GUYANA – UNTOLD ECONOMIC POTENTIAL WRAPPED IN POLITICAL UNCERTAINTY

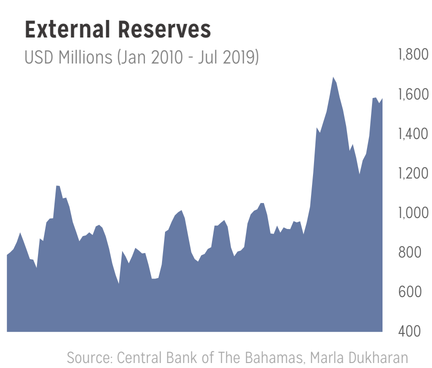
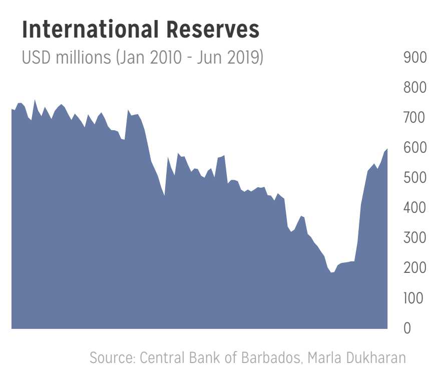
The Dutch were the first to colonize much of Guyana back in the 1600's, and hopefully enough time has passed to eliminate any traces of 'Dutch Disease' (which, in fairness to the Dutch, should be rebranded to the Venezuelan / Nigerian / Trinidadian disease!). According to the IMF's most recent Staff Report, oil production is expected to commence in Q1 2020, averaging 102K bpd, and rising to an average of 424K bpd in 2025 (based on Liza I & Liza II alone). To put this into context, T&T produced at its peak in 1978, just 228,500 bpd. Guyana's crude oil reserves are the 5th largest in the world relative to her 2018 GDP, and the 11th largest on a per capita basis, according to the IMF.

The IMF suggests that while oil production will expand overall GDP and exports substantially, oil's direct impact on the domestic economy will be mostly offset by higher imports of oil extraction equipment and payments to the operators. Not unlike T&T and other commodity producers therefore, the (largely enclave) oil sector will make its impact on the wider real economy and population indirectly, via the Government's (redistributive) spending of its oil revenue, which is expected to boost non-oil GDP growth by 3.5 percentage points on average (based on a multiplier of 0.53 in the Caribbean).

> The IMF forecasts that Guyana's economy will grow 86% in 2020 as oil production comes online, and average 13.7% growth over the following four years.

Apart from Haiti, Guyana remains the poorest country in the Caribbean on a GDP per capita basis, but this is about to change dramatically in a few short years. But what could this sudden boost mean for the average Guyanese citizen? According to the IMF, Guyana surpasses the Caribbean's median for access to clean water and improved sanitation, despite its relatively low income levels. However, infant mortality and life expectancy are among the weakest in the region. The World Bank reported that Guyana's human capital is below the median for the region and for its income group. When adjusted for quality of learning, 12.1 years of schooling is equivalent to only 6.7 years, equating to a learning gap of 5.4 years in Guyana. The IDB reported that Guyana's performance at the Caribbean Examination Council Examination is below the Caribbean average. Furthermore, despite anecdotal evidence of some recent brain-gain, Guyana still has the world's seventh-highest rate of emigration according to the IDB, and most emigrants are skilled and/or with university education. And despite many governance and transparency-related reforms, Guyana stands at 93rd out of 180 countries on the Corruption Perceptions Index.

Guyana is arguably on the verge of its first major opportunity to meaningfully transform not just its economy, but the quality of life for all its people. The world is watching to see how Guyana's leaders balance the often competing demands for spending to secure sustainable socio-economic development, versus short-term, politically expedient purposes.

	BAHAMAS	BARBADOS	CAYMAN ISLANDS
UPDATE	The effects of Hurricane Dorian are unprecedented for The Bahamas, and the pace of economic recovery will be largely dependent on reconstruction activity and recovery of hotel room inventory. While insurance coverage is expected to help mitigate household and business financing needs, those without adequate protection will become more vulnerable. As government rebuilds critical infrastructure and provides assistance to residents, the fiscal situation is likely to deteriorate in the near-term. The Central Bank estimates international reserves will remain above the 3-month benchmark, though the timing of inflows from multilateral lending facilities and insurance proceeds could lead to volatility as rebuilding efforts take place. The Central Bank has waived its required 15% equity or down payment on consumer loans and the threshold debt service range of 40-45% on new credit that accommodates hurricane recovery. Collections efforts will also be moderated on delinquent credit facilities for borrowers who have been displaced.	Government met all indicative targets at end-June under the BERT program. The primary surplus reached 2.5% of GDP in Q1 FY2019/20, with the target set at 6% of GDP for the fiscal year. International reserves in June reached USD600 million or 15.3 weeks of imports. The Financial Stability Report confirmed that profitability, capital and reserve positions in the financial sector deteriorated in 2018 as a result of the sovereign debt restructure, the implementtation of IFRS9, and the overall challenging macroeconomic environment. Commercial banks posted negative return on assets in 2018 and an overall reduction in regulatory capital. NPLs declined to 7.9% for deposit-taking institutions. Provisions to NPLs declined substantially to 67%, from 80% in 2017. The economy contracted 0.2% y/y in H1 2019. Stay-over tourism is beginning to show signs of improvement, with total arrivals on a 12-month rolling basis up +3.9% y/y in July – the fastest pace of growth in 16 months – though economic growth gains were offset by slow construction and fiscal consolidation.	Strong fiscal management brought the public sector budget surplus to 65% above target in H1 2019. Robust growth in stay-over arrivals resulted in higher tourism accommodation revenues, and a rise in imports contributed to stronger duty collections. Merchandise imports rose 11.2% y/y in Q1 2019, with capital goods imports accounting for the largest increase, up 41% y/y. Machinery and transport equipment posted growth of 37% y/y, and 24% y/y growth was registered for manufactured goods. External reserves are strengthening, up 9% y/y in June to KYD136.4 million. GDP growth for 2018 is currently estimated at 3.3% - the fastest pace in a decade. GDP per capita reached KYD70,956 in 2018 - an expansion of 4.5% y/y. Inflation accelerated from an average of 3.3% in 2018 to 4.5% in Q1 2019. Upward pressure on consumer prices was mainly attributed to higher housing rental costs (+19.7%), home maintenance and repair (+8.4%), electricity (8.2%), phone service (+9.0%) and accommodation services (+4.0%).
TOURISM	Stay-over: 2019: 1,156,897 (Jul) +14.6% y/y Cruise pax: 2019: 3,254,846 (Jul) +13.6% y/y	Stay-over: 2019: 434,923 (July) +5.2% y/y Cruise pax: 2019: 399,020 (July) -1.7% y/y	Stay-over: 2019: 332,294 (Jul 2019) +10.8% Cruise pax: 2019: 1,126,908 (Jul 2019) -5.8%
GROWTH	2.3% (2018 est.)	-0.6% (2018 est.)	3.3% (2018 est.)
RESERVES			n/a
OUTLOOK	IMF estimates growth will slow to 2.1% in 2019, and average 1.5% for 2020 to 2023, contingent on improvements in tourism activity, and fiscal consolidation.	IMF forecasted 0.5% contraction in 2018, 0.1% in 2019, and growth of 1.8% by 2023. The Central Bank expects growth of 0-0.25% for 2019. We are working with a projection of roughly zero growth in 2019.	Growth is projected at 2.7% for 2019 based on sound fiscal management and stronger construction and tourism activity, but less so on the financial services sector. Government projects growth will slow to 2% by 2022.

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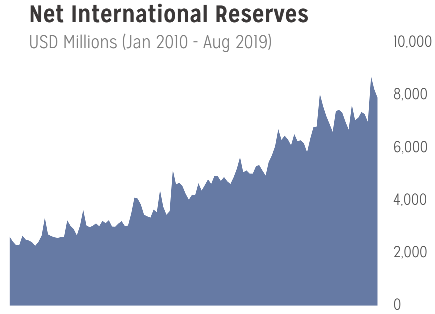
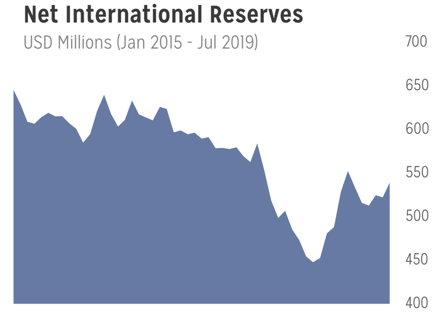
<tr><th></th><th>CUBA</th><th>DOMINICAN REPUBLIC</th><th>GUYANA</th></tr>
<tr><td>UPDATE</td><td>Turbulence persists in the economy. Tourism revenues were flat in H1 2019 y/y, at USD1.23 billion. YTD stay-over arrivals began to contract in July, falling 1.1% y/y. Growth in arrivals from the USA (+20% y/y) and the Cuban diaspora (+6% y/y) somewhat tempered the effects of a 5.4% decline from all other markets combined. Frequent power outages are hurting economic activity as Cuba struggles with inadequate fuel supplies. To address fuel shortages, the government announced it will reduce production of steel and cement and reorganize public transport, though ensuring tourism will not be affected and basic services will be prioritized. Government said they will stabilize fuel supply in October 2019, though unlikely to cover demand. The aging population poses another challenge for Cuba, with an average age of 40.5 and median age of 41.8 - one of the oldest populations in the hemisphere. Cuba's ratio of population over 60 vs under 15 stands at 1.28. This ratio for the Americas will not reach 1 until 2030.</td><td>The Central Bank lowered its policy rate in August for the third consecutive month, now at 4.50%. Inflation remained below the target range for the 9th month in a row in July 2019, at 1.40%. The Economic Activity Index signals 4.7% growth for H1 2019, and the Central Bank maintains it 5.0-5.5% GDP growth forecast for 2019. While some pre-elections uncertainty has been reflected in expectations, expansive monetary policy measures have supported growth in private credit, which grew at a pace of 11% y/y in August 2019. The reduction in required reserves for banks particularly benefitted growth in credit to productive sectors, with DOP17 billion distributed between June and August of the total DOP34 billion. External balances have benefited from USD805 million in FDI for Q1 2019 and remittances at USD4 billion for H1 2019 (+7.5% y/y), offsetting weaker gains in the tourism sector. International reserves have strengthened by 7% y/y to USD7.9 billion - roughly 3.8 months import cover.</td><td>Merchandise imports rose 48% y/y in H1 2019, reaching USD1.366 billion as Guyana prepares for oil production in 2020. Export earnings are already highly concentrated in the extractive sectors. Of USD744 million in export earnings for H1 2019, 55% was gold and 9% bauxite. Inflation remains low at 2.8% in July 2019, with food inflation continuing to be the main source of price increases y/y. The oil discovery confirmed by Tullow Oil in August of over 100 million barrels in the Jethro 1 Well adds to around 6 billion barrels of oil already discovered, creating capacity limitations on growth as Exxon pushes to begin production early next year. From a policy standpoint, Guyana's institutional strength is paramount in determining whether oil windfalls will result in improved social outcomes. The political environment remains tense with an election date still not set after both the Chief Justice and CCJ have ruled to uphold the non-confidence motion passed last December.</td></tr>
<tr><td>TOURISM</td><td>Stay-over:
2019: 2,856,761 (Jul) -1.1% y/y

Cruise pax:
2018: 877,500 +43% y/y (*341,005 from USA)</td><td>Stay-over:
2019: 2,988,155 (May) +4.7% y/y

Cruise pax:
2019: 510,845 (May) +7.1% y/y</td><td>Stay-over:
2018: 286,732 +15.9% y/y

Cruise pax:
n/a</td></tr>
<tr><td>GROWTH</td><td>2.2% (2018 est.)</td><td>7.0% (2018 est.)</td><td>4.1% (2018 est.)</td></tr>
<tr><td>RESERVES</td><td>n/a</td><td>Net International Reserves
USD Millions (Jan 2010 - Aug 2019)


Source: Central Bank of the Dominican Republic, Marla Dukharan</td><td>Net International Reserves
USD Millions (Jan 2015 - Jul 2019)


Source: Bank of Guyana, Marla Dukharan</td></tr>
<tr><td>OUTLOOK</td><td>Low growth (<1.5%) 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.</td><td>The Central Bank maintains a 5.0-5.5% growth forecast for 2019. Growth is expected by the IMF to moderate to 5.0% through 2023.</td><td>Bank of Guyana expects growth of 4.4% for 2019. Growth is expected by the IMF at 4.4% in 2019, and with the impact of oil production, almost 86% in 2020. The IMF forecasts growth will average 14% from 2021-2024.</td></tr>
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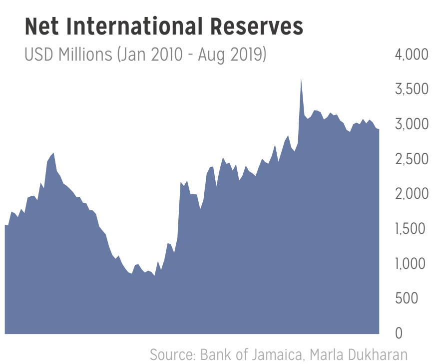
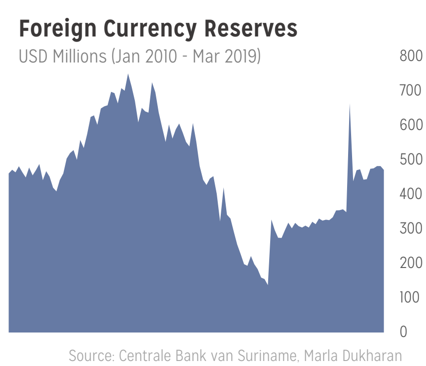
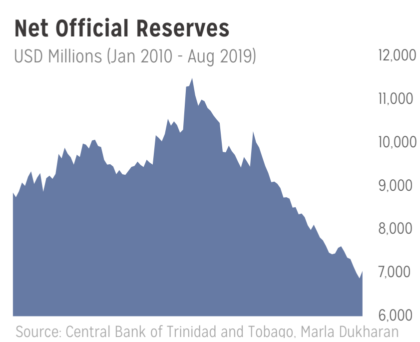
	JAMAICA	SURINAME	TRINIDAD & TOBAGO
UPDATE	The Bank of Jamaica (BOJ) lowered its policy rate in August to 0.50%, as inflation is currently targeted to average 4.3% over the next two years – well within the 4.0-6.0% target. This is expected to stimulate economic activity through private sector credit growth. Credit to businesses and households expanded at a pace of 16.8% y/y in June 2019. The economy continues to grow below its potential, meaning there is room for faster growth without exceeding the inflation target. BOJ expects average quarterly GDP growth at 1.0-2.0% y/y in the near-term, which is slower than the prior projection of 1.5-2.5% y/y. Unemployment will continue to improve with more jobs anticipated in the services and manufacturing sectors. The unemployment rate fell by 2.0 p.p. y/y in April 2019 to 7.8% - a strong signal of progress compared to the high of 16.3% in April 2013. Net International Reserves declined slightly in August to USD2.9 billion, while remaining well in excess of the 12-week precautionary benchmark, at 21.8 weeks of import cover for goods and services.	Debt/GDP is expected to increase to 79% this year, according to Fitch Ratings, as large fiscal deficits continue ahead of the May 2020 elections. The deferral of key fiscal reforms - 2018 VAT implementation, and the reduction of power and water subsidies - signals the fiscal situation will not improve until after the election. In H1 2019, the fiscal deficit increased to 12% of GDP (cash basis), and a parallel exchange rate re-emerged. With a primary fiscal deficit of 8.4% of GDP in 2018, the level of debt is already unsustainable, as government essentially borrowed just to pay the interest on its existing debt. Monetary financing of the government by the Central Bank is ongoing. The parallel exchange rate of SRD8-8.40 : USD1 generates infinite demand for USD at the official exchange rate of SRD7.50 : USD1, putting further pressure on reserves. The Central Bank increased its reserve requirement for USD deposits, and could access a USD swap line with China to stabilize reserves. Fitch expects only 2.2 months import coverage by the end of 2019.	The economy is now 10% smaller than it was in 2008 in nominal terms, according to newly published GDP estimates for 2018 from the CSO. Economic activity in 2019 remains weak - natural gas production for H1 2019 averaged 1% below the H1 2018 level. Average crude oil production in H1 2019 was down 12% y/y. For the same period, the total number of new vehicles sold was down 5.6% y/y and local sales of cement were down 1% y/y. For the first 9 months of the fiscal year, natural gas production averaged 8% below the budget target, only achieving the target in one month, which signals that the government is likely to yet again miss its fiscal deficit target. The Central Bank reported gross public sector debt/GDP at 78.2% in March 2019. Debt continues to increase steadily and unsustainably - up 10 percentage points since March 2015. External accounts continue to deteriorate – as at August 2019, international reserves had dropped to USD7.0 billion, equivalent to 7.9 months of import cover.
TOURISM	Stay-over: 2019: 1,661,145 (Jul) +9.9% y/y Cruise pax: 2019: 979,648 (Jul) -13.6% y/y	n/a	Stay-over: 2018: 375,485 -4.9% y/y Cruise pax: 2018: 124,954 +80% y/y (CTO)
GROWTH	1.8% (IMF 2018 est.)	2.0% (IMF 2018 est.)	1.9% (CSO 2018 est.)
RESERVES	 Source: Bank of Jamaica, Marla Dukharan	 Source: Centrale Bank van Suriname, Marla Dukharan	 Source: Central Bank of Trinidad and Tobago, Marla Dukharan
OUTLOOK	The IMF expects growth at 1.7% in 2019, 1.9% in 2020, averaging 2.3% for 2021-2024.	IMF forecasts growth at 2.2% in 2019, 2.5% in 2020 and 2.1% in 2021, rising to 3% by 2023.	The IMF projects growth at 0.01% for 2019 (revised downward in April 2019 from the prior forecast of 0.9%) then averaging 1.8% through 2023. We maintain our projection of average growth of 1% in 2019-2020.