OUR INSTITUTIONS : THEY CAN MAKE ALL THE DIFFERENCE, FOR BETTER OR FOR WORSE

The Inter-American Development Bank's (IDB) recent Publication "Nurturing Institutions for a Resilient Caribbean" argues that no factor is more important for socio-economic progress than institutions, which "shape the incentives of economic agents and frame the environment in which their interactions take place." The Caribbean faces weak fiscal positions, crime and violence, a sluggish private sector, weak productive development policies, skill-biased emigration, recurrent natural disasters, and relatively high poverty rates (Jamaica at 21.2%, T&T at 24.5%, Barbados at 25.7%, Suriname at 26.1%, and Guyana at 41.2%), according to the IDB. What explains the institutional frameworks that have underpinned these undesirable outcomes?

The authors found that the commodity-dependent countries have weaker institutions than service-dependent countries, which is at least partially explained by historical but persistent factors. Fifteenth century European colonization strategy differentiated between "extractive states" (established to exploit abundant natural resources, so only institutions necessary for the maintenance of power and the extraction of wealth were created), versus "settler colonies" (which established institutions to assure and secure their rights, properties, and long-term wellbeing). The Caribbean's extractive institutions persisted in the post-independence era because of what is referred to as the "Parasitic Oligarchy" in T&T - "those with the means and the power to exploit the rents of the extractive society prevent institutions from evolving into "better" institutions that have the potential to benefit the whole country." Equally disturbing is the fact that "early institutions affect present and future institutions and development outcomes even centuries apart". Does this mean that our institutions are unlikely to evolve, and therefore our socio-economic development is stagnated?

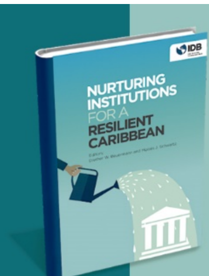
Institutional quality is a most important determinant of socio-economic outcomes

The book cites international evidence that "political and economic institutions can play a significant role in (1) limiting the incidence of several of those factors that negatively affect economic growth and social development, and (2) building resilience to uncontrollable exogenous factors, such as natural disasters. Political institutions lay the groundwork for the development of the other institutions that govern the behaviour of economic agents. Any major shift in political institutions can alter other institutional settings and thus force an alteration in the development path."

But, barring a major shift in political institutions, urgent and purposeful institutional reform in the Caribbean is evidently more likely to be realized under an IMF supported program, as with Jamaica, Grenada, and now potentially Barbados. Jamaica's Economic Programme Oversight Committee, Fiscal Council, and Economic Growth Council, are examples of purpose-built, relevant institutions, designed and equipped to support the socio-economic development goals of the nation. The Bank of Jamaica's inflation-targeting regime brings more clarity and predictability to monetary and exchange rate policy making. These institutional reforms have arguably altered Jamaica's socio-economic trajectory forever.

OUR INSTITUTIONS=
OUR FUTURE

How strong, relevant institutions can make all the difference



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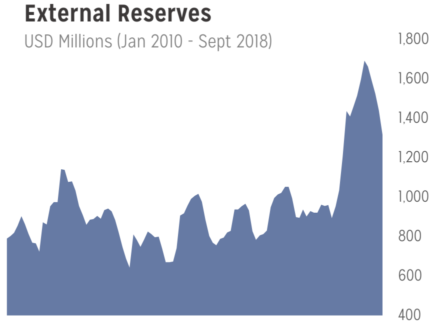
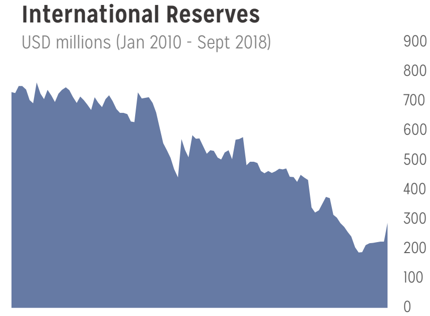
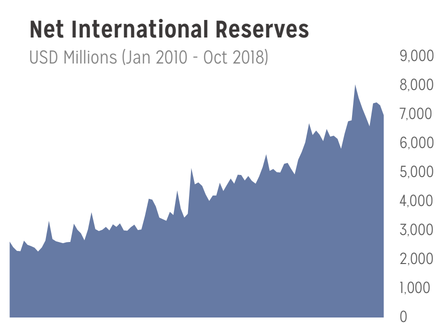
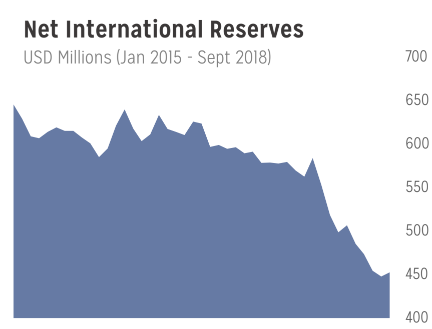
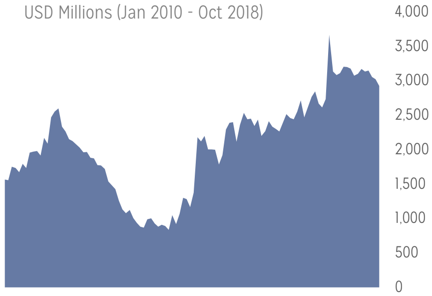
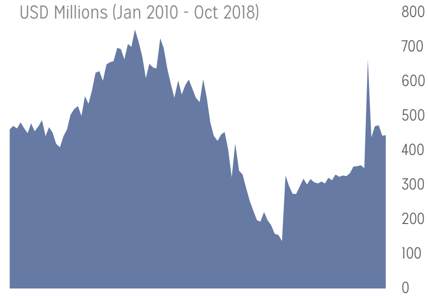
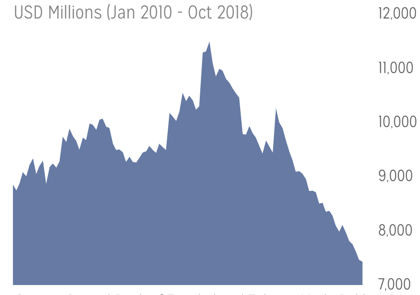
	BAHAMAS	BARBADOS	CAYMAN ISLANDS
UPDATE	Further to the Fiscal Responsibility legislation introduced in the Bahamas, the Central Bank highlighted the importance of fiscal prudence to reducing pro-cyclicality and therefore volatility, managing the fixed exchange rate, and facilitating targeted liberalization of foreign exchange controls. Fiscal prudence also implies there will be less pressure on the Central Bank to finance the Government, which expands the monetary base and puts pressure on foreign currency reserves. As such, Government's medium-term fiscal strategy targets debt-to-GDP at 52.4% by FY2021/22, down from 57.8% last fiscal year. Government plans to balance the budget by FY2020/21 based on 56% higher fiscal revenues compared to FY2017/18, based on a 69% increase in VAT revenue (supported by higher VAT rate), Customs & Import duties up by 35%, and Departure Taxes up by 12%. Capital expenditures are budgeted to grow 17% in FY2020/21 versus FY2017/18.	The economy contracted 0.5% y/y from Jan-Sept 2018, as construction contracted 10.5% and tourism expanded 1.4% given the decline in length of stay and the weak GBP. S&P affirmed Barbados' local currency rating at B- with a stable outlook, with the completion of the local debt exchange. The stable outlook reflects the government's commitment to economic reforms and fiscal consolidation over the next 12-18 months. Long and short-term foreign currency ratings remain in default. International reserves continue to strengthen on borrowing from the IMF and development banks. The Central Bank reduced its securities reserve ratio on from 20% to 17.5%, effective November 29, 2018. PM Mia Mottley announced that local and international / offshore corporation tax rates will be equalized, (to comply with OECD regulations) to a sliding scale between 1.0-5.5% based on taxable income. This move immediately boosts external competitiveness, supports a private sector led growth strategy, and job creation.	A significant fiscal surplus of KYD183.8 million has been recorded for Jan-Sept 2018 - nearly double the target. Overall revenues exceeded the target by 9%, as import and stamp duties, tourist accommodation charges and financial services related revenues all came in over budget. The Minister of Finance recently confirmed that the bullet payment on the bond (issued to consolidate government debt in 2009) maturing in 2019, will be partly refinanced, with resources already earmarked for this purpose. Strong performance continues in tourism with an estimated 15% y/y gain in stay-over tourism spending from Jan-Sept 2018, reaching a total of KYD422 million. There was an estimated 10% y/y increase in the average spend per person per night to KYD193.90. Cruise spending rose 22% y/y to KYD122 million over the same period. Growth in stay-over tourism is being driven mainly by arrivals from the US (+15% y/y), Canada (+9% y/y), and Latin America (+6% y/y).
TOURISM	Stay-over: 2018: 1,139,319 (Aug 2018) +15.1% y/y Cruise pax: 2018: 3,313,497 (Aug 2018) 4.9% y/y	Stay-over: 2018: 501,188 (Sept 2018) +2.7% y/y Cruise pax: 2018: 449,188 (Sept 2018) -2.9% y/y	Stay-over: 2018: 372,812 (Oct 2018) +11.5% y/y Cruise pax: 2018: 1,555,722 (Oct 2018) +19.8% y/y
GROWTH	1.0-1.5% (2017 est.)	-0.5% y/y Jan-Sept 2018	2.9% (2017), 4% y/y in Q1 2018
RESERVES	**External Reserves** USD Millions (Jan 2010 - Sept 2018)  Source: Central Bank of The Bahamas, Marla Dukharan	**International Reserves** USD millions (Jan 2010 - Sept 2018)  Source: Central Bank of Barbados, Marla Dukharan	n/a
OUTLOOK	IMF expects growth at 2.3% in 2018, moderating to 2.1% in 2019, and 1.5% by 2023, contingent on improvements in tourism and the Government's fiscal consolidation.	IMF forecasted 0.5% contraction in 2018, 0.1% in 2019, and growth of 1.8% by 2023. The Central Bank expects a contraction of 0.5% in 2018. We are working with projections for a contraction of 1% this year and next.	Growth is expected to rise to 3.0% in 2018 based on sound fiscal management, and stronger construction and tourism activity, but less so on financial services. Government projects growth will slow to 2.2% by 2020.

	CUBA	DOMINICAN REPUBLIC	GUYANA
UPDATE	Moody's analysis on Government debt cites the stalled rapprochement with the US, declining in Balance of Payments support from Venezuela, and the wavering commitment to private sector expansion as challenges facing Cuba's Caa2 (stable) credit rating. Government has revised its tourist arrivals target down from 5 million for 2018 to 4.75 million, which would represent growth of 1.3% y/y, and expects 5.1 million arrivals in 2019 yielding USD3 billion in tourism revenues. The US recently included 16 Cuban hotels (the Gaviota chain) in the list of companies that US citizens and legal entities are prohibited from doing business with. Cruise tourists from the US doubled y/y from Jan-Oct 2018 to 280,000, while air arrivals fell from over 400,000 to 242,000 over the same period. Tourism remains a key area of focus for the government in attracting FDI, accounting for over 1/3 of the projects in its recently updated portfolio of opportunities, which includes 17,102 new rooms with Gaviota.	The Central Bank estimates growth at roughly 6.5% this year, with inflation near 3%, and USD30 billion in foreign currency inflows. For Jan-Sept 2018, 86% of growth was attributable to private sector activity. The economy has created 734,544 jobs over the last 6 years and the unemployment rate has fallen to 5.6%. Inflation remained on target at 3.52% in October, with core inflation at 2.60%. Remittances reached nearly USD5.4 billion YTD in October 2018, up 10% y/y. Tourism spending has also been on the rise, with revenues reaching USD3.98 billion to June 2018, up 6% y/y. Net international reserves were up by USD1.16 billion y/y in October to USD6.98 billion - roughly 4.4 months of import cover. Consolidated public sector debt reached 51.6% of GDP in Sept 2018, up from 48.4% y/y. The recently published full IMF Article IV report called for an adjustment of 3% of GDP in the overall fiscal deficit over the 2018-2020 period, to bring debt-to-GDP to 45% in 5 years.	The GYD300.7 billion budget for FY2019 projects the total public sector deficit will expand from an estimated 5.7% of GDP in 2018 to 6.3% in 2019 (CG 5.0% + SOE 1.3% of GDP), with a primary surplus of 2.4% of GDP. State-owned enterprises remain an area of concern with GYD15.8 billion in estimated losses for 2018 – mainly from lower GuySuCo production and higher fuel costs for GPL and GuyOil – forecast to fall to GYD13.3 billion in 2019. Total public debt is projected to expand 0.8% y/y in 2018 to USD1.68 billion, reflecting a 27% expansion in external debt and a 10% reduction in domestic debt. For 2019, public debt will expand 5.9% y/y with domestic and external debt up 6.7% and 5.6% respectively. Growth of 3.4% is expected in 2018, accelerating to 4.6% in 2019, with Agriculture, Fisheries and Forestry +3.9%, Mining & Quarrying +3.7%, Manufacturing up +4.2%, Construction +10.5% and Services +3.7%. Crude oil production to come on stream in 2020.
TOURISM	Stay-over: 2018: 2,118,378 (Oct 2018) -9.4% y/y Cruise pax: 2018: 703,519 (Oct 2018) +20% y/y	Stay-over: 2018: 5,424,299 (Oct 2018) +6.2%y/y Cruise pax: 2018: 758,759 (Oct 2018) -3.8%y/y	Stay-over (CTO): 2018: 179,743 (Jun 2018) +58% y/y Cruise pax: n/a
GROWTH	1.1% H1 2018; 1.6% (2017 prelim.)	6.9% Jan-Sept 2018; 4.6% (2017)	4.5% H1 2018; 2.1% (2017 est.)
RESERVES	n/a	 Source: Central Bank of the Dominican Republic, Marla Dukharan	 Source: Bank of Guyana, Marla Dukharan
OUTLOOK	Low growth (<2%) likely to persist as a result of Venezuela's crisis and shifts in US policy. Availability of foreign currency will remain a challenge.	Growth of 6.4% in 2018, and 5.0% through 2023, is projected by the IMF. The Central Bank projects 5.5-6.0% growth for 2018.	Growth is expected by the IMF to ramp up to 3.4% in 2018, 4.8% in 2019, and with the impact of oil production, almost 30% in 2020. Nope, this is not a typo.

	JAMAICA	SURINAME	TRINIDAD & TOBAGO
UPDATE	The economy registered another quarter of growth, expanding 1.9% in Q3 2018. The goods producing sector grew 5.2% y/y and Services grew 0.8% y/y in Q3 2018. Construction grew 3%, Hotels & Restaurants 2% and Mining & Quarrying 54%. Unemployment fell to 8.4% in July 2018, down from a high of 16.8% in April 2013. Inflation hit 4.7% in October 2018 – well within the 4-6% target. The policy rate was therefore left unchanged at 2.0% in October 2019. The BoJ survey on business conditions revealed inflation expectations for 2018 at 4.8%, and 5.5% for 2019. The indexes for both present and future business conditions also improved. Reserves declined 5% y/y in October to USD2.9 billion or 32 weeks of goods and services imports. The JMD appreciated m/m by 3.6% in October, reflecting ongoing bidirectional fluctuations. A primary fiscal surplus of 3.6% of GDP was recorded for the first 6 months of the fiscal year, reflecting the government's commitment to its fiscal targets.	The IMF reported that the economy has stabilized with growth reaching 1.7% in 2017 after two consecutive years of contraction, and is expected to improve gradually to reach 3% over the medium term, based on higher gold production and commodity prices. Unemployment has declined, the inflation rate has moderated to single digits and the SRD has stabilized as the current account balance has improved. Fiscal deficits are wide, and public debt is expected to rise given the slow pace of reforms and recent growth in fiscal expenditure, according to the IMF. The IMF forecasts the primary fiscal deficit at 4.1% of GDP for 2018, averaging 5.0% over 2019-2020. The pace of expansion of broad money has now reached 30% y/y, with banknotes in circulation up 10% y/y and liabilities to deposit-taking institutions up 42% y/y (up 88% since Dec 2016). The SRD depreciated 0.2% y/y in October. Foreign currency reserves increased 36% y/y in October to USD445 million or 2.4 months of imports.	Growth is estimated at 2.8% y/y for Q2 2018 by the Central Bank with the energy sector expanding 9.0% supported by increased natural gas production, and non-energy activity declining 0.5%. The manufacturing sector contracted 2.2%, and distribution 1.6%. Growth was reported in construction of 3.4% - however, data for Q3 2018 reveals a 20% q/q drop in local cement sales, suggesting a construction sector slowdown. The balance of payment recorded an overall deficit of USD553.5 million in H1 2018, as capital account outflows of USD2.57 billion outstripped the current account surplus of USD2.02 billion. Reserves fell USD1.09 billion y/y to USD7.43 billion in October 2019. Central Bank further reported a weak business environment with show private sector credit growth, and the non-energy sector yet to recover. Unemployment increased to 4.4% in Q4 2017 – up 0.8 points y/y. Risks to inflation (1.2% y/y in Sept) remain on the upside based on recent floods and budgetary measures.
TOURISM	Stay-over: 2018: 1,852,482 (Sept 2018) +5.5%y/y Cruise pax: 2018: 1,324,063 (Sept 2018) -0.5%y/y	n/a	Stay-over: 2018: 194,808 (Jun 2018) -4.7% y/y (CTO) Cruise pax: 2018: 91,460 (Jun 2018) +166% y/y (CTO)
GROWTH	1.4% Q1 2018; 1.8% in Q2 2018; 0.5% (IMF 2017) – the 5th consecutive year of growth	0.0% (IMF 2017 est.)	-2.3% (2017 est.)
RESERVES	**Net International Reserves** USD Millions (Jan 2010 - Oct 2018)  Source: Bank of Jamaica, Marla Dukharan	**Foreign Currency Reserves** USD Millions (Jan 2010 - Oct 2018)  Source: Centrale Bank van Suriname, Marla Dukharan	**Net Official Reserves** USD Millions (Jan 2010 - Oct 2018)  Source: Central Bank of Trinidad and Tobago, Marla Dukharan
	The IMF expects growth at 1.2% in 2018, ramping up to 1.5% in 2019 and 2.2% by 2023.	IMF forecasts growth of 2% in 2018, 2.2% in 2019, 2.5 in 2020 and 2.1% in 2021.	The IMF is projecting growth at 1% for 2018, falling to 0.9% in 2019, then averaging 1.8% through 2023. We maintain our projection of 0% growth at best in 2018, and average growth of 1% in 2019-2020.

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