and wages. Cuts to transfers to two of the largest recipients, the University of the West Indies and the Queen Elizabeth Hospital, will affect gains made in health service delivery and education (free tuition). The loss of wages will put further upward pressure on the household poverty rate, which was 17.2 per cent in 2017, up from 15.1 per cent in 2013. A reduction in capital expenditure on operation and maintenance spending will have likely implications for the tourism industry, which relies on high-quality infrastructure.

Short- to medium-term stabilisation must be followed by structural reforms that unlock the country's growth potential. Improving the environment to invest and do business is one priority. Barbados ranked 132nd out of 190 countries in the 2018 World Bank Doing Business Report. Inadequate human capital, burdensome red tape and onerous tax requirements for businesses are impediments to private sector activity. Diversifying away from imports and dependence on a few sectors is another priority.

A third priority is an improvement in competitiveness. Barbados' small market size, rigid labour law, fiscal imbalances and high trade tariffs contribute to its global ranking of 72 for competitiveness. These structural constraints inhibit even existing mainstay sectors (tourism and financial services), which are key for growth. Overcoming the aforementioned development challenges would put the Barbados economy in a more resilient position with regard to shocks, particularly environmental shocks

from natural disasters. More than half of the country's GDP is generated in areas at risk of natural disasters. There are also higher-than-expected levels of CO₂ emissions for a country with no sizeable manufacturing industry.

Belize

Country data	
Population (millions) (2017)	0.38
Area '000 km ²	23.0
GDP (US\$, billion, 2018)	1.93
GDP per capita, PPP current international US\$ (2018)	8,200
Currency	Belize dollar (BZD)

Belize has the third highest per capita income in Central America, but there is a large income disparity between the rich and the poor. Tourism is the number one foreign exchange earner. After decades of high growth levels, the convergence of the Belizean economy with advanced economies has reversed. Belize now joins its Commonwealth Caribbean neighbours that are challenged to grow and reform their way out of a cycle of low growth and elevated debt. With average population growth (2.5 per cent) outpacing real economic growth (2.2 per cent), GDP per capita has been on a downward trajectory since 2010. Domestically, persistent macroeconomic deficits and structural impediments have weakened growth. Growth slowed primarily because of weakening domestic demand, rising public debt and slowed tourist arrivals from its main market, the USA. Globally, the abolition of once-advantageous trade agreements with European markets, the decline of official developments and increased frequency of natural disasters have weakened fiscal and external positions. Moreover, fiscal malaise has overshadowed private investments and required higher taxes, further impeding growth.

In March 2017, a debt restructuring agreement was reached, providing much-needed cash flow relief while simultaneously setting fiscal targets – close the budget deficit to 3 per cent in FY2017/18 and maintain a surplus of 2 per cent of GDP – which the government has succeeded in meeting.

Economic performance

Economic growth slowed to an average of 2.2 per cent between 2010 and 2017. However, recovery is on an upswing. Real GDP grew by 1.4 per cent in 2017, up from –0.6 per cent recorded for 2016. Owing, chiefly, to a boom in tourism underpinned by economic expansion in Belize's trade partners, data point to accelerated business activity, evidenced by 5.4 per cent year-on-year growth in real GDP in the second quarter of 2018. Tourism arrivals were up by 17.1 per cent during the first six months of 2018, compared with the same period in 2017, owing to faster growth in the USA and Canada – which account for three quarters of total stay-over tourist arrivals – and a 7.4 per cent increase in air arrivals. This was well above the average for the Caribbean region. Competitive prices in the tourism sector also work in Belize's favour.

The agriculture sector has also expanded, particularly banana and sugarcane products, as a result of capacity-building and foreign direct investment. However, disease-related challenges have hindered the sector's potential. This, together with reduced government capital expenditure, has kept growth levels below projected levels.

The near-term growth outlook is positive, with expected growth of 2.1 per cent in 2019 with increases in tourist arrivals, remittances and citrus and sugar exports. Growth is expected to gradually slow in the medium term to 1.7 per cent. Of concern is that Belize's growth outlook hinges on economic activity in the advanced economy trading partners.

Prices, wages and employment

The unemployment rate declined to 9.4 per cent by end-June 2018, the lowest rate ever recorded, on the back of strong job creation

in the services industries. According to the International Labour Organization, in 2018 the unemployment rate in Latin America and the Caribbean was slightly lower than its 8.1 per cent in 2017.

Despite higher fuel prices and an increase in sales tax, the CPI dipped from 1.0 per cent (year on year) in 2017 to 0.5 per cent for the first half of 2018. This continues Belize's historical record of low inflation in the context of its exchange rate peg to the US dollar.

Fiscal developments

Two significant rulings by the Caribbean Court of Justice put downward pressure on international reserves and forced government debt upward. The first was a November 2017 ruling that required the government to pay US\$78 million to the former owners of the nationalised Belize Telemedia Limited. The second ruling ordered the government to assume the BZ\$92 million (US\$46 million) debt of universal health services, which it had previously guaranteed. Excluding this one-off transfer, a primary fiscal surplus of 1.3 per cent of GDP was recorded for FY2017/18, a turnaround of 3.2 of GDP from the previous year and above the 3 per cent adjustment committed to creditors under debt restructuring. The FY2018/19 budget raised the primary surplus target to 2 per cent of GDP. Other fiscal adjustments, aimed at meeting commitments to creditors, include decreased government investment (with some downward pressure and economic activity) and increased tax measures, though the impact of these has been lower than expected. The public wage bill inched upwards as a result of a one-off increase from a previous bargaining agreement. The stock of public debt reached 94 per cent at the close of 2017.

Trade developments

The payment to Belize Telemedia Limited, when added to the wide current account deficit and reduced PetroCaribe flows, brought international reserves to US\$304 million (3.3 months of import cover) at the end of 2017.

Key development challenges

Belize faces both downside risks to its growth prospects and structural impediments to growth. The government faces US\$100 million (5.2 per cent of GDP) in inherited claims that may lead to significant public and external financing needs. Economic slowdown in Belize's main trading partners could constrain growth via a slowdown in tourism, export demand and remittances. Other potential growth shocks include higher energy prices and increasingly severe and more frequent natural disasters. These shocks have the potential to trigger liquidity risks whereby depressed businesses reduce bank holdings – the largest source of loanable funds to the banking sector. A deficient capital market will not be able to make up the shortfall. The realisation of these risks endangers fiscal recovery and debt sustainability.

Structurally, Belize is afflicted with declining factor productivity and a weak business climate. A growth-inducing, competitive business environment calls for easier access to credit, including microfinance, especially for farmers and small and medium enterprises, modernising and accelerating business registration procedures, amending labour legislation to allow greater flexibility in working hours to the benefit of the tourism and business process outsourcing sectors, improving education and training, quelling corruption and reducing crime and violence.

Guyana

Country data	
Population (millions) (2017)	0.78
Area '000 km ²	214,999
GDP (US\$, billion, 2018)	6.3
GDP per capita, PPP current international US\$ (2018)	8,100
Currency	Guyana dollar (GYD)

Guyana is well endowed with natural resources, from fertile agricultural lands to extensive reserves of bauxite, gold and, more recently, oil. Unspoiled tropical forests swathe much of the interior – accounting for more than 80 per cent of the country's land mass. The primarily coastal economy yields GDP of US\$8,100 for each of its citizens – one of the lowest in the Commonwealth Caribbean. However, Guyana's medium-term outlook looks positive, as the windfall from the initiation of oil production in 2020 is potentially life-changing for its citizens. The government of Guyana is challenged to bolster its institutional capacity to regulate its new oil industry, to be vigilant in stemming corruption (a known evil of resource-rich economies) and to establish resilience funding (in the form of sovereign wealth fund) to ensure the economy is insulated from the volatility of global energy markets, as well as to foster improved competitiveness in its traditional mainstay exports to ensure the economy does not become oil-dependent. Like other countries in the region, Guyana is vulnerable to extreme weather events including hurricanes, floods, landslips and sea level rise.

Economic performance

Guyana's economy, which is based largely on agriculture and extractive industries, has expanded moderately in recent years, growing by 2.1 per cent, year on year, in 2017. The country's five-year average (2014–2018) GDP growth was 3.65 per cent. The economy is heavily dependent on the export of six commodities – sugar, gold, bauxite, shrimp, timber and rice – which represent nearly 60 per cent of the country's GDP and are highly susceptible to adverse weather conditions and fluctuations in commodity prices.

Guyana closed or consolidated several sugar estates in 2017, reducing production of sugar to a forecasted 147,000 tonnes in 2018, less than half of 2017 production. Much of Guyana's growth in recent years has come from a surge in gold production, which is offsetting the decline in sugar output. In 2018, an estimated 3.2 billion barrels of oil were

discovered offshore and Guyana is scheduled to become a major petroleum producer by March 2020.

Prices, wages and employment

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

In late 2017, the government of Guyana announced wage increases for approximately 14,000 public servants, ranging from 8 per cent for those earning between US\$266 and \$478 per month to 0.5 per cent for those earning between \$3,827 and \$4,784 per month. Wages of over \$4,784 were not increased. Structural reforms led to major downsizing among the sugar estates, which left as many as 7,000 workers jobless. There was also retrenchment in the logging industry. This contributed to a higher unemployment rate of 12 per cent, 4.2 per cent above the average for the wider Latin America and Caribbean region.

Trade developments

Guyana's entrance into the CARICOM Single Market and Economy in January 2006 broadened the country's export market, primarily in the raw materials sector.

Fiscal and debt developments

Recent years have seen the government's stock of debt reduced significantly – with external debt now less than half of what it was in the early 1990s. Despite these improvements, Guyana is still juggling a sizable external debt against the urgent need for expanded public investment. In March 2007, the Inter-American Development Bank, Guyana's principal donor,

cancelled Guyana's nearly US\$470 million debt, equivalent to 21 per cent of GDP, which, along with other Heavily Indebted Poor Country debt forgiveness, brought the debt to GDP ratio down from 183 per cent in 2006 to 52 per cent in 2017.

The five-year average fiscal deficit (2013–2017) amounted to 3.7 per cent of GDP. Impending oil production is expected to translate to a significant increase in government revenues, which may be used to further improve the country's debt position and invest in necessary institutional strengthening and human capital improvements.

Key development challenges

Strengthening institutional capacity and human capital formation are among Guyana's major development priorities. Chronic problems also include ongoing poverty and inequality, a shortage of skilled labour and neglected infrastructure.

Evidence suggests the existing quality of human capital is insufficient for sustainable growth. Addressing the human impediment to development requires focus on increasing life expectancy from 66.6 (2016) to be on par with its Commonwealth Caribbean neighbours, addressing higher-than-average levels of undernourishment, bolstering public health investment, which was estimated at 4.1 per cent of GDP in 2018, and improving the quality of schooling and training to ensure skills are available for new and existing industry. Further compounding the issue of human capital formation is the mass exodus of skilled labour, with Guyana having the seventh highest emigration rate globally.

The government of Guyana has made progress towards institutional strengthening, particularly in shoring up the regulatory framework of the oil sector to ensure the expected economic and social transformation, financed by oil gains. Establishment of the Energy Department, drafting of the Petroleum Commission Bill and proposal of a Sovereign Wealth Fund are notable strides. However, there is a need to

correct deficiencies in the larger public sector. In 2016, Guyana ranked in the 42nd and 37th per centiles for government effectiveness and regulatory quality, respectively. The quality of public service delivery is lacking and compounded by management inadequacies. Weak governance together with low human capital and limited budgets sums up to low public sector institutional effectiveness. The financial management deficits of the government also come into sharp focus: this will be key to managing expected oil wealth.

To truly capitalise on envisaged gains, infrastructural improvement is needed. In this area, better electricity generation and distribution is paramount. Improving domestic and international transport links is also key.

Guyana faces significant climate risks from rising sea levels, more unpredictable rainfall and increased frequency and severity of flooding. These risks pose the biggest threat to the coastal agriculture sector and, as such, there will be a need to develop comprehensive measures to increase its resilience amid changing climatic conditions.

Guyana also lags behind other commodity-dependent small economies on crime and security – business costs of terrorism, business costs of crime and violence, organised crime and reliability of the police service – with the biggest gap seen in its police service. Understaffing and tense community relations are just two of the more significant challenges here.

Jamaica

Country data	
Population (millions) (2017)	2.93
Area '000 km ²	11
GDP (US\$, billion, 2018)	15.78
GDP per capita, PPP current international US\$ (2018)	8,930
Currency	Jamaican dollar (JMD)

The largest island in the English-speaking Caribbean, and the most populated, Jamaica has a relatively large and diversified economy. Against the backdrop of programmatic support from the IMF, Jamaica has rebounded from nearly a quarter of a century of volatile and lacklustre economic performance. The country's crippling stock of debt has been slashed by a third since 2013, inflation and interest rates are at historical lows, external deficits have narrowed and confidence in the country's economy has improved tremendously – and so too have credit conditions. Added to that, employment and business confidence are the highest they have ever been. Owing to good governance, Jamaica's strong reformed policy track record is being rewarded in the stock market. Jamaica's equity market was the globe's best performer in 2018. In January 2019, Fitch upgraded Jamaica's credit rating to B+ and pushed the rating ceiling to BB-, the highest in a decade. Sustaining this upward trajectory will require continued fiscal prudence and structural reform geared towards faster, more inclusive, economic growth.

Economic performance

The IMF has acknowledged the existence of sustained improvements in macroeconomic outcomes, under successive Fund arrangements (2013 and 2016), describing Jamaica's programme performance as exemplary. The economy has experienced growth for the past 15 quarters. Real GDP increased by 1.8 per cent annually in Q3 2018 – the highest-recorded growth in a decade – buoyed by strong outturns in the construction, tourism and mining sectors. Real GDP is estimated to grow by 2.4 per cent in the medium term against the backdrop of increased public and private investment and enhanced productivity.

Prices, wages and employment

As at July 2018, the unemployment rate dipped to 8.4 per cent, the lowest level in 50 years. This was indicative of jobs created by the upswing in activity in the construction, mining and tourism sectors. Labour force

data pointed to a shift in employment from agriculture, domestic households and other informal sectors to services and skilled professional occupations, and a decline in youth labour force participation as persons aged 14–30 years are seeking education and training.

Inflation is subdued, closing 2018 at 2.4 per cent, well below the Bank of Jamaica's target of between 4 and 6 per cent. Up to February 2019, the inflation rate was inelastic to a 225 bps change in the Bank's overnight policy rate, owing to low oil and food prices and structural rigidities in the monetary transmission. The Bank has made another 25 basis points policy rate cut and reduced the cash reserve ration from 12 to 9 per cent effective 1 March 2019, to the end of pushing inflation upwards to the target range.

In line with the Fiscal Responsibility Law, the public sector wage bill is expected to reach the target of 9 per cent of GDP as four-year wage agreements have been made with 96 per cent of central government employees.

Trade developments

Jamaica's external position has improved. The current account deficit for FY2018/19 is estimated at 2.5 per cent of GDP, up from 2.0 for FY2017/18. Growth in tourism and mining exports has been countered by increased imports of raw material and fuel. International reserve coverage is consistently high, with gross reserves at 115 per cent of the IMF Assessing Reserve Adequacy metric.

Fiscal developments

Public debt is a third of its 2013 level, at 101.1 per cent of GDP for FY2017/18, and is estimated to fall below 100 per cent (to 99.6 per cent) for the first time since FY2000/01. The Fiscal Responsibility Law also provides the schematics for reducing the debt to GDP ratio to 60 per cent by FY2025/26.

Despite significant public outlay on road construction, resilient tax revenue equated to a primary surplus of US\$295 million

(2 per cent of GDP) above target. The revenue over-performance, and widened tax base, supported reductions in distortionary financial taxes and a higher general consumption tax (GCT) threshold. Ad-valorem stamp duty was eliminated, the transfer tax was lowered by 3 per cent to 2 per cent, the GCT threshold was increased from \$14,790 to \$73,950 and the estate tax threshold was raised from \$740 to \$73,950. The expected net effects of these, and other, tax cuts are reduced business costs, reduced informality and enhanced economic activity.

Heightened revenue performance has also given way to higher expenditure of 0.6 per cent of GDP. Spending has been concentrated on capital investments for security, school-related expenditure for the school feeding programme and exam fees, among other things.

Key development challenges

With its narrow export and production base and dependence on commodity imports, Jamaica is vulnerable to exogenous shocks. Moreover, it is heavily dependent on remittances (at 15 per cent of GDP) and tourist arrivals. Any significant downturns in one of three key markets (for exports, remittances and tourists) – Canada, the UK, the USA – will have ripple effects on the economy. Like its Commonwealth neighbours, Jamaica's outlook may be clouded by adverse weather shocks, which would bring activity in its most productive sectors – tourism and mining – to a crawl.

Sustaining gains achieved in the past decade will require overcoming the challenge of weak governance and lack of transparency and crime as a top priority. Jamaica's ranks seventh on Transparency International's Corruption Perceptions Index 2018 of the 12 CARICOM countries; it is above par for public engagement in external audits and below par on transparency. Significant deficiencies have been uncovered in technical compliance and effectiveness of the anti-money laundering/ countering the financing of terrorism

framework. The government is taking steps to address these issues, including by establishing the Integrity Commission and implementing policies and boards to overhaul appointments to public boards of public bodies and the performance of public entities.

Jamaica has experienced large economic losses as a result of natural disasters in the past. Its vulnerability to these climate change impacts has motivated the Commonwealth member to develop a national climate change policy framework to ensure climate change issues are mainstreamed into national policies and development activities.

With risks to business and consumer confidence and tourism arrivals, the economic consequences of crime are broad-based. States of emergency across multiple parishes reduced the murder rate in the first half of 2018, but there is a need to develop a sustainable framework to effectively reduce crime during normal times.

The combination of engineered fiscal space in the budget for social spending and cuts to distortionary financial taxes has not translated to commensurate upticks in private sector activity. Sluggish private investment underscores the need to address supply-side impediments to growth and job creation. Jamaica's business climate is weak in areas of accessing electricity, resolving legal disputes, obtaining construction permits and trading across borders, as well as innovation. High electricity prices are especially a drag for local businesses. Domestic private sector credit trails far behind the average for middle-income countries and the wider Latin America and the Caribbean region.

Strides made in reducing the central government's debt stance may be threatened by exchange rate fluctuations. There is a need to refinance foreign currency debt to Jamaican dollar debt. Further monetary loosening is required to bring inflation inline with Bank of Jamaica targets.

Trinidad and Tobago

Country data	
Population (millions) (2017)	1.39
Area '000 km ²	5.1
GDP (US\$, billion, 2018)	23.41
GDP per capita, PPP current international US\$ (2018)	32,060
Currency	Trinidad and Tobago dollar (TTD)

Trinidad and Tobago is inching its way out of a deep economic recession, ushered in by plummeting oil prices on the global market and a fall in the domestic production of oil and natural gas. The pace of contraction of the real sector slowed towards the end of 2017, underpinned by a recovery in gas production. However, dampened activity in construction, financial services and trade, as well as persistent foreign exchange shortages and sluggish private investment, continues to constrain growth in the non-energy sector. A sizeable primary deficit has been lessened by fiscal consolidation and cuts to public expenditure, but public debt has neared the soft target of 65 per cent of GDP. The country's sovereign credit ratings have been downgraded, citing macroeconomic imbalances, with a risk of failure to reduce the fiscal deficit, contain public debt and implement key institutional reforms. Gross international reserves and the Heritage Stabilisation Fund provided significant buffers. The economic outlook is expected to improve in the medium term, but this hinges on the energy sector, making the economy's rebound susceptible to inherently volatile energy prices.

Economic performance

With unfavourable energy market conditions, globally and domestically, the economy

contracted by 6.1 per cent in 2016. However, it began to rebound in 2017, as contraction halved to 2.7 per cent. New oilfields and improving pumping technologies in mature fields fed a pivot in the performance of domestic energy sector and the economy. It is expected that the economy will expand by 1 per cent in 2018 on the back of the recovering energy sector. However, this improvement will be offset by a third consecutive year of negative growth in the non-energy sector, particularly construction, trade and financial services. Slow implementation of public investment projects has also weighed on the sector. According to the IMF, the economy is expected to grow by an average of 1.5 per cent in the medium term. The government is seeking to establish a legislative framework for the generation of electricity from renewable energy sources: by 2021, 10 per cent of the country's electricity will come from renewable sources.

Prices, wages and unemployment

Buttressed by weak demand, headline inflation stood at an all time low of 1.9 per cent in 2017. By June 2018, it had reached 0.9 per cent. Core inflation was only 0.8 per cent for the same period, relative to 1.7 per cent a year earlier.

The unemployment rate remains among the lowest in the Commonwealth Caribbean, at 5.3 per cent by the end of Q2 2017 – 2 per cent higher than levels three years prior. There was a sharper increase in youth unemployment over the same period, from 7.9 per cent in Q2 2014 to 12 per cent in Q2 2017.

Fiscal developments

The fiscal deficit widened in FY2017/18, reversing its positive trend for the first time in seven years. Higher energy prices did not translate to significantly higher energy revenues, partly because of fiscal incentives. Tax reforms in both the energy and the non-energy sectors improved revenue into the first quarter of FY2018/19. The improvement in the primary fiscal balance was earned

through two years of fiscal tightening by the central government, equal to 2.2 per cent of GDP. The most significant cuts were in the areas of transfers and subsidies (1.6 per cent of GDP), particularly the fuel subsidy, goods and services (1 per cent of GDP) and capital investment (0.7 per cent of GDP). Borrowing 3.5 per cent of GDP from the Heritage Stabilisation Fund and one-off asset sales helped finance the slightly smaller deficit.

In September 2017, the debt to GDP ratio was 2.3 per cent below the soft target of 65 per cent. By March 2018, the ratio had reached 59.6 per cent, 5.4 per cent below the target.

Trade developments

At the end of the first half of 2018, net official reserves stood at 8.5 months of import cover, or US\$7.7 billion – an 11 per cent year-on-year decline. This is also lower than year-end 2017 levels of 9.4 months of import cover. Outflows in the financial account in 2017 were attributed to net acquisitions of investment instruments by residents. Trinidad and Tobago remains a net creditor, although reserves have been on a downward trajectory for the past 15 years. Together, energy investments, tax reforms and favourable production and price conditions in the oil and gas sector may slow the contraction in reserves.

In 2017, the trade balance improved by approximately 11 per cent of GDP, on account of higher energy exports and a moderate recovery of energy prices. Depressed domestic demand also lowered imports.

Key development challenges

The central government is challenged to envisage a multi-pronged strategy for sustainable recovery that aims to counter the upward trajectory of public debt and an overreliance on the energy sector while creating an enabling environment for the non-energy sector, to spur growth and increasing transparency of the operating environment for the energy sector. As a matter of urgency, the imbalance in the foreign exchange market must be narrowed. Continued scarcity in the

foreign exchange market puts downward pressure on business and consumer confidence, increases business costs, hinders non-energy sector activity and could solicit a response that further exacerbates shortages. Structural reforms will necessarily combat other issues that are strangling non-energy sector growth, including weak tax collection and contract enforcement, high cost of doing business, high (and increasing) levels of crime and a sizeable skills gap.

Trinidad and Tobago scored below potential in 2017 for public sector performance, in large part because of inefficient public spending. The problem is characterised by high transfers and subsidies (17 per cent of GDP in FY2017/18) and low capital investment (2.4 per cent in FY2017.18). The IMF estimates that fiscal adjustments equal to 6.5 per cent of GDP are required to put government debt on a sustainable path. Key areas of focus include addressing tax arrears, value added tax reform, new transfer pricing mechanisms, optimising transfers and subsidies and restructuring and reducing the number of SOEs. Though steps have been taken to reduce fuel subsidies, total subsidies to the energy sector are highly distortionary. Restoring macroeconomic stability requires the completion of the fiscal consolidation programme. Key legislation and regulation, including the gaming tax; the Revenue Authority's reintroduction of property taxes and the Tax Policy Unit; as well as further savings from reduced subsidies (well above regional averages) are outstanding, and could erode progress already made. Weak

governance of SOEs has also led to inefficient expenditure. A framework to assess and prioritise capital expenditure programmes is absent, making it difficult to match projects to development priorities.

Several downside risks threaten the near-to medium-term outlook. A reversal of energy prices would curtail economic recovery, worsen an already challenged foreign exchange imbalance and reduce government revenues. Rising US rates and US dollar appreciation could worsen competitiveness under the stable exchange rate regime, worsening currency pressures. Implementation delays in delivery of energy-related projects and in fiscal adjustments, when added to currency scarcity, threaten market confidence and may erode the country's credit rating. With gross international reserves projected to continue to decline, reaching 4.9 months of import cover by 2023, accelerated depletion of foreign reserves puts the economy at risk of a balance of payments crisis.

Trinidad and Tobago is up against structural constraints to achieving economic diversification and improving competitiveness. Ranked 83rd (of 137) on global competitiveness, the country urgently needs to tackle crime and violence and institute measures to foster ease of doing business. The country's ranking is the second worst globally (136th) on labour market efficiency, particularly for employee-employer relations. Rigidities in public-private partnerships severely stem the potential to develop non-energy industries.

Special focus on Guyana: Avoiding the 'resource curse'

With doing business and transparency indicators less than favourable, can Guyana, on the cusp of the world's next big oil boom, handle its newfound riches?

With ExxonMobil set to begin oil production in Guyana in 2020, mining crude oil from its seven new deep-water wells, Guyana is poised to assert itself as the largest oil-producing country per person, with conservative estimates putting output at

700,000 barrels per day among 770,000 people. The World Bank estimates that the latest oil discovery in the region will see Guyana more than tripling its 2016 GDP (US\$3.4 billion) by 2025 to reach \$13 billion. The IMF projects that, based on the revenue-sharing agreement between the government and ExxonMobil, the economy will earn \$380 million in the first three years until the oil conglomerate recoups its initial exploration outlay. Thereafter, the government will receive approximately half of ExxonMobil's oil revenue. These earnings, which equate to \$17,000 per person, are potentially transformational for the people of Guyana, four in 10 of whom cannot afford the basic costs of living. However, with exploration as far as 120 miles offshore and no onshore refinery in the making, oil executives estimate at most 1,000 Guyanese being hired by offshore drilling. As such, the earning windfall will reach the population most directly through fiscal management by the government (IMF, 2019). There is a remarkable opportunity to channel oil revenue into strengthening education, health care and infrastructure.

If history is any guide, an influx of oil wealth blends seamlessly with corruption and stagnation in the non-oil economy, which is made worse by weak political institutions, limited experience regulating a booming oil industry with decade's old international players and sluggish innovation in the private sector – all conditions that define the Guyanese reality. Dubbed the 'resource curse', a series of risks present with a great boom in oil wealth, which will undoubtedly choke the potential gains to the Guyanese economy and populace. Guyana only needs to look to its neighbour, Venezuela, as a cautionary tale of the resource curse. The once-dominant regional oil producer is in the throes of an alarming economic and political crisis, with inflation predicted to reach a mind-blowing 10 million per cent in 2019.

On top of the aforementioned risk factors, there is temptation to overspend oil revenues on social programmes. Citizen-centric programmes would be a welcome positive use of Guyana's newfound wealth but mismanagement can mean such programmes are used to placate citizens in place of proper democratic representation. The experience of Venezuela and others (Angola, Nigeria) is evidence that corruption flourishes as elected leaders use oil income as their political slush funds and governments become less accountable to the electorate, buying votes instead of earning them. Guyana ranks 93rd (out of 180 countries) on transparency and public corruption, making it more susceptible to this aspect of resource course.

The \$13 billion question: How can Guyana avoid the resource curse?

Focus on reducing the budget deficit rather than spending higher revenues. The IMF notes that, where governments increase expenditure in anticipation of higher current and future income, budget deficits have widened and led to increased borrowing. However, increased expenditure and debt holdings can quickly become unsustainable once the windfall subsides and, if the volatility in oil prices that crippled Venezuela's oil industry is any indication, the windfall may be reduced or reversed quite quickly and unexpectedly.

Strengthen commitment to restructure underdeveloped sectors. Learn from the ill-fated experiences of other countries, overly confident in their oil revenues, which failed to create and develop growth-supporting infrastructure and institutions. It is not enough to simply prop up these sectors with oil-funded subsidies, as this too can become

unsustainable if there is a downturn in revenues. Rather, best practice is to use the oil gains to finance the restructuring of identified sectors during the boom, so they function without or with sustainably smaller subsidies when the boom slows or reverses.

Promote economic diversification. The key is to prevent an overreliance on oil revenues by increasing the competitiveness of non-oil industrial sectors. Guyana already has good candidates for this in its rice, gold and, to a lesser extent, sugar industries, which have been the mainstays of the economy up to this point.

Establish a stabilisation fund. The IMF singles out Norway as the flagship example of windfall management. Norway has established the Government Pension Fund Global to invest surplus oil revenue. The fund is only accumulated when there is an overall fiscal surplus, with the savings amount determined annually during the budgeting process. The government has also adopted a countercyclical fiscal policy, tightening the fiscal stance during oil price increases to control inflation and loosening the stance during downturn. The central bank manages the fund's investment, which has reaped annual returns of 6 per cent for more than two decades.

What has Guyana done so far?

Guyana has joined the Extractive Industries Transparency Initiative and the New Petroleum Producers Group, both of which provide guidance and transparency requirements for managing resource-driven wealth.

In January 2019, Guyana's National Assembly approved a bill to establish a sovereign wealth fund. The successful deployment of a stabilisation fund requires strict oversight and management to prevent over-borrowing, as was the case for another of Guyana's neighbours, Trinidad and Tobago. All withdrawals from the fund will require parliamentary approval.

With a US\$20 million credit from the World Bank, the Guyana Petroleum Resources Governance and Management Project was approved in April 2019 to the end of providing technical assistance to the government of Guyana to strengthen laws, regulations and institutions to promote good governance, introduce ironclad checks and balances to mitigate social and environmental risks and build the capacity of the Ministry of Finance, the Department of Energy and the Environmental Protection Agency as well as to enhance social accountability through citizen education and engagement.

5.4 Major development challenges

The key challenges facing the 12 Caribbean Commonwealth member countries manifest in all three dimensions of the Sustainable Development Agenda. Arguably, the most stifling of these challenges presents in the economic dimension. Although an upturn in the global economy has trickled down to select sectors in select countries, economies of the Commonwealth Caribbean have continued to be plagued by low, albeit

positive, growth since the global financial and economic crisis of 2008/09. This reality has translated to chronic fiscal deficits and an oppressive stock of debt. Relative to the size of the economy, the Commonwealth Caribbean bears among the most burdensome debt holdings globally, although this is expected to improve in the medium term. Tourism-dependent economies are especially indebted, having to allocate significant shares of government revenue to debt servicing and face the threat fiscal crises from rollover risks. With many Commonwealth

Caribbean countries categorised as middle-income countries, they are unable to access concessional funding reserved for vulnerable small island states but are still too risky for traditional international capital markets, often resulting in taxing loan terms.

Unable to achieve economies of scale, the public sector in many Commonwealth Caribbean countries is characterised by deficient public service delivery, a lack of human resources with specialised skills and a high wage bill. Further, service delivery is wrapped up in red tape, thanks to a paper-based culture, regulatory complexity, insufficient coordination among ministries and lack of digitisation and use of information technology solutions. While the CARICOM Single Market and Economy is an enlarged market that offers more and better opportunities to produce and sell goods and services in addition to greater economies of scale, it faces limitations regarding the necessary legal foundations on which to build and enforce an effective regional system.

The external sectors are entrenched with issues, including low levels of diversification of markets and products and deficiencies in competitiveness, which have amplified the impact of the dissolution of once-advantageous preferential trade arrangements, with traditional northern trade partners, for major commodity exports. The simultaneous liberalisation of import markets in the sub-region has disrupted the competitive dynamic of the local economies, to the detriment of local producers. The proof is in the three-years-running trade deficit. Commodity-dependent economies are especially volatile to exogenous price swings and changes in trade terms.

An impediment to boosting innovative production and economic diversification lies in the human resource capacity of member countries. While the labour force is highly educated, there is an apparent mismatch between the educational qualifications of persons attempting to enter the labour force and the requirements of the labour market, especially in the area of technology. Moreover,

the region continues to involuntarily export tertiary-educated and skilled labour at one of the highest rates in the world.

Private sector activity in the Commonwealth Caribbean is sluggish, at best. The relatively small scale of the market, a weak institutional framework, a mismatch between skill supply and demand and high energy prices choke private business development. Stemming from the poor service delivery culture in the regulatory public sector, the business environment does not generally spur innovation and growth. Average ease of doing business in the 12-country Commonwealth Caribbean scored 58.63 for 2017/18, which lands the region at a global ranking of 120, suggesting that, even at the most optimistic, innovation in the region is lethargic and lags behind other small island developing states. Jamaica is at the top of the table in fostering a growth-inducing business sector but still ranks 70th. Outside of a growth-hampering institutional framework, private sector activity is constrained by difficulties in accessing credit, especially for small and medium enterprises. This owes in part to steep collateral requirements, which range from 60 per cent of the loan amount in Guyana to 180 per cent in Barbados.

Globally, there is heightened recognition of the threat of climate change and disproportionate impact of natural disasters on the economies of small island states like those in the Commonwealth Caribbean. With all but two of the constituent economies being defined as tourism-dependent, the impact of more frequent and more intense natural disasters has dire economic (and environmental) impacts. Not only must central governments outspend their own real production on recovery and rebuilding efforts but also the damage suffered by tourist-dependent service providers and the physical landscape brings activity in the sector to a painful slowdown, if not a screeching halt.

The 2017 experience with Hurricanes Irma and Marie is an all-too-recent cautionary tale of the arduous burden left in the wake of more intense storms: the hardest-hit

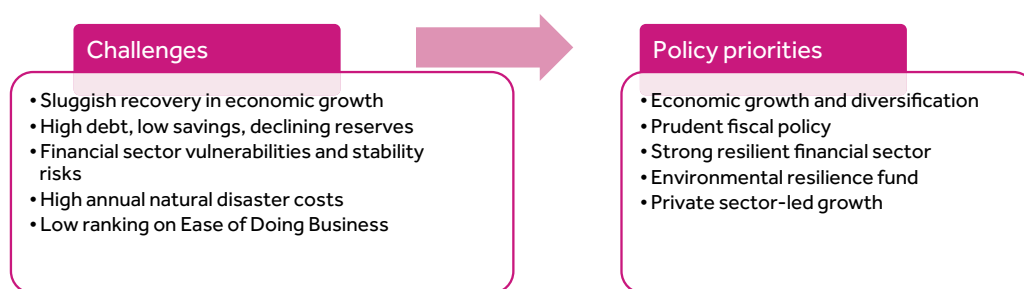
members, such as Dominica, experienced a double-digit contraction in GDP. Recovery expenditure also puts upward pressure on central government borrowings. The burden of climate change gets heavier when issues of biodiversity, coastal protection and the need to promote renewable energy in economies heavily dependent on oil are considered. While the occurrence of these disasters is beyond the control of member governments, they are challenged to improve preparedness, recovery and sustainable reconstruction.

The financial services sector in the Commonwealth Caribbean is touted as being sophisticated. However, the outlook of the sub-region's financial sector, and by extension its economy, is darkened by threats of de-risking, resulting in the loss of correspondent banking relationships, as well as new challenges to the offshore financial sector, which had been developing as an opportunity for economic diversification and economic resilience-building. This threatens to exclude indigenous institutions from the global banking system. Meaningfully addressing both these phenomena will require strong advocacy at the international level.

The same trans-Americas location that makes the shores of the Commonwealth Caribbean a convenient and affordable tourist destination has placed the sub-region at the centre of heightened challenges of illicit trafficking and transnational crime, which local legislation and security personnel are limited to address. Added to this is the prevalence of violent crimes, including crimes against women, which is a turn-off to business investment and tourists. High levels of unemployment, and even higher levels of youth unemployment, contribute to prevalence of crime.

Achieving sustainable development will necessitate innovative, comprehensive and integrated policies to meet and rise above the aforementioned challenges. However, with fiscal institutions in the region described as weak, on their own they are not equipped to address the challenges faced in terms of potential for shocks, volatility and vulnerability. Implementing a national and sub-regional development agenda will require enhanced support from and collaboration with the global community.

5.5 Policy priorities



The macroeconomic challenge stacked against the economies of the Commonwealth Caribbean is a two-headed monster: low growth and high indebtedness. Together, these two issues translate into strained public accounts with high fiscal expenditure (most notably high wage bills, transfers and subsidies) that outstrips government tax and other income and results in unsustainable primary balances.

Prudent fiscal policy

With the implications of debt distress including anaemic growth, an unstable macroeconomic environment and possible deterioration of a country's sovereign wealth rating, prudent fiscal management is tantamount to far-improved debt management. More rules-based fiscal management will allow member governments

to stabilise the fiscal accounts and generate the fiscal space needed to respond to the natural disasters and exogenous economic shocks to which the sub-region is prone. The 'nudge and flex' rule caps government expenditure and mandates the ratio of government expenditure to savings. Savings are allocated to a stabilisation fund. It also caps the debt to GDP ratio at 50 per cent, with a 10 per cent buffer for disaster recovery. Governments are challenged to borrow to finance productive enterprises that generate returns well above the cost of borrowing.

Reduction of transfers and subsidies

An essential component of ensuring the upper limit on government expenditure is attainable is a reduction in spending on transfers and subsidies. Since blanket subsidies and other social spending are notorious for failing to reach the pockets of the population most in need of them, a means-testing approach to defining eligibility for social programmes should be implemented. More frequent Household Budget Surveys and Standard of Living Surveys will be instrumental to identifying households in need and ensure that said households receive the much-needed assistance, while minimising wasted expenditure on individuals and households not in dire need. An overall reduction on transfers and subsidies also necessitates the rationalisation of SOEs, such that inefficient enterprises with operating costs that exceed the economic and social benefit of the services they provide are divested.

A blueprint laid out by PwC (2015)³ dictates that profitable SOEs that do not provide a public good or social benefit should be privatised; SOEs that neither generate a profit nor provide a public good or social benefit should be discontinued; SOEs that are socially beneficial but do not generate significant earnings should be maintained and regulated to maximise efficiency; and, finally, SOEs that do not provide a pure public good but earn profits should either be divested

and regulated or converted to public-private partnerships (hospital services and air and sea ports are notable examples). Jamaica is already engaging in the latter with the privatisation of its seaports and airport, as just one of the measures undertaken as part of extensive reforms that are bearing fruit.

A resilient financial sector

A stable exchange rate, buttressed by a stable fiscal framework, along with low interest rates, will contribute to enhancing the intermediary function of the financial sector. The focus will be on ease of accessing credit, ensuring adequate regulatory framework and fostering financial inclusion. Policies aimed at establishing collateral registries, business credit guarantee schemes, insolvency and other legislative reforms to encourage entrepreneurship are also key. The onus is on governments to foster development in financial and regulatory technology including anti money-laundering and anti-terrorism financing practices and customer due diligence (credit rating, etc.). Creating the legislative space for financial technology would have significant implications for improving the speed and cost of cross-border transfers for business as well as for remittances. Together, these measures could bode well with regard to reducing the threat of de-risking that hangs over the financial sector.

Resilience funding

As a direct result of the 'nudge and flex' rule, Commonwealth Caribbean governments will earmark a non-negotiable proportion of government revenue to be allocated to a stabilisation fund, which may provide much-needed financing for disaster recovery. Taking into account individual proneness to disasters and shocks and historical values of damage costs and lost revenues, individual member governments will be tasked with identifying the level of resource cover required to maintain operations for a specific period after an environmental or economic shock has occurred.

Notably, this type of fund is only one part of wider management framework that necessarily includes sound macroeconomic management, structural reforms to improve competitiveness and disaster risk management. The fund is intended to thwart a structural crisis by allowing the fiscal space to rebuild infrastructure, supplement revenue streams and reduce the need for emergency borrowing. Governments are also encouraged to establish or bolster existing natural disaster tool kits comprising a range of financial instruments. This will ensure they have access to liquidity in the immediate, recovery and reconstruction phases of a disaster. The Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company is one such instrument. On another note, minimising the cost of the rebuilding phase of a disaster is key to ensuring the total recovery effort can be sustainably financed. Upgrading, ratifying and/or enforcing building codes, as the case may be in each member country, is required to minimise property and other infrastructural damage, especially for buildings that house essential and public services.

Private sector-led growth

Achieving growth-spurring activity in the private sector entails a trifecta of reducing the cost of doing business, reducing resource and infrastructure gaps and bringing down energy costs. Various scholarly assessments of the wider Caribbean region prioritise access to finance and a skilled labour force to achieve a boost in doing business. CDB has identified a range of policy reforms that may improve access to finance and associated costs, including adequate laws and regulation for venture capital, angel investment and private equity. It also suggests incentives for the promotion of junior stock exchanges, where these do not already exist, to improve access to finance (CDB, 2018).

To address the skills gap, focus should shift towards the quality of education being offered, with evidence-based system reviews. There should also be more emphasis on Science, Technology, Engineering, Arts and

Mathematics (STEAM) subjects as well as innovation and entrepreneurship skills-building. Successful curriculum and system reforms should be measured by employment and labour market outcomes for graduates of the education systems in each member country. This will achieve multiple ends: correcting the mismatch between graduates' skill sets and labour market demands; reducing unemployment (and associated ills); and increasing the employed labour force who may contribute to social security schemes. The latter is particularly important, since the IMF has alerted that social security pay-outs to the rapidly ageing population are expected to outpace collections in 12 Caribbean countries by 2020 and deplete reserves by 2045, based on current rates.

Public-private partnerships

Public-private partnerships are the prescription for addressing the US\$10.6 billion shortfall in infrastructure financing facing Caribbean governments over the next decade⁴ (CDB, 2014). Successfully engaging in these arrangements may require institutional strengthening, to ensure public officials are skilled to assess the efficacy of arrangements. Good examples of these types of arrangements can already be found in the sub-region, in Jamaica – namely, the Highway 2000 project and Sangster International Airport.

Energy efficiency

Energy efficiency is key to economic growth and resilience. Opportunities for achieving this include smart architecture and construction, sale of energy-efficient consumer appliances and electricity grid interconnection and grid infrastructure improvement (CDB, 2018). Improving energy efficiency is already a key focus area for the wider CARICOM region, of which the Commonwealth Caribbean member countries are a part, with renewable energy targets of 28 per cent by 2022 and 47 per cent by 2027 having been set. To assist with reaching these targets, governments may implement policies, legislation and regulations that foster renewable energy development;

provide innovative financing or incentives for renewable energy products and projects; introduce policies including energy-efficient building codes, clean vehicle regulations and energy standards for appliances and equipment; and integrate the power grid with solar, wind power and energy storage.

Notes

- 1 World Bank World Development Indicators 2019
- 2 Ibid.
- 3 PWC (2015): <https://www.pwc.com/gx/en/psrc/publications/assets/pwc-state-owned-enterprise-psrc.pdf>
- 4 CDB (2014): <https://www.caribank.org/newsroom/news-and-events/usd30-billion-needed-modernise-caribbean-infrastructure-over-next-decade>

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