# VENEZUELA'S CRISIS : THIS IS NOT ABOUT POLITICS OR OIL - THIS IS ABOUT PEOPLE

The worst humanitarian crisis in Latin American history has for years been festering in our backyard, with spillovers both good and (mostly) bad for the Caribbean. Yet somehow our leaders appear to be either oblivious or wilfully ignorant to the millions of innocent civilians who have been displaced, starved, tortured and killed, opting instead to maintain their conveniently myopic default political stance of non-intervention – a justifiable position usually, but one which has clearly exceeded its shelf-life in this case. And what a message to send to the PEOPLE of Venezuela, in return for their oil!

An estimated 3.6 million Venezuelans have fled the country in the last four years, with another two million expected this year, with reports already pointing to over 40,000 in T&T, 16,000 in Aruba, 36,400 in Guyana, 26,000 in Curacao, and 28,500 in the Dominican Republic. At the very least, we should be preparing to deal with this influx, but we are not.

Over two years ago, Human Rights Watch published an alarming report highlighting the growing number of deaths due to starvation, malnutrition, and the lack of medicine in Venezuela. According to a study conducted by Venezuela's three largest universities (ENCOVI), in 2016, 93.3% of the population reported that their income was insufficient to purchase food, 86% of the population had two or less meals per day, and 72.3% of the population lost an average of 8.7 kg of body weight because they either could not find or afford enough food. The same survey conducted in 2017 revealed that 64.3% of the population lost 11.4kg of body weight and 90% were unable to pay for their daily requirements of food. Preliminary findings from ENCOVI for 2018 reveal that 94% of Venezuelans did not earn enough income to meet their basic needs.

> A Venezuelan family needs 23 minimum wage salaries to cover its basic food needs

Poverty jumped from 45% of the population in 1998 to 87% in 2017. A family in Venezuela now requires 23 minimum wages just to cover their basic food needs, compared to 2 minimum wages when Maduro took power in 2013. A study carried out in July 2018 by Caritas across 7 Venezuelan states found that 65% of children under 5 and 49% of pregnant women were malnourished. Meanwhile, there has been a resurgence of previously eradicated diseases such as diphtheria, tuberculosis, measles, malaria and others, since vaccines and medicines are unavailable. Apart from health, other public services have collapsed; 71% of homes do not receive running water daily, 25% of homes lose power for several hours daily, 22% of households report children missing school because there isn't enough food at home, and 28% of households report children missing school due to cuts in water service. Sanitation has also collapsed, but I will spare you the details.

This shocking social, economic, and ultimately humanitarian crisis took place despite an inflow of USD947 billion in oil revenues over the past 19 years. Venezuela's economy has shrunk by half over the last five years alone under Maduro, and GDP per capita in 2017 was the same as it was back in 1955. The Caribbean has a small window of opportunity now to redeem ourselves for being de facto accomplices in this tragedy, or the blood of the Venezuelan people will forever stain the hands of those who benefitted from Hugo Chavez's oil-for-OAS-votes (better known as the PetroCaribe) program.

| | BAHAMAS | BARBADOS | CAYMAN ISLANDS |
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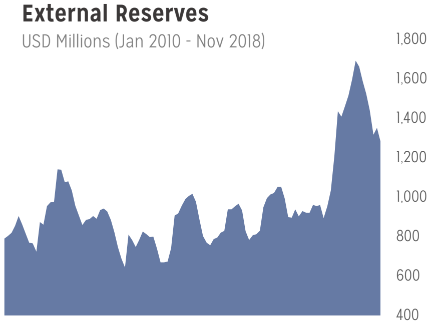
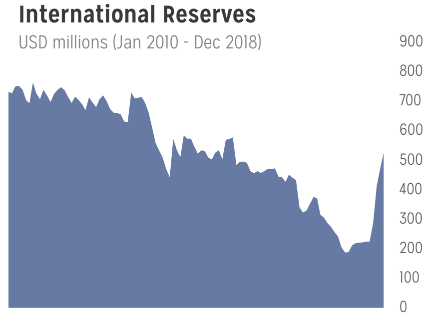
| UPDATE | Foreign investment projects remained the driver of construction sector activity in 2018. The value of construction permits issued in H1 2018 was the highest for two consecutive quarters since Dec 2012. Nonetheless, the value and number of Construction Starts during the same period is below the average seen for any two consecutive quarters over the past 6 years. Tourism continues to benefit from an increase in high-end room stock and additional airlift, as stayover arrivals grew 16.5% y/y from Jan-Sept 2018. The current account deficit on the balance of payments expanded 25% y/y in Jan-Sept 2018 reaching USD1.87 billion, and the overall balance was in deficit at the end of the period at USD113.5 million, vs a surplus of USD757.7 million for Jan-Sept 2017. External reserves fell 10.5% y/y to USD1.28 billion in Nov 2018, estimated at 5.2 months of import cover. The Central Bank estimates that total public sector debt/GDP increased in 2018 to 68% from 66% in 2017. | The economy contracted by 0.6% in 2018, bringing the average for the past 10 years to 0%, and less than 1% since 2000. The tradeables sector expanded by a mere 0.3% in 2018, and manufacturing returned to negative growth. In 2018 the tourism sector grew by 0.6% - the slowest pace since 2013. The BTMI reported that for Jan-Nov 2018, cruise arrivals fell 0.9% y/y and stayover arrivals were up 2.8% y/y. The non-tradeable sector contracted at a pace of 0.9% in 2018 – the largest contraction since 2013 - with negative growth in all sub-sectors. Construction contracted 6.9% y/y in 2018. Gross international reserves are improving on debt restructure and multilateral agency flows, up 121% y/y to USD525 million or 13.5 weeks of import cover. Fuel imports rose 13.7% y/y to BBD712 in 2018, and the increase in fuel imports offset 96% of the gains in tourism revenues. Total public sector debt/GDP declined by 21.5p.p. y/y to 126.9% in Dec 2018, from 148.4% in Dec 2017 and 151.2% in Dec 2016. | 2018 was a record year for stayover arrivals, up 11% y/y. Cruise arrivals reached the highest level since 2006, also up 11% y/y. The increase in tourist spending is estimated at USD880 million or 12.5% y/y. The Real Estate Brokers Assoc reported a 15% y/y increase in the number of properties sold with total value of transactions up 22% y/y, mainly from the residential sector. The Economic Substance Law effective Jan 1 2019 seeks to maintain compliance with the OECD requirements, creating uncertainty in the offshore financial services sector, particularly banking, insurance, fund management, financing & leasing, intellectual property, holding companies, shipping, distribution / service centre, and headquarter business. The new law will require businesses without tax residency elsewhere to demonstrate income generating activities are conducted in Cayman through adequate levels of 1) operating expenses 2) physical presence or 3) full-time qualified personnel. |
| TOURISM | Stay-over:<br>2018: 1,202,772 (Sept 2018) +16.5% y/y<br><br>Cruise pax:<br>2018: 3,561,563 (Sept 2018) +6.1% y/y | Stay-over:<br>2018: 607,762 (Nov 2018) +2.8% y/y<br><br>Cruise pax:<br>2018: 554,438 (Nov 2018) -0.9% y/y | Stay-over:<br>2018: 463,001 (Dec 2018) +10.7% y/y<br><br>Cruise pax:<br>2018: 1,921,057 (Dec 2018) +11.1% y/y |
| GROWTH | 2.3% (2018 est.) | -0.6% y/y 2018 | 2.9% (2017), 4% y/y in Q1 2018 |
| RESERVES | **External Reserves**<br>USD Millions (Jan 2010 - Nov 2018)<br><br>Source: Central Bank of The Bahamas, Marla Dukharan | **International Reserves**<br>USD millions (Jan 2010 - Dec 2018)<br><br>Source: Central Bank of Barbados, Marla Dukharan | n/a |
| OUTLOOK | IMF estimates growth at 2.3% in 2018, moderating to 2.1% in 2019, and 1.5% by 2023, contingent on improvements in tourism and fiscal consolidation. | IMF forecasted 0.5% contraction in 2018, 0.1% in 2019, and growth of 1.8% by 2023. We are working with a projection of roughly zero growth in 2019, following an estimated contraction of 0.6% in 2018 by the Central Bank. | 2018 growth is estimated at 3.0% 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 |
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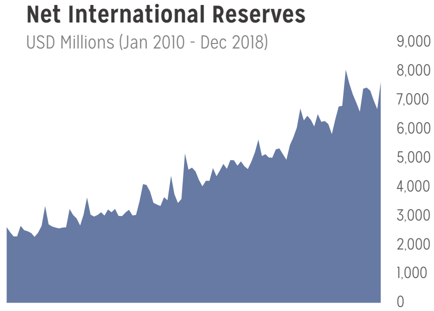
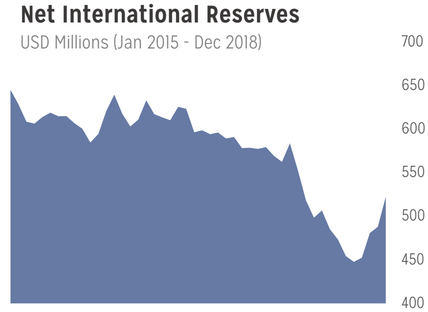
| UPDATE | The Minister of Foreign Investment recently indicated the country has secured USD6 billion in FDI commitments since 2014, though not specifying the amounts disbursed. This is far below the USD2.5 billion per year that authorities estimated they would need to attract, to guarantee long-term economic sustainability. This comes after the government announced GDP grew only 1.2% in 2018, led by Transport & Communications +5.7%, Manufacturing +3.7%, Trade +2%. Meanwhile, contractions were posted for sugar -44% and agriculture -5%, affected by Hurricane Irma and TS Alberto. Construction activity declined by 1.2% in 2018. Tourism figures presented in Parliament reveal 1.3% growth in stopover arrivals in 2018, falling short of plan by 350,000 tourists, with a weak occupancy rate of 55.4%. The fiscal deficit in 2018 was roughly 9% of GDP, projected to decline in 2019 to 6.1% of GDP. | The economy grew 7% in 2018, mainly driven by investment and private consumption. This follows average GDP growth of 4.9% over the past decade. The Central Bank reported that the poverty rate has fallen from 39.7% in 2012 to 25.5% in 2017. Inflation ended 2018 at 1.17% - the lowest level in 34 years, falling below the Central Bank target of 4% ±1%, with core inflation at 2.47%, but the policy rate was left flat at 5.50% in January 2019. Credit to the private sector in local currency continues to expand at a robust rate, up 11% y/y in January 2019. Stopover arrivals surpassed 6.5 million in 2018, and average tourist spend per day was up 4.5% y/y to USD136.48. Remittances rose 10.4% y/y from Jan-Nov 2018, reaching USD5.9 billion. While there were USD30 billion in gross foreign currency inflows, Net International Reserves strengthened by 12.5% y/y to USD7.6 billion or 4.8 months of import cover in Dec 2018. | Net International Reserves rebounded in late 2018 but ended the year down 10.5% at USD522.6 million, roughly 3.2 months of import cover. Uncertainty continues following the ruling to uphold the no confidence motion against the coalition Government, meaning a General Election will be held in March 2019. It was also ruled that dual citizenship holders cannot constitutionally qualify as MPs – leading to several MPs being disclosed as having dual citizenship including Charrandass Persaud who broke with the coalition to support the no confidence motion in December 2018. Meanwhile Exxon's CEO joined the company's quarterly earnings call affirming "We don't have any concerns about the political dynamics", stressing the company has a long-term view on its relationship with Guyana and has engaged the coalition, opposition, and community. The company's oil discoveries amount to over 5 billion barrels in Guyana. |
| TOURISM | Stay-over:<br>2018: 4,750,000 (est. Dec 2018) 1.3% y/y<br><br>Cruise pax:<br>2018: 703,519 (Oct 2018) +20% y/y | Stay-over:<br>2018: 6,568,888 (Dec 2018) +6.2%y/y<br><br>Cruise pax:<br>2018: 982,329 (Dec 2018) -11.3%y/y | Stay-over (CTO):<br>2018: 211,448 (Sept 2018) +17.5% y/y<br><br>Cruise pax:<br>n/a |
| GROWTH | 1.2% in 2018 | 7.0% 2018 | 4.5% H1 2018; 3.4% (2018 est.) |
| RESERVES | n/a | **Net International Reserves**<br>USD Millions (Jan 2010 - Dec 2018)<br><br>Source: Central Bank of the Dominican Republic, Marla Dukharan | **Net International Reserves**<br>USD Millions (Jan 2015 - Dec 2018)<br><br>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. Government projects growth of 1.5% in 2019. | Growth is expected by the IMF to moderate to 5.0% through 2023. | Growth is expected by the IMF to ramp up to 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 |
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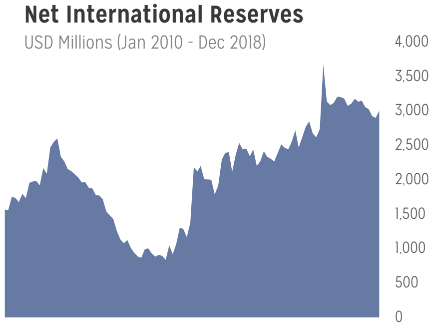
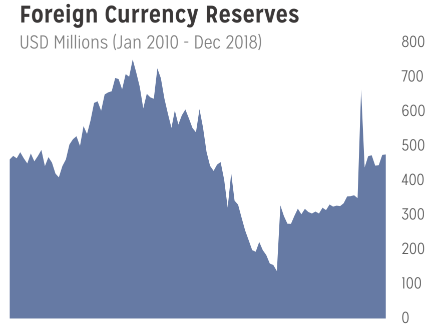
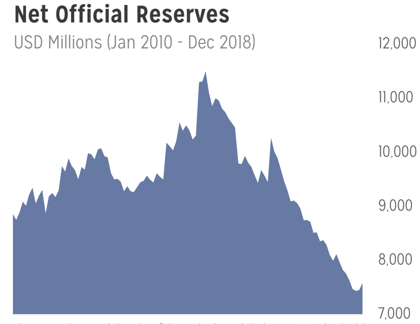
| UPDATE | International reserves ended 2018 at USD3 billion. While this represents a decline of 6.3% y/y, EPOC estimates non-borrowed reserves stood at USD2.52 billion in Nov 2018, significantly outperforming the IMF target of USD2.2 billion. Inflation fell to 2.4% in Dec 2018 - below BoJ's target of 4-6% - as a result of lower agricultural prices and lower international oil prices. BoJ estimates inflation will remain below target in Q1 2019 based on commodity price forecasts. BoJ lowered the policy rate by 25 basis points in Dec 2018 to 1.75%, but expects that an acceleration in economic activity will push inflation to the target range in the medium term. Jamaica's long-term foreign and local currency rating has been upgraded by Fitch to B+ with a stable outlook, as Jamaica has generated a primary surplus over 7% of GDP for the last 5 fiscal years, cutting debt/GDP from 135.3% in FY2012 to 96.4% in FY2018, and expected to fall below 65% by FY2027. | Foreign currency reserves recovered in 2018, growing 42% y/y to USD476, roughly 2.5 months of import cover. Prices have stabilized and inflation slowed to 5.4% in Dec 2018, with the average inflation rate registered during the year at 6.9%. This is down from a high of 79.2% registered in October 2016. These improvements however could be undermined by the ongoing expansion of the monetary base to finance the fiscal deficit, with the money supply expanding 35% y/y in Nov 2018. The IMF Article IV released in Dec 2018 stresses that the country's external position remains weak with external debt/GDP above 90% since Dec 2016, and further challenged by the repatriation of profits by foreign gold companies, mitigating gains from higher gold exports. The Article IV suggests a moderate overvaluation of the exchange rate of around 2.7%. The exchange rate remained virtually flat in 2018 at SRD7.52 : USD1.00. | A decline in production indicators for the energy sector in Q3 2018 is attributed to maintenance of natural gas and methanol facilities, the end of the base effect of Juniper coming onstream in y/y comparisons, and lower oil production, according to CBTT. Non-energy sector activity also fell in Q3 2018 y/y, with lower output in construction and distribution. Inflation in Nov 2018 was 1.0% and CBTT maintained the policy rate at 5.00% in Dec 2018. The country lost USD795 million in reserves in 2018 - a decline of 9.5% y/y. While import cover stands at 8 months, the economy has been losing over USD80 million per month for the last 4 years - a total of USD3.92 billion since Dec 2014. The policy choice to maintain an overvalued TTD has continued into 2019, with the exchange rate at TTD6.7835 : USD1.00 in Jan 2019 versus TTD6.7832 : USD1.00 in Jan 2018 – in effect a Government subsidy on imports and a penalty on exports, which erodes external competitiveness, drives reserves down further, and supports a thriving black market for foreign currency. |
| TOURISM | Stay-over:<br>2018: 2,211,580 (Nov 2018) +5.3%y/y<br><br>Cruise pax:<br>2018: 1,619,506 (Nov 2018) -5.6%y/y | n/a | Stay-over:<br>2018: 311,912 (Oct 2018) -5.2% y/y (CTO)<br><br>Cruise pax:<br>2018: 96,610 (Oct 2018) +159% y/y (CTO) |
| GROWTH | 1.4% Q1 2018; 1.8% in Q2 2018; 1.9% Q3 2018 | 2.0% (IMF 2018 est.) | 0.8% (2018 CSO est.) |
| RESERVES | **Net International Reserves**<br>USD Millions (Jan 2010 - Dec 2018)<br><br>Source: Bank of Jamaica, Marla Dukharan | **Foreign Currency Reserves**<br>USD Millions (Jan 2010 - Dec 2018)<br><br>Source: Centrale Bank van Suriname, Marla Dukharan | **Net Official Reserves**<br>USD Millions (Jan 2010 - Dec 2018)<br><br>Source: Central Bank of Trinidad and Tobago, Marla Dukharan |
| OUTLOOK | 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 2.2% in 2019, 2.5% in 2020 and 2.1% in 2021. | The IMF is estimating growth at 1% for 2018, falling to 0.9% in 2019, then averaging 1.8% through 2023. We maintain our projection of roughly 0% growth in 2018, and average growth of 1% in 2019-2020. |