Caribbean Region Quarterly Bulletin

2017:I

Private Sector Development in the Caribbean

Volume 6, Issue 1 | March 2017

IDB Country Department Caribbean

Private Sector Development in the Caribbean

The Challenges Continue

This edition of the Quarterly Bulletin discusses recent economic developments in the Caribbean and explores challenges for the private sector to boost economic growth.

Selected Indicators	Real Growth Rate	Annual Inflation (% end of period)	General Government Primary Balance (% of GDP)	General Government Overall Balance	Current Account balance (% of GDP)	General Government Gross Debt (% of GDP)
The Bahamas	0.3	1.0	-0.4	-3.5	-11.4	75.2
Barbados	1.6	0.3	0.1	-7.8	-4.5	145.2
Guyana	2.6	1.3	-4.5	-5.4	-3.0	46.3
Jamaica	1.7	4.8	7.0	-0.6	-2.8	118.3
Suriname	-9.0	61.0	-4.5	-6.1	-3.6	67.8
Trinidad and Tobago	-2.3	3.1	-2.9	-5.0	-10.0	60.9
CCB Average	-0.9	11.9	-0.9	-4.7	-5.9	85.6

Source: International Monetary Fund and country authorities.
Note: Year is 2016 or closest available date. Barbados debt figure includes holding of NIS.

Summary of Economic Update by Country

At 0.3 percent estimated growth, economic activity in the **The Bahamas** was sluggish in 2016. However, based on tourism-related infrastructure, growth is estimated to accelerate to 1.4 percent in 2017. In spite of weak economic growth, the economy remains stable with gross international reserves forecasted to remain at stable levels and inflation projected to be lower than the previous year-end period. However, double-digit unemployment and a higher share of non-performing loans continue to constrain private credit.

In **Barbados** pressures are mounting in spite of improved economic growth. A series of downgrades in Barbados's sovereign credit ratings indicates low confidence on the part of credit agencies in the country's fiscal consolidation program and implies fewer financing options for the government. In addition, international reserves have declined to a 14-year low.

Guyana's economy lost momentum over 2016. While authorities remain optimistic that growth will improve in 2017, underlying weaknesses remain in several key productive sectors that may result in a lower than expected growth rate. An expansionary fiscal policy continues amid implementation challenges. Monetary policy remains accommodative as GoG introduces measures to address foreign currency shortages..

The **Jamaican** economy remains stable with a positive outlook. The IMF reported strong program implementation of the November 2016 Stand-By Arrangement following its first review mission. The Board is scheduled to consider the first review in April 2017. Economic growth forecasts for FY2016/17 remain at 1.7 percent with an acceleration to 2.1 percent the year after.

Suriname is still overcoming a deep recession triggered by the fall in commodity prices in 2015. The economy is still projected to contract in 2017 but improvements are likely for the current account and fiscal balances.

The economic situation in **Trinidad and Tobago** was marked by lower oil and gas prices. Economic activity contracted in both 2015 and 2016 but is likely to rebound in 2017. Temporary disruptions in 2016 in the petroleum industries are expected to pass and production to normalise next year. Conversely, stagnant non-energy activity is likely to continue, and expenditure cuts are maintained in the FY2016/17 Budget, keeping fiscal policy remains austere.

The **Eastern Caribbean** continues the tourism-led recovery. In addition, fiscal consolidation efforts are proving successful as some countries are achieving primary surpluses. Tropical Storm Matthew had an adverse impact on St. Lucia's agriculture sector, but Dominica made progress in its reconstruction and infrastructure rehabilitation efforts following damage wrought by Tropical Storm Erika.

Special Regional Report: The Private Sector in the Caribbean

This Caribbean Region Quarterly Bulletin explores constraints to private sector development in the Caribbean. With economic growth weak and dependent on only a few sectors—either tourism or commodity exports—authorities in all countries aim at diversifying the economy and boosting private sector development. While the private sector in each country faces specific issues, most share challenges resulting from red tape, complicated and tedious processes and weak environments for doing business.

PRIVATE SECTOR DEVELOPMENT IN THE CARIBBEAN: REGIONAL

Contributors: Jeetendra Khadan and Juan Pedro Schmid

Introduction

Caribbean countries share a growth challenge. Economic performance among them varies but the countries share a challenging outlook (Figure 1). For decades, economic growth of the three tourism-dependent countries, The Bahamas, Barbados and Jamaica, has been among the weakest in the region. In addition, the global financial crisis left long-lasting recessions from which these countries are still recovering. Current projections for these countries assume improving, but still-low growth rates. The commodity producers—Guyana, Suriname and Trinidad and Tobago—in general performed stronger and benefitted until recently from high commodity prices. However, the recent fall in commodity prices exposed overreliance on commodities and dampened the growth outlook in the short to medium terms. Taken together, growth in the region is projected to accelerate on average but growth rates remain low and there are considerable risks to those projections.

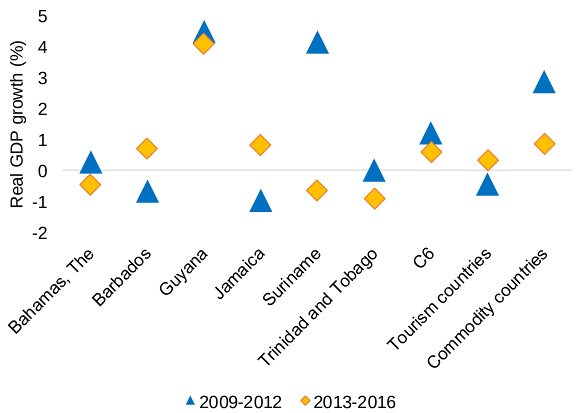
Can the Caribbean private sector be the impetus for a turnaround in the region's growth performance? Private sector investment is considered a main driver of sustainable economic growth.[1] In the Caribbean, however, the data shows that private investment both as a percentage of GDP and total investment has been systematically lower than in comparative countries, with the commodity dependent countries showing the largest gap[2]. The IDB's 2016 private sector report on the Caribbean argues that the Caribbean private sector "needs more than an oil change" if it is to become the region's engine of growth.

Private sector development is high on the policy agenda in the Caribbean. Fostering private sector investment, diversification and private sector development is a central pillar of the development agendas of the Caribbean governments. However, performance remains mixed as the private sector faces important challenges, including operating in small domestic markets and countries that are vulnerable to external economic shocks and natural disasters.

The Caribbean finds itself coping with deep-rooted structural problems, some emerging challenges and a lacklustre private sector. Fiscal stimulus is not a desirable option due to low fiscal multipliers in the Caribbean and limited and declining fiscal buffers. Within this context, there is a sense of urgency for the private sector to play a greater role in transitioning Caribbean economies to a relatively higher and sustainable growth path. The special section in this Caribbean Quarterly Bulletin examines three related questions for each of the member countries:

1. What is the structure and importance of the private sector?
2. What are the constraints that affect firms?
3. What are the policy actions that support performance of the private sector?

Figure 1. Real GDP growth



Source: World Economic Outlook (2016)

Performance of the Caribbean private sector

Caribbean firms perform relatively poorly when compared to firms in the rest of small economies. The performance of the private sector is crucial for economic growth. However, firm-level performance metrics of Caribbean firms—sales growth and employment growth—are on average worse than the ones of firms in the other small economies. Total factor productivity, a measure of efficiency, is also lower in the Caribbean compared to the other small economies.[3]

What are the main factors affecting firms' performance?

Caribbean business owners and managers face many challenges. One of the questions asked of executives in the 2014 Proteqin Survey is to rank the most serious

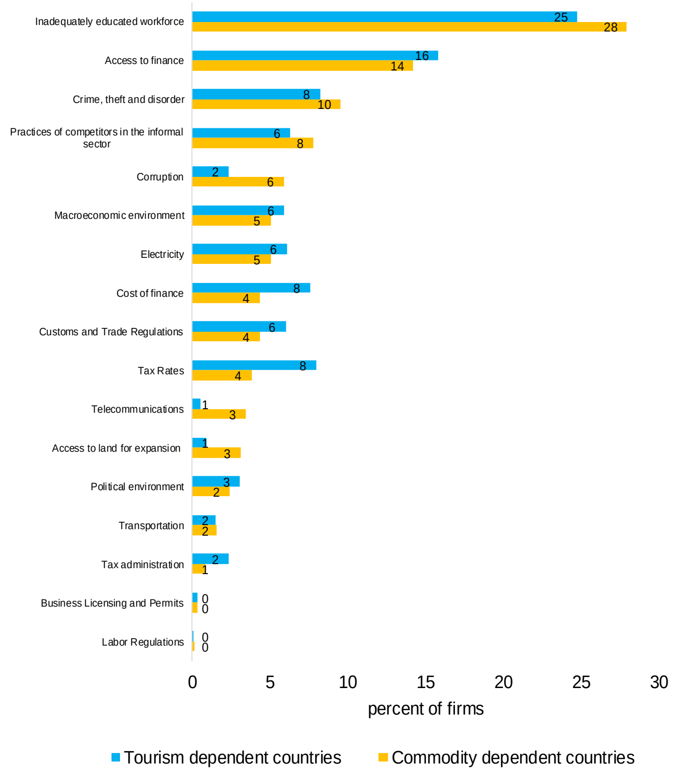
[1] Hausmann, R., D. Rodrik, and A. Velasco. 2005. "Growth Diagnostics," John F. Kennedy School of Government, Harvard University, Cambridge.

[2] Ruprah, I., and R. Sierra. 2016. An Engine of Growth? The Caribbean Private Sector Needs More than an Oil Change. Washington, DC: Inter-American Development Bank.

[3] Ibid.

factors affecting business operations in their country.[4] Figure 2 summarizes the main constraints to firms in commodity and tourism-dependent countries. The three main challenges are similar for firms in both groups of countries: (i) an inadequately educated workforce; (ii) access to finance and (iii) crime and security. The country sections of this report examine these issues in more detail as the importance of these constraints may vary and have different causes.

Figure 2. Laments of businesspersons

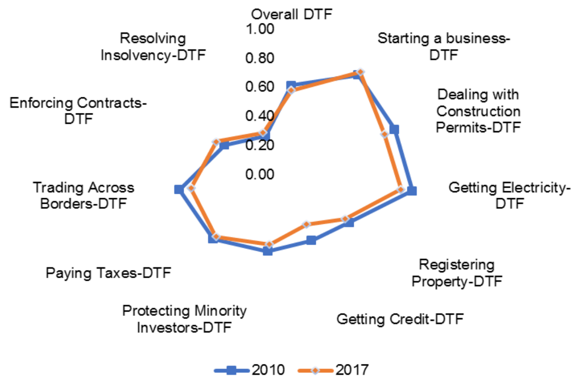


Source: Proteqin survey (2014)

The Caribbean Business Environment

The business environment in the Caribbean is becoming less conducive to private sector growth. Government policies, regulations, laws, and public services are important elements of the business environment that can either promote or inhibit firms' performance. The World Bank's *Doing Business Report* provides several indicators for assessing the ease of doing business within a country. Figure 3 compares the distance to frontier (best performer) score for various pillars of the ease of doing business index for the years 2010 and 2017. This comparison shows that the Caribbean is not improving relative to the best performance observed on each of the indicators across all economies, except for 3 indicators: starting a business, enforcing contracts, and resolving insolvency.

Figure 3. Ease of doing Business in the Caribbean: Distance to Frontier, 2012 and 2017



Source: Doing Business Report (2017).
Notes: The distance to frontier (DTF) score shows the distance of each economy to the "frontier", which represents the best performance observed on each of the indicators across all economies in the Doing Business sample.

What to do?

The Caribbean needs a pro-business environment. The country-specific sections of this bulletin show that much work is required to transform the Caribbean private sector into a dynamic, employment-generating and innovative driver of economic growth. Moving forward would entail, on a country by country basis, a review of the existing regulatory framework, and existing programs that support private sector development. Outdated legal-regulatory frameworks that are no longer appropriate and pro-business should be revised. Many countries have incentive programs but those that distort the economy, are a fiscal burden, or do not yield the desired outcomes should be revised or closed.

[4] Although these perceptions based surveys have their limitations, the recent report on the Caribbean private sector suggests that the laments of businesspersons tend to be correlated with more objective measures.

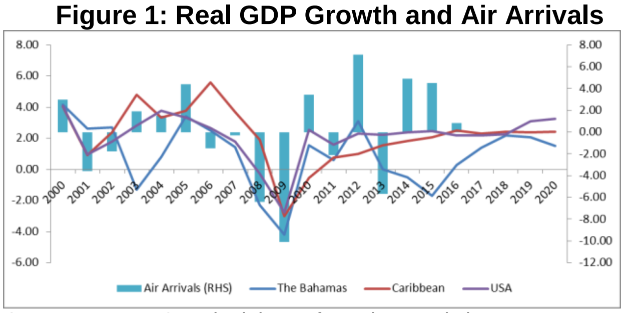
Contributor: Allan Wright

Overview

Real GDP growth for 2017 is projected at 1.4 percent (International Monetary Fund - IMF). Large private tourism-related infrastructural projects are expected to be growth positive within the next two fiscal periods. Specifically, four major projects will support the outlook: the Baha Mar Casino and Hotel (US$3.5B), Freeport Container Port (US$300M), Ocean Cay Hotel and Marine Park (US$200M) and Williams Cay Hotel (US$200M).

Maintaining a higher long-term growth trajectory is the challenge for The Bahamas (see Fig 1). Negative productivity growth and limited contributions from factor inputs (capital and labour) since 2000 have constrained the country's potential output. Economic growth could be supported by structural changes to the economy, like: i) investing in greater human capital accumulation by focusing on providing quality higher education, ii) pursuing pro-growth infrastructure projects that could become game-changers, or iii) focusing on competitiveness by reducing the costs of doing business (IMF 2016). Unlocking higher growth and enabling this change in an environment of fiscal consolidation is a major challenge for 2017 and beyond.

Figure 1: Real GDP Growth and Air Arrivals



Source: IMF WEO and Ministry of Tourism statistics

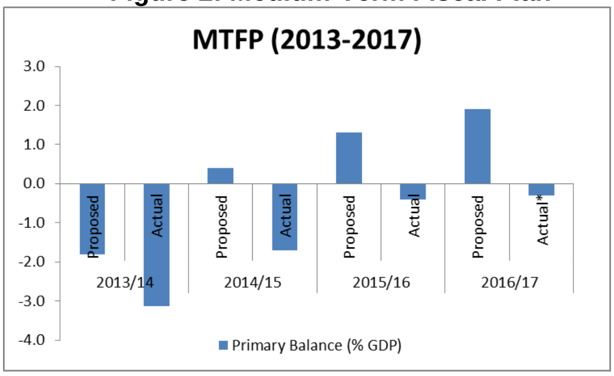
Recent Developments

With capital infrastructural investments in the forthcoming period, there is an expectation that the real sector will begin to see improvements. The opening of the Baha Mar Casino and Hotel is estimated to boost stopover arrivals by an additional 315,000 (19 percent growth) and create permanent employment for over 5,500 Bahamians upon completion. The Ocean Cay Hotel and Marine Park expects that some 200 persons will be employed on cruise ships and an additional 1,100 construction jobs will be created during the next two years. Any delays in the implementation of these capital projects would weaken the growth outlook.

> ***Highlights***
>
> *Real GDP expected to grow by 1.4 percent in 2017 and an average of 1.6 percent in the medium term.*
>
> *The private sector would benefit from efforts in obtaining credit, reducing lending rates and energy costs. Providing an adequately trained workforce and reducing crime, theft and general disorder are other areas that would support the private sector*

The Bahamas' fiscal position improved, but at a slower pace than forecasts in the Medium–Term Fiscal Consolidation Plan. The targeted primary surplus for 2016/17 at 1.9 percent of GDP would be ambitious considering the projected deficit of -0.3 percent of GDP impacted in part by Hurricane Matthew and increased spending on transfers and subsidies.

Figure 2: Medium-Term Fiscal Plan



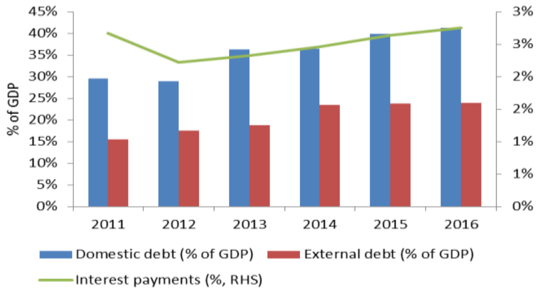
Source: Central Bank of The Bahamas and IADB Staff estimates

Central government and publicly guaranteed debt decline by 1 percent (to 74 percent of GDP end of 2016) Central government debt alone was 65 percent of GDP and above the targeted level within the MTFP (Figure 3). It is above the threshold at around 70 percent of GDP for market access countries used as the operational target for the IMF and World Bank. Simulations show that The Bahamas would need to adjust the primary balance by 2 percentage points of GDP to stabilize its debt-to-GDP ratio in the long run.

Gross reserves increased to $902 million by December 2016 (or 2.6 months of imports of goods and services) but slightly below the standard minimum three months of import coverage (IMF). Reserves were supported by external borrowing at commercial rates and improved tourism receipts (year-to-date). The projected increase for 2016 is linked to a modest improvement in the tourism sector. Air arrivals

expanded slightly by 0.8 percent to October 2016. However, the largest category, sea landings, contributed 3.1 percent resulting in overall total arrivals growing by 2.6 percent.

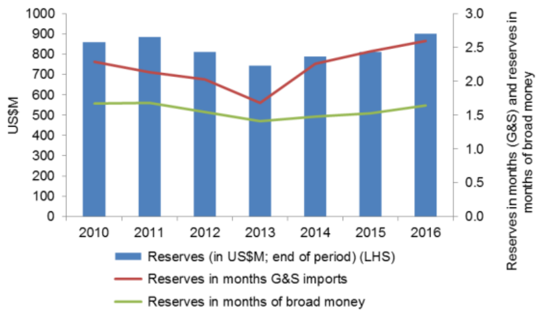
Figure 3: Public Debt (2011-2016)



Source: Central Bank of The Bahamas

On broad money which includes assets that are highly liquid, reserves are 1.6 months. Reserves are above 100 percent of the short-term debt (Guidotti-Greenspan ratio), as is the case with the adjusted ratio, which also includes interest payments. However, when adding to the denominator the current account deficit obligations, the indicator falls short at around 0.4

Figure 4: Gross International Reserves in The Bahamas, 2010-2016



Source: Central Bank of The Bahamas

The IMF notes that the country would benefit from additional reserves accumulation, given its exposure to external shocks and natural disasters, and increased reliance on more volatile non-Foreign Direct Investment (FDI) capital flows in recent years. Additionally, efforts to improve competitiveness through structural reforms, accompanied by fiscal consolidation, are needed to address these vulnerabilities.

Inflation is estimated to be 1.0 percent for 2016 (IMF). Domestic demand remains less active than expected due to lower employment and household deleveraging. The high share of personal non-performing loans, particularly mortgages (54 percent for non-accrual loans), had negative wealth effects on domestic demand. Unemployment remains high. Unemployment would likely remain in the double digits reaching a full year average of 14.5 percent for 2016 in contrast to the 13.4 percent recorded a year earlier (IMF). Since reaching a peak in 2011, the unemployment rate has remained within a range of 14 and 16 percent.

Serious crime incidents recorded the largest improvement since 2004. Crime and violence remain high by per capita regional standards. However, serious incidents declined by 26 percent in 2016, with murders falling to 111 from 146 in 2015. The double-digit decline in all major categories contributed to the largest improvement since 2004.

Conclusion

Achieving a higher growth trajectory is the greatest challenge the Bahamian economy faces. Tourism capital–related investments will help maintain a medium-term growth rate of 1.6 percent. Consideration can be given as to ways to further enhance human capital and improve cost efficiency.

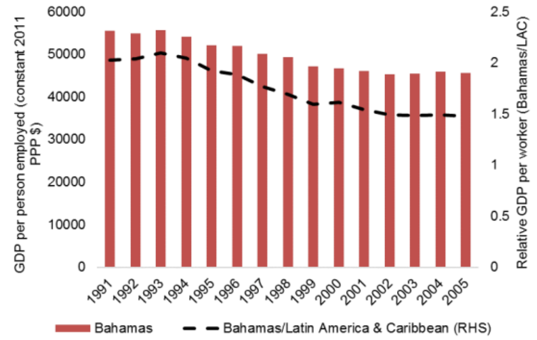
	Last data	Period	Prior data	Period
Annual GDP growth (%)	0.3	2016	-1.7	2015
Tourist arrivals	2.6	Oct-16	-0.5	Jul-05
Exports (12-month growth)	1.8	Oct-16	-1.7	2015
Imports (12-month growth)	-3.0	Oct-16	2.0	2015
Private sector credit growth (%)	-1.0	Dec-16	-0.2	Sep-16
Inflation (% yoy change)	1.0	Oct-16	2.0	Jul-05
Exchange rate (end of period)	1.0	2016	1.0	2015
Unemployment rate (%)	11.6	Nov-16	14.8	Nov-15

Source: Central Bank of the Bahamas

Introduction

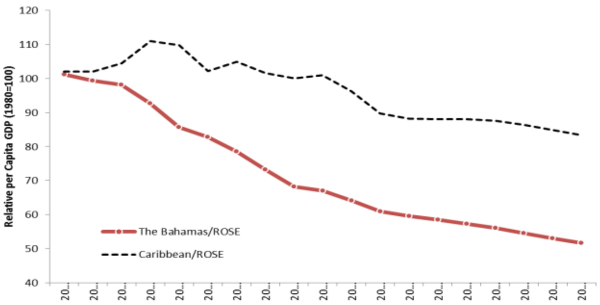
Private enterprises have been the leading contributor to current growth, with over 60 percent of employment. However, it is dependent on a macro-economic environment that promotes growth and technological innovation, cost competitiveness, and structures that ease the cost of doing business (see Figures 1 and 2)

Figure 1: Labor Productivity (GDP per person employed)



Source: World Development Indicators

Figure 2: Relative per Capita GDP/Rest of Small Economies (ROSE)



Source: IMF - World Economic Outlook Database, October 2014

Bahamian private sector firms have been performing at 50 percent or below productivity, growth and employment levels when compared to similar firms in the rest of small economies (ROSE)[1]. This results in constrained levels of labour productivity and output growth in the archipelago and against our regional neighbours (see Figure 3)

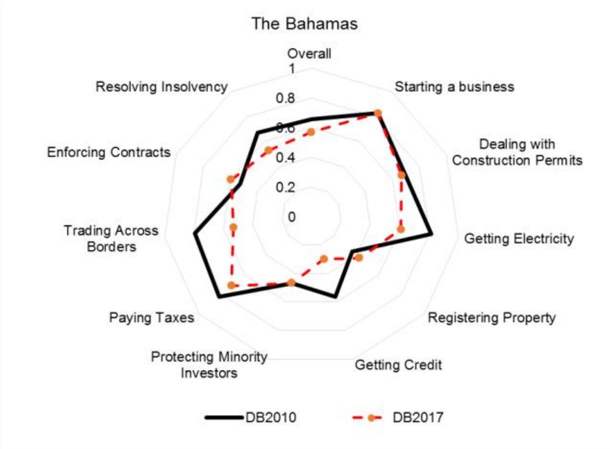
The World Bank produces the Ease of Doing Business (EODB) Distance to Frontier Index, which includes ten measures aimed at better understanding how effective governance can contribute to enterprise growth while enhancing cost competitiveness. The EODB index, which compares the period between 2017 and 2010, shows that The Bahamas private sector is constrained by structural challenges, including accessing credit and electricity, trading across borders, obtaining construction permits, resolving insolvency, and paying taxes (see Figure 8). Against other ROSE economies, the private sector is hampered in registering property, getting electricity, obtaining credit, protecting minority investors, trading across borders, getting construction permits and starting a business (Figure 4).

Among Caribbean firms, The Compete Caribbean PROTEqIN survey, shows similar concerns for Bahamian firms, lamenting on an inadequately trained workforce, access and cost of finance, costs of crime, theft and general disorder and the current state of macro-economic conditions and conditions of governance (Figure 5).

Figure 3: Benchmark Productivity Measure

Source: 2010 World Bank Enterprise Survey

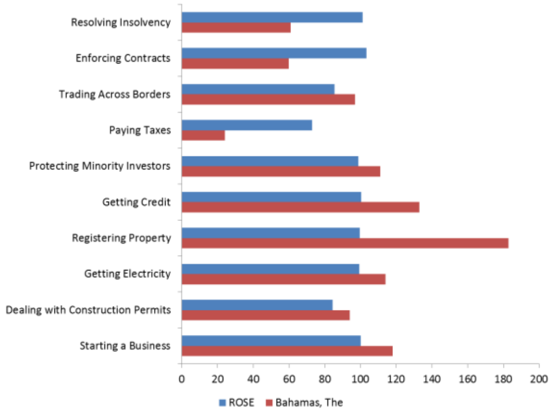
Figure 4: Ease of Doing Business: Distance to Frontier



Source: World Bank Ease of Doing Business Database

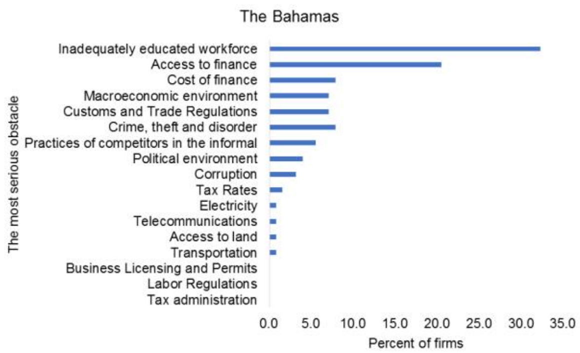
[1] ROSE economies comprise 34 small countries with populations of less than 3 million.

Figure 5: Ease of Doing Business: Ranking



Source: World Bank Ease of Doing Business Database

Figure 6: Obstacles to Business Operations (2014)



Source: Compete Caribbean PROTEqIN Database 2014

The major obstacles to business operations were an inadequately trained workforce, access and cost of finance, costs of crime, theft, and disorder and the existing macro-economic and governance conditions. The archipelago in comparison to its Caribbean neighbours spends more on its educational system (roughly 13 percent), and currently has over 250 schools, supported by well-trained staff. Despite this, recent reports from the Vision 2040 report on national development cites that significant portions of the graduating classes are entering the workplace with inadequate numeracy and literacy skills. Thirty-two percent of firms lament the inadequacy of the existing workforce in the 2014 Compete Caribbean PROTEqIN survey and up to 37 percent of firms offer additional training to their recruited staff.

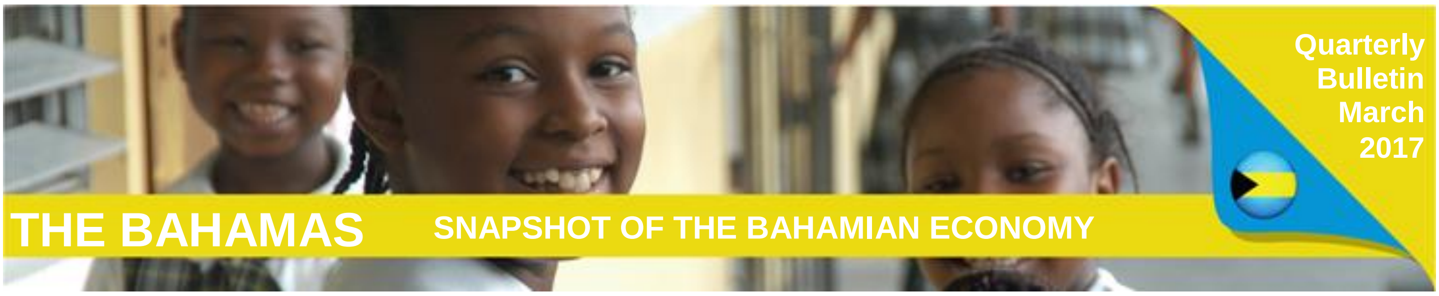
The cost of crime, theft, and disorder has accounted for an annual sales loss of up to 5 percent (approximately US$434M – IADB 2016), leading the Caribbean in economic losses. A recent World Bank/International Finance Corporation (IFC) survey reports that up to 40 percent of Bahamian firms have reported being victims of crime within the last 12 months, while almost 8 percent lamented crime being a significant obstacle to productivity growth (Figure 6).

Lending rates remain in double digits for the past decade and recently have risen above the same period average of 11.2 percent. Juxtaposed with lower levels of domestic consumption, higher amounts of non-performing loans and rising rates of unemployment have all added to the current state of private sector credit. There has been a noted lowering of private capital-related investment projects within the archipelagic islands (FDI/GDP measured at 2.4 percent).

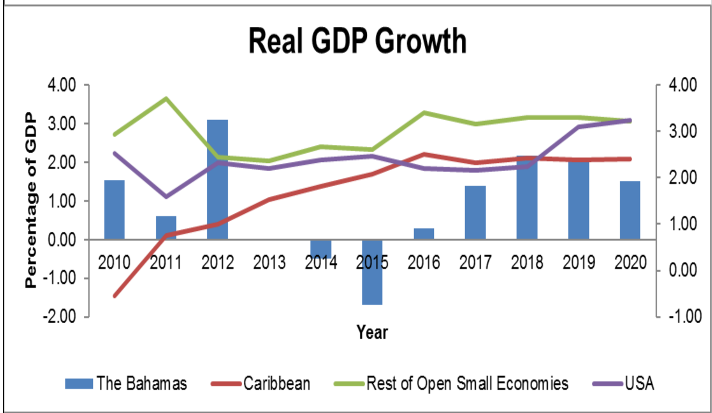
Having an effective governance structure, and efficient power generation systems have been identified as factors aiding aiding the private sector and enhancing growth. In 2013, energy costs remain among the highest in the Caribbean and often unreliable with frequent outages. Bahamas firms experience 2.2 outages per month on average, less only only than Jamaica (2.5), but above all other major caribbean economies, with estimated losses of 1.5 percent of sales from outages.

Conclusion and Recommendations

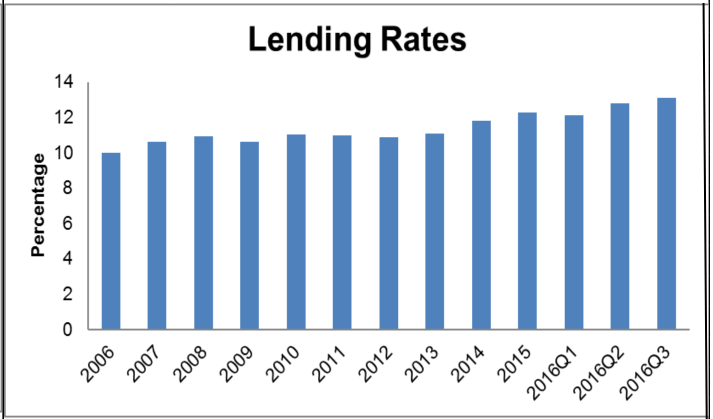
The private sector is dependent on a growth-positive environment that improves cost competitiveness and makes it easy for enterprises to engage in business. The recent EODB indicators show that The Bahamas is currently further away from the frontier position occupied by other similar economies. The private sector would benefit from efforts in obtaining credit, reducing lending rates and energy costs. Providing an adequately trained workforce and reducing crime, theft and general disorder are other areas that woudl support the private sector.



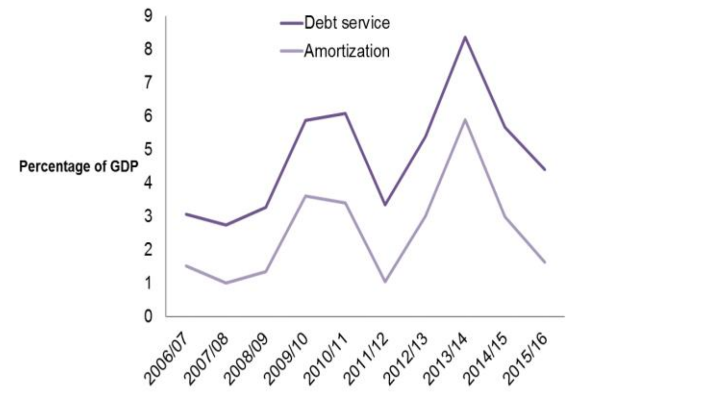
Real GDP Growth



Historical Lending Rates

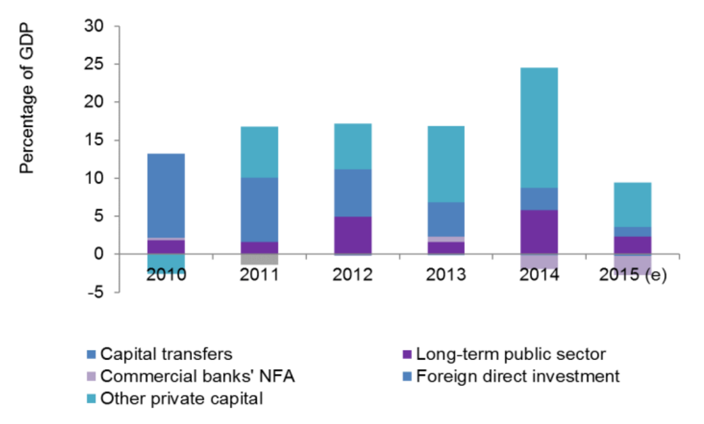


Debt service and Amortization

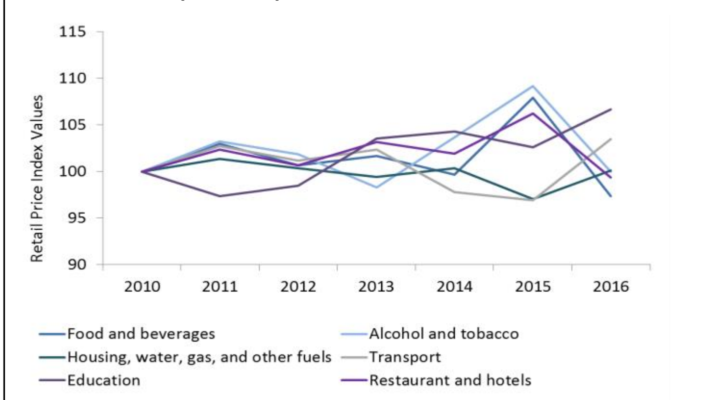


FDI by Type

Financing of the Current Account



Retail Price Index (2010-2016)



Source: The Central Bank of The Bahamas, Ministry of Tourism, and International Monetary Fund's World Economic Outlook.

Table 1: Selected Indicators for The Bahamas, 2012-2017

Social and Demographic Indicators (most recent year)			
GDP (US$ millions), 2017	9,345	Adult literacy	95.6
Per capita GDP (2015,US$)	23,903	Poverty rate (percent), 2014	12.8
Life expectancy at birth in years (2015)	76.1	Population (thousands), 2015	364
Rank in UNDP Development Index (2014)	55	Unemployment rate (Nov 2016)	11.6

Economic Indicators

	2012	2013	2014	2015	2016	2017
(Annual percentage change, unless otherwise indicated)						
Real Sector						
Real GDP (% change)	3.1	0.0	-0.5	-1.7	0.3	1.4
Nominal GDP(% change)	6.5	1.5	1.1	2.7	2.2	3.7
Inflation (end of period)	0.7	1.0	0.2	2.0	1.0	1.6
Unemployment	14.4	15.8	14.6	13.4	14.5	13.2
(In percent of GDP, unless otherwise stated)						
External Sector						
Exports of goods and services	44.4	43.8	42.5	38.6	40.4	43
Imports of goods and services	59.3	56.3	61.3	47.1	44.1	44
FDI	6.3	4.5	2.9	1.3	2.4	2.8
Current account balance	-17.9	-17.5	-22.0	-16.0	-11.4	-12.2
Gross International Reserves (US$M)	810	742	788	812	902	854
In months of next year's imports	2.0	1.7	2.3	2.4	2.6	2.5
Central Government Operations	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Revenue and grants	17.2	15.9	16.8	19.2	21.4	21.7
Total Expenditure	22.6	22.3	22.4	23.5	24.9	25.2
Overall balance	-5.3	-6.4	-5.6	-4.3	-3.5	-3.5
Primary balance	-3.1	-4.1	-3.1	-1.7	-0.4	-0.3
Memorandum items:						
National debt (in millions of $B)	4,362.8	4,995.7	5,590.1	6,284.5	6,653.4	6,695.4
In percent of GDP (including contingent liabilities)	55.3	60.7	65.6	72.9	75.2	74.1
Nominal GDP (in millions of B$)	7,890.0	8,399.0	8,522.0	8,618.0	8,854.0	9,047.0

Source: IMF WEO and Article IV, The Central Bank of The Bahamas, and the Department of Statistics.

Contributors: Camilo Gomez Osorio and Kimberly Waithe

Overview

Pressures are mounting in spite of improved economic growth. A series of downgrades of Barbados sovereign credit ratings indicates fewer financing options for the government, which could challenge the ability to service its debt. In addition, international reserves are under pressure and at their lowest level in the past 14 years, which is a risk for external sustainability.

Highlights

Reserves declined to 10.3 weeks of imports or US$332.4 million.

Barbados witnessed several downgrades from credit rating agencies.

Real GDP grew by 1.6 percent at the end of December 2016.

Recent Developments

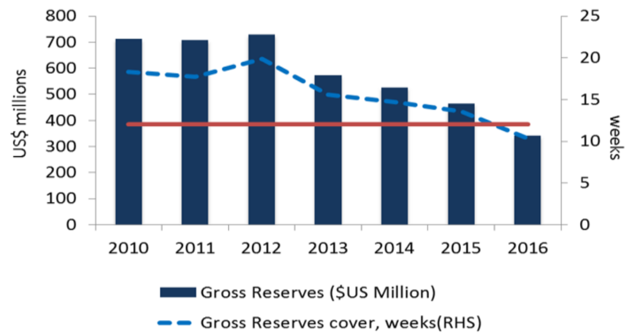
Barbados experienced further credit rating downgrades. S&P Global Ratings lowered its long-term foreign and local currency sovereign ratings on Barbados to 'CCC+' from 'B-' in March 2017. A few days later, Moody's downgraded two rankings Barbados government bond and issuer to Caa3 with a stable outlook, citing potential challenges for the government to finance its debt service. In addition, the regional agency CariCRIS Credit Rating Services downgraded Barbados on January 10, 2017. It lowered Barbados bonds to "CariBBB (Foreign Currency Rating) and CariBBB+ (Local Currency Rating) on its regional scale from CariBBB+ and CariA- respectively, with a negative outlook. The rating agencies justify their outlook on fiscal slippage and modest growth expectations, along with tighter financing conditions.

Dynamic tourism demand and low international oil prices contributed to economic activity at the end of 2016. The economy grew by 1.6 percent in 2016, an improvement over the 0.9 percent in 2015 and the 0.3 percent annual average during 2010-14. The construction sector was active with 2.5 percent growth when compared to the similar period last year. At the same time, tourism value-added grew by 4.2 percent as long-stay arrivals rose 6.3 percent. However, cruise arrivals fell marginally by 0.4 percent (September 2016). More cruise-liners made inaugural calls to the island in the last quarter of 2016— the Mein Schiff 5, Regent Seven Seas Explorer and MSC Armonia. The vessels brought over 5,000 additional visitors.

Barbados fiscal deficit stood at an estimated 7.2 percent of GDP at the end of the first nine months of FY2016/17. This is higher than the 5.8 percent of GDP target (on cash basis) in the August 2016 Budget. Overall, up to December 2016 revenue fell by 0.3 percent or US$2.8 million partly due to a decline in personal income tax receipts of 5.9 percent. Total expenditure declined by 0.5 percent or US$5.4 million driven by lower *transfers & subsidies*. Capital expenditure at US$77 million declined by 19 percent compared to a similar period a year earlier. Fiscal adjustment has not stabilised an increasing trend in public debt, which reached an estimated 145.2 percent of GDP—(central government gross debt inclusive of National Insurance Scheme-NIS holdings—at the end of December 2016 and up from the 140.7 percent a year earlier.

Favourable external conditions improved the current account balance. The current account deficit narrowed to 4.5 percent of GDP at end-December 2016. A positive development compared with the 5.7 percent of GDP in 2015, driven by higher travel receipts (9.2 percent). At the same time, fuel imports fell by 21 percent to reach US$183 million, however overall merchandise imports grew by 1.9 percent. The stabilisation and a gradual potential increase in oil prices could challenge the recent gains.

Figure 1. Gross Reserves $USM and weeks of imports



Source: Central Bank of Barbados

Guyana temporarily suspends trading in Barbados dollars. It came as a result of an increase in the amount of Barbadian dollars in the Guyana market in exchange for US currency. With the growing outflow of US currency, in December 2016, monetary authorities in Guyana stopped purchasing Barbados dollars from local commercial banks or private license currency traders. Barbados currency in circulation in Guyana increased from BDS$8 million in 2014 to 13 million in 2016. A similar move was evident against the Trinidad and Tobago dollar, which saw an increase from TT$9.1 million to TT$38 million over the same period.

The financial sector is stable and liquid, but private credit continues to contract. Credit to the non-financial private sector fell by 0.6 percent in September 2016

relative to December 2015. Domestic deposits increased from 40 to 42.1 percent of total deposits from the second to the third quarter of 2016. With credit demand softening, liquidity in the financial system remained high. Non-performing loans have witnessed a decline to 9.6 percent at the end of third quarter 2016, after peaking at 12.9 percent in 2012.

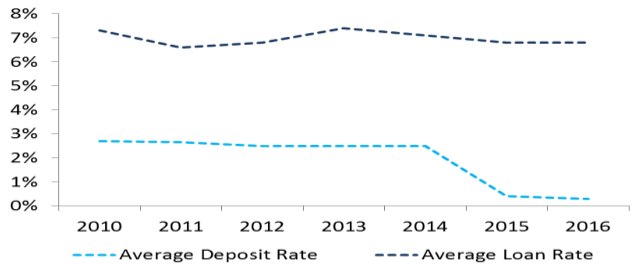
Table 1: Commercial Banks Selected Indicators

	2010	2011	2012	2013	2014	2015	2016 Q1	2016 Q2	2016 Q3
Solvency									
Capital adequacy ratio (%)	17.1	19.3	21.0	19.7	20.5	18.9	18.5	19.7	19.8
Liquidity									
Loan-to-deposit ratio (%)	67.2	70.9	73.6	70.0	70.3	65.5	63.6	64.1	63.0
Liquid assets to total assets (%)	11.5	12.0	14.6	18.0	20.3	25.3	25.2	26.3	27.0
Credit risk									
Nonperforming loans to total loans (%)	10.8	11.1	12.9	11.7	11.5	10.6	10.4	9.6	9.6
Profitability									
Return on assets (%)	1.1	1.0	1.1	0.8	0.7	0.9	0.9	1.0	1.0

Source: Central Bank of Barbados

Rates on savings deposits could decline further. At least two of the six commercial banks in Barbados, could reduce interest rates on savings accounts from 0.25 percent to range from 0.15 to as low as 0.05 percent depending on the type of deposit product. This has been the trend since the Central Bank in April 2015 removed the minimum savings rate that stood at 2.5 percent, thereby allowing commercial banks and other deposit-taking institutions to determine the rates. Lending rates, which stood at 6.8 percent at the end of 2016, continue to decline but at a much slower rate. There is weak demand for credit and high liquidity (see Figure 2).

Figure 2. Average Interest rate Spread



Source: Central Bank of Barbados

Barbados launched the Electronic Single Window (ESW) on February 15, 2017. An official statement noted "the ESW will make trade-related business transactions with Government more effective and efficient by providing a single, online point of contact between the trading community and government agencies to electronically obtain the required licenses, permits, certificates or other documents to import or export products." The ESW is part of a wider effort to ease the costs of doing business. Through more efficient movement of goods, these reforms aim to promote competitiveness, bring private investment, and contribute to greater economic growth.

Massy Holdings Ltd (MHL) delisted from the Barbados Stock Exchange (BSE). While the decision had been taken at the company's annual meeting on February 2015, the shares were de-listed from the BSE on January 2017; Massy will continue listing on the Trinidad and Tobago Stock Exchange. Cited as justification for delisting were the low levels of trading, restrictive regulatory environment, and costs related to the cross-listing of shares with price differentials between the Trinidad & Tobago and the Barbados stock exchanges. MHL is the largest regional cross-listing company in terms of market value and represented 17% of composite market capitalisation.

Hyatt project delayed. After receiving the conditional go-ahead last month, the proposed $100 million hotel development in Carlisle Bay is now back in limbo. The planned 15-storey property faced scrutiny because the area around Bridgetown is a UNESCO World Heritage site. Construction of the 237-room resort is expected to generate over 300 jobs during the construction phase; the hotel would have opened in 2019. The Supreme Court set aside May 9 as the date for the hearing of a fixed date claim. The latest development, which results in immediate suspension of permission until the matter is heard by the court, is a disappointment for both the developers and Government, who has been hoping for stimulus to the domestic economy.

Deltro Group to build a solar panel plant in Barbados. In February 2017, the company received Town Planning approval to proceed with the construction of the first solar panel manufacturing plant. The project aims for a 70-acre solar farm, with recommended voltage of 10 megawatts, and a manufacturing plant employing around 200 Barbadians, with an estimated investment of US$40 million for both facilities.

Outlook

Modest medium-term growth outlook. The International Monetary Fund (IMF) forecasts 1.7% growth at the end of 2017, if economic activity picks up with the start of tourism projects, while the Central Bank estimates growth over the next five years at around 2 percent annually. A gradual recovery in tourism demand, as well as low international fuel prices that would contain electricity tariffs, would have a positive impact on output over the medium term.

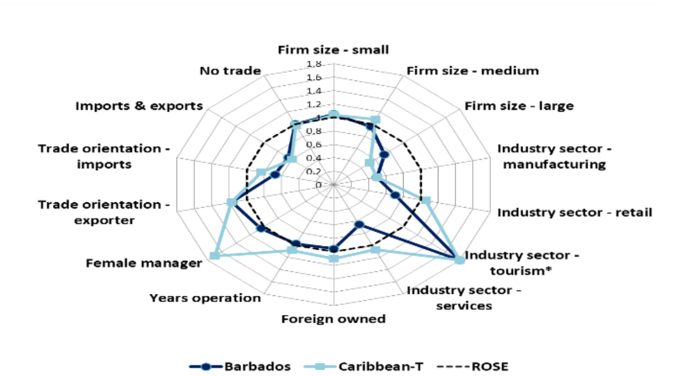
High-Frequency Macroeconomic Indicators				
	Last Data	Period	Prior Data	Period
Annual GDP growth (%)	1.6	Dec-16	1.3	Sep-16
Tourism arrivals (annual % change)	6.3	Dec-16	5.7	Sep-16
Nonperforming loans (%)	9.6	2016 Q3	9.6	2016 Q2
Foreign Exchange Reserves cover,weeks	10.3	Dec-16	14.0	Sep-16
Inflation(%)	-0.8	Jun-16	-1.0	May-16
Unemployment rate (%)	10.0	2016 Q3	10.2	2016 Q2

Source: Central Bank of Barbados.

Introduction

Barbados economic performance has been modest since 2000. With per capita income at US$15,955, the country classifies as a "high income" and ranks high at 57th out of 188 countries on the 2015 Human Development Index. Since 2000, economic growth has averaged one percent, much lower than the average of 2.3 percent of the other countries in the Caribbean Country Department of the IDB.[1] Tourism is the driver of growth and directly contributes around 12 percent of GDP through hotels and restaurants, but indirectly over 40 percent and supports the demand of the non-tourism sectors, like construction and services.

Figure 1. Private Sector Profile

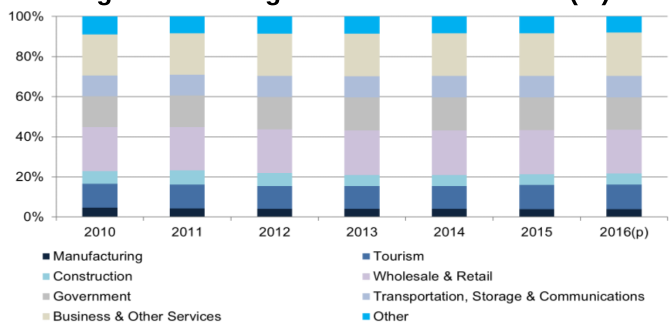


Source: World Bank, Enterprise Survey

Over the last decade the country has been looking inwards for growth. The non-tradable sectors became the drivers of the economy, while the tradables (tourism, agriculture and manufacturing) were a drag on output. Since 2014, there has been a gradual recovery in the tourism sector. The economy grew by 1.6 percent at the end of December 2016 reflective of the recovery in tourist arrivals and lower oil prices.

Barbados private sector is comprised of small and medium-sized enterprises (SMEs) concentrated in the tourism and retail sectors. Firms in Barbados can be characterised as younger, smaller, locally-owned and less open to international trade than the average small economy (Figure 1). The ProteqIN Survey 2014 data shows most firms operating in the domestic market can be classified as small and have fewer than 20 employees.[2] The average Barbadian firm is linked to the tourism sector and has an average of 15 years of operations, which is lower than the 17.8 year average from other tourism-based small economies.

Figure 2. Average Contribution to GDP (%)



Source: Central Bank of Barbados

The private sector has been a significant contributor to GDP and employment in Barbados. The wholesale & retail sector contributed around 22 percent of GDP annually and employed 16 percent of the labour force (Figures 2 and 3). This is followed by the business and financial services which contribute 21 percent and employ 8 percent of the work force.[3] Tourism, comprised of accommodation and related services, contributes around 40% of GDP directly and indirectly, but directly in hotels and restaurants employs over 12% of the labor force. Construction contributes 5% of GDP and is the third largest employer with over 12,000 people or 9% of the total labour force.

Figure 3. Employed Labor Force by Industry Group ('000 persons)

Source: Barbados Statistical Service[4]

[1] This includes The Bahamas, Guyana, Jamaica, Suriname and Trinidad and Tobago.

[2] Compete Caribbean Private Sector Assessment Report 2014.

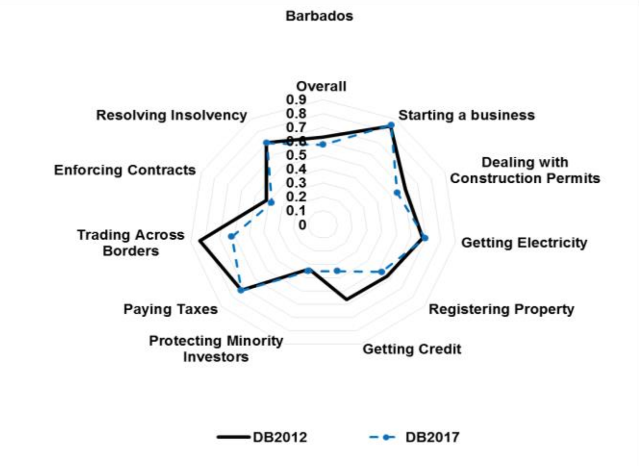
[3] Represents the employment categories of "financial & insurance" and "professional, scientific and technical services."

[4] *Other Groups include: Information & Communication, Activities of Extraterritorial Organizations & Bodies, Real Estate & Arts, Entertainment & Recreation and Not Stated.

The Business Environment in Barbados

The World Bank Doing Business 2017 ranks Barbados at 117 out of 190 countries. In comparison to 2012, the overall distance to the frontier worsened from 0.63 to 0.57 (2017). When analysing 2017 performance relative to 2012, the main areas that underperformed were: i) trading across borders, which moved from 0.84 to 0.62 and ii) getting credit (from 0.56 to 0.35) (see Figure 4). In contrast, the starting a business indicator saw a marginal improvement with shorter timeframes, from 18 days to 15 days. However, challenges remain in a few areas: dealing with construction permits, which takes an average of 442 days (compared to the 181 days for the Latin American and the Caribbean average), registering property (105 days), and getting electricity (87 days).

Figure 4. Ease of doing business: distance to frontier



Source: World Bank Doing Business 2012 and 2017

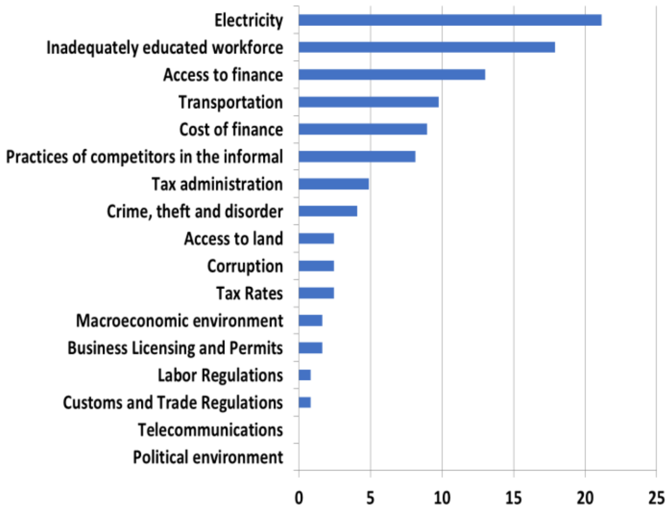
Major constraints

Over 21% of firms reported electricity as the most serious obstacle to business operations. This is followed by an inadequately educated workforce (18%) and access to finance (13%).

Access to electricity negatively affects the business environment. The length of time it takes to get an electricity connection is costly. Electrical outages are limited in the island and there is a relatively consistent supply of electricity. It takes an average 87 days to obtain a permanent electricity connection compared with 66 day in LAC. ProteiqIN (2014) data suggest a typical power cut lasts less than one hour, which suggests the concern lies on the cost for electricity, the tariff and the connection time rather than the quality of the service.

The quality of Barbados' labour force is perceived as a binding constraint to firms. Barbados reports relatively high education outcomes. With the literacy rate at 99.7%, it ranks favourably in the Global Competitiveness Report 2016-17 (GCR) for educational indicators and 10th out of 138 countries for high quality of primary education. For higher education and training, Barbados ranks high on gross enrolment rates in secondary at 109.2 percent (20th) and tertiary education 65.4 percent (36th), as well as quality of the education system (22nd). However, firms report difficulties when hiring skilled labour. Brain drain and emigration brought shortages of educated workers. According to Mishra (2006)[5], Barbados lost around 63 percent of its labour force at the tertiary level to OECD countries. Total losses (emigration losses plus estimated education expenditures) were estimated at 18.5 percent of GDP. The brain drain constrains the size of the labour market and comes with an economic cost that is greater than the remittances inflows that average around 2 percent of GDP. Firms also report a mismatch between skills required for certain sectors and those seeking employment.

Figure 5. Most serious obstacles reported (Percent of firms)



Source: ProteqIN 2014

Access to finance is the third ranked constraint by firms. According to Compete Caribbean (2014), on the supply side the risk perceptions of loans to small businesses are significant and are translating into high collateral requirements for SME's. On the demand side, entrepreneurs and small businesses may not be fully aware of the lending facilities available.

[5] Mishra, P. (2006) Emigration and Brain Drain: Evidence from the Caribbean. IMF Working Paper WP/06/25

Policies

Policies aimed at reducing the cost of electricity would boost the competitiveness of the private sector. Barbados is currently exploring the construction of a gas pipeline that would help improve energy security and diversify the energy mix with a US$34 million IDB loan. This would contribute to lower electricity tariffs particularly for commercial purposes and hotels that depend on diesel and gas-generated electricity.

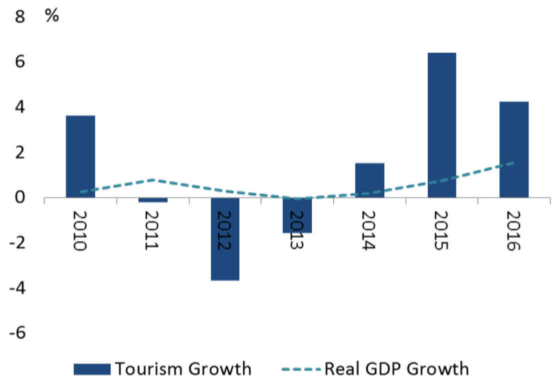
Interventions that help reduce the cost of borrowing and the risk of lending to SME's would have an impact on firm growth. Greater access to finance for SME's, which constitute the majority of firms providing tourism services in Barbados, could significantly boost productivity. Policies that could reduce the level of collateral required to access finance, and the cost of borrowing over the medium term, would unlock lending to a segment of SME firms that are currently out of the domestic capital market. In addition, capacity-building initiatives that promote sound accounting and book keeping practices would contribute to make SMEs credit-ready when accessing capital markets and help reduce lending risk perceptions.[6]

Over the long term, greater investment in building quality human capital would contribute to a more educated and competitive growing Barbadian labour force. However, before focusing on increasing public spending to improve skills and promote higher education, there are efficiency gains to be made in the education budget. Promoting efficiency in public spending in the sector, targeting subsidy benefits to the most needy, would be consistent with Barbados fiscal consolidation objectives have an impact on higher education outcomes over the long term.

[6] In 2014, the IDB supported an Enhanced Access to Credit for Productivity program executed by the Central Bank of Barbados in collaboration with financial institutions and small- and medium-sized enterprises (SMEs). It provides a guarantee mechanism to promote SMEs' access to medium and long-term credit, and assists companies with upgrades to their business models.

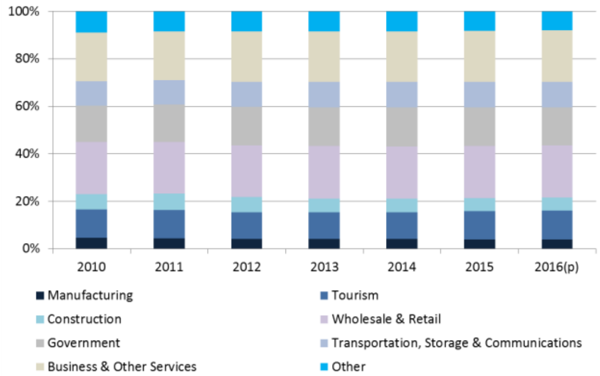
Gradual tourism recovery

Figure A. Real growth and Tourism growth



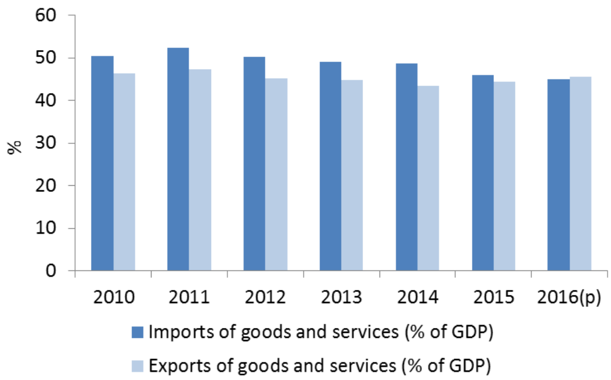
… which is the driver of growth.

Figure B. Contribution to GDP (in % of GDP)



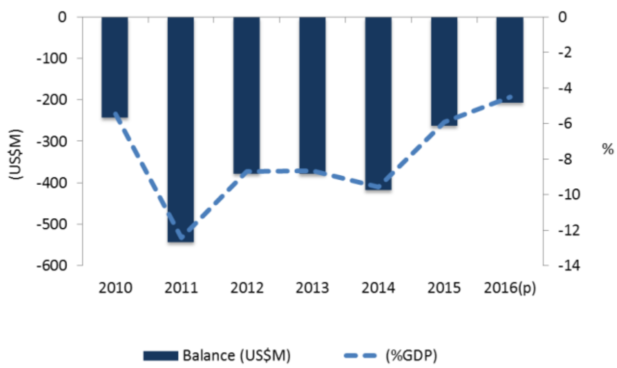
Lower oil and commodity prices

Figure C. Exports and Imports (% of GDP)



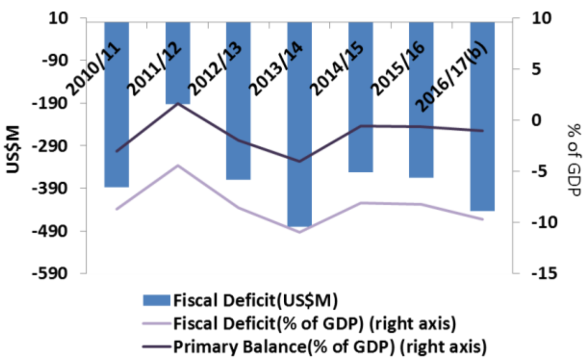
…and an improved current account balance.

Figure D. Current account balance (% of GDP)



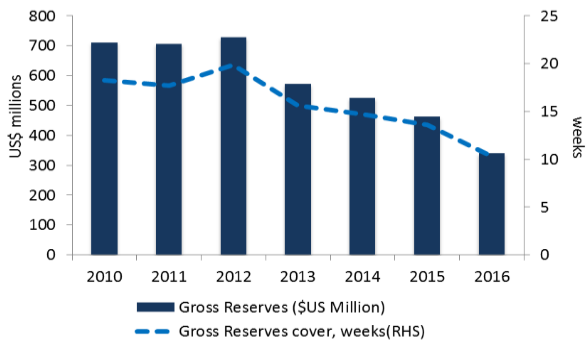
Large sustained fiscal deficits

Figure E. Revenues and Expenditures (% of GDP)



… and pressure on reserves.

Figure F. Gross reserves (US$ millions)



Sources: Central Bank of Barbados; World Economic Outlook, IMF (October 2016); Ministry of Finance.
Note: (p) projected figures for 2016.

	2011	2012	2013	2014	2015	2016(p)
(Annual percentage changes, unless otherwise indicated)						
Real sector						
Real GDP	0.8	0.3	-0.1	0.1	0.9	1.6
Nominal GDP	-2.0	-0.6	0.9	-0.4	1.6	3.7
Inflation (end of period)	9.4	4.5	1.8	1.9	-1.1	0.3
Unemployment	11.2	11.5	11.6	12.3	11.3	9.7
External sector						
Exports of goods and services (% change)	0.2	-5.3	0.2	-3.4	3.8	6.5
Imports of goods and services (% change)	1.9	-4.8	-1.2	-1.5	-3.9	1.5
Current account (percent of GDP)	-11.8	-8.2	-8.2	-9.0	-5.7	-4.5
International reserves (US$millions)	707.4	728.9	572.1	526.2	463.5	340.6
International reserves cover (months)	3.7	4.0	3.2	3.0	2.7	2.0
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)						
Public sector						
Total revenue	29.3	28.4	26.7	27.7	29.3	28.5+
Total expenditure	33.7	36.9	37.7	35.7	37.6	36.4+
Central government primary balance	1.6	-2.0	-4.0	-0.6	-0.6	0.1+
Central government overall balance	-4.4	-8.5	-11.0	-8.1	-8.2	-7.8+
Debt indicators						
General government debt	78.0	83.5	94.4	100.4	105.2	107.9
General government debt (inclusive of NIS holdings)	105.3	113.6	127.3	134.8	140.7	145.2
Central government debt over revenues	266.7	294.5	353.4	349.0	384.1	374.3
External debt service as percentage of exports of goods and services	6.9	7.3	7.0	7.3	11.5	9.3

Sources: Central Bank of Barbados; World Economic Outlook, IMF (October 2016); Ministry of Finance (MOF).
Note: (p) projected figures for 2016.
+Budgeted figures for FY2016/17.

Contributors: Mark Wenner and Dillon Clarke

Overview

The Guyanese economy slowed in 2016 but the outlook remains generally positive. While authorities remain optimistic that growth will improve in 2017, underlying weaknesses remain in some sectors that may result in a lower than expected growth rate. An expansionary fiscal policy continues amid implementation challenges. Monetary policy remains accommodative as Government of Guyana (GoG) introduces measures to address foreign currency shortages.

Bank of Guyana issued a circular to commercial banks and foreign currency dealers, imposing foreign exchange controls in light of an emerging scarcity of US dollars.

New VAT measures reduce tax rate but include new services (telecommunication, electricity and water), and private schools fees.

United Nations Secretary-General, Antonio Gutierrez appoints new Good Officer on Guyana-Venezuela border controversy.

Recent Developments and Outlook

Surging gold sector helps avert economic recession. Economic growth slowed to 2.6 percent in 2016, from 3.2 percent in 2015, as core commodities, except gold, contracted. Gold production expanded by 56 percent due to higher production and modest price gains as uncertainty rose in world financial markets while Brexit unfolds. Non-gold GDP growth contracted by -0.9 percent (compared to 2.2 percent in 2015) because of inclement weather and subdued world demand.

Weakened sugar sector was severely disrupted by El Nino. In 2016, sugar production contracted by 18.7 percent to 188,000 metric tons, below the target of 238,513 metric tons. Severe droughts lowered crop yields, amplifying the financial burden on fiscal accounts to meet operational shortfalls. The industry still lacks competitiveness, with an average cost estimated at 95 percent above free market world prices, and has been in secular decline since 1999 due to loss of European Union trade preferences, and high operational and management inefficiencies.

Lower import costs restrain inflation despite public sector wage adjustments and food price shock. Inflation for 2016 was 1.3 percent despite wage pressures from a 5-percent public sector wage hike and an increased monthly minimum wage threshold to G$50,000 (from G$42,703). Guyana has relatively low labour cost compared to other Caribbean jurisdictions, while labour-management relationships are generally harmonised, except for the sugar sector. Meanwhile, indexed prices for food rose 5.7 percent, as the gradual effects of El Nino permeated throughout international food markets. However, inflationary pressures may increase in 2017 following the reforms of the value added tax, VAT, which reduces the tax rate by 2 percent but increases coverage. New items subject to VAT now include private school tuition, electricity, water, and veterinary medicines, telecommunication services, and rental income. Authorities remain optimistic that uncertainty and speculation will be contained, projecting a modest 2.5 percent increase in price levels for 2017.

Countercyclical measures focus heavily on transfers and nominal wages. In 2016, fiscal deficit widened to 5.4 percent of GDP from 1.4 percent of GDP in 2015. The deterioration accelerated as authorities implemented measures to curb economic decline by bolstering private consumption, and increased transfers to ailing sectors. Central government expenditures grew by 23.9 percent to GY$221 billion (around 31.2 percent of GDP) as all factor-based categories of expenditure expanded, while revenues were 7 percent higher than the previous year at G$174.8 billion (around 24.7 percent of GDP), reflecting strong tax and non-tax revenue growth. The fiscal deficit is projected to further deteriorate in 2017 to 5.6 percent of GDP in line with the government's 5-percent deficit spending plan. However, a sustained expansionary fiscal policy will lead to an increase in public debt from currently 46.3 percent of GDP.

Strong gold earnings improved terms of trade. The external current account deficit improved to 3 percent of GDP (below its 5-year average deficit of 11 percent of GDP) despite mixed performances. In line with real sector performances, export growth was led by gold while other commodities declined. Gold export receipts grew by 55.3 percent while non-gold exports contracted by 8.7 percent. Import growth was tempered at 4.4 percent due lower fuel expenditures that fell 8 percent (equivalent to 9.9 percent of GDP). Remittances suffered a 34.1 percent decline that can be attributed to increased use of informal channels and changing sender profiles. Flows to the nonfinancial public sector remained a net negative of US$31.6 million (compared to - US$76.2 million) as Guyana repaid more in debt service than it received in disbursements. Capital flows to the private sector also declined by 30 percent to US$103.2 million, with FDIs marginally increasing to US$143 million (4.2 percent of GDP). However, external buffers remained adequate with Gross International Reserves increased by 4.3 percent to US$636 million, equivalent to 3.6 months of import cover.

The Central Bank of Guyana (BOG) implemented a series of policy measures to restrict hard currency demand to address shortages in the domestic market. On February 2nd , 2017, BOG issued a cabinet-certified directive to licensed currency dealers, which include commercial banks and non-bank cambios, to limit the spread between the buying and selling rate for the US dollar to no more than G$3.00, while instructing commercial banks to restrict credit card purchases in foreign currency to non-business purchases. Authorities claimed the measures will improve the efficiency, depth, and liquidity of the foreign exchange markets. The inflow of US dollars has declined in 2016 due to drops in non-gold export sectors, lower remittances, and less FDI compared to previous years, while demand for dollars has remained steady or possibly grown, resulting in a shortage. Monetary authorities attempt to manage inflationary expectations by anchoring the exchange rate through frequent sterilisation exercises.

New UN Good Officer[1] for Guyana-Venezuela border issue. On February 26th , Mr. Dag Halvor Nylander, a Norwegian diplomat, was appointed by the UN General Secretary as his Personal Representative on the border controversy between Guyana and Venezuela. Authorities welcomed the appointment as GoG seeks closure to the protracted border controversy with Venezuela.

Conclusion

Guyana growth outlook over the medium term remains positive but unaddressed internal weaknesses and vulnerability to external shocks may weaken growth. While debt-to-GDP ratios are low relative to Caribbean counterparts, protracted fiscal expansion can quickly erode buffers, heightening need for consolidation. Channeling resources to growth-enhancing expenditures and improving institutional capacity would increase the efficacy of capital spending and help to realise growth dividends.

[1] The good offices method is where the third party offers 'good offices' to the conflicting states to facilitate dialogue and assist states towards peaceful settlement of the dispute.

High-Frequency Macroeconomic Indicators

	Last data	Period	Prior data	Period
Annual GDP growth (%)	2.6	2016	3.2	2015
Exports (12-month growth)	19.2	2016	-1.4	2015
Imports (12-month growth)	4.4	2016	-16.7	2015
Private sector credit growth (%)	4.0	2016	6.2	2015
Inflation	1.3	2016	-1.8	2015
Exchange rate (end of period)	206.5	2016	206.5	2015

PRIVATE SECTOR IN GUYANA

Introduction

Despite positive economic performance over the past decade, structural challenges to achieving sustainable and inclusive growth still exist. Guyana remains vulnerable to terms-of-trade reversals, climate variability, environmental degradation, natural disasters, and other exogenous shocks. At present, the economy relies on primary commodities that drive export earnings, employment, and national income.[2] Export sophistication and complexity remain low and have not improved over time. Growth volatility, measured as the standard deviation of growth, was 1.2 during 2001-2005 while real growth averaged at 1.1 percent. This was largely due to political instability in 2001-2002 and a major flood on densely populated coastal littoral that wiped out nearly 50 percent of GDP in 2005. While the global financial crisis was well weathered, volatility rose to 1.9 percent, reflecting a series of favourable exogenous shocks that included record commodity export prices, spending associated with flood recovery, and debt relief of US$467 million in 2004. Relatively stable macro conditions prevailed, and a growing services sector, driven by the commodity and construction boom, resulted in Guyana achieving a decade of consecutive growth, averaging 4.3 percent.

Business environment in Guyana

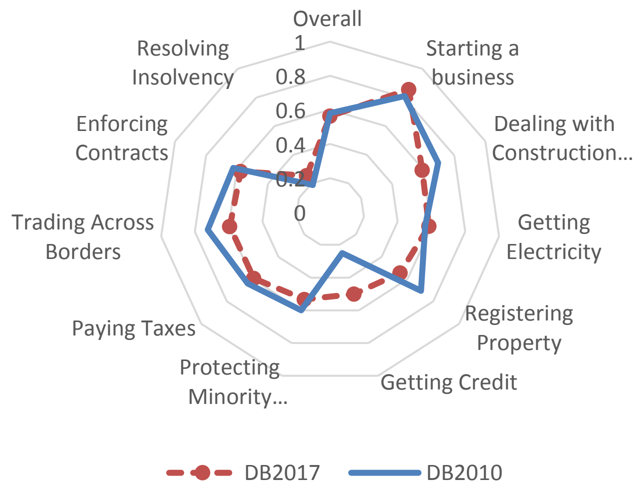
The private sector consists of mainly micro, small, and medium-sized enterprises with a few large enterprises operating in the extractive industries (Private Sector Advisory Group, 2014). As of October 2013, the Small Business Bureau's database included 6,756 businesses.[3] Most of these firms sell their goods and services only to the domestic market; only 8 percent of firms report that they export, compared to 17 percent for the rest of the Caribbean. Also, the majority of firms are family owned—37.5 percent are sole traders and 33 percent are private limited companies—and depend on imported inputs, 73 percent compared to 57 percent for the rest of the Caribbean.

SME's are a central part of Guyana's economy, but the business environment could be improved. SMEs' contribution to GDP is estimated to be 28 percent and around 22,000 small and micro firms were in business in 2009. However, the business environment can pose a challenge even though Guyana's ranking improved from 140 to 124 out of 190 countries in the 2017 Doing Business Report (Figure 1). Similarly, when asked directly businesses mentioned high-cost electricity, corruption, poor infrastructure, and inadequately skilled workforce, among others, as major obstacles for their operations in the 2014 ProteqIN survey (Figure 2).

Major Constraints

Guyana's private sector faces a number of challenges–small market size, access to and cost of electricity, an inadequately educated workforce, taxes, crime and violence, inefficiency of domestic markets, access to and cost of financing, low research and development, poor infrastructure (roads, ports and air connectivity), weak protection of property rights (land tenure, intellectual property rights, and contract enforcement), and a lack of coordination between government and private sector. These challenges hinder growth in the private sector and contribute to a less diversified economic structure than wanted.

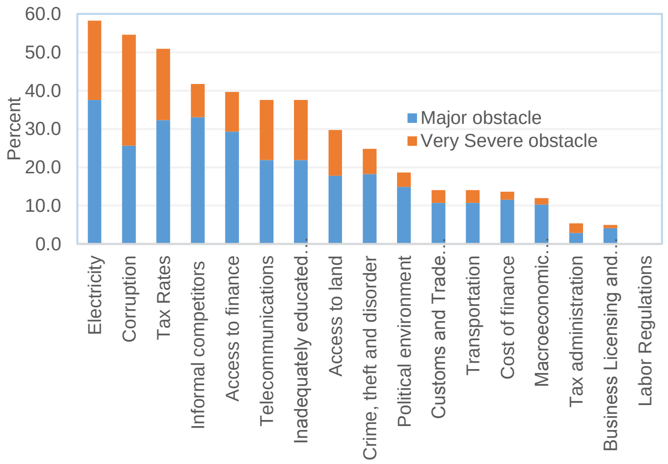
Figure 1: Distance to Frontier, 2010 compared to 2017



Source: World Bank Doing Business Index, different years.
Notes: 2010=1

[2] Six primary commodities (gold, bauxite, rice, sugar, timber, and fish) constitute upwards of 80 percent of total exports.
[3] About 73 percent of registered businesses in Guyana employ fewer than five people, while 22.3 percent employ 5-15 people and 4.7 percent employ more than 15.

Figure 2: Percentage of Firms That Consider a Factor a Major or Very Severe Constraint



Source: Own calculations based on 2014 ProteqIN Survey.

An inadequately educated and trained labour force is a major obstacle for business. An essential aspect of economic diversification and productivity growth is the development of adequate skills of the labour force. Data from the World Economic Forum (WEF) competitiveness ranking (2015) and Compete Caribbean's 2014 ProteqIN Survey (2014) show that firms face obstacles when hiring new workers due to lack of adequate skills, which may hamper the development of strategic economic sectors. When examining the "Higher education and training" pillar of the 2015-2016 WEF Global Competitiveness Index, Guyana ranked 59 in quality of education, 49 extent of staff training in on-the-job-training and 67 in the availability of specialized training out of total number of 140 countries reporting. The business community views this as a critical obstacle signaling the need to strengthen partnerships between the private sector and educational institutions to improve the quality of schools and vocational training programme, and to promote apprenticeship and on-the job training programmes.

Migration constrains adequate skills development. Aside from educational and training factors resulting in an inadequately educated labour force, Guyana continues to experience a severe *brain drain,* limiting the availability of adequately educated workers, further hindering its ability to close the skills gap.[4] Comparing Guyana's outflow migration with other Caribbean countries, the severity of the issue becomes clear: 37 percent of Guyana's population lives abroad, against 20 percent for Trinidad and Tobago, 30 percent for Suriname and 27 percent for Jamaica.[5] Furthermore, the highest rate of migration is seen among university graduates.

Bottlenecks related to infrastructure hamper private sector development as well. Poor transport links and the high cost and unreliable supply of electricity directly undermine business competitiveness. Guyana ranks relatively low on infrastructure indicators: road (ranking 104 out of 148 countries on the index), port (87 out of 148), and air transport infrastructure (98 out of 148). In terms of service parameters, Guyana, along with Suriname, obtains the worst scores in the Caribbean on shipping liner and air connectivity indices. On a scale of 100, Guyana's air connectivity index is 2.46 and its maritime shipping connectivity index in (2014) is 4.1. In addition, Guyana has one of the highest costs of electricity at US$0.29/kWh, compared with an average residential energy price of US$0.16/kWh in LAC. Of Guyanese firms interviewed, 58.3 percent complained that energy costs prove to be a major or very severe obstacle.

Access to and cost of financing is a constraint to firms in Guyana. This challenge particularly affects SMEs that do not comply with stringent and conservative credit policies. The 2016 Doing Business Report ranks Guyana 124th out of 190 countries for getting credit. This ranking shows up several deficiencies for Guyana, including zero credit registry coverage (percent of adults), lower credit bureau coverage and depth of credit information relative to Rest of Small Economies that are commodity exporters (ROSE-C)[6], and an inadequate legislative framework to facilitate lending as reflected by the strength of legal rights index. In

[4] United Nations Development Programme, 2010, Assessment of Development Results: Guyana http://web.undp.org/evaluation/evaluations/adr/guyana.shtml (UNDP, 2010)

[5] International Migration Organization, 2016, Global Migration Flows. https://www.iom.int/countries/guyana (IOM, 2016)

[6] ROSE-C is a grouping of 48 small economies, including Guyana, defined as having a population less than 3 million and who rely on the export of primary commodities.

banks' efforts to expand their lending activities, the challenge they face is finding creditworthy clients with proven cash flows and sound business plans. Commercial banks claim that a lack of credit information systems, a lack of clients with audited financial statements and bankable business plans, and clients for whom collateral collection is problematic, constitute the main obstacles that prevent more credit expansion into the SME segment. The creation of a Credit Bureau in 2013 has helped narrow the deficiencies of credit information; however, the use of this tool has been limited.

Crime and insecurity in Guyana is detrimental to private sector development, social capital and social cohesion. The issue of crime and insecurity is particularly important for the private sector as firms in Guyana report that crime is a major impediment to their performance. In the recent Proteqin survey (2014), more firms reported crime as a major or severe problem—24.8 percent compared to 20 percent for the rest of the Caribbean. Guyanese firms experience significant losses due to crime (mainly theft and vandalism) at a rate of 2.8 percent of annual sales, and they spend more on security (5.1 percent of annual sales) than firms in ROSE-C (4.12 percent of annual sales).

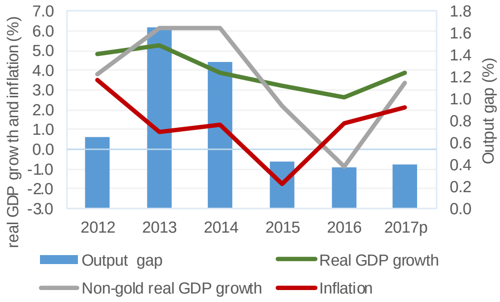
Conclusions

Challenges to support and promote private sector development in Guyana remain. However, dialogue and consensus building between private sector actors and government can lead to partnerships, and foster a long-term commitment to reform and innovation to address these constraints. Concerted effort along several lines of action could be pursued:

- Supporting reforms that clarify property rights, such as secured transactions laws, expanded coverage of credit bureaus, modern insolvency laws, bank loan risk classification and collateral changes, better contract enforcement, and land tenure and land administration reform could reduce uncertainty and risk.
- Improving access to finance and technical assistance for micro, small and medium enterprises.
- Leveraging finance of private investment for infrastructural needs, particularly energy and transportation, under well-developed public-private partnership laws (PPP) and a dedicated PPP analysis and promotion unit.
- Supporting cross-border trade facilitation efforts, a port community system, and cross-border facilitation with Brazil.
- Strengthening export and investment promotion programmes.
- Creating a business-government council with authority to identify bottlenecks and streamline regulations and administrative processes in a timely fashion.

Strong gold performance averts recession…

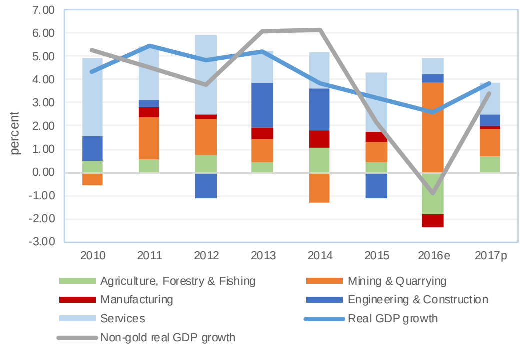
Figure (a): Real GDP growth and Inflation



Source: Ministry of Finance, and IMF WEO October 2016

…by compensating for weaknesses in key agriculture sectors

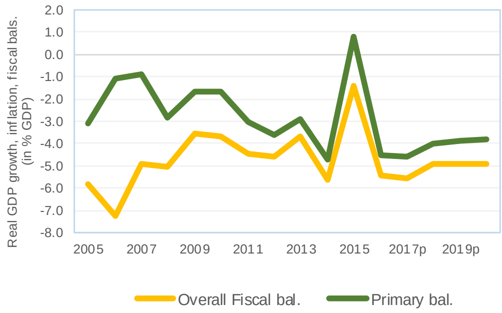
Figure (b): Sectoral contribution to Real GDP growth



Source: Ministry of Finance

Meanwhile, authorities' fiscal expansionary policy quickly deteriorates fiscal balance.

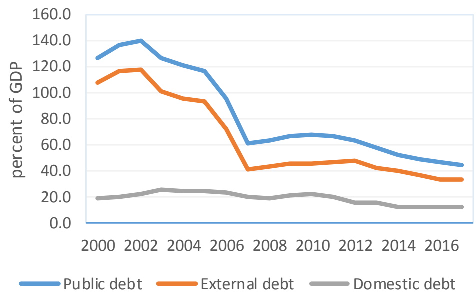
Figure (c): Fiscal overview



Source: Ministry of Finance, and IMF WEO

However, debt-to-GDP ratios remain below historical levels.

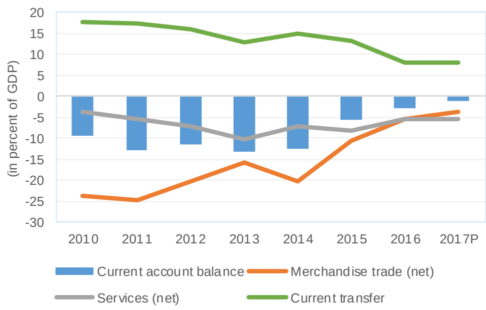
Figure (d): Public sector debt



Source: Ministry of Finance

High gold exports and lower import prices improved terms of trade…

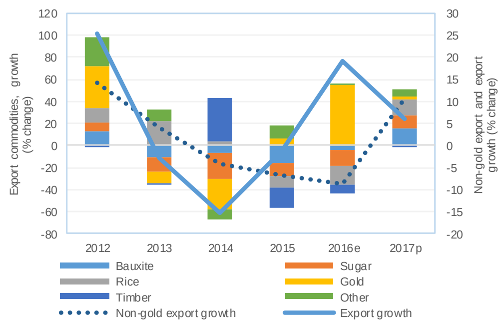
Figure e): Current account components



Source: Bank of Guyana and Ministry of Finance

…despite weak performance form other export sectors.

Figure (f): Export performance (annual % change)



Source: Bank of Guyana, Ministry of Finance, and IMF

Guyana: Selected Indicators

	2013	2014	2015	2016	2017 (P)
(Annual percentage changes, unless otherwise indicated)					
Real sector					
Real GDP	5.2	3.8	3.0	2.6	3.8
Nominal GDP (GYD millions)	614100.0	635300.0	653300.0	707300.0	N/A
Inflation (end of period)	0.9	1.2	-1.8	1.3	2.5
External sector					
Exports of goods	-2.8	-15.2	-1.4	19.2	6.0
Imports of goods	-7.5	-3.0	-16.7	4.4	2.2
Current account (percentage of GDP)	-13.3	-12.5	-5.7	-3.0	-3.0
Remittances (percentage of GDP)	12.7	14.9	13.2	8.1	8.1
FDI (percentage of GDP)	7.2	8.5	4.0	4.2	3.8
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)					
Central government					
Revenue and grants	23.4	23.0	24.9	24.7	24.4
Current expenditure	19.7	21.1	22.6	24.5	24.4
Capital expenditure and net lending	8.6	8.2	4.7	6.7	7.4
Primary balance	-2.9	-4.7	0.8	-4.5	-4.6
Overall balance	-3.7	-5.6	-1.4	-5.4	-5.6
Debt indicators					
Central government debt	57.9	51.9	48.6	46.3	44.7
External public debt (end of period)	41.8	39.5	36.1	36	32.9

Source: Central Bank of Guyana, World Economic Outlook, IMF (October, 2016).

Notes: (P) denotes projected figures. FDI= foreign direct investment.

Contributor: Juan Pedro Schmid

Overview

Jamaica's economy remains stable. An International Monetary Fund (IMF) mission visited Jamaica in February 2017 in preparation for the first review of its new Stand-By Arrangement (SBA) with the country. Economic indicators indicate a continuous recovery, including for economic growth, which is forecasted at 1.7 percent for FY2016/17 with an acceleration in later years.

Recent Developments

An IMF mission visited Kingston, Jamaica in preparation for the first review for the Stand-By Arrangement with the Fund. The three-year programme foresees semi-annual review missions with the first one scheduled for April 2017. While quantitative performance targets remain focused on fiscal consolidation, the structural benchmarks focus on public sector modernisation.

The SBA continues the reforms of the Extended Fund Facility. Key areas include public sector efficiency, rebalancing from direct to indirect taxes, strengthening the social safety net, and reallocating public resources to infrastructure spending. While these efforts should facilitate economic growth, job creation, and social protection, the primary surplus is projected to remain at 7 percent of GDP for the medium term. The recent IMF mission to Jamaica stated that the programme is off to a 'strong start' while emphasising the importance of maintaing the reform momentum, including reducing wage costs for public sector workers.

The government tabled the budget for FY2017/18. Compared to last year, overall expenditures are budgeted to increase by 38 percent. However, excluding debt amortisations, nominal expenditures are budgeted to increase 8.5 percent. Expenditures for investment are budgeted to increase by 26 percent but, as in previous years, could be reduced to compensate for higher-than-projected other expenditures or lower-than-projected revenues.

Economic Performance and Outlook

The macroeconomic environment remains favourable. As at January 2016, inflation remained subdued at 2.6 percent. Prices are still affected by the 2014/2015 fall in oil prices, which has an impact on parts of the economy that use energy as an input (Figure 1). However, with stable, or even increasing energy prices, inflation is projected to increase to the Bank of Jamaica's (BOJ) target 4.0-6.0 percent.

Net international reserves of US$2.62 billion were above prudential levels. Given the remaining funds from the Extended Fund Facility (EFF), gross international reserves at end-February 2017 amounted to US$3.19 billion, equivalent to 21.6 weeks of imports of goods and services. The approval of the SBA boosted potential reserves by another US$412 million.

Highlights

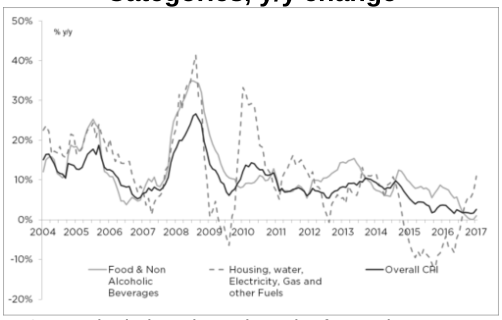
The IMF visited Jamaica for the first review under the Precautionary SBA, scheduled for Board approval in April 2017.

The macroeconomic environment remains positive.

The government tabled the budget for FY2017/18 with little changes in policy directions.

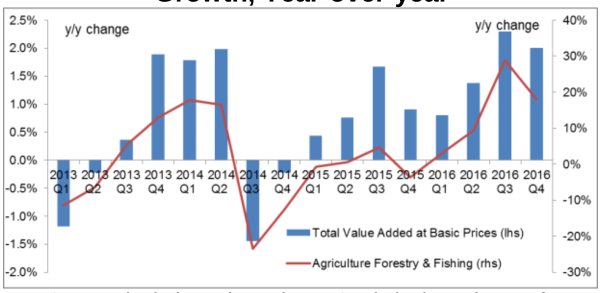
Remittances show an impact from Brexit while tourism has remained resilient.

Figure 1: Total Consumer Price Index and main Categories, y/y change



Source: Own calculations based Bank of Jamaica.

Figure 2: Total and Agricultural Quarterly GDP Growth, Year-over-year



Source: Own calculations based on Statistical Institute of Jamaica. *Notes:* Based on unadjusted quarterly series at 2007 constant prices.

Growth is projected to accelerate. Growth for the current fiscal year FY2016/17 that will end in March 2017 could end up at the higher end of the one to two percent government forecast. The revision follows growth of 2.2 percent in the third quarter of 2016 and between 1.5-2.5 percent in the fourth quarter of 2016 (Figure 2). The recovery was driven partly by an expansion of agriculture percent, but all other sectors except manufacturing also performed well.

Business and consumer confidence increased to all-time highs in 2016. Business and consumer confidence remained more favourable in 2016 than at any time since the survey began 15 years ago. The survey is important as it reflects investment intentions of firms. Almost two thirds of surveyed firms indicated it was a good time to expand productive capacity while over half of firms expected the economy to improve. At the same time, firms cited crime and violence as the main issue facing the economy (see detailed report on private sector below). While consumers are relatively confident about the economy, 82 percent of surveyed individuals stated that jobs remain scarce.

Table 1: Growth in Stay-Over Tourist Arrivals by Country, 2014-2016

	2014	2015	2016
USA	2.0%	3.7%	4.6%
Canada	5.2%	-6.8%	-4.9%
Europe	-0.7%	-4.2%	9.8%
UK	17.1%	12.3%	3.8%
Others	0.7%	5.3%	0.6%
Total	3.6%	2.1%	2.8%

Source: Own calculations based on Jamaica Tourist Board.

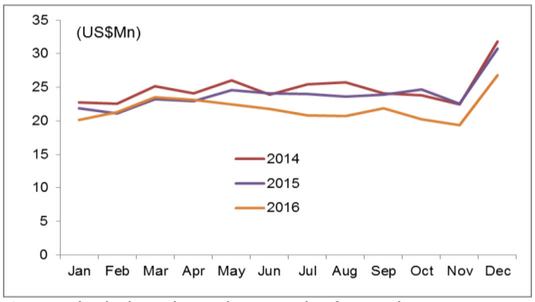
Tourism continues to perform well. Performance in 2016 was strong even though it varied by sender country (Table 1). Arrivals from Canada experienced a second year of decrease, but the main market, the United States, continued to perform strongly. At the same time, the growth of arrivals from the United Kingdom slowed down, possibly related to the GBP depreciation and uncertainty over Brexit (see discussion below). However, Europe, excluding the United Kingdom, showed healthy growth in arrivals at 9.8 percent compared to the same period one year earlier. In terms of cruise ship arrivals between 2015 and 2016, calls to ports increased by 13.1 percent and total passengers increased by 5.5 percent.

Brexit Showing?

While UK tourism has so far been resilient, remittances show signs of weakening. Comparing the exchange rate priort to the Leave vote to the last three months of 2016, the Pound Sterling depreciated against the US Dollar by around 12 percent. Over the same time period, the US Dollar value of UK remittances declined by a similar amount. The decline in UK remittances is less in constant Jamaican dollars (controlling for inflation) with a decline in remittances in the second half of 2016 of eight percent. The impact of the weaker Pound Sterling on the value of remittances was quick as remittance senders continued to remit similar amounts in Pound that were worth less in US Dollars and JM Dollars. Overall, remittances were still higher as other countries compensated for the decline in the flows from the UK. However, an income loss is likely for households receiving remittances from family members in the UK.

The effects on tourism from the devaluation following the Leave vote are less clear. Bookings can occur several months before the actual trip and dozens of factors influence the choice of a destination, making causal connections between the Brexit vote, the weakening of the Pound and tourism arrival difficult to determine. While growth in UK arrivals slowed down (see Table 1 above), tourism experts expect the full impact of Brexit to be visible only in 2017, when bookings occurred after the vote. In addition, anecdotal evidence suggests that UK tourists spend less while on vacation, which impacts the effect that tourism has on the economy.

Figure 4: US$ value of UK Remittances by Month, 2014-2016



Source: Own calculations based on Bank of Jamaica

Unemployment continues to improve but at a slow pace. At 12.89 percent in October 2016, unemployment remained virtually the same as the quarter before but improved compared to the same period one year earlier (13.48 percent). The number of employed persons declined by -0.5 percent between October and July 2016 but increased by 3 percent compared to October 2015.

Conclusion

The SBA is expected to provide a sustainable framework for the next three years. Growth in 2017 and 2018 is projected to accelerate further to 2.0 and 2.4 percent. With a stabilisation in oil prices, inflation should increase from its record low levels to around 5 percent, still well below historical levels. Similarly, the current account deficit is projected to remain below four percent (see also snapshot below for forecasts under the SBA).

High Frequency Macroeconomic Indicators	Last data	Period	Prior data	Period
Real GDP Growth (y/y)	1.5-2.5	2016 Q4	2.2	2016 Q3
Inflation (y/y)	2.6	Jan-17	1.7	Dec-16
Net international Reserves (US bil)	2.6	Feb-17	2.5	Sep-16
Exchange Rate (end of period)	128.1	Feb-17	128.4	Dec-16
Unemployment Rate (%)	12.9	Oct-16	12.9	Jul-16

Sources: Bank of Jamaica and Statistical Institute of Jamaica

Introduction

Jamaica's economic performance has been weak for decades. Average real economic growth since 1980 has been around 1 percent, which is among the lowest in Latin America and the Caribbean. A weak business climate with distorted incentives, macroeconomic volatility and repeated economic crisis as well as external economic shocks and natural disasters are among the main reasons for the disappointing growth trajectory. The World Financial Crisis also had a profound impact on Jamaica's economy, especially on macroeconomic stability and fiscal buffers. The country is still recovering from the downturn that began in 2008, including with the support of the IMF.

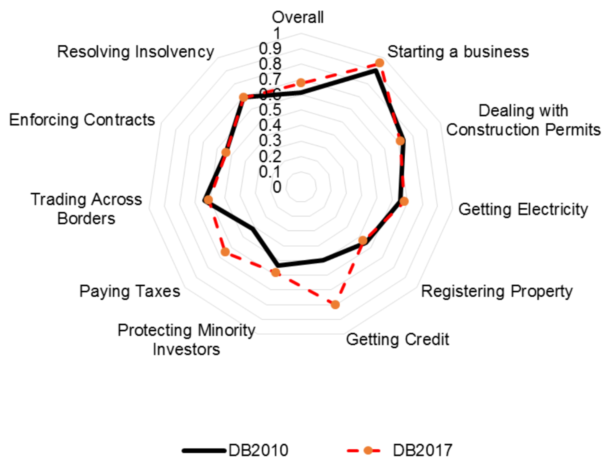
The economy has been recovering over the last three years. Economic stabilisation since 2013, together with a conducive external environment and economic reforms to facilitate private sector activities, have supported an acceleration of economic growth from 0.2 percent in FY2013/14 to an estimated 1.7 percent for the current FY2016/17. Absent any external shocks, economic growth is forecasted to continue to accelerate to around 2.5-3 percent over the next three years.

Services dominate private sector activity in Jamaica. Over 70 percent of GDP originates from the service sector. The secondary sector, which includes manufacturing, utilities and construction, represents around 20 percent of GDP while agriculture and mining contribute around ten percent to total GDP. The agricultural contribution to GDP has been low at around seven percent while mining fell from around four percent of total GDP before the world economic crisis to currently below two percent. However, both agriculture and mining are important as they offer employment opportunities in rural areas. In addition, mining in the form of bauxite and alumina were the main goods export of Jamaica before the recent fallout of the industry. Tourism remains the central sector for the Jamaican economy, contributing 8.1 percent to GDP directly and 27.2 percent in total.[1]

Business environment in Jamaica

Jamaica has made important strides in improving its business climate. The World Bank ranks Jamaica 67th out of 190 economies in the 2017 Doing Business report, slightly below the 65th rank it had one year before but still an important improvement to the 94th rank it had in 2014. Important changes have been made over the last few years, especially for getting credit, paying taxes and starting a business, however several areas remain weak with little progress over the last few years (Figure 1). Jamaica's rank is in the top third of countries for starting a business (12) getting credit (16), resolving insolvency (38) and protecting minority investors (63). However, Jamaica ranks low for trading across borders (131), registering property (123), enforcing contracts (117), paying taxes (116), getting electricity (101) and dealing with construction permits (75).

Figure 1: Distance to Frontier, 2017 compared to 2010



Source: World Bank Doing Business Index, different years.
Notes: 1=Frontier, top performer.

Major Obstacles to Business Operations

While firms face several obstacles, it is tax rates, competition from informal companies, electricity costs and crime, theft and disorder that stand out. While the doing business indicator focuses on time and cost of specific processes, enterprise surveys ask firms directly about obstacles to their business operations. When firms are asked about the top business environment obstacles, the most mentioned are tax rates, electricity cost and crime (Figure 2).

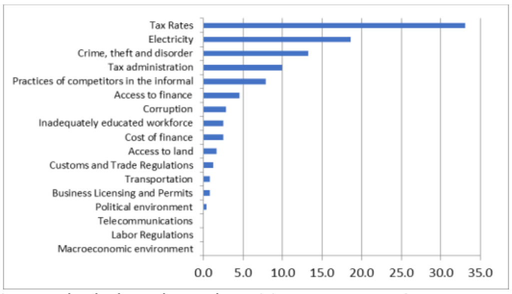
Firms suffer from several obstacles at the same time. What makes Jamaica's business climate hard is that when asked how they rank different factors, a large number of firms rank several factors as a major or very severe obstacle. Eight areas are ranked as major or severe obstacles by at least 30 percent of firms (Figure 3).

Firms have evolved in line with obstacles. Even though Jamaica was experiencing a period of economic uncertainty when the survey was conducted in 2013, only 6.2 percent of firms viewed macroeconomic environment as a major or severe obstacle. Similarly, even though

[1] Estimates for 2015 by World Travel and Tourism Council. The same source puts contribution to employment at 4.2 percent and 24.7 percent for direct and total contribution, respectively.

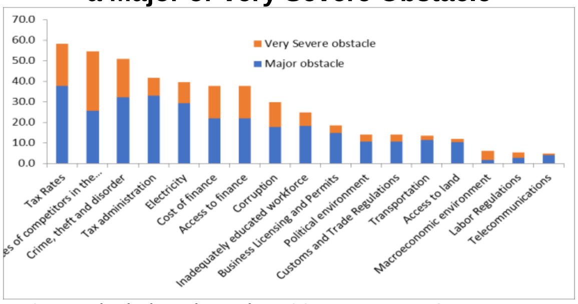
Jamaica ranks 131st in trading across borders in the Doing Business indicator, only 14.1 percent of surveyed companies considered customs and trade regulations as a major or severe obstacle. This discrepancy indicates that some industries either never took hold or went out of business because of obstacles they would have faced.

Figure 2: Ranking of the Top Business Environment Obstacle for Firms



Source: Own calculations based on 2014 ProteqIN Survey.

Figure 3: Percentage of Firms That Consider a Factor a Major or very Severe Obstacle



Source: Own calculations based on 2014 ProteqIN Survey.

Policies

The government is focusing heavily on private sector development to increase economic growth. Jamaica's development strategy is guided by Vision 2030 with implementation through Medium Term Socio-Economic Policy Framework, which is regularly updated. Given the weak historical economic performance, measures to improve economic growth are a strong focus. In addition, better support for growth, jobs and social protection comprises one of the four pillars of the current IMF programme.[2] The remainder of this short brief will discuss some of the constraints discussed above in more detail. Given their importance, the focus is on i) taxation, ii) crime, theft and disorder and iii) electricity. For completeness and comparison with other countries in this publication, access to finance and adequately educated workforce is also discussed.

Taxation clearly stands out as the main challenge in Jamaica. Both the Doing Business indicators and the enterprise surveys indicate that the high tax rates, and to a lesser degree, red tape from dealing with tax administration, are a burden for formal companies in Jamaica. To a large degree, the tax rates reflect the fiscal needs for Jamaica to balance high expenditures.[3] Tax revenues as a share of GDP are currently around 25 percent. However, taxes on production, consumption and international trade constitute the majority of tax revenues. Taxes on income and profit are around 28 percent of total tax revenues. A high degree of informality places the tax burden on a smaller number of formal companies, which pay on average 34.3 percent of profit in taxes. High levels of mandatory contributions for employees pose a further challenge for companies, driving up labour costs and giving informal companies a competitive advantage.[4]

The tax system in Jamaica is undergoing major reforms. Over the last four years, Jamaica removed distortions form the tax system and reduced the tax burden for general companies as it replaced industry-specific incentives with general tax incentives linked to employment and investment. Jamaica also reduced red tape related to paying taxes by reducing the number of payments, facilitating joint payments of social security contributions and introducing online systems for tax filing and payments. As a result, Jamaica ranked 116 in the 2017 Doing Business Report for Paying Taxes, compared to 155 the year before.

Tax rates represent the main burden for companies even though some reforms are possible. Given the revenue requirement of the government, the potential to change tax rates is restricted over the short to medium term. Improvements can be achieved by broadening the tax net and through increased compliance, but the need to reduce debt-to-GDP will continue to dictate tax rates over the short to medium term.

High electricity prices remain a drag on businesses. Electricity was named by 18.6 percent of firms as the top obstacle to business operations in the 2014 ProteqIN survey, second only to tax rates. In terms of companies that rate electricity a major or very severe constraint, the share in the 2014 survey was 39.7 percent. While electricity prices in Jamaica have declined in line with oil price decreases since then, they remain high in

[2] The other three are the more traditional i) reduction in debt, strengthening monetary operations and bolstering financial stability.

[3] For an illustration on how high expenditure drives revenue requirements and thus tax rates, see Schmid (2014), 'Fiscal Unruliness: Checking the Usual Suspects for Jamaica's Debt Buildup.' IDB policy brief IDB-PB-213.

[4] See detailed discussion in 2017 World Bank Doing Business Report.

international comparison.[5] High technical losses, including from theft, and old, inefficient generation capacity, constitute the main reason for the high energy prices.

Several initiatives to reduce energy prices are ongoing. The replacement of old, diesel-based generators with new, gas-based generators will reduce generation costs.[6] In addition, several initiatives continue to be implemented to increase the share of renewable energy to the targeted 20 percent of total by 2030.[7]

Crime ranks third in overall obstacle to business operations. In addition, 46.1 percent of firms state that crime, theft and disorder pose a major constraint on business operations (LAC 34.3 percent, world 26.4 percent). In spite of a falling trend, Jamaica continues to suffer from one of the highest homicide rates in the world (40.9/100,000 in 2015). Two thirds (65.9 percent) of firms pay for security, above the average for LAC (62.1 percent) and the world (57.2 percent). The adverse effects on international competitiveness are evident as 96.8 percent of exporting firms paying for security, compared with 63.8% of non-exporting firms.

Crime and violence pose an issue for companies and place huge social burden for Jamaicans.[8] The government sees lack of public security as a key social and economic issue that it intends to address from different angles, including a higher allocation of resources agreed upon with the IMF.

Access to finance is an important challenge for the entire region. Private-sector led growth requires investment by companies, putting the spotlight on access to finance. Access to finance is especially hard for small companies. However, these companies also have weaker governance and accounting practices and pose a higher credit risk. As such, improvements in access to finance require regulatory improvements, specific initiatives for the financial sector, and capacity building for small companies to adhere to adequate business practices in terms of business development and accounting.

An inadequately educated workforce is less of an obstacle in Jamaica than in other countries in the region. Only 2.5 percent of firms cited inadequately educated workforce as the top business environment obstacle in 2013. Similarly, at 24.8 percent, inadequately educated workforce as a major or severe obstacle is below the value for Latin American and the Caribbean. However, a skilled workforce is not only required for increases in productivity but also contributes to innovation. In this regard, Jamaica loses a high share of its educated workforce to migration, with the last estimate for persons with tertiary education being 88 percent.[9] Conversely, remittances to Jamaica amount to approximately 15 percent of GDP, used mostly for consumption and, thus, serving as a major safety net but adding less to investment and economic growth.

Conclusions and Policy Recommendations

While the outlook has improved, challenges for the private sector abound. Jamaica's private sector not only faces a difficult business environment discussed above, but is also located in a country that has had a stagnating economy with an uncertain medium-term outlook, susceptibility to external shocks, and a severe lack of diversification both in the types of goods exported and the countries to which they are exported.

Jamaica has made important strides in macroeconomic stabilisation since 2013. In addition, several initiatives have improved the business climate. Importantly, the authorities are placing emphasis on economic growth and have put effort into facilitating private-sector led economic growth, including empowering the Economic Growth Council.

Jamaica is world leader in tourism services and was previously a major player in bauxite mining. At the same time, the country has been slow to develop other industries. Several impediments to diversification have been mentioned above – including a distorted tax system, repeated bouts of macroeconomic vulnerability, high electricity prices and red tape and complicated processes. These constraints are at various stages of being eased, providing an important opportunity for Jamaica to increase economic growth and create employment.

[5] Tariffs decreased from 0.39$/KWh in 2012 to 0.27$/KWh between 2012 and 2015. This remains above Barbados (0.24$, Trinidad and Tobago (0.06$) and the United States ($0.1).

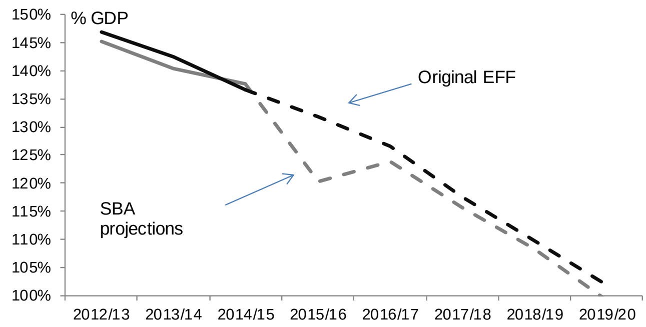
[6] Construction of a 190MW at Old Harbor is slated to begin in March 2017.

[7] See summary of on-going projects https://cleantechnica.com/2016/06/28/jamaica-will-add-150-mw-renewable-energy-capacity-year/

[8] See Harriott and Jones (2016), 'Crime and Violence in Jamaica: IDB Series on Crime and Violence in the Caribbean', IDB Technical Note #1060, for a recent study on crime and violence in Jamaica

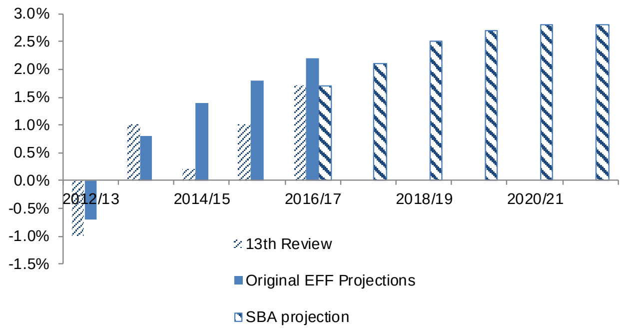
[9] Mishra, P. (2006) Emigration and Brain Drain: Evidence From the Caribbean. IMF Working Paper WP/06/25.

The SBA will still focus on debt reduction …
Figure A. Debt-to GDP 2011/12 - 2019/20



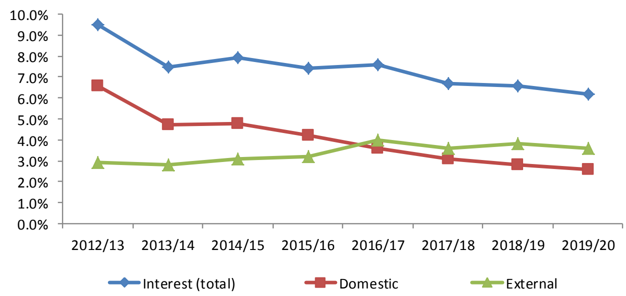
Source: International Monetary Fund

and continue to hope for grwoth acceleration
Figure B. Annual GDP growth rate



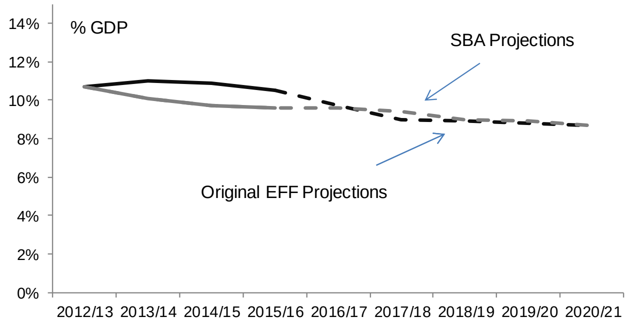
Source: Statistical Institute of Jamaica and IMF

Interest Payments are on a downward path…
Figure C. Interest payments on Government Debt (% of GDP)



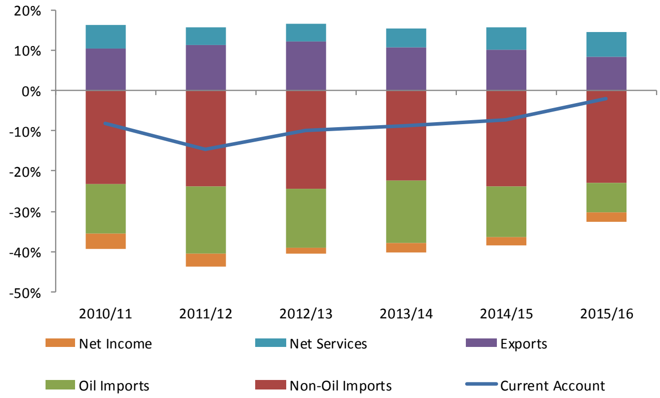
Source: International Monetary Fund.

while reduction of public sector salaries remains a target
Figure D: Public wages and salarias (% of GDP)



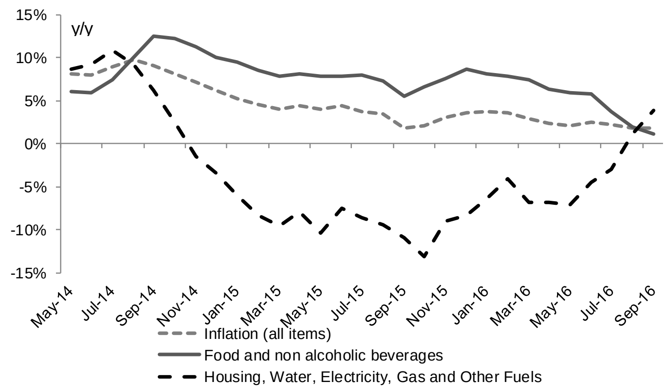
Source: International Monetary Fund.

The Current Account has benefitted from low oil prices
Figure E. Contributors to current account deficit (% of GDP)



Source: Bank of Jamaica

…which has helped to keep inflation under control
Figure F. Inflation and its Main Components (y/y % change)



Source: Bank of Jamaica

JAMAICA: SELECTED INDICATORS

	2012/13	2013/14	2014/15	2015/16	2016/17 (P)
(Annual percentage changes, unless otherwise indicated)					
Real Sector					
Real GDP	-0.7	0.9	0.2	1.0	1.7
Nominal GDP	6.1	8.9	6.9	7.5	4.6
Inflation (end of period)	9.1	8.3	4.0	3.0	4.8
Exchange rate (end of period)	98.9	109.6	115.0	122.0	
External Sector					
Exports of goods and services (yoy, %)	3.5	3.5	-5.0	0.3	2.2
Tourism receipts (yoy, %)	1.4	1.8	10.0	5.9	2.9
Imports of goods and services (yoy, %)	0.4	0.4	-7.3	-9.7	4.0
Current account (percentage of GDP)	-11.5	-8.4	-6.6	-1.8	-2.8
(In percentage of GDP, unless otherwise indicated, on a calendar year basis)					
Central Government					
Revenue and grants	25.8	27.2	26.3	27.0	27.4
Budgetary expenditure	29.9	27.1	26.8	27.2	28.0
Primary balance	5.4	7.7	7.5	7.1	7.0
Budget balance	-4.1	0.1	-0.5	-0.3	-0.6
Public sector balance	-4.2	0.1	0.4	1.6	-0.6
Treasury bill rate (percent, end of period)	5.8	8.0	7.0	5.8	
Debt Indicators					
Public sector debt	146.4	141.6	124.8	120.3	118.3
Public sector debt over revenues	n.a.	516.4	491.6	445.6	431.8
Foreign currency public debt (end of period)	76.0	76.4	49.9	70.0	
International Reserves					
Net international reserves (USD Mill)	884	1303	2294	2416	2536
Gross international reserves (weeks of good and services imports)	<12	14.4	19.4	23.3	24

Source: International Monetary Fund and country authorities.

Contributor: Jeetendra Khadan

Overview

The sharp drop in international prices of Suriname's main exports (oil and gold), and the closure of alumina production caused substantial fiscal and external imbalances and a run-down of international reserves, resulting in a deep recession in 2015.

The authorities launched an ambitious adjustment programme to restore macroeconomic stability. Some key measures of the programme included cuts to government expenditure and flotation of the exchange rate. The authorities also curbed monetary financing, initiated the phasing out of electricity subsidies, and began preparing for the introduction of a broad-based Value Added Tax (VAT). Suriname received support from the International Monetary Fund (IMF) in the form of a 24-month Stand-By Arrangement (SBA) and financing commitments from other international financial institutions to support broad-based structural reforms to improve productivity growth and diversification of the economy.

Recent Macroeconomic Developments

The recession is projected to continue in 2017, but with improvements in the overall macroeconomic framework. Real GDP is projected to decline by 0.7 percent in 2017, much lower than the nine percent decline in 2016. Real growth of 0.9 percent should return in 2018 (IMF, 2017). This outlook is largely predicated on the recent opening of the Newmont Merian gold mine which will support economic activity in 2017 through the medium term.

Inflationary pressures will remain elevated in 2017. The IMF projected inflation to be 61 percent at the end of 2016. Much of the inflation spikes are attributed to higher costs for utilities and the exchange rate depreciation (Figure 1)—the housing and utilities component of the consumer price index increased from 3.8 percent in October 2015 to 152 percent in June 2016. A decline in inflation to 30 percent is projected at the end 2017 and 16 percent in the following year (IMF, 2017).

Suriname's primary fiscal deficit is expected to decline in the next two years on account of a number of reforms and an uptick in the gold sector. The IMF projected that the primary fiscal deficit at the end of 2016 was 4.5 percent of GDP and this would move to a small surplus of 0.3 percent of GDP in 2018. A significant reduction in primary expenditure contributed to closing the fiscal gap. Primary expenditure fell from 30 percent of GDP in 2015 to 18.3 in 2016, which partly offset the eight percentage-point drop in government revenues. Revenues are expected to pick up in the next two years reaching 16.3 and 20.3 percent of GDP in 2017 and 2018 respectively (Figure 2).

Highlights

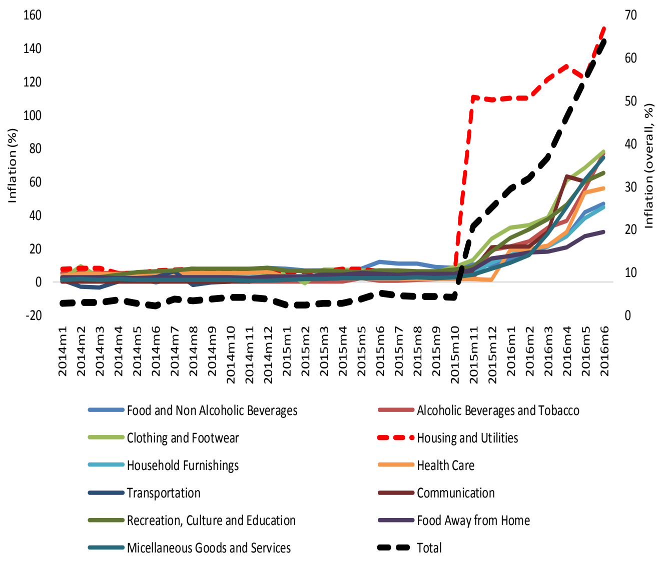
The recession is projected to continue in 2017, but with improvements in the overall macroeconomic framework.

Inflationary pressures will remain elevated in 2017.

Suriname moved three positions down on the 2017 ease of doing business ranking: from 155 in 2016 to 158 in 2017.

Suriname needs a stronger private sector to promote sustainable growth over the medium term.

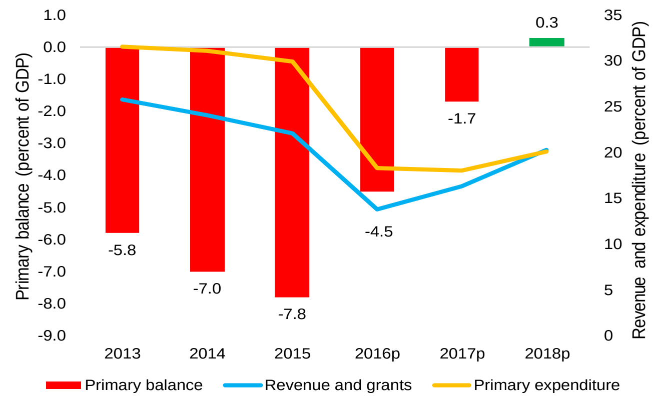
Figure 1. Inflation (Annualised) By Category



Sources: Bureau of Statistics, and IDB.

Suriname's total debt stock to GDP is projected to increase by 22 percentage points at the end of 2016: from 46 percent in 2015 to 68 percent of GDP at the end of 2016. The external debt is the main contributor to rising central government debt. This is partly due to the issuance of an external government bond of US$550 million at 9.25 percent. IMF (2017) projects that central government debt would gradually decrease to 54 percent of GDP by 2018.

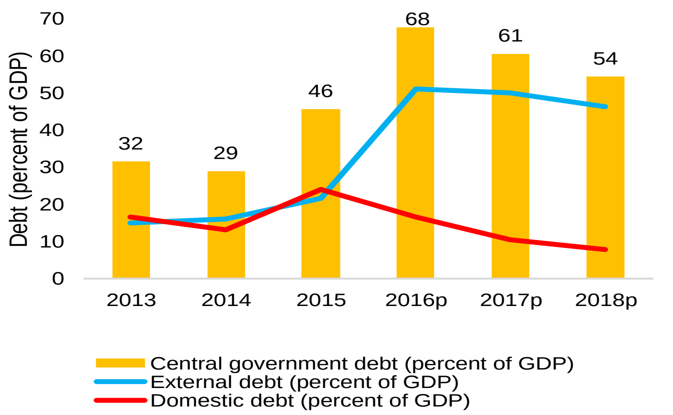
Figure 2. Central Government Fiscal Performance



Source: International Monetary Fund, 2017.

Fitch downgraded Suriname's Long-term Foreign and Local currency issuer default ratings to "B-" from "B+" in February 2017. The downgrade reflects the deterioration of public and external accounts, continued macro instability, a sustained large fiscal deficit, rapidly rising government debt (Figure 3), weak external liquidity relative to its larger external vulnerabilities and high inflation. According to Fitch, risks are tilted to the downside as it related to the fiscal balance and debt dynamics.

Figure 3. Debt (percent of GDP)

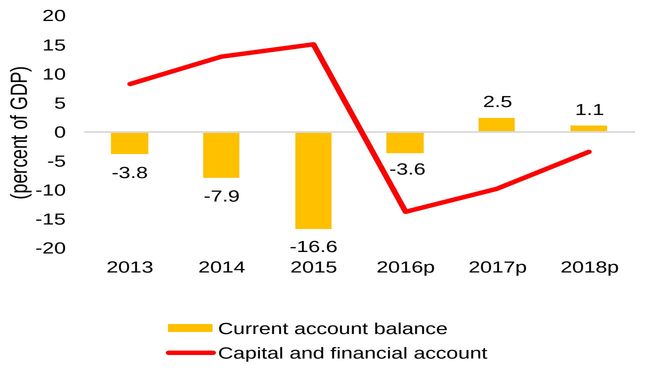


Source: International Monetary Fund, 2017.

The current account deficit has narrowed. The 2015 current account deficit of 16 percent of GDP narrowed in 2016 to 3.6 percent of GDP (Figure 4). Surpluses of 2.5 and 1.1 percent of GDP are projected for 2017 and 2018, respectively. These improvements are largely predicated on an expected uptick in exports from the new gold mine. Also, gross international reserves are projected to increase to US$515 million in 2017, estimated at 2.9 months of import cover.

Suriname moved three positions down on the 2017 ease of doing business ranking: from 155 in 2016 to 158 in 2017. The areas where Suriname's ranking dropped were starting a business, dealing with construction permits, getting credit, paying taxes, trading across borders and resolving insolvency. Nevertheless, improvements were reported in getting electricity, registering a property and protecting minority investors.

Figure 4. External sector



Source: International Monetary Fund, 2017.

Improvements to Suriname's electricity supply. The Caribbean Development Bank (CDB) approved a loan of US$65 million to the Government of Suriname to improve the country's electricity infrastructure. This upgrade would result in a more reliable, efficient and sustainable supply of electricity. It entails an upgrade of 36.6 kilometres of sub-transmission and distribution lines, construction of five new substations, expansion or upgrade of three existing substations, and the installation of three solar photovoltaic plants by 2021 (Caribbean Centre for Money and Finance, 2016).

Suriname signed a US 30 million-dollar syndicated murabaha (non-interest-bearing) term sheet with the Islamic Development Bank Group. The agriculture, medical and industrial sectors are expected to benefit from financing as it will facilitate the purchase of basic goods, inputs to produce basic goods, inputs for the agriculture sector and medical supplies.

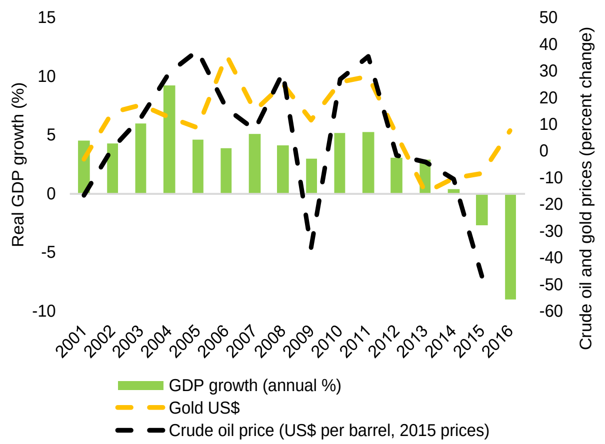
High Frequency Macroeconomic Indicators				
	Lastest data	Period	Prior data	Period
Real GDP growth (y/y)	-9.0	2016p	-2.7	2015
Inflation (end of period)	61.0	2016p	25.0	2015
Gross international reserves (US$ millions)	447	2016p	330	2015
Exchange rate (to US$)	7.5	Feb. 17	4.0	Dec. 15
Unemployment rate (%)	8.7*	2016	8.7	2015

Sources: Central Bank van Suriname; General Bureau of Statistics; World Economic Outlook (October 2016); International Monetary Fund 2017.
* data is estimated; p=projected

Introduction

Suriname needs a stronger private sector to promote sustainable growth over the medium term. The commodity super-cycle played a key role in supporting economic growth over the past decade. However, a sharp decline in gold and oil prices and the closure of alumina production caused a deep recession in 2015 (Figure 1). The authorities have outlined measures to restore macroeconomic stability and promote economic diversification. A critical element of its reform agenda is to achieve sustainable growth by relaxing constraints to productivity and expansion of the non-mineral private sector. Hence, clearly identifying the constraints to the private sector's performance and enacting policies to reduce constraints are important to the country's growth over the medium term. In what follows, we identify some salient features of Suriname's private sector, major constraints affecting private sector expansion, and policy options for Suriname.

Figure 1. Growth and commodity prices

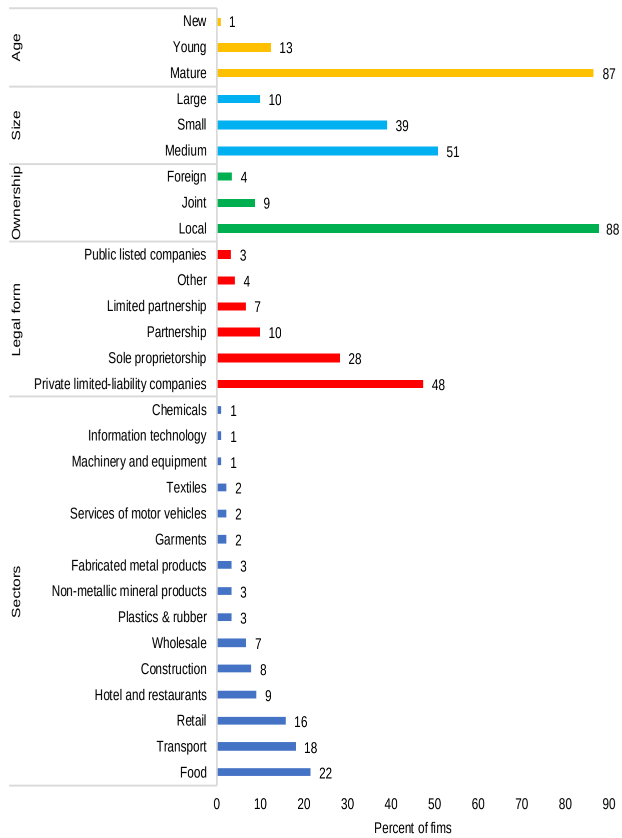


Sources: World Development Indicators and BP Statistical review (2016)

Profile of Suriname's private sector

Suriname's private sector consists of firms that are mostly small and medium enterprises, mature, locally owned and private limited-liability companies (Figure 2). Eighty-seven percent of firms are mature, that is older than ten years; 88 percent are locally owned; and 90 percent are small (39 percent) and medium enterprises (51 percent). Most firms are private limited-liability companies (48 percent), followed by sole traders (29 percent). The distribution of firms over sectors shows a higher concentration in services sectors, mainly food (22 percent), transport (18 percent) and retail (16 percent). These characteristics matter for performance. Research shows that smaller and younger firms perform better than larger and older ones, while foreign-owned firms show higher productivity levels than wholly-owned domestic firms and limited liability firms tend to have higher employment growth rates (Khadan, 2017). This suggests that the characteristics of firms in Suriname—with the exception of size—are mostly unfavourable for increasing productivity and performance.

Figure 2. Profile of Suriname's Private Sector



Source: PROTEqIN Survey, 2014.

Does Suriname have a Supportive Business Environment?

A conducive business environment is important for promoting firms' growth. The World Bank's *Doing Business Report* provides several indicators for assessing the ease of doing business within countries. With respect to Suriname, the data shows several regulatory constraints (Figure 3). Overall, Suriname places relatively low on the Doing Business rankings (158 out of 190 economies). Suriname performs worse that the rest of small commodity exporting countries (ROSE-C) comparator in all but two indicators: getting credit and trading across borders. Nevertheless, a historical look at the performance of these indicators shows that Suriname has improved in several areas: starting a business,

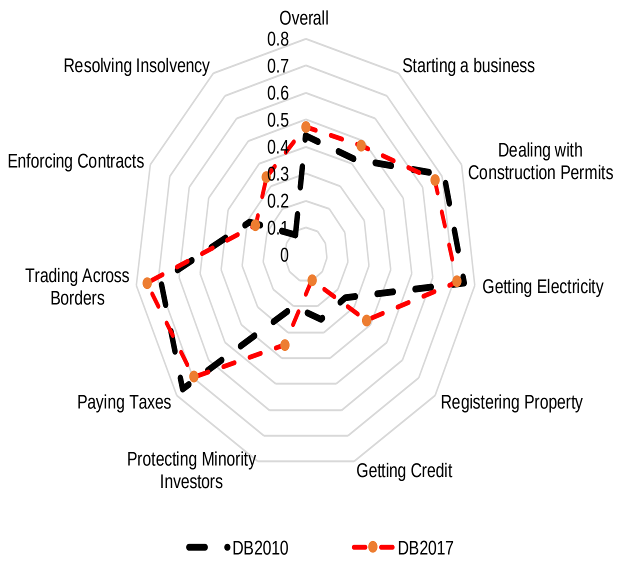
registering property, protecting minority investors, trading across borders, and resolving insolvency (Figure 4).

Figure 3. Ease of Doing Business in Suriname

Source: World Bank Doing Business Index, 2017

Note: ROSE-C=rest of small commodity exporting economies.

Figure 4. Ease of doing Business in Suriname: distance to frontier

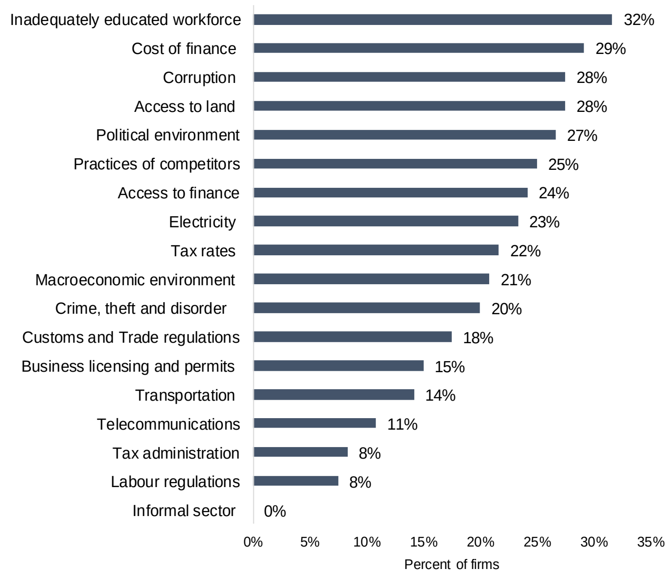


Source: World Bank Doing Business Index, 2010-2017

What do Surinamese businesspersons complain about?

The three most serious obstacles to performance identified by firms are (i) an inadequately educated workforce, (ii) cost of finance, and (iii) corruption. The results of two firms-level surveys—2010 World Bank Enterprise Survey and 2014 PROTEqIN survey—were used to identify factors that businesspersons perceive to be major and very severe obstacles to performance. Both surveys asked firms to identify and rank the most important obstacles affecting their operations on a scale of 0 (no obstacle) to 4 (very severe obstacle). The ranking of obstacles by firms in 2014 reveals the following constraints in order of importance (see Figure 5). These challenges reflect the need for policy intervention in three areas to support Suriname private sector growth: (1) improvements to human capital; (2) quality of governance and institutions and (3) improve financing opportunities for entrepreneurs. We examine in further detail the top three challenges.

Figure 5: Percentage of Firms That Consider a Factor a Major and Severe Constraint



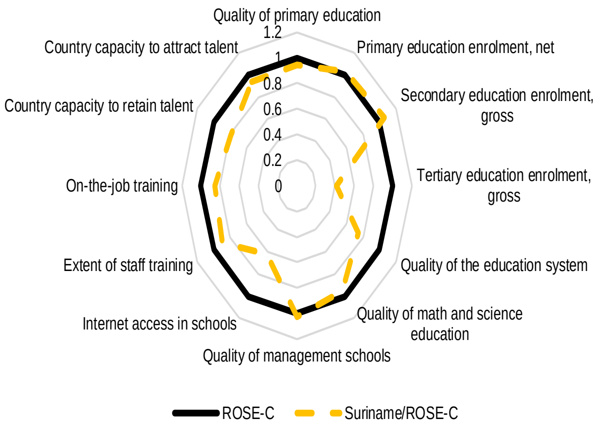
Source: Own calculations based on 2014 PROTEqIN Survey.

(i) Human capital

An inadequately educated workforce was identified by the majority of firms as their main constraint. The complaint of an inadequately educated workforce is a reflection of low enrolments rates, particularly in tertiary level institutions, quality of the education system, emigration, and skill shortages/skill mismatches. Figure 6

shows businesspersons perception of education and training in Suriname.[1] The data indicates that while enrolment in primary and secondary schools is on par with ROSE-C, there is a big gap for tertiary education enrolment: 12.1 percent in Suriname compared to 29.4 percent in ROSE-C. Businesspersons in Suriname also perceive that the quality of the education system is relatively worse than what is reported for ROSE-C. This is reflected in several indicators including: the country's capacity to retain talent (74 percent and 48 percent of the stock of secondary and tertiary educated Surinamese has emigrated), insufficient on-the-job training, low staff training, weak capacity to attract talent, limited Internet in schools and low quality of Mathematics and Science education.

Figure 6. Businesspersons Perceptions of Education and Training Indicators in Suriname



Source: World Economic Forum, 2016

Note: ROSE-C=rest of small commodity exporting countries.

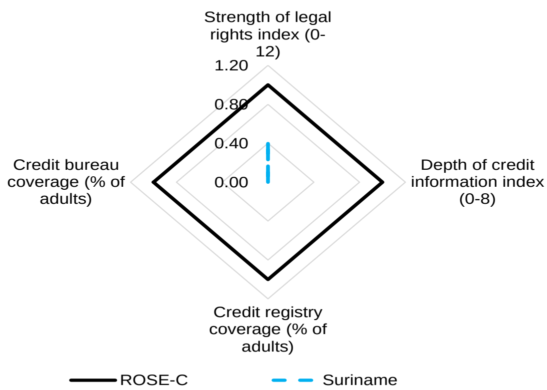
Firms in Suriname also experience great diffculity in finding workers with appropriate personal charateristics, and core and job-related skills. The top three professions where firms find it difficult to almost impossible to recruit candidates with the relevant core skills are: service and sales workers (47 percent of firms); professionals (42 percent of firms); and technicians and associate professionals (40 percent of firms). Similarly, for job-related skills, filling vacancies for technicians and associate professionals (60 percent of firms); service and sales workers (46 percent of firms); and plant and machine operators (46 percent of firms) are difficult to almost impossible. Personal charateristics of potential employees also present a challenge to employers, and this is particularly acute for technicians and associate professionals (45 percent of firms); managers (41 percent of firms) and service and sales workers (40 percent of firms). Surinamese firms identified the quality of education and training (66 percent of firms), shortage in the number of local professionals trained by local institutions (60 percent of firms) and lack of personal, soft skills offered by local institutions as the main reasons for the potential skills gap.

(II) Financing for firms investment

Financing constraints is the second major obstacle affecting Surinamese firms. Suriname firms rely heavily on retained earnings as a source of financing. Financing of fixed assets and working capital is largely obtained from internal funds and retained earnings: sixty-one percent of firms obtain more than 50 percent of financing for working capital from retained earnings and sixty-eight percent obtain more than 50 percent of financing for fixed assets from retained earnings.

Financing constraints can be exhibited in two ways: (1) access to finance and (2) cost of finance. Twenty-nine percent and 24 percent of firms identified the cost of financing and access to finance as a major to severe constrain, respectively. The cost of finance is related to relatively higher lending rates or collateral to obtain financing: Suriname's lending interest rate is 12.3 percent, higher than the ROSE-C average of 10.5 percent (World Bank Development Indicators, 2016).

Figure 7. Getting Credit



Source: Ease of Doing Business Report, 2016

Note: ROSE-C=rest of small commodity exporting countries

Limited access to finance is a reflection of a financial sector that is highly concentrated, and operates under information asymmetry and with an inadequate regulatory and oversight framework (Figure 7). Suriname's credit registry coverage and credit bureau (as

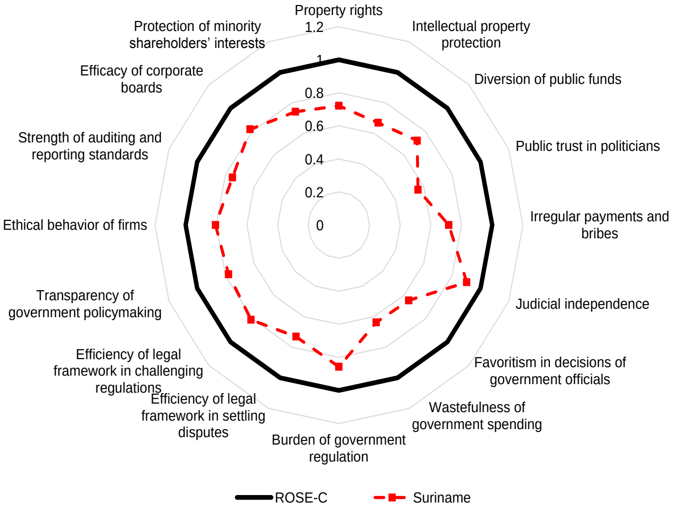
[1] Although measures of perception have their limitations, Ruprah and Sierra (2016) found that these complaints are generally correlated with objective indicators and reflect a reality faced by private firms in the Caribbean.

a percent of adults) is zero percent compared to 12.4 percent for the Caribbean, and zero percent compared to 23.4 percent for the Caribbean, respectively. Also, the strength of legal rights index (0=weak to 12=strong) from Doing Business, WB, that measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending, is low; two compared to 4.7 for Caribbean and 5.4 for Latin America and the Caribbean (LAC). Moreover, weak land tenure rights create challenges for firms to qualify for loans given the inability to provide adequate proof of collateral.

(III) Governance and Institutions

Corruption is the third major constraint to firms' performance. Corruption or graft is generally a reflection of weak governance and institutional framework. Businesspersons' perception of institutions in Suriname is very negative in all areas considered by the World Economic Forum 2015 report which includes: public trust in politicians, perception of favouritism in decisions made by government officials; burden of government regulation; wastefulness of government spending; transparency of government policymaking; efficiency of the legal framework in challenging regulations; perception about the diversion of public funds; the occurrence of irregular payments and bribes and judicial independence (Figure 8).

Figure 8. Businesspersons' Perceptions of the Government



Source: World Economic Forum, 2016

Note: ROSE-C=rest of small commodity exporting countries.

Conclusions and the way forward

Suriname launched an adjustment programme in 2015 to restore macroeconomic stability in response to the adverse commodity price shock. The IMF has emphasized the need for *"an ambitious agenda of structural reforms to promote diversification of Suriname's commodity-dependent economy and boost productivity growth. [The IMF] encouraged reforms to improve the business environment, promote competition, and strengthen governance."* The analysis from firm-level data and perception-based surveys reveal that policies should be coordinated around (i) improving the quality of human capital, (ii) reducing financing constraints to entrepreneurs, and (iii) improving the quality of governance and institutions. Further research is required in these areas to develop more guided policy interventions to support Suriname's growth and diversification objectives over the medium term.

References

Caribbean Center for Money and Finance (CCMF). Dec. 2016. Newsletter. Volume 9, No. 12.

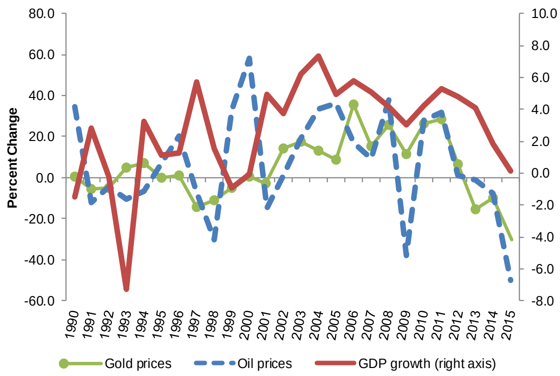
International Monetary Fund. Jan. 2017 IMF Executive Board Concludes 2016 Article IV Consultation with Suriname.

Khadan, Jeetendra. 2016. *Are oil and gas Smothering the Private Sector in Trinidad and Tobago*. Washington, DC: Inter-American Development Bank.

Ruprah, Inder, and Ricardo Sierra. 2016. *An Engine of Growth? The Caribbean Private Sector Needs More than an Oil Change*. Washington, DC: Inter-American Development Bank.

Low commodity prices restricted economic growth...

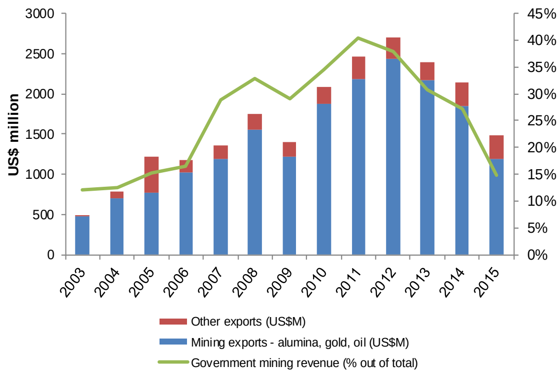
Figure A. Real GDP, and Commodity Prices



Sources: Central Bank of Suriname, and World Economic Outlook (April 2016).

… and reduced government revenue and export contributions from the mining and oil sectors.

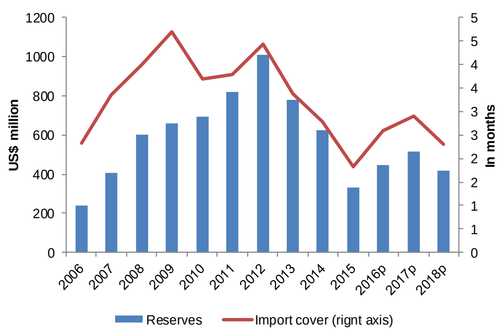
Figure B. Mining Dependence



Source: World Economic Outlook (April 2016) .

As a result, the international reserve position weakened…

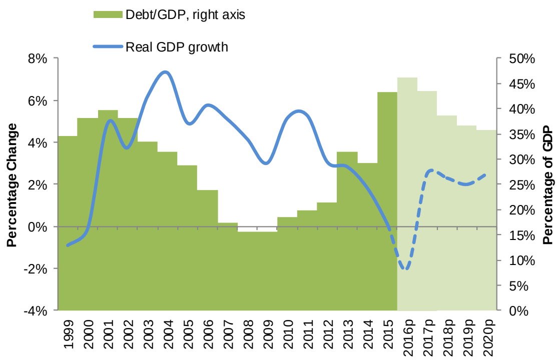
Figure C. International Reserves



Source: Central Bank of Suriname and IMF January 2017.

… and the stock of debt increased.

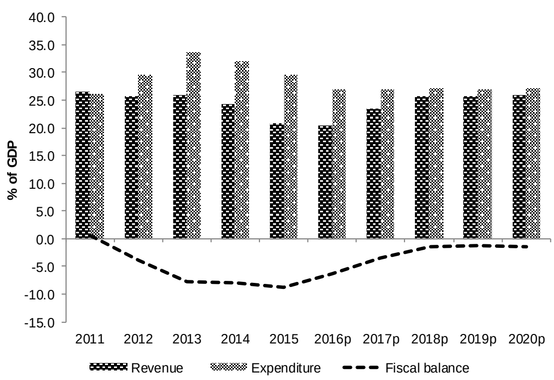
Figure D. Debt Evolution



Sources: Central Bank of Suriname, and World Economic Outlook (April 2016).

Investments in the mineral sectors should stabilize economic growth and return fiscal balances to pre-2012 levels …

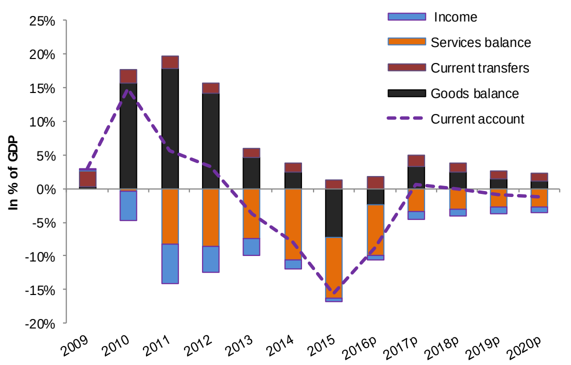
Figure E. Fiscal Performance



Source: Central Bank of Suriname, and World Economic Outlook (April 2016).

… and the current account balance should improve to more sustainable position in the medium term.

Figure F. Current Account Balance



Source: Central Bank of Suriname, and World Economic Outlook (April 2016).

Suriname: Selected Indicators

	2013	2014	2015	2016(p)	2017(p)
(Annual percentage changes, unless otherwise indicated)					
Real sector					
Real GDP	2.9	0.4	-2.7	-9.0	-0.7
Nominal GDP	3.3	1.8	-3.6	43.9	39.6
Inflation (end of period)	0.6	3.9	25.0	61.0	30.4
Unemployment*	6.0	7.0	8.9	11.9	11.7
Exchange rates (end of period)	3.3	3.3	4	7.5	7.5**
(In percent of GDP, unless otherwise indicated, on a calendar year basis)					
External sector					
Capital and financial account	8.3	13.1	15.2	-13.7	-9.7
Current account	-3.8	-7.9	-16.6	-3.6	2.5
Gross international reserves (US$ millions)	779	625	330	447	515
In months of imports	3.4	2.8	2.1	2.6	2.9
Central government					
Revenue and grants	25.8	24.1	22.1	13.8	16.3
Total expenditure	32.9	32.0	31.4	20.0	20.4
Primary balance	-5.8	-7.0	-7.8	-4.5	-1.7
Overall balance	-7.1	-7.9	-9.3	-6.1	-4.1
Debt indicators					
Total government debt	31.6	29.0	45.7	67.8	60.7
External debt	14.9	16.0	21.6	51.2	50.1
Domestic debt	16.7	13.1	24.1	16.5	10.6

Sources: International Monetary Fund (2017).

Notes: (p) denotes provisional figures. * World Economic Outlook, IMF (October, 2016)
**Data as at March 21, 2017. On March 22, 2016, Suriname adopted a flexible exchange rate regime.

Contributor: Juan Pradelli

Overview

Economic adjustment continues in Trinidad and Tobago, but fundamentals have improved slightly in the energy sector. Prices and output of crude oil and natural gas increased in late 2016 and early 2017. If sustained, this improvement may help narrow external imbalances. On the other hand, non-energy activity continues to contract in a context of fiscal austerity.

Recent Developments and Outlook

The energy sector is benefiting from slightly higher global prices, which are expected to stabilize in the medium term. In the fourth quarter of 2016 the West Texas Intermediate (WTI) crude oil price averaged US$49 a barrel, compared to US$41 a barrel in the previous three quarters. Similarly, the Henry Hub natural gas price averaged US$3/mmbtu against US$2.3/mmbtu in the previous three quarters. Prices are expected to stabilize around current levels in the medium term. According to the IMF's December 2016 Commodity Price Forecast, the spot oil price—based on the WTI, Brent, and Dubai quotes—will remain in the range of US$50-US$55 a barrel over 2017–2020, while the Henry Hub natural gas price will fluctuate around US$3/mmbtu.

The energy sector also experienced a recovery in volumes produced (Figure 1). Current volumes of crude oil and natural gas are nearly 20 percent below the average daily output observed in 2010–2014. However, as maintenance and infrastructure upgrading works are gradually being completed, the temporary production disruptions experienced since 2015 have started to ease in recent months. Thus, in the fourth quarter of 2016 crude oil and natural gas volumes were, respectively, 72,000 b/d and 3.3 billion cf/d, which marks an increase of around 7 percent relative to the previous quarter. Domestic energy production is expected to further expand in 2017 as fewer stoppages are planned and new fields are put into operation—including bpTT's Juniper platform. Petrochemicals, LNG and NGLs will benefit from higher natural gas feedstock.

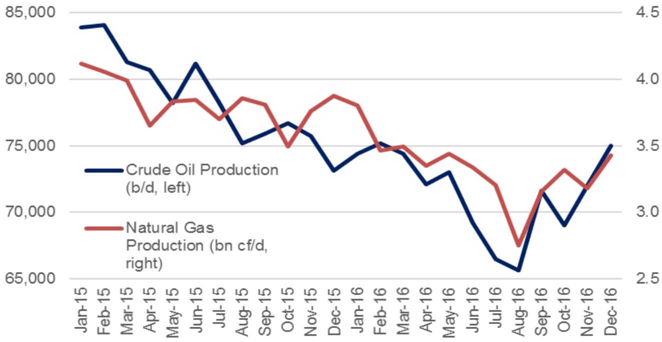
Non-energy economic activity continues to be in recession. The distribution and construction sectors are enduring large output losses. In the fourth quarter of 2016, the quantity of motor vehicles and cement sold in local markets was 15 percent lower than in the same quarter of 2015. Contractive pressures have been exacerbated by the slowdown in implementing the government's capital expenditure program. The finance, insurance, and real estate sectors remain stagnant, with only a marginal increase in commercial banking activity.

Highlights

- *The energy sector will normalize in 2017 and spark economic recovery.*
- *Fiscal austerity is continuing in FY2016/17, and reduced public expenditures are constraining growth in non-energy sectors.*
- *Monetary policy is supporting economic activity, but there are potential risks posed by the gradual normalization of US FED policy.*

Job creation has come to a halt and unemployment is on a rising path: the Ministry of Labour and Small Enterprise Development reports that 518 retrenchment notices were filed in the second half of 2016, mostly in finance, manufacturing, and distribution.

Figure 1. Energy Sector Output



Source: Central Bank of Trinidad and Tobago.

The recession is keeping price inflation subdued despite upward pressures from fiscal measures and currency depreciation. Headline inflation measured by the Retail Price Index was 3.1 percent (y-o-y) in December 2016, while food and core inflation were 6.7 percent and 2.3 percent, respectively. Fiscal measures (e.g., extension of the value-added tax base and increases in fuel prices) and currency depreciation exerted upward pressure on prices, which nevertheless was significantly mitigated by the prevailing economic downturn.

Expenditure measures introduced in 2016 help contain government outlays. The FY2016/17 Budget aims to freeze nominal expenditure at levels achieved through numerous cuts introduced in 2016. In the first quarter of FY2016/17 (October-December 2016), public spending contracted by 13 percent relative to the same period in FY2015/16, chiefly due to lower transfers and subsidies. In nominal terms, the reduction in outlays between these periods is TT$1.5 billion, or 1 percent of

GDP. As this pattern continues in 2017, no stimulus for non-energy activity is to be expected.

The Central Government seeks to achieve a balanced budget by 2020 and maintain the public debt below 65 percent of GDP. In the FY2016/17 Budget Statement, the Government expressed its intention to restore fiscal health and preserve sustainability by achieving a balanced budget by 2020 and maintaining the public debt below 65 percent of GDP.[1] In particular, the Government intends to increase energy revenue by TT$12 billion and recurrent non-energy revenues by TT$8 billion over the next four years. It also acknowledges the imperative to reduce reliance on one-off receipts such as privatization proceeds and extraordinary dividends. While the expenditure policy should be consistent with the planned deficit reduction, the Government intends to shift the composition of spending towards capital expenses and away from transfers and subsidies. Reforms to tertiary education subsidies, public employment programs, unemployment assistance, and financial support to state-owned enterprises (SOEs) are being considered. The FY2016/17 Budget Statement presents some broad measures that the Government could take regarding several sectors, such as energy and social programs. However, the medium-term fiscal plan lacks a detailed set of revenue and expenditure measures with a timeline for adoption and implementation, the quantification of their budgetary impact, and a sequence of annual targets for revenues, expenditures, deficits, and borrowings to monitor progress and compliance.

Net public sector debt, equivalent to 61 percent of GDP at end-2016, is on a rising path but remains within manageable and sustainable margins. In the context of a depressed economy and mounting budget deficits, the public debt increased from TT$70 billion in 2014 to TT$90 billion in 2016 (or 61 percent of GDP).[2] Arguably, in view of the hefty foreign assets in the Heritage and Stabilization Fund (nearly US$5.5 billion, i.e., 40 percent of the public debt stock), the risk of debt distress in the short term is negligible. The Central Government's direct debts, which amounted to 39 percent of GDP at end-2016, chiefly include domestic securities denominated in local currency. Contingent liabilities, which totaled 22 percent of GDP, result from explicit guarantees on debt contracted by SOEs and statutory authorities. The public debt portfolio has a favorable risk profile because foreign currency-denominated external public debt is only 15 percent of GDP, international bonds and foreign loans have long maturities, and local currency-denominated domestic securities are held by banks that are liquid and often oversubscribe the regular Treasury paper auctions

Monetary policy continues to be cautious. In 2016, the Central Bank argued that slow global growth and the weak performance of the domestic economy warrant a more cautious approach, particularly when the lagged effects of the 2014-2015 tightening cycle are materialising. On this basis, at the last six Monetary Policy Committee meetings the authorities maintained the policy (repo) rate unchanged at 4.75 percent and pursued an active policy to ensure adequate levels of liquidity in the financial system. In early 2017, the Central Bank noted the gradual change in the US FED policy, which is being monitored closely to anticipate possible effects on capital flows and interest rates.

Trade imbalances and foreign exchange shortages persisted in 2016. In January-September 2016, the export volumes of LNG and crude oil declined by 18 percent relative to the same period in 2015. Total exports in the first half of 2016 were US$4 billion, against US$5.5 billion in the first half of 2015. Total imports, on the other hand, only declined to US$4.4 billion from US$4.7 billion. Net official reserves stood at US$9.5 billion at end-2016, a level similar to the one at end-2015.

Conclusion

Trinidad and Tobago faces the challenge of reviving growth while preserving fiscal health. As expansionary fiscal and monetary policies are risky to pursue at the current juncture, it is necessary to undertake reforms to empower the private sector—especially the non-energy sectors—and enable it to lead the economic recovery. A policy agenda to support the private sector is discussed in the next section.

High-Frequency Macroeconomic Indicators

	Latest data	Period	Prior data	Period
Real GDP Growth (%, y-o-y)	-2.3	Q4 2015	-2.0	Q3 2015
Exports (12-month growth, %)	-23.4	Q3 2015	-20.1	Q2 2015
Imports (12-month growth, %)	-17.4	Q3 2015	-19.6	Q2 2015
Private sector credit (12-month growth, %)	6.2	Q1 2016	6.1	Q4 2015
Inflation (headline, % yoy change)	3.4	Jun.2016	3.4	May.2016
Exchange rate TT$/US$ (end of period)	6.70	Jul.2016	6.66	Jun.2016
Unemployment rate (%)	3.4	Q3 2015	3.2	Q2 2015

Source: Central Bank of Trinidad and Tobago.

[1] Available at: http://www.finance.gov.tt/budget-statement-2017/. The medium-term fiscal plan is predicated upon moderate economic growth of 1 percent in 2017 and 2 percent annually over 2018–2020. Oil prices are expected to recover from US$48 a barrel in 2017 to US$60 a barrel in 2018, while natural gas prices increase from US$2.25/mmbtu in 2017 to US$3/mmbtu by 2020.

[2] Public debt includes guarantees extended to SOEs and statutory bodies, and excludes instruments used for monetary policy transactions.

The Private Sector and Economic Performance in Trinidad and Tobago

Trinidad and Tobago is a mixed economy built upon both the private and public sectors. Private and state-owned enterprises are the backbone of major petroleum and non-petroleum activities such as oil and gas exploration and production, petrochemicals, finance, and construction. Thus, in terms of ownership of productive entities, the economy can be characterized as "mixed." This bulletin focuses on the role of the private sector in the non-petroleum economy, where local firms are far more relevant than foreign companies, contrary to the situation in the petroleum economy.

The non-petroleum economy expanded rapidly for years but is currently in recession and remains un-diversified. During the commodity booms in 2004–2008 and 2010–2014, the non-petroleum sectors generated 57 percent of nominal GDP, on average. The global financial crisis and the completion of major projects in the development of natural gas industries marked a turning point between those booms: the non-petroleum economy grew at 6.5 percent a year in real terms during the 2004–2008 boom, but its expansion slowed to 2.6 percent a year during the 2010–2014 boom. Next, when lower oil and natural gas prices nearly halved the country's petroleum income in 2015–2016, the non-petroleum sectors virtually stagnated, while mechanically their contribution to nominal GDP rose to 75 percent.[3] The structure of the non-petroleum economy is barely diversified and has remained stable since 2010: distribution services account for one-third of non-petroleum GDP, finance for about one-fifth, government services for one-eighth, and transport and construction for one-tenth each. Manufacturing and agriculture are of a minor importance.

A Macroeconomic View of Why the Non-petroleum Economy Is Losing Steam: Lower Investment Rates and Productivity Growth

Overall investment rates have been decreasing over time, and investment by non-petroleum private firms presumably accompanied this trend. In supporting the buildup of the natural gas and petrochemical industries, the gross capital formation averaged 25 percent of GDP over the 1996–2005 period, but it then decreased sharply to 14 percent of GDP in the 2006–2015 period.[4] Thus, the investment rates of Trinidad and Tobago are currently rather low compared to peer countries: for example, resource-oriented small economies (ROSE-C) have an average investment rate of 27 percent of GDP. There is no available information on investment expenditures undertaken by private firms operating in the non-petroleum sectors, but in view of the weaker growth performance in these sectors since the global financial crisis, it is likely that investment by those firms slowed as well and followed the economy-wide trend.

Labor productivity growth is decelerating in the non-petroleum economy, but performance is quite heterogeneous across sectors. Using official data on sectoral GDP and employment, Khadan (2017) calculates measures of labor productivity for major economic activities during 1995–2014.[5] The average annual growth rate of labor productivity for the non-petroleum economy was 5 percent from 1995 to 2007, and fell to zero over the period 2008–2014 following the global financial crisis. Driving this sharp slowdown was a large expansion of employment in sectors such as distribution services and government services, which perform relatively poorly in terms of labor productivity levels and growth. The expansion of employment in high-productivity sectors like finance, or the contraction in low-productivity sectors like construction, appear insufficient to revert the overall slowdown in labor productivity growth.

Total factor productivity (TFP) levels differ across firms in the non-petroleum economy. Using data from Compete Caribbean's 2014 Productivity, Technology, and Innovation (PROTEqIN) Survey, Ruprah and Sierra (2016) estimate measures of TFP for a sample of 340 firms in Trinidad and Tobago, of which one-third operate in manufacturing and two-thirds in services.[6] Higher TFP levels are found in small and medium-sized firms compared to large ones, as well as in young firms

[3] Government spending is a key source of demand for the non-petroleum economy. Budget expenditures stimulate non-petroleum output through direct channels (e.g., capital expenses affect construction activity) and indirect channels (e.g., transfers and subsidies support households' disposable income, which in turn affects distribution services activity). As fiscal austerity mounted recently, the relation between budget expenditures and the performance of non-petroleum sectors became visible: overall, government expenditure fell by 13 percent in nominal terms in FY2015/16 while non-petroleum output contracted by 1.8 percent in 2016.

[4] In constant 2010 U.S. dollars, annual gross capital formation averaged US$4.2 billion from 1996–2005 and fell to US$3.1 billion from 2006–2015.

[5] Jeetendra Khadan, 2017, *Is Oil and Gas Smothering the Private Sector in Trinidad and Tobago?* Inter-American Development Bank. Available at: https://publications.iadb.org/bitstream/handle/11319/8104/Are-Oil-and-Gas-Smothering-the-Private-Sector-in-Trinidad-and-Tobago.pdf?sequence=1.

[6] Inder Ruprah and Ricardo Sierra, 2016, *An Engine of Growth? The Caribbean Private Sector Needs More than an Oil Change.* Inter-American Development Bank. Available at: https://publications.iadb.org/bitstream/handle/11319/7997/Engine-Growth-Caribbean-Private-Sector-Oil-Change.pdf.

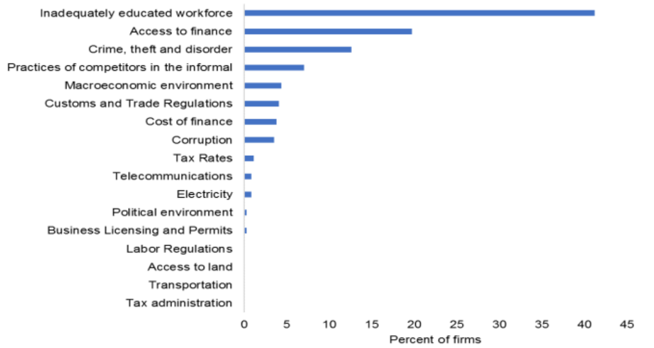
compared to both new and mature ones.[7] Interestingly, within the non-petroleum economy the TFP level is higher among local firms—which represent 87 percent of the sample—compared to foreign firms, which constitute just 3 percent of the sample.

The Entrepreneurs' View of Why the Non-petroleum Economy Is Losing Steam: Obstacles Hindering Private Sector Performance

Entrepreneurs' opinions on the obstacles and bottlenecks facing their firms matter. These views are pertinent to understanding the individual behavior and decision-making underpinning the declining investment rate and productivity growth observed in the non-petroleum economy.

Entrepreneurs perceive education, finance, and crime as major obstacles to firm performance (Figure 2). The 2014 PROTEqIN Survey asked entrepreneurs to identify and rank obstacles affecting operations of their firms.[8] An inadequately educated workforce was deemed the most serious obstacle by 41 percent of the surveyed firms. Next, inadequate access to finance and crime were perceived as bottlenecks by 20 and 13 percent, respectively, of these firms.[9]

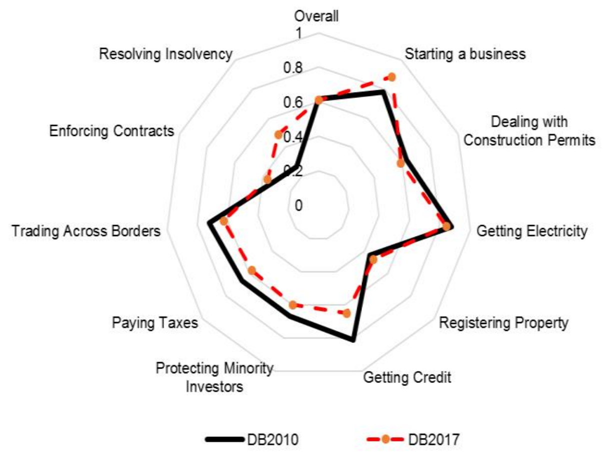
Figure 2. Most Serious Obstacles Affecting Firms



Source: Compete Caribbean, 2014 PROTEqIN Survey.

Doing business is fairly easy in Trinidad and Tobago, but there are serious weaknesses related to government regulations and administrative procedures (Figure 3). In the World Bank's *2017 Doing Business Report,* Trinidad and Tobago ranks 96th out of 190 countries in terms of Ease of Doing Business, and its Distance to Frontier score is 60.99.[10] Overall, these measures reflect a satisfactory performance relative to other countries included in the report, and have been fairly stable since 2010. Nevertheless, some areas related to government regulations and administrative procedures are particularly weak: obtaining a construction permit (149th out of 190 countries), registering property (150th), trading across borders (123rd), enforcing contracts (168th), and paying taxes (145th). Inefficiencies in the public sector and a culture of bureaucratic control give rise to these weaknesses.

Figure 3. Distance to Frontier Score for Trinidad and Tobago on the Doing Business Indicators, 2010 versus 2017



Source: World Bank, *Doing Business Report 2017.*
Note: An economy's Distance to Frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier

A Closer Look at Selected Obstacles to Private Sector Performance

Higher education in Trinidad and Tobago is not adequately aligned with the demands of firms in the labor market. Programs such as the Government Assistance for Tuition Expense (GATE) and the Scholarships for Advanced Training (SAT), which target funding for tertiary education, have certainly expanded access to higher education (e.g., more than 190,000 students have benefitted from GATE since 2004). Even though GATE and SAT aim to target funding on the basis

[7] Small firms have less than 20 employees; medium-size firms between 20 and 100 employees; and large firms more than 100 employees. New firms have been formally registered for less than three years; young firms between three and 10 years; and mature firms for more than 10 years.
[8] Available at http://competecaribbean.org/proteqin/.
[9] These three issues were also reported in the World Bank's Enterprise Surveys conducted in 2010 and 2015.

[10] Doing Business presents results for two aggregate measures: the Ease of Doing Business ranking and the Distance to Frontier score. An economy's Distance to Frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.

of national skill needs, the World Bank's Enterprise Surveys suggest the quality and pertinence of the knowledge and skills imparted do not adequately match the needs of employing firms.[11] Other programs like the On-the-Job-Training (OJT) and the Community-based Environmental Protection and Enhancement Programme (CEPEP) offer opportunities for on-the-job training and public employment, but often in low-productivity jobs. Thus, the beneficiaries still face difficulties in transitioning to the private sector workforce. Overall, education and employment programs lack adequate coordination with the National Employment Service, whose objective is to better match job-seekers and employers in both the public and private sectors.

Access to finance is limited for all companies operating in the non-petroleum economy, especially for small and medium-sized enterprises (SMEs). In the World Economic Forum's *Global Competitiveness Report 2015–2016,* Trinidad and Tobago ranks fairly well in terms of availability of financial services (62nd out of 140 countries) and affordability of these services (51st). However, several businesses reported obstacles in accessing bank financing, and the country actually ranks 101st in terms of ease of access to loans. While the banking sector's liquid assets amount to 25 percent of total assets, the total stock of credit to the private sector remains low at only 30-35 percent of GDP. Financial institutions, albeit liquid, have little appetite for risk-taking when lending to private sector firms outside the energy sector that face tight requirements related to credit history and collateral. In addition, financial intermediation remains narrow, as banks prefer to keep their liquidity levels high and take advantage of sizable interest rate differentials between loans and deposits. In this regard, the average annual basic prime lending rate stood at 8-9 percent in 2014–2016—an admittedly low cost of finance—against an average annual deposit rate of less than 1 percent. Data from the 2014 PROTEqIN Survey confirm the difficulties in obtaining bank financing. Firms rely heavily on internal funds and retained earnings to finance both working capital and fixed-asset investment, and to a lesser extent they borrow from banks or obtain credit from suppliers. Among all the sampled firms, 43 percent applied for credit, and among those half had their loan application rejected. Rejections often result from tight collateral requirements and the opacity of SME operations, governance arrangements, and accounting.

Lack of citizen security undermines the business climate and is costly for firms. A 2014 Latin American Opinion Project (LAPOP) Survey found that 68 percent of citizens identify security as the most important problem facing the country.[12] Security risk is also a serious concern for local firms: in the World Economic Forum's *Global Competitiveness Report 2015–2016*, Trinidad and Tobago ranked 136th out of 140 countries in terms of the business costs of crime and violence. In that report, 26 percent of businesses reported being victims of crime. Local firms actually incur substantial costs to protect staff and property, which reduces profits and investible funds. According to the World Bank's 2010 Enterprise Survey, private companies reported that crime-related costs absorb 4 percent of annual sales and are 4.5 times higher than expenditure on research and development.

Mobility and logistics are constrained by infrastructure and transportation that is saturated or even underdeveloped. The North-South highway and the three East-West corridors connect major urban centers, but they are prone to congestion during daily commuting hours, exceeding the normal volume-to-capacity ratio.[13] Poor road conditions are a consequence of inadequate maintenance, institutional fragmentation, and technical inefficiencies. Reduced mobility leads to lengthy travel times for commuting workers and the transportation of goods, which eventually reduces economic productivity and imposes significant costs.[14] Adverse environmental effects result from constrained mobility and logistics because vehicles operating for long periods of time in congested areas emit more carbon dioxide and thus worsen the country's overall greenhouse

[11] In view of the potential mismatches between tertiary curricula and required skills in the labor market, the Government has recently appointed a task force to revise the GATE targeting scheme and set criteria for eligibility for programs and institutions. Furthermore, there are concerns related to emigration by program beneficiaries and the fiscal cost of funding these programs. Budgetary allocations to GATE and SAT amounted to nearly 0.5 percent of GDP in 2015. The Government intends to reform GATE by adopting a cost-sharing approach and introducing means testing whereby students will receive a share of tertiary education tuition depending on their income.

[12] The homicide rate is 28 per 100,000 inhabitants—almost five times the global average and among the highest in the Caribbean—and gang-related murders committed with firearms have increased in the 2000s. Robbery and burglary rates also exceed global averages.

[13] There is also congestion on roads outside of the core network, as they are narrow, follow difficult alignments, and were built without strategic urban planning. Traffic congestion is also a result of a high motorization: Trinidad and Tobago has 282 vehicles per 1,000 population, compared to the Latin American and Caribbean average of 176 vehicles, and inadequate public transportation services. Private car ownership increased during oil and gas boom years when both incomes and fuel subsidies rose.

[14] IDB analysis in 2016 found that it takes as long as 36 minutes to reach Port-of-Spain along the eight-kilometer stretch of the Western Corridor. The Eastern Corridor from Port-of-Spain to Sangre Grande is 45 kilometers long, and the commute can take up to two hours. The Southern Corridor from Port-of-Spain to San Fernando is also 45 kilometers long, and the commute can also take as long as two hours.

gas emissions.[15] In addition, international trade is more expensive when domestic mobility and transport are inadequate. This eventually undermines export potential and constrains opportunities for diversification.[16]

How to Reignite the Engine? A Public Policy Agenda to Promote the Private Sector

A national development plan outlined in the Vision 2030 Report gives a prominent role to the private sector in the pursuit of economic diversification and trade competitiveness.[17] According to the report, Government policies aim to promote private sector diversification, competitiveness, and innovation. Financial services, tourism, information and communications technology (ICT), energy-related services, agriculture, creative arts, and maritime are sectors assessed as offering opportunities for further expansion in a more diversified, competitive, innovative non-petroleum economy. Major actions proposed to unleash the private sector's development potential include improving the quality of infrastructure and transportation, and modernizing public sector institutions and fiscal policies.

A public policy agenda to promote the private sector should take on board the obstacles perceived by entrepreneurs—especially education and finance. Arguably, education reform can boost the non-petroleum economy inasmuch as it closes gaps between formal learning and labor market needs. Efforts should be made to coordinate tertiary education programs (GATE, SAT), apprenticeship and public employment programs (OJT, CEPEP), the National Employment Service, and the private sector in order to better align the support provided to students with the needs of employing firms. To assess these important programs, monitoring and evaluation procedures that use the employability of beneficiaries as a major evaluation criterion should be introduced. In addition, further financial reforms could gradually ease the obstacles that are preventing local firms, and especially SMEs, from accessing finance. In this regard, developing secured transaction systems and collateral registries would facilitate information sharing among creditors and reduce the (perceived) credit risk of potential borrowers.

Actions envisaged in the Vision 2030 Report must be a fundamental reference point in setting an agenda to promote the private sector. Infrastructure and transportation largely affect the logistics of manufacturing and agriculture, as well as the mobility of workers. Policies should increase spending on road maintenance and improve asset management strategies, either by using budget resources or by creating a regulatory framework for public-private partnerships (PPP) and similar instruments that aim to promote private sector involvement. Environmentally friendly mobility solutions in urban areas, like traffic management and public transportation, could mitigate economic losses from congestion, including workers' lengthy commuting times. Finally, public sector modernization could also promote the private sector by streamlining regulations and administrative procedures. Initiatives should be adopted to simplify customs procedures and systematize information in public agencies involved in trade and logistics. Improved technical capacity and synergies should be sought among government bodies responsible for promoting exports and attracting investment.[18]

---

[15] The National Climate Change Policy (2011) indicates that carbon dioxide emissions doubled from 1990 levels of 1,313 Gg to 2,622 Gg in 2006, and highlights that this rising trend correlates with the increase in the number of registered vehicles from 150,000 to 275,000 over the same period.

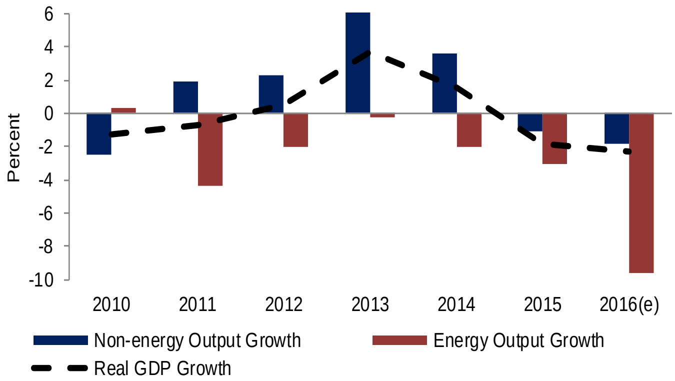
[16] Air and maritime networks are also increasingly unable to cope with the growing demand for transport of passengers and cargo. The airports of Piarco and Crown Point need to expand and upgrade their operational safety and peak-hour runway capacity management. The port of Port-of-Spain lacks infrastructure capacity to accommodate large vessels and handle cargo storage efficiently (e.g., a Panamax vessel is offloaded/loaded in 83 hours as compared to 24 hours in a well-equipped and efficient port). In addition, the maritime services that are available have few operators and direct connections.

[17] Available at: http://www.social.gov.tt/wp-content/uploads/2017/01/V2030-as-at-August-29th-2016.pdf.

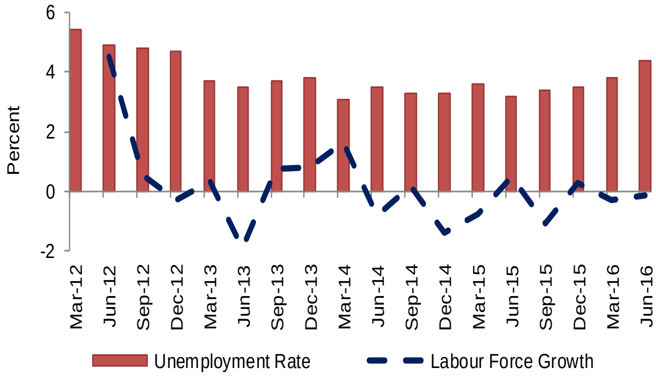
[18] For an analysis of appropriate reforms to fiscal policy, see the Caribbean Region Quarterly Bulletin 2016:II at https://publications.iadb.org/bitstream/handle/11319/7683/Caribbean-Region-Quarterly-Bulletin-Volume-5-Issue-2-June-2016.pdf?sequence=1.

Trinidad and Tobago: A Snapshot of the Economy

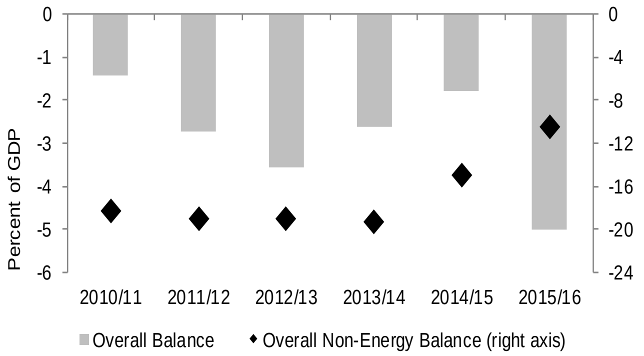
The economy entered into recession in 2015 ...



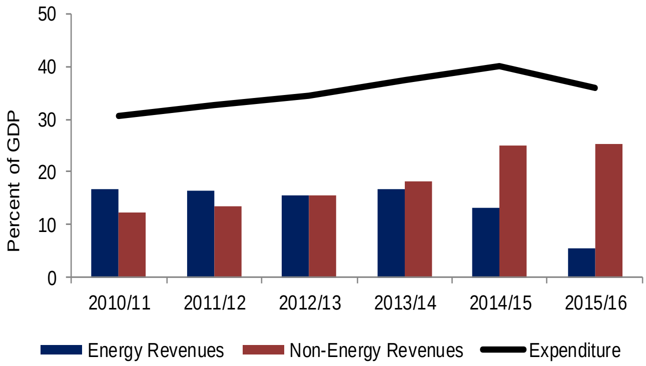
... and the labour market no longer creates jobs.



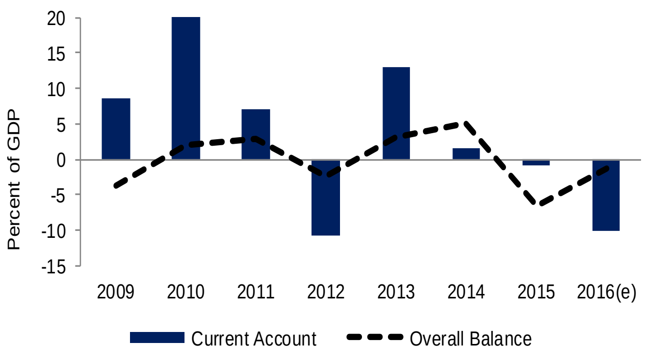
The Government's fiscal policy is geared towards consolidation ...



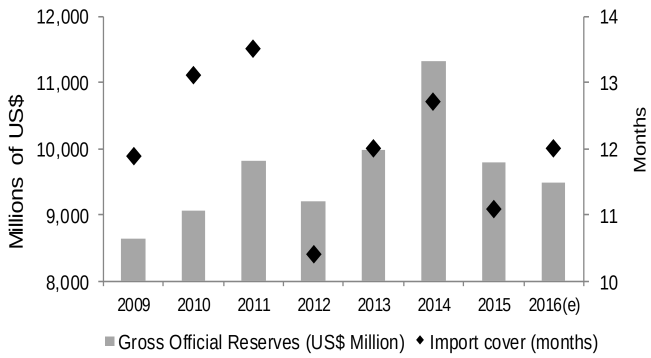
...with initiatives to boost non-energy revenue and cut expenditure.



The external position continues deteriorating ...



... which further tightens the foreign exchange market.



Source: Central Bank of Trinidad and Tobago

	2010	2011	2012	2013	2014	2015	2016
	(Annual percentage changes, unless otherwise specified)						
Real Sector and Prices							
Real GDP /1	-1.3	-0.7	0.5	3.7	1.5	-1.8	-2.3
Real GDP - Energy /1	0.3	-4.4	-2.0	-0.2	-2.0	-3.1	-9.6
Real GDP - Non-energy /1	-2.5	1.9	2.3	6.1	3.6	-1.0	-1.8
Headline Inflation	10.5	5.1	9.3	5.2	5.7	4.7	3.1
Nominal GDP (TT$ billion)	131	163	165	170	168	150	146
Nominal GDP (US$ billion)	20.6	25.4	25.7	26.4	26.2	23.4	22.5
	(In percentage of GDP, unless otherwise specified)						
External Sector /2							
Exports (merchandise)	54.6	58.8	50.3	71.0	55.6	46.1	35.6
o.w. Energy Exports	45.8	49.5	38.1	57.6	46.1	35.9	26.7
Imports (merchandise)	31.6	37.3	45.4	47.9	43.0	40.4	39.6
o.w. Energy Imports	12.9	16.9	21.8	27.1	21.3	14.1	26.7
Trade Balance (merchandise)	23.0	21.5	5.0	23.2	12.6	5.7	-4.0
Services Balance	2.4	-2.5	-2.6	-1.7	-1.8	-3.2	-3.0
Income Balance	-5.2	-12.1	-13.2	-8.6	-9.2	-3.3	-3.1
Current Transfers (net)	0.1	0.1	0.1	0.1	-0.1	-0.2	0.1
Current Account	20.3	7.0	-10.7	13.0	1.4	-1.0	-10.0
Capital and Financial Account	-18.2	-4.1	8.2	-10.0	3.6	-5.6	8.7
Overall Balance	2.0	3.0	-2.4	3.0	5.1	-6.5	-1.3
Variation in Int'l Reserves (US$ billion)	0.4	0.8	-0.6	0.8	1.3	-1.5	-0.3
	(In percentage of GDP)						
Central Government (on a FY basis) /3							
Revenue and Grants	34.0	29.2	29.8	31.0	34.8	38.1	30.8
o.w. Energy Revenues	17.6	16.9	16.3	15.5	16.7	13.2	5.4
Current Expenditure	28.9	25.5	26.9	28.9	32.4	34.8	32.6
o.w. Transfers and Subsidies	17.4	15.4	16.5	17.7	20.7	20.4	18.8
Capital Expenditure and Net Lending	5.0	5.0	5.7	5.6	5.0	5.1	3.2
Primary Balance	2.3	0.3	-1.0	-1.9	-0.8	0.5	-2.9
Overall Balance	0.1	-1.4	-2.7	-3.5	-2.6	-1.8	-5.0
Debt Indicators (on a FY basis) /3							
Net Public Sector Debt	34.7	29.7	38.9	38.4	41.8	51.0	60.9
CG External Debt	8.6	7.8	8.2	7.0	8.9	10.6	16.2
CG External Debt Service	1.8	0.6	0.7	1.2	0.6	0.7	0.9

Source: Central Bank of Trinidad and Tobago (CBTT), Central Statistical Office (CSO), and Ministry of Finance (MOF)

Notes: 1/ CBTT estimates using QGDP Index until 2015 and CSO estimates in 2016

2/ Trade and BOP data for 2011-2016 are being revised by the CSO and CBTT

3/ For instance, the figures reported in 2016 correspond to FY2015/16

Contributors: Camilo Gomez Osorio and Kimberly Waithe

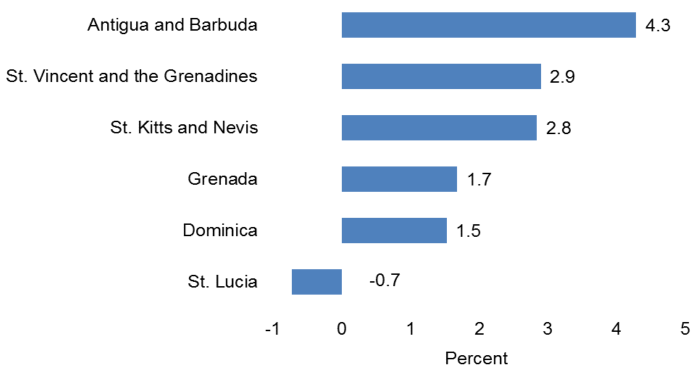
Highlights

- *Recovery continued across the OECS with growth averaging 2.1 percent in 2016.*
- *Private sector credit contracted by 0.8 percent in 2016.*
- *St. Vincent and the Grenadines opened the Argyle International Airport in February 2017.*
- *The value-added tax rate in St. Lucia was reduced from 15 to 12.5 percent.*
- *Antigua and Barbuda was named the "Caribbean Destination of the Year" at the 2016 Caribbean Travel*

Recent Developments[1]

Growth in the OECS was dynamic in 2016, averaging 2.1 percent (Figure 1). Antigua and Barbuda led the way with robust growth of 4.3 percent, driven by greater construction, wholesale and retail trade, and tourism activity. Growth was estimated at 2.9 percent in St. Vincent and the Grenadines, 2.8 percent in St. Kitts and Nevis, and 1.7 percent in Grenada. Dominica moved from contraction in 2015 to growth of 1.7 percent. However, St. Lucia's economy contracted by 0.7 percent, with lower tourism and manufacturing output.

Figure 1: Economic Growth in the OECS, 2016

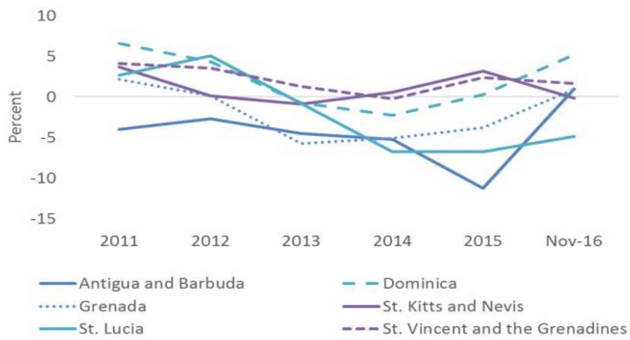


Source: Eastern Caribbean Central Bank, 2017.

Across the OECS, credit to the private sector declined by 0.8 percent as of November 2016 (Figure 2). The largest decline of 4.6 percent was in St. Lucia. Dominica, on other hand, saw a 5.2 percent increase in lending to non-bank financial institutions, while lending to businesses and households remained flat. At the end of November 2016, over 60 percent of private credit in the union was for personal loans, mortgages or consumer durables, while only 38 percent financed business investments. In St. Vincent and the Grenadines businesses accounted for 20 percent of private sector credit. The lack of access to finance in the OECS is reported by firms as a major constraint to doing business.

Since the global downturn, non-performing loans (NPLs) across the OECS have remained high and stood at 17 percent at the end of 2015.[2] Banks with less exposure to the construction and tourism sectors and households tend to have lower NPLs, as do foreign-owned banks. Although levels remain high, the share of non-performing loans improved thanks to greater monitoring and oversight by the Eastern Caribbean Central Bank. The Governor, Mr. Timothy Antoine, has been a strong advocate of consolidation in the sector.

Figure 2. Private Sector Credit Growth in the OECS, 2011–2016



Source: Eastern Caribbean Central Bank, 2017.

Inflation moderated in 2016. According to the September 2016 Consumer Price Index, prices increased relative to end-2015 by 1.2 percent in St. Vincent and the Grenadines, 0.9 percent in St. Kitts and Nevis and Grenada, and 0.8 percent in Dominica. The rise in price levels was driven by food and non-alcoholic beverages in St. Vincent and the Grenadines, by transportation and communications in St. Kitts and Nevis and Grenada, and by housing utilities, gas, and fuels in Dominica. St. Lucia and Antigua and Barbuda saw deflation of 1.9 percent

[1] This bulletin focuses on developments in the independent countries of the OECS: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Vincent and the Grenadines, and St. Lucia. Figures exclude territories that are members of the OECS.
[2] Kimberly Beaton, Alla Myrvoda , and Shernnel Thompson, 2016, *Non-Performing Loans in the ECCU: Determinants and Macroeconomic Impact.* IMF Working Paper 16/229. International Monetary Fund, Washington, DC.

and 1.3 percent, respectively, occasioned by a fall in the price indexes for food and housing and utilities.

The Eastern Caribbean Central Bank is aiming for greater transparency regarding inflows from Citizenship by Investment (CBI) programs. The aim is for countries to publish related flows on a timely and recurring basis. These inflows are highly volatile and are subject to sudden risk stops. From a public finance perspective, they are best managed when they do not pressure current expenditure. Inflows, when channeled to cover: domestic arrears to suppliers, service debt, or finance public investment, serve to mitigate the risk of undermining fiscal discipline. With the exception of St. Vincent and the Grenadines, all OECS countries are implementing CBI programs.

Antigua and Barbuda was named the "Caribbean Destination of the Year" at the 2016 Caribbean Travel Awards. The country was recognized with the awards, "Caribbean Minister of the Year" and "Caribbean Tourism Director of the Year". The twin-island nation was praised by its robust tourist arrivals, new hotel developments, and the opening of the VC Bird International airport in August 2015.

St. Vincent and the Grenadines opened the Argyle International Airport in February 2017. The US$259 million airport has the capacity to handle 1.5 million passengers per year and can accommodate aircraft as large as the Boeing 747-400. The airport features two jetway bridges and a 218 kVa solar energy farm that is set to generate 35 percent of the airport's electricity. The opening of the new airport could pave the way for an increase in stay-over arrivals, which averaged 73,000 over the past five years. It marks the culmination of a project that started in 2009 and faced delays.

St. Vincent and the Grenadines continues its fiscal consolidation in its 2017 budget. The standard value-added tax (VAT) will increase from 15 to 16 percent effective May 1, 2017, while the tax rate for accommodation and other tourism services will increase from 10 to 11 percent. Other revenue-enhancing measures include a 20 percent increase in professional fees; a 100 percent increase in the Airport Service Charge to fund operations of the new international airport; and an increase in license fees for sale of property to non-nationals. On the other hand, the VAT threshold will increase from XCD$ 120,000 to 300,000, which will exclude approximately 800 registrants from paying the tax.

Grenada successfully completed the fifth review under its Extended Credit Facility (ECF) with the IMF in September 2016. According to the review, the government of Grenada met all performance criteria for end-June 2016, including a higher-than-expected primary surplus. This was the result of lower-than-programmed primary spending, which had a target of US$ 107.04 million (XCD$289 million), but came in at US$ 105.2million (XCD$284 millions).[3] Spending pressures from the public sector wage bill were contained. In addition, as of end-June 2016 Grenada's public debt had declined to 84.3 percent of GDP from 107 percent in 2013 following fiscal consolidation and debt restructuring accompanied by the IMF. Debt relief in 2016 amounted to 8.8 percent of GDP.

The value-added tax rate in St. Lucia was reduced from 15 to 12.5 percent. The lower VAT aims to free disposable income for households and businesses to stimulate economic activity. St. Lucia now has the lowest VAT rate in the OECS.

Outlook

Growth in the OECS is expected to accelerate to 2.8 percent in 2017. According to the Eastern Caribbean Central Bank, St. Kitts and Nevis will lead growth with 3.8 percent. However, economic activity would moderate across other countries in the currency union. Projected growth rates are 3.2 percent for Antigua and Barbuda, 3.1 percent for Dominica, 2.9 percent for Grenada, 2.3 percent for St. Vincent and the Grenadines, and 1.5 percent for St. Lucia. The construction and tourism sectors would to continue to lead growth. Private investment in tourism will be growth positive. In Dominica, public investment for rehabilitation will contribute to dynamism in the construction sector. In tourism, additional flights, cruise passenger arrivals, and investment in and upgrades to hotel capacity will be growth-positive.

Inflation will be contained in 2017. Over the medium term, the CPI would follow the gradual increase in international fuel and food import prices.

High-Frequency Macroeconomic Indicators

	Last Data	Period	Last Data	Period
Annual GDP growth (percent)	2.1	Dec-16	2.2	Dec-15
Tourism arrivals (annual percent change)	(1.0)	Jun-16	5.6	Mar-16
Inflation (end of period)	0.10	Sep-16	(0.06)	Jun-16

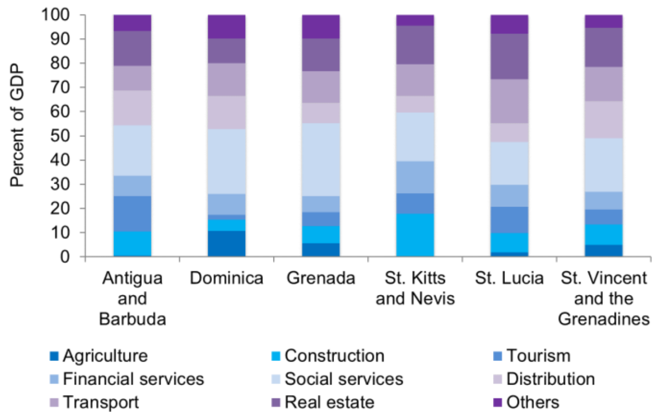
Source: Eastern Caribbean Central Bank, 2017.

[3] XCD: Eastern Caribbean Dollars

Introduction

Economic performance in the OECS over the period from 2000 to 2016 was highly volatile. It is testament to the region's vulnerability to natural events and the growth challenges of small island developing states. Over the period, economic growth averaged 2 percent. Between 2001 and 2008, growth was most dynamic, averaging 4 percent across the union. However, the 2007–2008 global financial crisis led to a four-year recession, with real GDP contracting by 1.8 percent from 2009–2012. Since then, the countries of the OECS have gradually recovered, with growth averaging 2.7 percent from 2013–2016. The recovery in the demand for tourism services, along with greater private investment associated with Citizenship by Investment Programmes, boosted construction and drove output.

Figure 1: GDP by Sector, 2016



Source: Eastern Caribbean Central Bank, 2017.

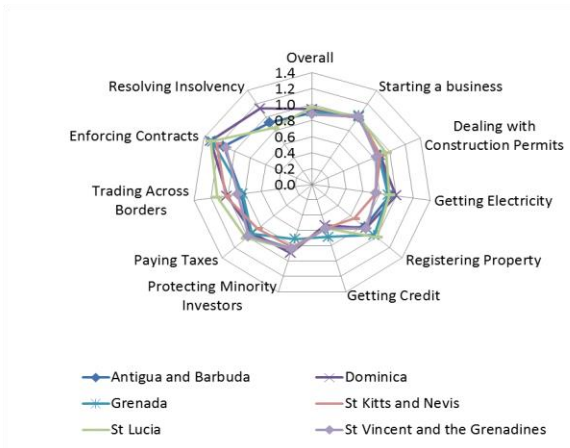
Firms in the OECS are on average smaller, older, and do not export. The private sector is concentrated on providing services and on tourism (31.9 percent of firms) and retail and distribution (32.8 percent). Data from the 2014 Productivity, Technology, and Innovation Survey show that firms in the OECS mostly serve the domestic market. The average firm has 27 workers, but there is heterogeneity across the region. While a typical firm in Dominica has 19 employees, in Grenada it has 37. The average age of a business is 18 years of operations. Interestingly, businesses in St. Lucia are generally younger (14.3 years), while in Grenada they are older (22.9 years). Perhaps the most striking finding is that firms tend not to export. Firms derive on average 87 percent of their sales locally. Dominica is the most export-oriented of the OECS countries with 18.4 percent of sales exported in 2014. The relatively low sales exports in the OECS is not surprising given the small size of the manufacturing sector, which accounted for only 3.5 percent of GDP in 2016. Agriculture accounted for 4 percent. The focus on the domestic market may hinder competitiveness by preventing firms from importing innovation and exposure to productivity-enhancing business practices that come as a positive externality with trading.

Private consumption accounts for almost three-quarters of the OECS GDP. There was a decline in consumption from 78 to 70 percent of GDP over 2007–2016. The decline is reflective of the union's weak domestic demand that is yet to recover to its pre- global downturn levels. Grenada was the only country where private consumption grew in 2016 relative to 2007, and increased from 81 to 87 percent of GDP.

Business Environment in the OECS

The OECS ranks relatively well in terms of the World Bank's Doing Businesses indicators, although it has slipped on the distance from the frontier indicator in comparison to 2010 rankings. The countries rank well in the areas of: starting a business, enforcing contracts, paying taxes, and trading across borders. Starting a business was made easier in Grenada by transferring responsibility for the commercial registry from the courts to the civil administration. St. Vincent and the Grenadines, St. Kitts and Nevis, and Dominica reduced the corporate income tax rate. Antigua and Barbuda eliminated the tax compliance certificate requirement for import customs clearance, while Grenada streamlined import document submission procedures. Dominica, Grenada, and St Lucia are implementing the ASYCUDA World electronic data interchange system. It helped reduce processing time for imports.

Figure 2. Doing Business Indicators, OECS, 2010 versus 2017



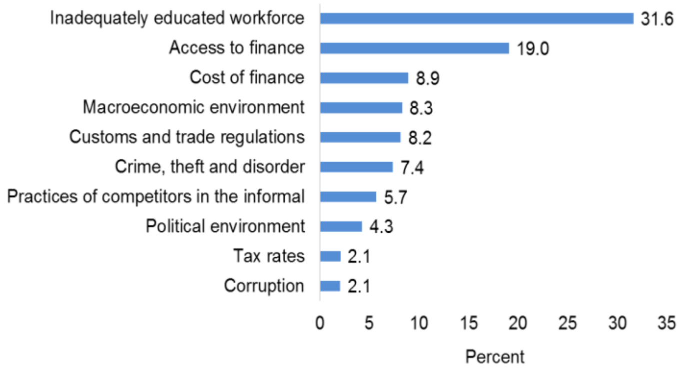
Source: World Bank, Doing Business Index, various years.
Note: 2010 = 1.

Perception surveys suggest that corruption is not a binding constraint to doing business in the OECS. Transparency International's Corruption Perceptions Index ranks the OECS countries well in terms of perception of corruption. This is a positive finding, as corruption acts as a tax on firms by raising production and transaction costs. While there is a slight variation in the union, St. Vincent and the Grenadines ranked 62nd out of 175 countries (2014) and Dominica ranked 58th.[4]

Major Constraints

An educated and skilled labour force is a core input for growth and a driver of productivity. Firms in the OECS ranked an inadequately trained workforce as a pressing constraint to doing business. At the country level, 45 percent of firms in St. Kitts and Nevis reported challenges meeting their workforce needs. With respect to labour regulations as a constraint for business, the response ranged upwards from 4.4 percent in Dominica. This is in line with data on education outcomes suggesting that from 2010–2014 only 25 percent of students taking the Caribbean Secondary Education Certificate (CSEC) examinations obtained at least five passes, including in mathematics and English.

Figure 2: Percentage of Firms in the OECS that Consider a Factor a Major Constraint



Source*:* IDB calculations based on the 2014 Productivity, Technology, and Innovation Survey.

Managers have had difficulties finding workers with the skill set and educational level firms require. With a staggering 75 percent of university graduates migrating to member countries of the Organisation for Economic Co-operation and Development, the countries of the OECS are short of highly skilled professionals, particularly in the areas of accountancy, management, and information technology

Access to finance was reported as a critical obstacle to doing business by firms in the OECS. In 2014, 37 percent of firms identified access to finance as a major impediment, which is an increase over the 25 percent figure reported in 2010. Businesses rely heavily on their own resources for working capital and on retained earnings for investment, which puts significant pressure on cash management. In 2014, roughly 60 percent of surveyed firms supplied over 90 percent of their financing with their own working capital. Their fixed assets represented about 70 percent of their financing.

Policies

The ECCB has been aiming for OECS countries to move on a path towards fiscal sustainability through fiscal consolidation and lower borrowing. It set forth a target of reducing public debt to 60 percent of GDP by 2030. OECS countries would be on track to meet their debt reduction target if they undertake gradual fiscal consolidation efforts, particularly in the case of St Lucia and Dominica.

Policy efforts increasing access to finance for SMEs, while reducing borrowing costs will be growth positive. The constraints to financing in the Eastern Caribbean are evident from the heavy reliance of businesses on their own resources for working capital, and on retained earnings for investment, which put significant pressure on cash management. Policies that could reduce the level of collateral required to access finance, and the cost of borrowing over the medium term, would unlock lending to a segment currently out of the domestic capital market. Deepening regional capital markets and gaining greater access to international financing could structurally remove this barrier to firm growth, but this is a long-term endeavour.

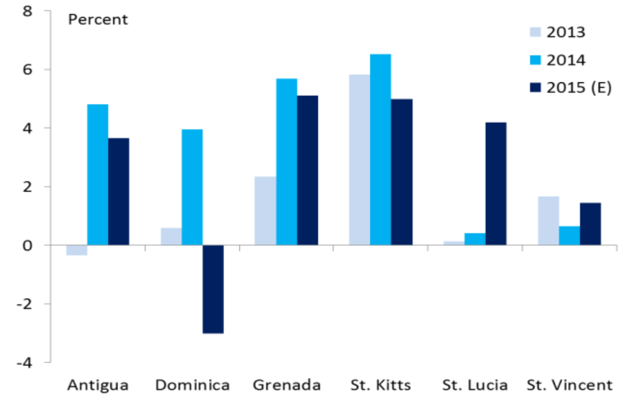
Promoting greater quality of higher education could contribute over the medium term towards a more highly competitive workforce. Greater coverage of quality tertiary education services within the OECS could serve as a disincentive for those young students that would otherwise travel abroad to pursue graduate studies

[4] The Corruption Perceptions Index ranks countries and territories based on how corrupt their public sector is perceived to be. It is a composite index that is a combination of surveys collected by reputable institutions. The score of a country or territory indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean).

The OECS Countries at a Glance

Growth is sustaining in the OEC countries…

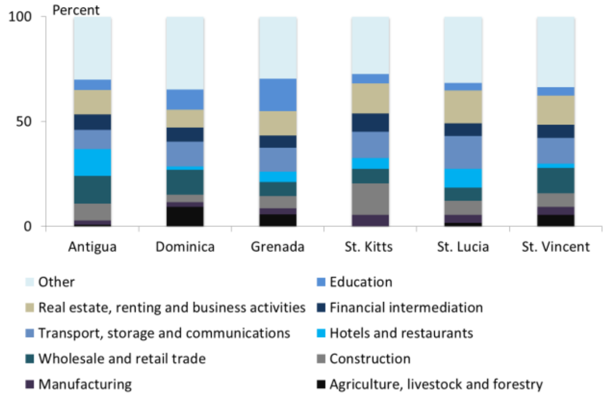
Figure 1: Real GDP Growth



Source: ECCB

…with tourism, construction, and agriculture leading the way.

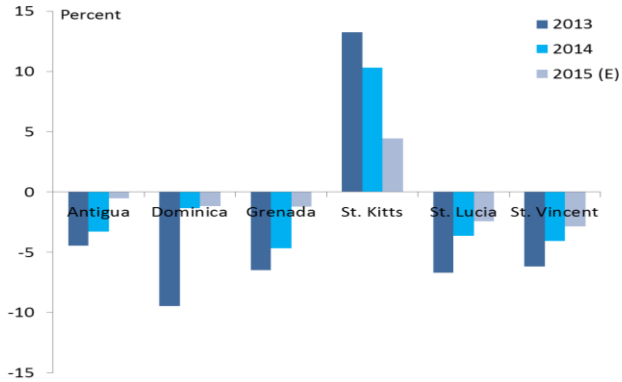
Figure 2: Contribution to GDP, 2015



Source: ECCB

Fiscal deficits are declining…

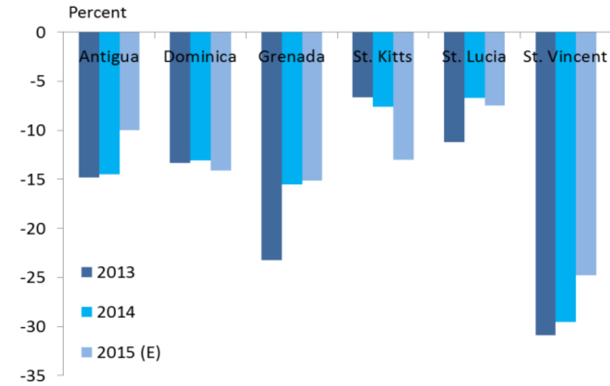
Figure 3: Fiscal Deficit (% of GDP)



Source: ECCB

... current account deficits remain high…

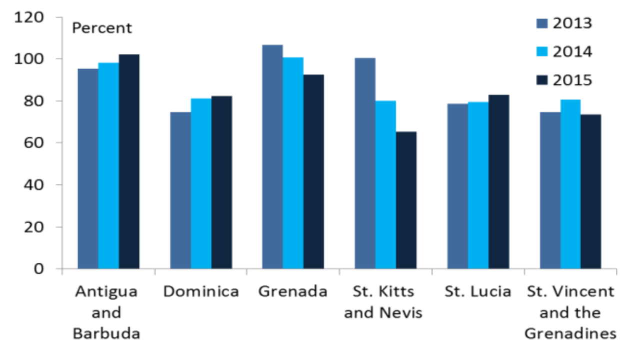
Figure 4: Current Account Balance (% of GDP)



Source: World Economic Outlook, April 2016

…and debt continues to accumulate…

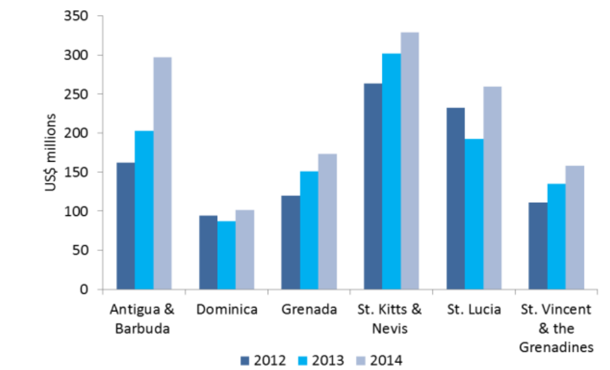
Figure 5: Central Government Debt (% of GDP)



Source: World Economic Outlook, April 2016

…but reserves have improved over time.

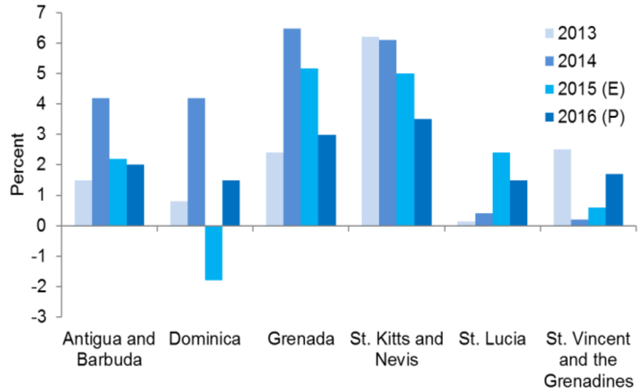
Figure 6: Gross International Reserves (US$ millions)



Source: ECCB

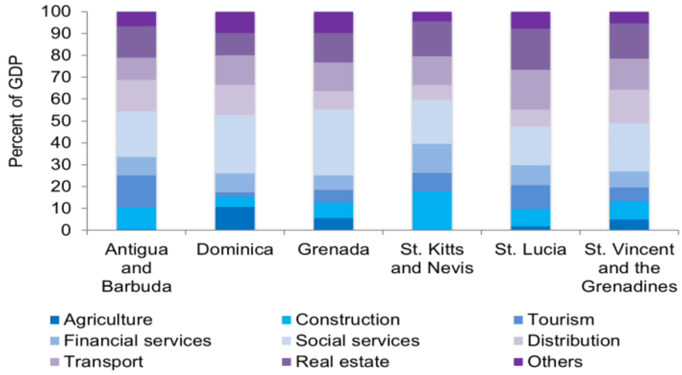
Growth is recovering in the OECS countries…

Figure 1. Real GDP Growth, 2013-2016 (percent)



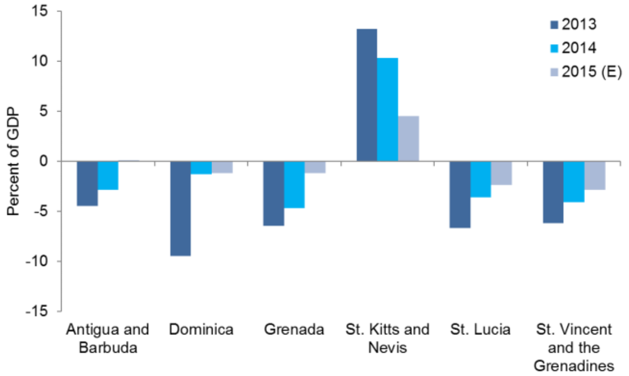
…with tourism, construction, and agriculture leading the way.

Figure 2. Contribution to GDP, 2016 (percent of GDP)



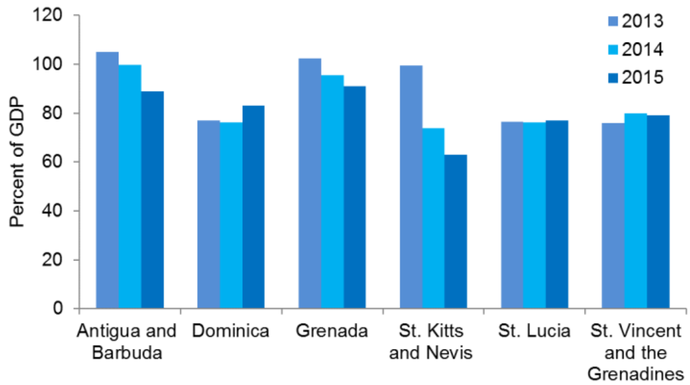
Fiscal deficits are declining…

Figure 3. Fiscal Deficit, 2013-2015, (percent of GDP)



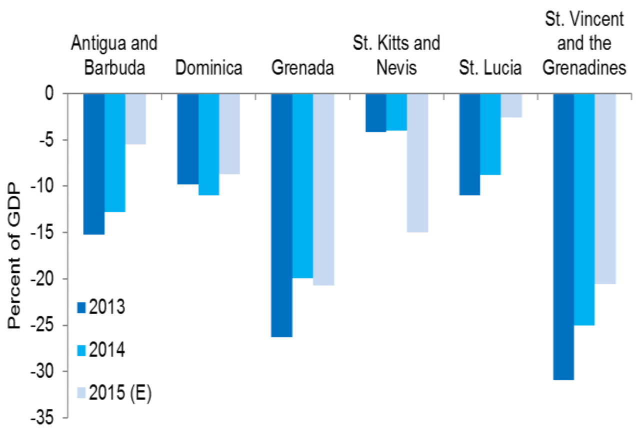
…but debt continues to accumulate.

Figure 4. Current Account Balance, 2013-2015, (percent of GDP)



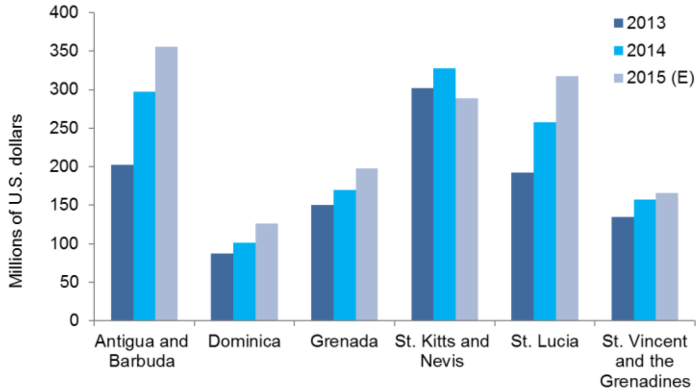
Current account deficits are high…

Figure 5. Central Government Debt, 2013-2015 (percent of GDP)



…but reserves improved over time.

Figure 6. Gross International Reserves, 2013-2015 (millions of U.S. dollars)



	Antigua and Barbuda				Dominica				Grenada			
	2012	2013	2014	2015 (E)	2012	2013	2014	2015 (E)	2012	2013	2014	2015 (E)
Real Sector												
Real GDP (% change)	3.6	1.5	4.2	2.2	(1.3)	0.6	3.9	(3.9)	(1.2)	2.4	5.7	4.6
Nominal GDP (% change)	6.6	(1.6)	5.3	3.1	(3.3)	4.4	3.4	(5.1)	2.8	5.3	8.2	4.6
Inflation (end of period)	1.8	1.1	1.3	0.9	1.2	(0.4)	0.5	(0.1)	1.8	(1.2)	(0.6)	(1.2)
External Sector												
Exports of goods and services (% change)	(0.2)	-	(0.1)	2.3	(15.9)	14.1	3.3	9.2	(7.4)	(4.0)	15.3	5.3
Imports of goods and services (% change)	17.2	(7.5)	2.2	2.3	(5.0)	(1.2)	4.7	15.1	2.4	23.9	(0.4)	1.5
Current account (% of GDP)	(14.6)	(14.8)	(14.5)	(10.0)	(18.8)	(13.3)	(13.1)	(14.1)	(21.1)	(23.2)	(15.5)	(15.1)
International reserves (USD millions)	162.0	202.6	297.0	355.7	94.6	87.1	101.7	126.2	119.5	150.6	169.9	198.0
International reserves cover (months)	2.6	3.4	4.9	6.1	4.1	4.3	4.9	6.0	3.3	4.3	5.1	6.0
Public Sector												
Total revenue (% of GDP)	19.9	18.5	20.6	23.1	27.7	28.0	32.1	31.0	20.7	20.6	24.5	24.9
Current expenditure (% of GDP)	20.6	21.6	21.8	20.5	24.1	25.8	24.8	26.3	21.2	20.3	20.0	17.7
Capital expenditure (% of GDP)	0.6	1.3	1.7	1.5	12.9	11.7	8.6	5.9	5.0	6.8	9.2	8.5
Central government primary balance (% of GDP)	1.1	(2.4)	(0.2)	3.0	(7.6)	(7.4)	0.4	0.4	(2.1)	(3.4)	(1.2)	2.2
Central government overall balance (% of GDP)	(1.3)	(4.5)	(2.8)	0.1	(9.2)	(9.5)	(1.3)	(1.2)	(5.5)	(6.5)	(4.7)	(1.2)
Debt Indicators												
General government debt (% of GDP)	87.1	95.5	98.2	102.1	72.6	74.7	81.1	82.4	103.3	106.8	100.8	92.7

Notes:

(E) - denotes estimated figures

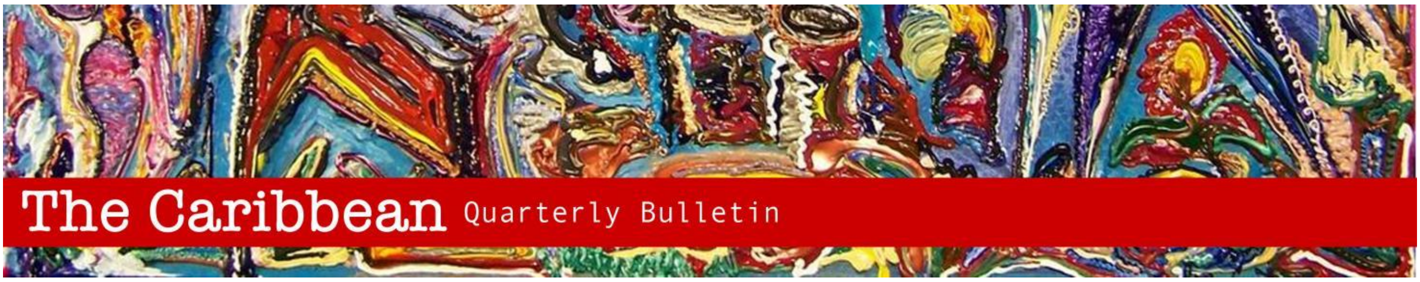
Source: Eastern Caribbean Central Bank; World Economic Outlook, April 2016

	St. Kitts and Nevis				St. Lucia				St. Vincent and the Grenadines			
	2012	2013	2014	2015 (E)	2012	2013	2014	2015 (E)	2012	2013	2014	2015 (E)
Real Sector												
Real GDP (% change)	(0.9)	6.2	6.1	5.0	(1.1)	0.1	0.5	1.6	1.3	2.3	(0.2)	1.6
Nominal GDP (% change)	0.5	7.6	8.2	5.1	1.6	1.8	5.2	0.8	2.5	4.0	1.2	3.8
Inflation (end of period)	0.1	1.0	(0.6)	(2.9)	5.0	(0.7)	3.7	(2.1)	1.0	-	0.1	(1.7)
External Sector												
Exports of goods and services (% change)	-	-	12.1	3.1	(3.9)	(0.7)	3.2	8.8	1.4	(1.1)	4.6	6.6
Imports of goods and services (% change)	(3.8)	7.7	17.8	6.8	(8.5)	(0.7)	2.4	13.2	7.1	6.6	1.3	12.0
Current account (% of GDP)	(9.8)	(6.6)	(7.6)	(13.0)	(13.5)	(11.2)	(6.7)	(7.5)	(27.6)	(30.9)	(29.6)	(24.8)
International reserves (USD millions)/1	263.5	302.0	327.3	288.4	232.0	192.2	257.7	317.5	111.0	135.1	157.4	166.0
International reserves cover (months)/1	8.4	9.4	9.4	8.2	3.4	3.1	4.4	5.3	3.2	3.9	4.6	5.0
Public Sector												
Total revenue (% of GDP)	42.6	46.3	42.5	37.9	23.7	24.5	25.3	26.1	27.0	26.9	28.1	27.3
Current expenditure (% of GDP)	27.7	26.4	26.6	26.6	23.3	23.5	23.3	22.9	26.1	25.2	25.8	25.2
Capital expenditure (% of GDP)	3.7	6.6	5.5	5.7	6.8	7.7	5.7	5.6	2.9	7.8	6.4	4.9
Central government primary balance (% of GDP)	17.2	17.1	13.7	6.3	(3.0)	(2.9)	0.2	1.4	0.3	(3.7)	(1.8)	(0.6)
Central government overall balance (% of GDP)	11.2	13.2	10.3	4.5	(6.5)	(6.7)	(3.6)	(2.4)	(2.1)	(6.2)	(4.1)	(2.8)
Debt Indicators												
General government debt (% of GDP)	137.4	100.4	80.2	65.5	73.7	78.6	79.7	83.0	72.0	74.7	80.6	73.6

Notes:

(E) - denotes estimated figures

Source: Eastern Caribbean Central Bank; World Economic Outlook, April 2016



The Caribbean Quarterly Bulletin was prepared by the Caribbean Economics Lab, Inter-American Development Bank.

The Bulletin's production team is headed by Moises Schwartz (director), and includes Juan Pedro Schmid (editor and coordinator), and Dana Payne (editor and distributor).

The contributors were Camilo Gomez Osorio, Jeetendra Khadan, Juan Pradelli, Juan Pedro Schmid, Mark Wenner, and Allan Wright. Dillon Clarke and Kimberly Waithe also contributed.

For questions or comments please email **CET@iadb.org**

Copyright © 2017 Inter-American Development Bank. This work is licensed under a Creative Commons IGO 3.0 Attribution-NonCommercial-NoDerivatives (CC-IGO BY-NC-ND 3.0 IGO) license (http://creativecommons.org/licenses/by-nc-nd/3.0/igo/legalcode) and may be reproduced with attribution to the IDB and for any non-commercial purpose. No derivative work is allowed.

Any dispute related to the use of the works of the IDB that cannot be settled amicably shall be submitted to arbitration pursuant to the UNCITRAL rules. The use of the IDB's name for any purpose other than for attribution, and the use of IDB's logo shall be subject to a separate written license agreement between the IDB and the user and is not authorized as part of this CC-IGO license.

Note that link provided above includes additional terms and conditions of the license.

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.

For questions or comments please contact email CET@iadb.org

Copyright © 2017 Inter-American Development Bank.
This work is licensed under a Creative Commons IGO 3.0 Attribution-NonCommercial-NoDerivatives (CC-IGO BY-NC-ND 3.0 IGO) license (http://creativecommons.org/licenses/by-nc-nd/3.0/igo/legalcode) and may be reproduced with attribution to the IDB and for any non-commercial purpose. No derivative work is allowed.
Any dispute related to the use of the works of the IDB that cannot be settled amicably shall be submitted to arbitration pursuant to the UNCITRAL rules. The use of the IDB's name for any purpose other than for attribution, and the use of IDB's logo shall be subject to a separate written license agreement between the IDB and the user and is not authorized as part of this CC-IGO license.
Note that link provided above includes additional terms and conditions of the license.
The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.

Caribbean DEVTrends
blogs.iadb.org/caribbean-dev-trends

IDB