TOGETHER FOR PROSPERITY IN THE OECS

GROWTH, DEVELOPMENT, AND ADVERSITY IN SMALL ISLAND DEVELOPING STATES

CAMILO GOMEZ OSORIO, KIMBERLY WAITHE, AND SHAMAR BLENMAN

TOGETHER FOR PROSPERITY IN THE OECS

GROWTH, DEVELOPMENT, AND ADVERSITY IN SMALL ISLAND DEVELOPING STATES

Camilo Gomez Osorio
Kimberly Waithe
Shamar Blenman

IDB

Cataloging-in-Publication data provided by the
Inter-American Development Bank
Felipe Herrera Library

Gomez Osorio, Camilo.
Together for prosperity in the OECS: growth, development, and adversity in Small Island Development States / Camilo Gomez Osorio, Kimberly Waithe and Shamar Blenman.

p. cm. — (IDB Monograph ; 541)
Includes bibliographic references.

1. Monetary unions-Caribbean Area. 2. Fiscal policy-Caribbean Area. 3. Economic stabilization-Caribbean Area. 4. Caribbean Area-Social aspects. I. Waithe, Kimberly. II. Blenman, Shamar. III. Inter-American Development Bank. Country Department Caribbean Group. IV. Title. V. Series.
IDB-MG-541

JEL Codes: O110, O540, E620, F450, H630, I150, I250, O160, L110, Y10
Keywords: OECS, Eastern Caribbean, currency union, fiscal sustainability, macroeconomic stability, public debt sustainability, health and human capital, small island developing states (SIDS), private sector, social outcomes, living beyond means

Inter-American Development Bank
1300 New York Avenue, NW
Washington, DC 20577

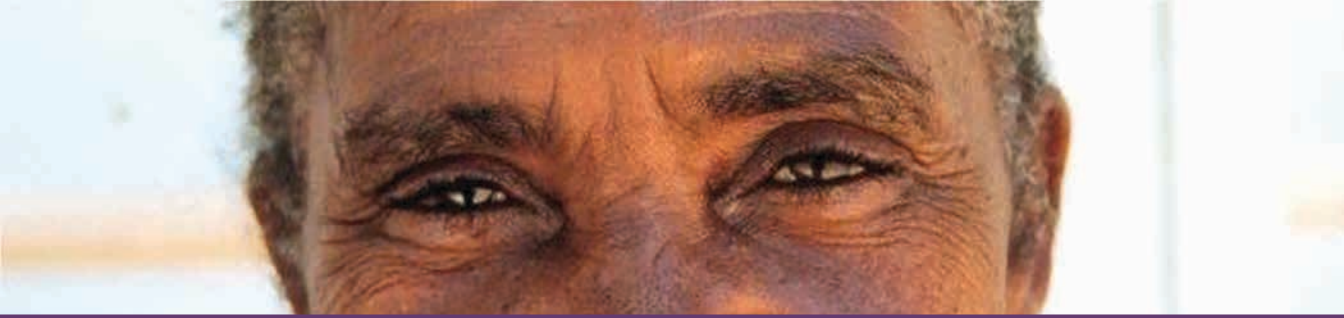


Table of Contents

Acknowledgements v
Foreword vii
Executive Summary ix

Part I: A Currency Union that Made Progress on Economic and Social Outcomes in a Challenging External and Domestic Environment. 1

Chapter 1: The OECS Macroeconomic Environment 3
Chapter 2: The Eastern Caribbean Countries Lived Beyond Their Means 39
Chapter 3: Investment for the Future: Health and Human Capital 73
Chapter 4: Towards a Vibrant Private Sector in the OECS. 91

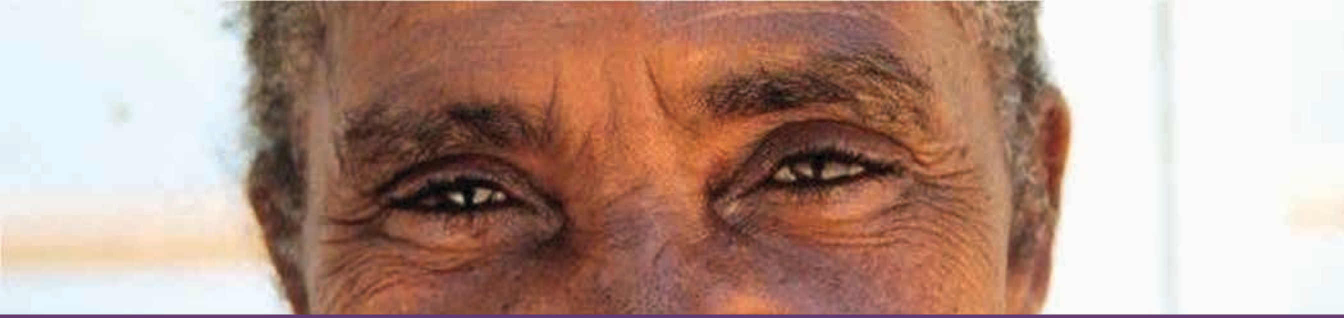
Part II: Eastern Caribbean Country Profiles. 107

Antigua and Barbuda. 108
Dominica 113
Grenada 118
St. Kitts and Nevis. 123
St. Lucia 128
St. Vincent and the Grenadines. 132

Annex: Selected Economic Indicators 137

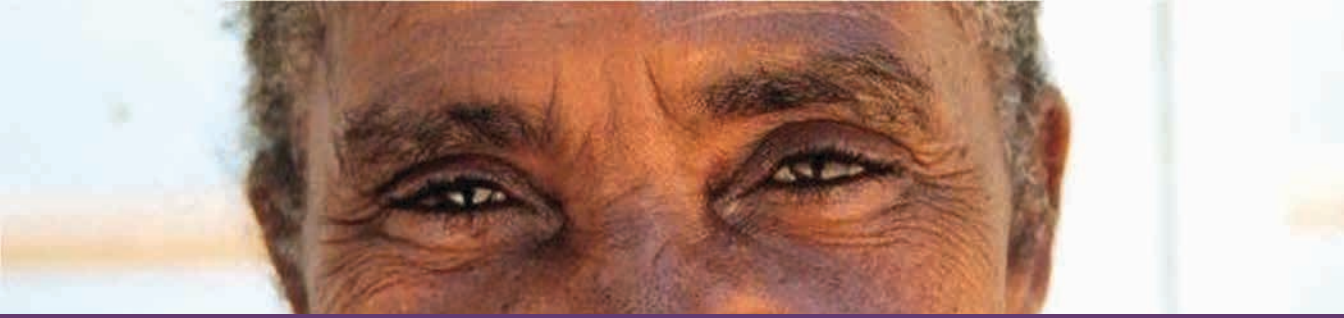
Antigua and Barbuda: Selected Economic Indicators 138
Dominica: Selected Economic Indicators 139
Grenada: Selected Economic Indicators 140
St. Kitts and Nevis: Selected Economic Indicators 141
St. Lucia: Selected Economic Indicators 142
St. Vincent and the Grenadines: Selected Economic Indicators 143

References 145



Acknowledgements

This report was prepared by a core team led by Camilo Gómez Osorio and comprised of Kimberly Waithe and Shamar Blenman under the leadership of Inder Ruprah. A larger group contributed valuable inputs and background papers to the report. The team expresses its gratitude to Andrew Ceber for his inputs to Chapter 2 and Alejandro Carrion Menéndez for his work on Chapter 4. Sasha Baxter and Dana Payne coordinated the production of the report and David Einhorn provided editorial services. The study benefitted from a wealth of knowledge produced by Compete Caribbean under the leadership of Sylvia Dohnert de Lascurain. Compete Caribbean financed the two enterprise surveys that are the basis of the analysis in Chapter 4. The authors thank the IDB Caribbean Country Department and Therese Turner-Jones, the Caribbean Economics Team and Moises Schwartz, and the Barbados Country Office and Juan Carlos De La Hoz Viñas for their valuable support.



Foreword

The Caribbean has been working to achieve regional integration for decades. Could the Organisation of Eastern Caribbean States (OECS) represent a microcosm of how it can be done? In establishing the OECS as an economic union in June 1981, members jointly confronted the challenge of being small island developing states. By operating as a currency union while sharing an institutional framework with a common monetary policy and coordinated fiscal policy, the OECS helped its member countries achieve development outcomes above peers at their income level as well as per capita GDP growth three times higher than the Latin American average over 1980–2016.[1] This remarkable achievement was based on an economic model that embraced economic openness and generated economies of scale, but had to cope with the challenge of being dominated by one highly volatile sector – tourism. Today, four OECS member states are classified as upper-middle-income countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) and two are classified as high-income countries (Antigua and Barbuda and St. Kitts and Nevis).

Together for Prosperity maps external developments and domestic policies that shaped outcomes over the past decade in the Eastern Caribbean. By focusing on the aftermath of the 2009 global financial crisis, the analysis goes beyond an overview of macroeconomic developments. It provides a comprehensive development perspective and explores opportunities and challenges for the health and education sectors and for private sector development.

Under the common institutional framework of the OECS, the six independent small island developing states pooled resources, effectively managed risk, and achieved greater outcomes than by going it alone. Their cooperation in the face of adversity in a challenging external environment contributed to growth and development and reduced the transaction costs of doing business within the union. The successes of the

[1] World Bank, World Development Indicators based on GDP per capita at purchasing power parity (in constant 2000 international dollars).

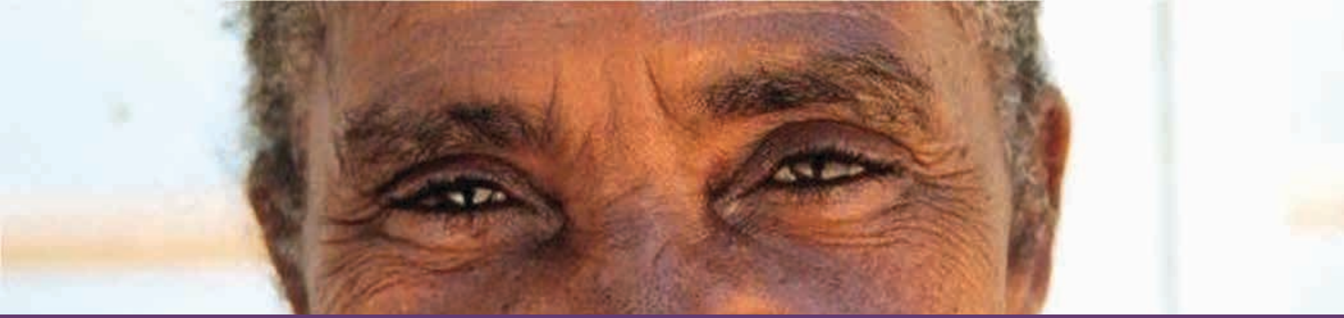
OECS and its resilience to adversity show the powerful impact that institutions have on economic development.

These achievements notwithstanding, growth in the OECS has been highly volatile over the past decade, which is testament to the vulnerability of small Caribbean islands to external shocks. The fiscal position of member countries deteriorated after the 2009 global downturn due to a combination of external and domestic factors. However, through gradual consolidation efforts countries could return to long-term fiscal sustainability. The ECCB target of reducing public debt to 60 percent of GDP by 2030 is within reach.

Over the past decade, the OECS achieved successes in social outcomes through significant public investment. Countries overcame most health challenges typical of lower-middle-income countries and made notable progress on education outcomes at the primary and secondary levels. At the same time, the OECS maintains an open, regulated, and investment-friendly environment for doing business, despite mixed private sector performance and declining productivity.

This report is part of a wider effort by the IDB Caribbean Country Department to contribute to the region's economic literature and generate policy debate. Perhaps one of the most valuable contributions of this work is the wealth of data presented both at the macro and micro level for cross-country analysis and benchmarking for a group of countries that tends to be under-represented in worldwide economic databases. Promoting evidence-based policymaking is at the heart of IDB's mission to improve the lives of people in the Caribbean.

Therese Turner-Jones, General Manager
Caribbean Country Department
Inter-American Development Bank



Executive Summary

Over 1980–2016, the member countries of the Organization of Eastern Caribbean States (OECS) achieved GDP per capita growth three times higher than the Latin American average and development outcomes above peers at their income level. This is a remarkable achievement for an economic model that embraced openness, aimed for economies of scale through integration, and was dominated by one highly volatile sector – tourism services.

Together for Prosperity is a comprehensive macro-fiscal and social overview of how OECS member countries faced challenges and achieved greater welfare over the past decade. The currency union was established in 1981 as a single financial and economic space with harmonized monetary policy and coordinated fiscal policy. Its independent member states include four upper-middle-income countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) and two high-income countries (Antigua and Barbuda and St. Kitts and Nevis).[1] The Eastern Caribbean Central Bank (ECCB) based in St. Kitts and Nevis oversees monetary policy and countries share the Eastern Caribbean (EC) dollar, which is pegged to the U.S. dollar at EC$2.70 = US$1.

Growth in the OECS has been highly volatile, which is testament to the vulnerability of small island developing states to external shocks.

The OECS economies have undergone a structural transition, moving towards greater contributions to growth from tourism and financial services, and away from agriculture and manufacturing. Today, tourism is the engine of growth and the driver of employment, and it hauls the non-tradable sectors such as construction, transport, and wholesale and retail businesses. Some islands have been more successful in diversifying their economies

[1] This report focuses on the six independent countries in the OECS: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. OECS members Anguilla and Montserrat are overseas territories of the United Kingdom. The British Virgin Islands and Martinique (France) are associate OECS members, but do not use the Eastern Caribbean dollar.

and managing volatility. Grenada is an interesting case where strong education services developed to represent about 19 percent of GDP. In Chapter 1 and in the Part II Country Profiles, the report analyses the drivers of growth and the IDB's outlook per country.

The small and open economies of the OECS experienced moderate growth over the past decade. After the global downturn in 2009, growth declined from an average of 4.3 percent over 2004–2008 to 0.8 percent over 2010–2015. The decline was the result of a combination of external shocks and domestic developments. Externally, the OECS countries' main trading partners underwent a recession that affected tourism demand and made international fuel and commodity prices volatile. Frequent natural disasters took a toll on economic activity and brought reconstruction costs in countries with limited fiscal space. During 1995–2014, extreme weather events in the OECS were associated with annual losses that averaged 4.2 percent of GDP. Domestically, loose fiscal policy contributed to the rapid accumulation of public debt. The tradable sectors, tourism, and to a lesser extent the agriculture sector lost competitiveness over time and remained stagnant. However, since 2014, the Caribbean has benefitted from an uptick in visitor arrivals and a gradual recovery in tourism.

Over the past decade, the ECCB conducted monetary policy conducive to growth by maintaining price and exchange rate stability.

Over the last five years, inflation in the OECS was contained at around 1 percent. The fixed exchange rate meant prices moved with those in the United States, the region's main trading partner, which brought price stability. Inflation moderated with lower international fuel and commodity prices and weak domestic demand.

Large external balances and weak export growth pressured reserves in the OECS towards minimum levels of import coverage. From 2010 to 2016, annual current account deficits averaged 16.3 percent of GDP that were mostly financed through foreign direct investment. The under-performance of the tourism sector and the heavy reliance on imports contributed to this wider trade balance. Since 2009, exports of goods and services have been stagnant, burdened by constraints on the supply side, high production costs, low economies of scale, and low value added (see Chapter 1 on the balance of payments and Chapter 4 on private sector performance).

After the 2009 global downturn, the OECS financial system was challenged when local commercial banks were highly exposed to non-performing loans. This was exacerbated by the collapse of large insurance companies, such as CLICO and BAICO in Antigua and Barbuda, which undermined consumer confidence. These developments translated into contingent liabilities after governments stepped in with bailouts to protect investors and prevent a negative contagion effect. Since then, ECCB efforts have focused on strengthening regulation and oversight (see Chapter 1 on financial sector indicators).

A combination of external and domestic developments contributed to the deterioration of public finances in the OECS.

Loose fiscal policy translated into sustained primary deficits. The classification as upper-middle and high-income countries limited financing options for the OECS countries and contributed to riskier public debt portfolios at rising interest rates and shorter maturities. Today, public debt in the OECS sits uncomfortably high at an average 80 percent of GDP (see Chapter 2 on public finances and debt sustainability).

The OECS countries are in a race between development goals and financial means. Current revenue collection levels are insufficient to cover development needs and build buffers for protection against natural events. The average tax revenue collection ratio in the OECS, at 21.5 percent of GDP in 2015, is below the average of other upper-income and high-middle-income countries. There is potential to increase revenue collection. On the tax policy side, measures to broaden the tax base by limiting tax incentives, reducing exemptions, reviewing income and property tax rates, and applying excise taxes to all traditional goods would contribute to growth in tax collection. Improving tax administration by combatting evasion and strengthening tax compliance and audit procedures would yield higher revenues.

OECS countries boosted non-tax revenues by selling citizenship for investment. Inflows had a real sector impact, especially on construction and real estate, and increased tourism room capacity, particularly in St. Kitts and Nevis and Antigua and Barbuda. However, this volatile revenue stream comes with downside risks for external and financial stability (see Chapter 2).

OECS countries borrowed to make ends meet and mostly for current expenditures. Total public spending in the union averaged over 30 percent of GDP from 2004–2012, and affordability was the issue. Wages and salaries averaged 10 percent of GDP annually during 2004–2015, which sets the OECS amongst a group of countries with the highest wage bills in the world. Transfers and subsidies were the second public spending priority, increasing from 3.7 percent of GDP in 2004 to 5.8 percent of GDP by 2015. The state-owned enterprises that delivered these benefits received transfers to cover losses arising from a combination of high operating expenses and tariffs below cost-recovery. Capital expenditures widened the fiscal position in a few countries and, while some were growth-positive, affordability was an issue.

OECS countries would be on track to meet the ECCB target of reducing public debt to 60 percent of GDP by 2030 with gradual fiscal consolidation efforts.

The findings from an IDB debt sustainability simulation suggest that fiscal sustainability could be within reach for all OECS countries subject to consolidation efforts. With fiscal policy on its current trajectory, four countries would fall short of the ECCB's target. Public debt in Dominica and St. Lucia would continue on an unsustainable trajectory in the absence of policy reforms. In St. Vincent and the Grenadines, debt would stabilize at over 71 percent of GDP, and in Antigua and Barbuda debt would remain at 100 percent of GDP until 2030. Only St. Kitts and Nevis and Grenada would enjoy a declining public debt trend in the absence of policy changes, as both countries are reaping the benefits of earlier fiscal reforms. Chapter 2 estimates the fiscal adjustment and average primary balance required per country to reach the ECCB target.

Over the past decade, the OECS countries achieved successes in social outcomes through sustained public investment.

The OECS countries have overcome most health challenges typical of lower-middle-income countries. Remarkable progress in maternal and child health is evident from fertility and mortality rates that are lower than those of peers at their income level and Latin American countries. In 2015, infant mortality stood at 12.3 per 1,000 live births, life expectancy at birth stood at 74 years, and fertility rates were around 2 percent (see Chapter 3 on health and human capital).

The OECS countries are undergoing a rapid demographic transition. With the decline in fertility and mortality rates, and longer life expectancy, the population is aging. The prevalence of non-communicable diseases (NCDs) has been increasing over time and chronic NCDs (cerebrovascular diseases, cancer, and diabetes) have become the leading causes of death. The public health care system will require investment over the medium term to cope with an expected growth in demand for care.

The post-2009 years were challenging in terms of limited fiscal space, but health remained a priority in national budgets. Public expenditure on health increased up to 2008 and was stable at 3.5 percent of GDP thereafter. However, about 40 percent of total health expenditure is financed through out-of-pocket payments, which tend to be regressive and make households vulnerable to catastrophic financial losses from an illness episode.

The OECS made significant progress on education outcomes at the primary and secondary levels. The education budget was protected over time and public expenditure on education averaged 4.2 percent of GDP during 2005–2014. With free access to compulsory primary and secondary education, gross enrolment rates were around 100 percent in 2014. However, literacy and numeracy remain significant challenges, and a large percentage of secondary school students are graduating without the minimum qualifications to move to the tertiary level. As students move to the upper secondary and tertiary levels, males drop out at a faster rate and females tend to have higher completion rates. OECS citizens who are 25 years of age and older have 8.4 years of formal education, which is below average by international standards and lower than the 11 years in developed countries. Students also have lower educational attainment even though pupil-teacher ratios are particularly low. Strengthening the quality of the education system is key to addressing low transition and high repetition rates.

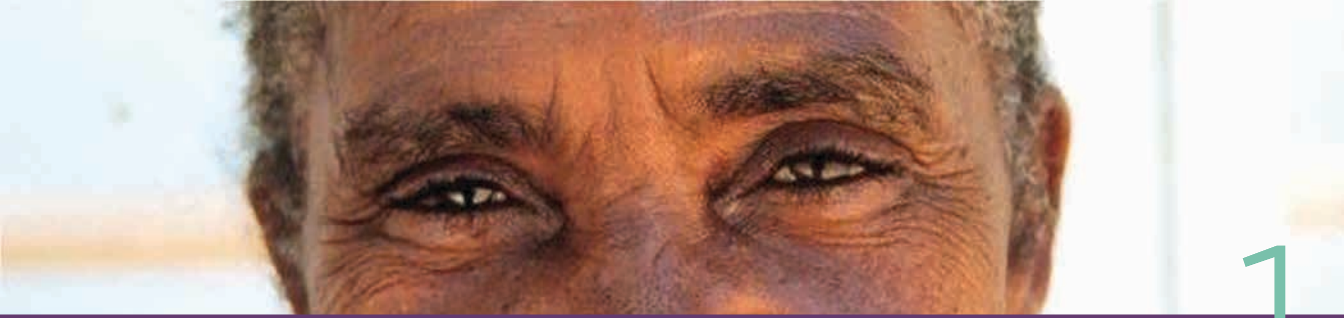
Despite mixed private sector performance and declining productivity, the OECS maintains an open, regulated, and investment-friendly environment for doing business.

The Eastern Caribbean private sector is mostly comprised of small and medium-sized enterprises concentrated in tourism and the retail sector. Constraints on the supply side have kept OECS firms smaller, older, and locally owned. Businesses tend not to export. Firms are underperforming in terms of sales and employment generation. These are the findings from the World Bank's 2010 Latin American and Caribbean Enterprise Survey (LACES) and Compete Caribbean's 2014 Productivity, Technology, and Innovation (PROTEqIN) Survey (see Chapter 4 on private sector development).

The typical OECS firm promotes little innovation. In an environment of limited investment in research and development, exposure to innovation occurs through trade. The fact that most OECS firms supply only the domestic market has constrained productivity growth. Total factor productivity in the OECS fell from 3.9 percent during 1971–1980 to 0.6 percent during 2001–2007, while labour productivity averaged 0.6 percent for the period from 1971–2007. Three main factors contribute to limited productivity growth and the lower use of capital per unit of labour: (1) lack of innovation; (2) restricted access to finance; and (3) difficulties in hiring an educated and trained work force.

Part I

A Currency Union that Made Progress on Economic and Social Outcomes in a Challenging External and Domestic Environment



1 The OECS Macroeconomic Environment

The small and open economies of the Organisation of Eastern Caribbean States (OECS) experienced moderate and highly volatile growth over the past decade.[1] This volatility is testament to their vulnerability to external shocks. Economic developments of their main trading partners hit home with greater force, and natural events took a heavy toll on GDP. External imbalances under a fixed exchange rate regime made macro-management challenging and pressured reserves toward minimum levels of import coverage. The currency union successfully anchored inflation, benefitted from economies of scale, conducted monetary policy in a way conducive to price and exchange rate stability, and learned from financial vulnerabilities to strengthen the sector's regulatory framework and oversight.

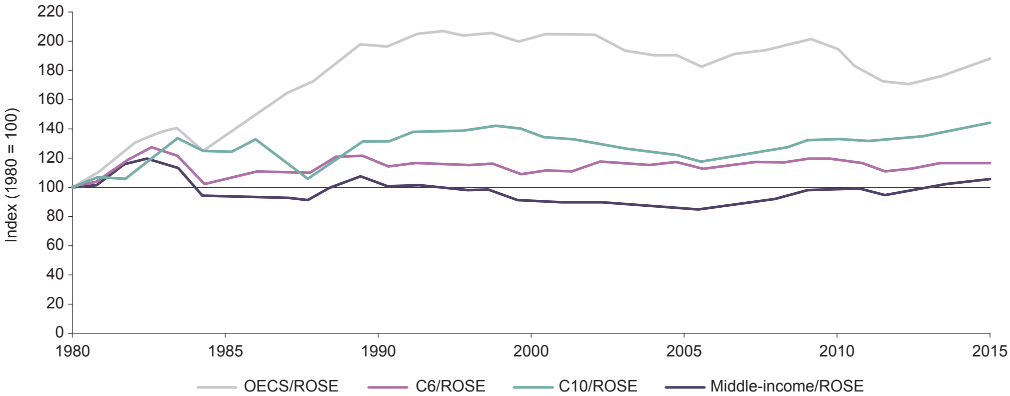
The OECS economies have achieved higher levels of human development than their continental Latin American peers. The combined GDP of the union stood at around US$5.8 billion in 2015, while representing a relatively small population that ranges from approximately 55,600 in St. Kitts and Nevis to 185,000 in St. Lucia. With per capita GDP between US$6,706 and US$16,459 (2015), four member states are classified as upper-middle-income countries (Dominica, Grenada, St. Lucia, St. Vincent and the Grenadines), while Antigua and Barbuda and St. Kitts and Nevis are classified as high-income.

1.1. Growth Moderated and Was Highly Volatile Over the Past Five Years

During the past decade, per capita income growth in the OECS on average performed better than other small economies. While the pace of growth slowed after the 1990s,

[1] This report focuses on the six independent countries in the OECS: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The other members are Anguilla and Montserrat, which are overseas territories of the United Kingdom. The British Virgin Islands and Martinique are associate members but do not use the Eastern Caribbean dollar.

Figure 1.1: Per Capita Income Gap, 1980–2015 (Index: 1980 = 100)



Source: IMF, *World Economic Outlook*, October 2016.
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; OECS = Organisation of Eastern Caribbean States; Middle-income= Upper middle-income countries with GNI per capita between US$4,036 and US$12,475; ROSE = rest of the small economies of the world.

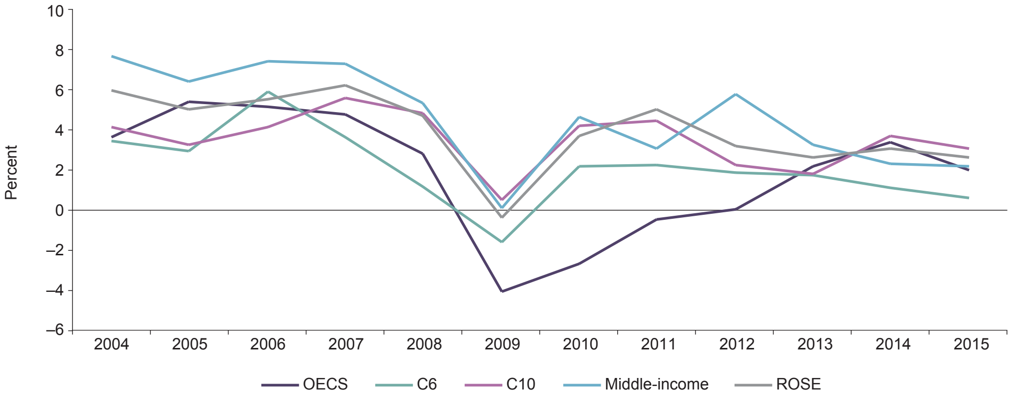
and declined further with the 2009 economic downturn, the union saw higher per capita income growth than the wider Caribbean region at 2.6 percent annually during 2011–2015 (Figure 1.1). This suggests a gradual yet continuous relative improvement in the standard of living in the OECS that is above that of countries at their income bracket and in neighbouring countries.

Growth in the OECS moderated after 2009. The decline, from an average of 4.3 percent during 2004–2008 to 0.7 percent over 2010–2015, was driven by a combination of external and domestic factors (Figure 1.2). Externally, the region's main trading partners underwent a recession that affected tourism demand and made international fuel and commodity prices volatile. Frequent natural disasters took a toll on output. Internally, the policy response to shocks contributed to rapid accumulation of public debt, while tourism, which is the main driver of growth, and to a lesser extent agriculture, lost competitiveness over time and saw stagnant growth. (See Chapter 2 for a discussion on public debt and Chapter 4 on productivity and private sector competitiveness.)

There has been great heterogeneity in terms of growth across the union. On the one hand, the recovery after the 2009 crisis was led by St. Kitts and Nevis, which recorded robust growth rates of 6.1 percent and 5 percent in 2014 and 2015, respectively (Table 1.1). Structural reforms under an IMF programme and inflows from its Citizenship by Investment (CBI) Programme[2] boosted construction activity, while the country enjoyed strong tourism performance (see Chapter 2 for a discussion on its structural reforms). Similarly,

[2] Through the CBI programme in St. Kitts and Nevis, investors can contribute US$250,000 to the Sugar Industry Development Fund (SIDF), or invest over US$400,000 in real estate. The SIDF provides funding to

Figure 1.2: Real GDP Growth, 2004–2015 (percent)



Sources: Eastern Caribbean Central Bank; and IMF, *World Economic Outlook*, October 2016.
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago ; C10 = Cabo Verde,Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; Middle-income = Upper middle-income countries with GNI per capita between US$4,036 and US$12,475; OECS = Organisation of Eastern Caribbean States; ROSE = rest of the small economies of the world.

TABLE 1.1: Gross Domestic Product in Constant Prices, 2004–2016 (percent)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (p)
Antigua and Barbuda	3.2	7.2	12.7	7.1	1.5	−10.7	−8.5	−1.9	3.6	1.5	4.2	2.2	2.0
Dominica	3.1	0.7	4.7	6.4	7.1	−1.2	0.7	−0.2	−1.3	0.6	3.9	-3.9	1.3
Grenada	−0.6	13.3	−4.0	6.1	0.9	−6.6	−0.5	0.8	−1.2	2.4	5.7	4.6	3.0
St. Kitts and Nevis	3.9	8.7	4.6	4.8	3.4	−3.8	−3.8	−1.9	−0.9	6.2	6.1	5.0	3.5
St. Lucia	7.7	−0.5	6.8	1.0	4.2	−0.4	−1.7	0.2	−1.4	0.1	0.4	2.4	1.5
St. Vincent and the Grenadines	4.6	3.0	6.0	3.1	−0.5	−2.0	−2.3	0.2	1.3	2.3	−0.2	1.6	2.2

Source: IMF, *World Economic Outlook*, October 2016. For Grenada, Dominica, St. Kitts and Nevis, and St. Vincent and the Grenadines, the source is IMF Article IV Staff Reports 2016.
Note: (p) = provisional.

Grenada grew by 5.7 percent in 2014 and 4.6 percent in 2015 on account of dynamic construction and agriculture sectors that resulted from greater private investment, increased flights, and tourism promotion. Antigua and Barbuda witnessed modest growth at 2.2 percent in 2015 led by a gradual recovery in tourism and construction.[3] In contrast,

economic and social programmes, including grants to the tourism, agriculture, and education sectors, mortgage lending, and small business loans, as well as social initiatives.

3 In 2014–2015, Antigua and Barbuda saw significant public investment in infrastructure, including roads and a new airport. Private residential construction was dynamic and there was a gradual recovery in tourism.

TABLE 1.2: Volatility of GDP Growth, 1990–2015

Country Groups	Average Standard Deviation
OECS	2.4
Antigua and Barbuda	5.0
Dominica	2.8
Grenada	4.6
St. Kitts and Nevis	3.6
St. Lucia	3.2
St. Vincent and the Grenadines	2.8
C6	1.8
C10	1.5
Middle-income	2.0
ROSE	1.7

Source: IMF, *World Economic Outlook*, October 2016.
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; OECS = Organisation of Eastern Caribbean States; Middle-income= Upper middle-income countries with GNI per capita between US$4,036 and US$12,475; ROSE = rest of the small economies of the world.

growth in St. Lucia, St. Vincent and the Grenadines, and Dominica was challenged by a series of natural disasters, including flooding, landslides, and Tropical Storm Erika (Dominica 2015), that affected agriculture.

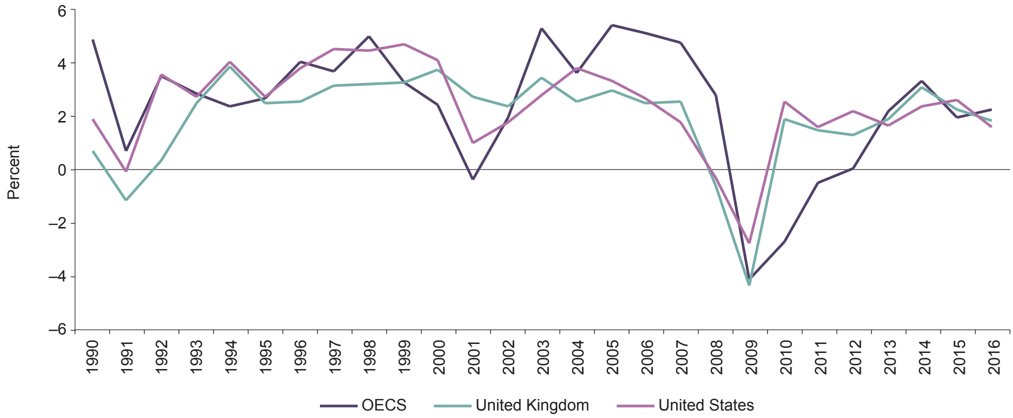
The high volatility of economic growth is evidence of the union's exposure to external shocks. During 1990–2016, OECS growth was more volatile than among its Caribbean neighbours and the rest of the small economies of the world (ROSE), at 2.4 standard deviations compared to the 1.8 average in the C6 and 1.7 across ROSE (Table 1.2).[4] Growth in Antigua and Barbuda and Grenada was most volatile at around 5 and 4.6 standard deviations, respectively; these figures more than double the average for the region. The openness of the OECS economies and their heavy reliance on imports of food, oil, and inputs for production particularly expose them to negative shocks. Thus, output moves closely with that of their main trading partners, namely the United States and United Kingdom (Figure 1.3). External developments hit home with even greater force and disrupt tourism arrivals, foreign direct investment (FDI), and remittances.

The OECS has transitioned from greater reliance on non-tradable sectors towards larger contributions to growth from tradables, namely tourism (Figure 1.4). Prior to the 2009 crisis, these economies were looking inward for growth because the tourism sector remained stagnant. The non-tradable sectors—construction, wholesale and retail, real estate, communications, and financial services—were driving output. At the same time, the economies shifted from agriculture and manufacturing towards tourism and services. After the 2009 crisis, recovery was driven by tourism. This structural transition was positive and came with greater foreign exchange earnings that contributed to balance the economies' heavily reliance on imports.

Private investment included a US$300 million resort in Pearns Point, US$200 million in the Sunny Hill Willoughby Bay Resort, and US$250 million to restore the K Club Resort in Barbuda.

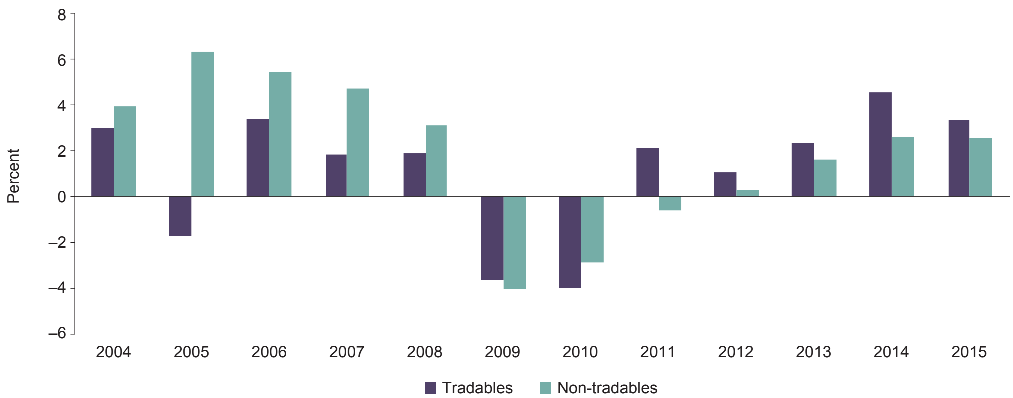
[4] The C6 are The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

Figure 1.3: Growth in the OECS, United Kingdom, and United States, 1990–2016 (percent)



Sources: Eastern Caribbean Central Bank; and IMF, *World Economic Outlook*, October 2016.
Note: OECS = Organisation of Eastern Caribbean States

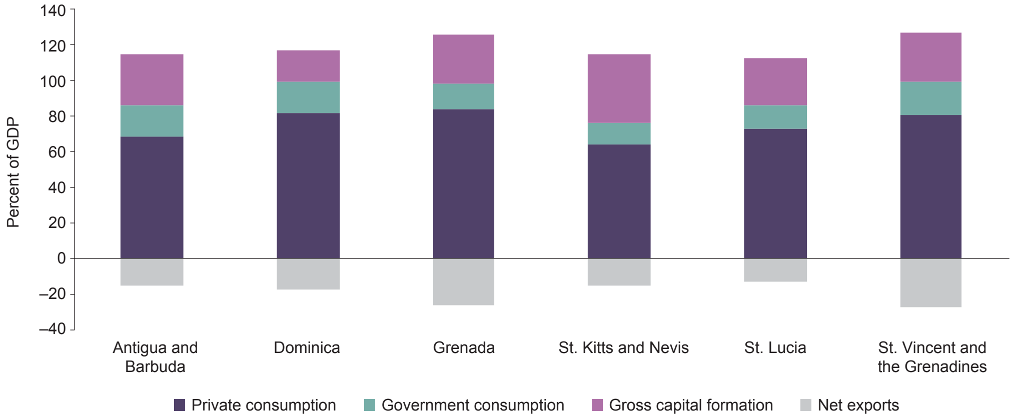
Figure 1.4: Tradables and Non-tradables in OECS Countries, 2004–2015 (percent)



Sources: Eastern Caribbean Central Bank; and IDB calculations.
Note: OECS = Organisation of Eastern Caribbean States.

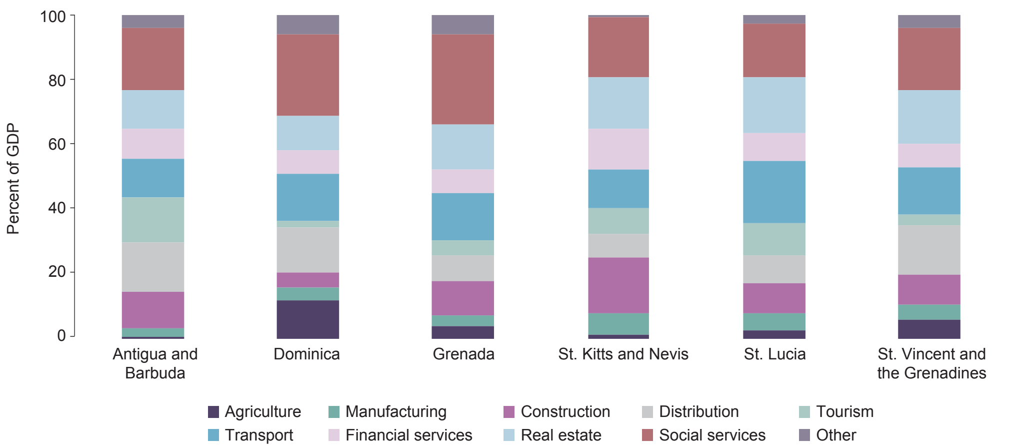
Output was mainly driven by private consumption on the expenditure side. Private consumption accounts for three-quarters of GDP, followed by an important contribution from the public sector at an average 15.5 percent of GDP during 2004–2015 (Figure 1.5). The fact that its contribution increased over time is reflective of the policy response to the years after the 2009 downturn. When the private sector under-performed after the global downturn, governments compensated with higher public spending to generate stimulus (see Chapter 2 on fiscal policy). The move towards loose fiscal policy at times of high public debt contributed to its rapid accumulation. Investment (gross capital formation) accounts for approximately 27.7 percent of output, while exports and imports of goods and services represent approximately 37 percent and 55.6 percent of GDP, respectively. However, the impact of net exports is negative across the union, averaging around 18.7 percent of GDP.

Figure 1.5: GDP by Expenditure 2004–2015 (percent of GDP)



Sources: Eastern Caribbean Central Bank; and IDB calculations.

Figure 1.6: Sector Contributions to Growth, 2004–2015 (percent of GDP)

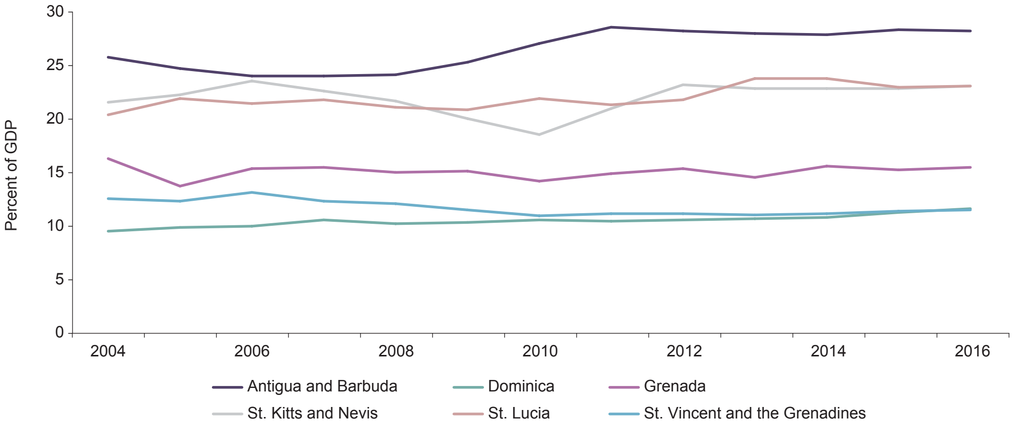


Sources: Eastern Caribbean Central Bank; and IDB calculations.

1.2. Tourism Is the Engine of Growth and the Driver of Employment

Over the past decade, the OECS economies saw a structural transition, moving towards greater contributions to growth from tourism and financial services, and

Figure 1.7: Tourism and Financial Services, 2004–2016 (percent of GDP)



Sources: Eastern Caribbean Central Bank; and IDB calculations.

away from agriculture and manufacturing. In the 1980s, agricultural production was a significant driver of output in the Eastern Caribbean,[5] but with the dismantling of trade preferences with the European Union, the islands underwent this structural shift (Figure 1.6). In Antigua and Barbuda and St. Kitts and Nevis, the transition from agriculture to services was earlier and faster, and by 2016 tourism and financial services accounted for 28.3 percent and 23 percent of GDP, respectively (Figure 1.7). Significant large-scale private and public investment in tourism infrastructure (new airports and hotels) enabled the transition, which was funded through concessional financing and FDI. The islands offered generous tax incentives to attract FDI. This evolution was slower in Dominica, which continues today to have a prominent agriculture sector. In 2015, agriculture contributed around 11.8 percent of GDP in Dominica (Box 1.1).

The tourism sector is the main driver of growth and employment within the region (Table 1.3). Its contribution to GDP in 2015, both direct and indirect, ranged from 23 percent in St. Vincent and the Grenadines to 57 percent in Antigua and Barbuda. However, its impact on output and employment is likely to be larger given the difficulties in quantifying the indirect effect on the non-tradable sectors, like construction, transport, and wholesale and retail businesses. Tourism employs over half the labour force in Antigua and Barbuda, 46 percent in St. Lucia, 36 percent in Dominica, and about a quarter across the other Eastern Caribbean islands.

With its heavy reliance on tourism, the Eastern Caribbean became economically dependent on a few source markets. As a result of the 2009 economic downturn,

---

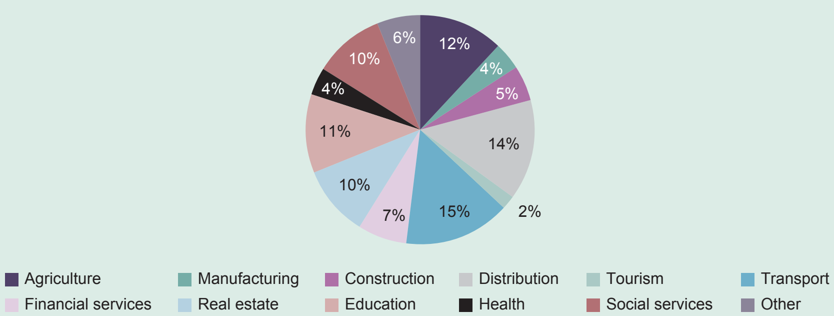
5 The report refers to the OECS and "Eastern Caribbean" synonymously.

Box 1.1. The Agriculture Sector in Dominica

Agriculture plays an important economic role in the Commonwealth of Dominica. During 2004–2015, the sector contributed around 12 percent of GDP and directly or indirectly employed over one-third of the labour force. Agricultural growth was highly volatile and subject to weather conditions and lower international commodity prices. After the Caribbean lost preferential access to the European markets in the mid-1980s, several countries diversified their economies and moved towards tourism services. However, Dominica's agricultural transition was slower partly due to its rainforest topography. A thriving offshore medical education sector developed that grew to account for 11.3 percent of GDP during 2004–2015 (Box Figure 1.1.1).[a]

Bananas have been Dominica's main export, but production has been declining as a result of the black sigatoka leaf spot disease and adverse natural events. Crop production dropped by 1 percent at the end of 2014, and further declined by 5.5 percent at the end of 2015 as a result of the island being hit by Tropical Storm Erika in August of that year. The country is combating the plague by substituting production with disease-resistant banana crops and is promoting diversification into other commodities, such as citrus fruits, vegetables, coffee, patchouli, aloe vera, cut flowers, mangoes, guavas, and papayas.

Box Figure 1.1.1: Dominica: GDP by Sector, 2004–2015 (in constant prices; percent of GDP)



Source: Eastern Caribbean Central Bank.
[a] Dominica's education sector grew with the establishment of the offshore medical institution, the Ross University School of Medicine, which opened in 1979.

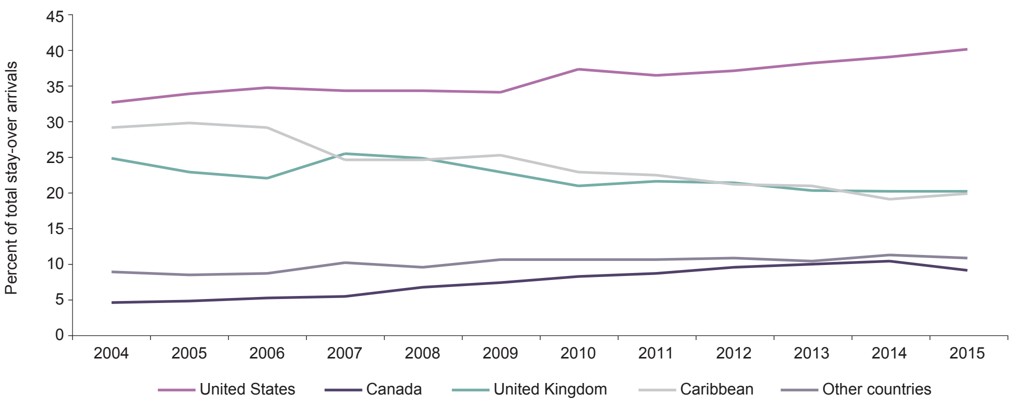
stay-over arrivals from the United States declined annually by 12 percent and from the United Kingdom by 18 percent (Figure 1.8). From 2004 to 2015, the composition of arrivals changed to favouring visitors from the United States, a market that increased its share from 30 to 40 percent by 2016. Canada also became an important player with 9 percent of market share, and the United Kingdom accounted for 20 percent of visitors. The market share of other Caribbean countries decreased from 30 to 20 percent (Figure 1.8).

TABLE 1.3: Contribution of Tourism to GDP and Employment, 2015 (percent)

	Contribution to GDP		Contribution to Employment	
	Direct	Total	Direct	Total
Antigua and Barbuda	15.1	57.1	15.6	51.6
Dominica	12.9	39.0	11.7	35.6
Grenada	7.5	25.5	6.9	23.3
St. Kitts and Nevis	7.0	28.1	6.9	26.7
St. Lucia	14.5	41.5	21.5	46.3
St. Vincent and the Grenadines	6.6	23.2	6.1	21.3

Source: World Travel and Tourism Council (2016).

Figure 1.8: Tourist Arrivals, 2004–2015 (percent of total stay-over arrivals)

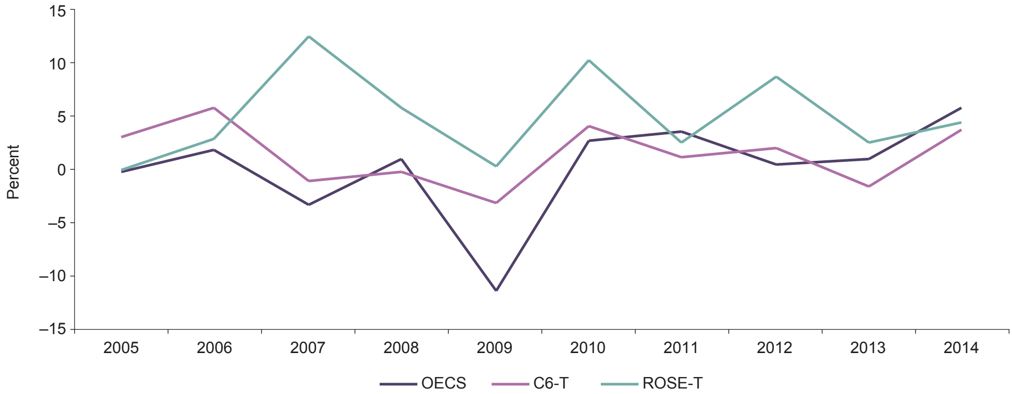


Sources: Eastern Caribbean Central Bank; and World Bank, World Development Indicators.

1.3. A Gradual Tourism Recovery after 2014

Over the past five years, tourist arrivals have grown modestly by 1.7 percent annually in the OECS countries (Figure 1.9). Since 2014, the sector has seen a gradual recovery and in 2015 growth in arrivals reached 11 percent, which was amongst the highest in the Caribbean. Comparatively, arrivals increased by 1.9 percent for the Caribbean region, and by 5.7 percent for the rest of the small economies in the world that are dependent on tourism (ROSE-T). This dynamic growth was led by cruise passenger arrivals, which rose by 15.2 percent, while stop-over visitors increased by 2.2 percent.

Figure 1.9: **Growth in Tourist Arrivals, 2005–2014 (percent)**[a]



Sources: Eastern Caribbean Central Bank; and World Bank, World Development Indicators.
Note: C6-T = C6 countries that are dependent on tourism (The Bahamas, Barbados, and Jamaica); OECS = Organisation of Eastern Caribbean States; ROSE-T = rest of the small economies in the world that are dependent on tourism.
[a] Most recent figures for international tourism arrivals up to 2014 are from the World Bank's World Development Indicators.

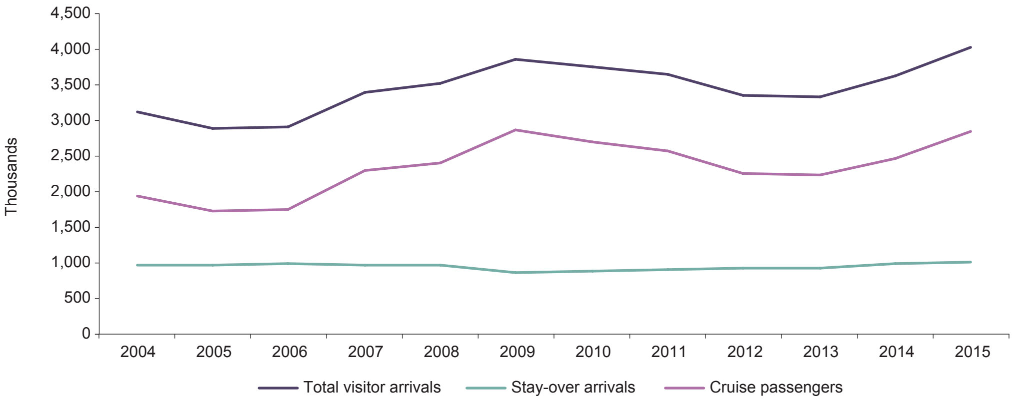
While the region witnessed an uptick in tourism arrivals, receipts remained stagnant (Figure 1.10). Since cruise visitors contribute less to the local economy, as they spend per capita a tenth of the average long-stay tourist, their impact on receipts was moderate. In 2015, cruise arrivals grew to represent almost three times the number of stay-over visitors. During 2012–2014, spending per tourist in the OECS grew by 2.8 percent, compared to 1.3 percent in the C6 countries that are dependent on tourism (including Barbados, The Bahamas, and Jamaica) and 5.8 percent for the C10 countries,[6] while spending per tourist in ROSE-T declined by 2.6 percent (Figure 1.11). The number of international cruise ship passengers in the OECS increased by 66 percent during 2000–2011, but tourism income saw more moderate growth of 25 percent (Briceno-Garmendia et al. 2014). These figures highlight the need for a combined tourism strategy that focuses on increasing arrivals and their length of stay, but also targets growth in the stay-over segment and greater spending per cruise passenger.

Some islands have been more successful in diversifying their economies and managing the risk of economic concentration. Grenada is an interesting case where strong education services developed to account for almost 19 percent of GDP in 2015.[7] A combined strategy of private investment, partnerships with U.S.-accredited academic institutions, and public incentives enabled this transition. Likewise, other islands are betting on promoting agriculture and niche medical services to diversify from the traditional one-sector

[6] The C10 group is comprised of other small island developing states: Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu.

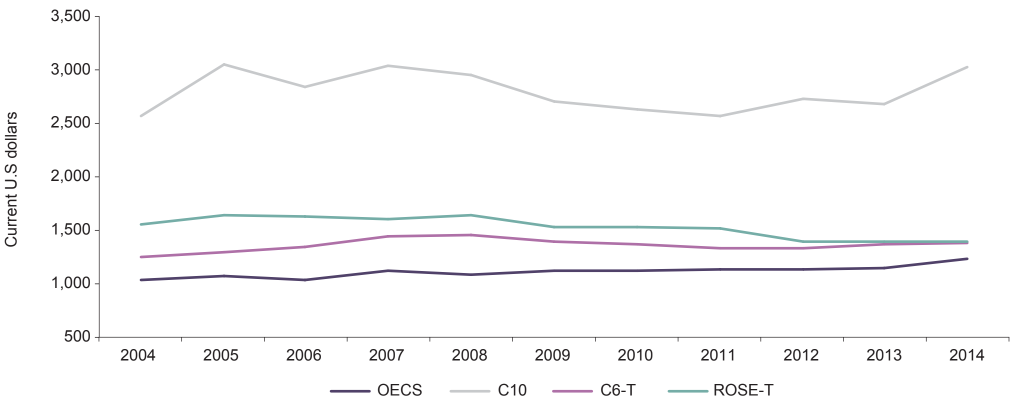
[7] The share of education services was calculated as a portion of gross value added in basic prices.

Figure 1.10: Long-Stay versus Cruise Passenger Arrivals in OECS Countries, 2004–2015 (in thousands)



Source: Eastern Caribbean Central Bank.
Note: OECS = Organisation of Eastern Caribbean States.

Figure 1.11: Tourism Receipts per Visitor, 2004–2014 (in current U.S. dollars)

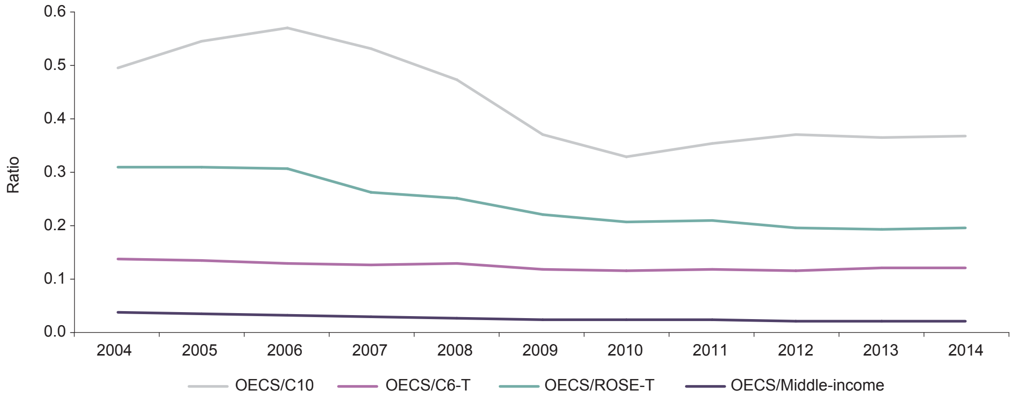


Sources: Eastern Caribbean Central Bank; and World Bank, World Development Indicators.
Note: C6-T = C6 countries that are dependent on tourism (The Bahamas, Barbados and Jamaica); C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; OECS = Organisation of Eastern Caribbean States; ROSE-T = rest of the small economies in the world that are dependent on tourism.

growth model. However, growth volatility could also be managed by diversifying within tourism segments, exploring new source markets, such as Brazil and other Latin American countries, and catering to different tourism needs. Efforts could focus on strengthening the tourism sector's linkages with other non-tradable sectors, like construction and financial services, to increase the spill-over effects to the rest of the economy.

Several factors could help the OECS increase its market share of global tourism (Figure 1.12). The Eastern Caribbean region would gain market share and growth with a strategy that increases intra-regional travel and tourism expenditure per tourist

Figure 1.12: Relative Market Share, 2004–2014



Sources: Eastern Caribbean Central Bank; and World Bank, World Development Indicators.
Note: C6-T = C6 countries that are dependent on tourism (The Bahamas, Barbados, and Jamaica); C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; Middle-income = Upper middle-income countries with GNI per capita between US$4,036 and US$12,475; OECS = Organisation of Eastern Caribbean States; ROSE-T = rest of the small economies in the world that are dependent on tourism.

through (1) regional tourism promotion, (2) greater connectivity (flights or ferry services) to allow the movement of people and goods within the OECS, (3) promotion of higher-quality tourism services, (4) diversification of experiences with greater market segmentation, and (5) improvements in productivity by strengthening linkages with other sectors, such as agribusiness. Since the sector relies heavily on coastal tourism, actions that could help mitigate the negative impact of climate change and natural events would be conducive to growth.

1.4. Frequent Natural Disasters Have Taken a Toll on Economic Activity

Natural disasters have caused significant damage and brought reconstruction bills in countries with little fiscal space and no budget contingencies. The outcome has been disruption to economic growth, larger deficits and higher public debt. Data from the International Database on Disasters of the Centre for Research on the Epidemiology of Disasters (CRED) show that between 2004 and 2016, the OECS accrued an estimated US$1.58 billion in total damages (Table 1.4). According to the 2016 Global Climate Risk Index, extreme weather events from 1995–2014 were associated with annual costs averaging 4.2 percent of GDP, with major losses recorded in Grenada (8.3 percent of GDP), Dominica (6.6 percent) and St. Kitts and Nevis (4.9 percent) (Kreft et al. 2016). Research suggests that the debt-to-GDP ratio in the OECS grew by almost 5 percentage points faster during the year a storm struck, with a cumulative debt increase of 5 percent of GDP a few years later (Acevedo 2014).

TABLE 1.4: Natural Disasters, 2004–2016

	Country	Type of Disaster	Total Deaths	Total Affected (Thousands)	Percent of Total Population Affected	Total Damage (millions of U.S. dollars)	Total Damage (Percent of GDP)
2004	Dominica	Earthquake	0	0.1	0.1	0	...
2004	Grenada	Storm	39	60.0	58.3	889.0	148.3
2004	St. Lucia	Storm	0	...	...	0.5	0.1
2004	St. Vincent and the Grenadines	Storm	0	1.0	0.9	5.0	1.0
2005	St. Vincent and the Grenadines	Storm	0	0.5	0.5	0.0	...
2007	St. Lucia	Earthquake	0	...	...	0.0	...
2007	Dominica	Storm	2	7.5	10.6	20.0	4.7
2007	St. Lucia	Storm	1	...	...	40.0	3.4
2008	Antigua and Barbuda	Storm	0	25.8	31.1	0.0	...
2010	Grenada	Drought	0	...	...	0.0	...
2010	St. Lucia	Drought	0	...	...	0.0	...
2010	St. Vincent and the Grenadines	Drought	0	...	...	0.0	...
2010	St. Lucia	Flood	0	2.0	1.2	0.0	...
2010	Antigua and Barbuda	Storm	0	5.0	5.9	12.6	1.1
2010	St. Lucia	Storm	14	181.0	109.0	0.5	0.04
2010	St. Vincent and the Grenadines	Storm	0	6.1	5.6	25.0	3.7
2011	St. Vincent and the Grenadines	Flood	0	0.3	0.3	0.0	...
2011	Dominica	Storm	0	0.2	0.3	0.0	...
2013	St. Lucia	Flood	6	20.0	11.7	0.0	...
2013	St. Vincent and the Grenadines	Flood	12	17.4	15.8	108.0	15.0
2015	Dominica	Storm	30	28.6	40.3	482.8	96.6
2016	St. Lucia	Storm	0	...	...	0.0	...
2016	St. Vincent and the Grenadines	Flood	0	25.0	22.7	0.0	...
Total			104	380.6		1583.4	

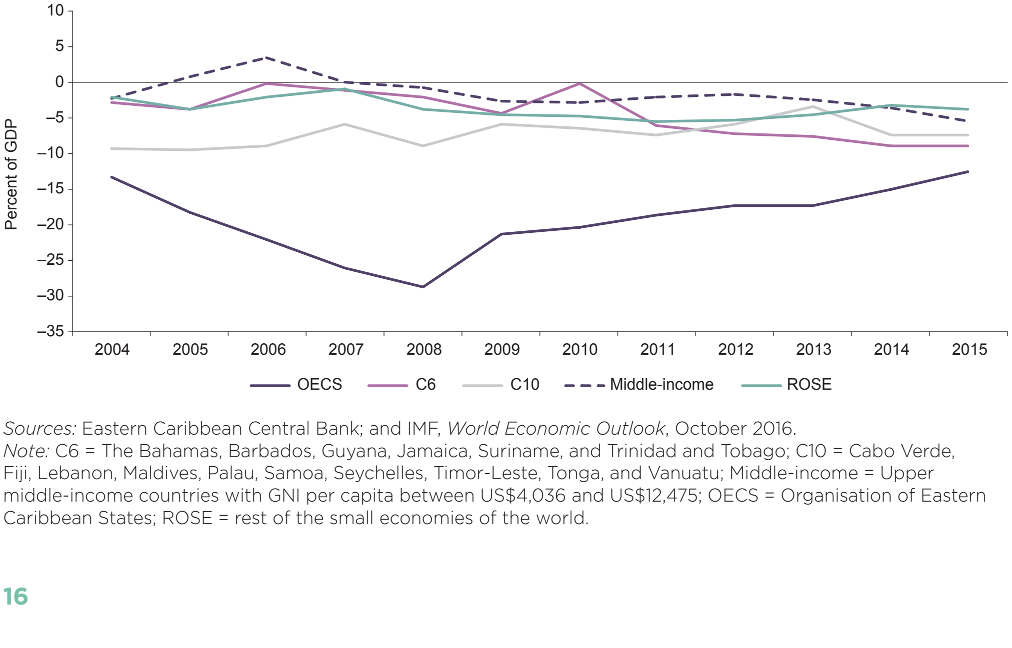
Source: Centre for Research on Epidemiology on Disasters (CRED), International Database on Disasters EM-DAT database (http://www.emdat.be/).
Note: The amount of damage refers to property, crops, and livestock.

Tropical Storm Erika, which hit Dominica in August 2015, is a clear example of the scale of disruption to economic activity and employment that one unforeseen event may have on small island developing states. Preliminary estimates suggest damage was around US$483 million, or over 96 percent of GDP, with US$14.6 million in damage to the Douglas-Charles Airport alone. The agriculture sector was severely hit, and cattle, poultry, and bee farms were lost. Likewise, Hurricane Ivan hit Grenada in 2004 and caused losses of around 148 percent of GDP, damaging 90 percent of the housing stock and 55 percent of room capacity. This is the story of the Caribbean region, where countries are constantly exposed to cyclones, droughts, and floods that challenge institutional capacity and weaken public finances. With the deterioration of the macroeconomic framework of the OECS countries over the past five years, government response to disasters has been constrained further. Countries have limited resources to absorb unforeseen costs or promote disaster risk management initiatives that could partially mitigate risk.

1.5. Large External Balances and Weak Export Growth

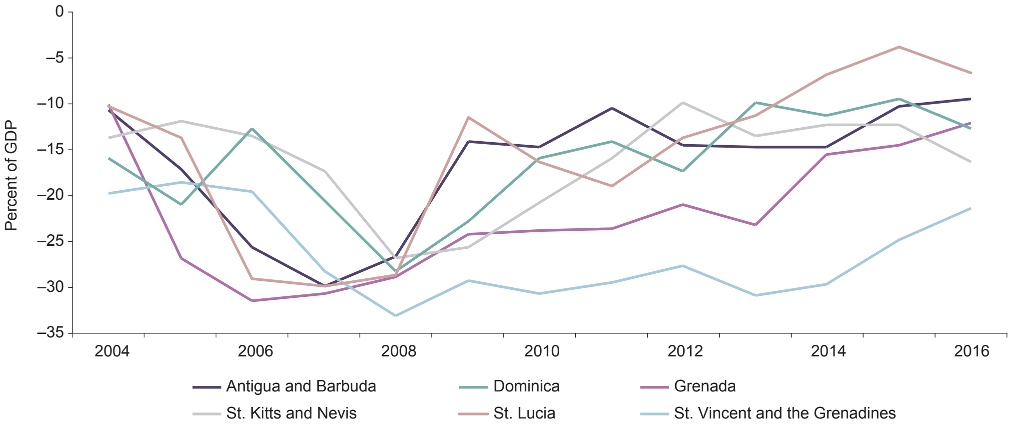
Current account balances are large across the Eastern Caribbean. The highly open economies of the OECS have trade-to-GDP ratios of 93 percent, which is almost double the average for other Latin American and Caribbean countries of 44 percent of GDP (World Bank 2013a). From 2010 to 2015, the union sustained annual current account deficits averaging 16.9 percent of GDP, which was significantly larger than the Caribbean average of 6.5 percent of GDP and the average for upper-middle-income

Figure 1.13: Current Account Balance, 2004–2015 (percent of GDP)



Sources: Eastern Caribbean Central Bank; and IMF, *World Economic Outlook*, October 2016.
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; Middle-income = Upper middle-income countries with GNI per capita between US$4,036 and US$12,475; OECS = Organisation of Eastern Caribbean States; ROSE = rest of the small economies of the world.

Figure 1.14: Current Account, 2004–2016 (percent of GDP)



Sources: Eastern Caribbean Central Bank; and IMF, *World Economic Outlook*, October 2016.

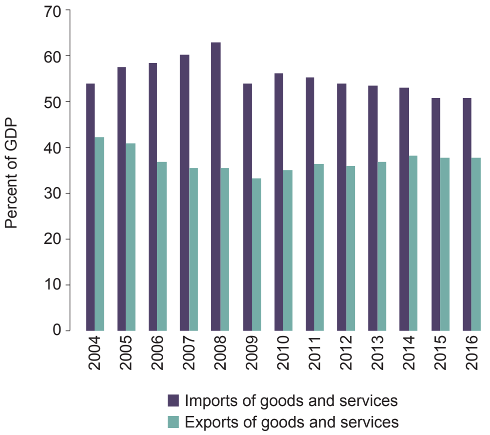
peers of 3 percent of GDP (Figures 1.13 and 1.14). Trade in most Caribbean countries represents mainly exports of services (tourism) and imports of goods.

The underperformance of the tourism sector and the heavy reliance on imports contributed to this wider trade balance. Exports of goods and services have been stagnant since 2009 and declined from 42 to 38 percent of GDP during 2004–2015 (Figure 1.15). Up to 2009, external deficits were exacerbated by flat export growth and the greater demand for imports that came with higher public spending (Figure 1.15 and 1.16). Exports of goods represented on average 7 percent of GDP in 2015 and focused on food and live animals and machinery and transport equipment concentrated in a few markets. During 2004–2015, chemicals and related products represented almost half of Dominica's exports of goods, while machinery and transport equipment contributed around 81 percent of goods exported from St. Kitts and Nevis (Figure 1.17). Over the past decade, goods exports have been flat, challenged by constraints on the supply side, high production costs (particularly energy costs), low economies of scale, and low value-added (see Chapter 4 on private sector performance).

As a net importer, the Eastern Caribbean is vulnerable to commodity price fluctuations. In years of rising commodity prices the islands saw higher inflation and larger current account deficits. The main import in the region is fuel, which represents about 35 percent of total imports in Antigua and Barbuda, followed by machinery and transport equipment, food and live animals, and manufactured goods (Figure 1.18). When oil prices rose,[8] and with the slow recovery in tourism demand following the 2009

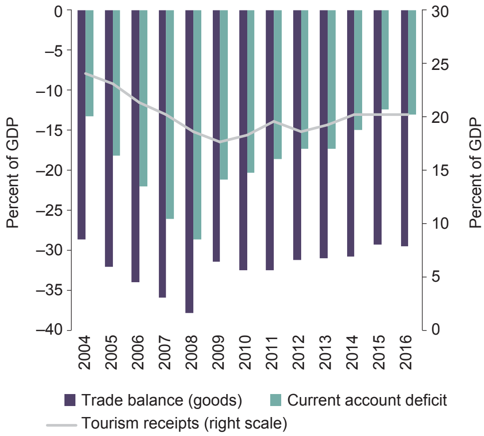
[8] Crude oil prices surged to around US$140 per barrel.

Figure 1.15: Exports and Imports of Goods and Services in OECS Countries, 2004–2016 (percent of GDP)



Sources: Eastern Caribbean Central Bank; and IMF, *World Economic Outlook*, October 2016.
Note: OECS = Organisation of Eastern Caribbean States.

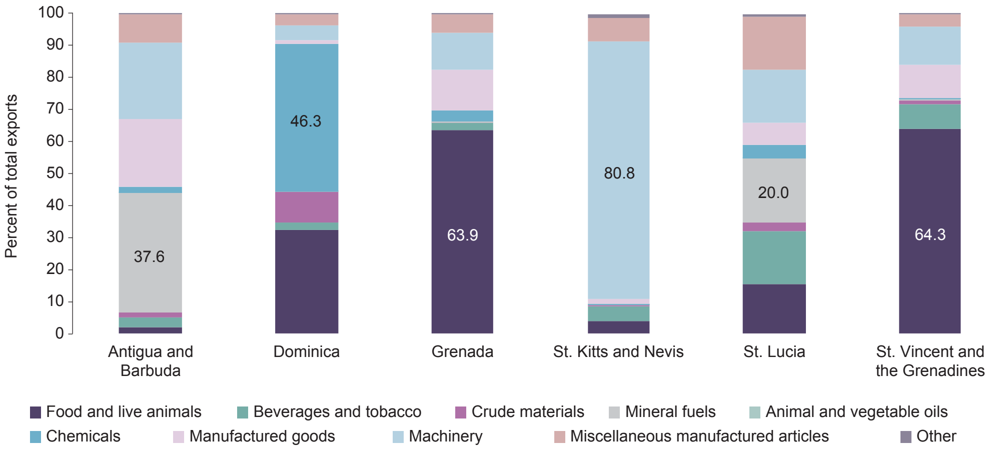
Figure 1.16: Trade Balance and Tourism Receipts in OECS Countries, 2004–2015 (percent of GDP)



Sources: Eastern Caribbean Central Bank; and IMF, *World Economic Outlook*, October 2016.
Note: OECS = Organisation of Eastern Caribbean States.

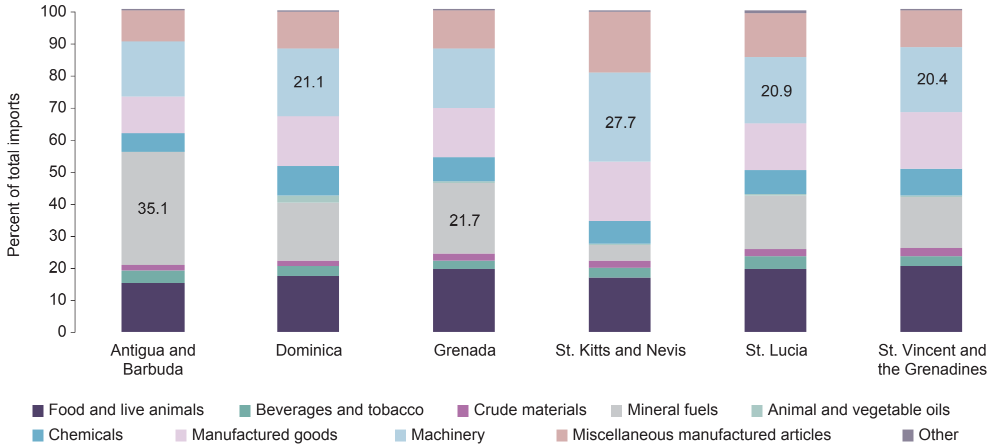
downturn, the OECS countries felt the deterioration of their external position. External deficits as a portion of GDP rose, ranging from 20 percent in St. Lucia to 31.2 percent in St. Vincent and the Grenadines during 2008–2009. In 2016, with the moderation of oil and international commodity prices, and a gradual recovery of tourism receipts, the average OECS external position improved to around 13.1 percent of GDP (Figure 1.18).

Figure 1.17: Exports of Goods, 2004–2015 (percent of total exports)



Source: Eastern Caribbean Central Bank.

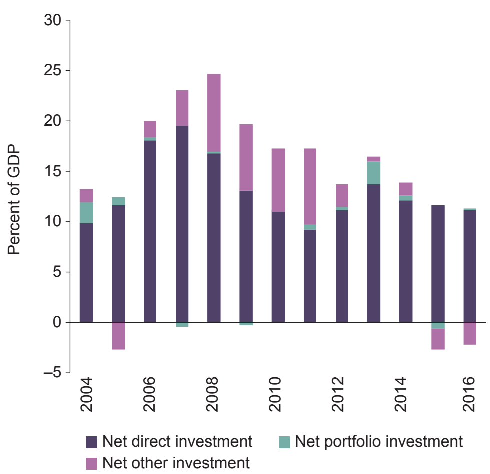
Figure 1.18: Imports of Goods, 2004–2015 (percent of total imports)



Source: Eastern Caribbean Central Bank.

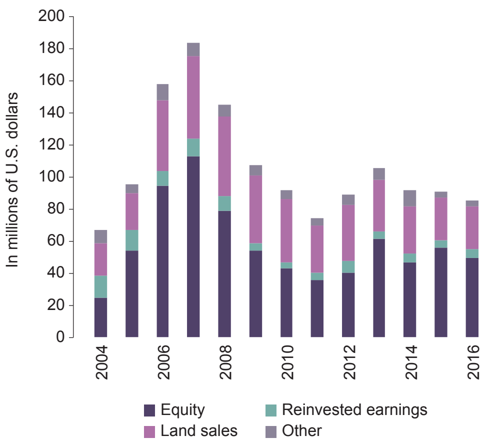
The current account balance was mainly financed through FDI (Figures 1.19–1.22). FDI inflows were stable at a yearly average of 13 percent of GDP during 2004–2016. They increased with the preparation for the Cricket World Cup in 2007, averaging 18.8 percent of GDP over 2006–2007, and then declined thereafter. A closer look at the composition of flows over the past five years shows that equity accounts for

Figure 1.19: Financing of the Current Account in OECS Countries, 2004–2016 (percent of GDP)



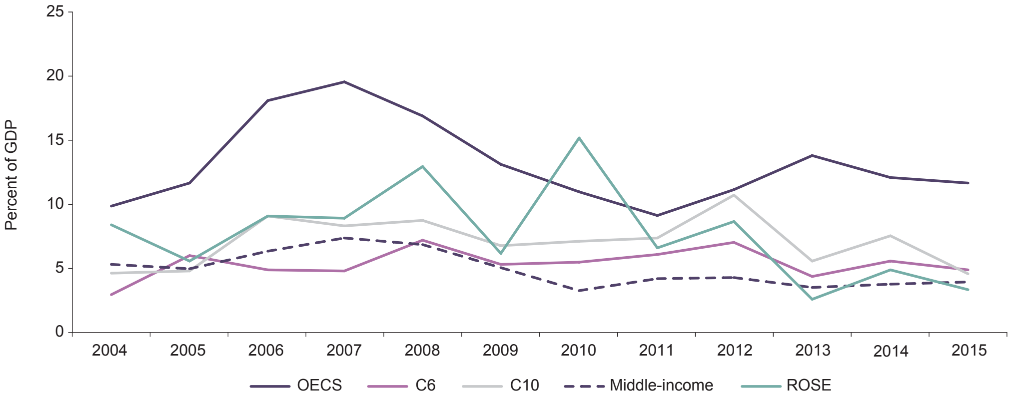
Sources: World Bank, World Development Indicators; Eastern Caribbean Central Bank; and IMF, *World Economic Outlook*, October 2016.
Note: OECS = Organisation of Eastern Caribbean States.

Figure 1.20: Foreign Direct Investment by Type in OECS Countries, 2004–2016 (in millions of U.S. dollars)



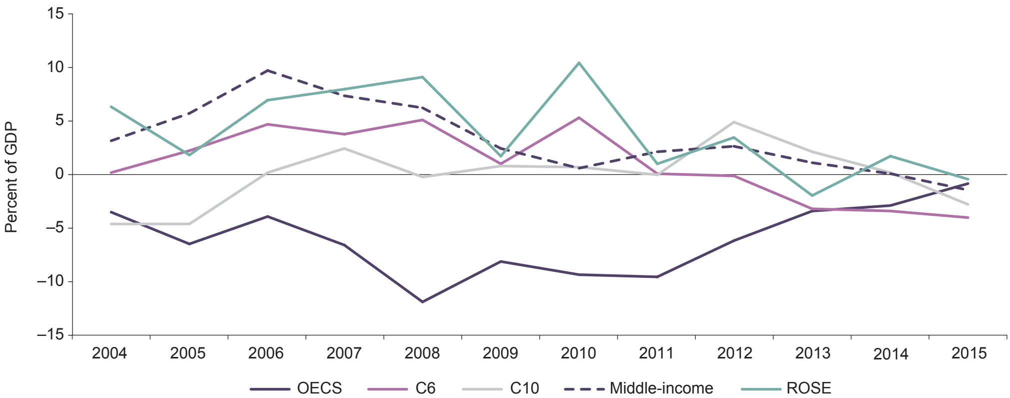
Sources: World Bank, World Development Indicators; Eastern Caribbean Central Bank; and IMF, *World Economic Outlook*, October 2016.
Note: OECS = Organisation of Eastern Caribbean States.

Figure 1.21: Foreign Direct Investment, 2004–2015 (percent of GDP)



Sources: World Bank, World Development Indicators; Eastern Caribbean Central Bank; and IMF, *World Economic Outlook*, October 2016.
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; Middle-income= Upper middle-income countries with GNI per capita between US$4,036 and US$12,475; OECS = Organisation of Eastern Caribbean States; ROSE = rest of the small economies in the world that are dependent on tourism.

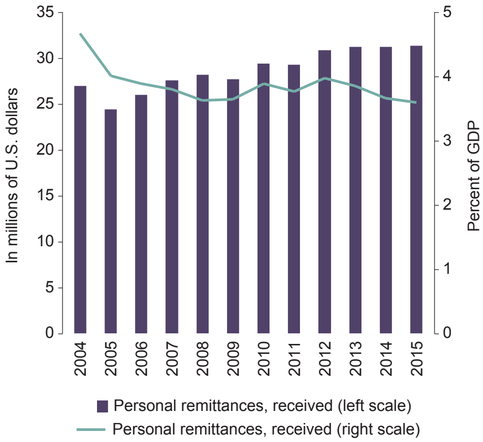
Figure 1.22: Current Account and Foreign Direct Investment, 2004–2015 (percent of GDP)



Sources: World Bank, World Development Indicators; Eastern Caribbean Central Bank; and IMF, *World Economic Outlook*, October 2016.
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; Middle-income= Upper middle-income countries with GNI per capita between US$4,036 and US$12,475; OECS = Organisation of Eastern Caribbean States; ROSE = rest of the small economies in the world that are dependent on tourism.

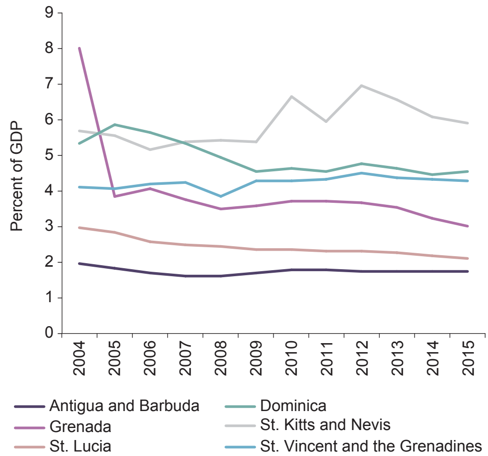
most of the investment, followed by land sales. Tourism-related construction and commercial development have been more dynamic in Antigua and Barbuda and St. Kitts and Nevis with the introduction of the Citizenship by Investment (CBI) Programme. Moreover, government borrowing and short-term flows to the banking sector also contributed to financing the current account. The CBI schemes have become important

Figure 1.23: Remittances in OECS Countries, 2004–2015 (in millions of U.S. dollars and percent of GDP)



Source: World Bank, World Development Indicators.
Note: OECS = Organisation of Eastern Caribbean States.

Figure 1.24: Remittances by OECS Country, 2004–2015 (percent of GDP)



Source: World Bank, World Development Indicators.
Note: OECS = Organisation of Eastern Caribbean States.

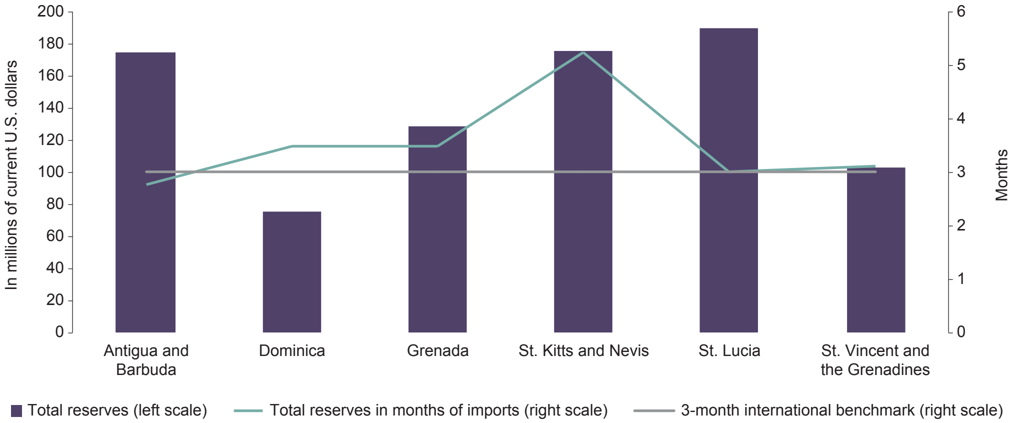
sources of private capital inflows in Antigua and Barbuda, St. Kitts and Nevis, and Dominica. These resources are more volatile and may be subject to a high sudden-stop risk.

Remittances make an important contribution to household income and improve the islands' external position. The OECS benefitted from remittances that were relatively stable at an average 4 percent of GDP annually from 2004 to 2015 (Figure 1.23). For some countries, such as Antigua and Barbuda, the contribution was smaller at 1.7 percent of GDP in 2015, while for St. Kitts and Nevis remittances constituted 6 percent of GDP and were a significant source of income (Figure 1.24).[9] Remittances have become an important source of financing for the current account and reflect the large Eastern Caribbean diaspora working abroad.

Reserves remain below recommended thresholds for some OECS countries. With sustained current account deficits under a fixed exchange rate regime, international reserves have been under pressure across most islands. These external imbalances, along with loose fiscal policy and the rapid accumulation of public debt, have brought reserve levels in Antigua and Barbuda to below the minimum three-month coverage of imports and have challenged levels in St. Lucia and St. Vincent and the Grenadines (Figure 1.25). The ratio of reserves to broad money is a useful indicator of the adequacy of reserves in cases where unstable demand for money or the presence of banking liabilities could suggest greater probability of capital flight. In 2015, all countries within the OECS reported reserves above

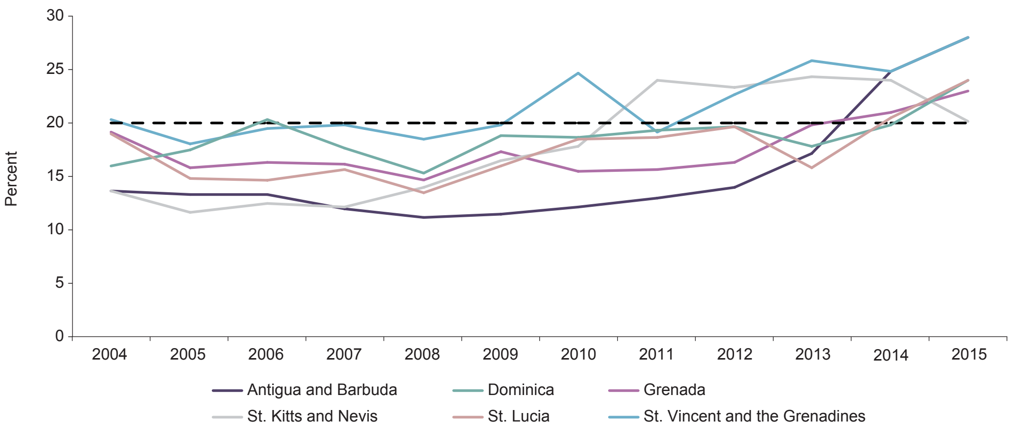
[9] Following Hurricane Ivan in 2004, Grenada reported inflows at 12 percent of GDP or US$72.2 million that year.

Figure 1.25: Total Reserves, 2004–2015



Source: World Bank, World Development Indicators.

Figure 1.26: Total Reserves to Broad Money (M2), 2004–2015 (percent)



Source: World Bank, World Development Indicators.

the minimum threshold at 20 percent of the broad money ratio (Figure 1.26 and Table 1.5). During 2013–2015, St. Kitts and Nevis enjoyed high CBI inflows that allowed for a higher reserve coverage at around eight months of imports of goods and services.

1.6. Lower Fuel Prices Were Conducive to Growth in the Eastern Caribbean

The decline in international fuel prices in 2014 was felt at the pump and in electricity bills. Oil prices gradually fell from over US$112 per barrel in June 2014 to below US$50 in the first half of 2016. These savings were passed on to end-consumers. The drop in gasoline

TABLE 1.5: External Sustainability Indicators for OECS Countries, 2010–2015

	2010	2011	2012	2013	2014	2015(p)
Exports of goods and services (yoy, in percent)	4.3	2.7	2.2	4.4	8.0	2.2
Imports of goods and services (yoy, in percent)	4.8	0.1	−0.6	2.5	2.7	−1.5
Current account (percent of GDP)	−20.3	−18.7	−17.3	−17.2	−15.0	−12.5
Foreign direct investment, net inflows (percent of GDP)	11.0	9.1	11.2	13.8	12.1	11.7
Foreign exchange reserves (millions of U.S. dollars)	134.4	147.4	161.3	176.2	213.9	240.5
Foreign exchange reserves cover, months	3.3	3.7	4.1	4.4	5.2	5.9
Foreign exchange reserves (percent of M2)	18.1	18.3	19.2	20.1	22.5	24.8

Sources: World Bank, World Development Indicators, and IMF, *World Economic Outlook*, October 2016.
Note: OECS = Organisation of Eastern Caribbean States; (p) = projected; yoy = year-over-year.

retail prices ranged from 10 percent in Antigua and Barbuda to 32 percent in St. Lucia (Table 1.6). As electricity is mostly generated with imported diesel, tariffs declined from US$0.40 to US$0.37 per kWh in 2014. This was a positive development considering that electricity tariffs in the union are amongst the highest in the world (Figure 1.27).

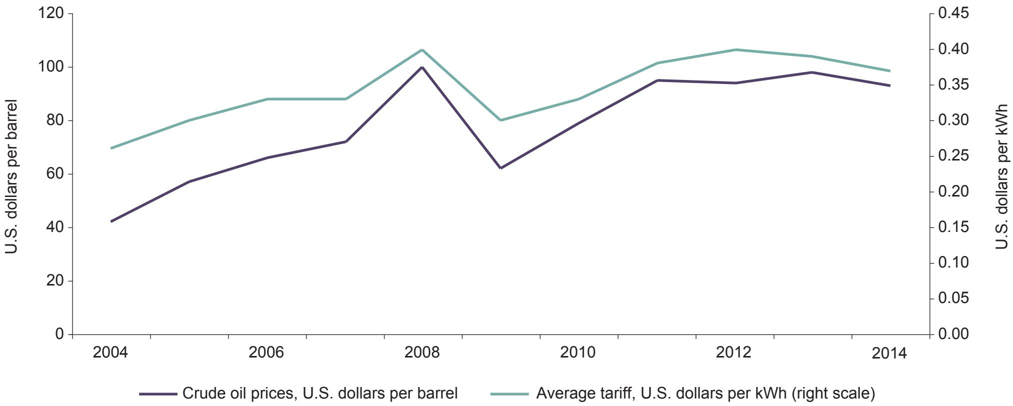
Lower international fuel prices had a positive impact on fiscal accounts in 2015. With fuel and electricity prices subsidised in Antigua and Barbuda, St. Kitts and Nevis, and St. Vincent and the Grenadines, these countries saw lower utility bills, oil import bills, and transfers and subsidies to state-owned enterprises. The IMF Article IV 2015 Staff Report for St. Kitts and Nevis estimated electricity subsidies fell from 0.5 to 0.4 percent of GDP.

TABLE 1.6: Retail Prices for Gasoline, 2013–2015 (U.S. dollars per litre)

	2013	2014	2015	% change 2015/14
Antigua and Barbuda	1.23	1.23	1.11	−9.8
Bahamas, The	1.34	1.25	…	…
Barbados	1.52	1.71	1.41	−17.5
Dominica	1.15	1.07	0.82	−23.4
Grenada	1.24	1.09	1.08	−0.9
Guyana	…	1.12	0.95	−15.2
Jamaica	1.21	1.06	0.94	−11.3
St. Kitts and Nevis	1.20	0.98	0.94	−4.1
St. Lucia	1.34	1.31	0.89	−32.1
St. Vincent and the Grenadines	1.14	1.14	0.91	−20.2
Suriname	1.34	1.17	…	…
Trinidad and Tobago	0.42	0.42	0.42	0.0

Sources: Castalia, Caribbean Energy Information System; and Caribbean Petroleum Update.

Figure 1.27: Average Tariffs in OECS Countries (U.S. dollars per kWh) and Crude Oil Prices (U.S. dollars per barrel), 2004–2014



Sources: Castalia, Caribbean Energy Information System; the utilities in each country for the average tariff; and the U.S. Energy Information Administration (EIA) for the Oklahoma West Texas Intermediate crude price in 2014.
Note: OECS = Organisation of Eastern Caribbean States.

Over the long term, the private sector would benefit from lower input costs.[10] Lower input costs and electricity tariffs in an environment of contained inflation would boost competitiveness, as electricity ranks amongst the top constraints to doing business in all enterprise- and firm-level surveys (see Chapter 4 on the private sector). Inflation would be contained due to reduced domestic transportation and input costs.

1.7. Monetary Policy Maintained the Exchange Rate Anchor and Low Inflation

The main objective of the Eastern Caribbean Central Bank's monetary policy is to provide price, exchange, and financial sector stability within the OECS. Established in October 1983, the ECCB acts as the monetary authority, with the objective of maintaining the exchange rate anchor and low inflation. The Monetary Council, which is the ECCB's highest authority and is based in St. Kitts and Nevis, provides guidance on matters relating to monetary and credit policy. Since 1976, the Eastern Caribbean (EC) dollar has been pegged to the U.S. dollar at a rate of EC$2.70 to US$1. Thus, the ability of monetary policy to influence economic activity is restricted and adjustments to shocks occur through quantity (income and employment) rather than price changes. This inflexibility to adjust to shocks was particularly felt after the global slowdown in 2009, when recovery was slower in the union.

[10] All the OECS member countries are part of the PetroCaribe arrangement. This initiative has allowed several governments in Central America and the Caribbean to take loans at below-market rates to purchase oil from Venezuela. The loan terms become more generous as oil prices rise.

Figure 1.28: Inflation in the OECS versus the United States, 2004–2016 (percent)

Sources: IMF, *World Economic Outlook*, October 2016; and Eastern Caribbean Central Bank.
Note: OECS = Organisation of Eastern Caribbean States.

A successful outcome of the currency union was achieving low and stable inflation. The fixed exchange rate meant prices moved with those in the United States, the region's main trading partner, which has brought price stability to the union. After rising to 6.1 percent in 2007 and 4.5 percent in 2008, inflation in the OECS averaged around 0.5 percent over the last five years (Figure 1.28). The drop reflected the lower international prices for commodities—namely fuel, with the fuel and light index for the region declining by 2.3 percent at the end of 2015—as well as a weaker economic environment that contained disposable income and domestic demand (Figure 1.29).

There is evidence of a moderate undervaluation of the real effective exchange rate (REER), although there is great heterogeneity across the union (Table 1.7). Under the REER index model,[11] the estimates range from the most undervalued, Dominica (–12.1 percent), to the most overvalued, St. Kitts and Nevis (11.7 percent). For St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, an overvaluation implies a challenge for external competitiveness. In fact, an overvalued exchange rate in years of weak domestic demand would have contributed to dampening domestic demand by keeping goods more expensive in relative terms and encouraging spending on imports at the expense of exports.

Lending rates remained high at above 8 percent in 2015. The ECCB regulates the minimum rate on savings deposits, which averaged 3 percent over 2004–2015, but the commercial banks' lending rates, which are market-driven, stood at 9.4 percent. In February 2015, the ECCB further lowered the deposit rate from 3 to 2 percent, but its discount

[11] This methodology is based on cross-country regressions that directly use the estimated REER as the dependent variable.

Figure 1.29: Inflation in OECS Countries, 2004–2015 (percent)

Source: Eastern Caribbean Central Bank.
Note: OECS = Organisation of Eastern Caribbean States.

TABLE 1.7: External Balance Assessment (EBA)-Lite: Real Effective Exchange Rate Index Model Estimates, 2016 (percent)

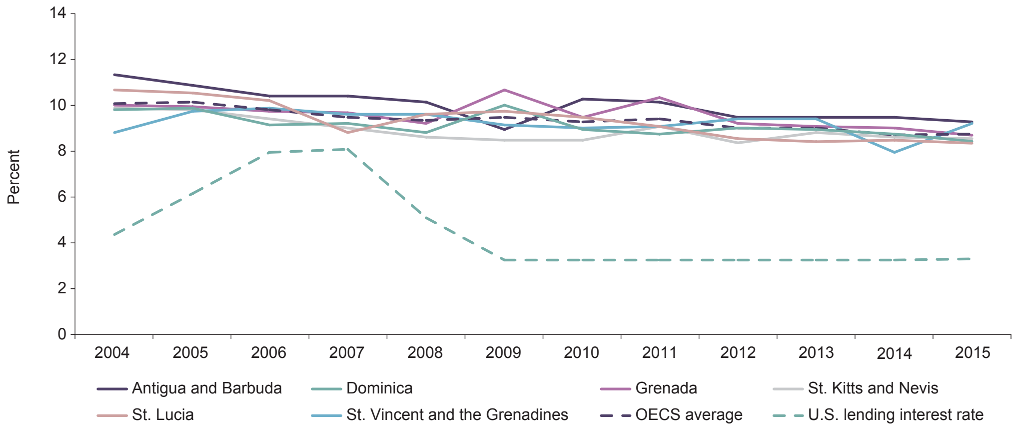
	REER Gap	Policy Gap	Residual
Antigua and Barbuda	−9.6	−0.7	−9.0
Dominica	-12.1	−0.4	-11.7
Grenada	-7.1	0.2	-7.2
St. Kitts and Nevis	11.7	−0.3	12.1
St. Lucia	3.0	−2.1	5.1
St. Vincent and the Grenadines	2.8	−0.5	3.2
ECCU, simple average	-1.9	−0.6	-1.3
ECCU, weighted average	-1.4	−0.7	−0.7

Source: IMF, Eastern Caribbean Currency Union Country Report, October 2016.
Note: + indicates overvaluation and – indicates undervaluation in the estimated misalignment of the real effective exchange rate. Policy gaps are the difference between observed policies and benchmarks. ECCU = Eastern Caribbean Currency Union; OECS = Organisation of Eastern Caribbean States; REER = real effective exchange rate.

rate was maintained at 6.5 percent and lending rates declined marginally despite liquidity in the banking system.[12] Lending rates for the OECS on average have been well above the lending rate of the United States (Figure 1.30). On average, interest rate spreads for the OECS ranged from 6 to 7 percent (Figure 1.31). While interest rate spreads in Antigua and

[12] The main policy instrument employed by the ECCB has been the discount rate, which has remained unchanged for long periods. The discount rate was first adjusted in 1995, from 10 to 9 percent, then reduced to 8 percent in 1996 and to 7 percent in October 2001. Since July 2003, the rate has remained at 6.5 percent. Changes in the discount rate have limited effects on interest rates in the region, with commercial bank interest rates responding marginally to a lower discount rate.

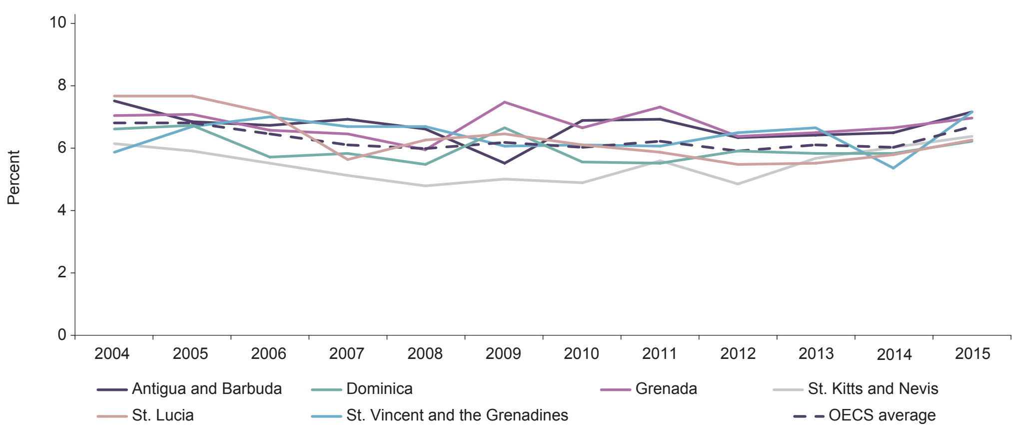
Figure 1.30: Weighted Loan Rate: OECS Countries, OECS Average, and the United States, 2004–2015 (percent)



Source: Eastern Caribbean Central Bank and World Development Indicators.
Note: OECS = Organisation of Eastern Caribbean States.

Barbuda, Dominica, and Grenada have been relatively stable, St. Lucia's spreads declined from 2004 to 2012. These spreads remained relatively large, at times when interest rates in the developed world were close to zero. This reflects underdeveloped financial markets with higher perceptions of risk, and higher fixed and operating costs. Across countries in the OECS, these differences in interest rates suggest limited mobility of capital led by a combination of capital controls and legal and regulatory challenges.

Figure 1.31: Spreads Between Loan and Deposit Rate: OECS Countries, OECS Average, and the United States, 2004–2015 (percent)



Source: Eastern Caribbean Central Bank and World Development Indicators.
Note: OECS = Organisation of Eastern Caribbean States.

TABLE 1.8: Institutions Licensed Under the Banking Act, 2016

	Banks	Non-bank Financial Institutions
Antigua and Barbuda	8	2
Dominica	4	1
Grenada	5	2
St. Kitts and Nevis	7	1
St. Lucia	6	7
St. Vincent and the Grenadines	4	2
Total	**34**	**15**

Source: Eastern Caribbean Central Bank.

1.8. A Recovering Banking Sector Subject to Greater Regulation and Oversight after the 2009 Downturn

The OECS financial system is comprised of onshore financial and non-financial institutions, as well as growing offshore financial services. There are 34 commercial banks and 15 non-bank institutions regulated by the ECCB (Table 1.8). Of the commercial banks, 16 are foreign incorporated and 18 are locally incorporated, of which 11 are locally owned (indigenous) and seven are foreign-owned.[13] The non-bank financial system is regulated by the Financial Services Regulatory Commission and comprised of 47 credit unions, 132 insurance companies, and 29 international financial services sector banks (Table 1.9). While commercial banks focus mostly on consumer loans and lines of credit to larger firms, most of the financial institutions are small, offer limited financial services, and serve small and medium-sized enterprises (SMEs).

The ECCU financial system was challenged in recent years by a series of developments. After 2009, the underperformance of the tourism sector led to a rapid increase in non-performing loans (NPLs), which rose from 15.2 percent of total loans in 2012 to 17 percent in 2015. In 2009, a run on the Bank of Antigua and the intervention of two banks in Anguilla and one in Antigua and Barbuda (Box 1.2) testified to the difficulties faced by certain local banks. This was exacerbated by the collapse of large insurance companies, such as the Colonial Life Insurance Company (CLICO) and the British American Insurance Company (BAICO), which undermined consumer

[13] Locally incorporated banks may be either locally owned or a foreign-owned subsidiary, while foreign-incorporated banks are outside the ECCU, but have established branches within the ECCU. The latter banks generally do not hold capital on their books. Capital is assigned annually by head offices, based on their level of deposits.

TABLE 1.9: Other Financial Institutions, 2016

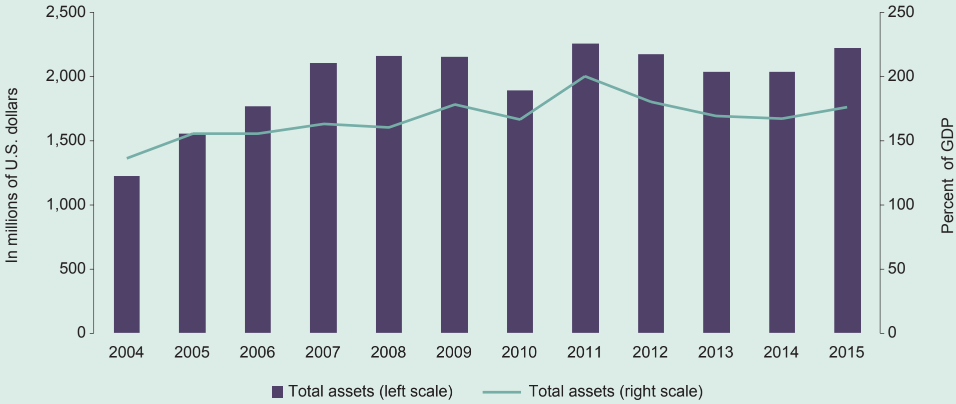
	Development Banks	Credit Unions	Insurance Companies/ Agencies	National Development Foundations	Building and Loan Associations	International Financial Services Sector Banks
Antigua and Barbuda	1	6	26	1	—	16
Dominica	1	8	17	1	1	3
Grenada	1	10	24	1	1	—
St. Kitts and Nevis	1	4	17	1	—	1
St. Lucia	1	15	26	1	—	4
St. Vincent and the Grenadines	—	4	22	1	1	5
Total	**5**	**47**	**132**	**6**	**3**	**29**

Sources: Eastern Caribbean Central Bank; and World Council of Credit Unions (2016) for data on credit unions.

Box 1.2. The Banking Sector in Antigua and Barbuda

Antigua and Barbuda has the largest banking sector in the OECS. For the period 2004–2015, commerical bank assets and deposits averaged around 167 percent and 109 percent of GDP, respectively (Box Figures 1.2.1 and 1.2.2). The sector is highly monetised relative to the size of the economy, with M2 (broad money) averaging around 97 percent of GDP over the last decade.

Box Figure 1.2.1: Antigua and Barbuda: Total Assets, 2004–2015 (in millions of U.S. dollars and percent of GDP)

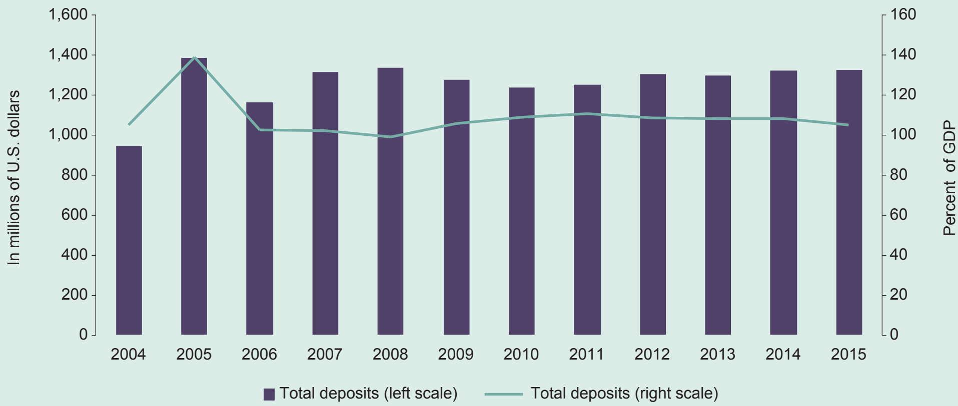


Source: Eastern Caribbean Central Bank.

(continued on next page)

Box 1.2. The Banking Sector in Antigua and Barbuda *(continued)*

Box Figure 1.2.2: Antigua and Barbuda: Total Deposits, 2004–2015 (in millions of U.S. dollars and percent of GDP)



Source: Eastern Caribbean Central Bank.

Financial sector stability was challenged by the collapse of the Stanford Group and the CL Financial Group, two financial institutions with a major presence in Antigua and Barbuda. In February 2009, the bankruptcy of the Stanford Group is estimated to have cost the economy around 20 percent of GDP. It triggered a bank run and led to a significant withdrawal of deposits from its locally incorporated subsidiary, the Bank of Antigua (BOA). This was exacerbated by the collapse of large insurance companies, such as the Colonial Life Insurance Company (CLICO) and the British American Insurance Company (BAICO), which undermined consumer confidence further and left significant liabilities.

The ECCB assumed control of the BOA and provided a three-year loan to the government to help recapitalise the bank. The loan amounted to 3 percent of GDP (King and Tennant 2014). Subsequently, the BOA was sold in October 2010 to the Eastern Caribbean Amalgamated Financial Company Ltd, a consortium owned by regional banks and the Government of Antigua and Barbuda. Similarly, the ECCB in 2011 assumed control of the Antigua-Barbuda Investment Bank (ABI Bank) as it risked undermining the wider banking system in the region. The bank was intervened when it was unable to carry out normal functions due to illiquidity. These episodes led to job losses, had an adverse impact on the country's revenue, and increased debt levels by moving a share of these private liabilities on to the public balance sheet.

confidence further and left significant liabilities. These developments translated into contingent liabilities for governments and shed light on the need to strengthen financial oversight. The bank resolution of the Antigua and Barbuda Investment Bank (ABI Bank) alone is estimated to have cost around 11.5 percent of the country's GDP (Box 1.2).[14]

Figure 1.32: Non-performing Loans in OECS Countries, 2005–2015 (percent of total)

Source: Eastern Caribbean Central Bank.
Note: OECS = Organisation of Eastern Caribbean States.

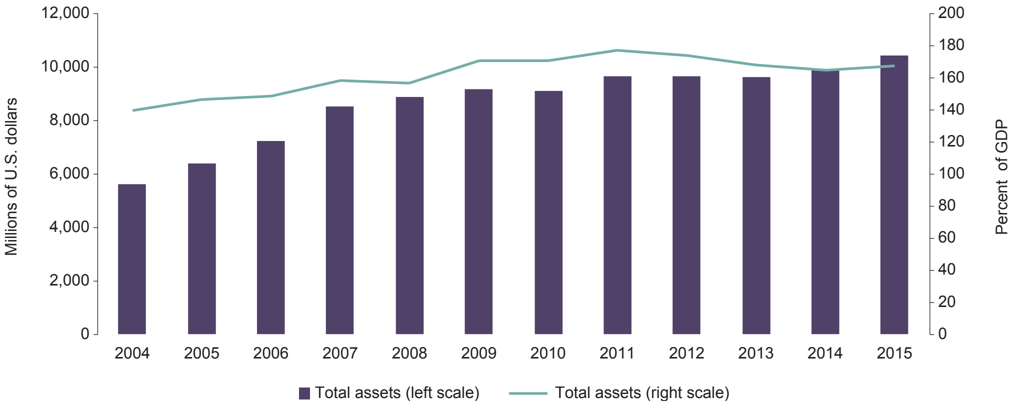
Local commercial banks were more exposed. During 2005–2015, their NPLs averaged 11.3 percent compared to 8.6 percent for foreign banks, and above the target of 5 percent envisaged by the ECCB (Figure 1.32). In 2015, the NPLs in local banks ranged from 6 percent in St. Vincent and the Grenadines to 22.2 percent in St. Kitts and Nevis. Since most foreign banks in the OECS are Canadian-based with solid support from headquarters, the financial system, while exposed, remained stable. Over the past five years, the ECCB has made efforts to strengthen regulation, supervision, and oversight, and financial institutions in general have implemented more conservative banking practices.

The commercial banking sector grew over the decade. Total commercial bank assets grew from 140 to 167 percent of GDP (US$5.6 billion to US$10.4 billion from 2004–2015; see Figure 1.33).[15] Similarly, deposits saw an increase from 108 to 120 percent of GDP (Figure 1.34). The capital adequacy ratio, measured by the ratio of total

[14] According to the IMF 2014 Article IV Staff Report for Antigua and Barbuda. The bank resolution estimate depends on asset quality reviews of the banks. The resolution costs are calculated by filling the capital gap (liabilities minus assets) and raising the capital adequacy ratio to the required 8 percent minimum.

[15] These figures represent the OECS and territories: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Anguilla, and Montserrat.

Figure 1.33: Total Commercial Bank Assets in the OECS, 2004–2015 (in millions of U.S. dollars and percent of GDP)[a]

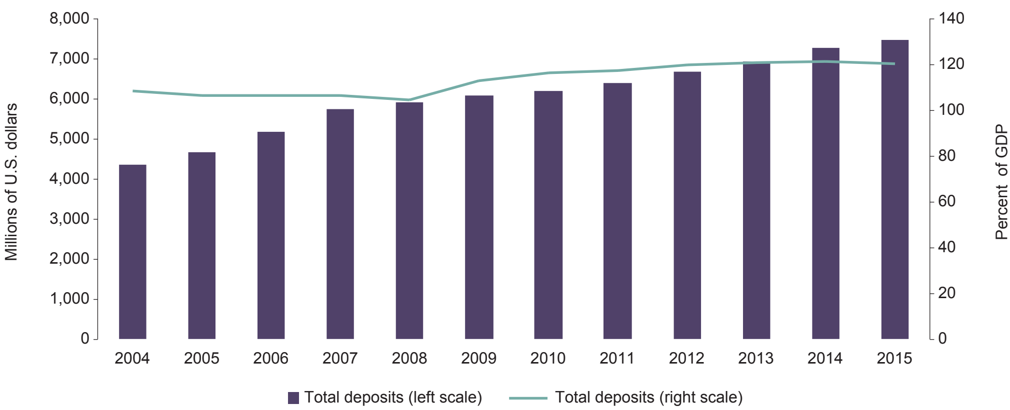


Source: Eastern Caribbean Central Bank.
Note: OECS = Organisation of Eastern Caribbean States.
[a] Includes Montserrat and Anguilla.

capital to risk-weighted assets, averaged close to 20 percent for 2003–2010 and around 18.7 percent in 2012, more than twice the 8 percent prudential requirement. In 2015, the IMF Article IV Staff Report estimated capital-to-risk-weighted-assets ratios for Grenada at 12.2 percent, St. Kitts and Nevis at 21.3 percent, St. Lucia at 15.3 percent, and St. Vincent and the Grenadines at 22.1 percent.

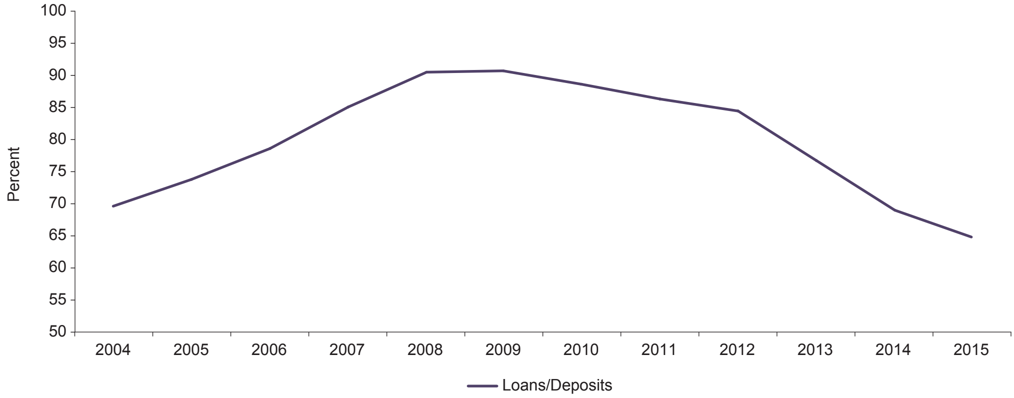
Deposits grew at a quicker pace than credit after 2009, which brought greater liquidity. The loan-to-deposit ratio fell from 91 percent in 2009 to 65 percent in 2015,

Figure 1.34: Total Commercial Bank Deposits in OECS Countries, 2004–2015 (in millions of U.S. dollars and percent of GDP)



Source: Eastern Caribbean Central Bank.
Note: OECS = Organisation of Eastern Caribbean States.

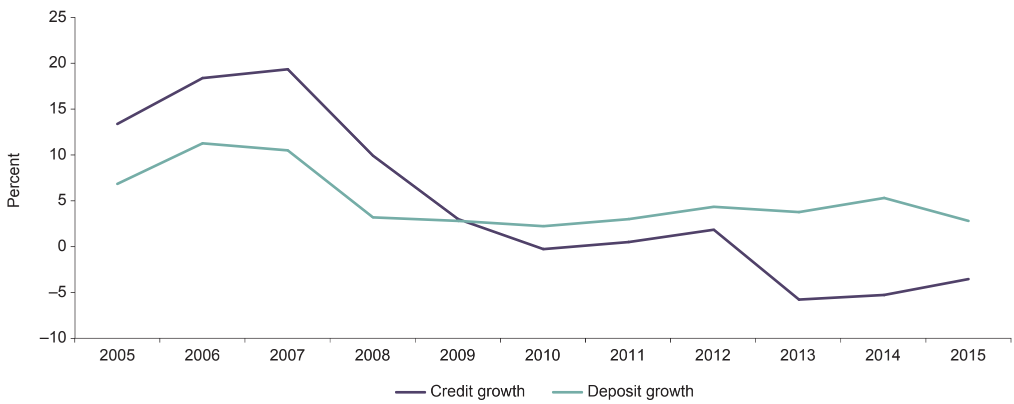
Figure 1.35: Commercial Bank Loan-to-Deposit Ratio in OECS Countries, 2004–2015 (percent)



Source: Eastern Caribbean Central Bank.
Note: OECS = Organisation of Eastern Caribbean States.

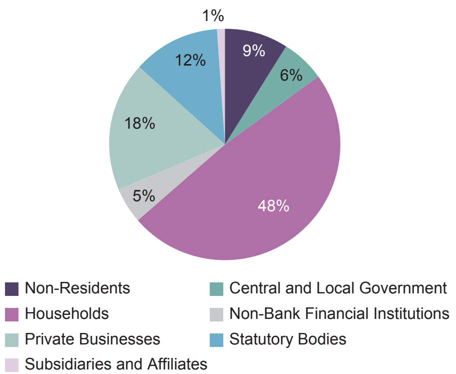
highlighting the increasing level of liquidity in the banking system (Figure 1.35). At the same time, there was little appetite for borrowing. During 2010–2015, private credit contracted by 2.1 percent annually because households became more risk averse and increased their savings. Total deposits grew at an annual average of 3.5 percent, with private individuals being the major depositors followed by private businesses (Figures 1.36 and 1.37). In 2015, liquidity (the liquid-assets-to-total-assets ratio) was highest at 50.8 percent in St. Kitts and Nevis, followed by 38.3 percent in St. Vincent and the Grenadines and 37.5 percent in Grenada.

Figure 1.36: Growth in Deposits and Credit in the OECS, 2005–2015 (percent)[a]



Source: Eastern Caribbean Central Bank.
Note: OECS: Organisation of Eastern Caribbean States.
[a] Includes Montserrat and Anguilla.

Figure 1.37: Total Deposits by Depositors in OECS Countries in 2015 (percent)[a]



Source: Eastern Caribbean Central Bank.
Note: OECS: Organisation of Eastern Caribbean States.
[a] Includes Montserrat and Anguilla.

Various initiatives to strengthen financial sector regulation and oversight in the OECS are under way. In February 2015, the ECCB approved a Banking Bill that strengthened financial oversight and supervision by harmonizing legislation across member countries and giving authority to the central bank to issue and revoke licenses over respective Ministries of Finance.[16] The establishment of a public credit bureau and a Single Financial Space is under consideration to boost credit growth. Bank supervision is currently supported with technical assistance focusing on credit risk management and collateral valuation. The aim is to bring the regulatory framework of the OECS in line with international standards and establish an Asset Management Corporation to address the high level of NPLs. In addition, efforts are ongoing to increase coordination and oversight between the ECCB and the Financial Services Regulatory Commission (FSRC) that regulates the non-bank financial sector and the offshore banking sector.

Credit unions in the OECS grew over the last decade. There were 47 active entities registered in 2015 with membership on the rise (Table 1.10). Total assets for the credit union segment doubled from US$381.3 million (9 percent of regional GDP) in 2005 to US$1,012 million (17 percent of regional GDP) in 2015 (Figure 1.38). During 2010–2015, membership growth was particularly high in Antigua and Barbuda at 25.6 percent, Grenada at 39.2 percent, and St. Kitts and Nevis at 30.2 percent. Further, the OECS faces high penetration rates that reflect the high assets-to-GDP ratio. Deposits and loans increased steadily during the global downturn years, reaching US$869 million (15 percent of regional GDP) and US$728 million (12 percent of regional GDP), respectively, at the end of 2015 (Figure 1.39). While credit unions remain on average well capitalised, with capital adequacy reported at 8.5 percent for Dominica and around 13.8 percent for Grenada, they are more exposed to higher NPLs. In 2013, NPLs stood

16 Credit unions are not regulated by this bill and the ECCU governments will guarantee deposits of up to US$74,000 (or EC$200,000).

TABLE 1.10: Number of Credit Unions, Membership, and Penetration, 2005, 2010, and 2015

	Credit Unions			Members Thousands			Growth in Membership Percent	Penetration[a] Percent		
	2005	2010	2015	2005	2010	2015	2010/2015	2005	2010	2015
Antigua and Barbuda	5	5	6	14.8	26.6	33.4	25.6	31.6	44.9	52.6
Bahamas, The	15	10	7	29.3	36.6	41.5	13.5	14.7	16.9	18.3
Barbados	37	35	34	131.7	146.2	176.1	20.5	66.8	71.5	85.6
Dominica[b]	16	10	8	75.0	61.7	67.8	9.9	166.1	126.6	136.7
Grenada	19	13	10	28.7	41.7	58.0	39.2	51.1	58.5	79.4
Guyana	28	29	28	33.1	31.8	34.2	7.5	6.3	6.8	7.0
Jamaica	47	46	34	812.6	955.8	999.4	4.6	45.4	53.5	52.8
St. Kitts and Nevis	3	4	4	7.8	17.1	22.2	30.2	31.5	48.7	60.3
St. Lucia	15	15	15	51.0	73.3	87.1	18.7	46.5	67.3	77.6
St. Vincent and the Grenadines	10	9	4	40.8	53.8	62.9	16.8	52.2	76.8	88.9
Suriname	...	25	...	...	21.5	...	...	...	6.5	2.4
Trinidad and Tobago	101	130	128	332.2	479.2	651.4	35.9	43.0	54.1	75.3
Total OECS	**68**	**56**	**47**	**218.0**	**274.2**	**331.3**				
Total Member Countries[c]	**296**	**331**	**278**	**1,556.9**	**1,945.2**	**2,234.0**				

Sources: Caribbean Confederation of Credit Unions (2016); and World Council of Credit Unions (2016).
Note: OECS = Organisation of Eastern Caribbean States.
[a] The penetration rate is calculated by dividing the total number of reported credit union members by the economically active population age (15–64 years old).
[b] The high penetration rate is explained by the existence of multiple memberships by adults in more than one credit union and/or by youth accounts.
[c] Total member countries include the OECS countries and the C6 countries (The Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago).

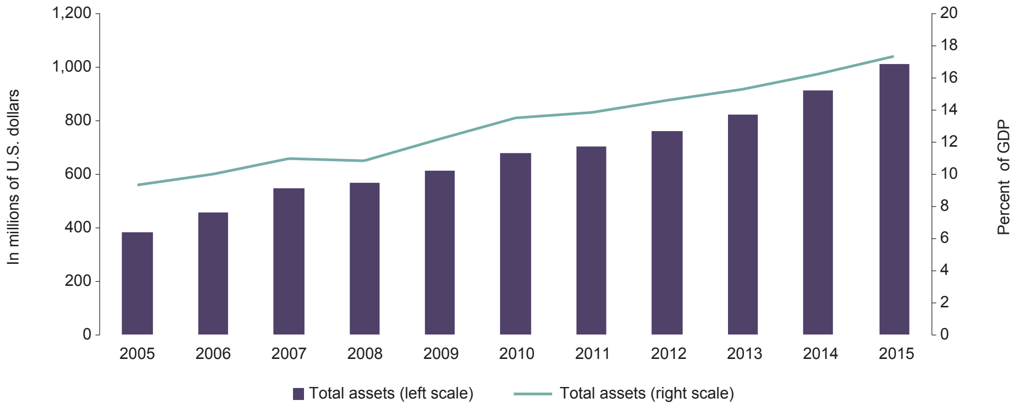
at 7–8 percent in St. Vincent and the Grenadines, 10.6 percent in Grenada, and 21 percent in St. Kitts and Nevis (September 2013).[17]

The insurance sector in the region is fragmented. It is comprised of 161 insurance registrants that represent 61 insurers serving a population of roughly 640,000, but the sector is dominated by a few players.[18] Overall, this translates into lower volumes

[17] The FSRC assumed responsibility for credit unions in 2012. Its implementation of a new supervisory framework based on the PEARLS prudential rating led to an increase in the NPL ratio.

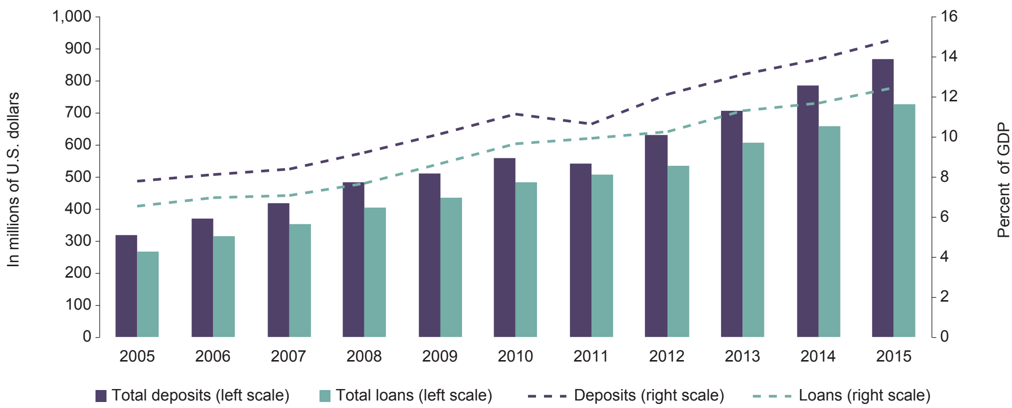
[18] This includes Anguilla and Montserrat.

Figure 1.38: Credit Union Assets in OECS Countries, 2005–2015 (in millions of U.S. dollars and percent of GDP)



Sources: Caribbean Confederation of Credit Unions (2016); and World Council of Credit Unions (2016).

Figure 1.39: Credit Union Loans and Deposits in OECS Countries, 2005–2015 (in millions of U.S. dollars and percent of GDP)



Sources: Caribbean Confederation of Credit Unions (2016); and World Council of Credit Unions (2016).

of business for many players and their inability to capture economies of scale. Their combined annual gross premiums are around US$314.4 million (around 5.9 percent of regional GDP). The collapse of CL Financial Limited in 2009 undermined consumer confidence in the sector (Box 1.3). Currently, there are discussions on consolidating the union's financial sector and establishing entry thresholds for the insurance industry to address fragmentation.

Overall, the macro developments discussed in this chapter had a significant effect on public finances. Both external and domestic developments contributed to the accumulation of public debt. Understanding the linkages and channels by which these economic developments affected public finances is the focus of the next chapter.

Box 1.3. The Collapse of CLICO and BAICO

The collapse in January 2009 of CL Financial and its subsidiaries, the Colonial Life Insurance Company (CLICO) and British American Insurance Company (BAICO), had an adverse impact on the financial system OECS. CLICO and BAICO were active in all 15 CARICOM states with the exception of Jamaica and Haiti. CLICO was the largest private insurance company in the region. By the end of 2007, its subsidiaries had made real estate investments in illiquid assets that represented 25 percent of their total assets. They also owned petrochemical plants that quickly lost value during the 2009 global downturn. In addition, CL Financial sold deposit-like products called Executive Flexible Premium Annuities through its affiliates across the Caribbean that paid higher interest rates (8–9 percent) than those offered by commercial banks.

The global downturn brought a sharp decline in methanol and real estate prices, which undermined consumer confidence in the company. This led to increasing withdrawal requests from policyholders and brought liquidity pressures on subsidiaries that eventually translated into insolvency. During July and September 2009, BAICO's branches in the OECS were placed under judicial management.

The collapse translated into significant contingent liabilities for the OECS countries. To mitigate contagion risk and stabilise the financial system, governments had to bail out policyholders. The greatest exposure and liabilities were in Grenada, where in 2009 they accounted for 19.3 percent of GDP. Antigua and Barbuda and St. Kitts and Nevis were also highly exposed at 15.4 percent and 15 percent of GDP, respectively (Box Table 1.3.1). The CLICO episode made evident weaknesses in the regulatory framework of the insurance industry in the OECS.

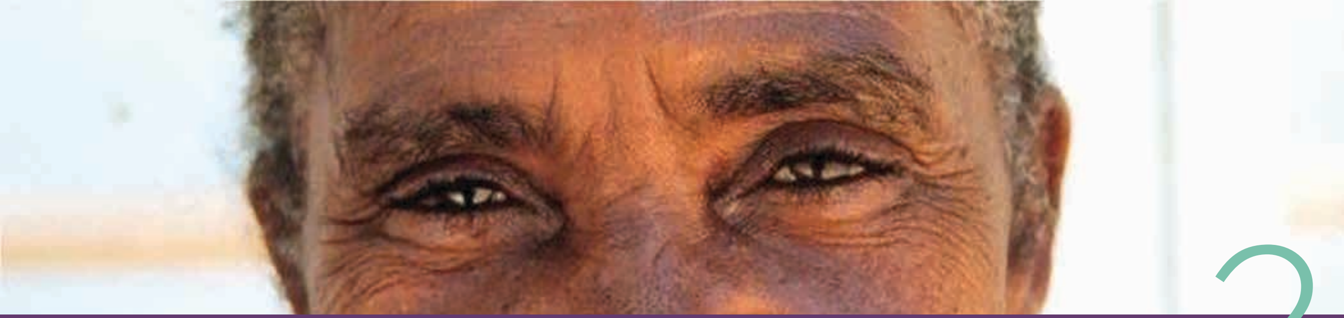
(continued on next page)

Box 1.3. The Collapse of CLICO and BAICO *(continued)*

BOX TABLE 1.3.1: Estimated Exposure to CLICO and BAICO, 2009

Exposed Sector	ECCU	Anguilla	Antigua and Barbuda	Dominica	Grenada	Montserrat	St. Kitts and Nevis	St. Lucia	St. Vincent and the Grenadines
In millions of EC dollars									
Total	2110.6	89.2	504.4	194.9	404.3	87.9	256.8	188.3	384.8
Commercial	126.7	45.7	0	37.4	7.2	25.7	5.3	0	5.4
Credit Unions	83.8	0	8.8	27.9	9.4	6.6	6.4	0	24.7
CLICO[a]	**989.4**	**18.4**	**216**	**119.7**	**158.8**	**47.5**	**105.7**	**149.3**	**174**
Commercial	83.2	17	0	37.4	0	21.9	1.5	0	5.4
Credit Unions	27.5	0	1.9	14.7	2.6	0	0	0	8.3
BAICO[b]	**1051.3**	**48.7**	**288.4**	**73.8**	**245.2**	**23.6**	**129**	**38.5**	**204**
Commercial	17.6	6.6	0	0	7.2	3.8	0	0	0
Credit Unions	47.8	0	6.9	11.8	6.5	0.6	6.4	0	15.6
Other[c]	**70**	**22.1**	**0**	**1.4**	**0.3**	**16.8**	**22.1**	**0.5**	**6.8**
Commercial	25.9	22.1	0	0	0	0	3.8	0	0
Credit Unions	8.5	0	0	1.4	0.3	6	0	0	0.8
In percent of 2009 GDP									
Total	**14.8**	**11.2**	**15.4**	**15**	**19.3**	**54**	**13.8**	**6.3**	**21.2**
CLICO[a]	**6.9**	**2.3**	**6.6**	**9.2**	**7.6**	**29.2**	**5.7**	**5**	**9.6**
BAICO[b]	**7.4**	**6.2**	**8.8**	**5.7**	**11.7**	**14.5**	**6.9**	**1.3**	**11.2**
Other[c]	**0.5**	**2.8**	**0**	**0.1**	**0**	**10.3**	**1.2**	**0**	**0.4**

Sources: Monroe (2013); and Schipke, Cebotari, and Thacker (2013, Chapter 12).
Note: BAICO = British American Insurance Company; CLICO: Colonial Life Insurance Company.
[a] As of end-2008, except for Dominica, which is as of March 2010.
[b] As of end-June 2009, according to the November 2009 judicial managers' report.
[c] Includes the CLICO Investment Bank, Caribbean Money Market Brokers, and the CL Financial Group.



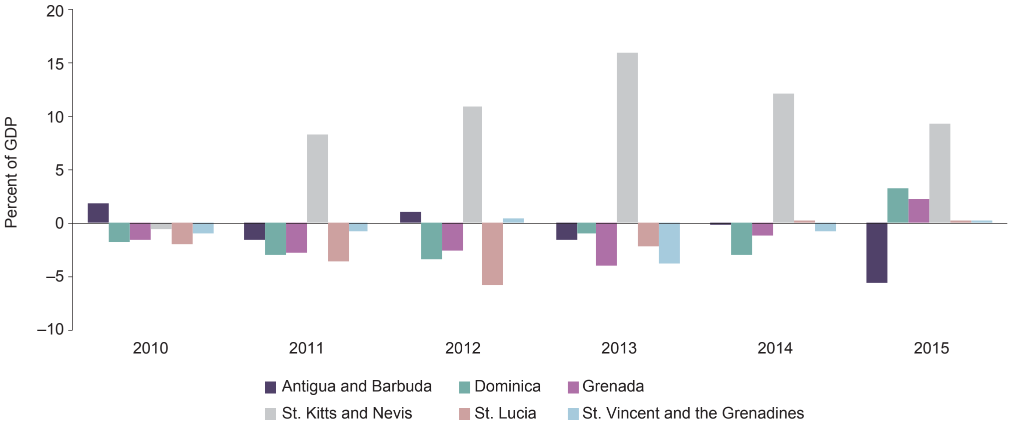
2 The Eastern Caribbean Countries Lived Beyond Their Means

A combination of external and domestic factors has contributed to the deterioration of the fiscal position of the OECS countries. On the external side, the economic downturn in 2009 affected revenues and growth, while frequent natural disasters have brought unforeseen reconstruction costs that have been financed with public debt. The classification as upper-middle-income or high-income countries became a burden on financing, limiting access to concessional funding. On the domestic side, loose fiscal policy translated into sustained primary deficits. This chapter examines public finances, decomposes the debt portfolio, and explores the sustainability of the countries' debt trajectories. Meeting the Eastern Caribbean Central Bank's target of reducing public debt to 60 percent of GDP by 2030 is feasible with moderate and gradual fiscal consolidation, although it represents more of a challenge for some countries than others.

With the economic downturn in 2009, vacations were cancelled. For the tourism-based economies of the Eastern Caribbean this meant a slowdown in economic activity that disrupted revenues, pressured spending, and led to higher public debt. Hurricanes and floods hit the islands on a recurring basis, but these costly adverse external shocks were only a small part of the fiscal story of the Eastern Caribbean. At the heart of the deterioration of public finances were domestic developments and loose fiscal policy. The growth of public spending outpaced revenue collection and primary deficits widened. Today, public debt levels across the OECS are high—they averaged over 80 percent of GDP in 2015, which is above the recommended thresholds for the countries' income levels.

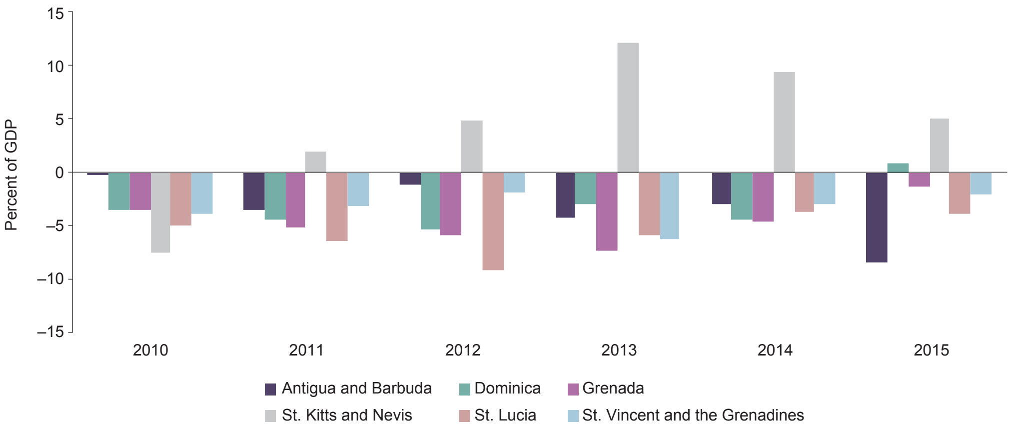
The OECS countries are in a race between development goals and financial means. Since the 2009 downturn, all islands with the exception of St. Kitts and Nevis sustained fiscal deficits—the union's annual average stood at –2.8 percent of GDP from 2009–2015—and borrowed to close the revenue gap. The lower revenue collection came with double-digit wage bills in some countries and significant capital investment in others,

Figure 2.1: Primary Balances, 2010–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.

Figure 2.2: Overall Fiscal Balances, 2010–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.

along with contingent liabilities. With limited concessional financing options, the typical OECS debt portfolio carried greater risk, higher interest rates, and shorter maturities.

Since 2013, the OECS has moved from fiscal deficits to surpluses (Figures 2.1 and 2.2). The average primary balance improved from a 0.6 to 1.6 percent of GDP surplus between 2013 and 2015, while the overall balance narrowed from –2.4 to –1.6 percent of GDP. All countries, with the exception of Antigua and Barbuda, achieved primary surpluses in 2015 for the first time since the 2009 downturn.[1]

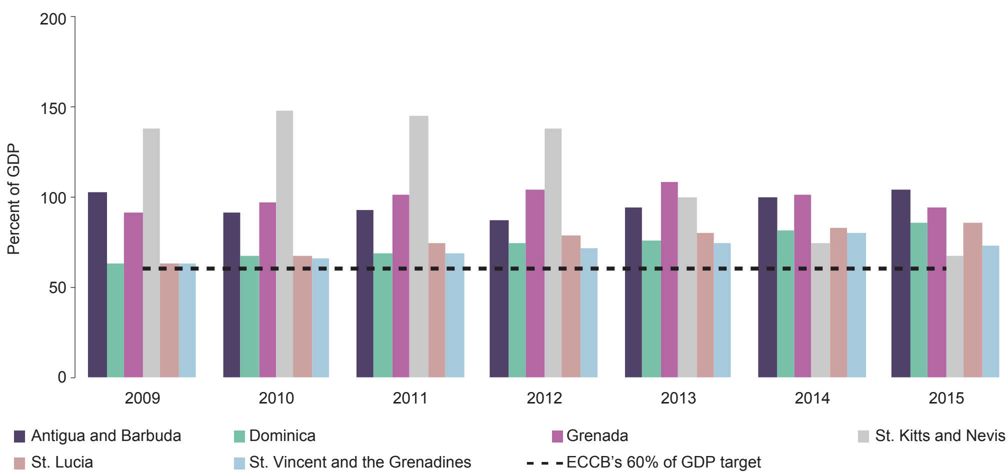
[1] The deficit in Antigua and Barbuda deficit worsened in 2015 as contingent liabilities led to higher outlays of current expenditure.

Fiscal multipliers across the Caribbean are small because of the islands' heavy reliance on imports. Public investment had a smaller impact on output than it may have had otherwise (e.g., in Latin America) due to leakages and heavy import content. Tax and public expenditure multipliers provide a quantitative measure of the change in output resulting from an increase in taxes or government spending and are essential to assess the effectiveness of fiscal policy in managing output fluctuations. Gonzalez-Garcia, Lemus, and Mrkaic (2013) used panel data and value-at-risk models to estimate fiscal multipliers of government consumption and investment expenditure and of tax revenue for the OECS. Their results suggest that only the government investment expenditure multiplier is statistically different from zero and that the value of the multiplier is positive and less than one (0.60). Much of the intended impulse expands the demand for imports given that OECS members are small island economies highly open to international trade. On the other hand, public consumption and tax revenue consistently show multipliers that are not statistically different from zero.

2.1. Public Debt Today Sits Uncomfortably High at an Average of Around 80 Percent of GDP

Debt levels are well above the ECCB's debt target of 60 percent of GDP, with the exception of St. Kitts and Nevis (Figure 2.3). These levels are above the empirical thresholds that countries at this income level can carry before becoming a drag

Figure 2.3: Public Debt, 2009–2015 (percent of GDP)



Source: IMF, *World Economic Outlook*, October 2016.
Note: ECCB = Eastern Caribbean Central Bank.

on growth.[2] Since 2010, St. Kitts and Nevis, Antigua and Barbuda, and Grenada have approached the IMF to support their fiscal consolidation efforts. Both St. Kitts and Nevis and Antigua and Barbuda completed IMF Stand-by Agreement Programmes in 2013, while Grenada commenced a three-year Extended Credit Facility programme in 2014. In acknowledgement of the challenges faced by the region's governments, the ECCB shifted the ambitious debt target of 60 percent of GDP from 2020 to 2030.

Sustained primary deficits and interest rates were the drivers of debt accumulation in the OECS. The results of a public debt decomposition exercise per country show a common denominator. Primary balances were the main contributor to debt growth in St. Vincent and the Grenadines, Grenada, and St. Lucia. In Dominica and Antigua and Barbuda, the combination with external interest rates jointly contributed to higher debt. Domestic interest rates were also debt-creating in St. Kitts and Nevis, but the sustained primary surpluses achieved after FY2010/2011, as well as robust growth in 2013/2014, countered them and drove a debt reduction effect. The GDP deflator was debt-reducing in years of high inflation, while the fixed exchange rate regime had a neutral impact on public debt.

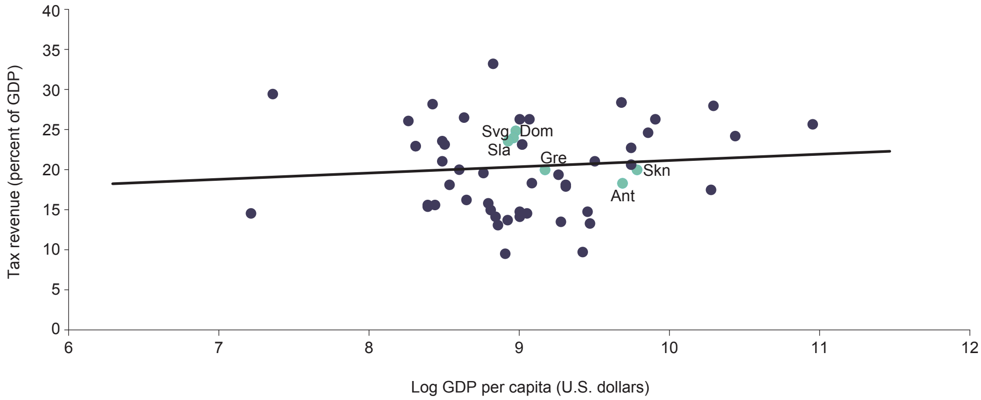
Moving on a path towards long-term fiscal sustainability would require fiscal space. To create greater fiscal space, countries in the Eastern Caribbean could focus on greater efficiency in tax revenue collection, as well as on improving allocative efficiency through changes in the composition of current expenditures.

2.2. Creating Fiscal Space through Revenue Collection

Current revenue collection in the OECS is insufficient to cover development needs and build buffers to protect countries from natural events. The average tax collection ratio in the OECS, at 21.5 percent of GDP in 2015, is below that of other upper- and high-middle-income countries (Figures 2.4 and 2.5). Antigua and Barbuda reported the lowest tax revenue-to-GDP ratio, at 18.3 percent of GDP in 2015, while Dominica recorded the highest at 24.9 percent.

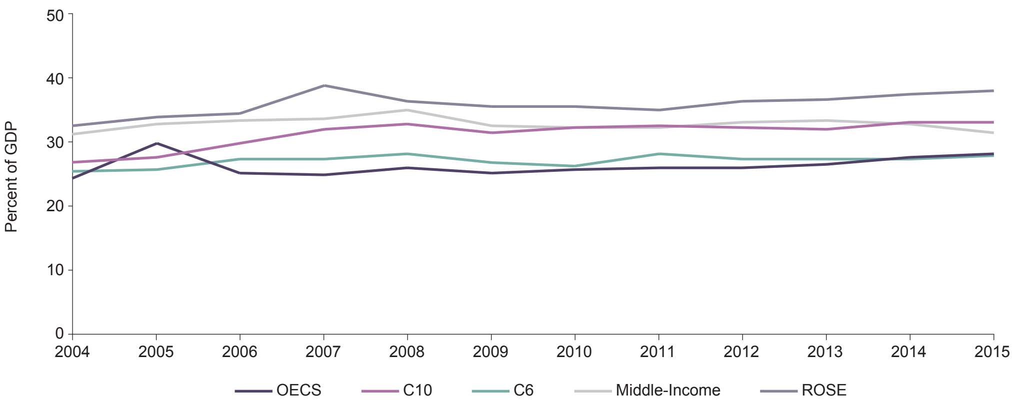
[2] For operational purposes, the IMF, World Bank, and IDB use benchmarks to determine the amount of debt a country can sustain before it becomes a drag on growth. The criteria consider the level of development and quality of institutions. The benchmark for low-income countries is roughly 62 percent of GDP in total public and publicly guaranteed debt, while for market-access countries the benchmark is 70 percent of GDP. These thresholds are consistent with empirical evidence that suggests that debt above these levels has a negative impact on growth. Low-income countries have access to concessional funding and below-market conditions, while market-access countries are limited by terms and conditions of financial markets. In practice, assessing debt sustainability involves probabilistic judgments about the trajectory of debt, the net present value of future surpluses, and the availability of financing on favourable terms.

Figure 2.4: Government Tax Revenue and Log GDP Per Capita in OECS Countries, 2015



Sources: Eastern Caribbean Central Bank; and World Bank, World Development Indicators.
Note: OECS = Organisation of Eastern Caribbean States.

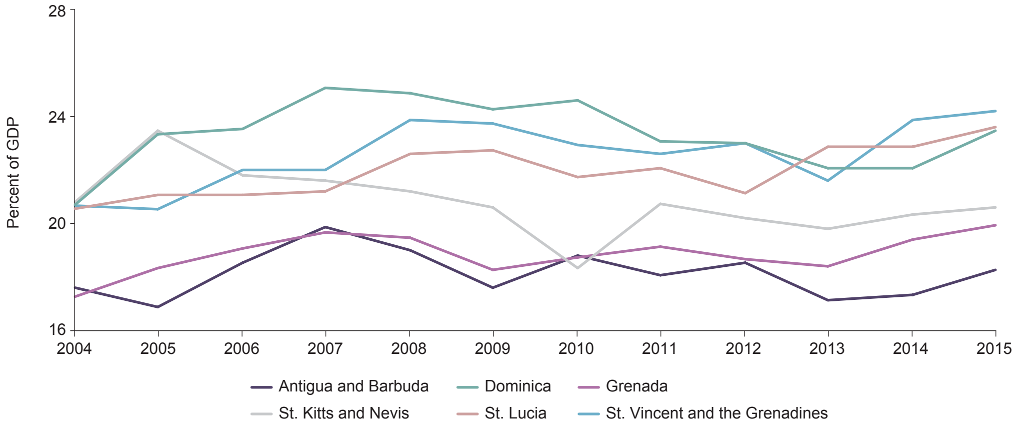
Figure 2.5: Government Revenue Comparison, 2004–2015 (percent of GDP)



Sources: Eastern Caribbean Central Bank; and World Bank, World Development Indicators.
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; Middle-income = Countries with GNI per capita between US$4,036 and US$12,475; OECS = Organisation of Eastern Caribbean States; ROSE = rest of the small economies of the world.

Tax revenue growth has remained flat over time (Figure 2.6). St. Lucia, Grenada, and St. Vincent and the Grenadines were the only countries with tax-revenue-to-GDP ratios that were higher in 2015 vis-à-vis 2008 as a result of new taxes rather than higher rates. In Antigua and Barbuda, Dominica, and St. Kitts and Nevis, tax revenues have yet to recover to pre-crisis levels. As discussed in Chapter 1, the post-2009 years saw lower economic activity, and revenues did not grow despite the introduction of new taxes and the value-added tax (VAT).

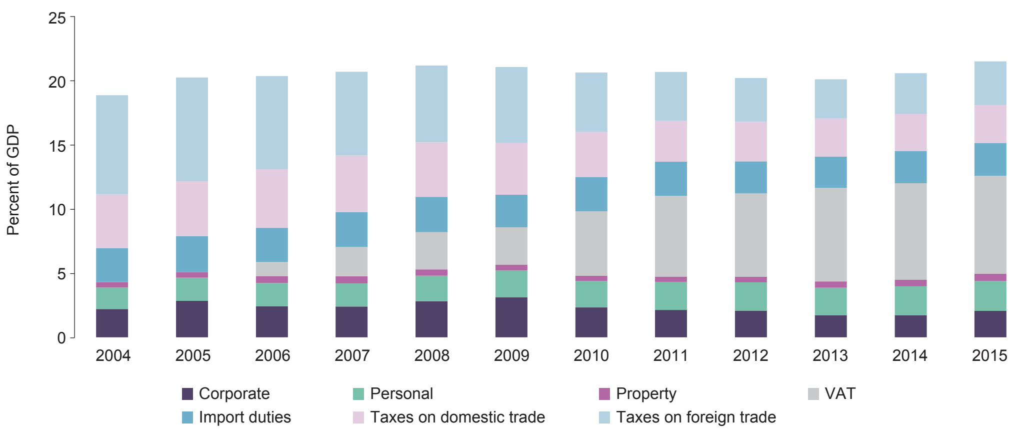
Figure 2.6: **Tax Revenue, 2004–2015 (percent of GDP)**



Source: Eastern Caribbean Central Bank.

OECS countries are heavily dependent on indirect taxes. Indirect taxation that is comprised of the VAT, customs duties, and excises accounted for over 75 percent of total tax revenue collection or 16.5 percent of GDP in 2015 (Figure 2.7). Direct taxes, personal income, property, and corporate taxes accounted for 4.9 percent of GDP. This emphasis on indirect taxation is greater than that of other countries in the same income bracket. Corporate taxes tend to represent a small share, as they apply to a narrow base: their collection ranged from 1.1 percent of GDP in Antigua and Barbuda to 2.8 percent in St. Kitts and Nevis in 2015. Narrow tax bases are a reflection of exemptions and concessions to the largest industry—tourism. The heavy reliance on indirect

Figure 2.7: **Composition of Tax Revenue in OECS Countries, 2004–2015 (percent of GDP)**



Source: Eastern Caribbean Central Bank.
Note: OECS = Organisation of Eastern Caribbean States; VAT = value-added tax.

taxes tends to be regressive because the burden is equally shared across households, regardless of their capacity to pay. Hence, taxes like the VAT or custom duties account for a larger share of poorer households' income. In contrast, direct taxes are progressive, but come with a distorting effect on growth because they alter returns to capital and investment. There is no right proportion of direct to indirect taxation, but it is important to achieve the right balance between a tax structure that is pro-poor while at the same time cognizant of the impact on growth.

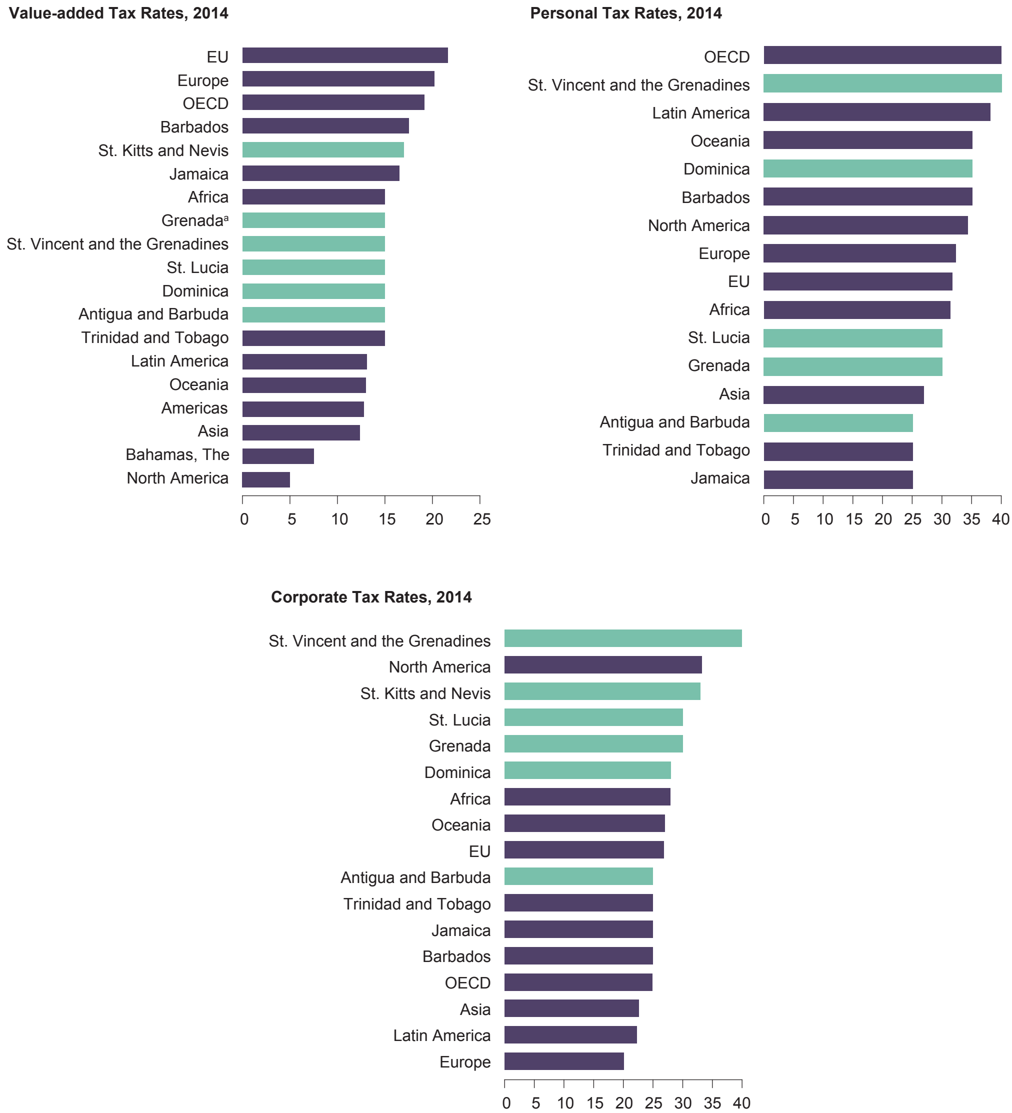
Over the past decade, the introduction of the VAT changed the composition of revenue from a heavier reliance on customs duties. With support from the IMF, the VAT was introduced in Dominica (2006), St. Vincent and the Grenadines (2007), St. Kitts and Nevis (2010), Grenada (2010), and St. Lucia (2012), while Antigua and Barbuda introduced a sales tax (2007). Within the OECS, the VAT streamlined a slate of taxes on consumption and hotel accommodation and helped to simplify the system.

VAT rates in the OECS are comparable to other middle-income countries, but exemptions, zero-ratings, and reduced rates narrow the base (Figure 2.8). Most countries in the union share a maximum rate of 15 percent. However, in St. Kitts and Nevis the rate is higher at 17 percent, while in Grenada only mobile phones (talk and text) are subject to a rate of 20 percent. Lower rates that vary by country for the tourism sector were negotiated with the industry as incentives for private investment. Generally, the rates average 10 percent (or 10.5 percent in Antigua and Barbuda, and 8 percent in St. Lucia). Additionally, basic food items tend to be zero-rated, and other items (such as medical, educational, and financial services) are exempted from the VAT. Having multiple VAT rates, with different applicable exemptions, complicates tax administration and compliance, and creates opportunities for evasion.

Over the past decade, the OECS embraced greater trade openness and relied less on international trade taxes. There has been a shift from heavy reliance on international trade taxes with the aim of reducing barriers and complying with World Trade Organization requirements. For these countries that are heavily dependent on imports of food, fuel, and inputs, this is a positive development. In October 2008, the OECS countries signed the CARIFORUM-EU Economic Partnership Agreement (EPA), a free trade agreement with the European Union with a gradual reduction of tariffs. Bilateral agreements were signed with Canada, Colombia, Cuba, Costa Rica, the Dominican Republic, and Venezuela. The union aims to continue that route by further reducing tax incentives for exports.

Revenues from personal and corporate taxes in the OECS under-perform compared to countries at their income level. Both corporate and personal income tax rates range from 25–40 percent, rates that are in line with or higher than those in most middle-income countries (Figure 2.8). However, collections are lower than in the region's peers because the base is too narrow. Antigua and Barbuda already had the lowest

Figure 2.8: Corporate, Personal, and Value-added Tax Rates in the OECS and Other World Regions, 2014 (percent)



Sources: KPMG (2016); and the Government of Grenada (2016).
Note: EU = European Union; OECD: Organisation for Economic Co-operation and Development; OECS = Organisation of Eastern Caribbean States.
[a] Grenada has a tax rate of 15 percent for most goods and services with a maximum rate of 20 percent on mobile phones (talk and text).

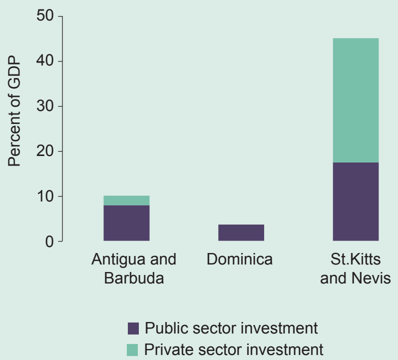
personal income tax rates in the OECS, ranging from 10 to 25 percent, but abandoned the tax altogether in April 2015. St. Kitts and Nevis does not apply a personal income tax in the strict sense, but applies a "social service" fee to wages. However, the rates for this levy are low, ranging from 3 to 13 percent.

OECS countries boosted non-tax revenues significantly by selling citizenship for investment. Inflows had a real sector impact, especially on construction and real estate, and increased tourism room capacity, particularly in St. Kitts and Nevis and Antigua and Barbuda. However, this volatile revenue stream comes with downside risks for external and financial stability (see Box 2.1).

Box 2.1. Citizenship by Investment Programmes in the OECS

Five OECS countries have implemented Citizenship by Investment (CBI) Programmes to attract private investment and stimulate growth.[a] St. Vincent and the Grenadines is the only nation that does not have such a scheme. CBI programmes are particularly attractive for small states, as inflows can have a significant economic and fiscal impact. Potential investors can (1) make non-refundable contributions to governments or quasi-government funds; or (2) invest in real estate, which can be sold after a specific time horizon. In addition, high application and processing fees contribute to public finances.

Box Figure 2.1.1: Citizenship by Investment Inflows, 2015 Estimates (percent of GDP)



Sources: Xu, El-Ashram, and Gold (2015); and IMF Article IV Staff Report for the Eastern Caribbean Currency Union, October 2016.

CBI inflows were highest in St. Kitts and Nevis with revenues of 17.4 percent of GDP in 2015. Inflows reached 7.9 percent of GDP in 2015 in Antigua and Barbuda and 3.6 percent in Dominica (Box Figure 2.1.1). St. Kitts and Nevis also receives contributions to its Sugar Industry Development Fund (SIDF). Created in 2006 to finance the diversification of the economy following the closure of the sugar industry, the SIDF is used to support social and economic programmes, such as the People Employment Programme and subsidies to St. Kitts Electricity Services. Likewise, The National Development Fund in Antigua and Barbuda and the National Transformation Fund in Grenada are two other vehicles to which investors can make donations in exchange for citizenship.

CBI programmes can result in significant gains for small states. They boost private sector investment and economic activity in these economies, many of which are still recovering from the 2009 financial crisis. Programmes with private investment options can have a direct real sector impact, especially on construction and real estate, and

(continued on next page)

Box 2.1. Citizenship by Investment Programmes in the OECS *(continued)*

increase tourism room capacity. For example, the inflows into the real estate sector in St. Kitts and Nevis are fuelling a construction boom, which has pulled the economy out of a four-year recession. A country could also see an improvement in its external accounts through increased private capital transfers and foreign direct investment (CBI-related real estate investments). In the financial sector, these inflows can increase liquidity within the banking system and generate an expansion in monetary aggregates. However, Xu, El-Ashram, and Gold (2015) advocate for a share of revenues to be saved and to build fiscal buffers to alleviate excessive demand pressures. Additionally, these inflows should be used to help countries deal with exogenous shocks—to which small economies are significantly more vulnerable—and reduce public debt.

However, these programmes also come with downside risks. Large and persistent inflows may lead to adverse macroeconomic effects, such as Dutch disease, undermine fiscal discipline, and drive inflation, while taking a toll on competitiveness. Large and rapid inflows of private investment to finance real estate construction could also lead to wage and asset price (inflationary) pressures in a small state context. Programme inflows can be volatile and may be subject to sudden-stop risk. Hence, over-reliance on this revenue stream may have negative implications for external and financial stability. CBI inflows tend to increase imports, which can offset improvements in the current account from fiscal receipts. Moreover, macroeconomic overheating may generate shifts in the real exchange rate, which can adversely affect the country's external competitiveness over the long run. Large CBI inflows can also affect the financial stability of small economies given their limited banking systems coupled with undiversified options for credit expansion. For instance, in St. Kitts and Nevis, the strong accumulation of deposits from the CBI Programme has complicated liquidity management in the domestic banking system in light of limited and undiversified domestic investment opportunities (Xu, El-Ashram, and Gold 2015).

[a] The CBI programmes in St. Kitts and Nevis and Dominica where launched in 1984 and 1993, respectively, while they were launched in Antigua and Barbuda and Grenada in 2013 and in St. Lucia in 2016.

The region has made efforts to improve revenue administration over the last 10 years. The introduction of the VAT was accompanied by improvements in taxpayer services, collection enforcement, and assessments and appeals. Moreover, successful reforms were achieved with respect to customs administration, which focused on upgrading information technology systems and streamlining procedures to facilitate trade. Specifically, several countries furthered their tax reform agendas, improving their institutional arrangements and the ease of administration. However, administration and compliance remain a challenge in the union. In St. Lucia, the corporate income tax regime was reviewed, a presumptive tax was designed for implementation in FY2017, and the VAT threshold was increased to EC$400,000 effective February 1, 2016.

There is potential to increase revenue collection in the OECS. In an environment where countries are borrowing to cover expenditures, revenues could contribute more to close this gap. On the tax policy side, measures to broaden the base include limiting tax incentives,[3] reducing exemptions from the VAT, income taxes, and property taxes, and applying excise taxes to all traditional goods. The monitoring of tax concessions that is informed by cost-benefit analysis could be strengthened. Implementing a shift from tax holidays to tax allowances and/or tax credits would create a link between the benefit of the incentive and the overall investment levels. A broader base would allow for more equitable distribution of the tax burden, making it less regressive while strengthening revenue performance. On the tax administration side, efforts to fight tax evasion and strengthen compliance and audit would pay off. These reforms would be more successful with greater tax policy coordination and harmonization across countries in the union.

2.3. Creating Fiscal Space through Changes in the Composition of Expenditures

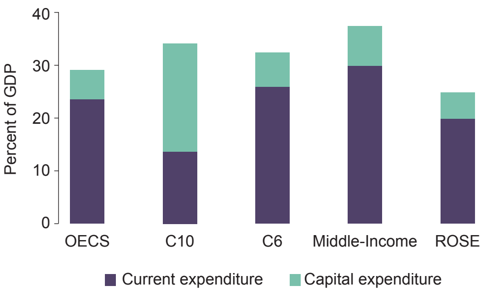
Fiscal imbalances are more evident in the Eastern Caribbean on the expenditure side. There is scope to create fiscal space through changes in the composition of public spending. This section looks at spending levels and trends and sheds light on what is driving the region's financing gap.

2.3.1. Over the Past Decade, the OECS Countries Lived Beyond Their Means

OECS countries borrowed to make ends meet and mostly for current expenditures, particularly to fund the wage bill and transfers and subsidies. While total spending in the region at over 30 percent of GDP from 2004–2012 was lower than that of small economies in the rest of the world (ROSE), affordability was the issue (Figure 2.9). The 2007 Cricket World Cup boosted infrastructure, but capital spending peaked in 2006 at 8.1 percent of GDP and moderated to an average of 5.4 percent by 2015 (Figure 2.10). As financing conditions got tighter, current spending crowded out capital investment.

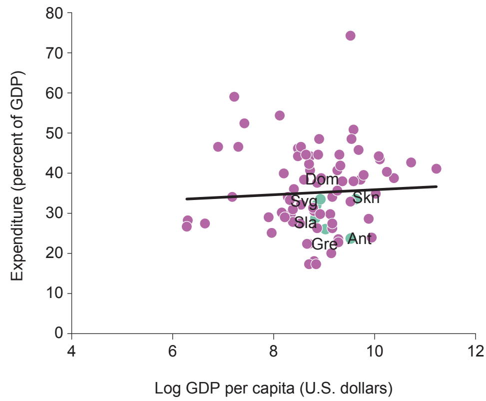
[3] Klemm and Van Parys (2009) analyzed the use of incentives as tools of tax competition and for their effectiveness in attracting investment in 47 African and Latin American and Caribbean countries over a 20-year period. Findings suggest that while tax incentives provided by corporate income tax rates and tax holidays are effective in attracting FDI, this is not the case in terms of increasing overall private investment or growth. The authors conclude that the tax incentives' ultimate benefits for the economy may be limited.

Figure 2.9: **Total Public Spending, 2015 (percent of GDP)**



Sources: Eastern Caribbean Central Bank; and World Bank, World Development Indicators.
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; Middle-income = Countries with GNI per capita between US$4,036 and US$12,475; OECS = Organisation of Eastern Caribbean States; ROSE = rest of the small economies of the world.

Figure 2.10: **Total Public Spending in OECS Countries, 2015 (percent of GDP)**

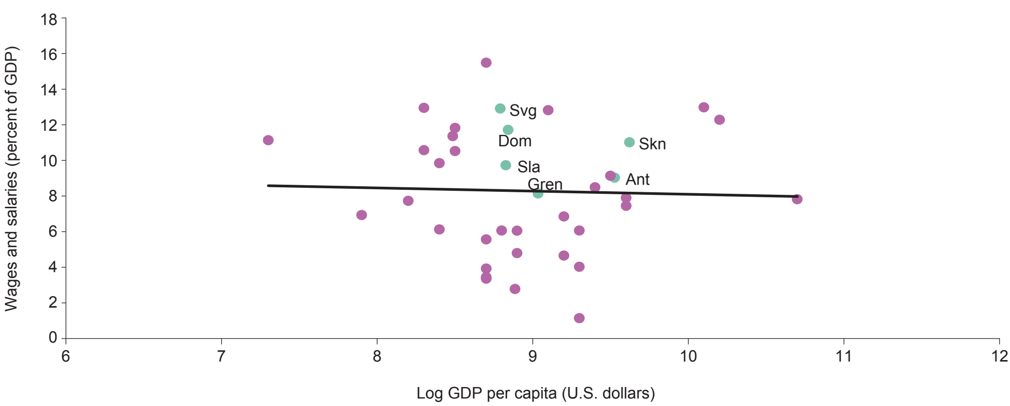


Sources: Eastern Caribbean Central Bank; and World Bank, World Development Indicators.
Note: OECS = Organisation of Eastern Caribbean States.

These levels of public investment turned out to be less transformational for these economies, and while they came with growth dividends, the effect was short-lived.

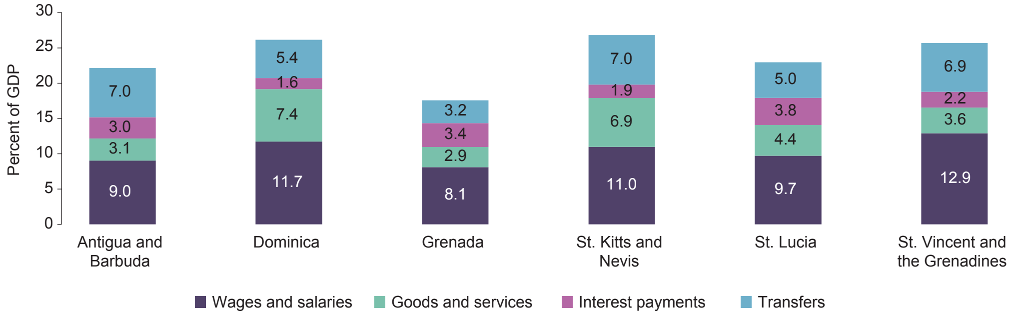
The public sector wage bill grew to become the largest budget item, averaging 45 percent of current expenditures. Wages and salaries averaged 9–10 percent of GDP annually during 2004–2015, which sets the OECS amongst a group of countries with the highest wage bills in the world (Figure 2.11). A combination of factors drove this phenomenon. On one hand, small island developing states tend to have larger public sectors, as opposed to continental Latin American peers where the private sector plays a greater role. Further, after 2007, and with stagnation in tourism, the public

Figure 2.11: **Wages and Salaries, 2015 (percent of GDP)**



Sources: Eastern Caribbean Central Bank; and World Bank, World Development Indicators.

Figure 2.12: Composition of Expenditure, 2015 (percent of GDP)

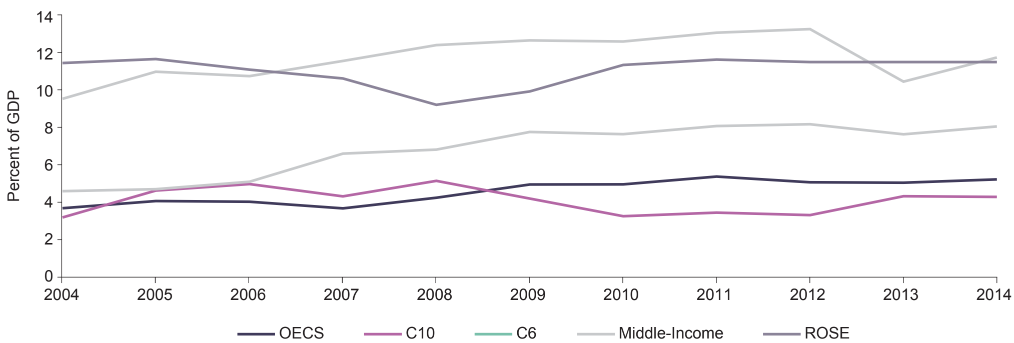


Sources: Eastern Caribbean Central Bank; and World Bank, World Development Indicators.

sector became an employer of last resort. As OECS countries underwent stimulus after the 2009 global downturn, the higher spending translated into growing public sector wage bills. These numbers may be on the low side because they exclude contractual employees who perform civil service duties, but are paid through the "goods and services" budget. St. Vincent and the Grenadines led the way with the most expensive wage bill at 12.9 percent of GDP in 2015 (Figure 2.12). With an expensive civil service, the budget in the OECS became more rigid over time.

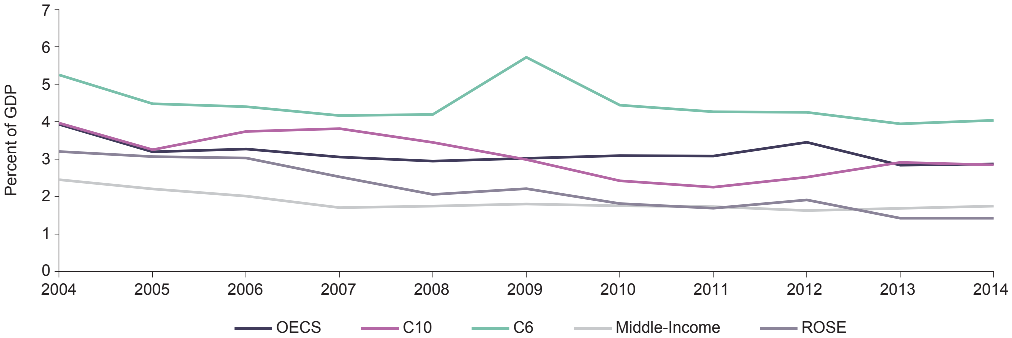
Transfers and subsidies were the second public spending priority. The average allocation for transfers and subsidies in the OECS increased from 3.7 percent of GDP in 2004 to 5.8 percent of GDP in 2015. St. Kitts and Nevis and Antigua and Barbuda allocated 7 percent of GDP in 2015, followed by St. Vincent and the Grenadines at 6.9 percent of GDP (Figure 2.13). Subsidies in the form of electricity, transportation,

Figure 2.13: Transfers and Subsidies, 2004–2014 (percent of GDP)



Source: World Bank, World Development Indicators.
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; Middle-income = Countries with GNI per capita between US$4,036 and US$12,475; OECS = Organisation of Eastern Caribbean States; ROSE = rest of the small economies of the world.

Figure 2.14: **Interest Payments, 2004–2014 (percent of GDP)**



Source: World Bank, World Development Indicators.
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; C10 = Cabo Verde, Fiji, Lebanon, Maldives, Palau, Samoa, Seychelles, Timor-Leste, Tonga, and Vanuatu; Middle-income = Countries with GNI per capita between US$4,036 and US$12,475; OECS = Organisation of Eastern Caribbean States; ROSE = rest of the small economies of the world.

childcare, etc. became a budget priority over time. The state-owned enterprises (SOEs) that delivered these benefits received transfers to cover losses that came in the form of a combination of high operating expenses and tariffs below cost-recovery. The norm became that SOEs were unable to pay for capital replenishment and passed on their investment bill to their governments, which borrowed in turn. With limited targeting of welfare programmes, these benefits and their impact came at a high expense.

Interest payments remained relatively steady over the last five years (Figure 2.14). After peaking at 3.9 percent of GDP in 2004, interest payments in the OECS declined to 2.7 percent of GDP on average by 2015. This reflects the fact that OECS countries underwent debt restructuring as part of their IMF adjustment programmes that managed to stabilise debt service. While it is higher than in ROSE, the figure has not increased at the rate of other Caribbean countries or other countries in the same income bracket.[4]

Capital expenditures widened the fiscal position of the Eastern Caribbean. An evident trend is capital projects contributing to higher public debt. In the absence of monetary policy instruments to stimulate output, governments pursued expansionary fiscal policy and the average share of public investment was above 5-6 percent after 2007. Countries invested in new airports, like Antigua and Barbuda and St. Vincent and the Grenadines, as well as reconstruction following natural disasters in St. Lucia, Dominica, and St. Vincent and the Grenadines. While deep investment is growth-positive, affordability was an issue and these investments were largely public-sector driven and contributed to debt accumulation.

[4] The countries that underwent debt restructuring were Dominica (2004), Grenada (2005), Antigua and Barbuda (2010), and St. Kitts and Nevis (2011).

2.3.2. Public Debt: What Is the OECS Medium-term Fiscal Outlook? Will Countries Reach the ECCB's Debt Reduction Target of 60 Percent of GDP by 2030?

While fiscal policy is the responsibility of member states, 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. This section explores the feasibility of this endeavour and the fiscal effort required to achieve it.

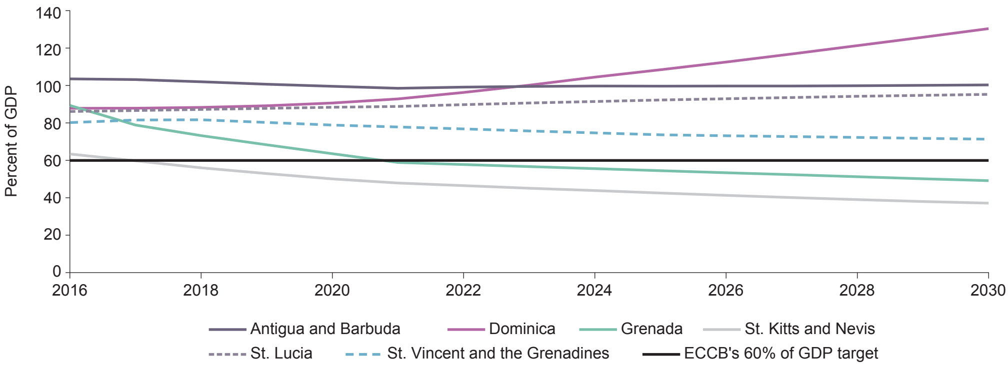
OECS countries would be on track to meet their debt reduction target if they were to undertake gradual and reasonable fiscal consolidation efforts. To understand the scale of the adjustment necessary to reach 60 percent of GDP, standard debt sustainability analysis based on medium-term fiscal projections was conducted. The findings suggest that all OECS countries could have fiscal sustainability within their reach and be on track to meet this goal, but with varying degrees of consolidation. This is a powerful finding that marks a difference between the Eastern Caribbean and other countries in the region where the associated adjustment would be unrealistically large.

The simulations that follow are based on the following macro assumptions. Economic aggregates for 2017 and beyond are assumed to grow at their long-run 15-year historical average, including real GDP and inflation. On the revenue side, tax revenues are assumed to grow in line with nominal GDP (an elasticity of 1), and non-tax revenues are assumed to be fixed at their current level, with the exception of CBI revenues that gradually draw down to their long-run average. On the expenditure side, wages and salaries are presumed to grow in line with nominal GDP, while goods and services and transfers and subsidies grow at the rate of inflation. Capital expenditures are assumed to remain at their long-run share of GDP. For Grenada, the IMF's Extended Credit Facility (ECF) targets are assumed to hold until the end of the programme.

Four countries would fall short of the ECCB's target under the baseline scenario and with fiscal policy on its current trajectory (Figure 2.15). Only St. Kitts and Nevis and Grenada would see a declining debt trend in the absence of policy changes. While at a different pace, both countries would achieve the ECCB public debt target of 60 percent of GDP: St. Kitts and Nevis would do so by 2017 and Grenada by 2021. In contrast, debt would stabilise, but not decline in St. Vincent and the Grenadines at 71.3 percent of GDP and in Antigua and Barbuda at 100.1 percent of GDP by 2030. Public debt in Dominica and St. Lucia would continue in an explosive unsustainable trajectory.

With heterogeneity across the OECS, countries would fall into three groups: (1) those where policy reforms and fiscal consolidation should be a priority to move on a path towards sustainability; (2) those for which further fiscal effort is needed to reduce public debt; and (3) those already on track towards fiscal sustainability.

Figure 2.15: Debt Forecast, 2016–2030 (percent of GDP)

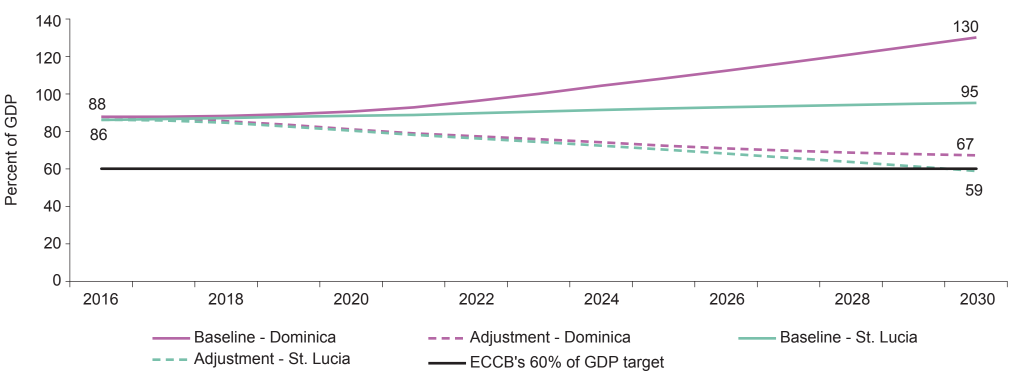


Source: IDB staff calculations.

2.3.3. Public Debt in Dominica and St. Lucia Is on an Unsustainable Track

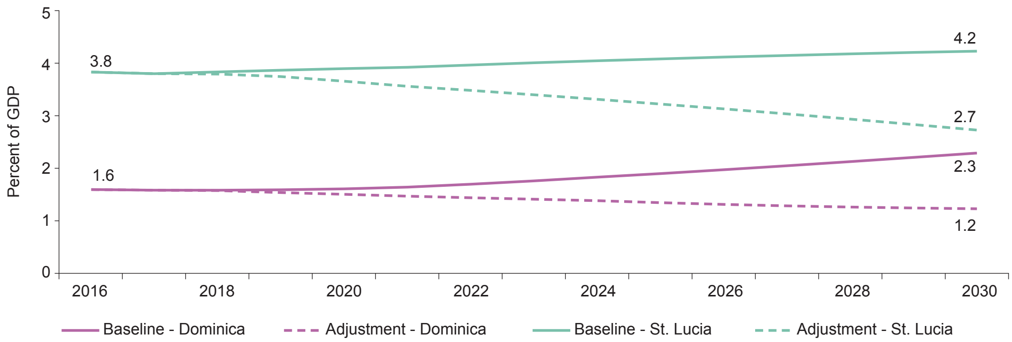
Under the baseline scenario, Dominica and St. Lucia would face an explosive debt trajectory. In the absence of fiscal consolidation, debt is projected to grow during 2016–2030 from 88 to 130 percent of GDP in Dominica and from 86 to 95 percent of GDP in St. Lucia (Figure 2.16). Therefore, an adjustment of around 6.2 percent of GDP could reduce public debt to around 67 of GDP by 2030 in Dominica at a long-run growth forecast of 1.7 percent annually (Figure 2.16). Dominica would require a balanced budget, and an average primary surplus of 0.2 percent of GDP during the period. Conversely, St. Lucia would require a more measured adjustment of 2.7 percent of GDP that could be spread over 2018–2020, if long-term growth averages 2 percent. The adjustment debt trajectory in Figure 2.16 for St. Lucia would be associated with an average primary surplus of 2.4 percent of GDP annually during 2018–2030. Overall, the findings suggest that while

Figure 2.16: Debt Forecasts for Dominica and St. Lucia, 2016–2030 (percent of GDP)



Source: IDB staff calculations.

Figure 2.17: Interest Payments for Dominica and St. Lucia, 2016–2030 (percent of GDP)



Source: IDB staff calculations.

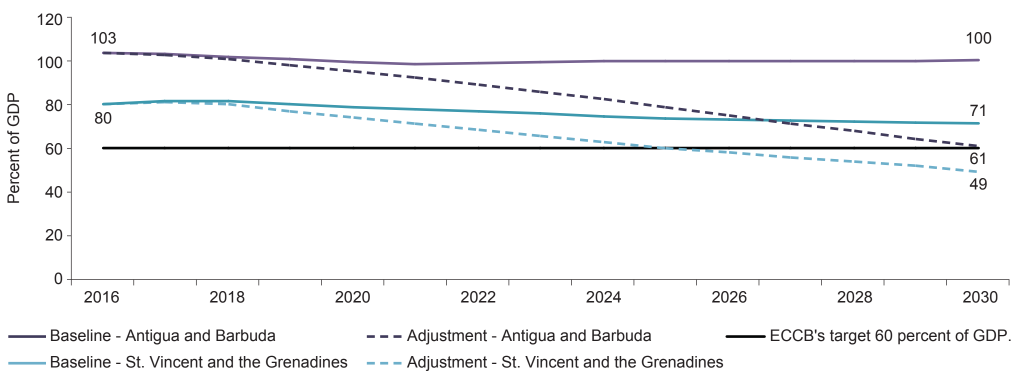
fiscal consolidation is needed, the additional effort in both countries is feasible. The adjustment could be gradual and shared between revenue and expenditure measures.

The successful implementation of fiscal consolidation would create fiscal space and reduce debt service. Interest payments in Dominica could fall from 1.6 to 1.2 percent of GDP from 2016 to 2030, while in in St. Lucia they would fall from 3.8 to 2.7 percent of GDP (Figure 2.17).

2.3.4. Public Debt Might Stabilise, but Would Not Decline in Antigua and Barbuda and St. Vincent and the Grenadines with Business as Usual

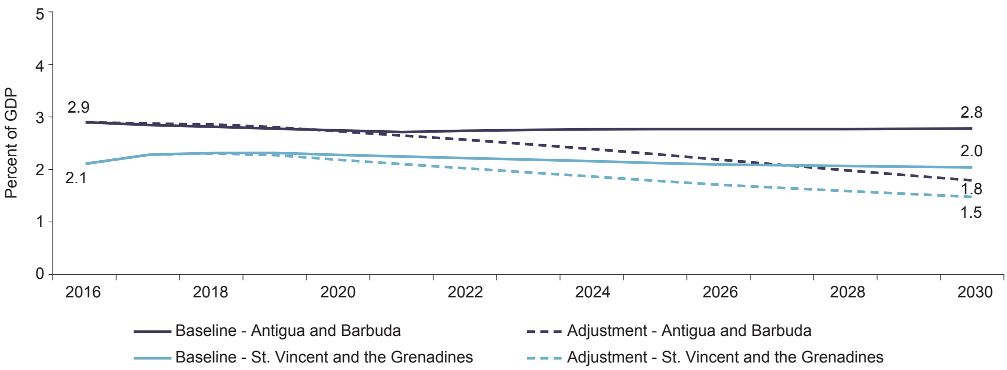
In the absence of fiscal consolidation, debt is projected to stabilise, but not decline, in Antigua and Barbuda at 100 percent of GDP by 2030 at the baseline long-term growth average of 2.7 percent (Figure 2.18). Similarly, in St. Vincent and the Grenadines debt is

Figure 2.18: Debt Forecasts for Antigua and Barbuda and St. Vincent and the Grenadines, 2016–2030 (percent of GDP)



Source: IDB staff calculations.

Figure 2.19: **Interest Payments for Antigua and Barbuda and St. Vincent and the Grenadines, 2016–2030 (percent of GDP)**



Source: IDB staff calculations.

projected to stabilise at 71 percent of GDP by 2030 if long-term growth averages 2.4 percent (Figure 2.18).

A frontloaded primary adjustment in Antigua and Barbuda of 3.75 percent of GDP spread over 2018–2020 would place debt on a declining path to meet the ECCB target of 60 percent of GDP in 2030. This would be consistent with an average primary surplus of 2.9 percent of GDP during 2018–2030. Likewise, St. Vincent and the Grenadines could meet the target earlier by 2026 with a frontloaded adjustment of 1.8 percent of GDP over 2018–2020. It would imply an average primary surplus of 1.3 percent of GDP during 2018–2026. Both countries could benefit from improved debt trajectories with reasonable and gradual fiscal consolidation efforts.

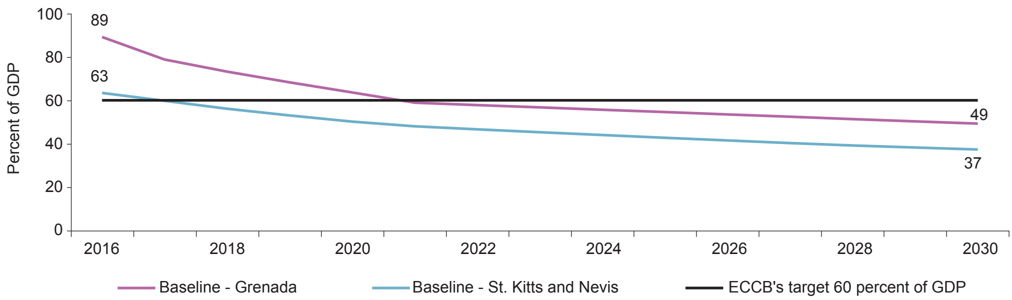
Over the long term, the adjustment would pay off, creating greater fiscal space. Interest payments in Antigua and Barbuda would fall from 2.9 to 1.8 percent of GDP by 2030, while in St. Vincent and the Grenadines interest payments would decrease from 2.1 to 1.5 percent of GDP by the same year (Figure 2.19).

2.3.5. The Benefits of Earlier Fiscal Consolidation in Grenada and St. Kitts and Nevis

The improvement in St. Kitts and Nevis' fiscal position can be attributed to reforms pursued under an IMF programme during 2011–2013.[5] This saw debt restructuring, including a debt-for-land swap as well as strong inflows from the CBI Programme. St.

[5] See IMF Ex Post Evaluation of Exceptional Access Under the 2011 Stand-By Arrangement-Press Release; Staff Report; and Statement by the Executive Director for St. Kitts and Nevis.

Figure 2.20: **Debt Forecasts for Grenada and St. Kitts and Nevis, 2016–2030 (percent of GDP)**



Source: IDB staff calculations.

Kitts and Nevis is on track to meet the ECCB target of 60 percent of GDP by 2017 (Figure 2.20). Debt could reach close to 37 percent of GDP by 2030 with an average primary surplus of 0.5 percent of GDP for the period 2018–2030 and long-term average annual growth of 3.1 percent. Going forward, an unexpected unwinding of CBI flows is a downside risk. Hence, the baseline medium-term debt scenario assumes that CBI revenues return to their 10-year average to account for that effect.

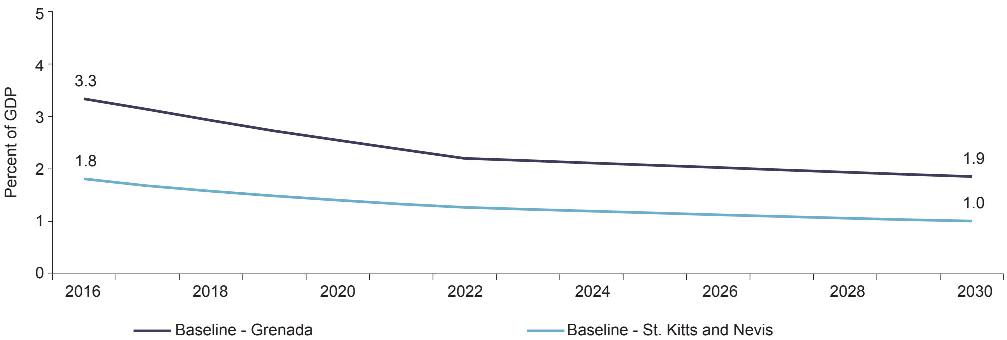
Since 2014, Grenada has embarked on fiscal consolidation complemented by debt restructuring with the IMF. Debt is anticipated to fall to below the ECCB's target of 60 percent of GDP by 2021 (Figure 2.20). It could reach close to 49 percent of GDP if annual primary surpluses average 1.8 percent of GDP for the period 2018–2030 and based on an average 2.7 percent annual growth. Grenada has implemented fiscal responsibility legislation that aims to promote fiscal discipline. As part of that legislation, the country is to achieve a primary surplus of 3.5 percent of GDP until debt reaches 55 percent of GDP with real expenditure growth at 2 percent. Importantly, capital spending would be maintained at around 6 percent of GDP. These fiscal rules are even more ambitious than the ECCB target and the country is on track to meet them.

The fiscal position in Grenada would improve over time and interest payments would decline from 3.3 to 1.9 percent of GDP during 2016–2030. In St. Kitts and Nevis these would decline from 1.8 to 1 percent of GDP (Figure 2.21).

2.3.6. The Drivers of Fiscal Policy in the Eastern Caribbean Are Country-specific and There Is Great Heterogeneity

Fiscal policy within the OECS is the responsibility of independent member states. This section takes a closer look at the composition of revenues and spending per country to understand the evolution of public debt.

Figure 2.21: Interest Payments for Grenada and St. Kitts and Nevis, 2016–2030 (percent of GDP)



Source: IDB staff calculations.

Antigua and Barbuda

Following the completion of a Stand-By Agreement (SBA) with the IMF from 2011–2013, the overall fiscal position in Antigua and Barbuda deteriorated. The programme managed to reduce the overall deficit from 18 to 1.2 percent of GDP from 2009 to 2012, but it widened again to 8.4 percent of GDP in 2015.[6]

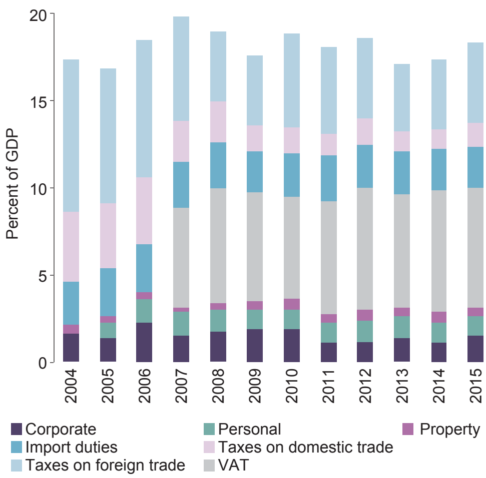
Antigua and Barbuda historically has reported the lowest revenue-to-GDP ratio in the OECS. As an upper-middle-income country, its tax collection is lower than regional peers and insufficient to meet development needs. In 2015, total revenue stood at 21.5 percent of GDP, of which 18.3 percent of GDP was comprised of taxes. During 2004–2015, taxes represented 18.1 percent of GDP, with personal and corporate tax collection averaging 1.1 percent and 1.5 percent of GDP, respectively (Figure 2.22). After the introduction of the Antigua and Barbuda Sales Tax (ABST) in 2007, the tax system relied less on custom duties and more on the ABST, which became the largest item at 6.4 percent of GDP annually.[7] It was growth-positive for a country heavily dependent on imported food, fuel and other inputs. The personal income tax was introduced in April 2005 and abolished in April 2016. Its rates, at 10–25 percent and a threshold of EC$36,000 per annum, were relatively low in comparison to neighbouring countries. The corporate tax rate, at a 25 percent maximum, is amongst the lowest in the OECS and at the rate of other middle-income countries. The tax structure of Antigua and Barbuda now is mostly comprised of indirect taxes.

Public spending in Antigua and Barbuda is dominated by current spending on wages and subsidies, leaving limited room for growth-enhancing capital expenditures

6 IMF 2016 Article IV Staff Report, Eastern Caribbean Currency Union.

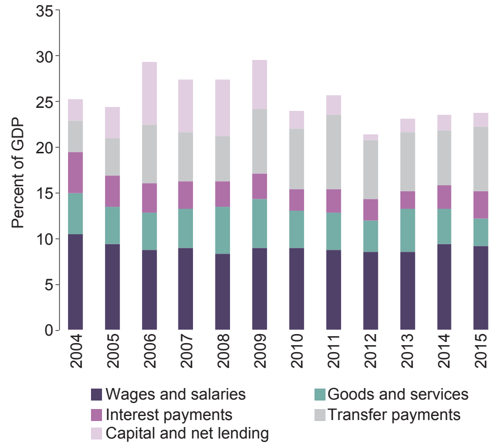
7 The ABST is equivalent to the VAT in other territories.

Figure 2.22: Antigua and Barbuda: Tax Revenue, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.
Note: VAT = value-added tax.

Figure 2.23: Antigua and Barbuda: Expenditure by Economic Classification, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.

(Figure 2.23). Spending on wages and salaries exceeded 9 percent of GDP in 2014–2015, while transfers and subsidies for social programs and to state-owned enterprises were around 7 percent of GDP over 2011–2015. Consequently, growth-enhancing capital expenditures averaged 1.5 percent of GDP during 2011–2015.

Public debt in Antigua and Barbuda, at 104.4 percent of GDP in 2015, is the highest in the OECS. Over the last five years, its composition has remained stable, averaging around 55 percent domestic debt, in local currency, and 45 percent external debt (Figure 2.28a). Domestic government guarantees in 2015 represented 11.7 percent of GDP, while external guarantees reached 6.1 percent of GDP. The country's main domestic debt instruments are debentures/bonds and loans and advances, which accounted for about 16 and 32 percent of GDP annually, respectively, over the last five years. In 2015, the main multilateral creditors were the Caribbean Development Bank, representing 8 percent of GDP, followed by the IMF at 4.2 percent of GDP. On the bilateral side, China was the main creditor, with 10.6 percent of GDP, followed by France (2.8 percent) and the United States (2 percent). The IMF Article IV 2014 Staff Report stated that the risk of near-term debt distress remains high, given the country's cash flow problems and accumulation of arrears.

Antigua and Barbuda's path towards medium-term fiscal sustainability should address its low tax revenue collection. The decision to repeal the personal income tax will pressure public finances further. Greater fiscal space on the revenue side could be created by reducing tax incentives, zero-ratings, and exemptions to broaden the tax base and move towards a more equitable tax system. The challenge would be to increase collections in a gradual manner and afford higher capital expenditures, which are growth-enhancing. The inflows under the Citizenship by Investment Programme could be directed to lead this increase in public investment to reach the OECS average, but flows are unpredictable and would likely draw down over the long term.

Dominica

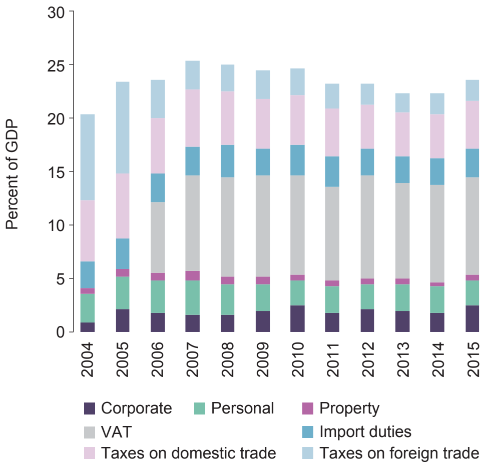
Prior to Tropical Storm Erika in August 2015, Dominica had a relatively sound fiscal position. The IMF-supported adjustment programmes from 2002 to 2006 brought fiscal consolidation with debt restructuring. Dominica benefitted from inflows from its Economic Citizenship Programme (ECP) at 3.6 percent of GDP, which, combined with generous grants, allowed it to afford the highest capital expenditures in the OECS at around 12.2 percent of GDP from 2008–2013. These expenditures subsequently declined to 7.1 percent of GDP in 2014. The adverse impact of Tropical Storm Erika was significant, with damages and losses estimated at 96 percent of GDP (World Bank 2015b). Public finances have borne the largest share of these costs through a public investment programme focusing on rehabilitation (IMF 2015d). These reconstruction projects were financed through a combination of grants and loans from the IMF's rapid credit facility and are likely to be growth-positive over the next few years (IMF 2015e). The overall fiscal position has improved despite this natural event. The country closed 2015 with an overall fiscal surplus of 0.9 percent of GDP and a primary surplus of 3.3 percent of GDP. In 2014, the country sustained overall and primary deficits of 4.4 and 2.9 percent of GDP, respectively. The improvement was driven by an increase in tax revenues, as well as capital grants to support the reconstruction.

Tax revenue grew to 24.9 percent of GDP in 2015 mostly from corporate taxes, despite a sharp decline in economic activity.[8] Collections from the VAT have been a significant source of revenue, averaging over 9 percent of GDP during 2011–2015, the highest in the OECS (Figure 2.24).

Wages and salaries and goods and services represent over three-quarters of the budget. Spending on the wage bill is high and rising due to higher salaries and retroactive payments to civil servants; it increased to 11.7 percent of GDP at the end of 2015, having averaged 10.5 percent of GDP over 2011–2014 (Figure 2.25). Goods and services at over 7 percent of GDP during 2011–2015 represent over one-fifth of the budget, which is large by regional and income-level standards. Capital expenditure, at over 12

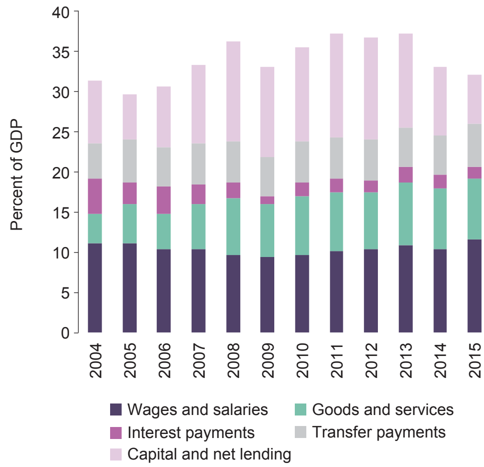
[8] According to the World Bank (2015b) assessment, costs amounted to 96 percent of GDP, with the government expected to cover a large proportion of these costs in its public sector investment programme.

Figure 2.24: Dominica: Tax Revenue, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.
Note: VAT = value-added tax.

Figure 2.25: Dominica: Expenditure, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.

percent of GDP, was at a record high during 2008–2013. However, spending moderated to 7.1 percent of GDP by 2015 with the decline of capital grants. With rebuilding efforts in the aftermath of Tropical Storm Erika, capital grants will likely continue to rise over the next five years.

Public and publicly guaranteed debt in Dominica is on the rise and reached 85.5 percent of GDP in 2015, a trend likely to continue through the reconstruction years. Its composition is 66 percent external and 34 percent domestic debt (Figure 2.28b). The country continues to be at high risk of debt distress.[9] Its main domestic debt instruments are debentures and bonds, which accounted for about 13.7 percent of GDP, and loans and advances, at 10.7 percent of GDP. In 2015, the main multilateral creditors were the Caribbean Development Bank, representing 13 percent of GDP, followed by the International Development Association (5 percent) and the IMF (3 percent). On the bilateral side, China was the main creditor (9.2 percent of GDP), followed by France (6.1 percent), and Trinidad and Tobago (0.8 percent).

Dominica's medium-term path towards fiscal sustainability would be focused on austerity. A strategy would need to take into account the country's short-term reconstruction needs, while containing pressures on the public sector wage bill and goods and services. The country's level of public investment would likely moderate over the medium term, once reconstruction efforts decrease.

9 IMF 2016 Article IV Staff Report, Debt Sustainability Analysis.

Grenada

Successive natural disasters since the early 2000s have contributed to the deterioration of Grenada's public finances. Hurricane Ivan alone generated losses of around 148 percent of GDP in 2004, damaged the island's infrastructure, and was particularly harmful to the nutmeg industry.

Grenada continues to pursue fiscal consolidation, with tax reforms, debt restructuring, and freezes on public sector wages and recruitment. The IMF Extended Credit Facility (ECF) programme that began in 2014 targeted an adjustment of 7.8 percentage points of GDP over three years and a sustained primary surplus of 3 percent of GDP by 2016.[10] In 2015, the country achieved a primary surplus of 2.2 percent of GDP, not evident since 2005, while the overall deficit narrowed to 1.3 percent of GDP from 4.7 percent of GDP in 2014.

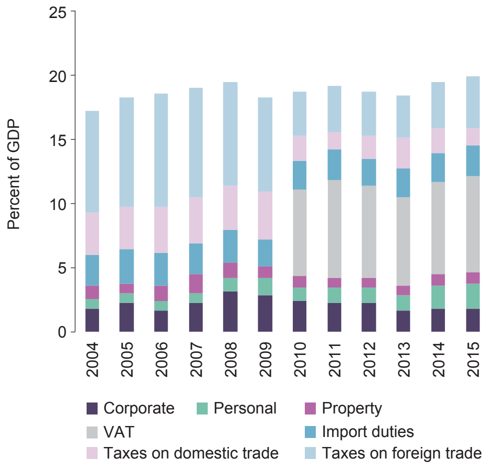
Tax revenue grew to 20 percent of GDP by 2015, having lagged at around 18 percent of GDP during 2011–2014 (Figure 2.26). Higher personal income tax and VAT collections led this improvement. While the VAT was introduced in February 2010, exemptions, zero-ratings, and reduced rates undermined total collection. In 2014, the reduction in the number of exempt items and the application of the 15 percent rate on construction materials increased VAT receipts. Additionally, the base of the personal income tax was widened, increasing collections. However, revenue remains below that of peers at Grenada's income level and is insufficient to support expenditures.

Public spending declined from 29 to 27 percent of GDP in 2015 because of lower expenditure on wages and salaries (Figure 2.27). The wage bill fell to 8 percent of GDP in 2015 from 11 percent in 2013 as a result of a public sector wage freeze and attrition. Interest payments rose steadily over the years to 3 percent of GDP by 2015. However, with further debt restructuring, interest payments are expected to fall over the medium term. Capital expenditure at 8 percent of GDP in 2015 was high and likely to decline over the medium term to support sustainable growth and development.

Total public debt in Grenada stood at 94.3 percent of GDP in 2015. This represents a decline from its peak at 107.6 percent of GDP in 2013 and is associated with two

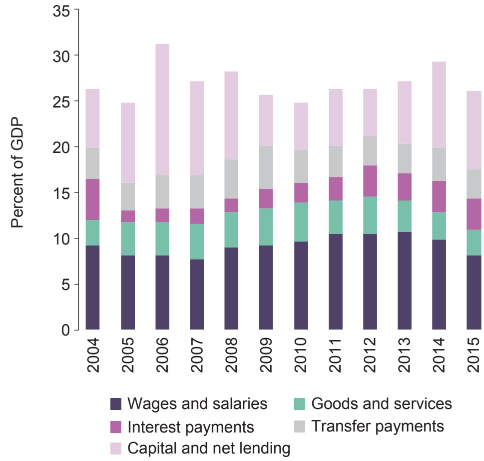
[10] Revenue measures account for 3.7 percentage points of GDP of adjustment and include a reduction in the personal income tax threshold from EC$60,000 to EC$36,000 in January 2014 (0.5 percent of GDP), an increase in property tax rates and revaluation of assessed property values (1 percent of GDP), as well as the reduction in exemptions to statutory bodies (0.7 percent of GDP). Austerity in current expenditure accounts for around 2.1 percent of GDP through a freeze on public sector wages and personal allowances for 2014–2016 (1 percent of GDP), attrition and reforms of state-owned enterprises (0.4 percent of GDP), and increased energy efficiency (0.5 percent of GDP). Additionally, the streamlining of capital spending will contribute 2 percent of GDP to the above target.

Figure 2.26: Grenada: Tax Revenue, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.
Note: VAT = value-added tax.

Figure 2.27: Grenada: Expenditure, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.

debt restructuring episodes in 2005 and 2014. The composition of liabilities is skewed towards 68 percent external and 32 percent domestic debt (Figure 2.28c). According to the IMF Article IV Staff Report 2016, Grenada's risk of external debt distress is borderline-high-to-moderate.[11] The main domestic debt instruments are treasury bills, representing 13.4 percent of GDP, followed by debentures/bonds at 8.5 percent of GDP, and loans at 6.6 percent of GDP. In 2015, multilateral debt was the main source of external financing, particularly the Caribbean Development Bank, representing 14.3 percent of GDP, followed by the International Development Association (8.3 percent), and the IMF (3.1 percent). On the bilateral side, Trinidad and Tobago was Grenada's main bilateral creditor with 3.5 percent of GDP, followed by Kuwait (1.8 percent), and the United States and France (0.4 percent each).

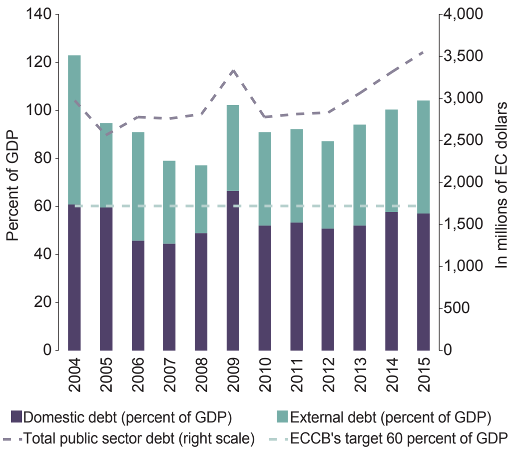
St. Kitts and Nevis

St. Kitts and Nevis implemented a Stand-by Agreement (SBA) with the IMF over 2011–2013. The country's debt-to-GDP ratio, at 159 percent in 2010, was amongst the highest in the world. The programme began in July 2011 amid an acute crisis, with large fiscal and current account deficits, high debt, and concerns about financial stability. It coincided with the global financial crisis, a time when tourist arrivals and FDI for construction projects were sharply declining. The SBA had three objectives: (1)

[11] IMF 2016 Article IV Staff Report, Debt Sustainability Analysis.

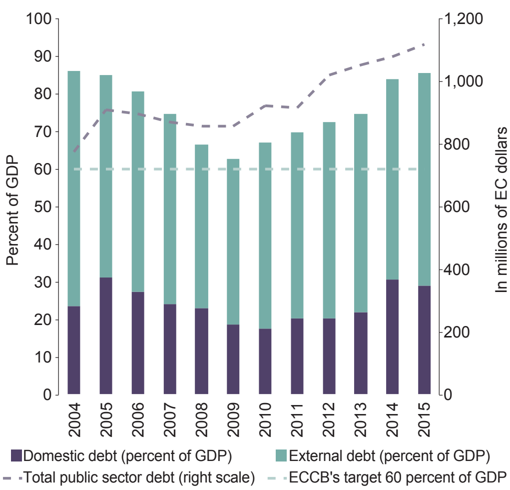
Figure 2.28: **Domestic and External Debt: Antigua and Barbuda, Dominica, and Grenada, 2004–2015 (percent of GDP; and millions of EC dollars)**

a. Antigua and Barbuda: Domestic and External Debt, 2015



Total domestic debt	57.3	Total external debt	47.1
Treasury bills	3.5	Central government	41.0
Debentures/bonds	16.2	Multilateral	12.7
Loans and Advances	32.1	Bilateral	27.5
Other	5.5	*Paris Club*	8.5
Of which:		*Non-Paris Club*	19.0
Central government guaranteed	11.7	Commercial	0.8
		Central government guaranteed	6.1

b. Dominica: Domestic and External Debt, 2015



Total domestic debt	28.9	Total external debt	56.6
Treasury bills	3.7	Central government	48.2
Debentures/bonds	13.7	Multilateral	23.3
Loans and Advances	10.7	Bilateral	17.9
Other	0.8	*Paris Club*	6.1
Of which:		*Non-Paris Club*	11.8
Central government guaranteed	5.1	Commercial	6.8
		Other	0.1
		Central government guaranteed	8.4

(continued on next page)

medium-term fiscal consolidation, (2) debt restructuring to address debt overhang, and (3) the strengthening of the financial sector.

The SBA targeted a primary surplus of 3.9 percent of GDP in 2011 and 5 percent by 2013. It implied an adjustment of about 5.3 percent of GDP from 2011–2013 by strengthening tax administration, widening the tax base, and containing expenditures. The debt restructuring initiative had three elements: a debt exchange offer to bond-holders and external creditors that reduced stocks by 7 percentage points of GDP; a

Figure 2.28: Domestic and External Debt: Antigua and Barbuda, Dominica, and Grenada, 2004–2015 (percent of GDP; and millions of EC dollars) ***(continued)***

c. Grenada: Domestic and External Debt, 2015

Total domestic debt	30.2	Total external debt	64.1
Treasury bills	13.4	Central government	61.8
Debentures/bonds	8.5	Multilateral	29.8
Loans	6.6	Bilateral	10.1
Other	1.7	*Paris Club*	1.1
Of which:		*Non-Paris Club*	9.0
Central government guaranteed	4.2	Commercial	19.9
		Other	2.0
		Central government guaranteed	2.3

Source: Eastern Caribbean Central Bank.

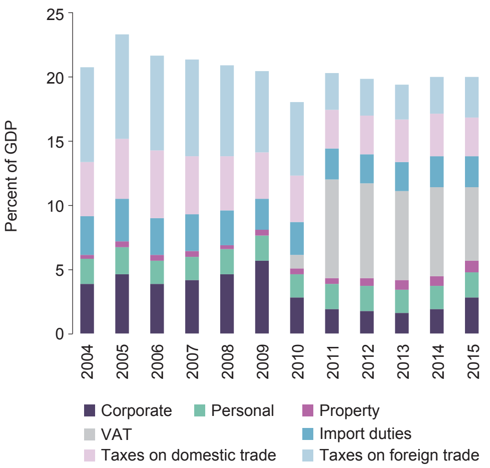
debt-land swap with domestic banks that reduced stocks by 41 percentage points of GDP (2010); and Paris Club flow agreements to reduce debt service on 0.8 percent of GDP. The programme established the Banking Sector Reserve Fund to provide liquidity to solvent local banks in support of financial stability.

Today St. Kitts and Nevis enjoys a strong fiscal position. It is the only OECS country where the debt risk profile improved over the last three years and which paid off its liabilities to the IMF early (three years ahead of schedule). This was achieved through a combination of fiscal consolidation, CBI Programme inflows, and debt restructuring. The country now enjoys one of the lowest debt ratios in the Caribbean. However, the volatility of CBI inflows could threaten this strong position; flows moderated in 2015 and the country's fiscal surplus declined from 9.4 to 5.1 percent of GDP over 2014–2015.

Tax collection at just over 20 percent of GDP during 2011–2015 is relatively low (Figure 2.29). High non-tax revenues, particularly from the CBI Programme, compensate for relatively low tax collection and contributed to five successive years (2011–2015) of fiscal surpluses.[12] CBI inflows to the public sector amounted to over 17 percent of GDP in 2015 and have been growth-positive, boosting public investment

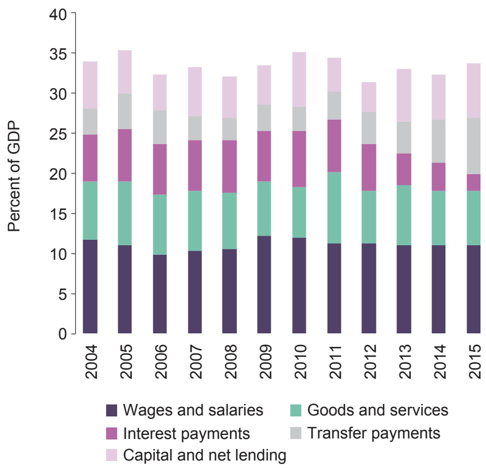
[12] Non-tax revenues averaged over 19 percent of GDP during 2011–2015.

Figure 2.29: St. Kitts and Nevis: Tax Revenue, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.
Note: VAT = value-added tax.

Figure 2.30: St. Kitts and Nevis: Expenditure, 2004–2015 (percent of GDP)



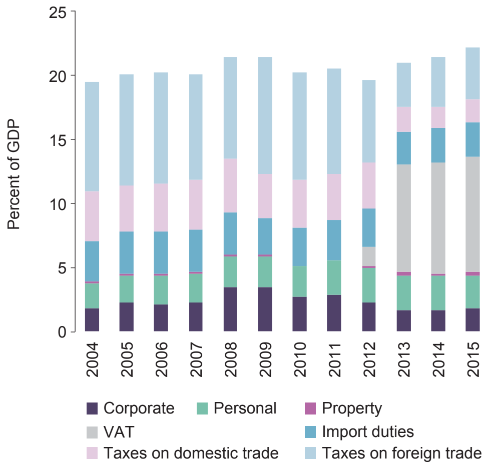
Source: Eastern Caribbean Central Bank.

and driving the expansion of the construction sector. The VAT was introduced in 2010 and collections averaged 7 percent of GDP over 2011–2015. There is no income tax.

Public spending on wages and salaries and goods and services combined accounted for over half of the budget in 2015 (Figure 2.30). Both allocations were high for countries at St. Kitts and Nevis' income level and for the region at 11 percent and 6.9 percent of GDP, respectively. The allocation for transfers and subsidies saw an increasing trend and reached 7 percent of GDP in 2015, a significant increase from the 3.9 percent of GDP in 2013. Going forward, containing spending pressures on these three budget items would have an impact on fiscal accounts. In contrast, the country's interest payments declined sharply from the zenith of 7 percent of GDP in 2010 to 3.9 percent of GDP in 2013 and further to 1.9 percent in 2015. The decline is a reflection of the country's debt repayments and restructuring efforts.

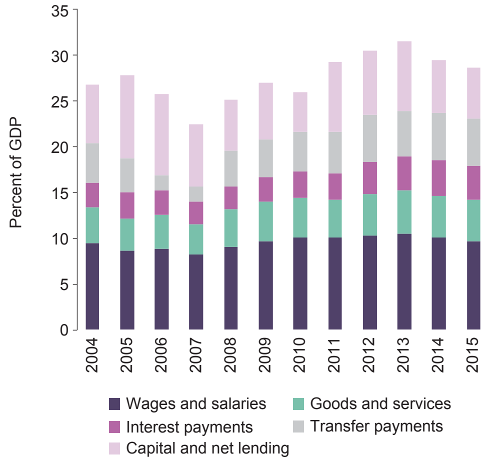
St Kitts and Nevis' total public debt is on a declining trajectory and reached 67.8 percent of GDP in 2015, the lowest in the OECS. Its composition is split between 38 percent external and 62 percent domestic debt (Figure 2.35a). In 2015, the main domestic debt instruments were loans and advances and treasury bills, which accounted for 19.1 and 16.2 percent of GDP, respectively. On the bilateral debt portfolio, China was the main creditor with 1.6 percent of GDP. Since 2010, multilateral creditors have been the dominant source of external financing, namely the Caribbean Development Bank at 10 percent of GDP. The IMF contributed around 6.1 percent of GDP over 2011–2015, a contribution that declined to 1.1 percent in 2015, after the country paid off its obligations early.

Figure 2.31: St. Lucia: Tax Revenue, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.
Note: VAT = value-added tax.

Figure 2.32: St. Lucia: Expenditure, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.

St. Lucia

Natural disasters in an environment of limited fiscal space have pressured public spending in St. Lucia, and there have been few budget contingencies to address the costs of the reconstruction effort. After the 2009 downturn, spending increased and the country accumulated 20 percentage points of GDP in public debt in the six years from 2009–2014.

At the end of 2015, the fiscal deficit was 3.9 percent of GDP. A primary surplus of 0.3 percent of GDP was achieved in 2015 as revenue collections grew with the introduction of new taxes, including higher motor vehicle licensing fees, customs service charges, and fuel surcharges, as well as a strong recovery in the tourism market. This contributed to higher collection and improved public finances. The improved external environment, the gradual recovery of the country's tourism sector, and higher non-tax revenue inflows from its newly launched CBI Programme are growth-positive.

Tax revenue collection in St. Lucia grew to 23.8 percent of GDP in 2015 (Figure 2.31). Considering that taxes collected in 2012 totalled 21.3 percent of GDP, the increasing trend is a positive development. The introduction of the VAT in 2012 changed the composition of tax revenues from an earlier heavy reliance on corporate taxes and customs duties. The reduced reliance on trade taxes and customs duties was growth-positive in a country heavily dependent on imports of food, energy, and inputs for production.

In 2015, wages and salaries accounted for 9.7 percent of GDP, and capital expenditures for 5.7 percent of GDP (Figure 2.32); both were high for St. Lucia's income level and compared to other countries in the region. Interest payments rose from 2.7 percent of GDP during 2006–2010 to 3.6 percent over the subsequent five-year period (2011–2015).

Transfers for social services, while not high in comparison to regional and income peers, increased steadily from 3 to 5 percent of GDP over the two five-year periods. To contain its fiscal spending, the country instituted a nominal wage freeze in 2015.

Total public and publicly guaranteed debt in St. Lucia stood at 83 percent of GDP in 2015. While the pace of debt accumulation is likely to decrease going forward, debt dynamics remain unsustainable per the IMF's 2015 debt sustainability baseline projections.[13] St. Lucia's debt composition changed to rely more heavily on domestic instruments; the share of domestic debt grew from 38 to 52 percent during 2004–2015, while external debt stood at 48 percent (Figure 2.35b). The main domestic instruments were debentures/bonds and loans, which represented 27.9 percent and 8.1 percent of GDP, respectively. Multilateral debt was the dominant source of external financing, and at 18.3 percent of GDP it accounted for almost half of foreign liabilities in 2015. Also in 2015, debt to the Caribbean Development Bank represented 10.7 percent of GDP, followed by the International Development Association with 5.5 percent and the IMF with 1 percent. On the bilateral side, Trinidad and Tobago was the main creditor with 1.1 percent of GDP, followed by Kuwait with 0.8 percent. External commercial debt decreased to 3 percent of GDP in 2015, a trend likely to continue, reflecting deleveraging efforts.

St. Lucia's path towards fiscal sustainability over the medium term should combine revenue and expenditure measures to close the gap. On the revenue side, a reduction in exemptions and zero-ratings could broaden the tax base and increase collections. Resources from the newly launched CBI Programme could be directed toward public investment to sustain what has been one of the highest rates in the union. On the expenditure side, containing pressures on public sector wages and transfers would significantly reduce financing needs. With a lower financing gap, the country could reverse its trend of rapid accumulation of public debt.

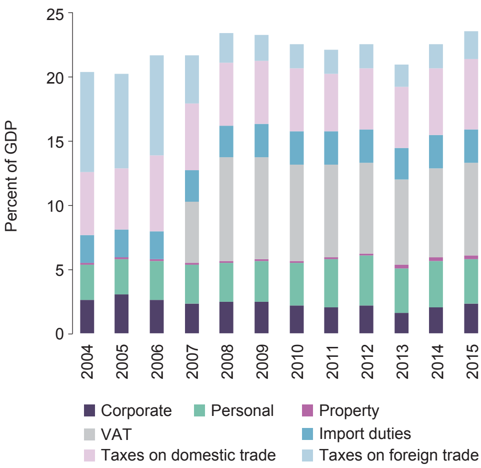
St. Vincent and the Grenadines

The public finances of St. Vincent and the Grenadines suffered from a series of natural disasters that hampered recovery from the 2009 global financial crisis and slowed implementation of the country's Argyle airport project. In 2010, 2011, and 2013 the country saw flooding and landslides that damaged infrastructure, housing, and agriculture. This took a toll on growth, while the reconstruction efforts in an environment of limited fiscal space were met with public debt. The new airport became operational in the first quarter of 2017, after a series of delays following the commencement of construction in 2008.

In 2015, a reduction in tax concessions, an increase in custom duties, and tax administration efforts bore fruit and narrowed the fiscal balance. By the end of 2015, the

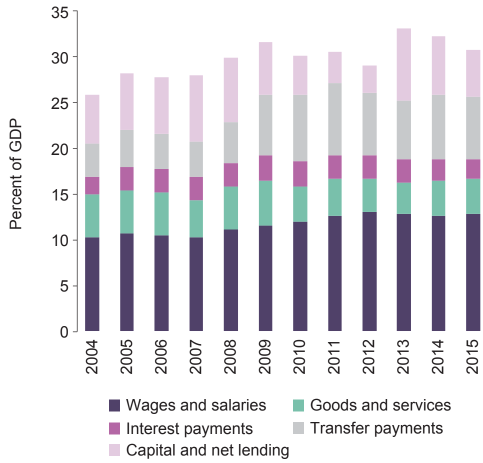
[13] IMF 2015 Article IV Staff Report, Debt Sustainability Analysis.

Figure 2.33: St. Vincent and the Grenadines: Tax Revenue, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.
Note: VAT = value-added tax.

Figure 2.34: St. Vincent and the Grenadines: Expenditure, 2004–2015 (percent of GDP)



Source: Eastern Caribbean Central Bank.

fiscal deficit had improved from 3 to 2.1 percent of GDP, while the primary balance improved from a deficit of 0.7 percent of GDP in 2014 to a small surplus of 0.1 percent of GDP in 2015.

Tax revenue in St. Vincent and the Grenadines, at 23.6 percent of GDP in 2015 (Figure 2.33), represented one of the highest ratios in the OECS. Since 2007, tax collection has been stable at over 22 percent (with the exception of 2013). The introduction of the VAT in May 2007 helped shift the burden away from trade taxes and contributed to strong total collections, which averaged more than 27 of GDP annually from 2011 to 2015. St. Vincent and the Grenadines does not have a CBI Programme.

Spending on wages and salaries and transfers has burdened public finances. These two items combined represent almost two-thirds of the budget (Figure 2.34). In 2015, expenditure on wages and salaries stood at 12.9 percent of GDP, which is the highest public sector wage bill in the OECS. Transfers and subsidies accounted for 6.9 percent of GDP. Transfers for social assistance programmes rose markedly from 3.8 percent of GDP in 2007 in response to the global financial crisis.

Public and publicly guaranteed debt in St. Vincent and the Grenadines stood at 73.8 percent of GDP in 2015. Debt dynamics suggest there is a moderate risk of debt distress for external debt and vulnerabilities for domestic debt.[14] The composition of

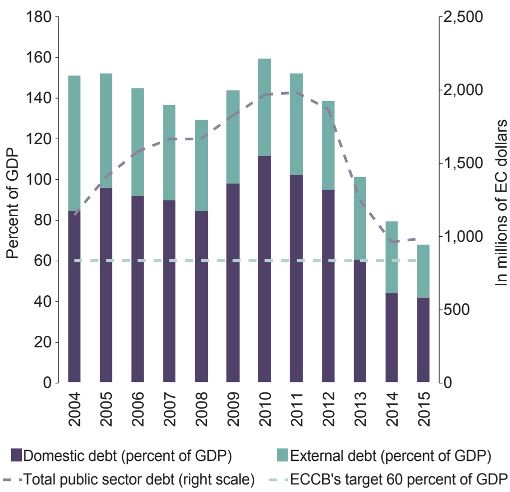
[14] IMF 2016 Article IV Staff Report, Debt Sustainability Analysis.

debt is 41 percent domestic and 59 percent external (Figure 2.35c). Over the last five years, debentures/bonds and loans were the main domestic debt instruments and accounted for 10.6 and 2.8 percent of GDP, respectively, in 2015. The main multilateral creditors in 2015 were the Caribbean Development Bank at 12 percent of GDP, followed by the International Development Association (3.2 percent), and the IMF (1.6 percent). Bilateral creditors represented 14.7 percent of GDP.

Fiscal consolidation is key to keeping St. Vincent and the Grenadines on a path towards medium-term fiscal sustainability. Addressing the burden of wages and salaries by enforcing a public sector wage freeze, along with attrition, would generate fiscal space to build buffers for future contingencies. Austerity could reduce transfers and subsidies to state-owned enterprises and lower the financing gap. Revenue could also contribute more to close the fiscal balance. Thus, measures aimed at broadening the tax base by reducing tax concessions, combined with greater tax enforcement in the collection of tax arrears, would have a positive impact on public finances.

Figure 2.35: Domestic and External Debt: St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, 2004–2015 (percent of GDP; and millions of EC dollars)

a. St. Kitts and Nevis: Domestic and External Debt, 2015

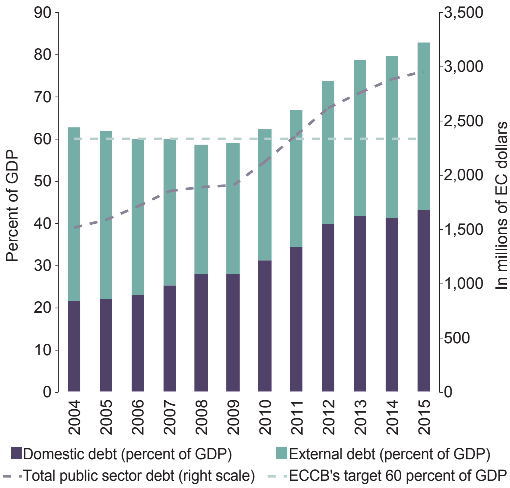


Total domestic debt	41.8	Total external debt	26.0
Treasury bills	16.2	Central government	24.0
Debentures/bonds	5.1	Multilateral	11.0
Loans and Advances	19.1	Bilateral	6.0
Other	1.4	*Paris Club*	0.2
Of which:		*Non-Paris Club*	5.7
Central government guaranteed	10.2	Commercial	7.0
		Other	0.1
		Central government guaranteed	2.0

(continued on next page)

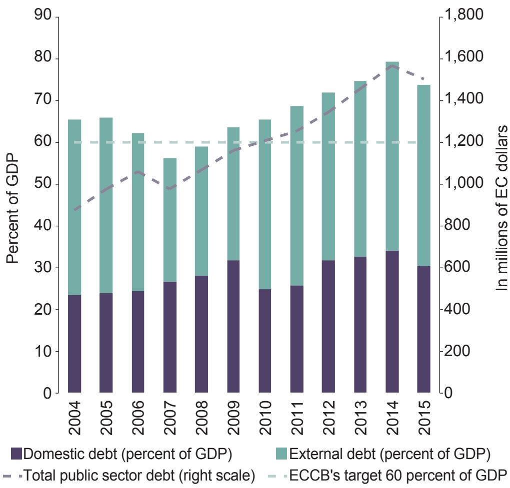
Figure 2.35: Domestic and External Debt: St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, 2004–2015 (percent of GDP; and millions of EC dollars) *(continued)*

b. St. Lucia: Domestic and External Debt, 2015



Total domestic debt	42.9	Total external debt	40.1
Treasury bills	6.8	Central government	38.6
Debentures/bonds	27.9	Multilateral	18.3
Loans	8.1	Bilateral	3.6
Of which:		*Paris Club*	0.4
Central government guaranteed	2.6	*Non-Paris Club*	3.1
		Commercial	3.1
		Other	13.7
		Central government guaranteed	1.5

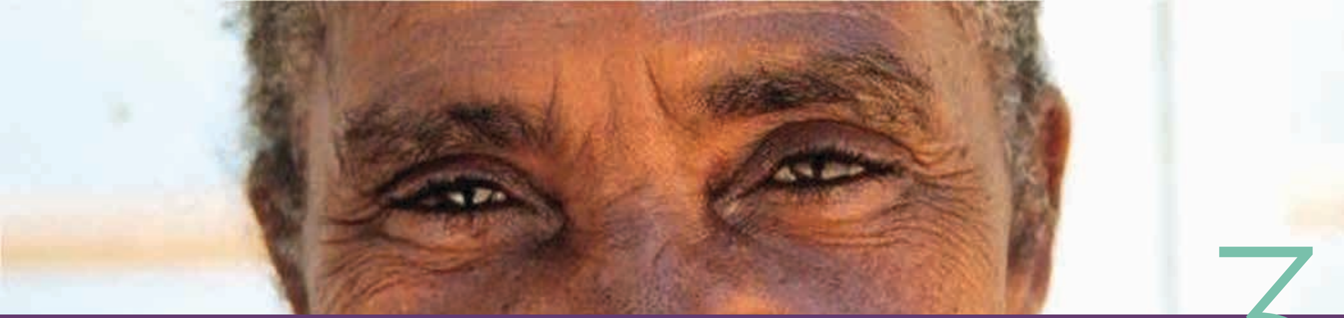
c. St. Vincent and the Grenadines: Domestic and External Debt, 2015



Total domestic debt	30.1	Total external debt	43.7
Treasury bills	3.4	Central government	39.2
Debentures/bonds	10.6	Multilateral	17.8
Loans and Advances	2.8	Bilateral	14.7
Other	10.7	*Paris Club*	1.7
Of which:		*Non-Paris Club*	13.0
Central government guaranteed	6.6	Commercial	1.3
		Other	5.4
		Central government guaranteed	4.5

Source: Eastern Caribbean Central Bank.

This chapter looked at expenditures by economic classification from a macro perspective. However, a better understanding of how fiscal out-turns benefitted the population requires a closer look at social spending from a micro perspective. The focus of the following chapter is on investments to build social capital through human capital accumulation and a healthier work force—both of which represent investments in a country's future.



3

Investment for the Future: Health and Human Capital

Over the past decade, the OECS countries achieved successes in social outcomes through significant public investment. In health, the Eastern Caribbean made greater progress in maternal and child health in terms of lower fertility and mortality rates than its peers at similar income levels and the Latin American average. In education, free access to compulsory primary and secondary education translated into primary gross enrolment rates close to 100 percent. However, a large percentage of secondary graduates do not continue to higher education, and there is great heterogeneity in health and education outcomes. Overall, challenges remain in health in the areas of nutrition and control over non-communicable diseases, and in education in terms of delivering quality services to facilitate the transition of graduates to higher education.

Understanding the drivers of poverty and the evolution of welfare indicators over time is a real challenge for OECS countries and the wider Caribbean region. In the absence of recent household surveys that would be statistically representative, there are few data for disaggregated analysis of poverty and shared prosperity trends. The limited data available dates prior to the 2009 global downturn. Extreme poverty declined faster in Latin America and the Caribbean (LAC) over the past decade than in other regions, but the Caribbean economies are now lagging behind (World Bank 2014). For their part, the OECS countries tend to have better overall social outcomes, particularly in health and education, as a result of decades of significant public investment. This chapter takes a closer look at progress on social indicators and public spending trends to support a demographic transition.

The total population of the OECS, excluding non-independent territories, stood at around 621, 400 in 2015 (Table 3.1). St. Lucia is the most populated island with around 185,000 people, while St. Kitts and Nevis has the smallest population with 55,600. Interestingly, population growth has been low and even stagnant in St. Vincent and the Grenadines, while in most islands there has been 1 percent or less annual population growth.

TABLE 3.1: Population and Population Growth, 2004 and 2015

	Population (thousands)		Population Growth (percent)
	2004	2015	(2004–2015)
Antigua and Barbuda	81.7	91.8	1.3
Dominica	70.3	72.7	0.4
Grenada	102.7	106.8	0.4
St. Kitts and Nevis	48.4	55.6	1.6
St. Lucia	163.5	185.0	1.3
St. Vincent and the Grenadines	108.6	109.5	0.1
Total	**575.1**	**621.4**	

Source: World Bank, World Development Indicators.

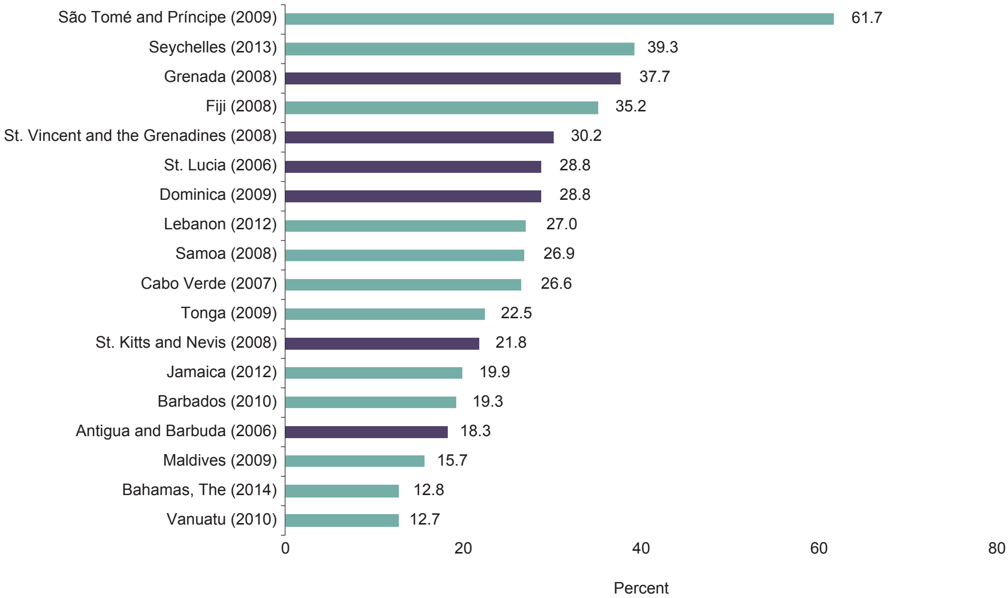
3.1. With Outdated and Unreliable Poverty Data Across the OECS, Little Is Known About the Distributional Impact of Recent Economic Developments

Poverty levels remain relatively high in the OECS, ranging from 18 to 38 percent.[1] In the region, pre-2009 crisis poverty estimates were lowest in Antigua and Barbuda at 18.3 percent and in St. Kitts and Nevis at 21.8 percent, and highest in Grenada at 37.7 percent (Figure 3.1). However, the lack of social and income and expenditure data at the household level makes it difficult to understand how indicators evolved after the economic developments in 2009. Inequality is lower than the regional average, with Gini coefficients ranging from 36.6 in 2008 in Grenada to 48 in 2006 in Antigua and Barbuda, and much lower than the Latin American average of 52.9 in 2009 (World Bank 2014). The poorer households are concentrated mostly in rural areas, where there is poor infrastructure and limited access to basic services, and are female-headed. These households have limited employment opportunities in rural areas and low returns on agricultural activity.

Unemployment has been on the rise since 2008. It increased in St. Lucia from 14.7 percent in 2002 to 24 percent in 2015, in Grenada from 10.2 percent in 2001 to 23 percent in 2015, and in St. Vincent and the Grenadines from 21 percent in 2001 to 22 percent in 2012 (Figure 3.2). Unemployment levels are generally higher among women and youth. The IMF 2016 Article IV Staff Report for the ECCU suggested that a likely factor driving unemployment in Grenada and St. Lucia was the disconnect between continued real wage growth and stagnant productivity, particularly

[1] Caribbean Development Bank poverty estimates.

Figure 3.1: **Poverty Levels (latest year, in percent)**



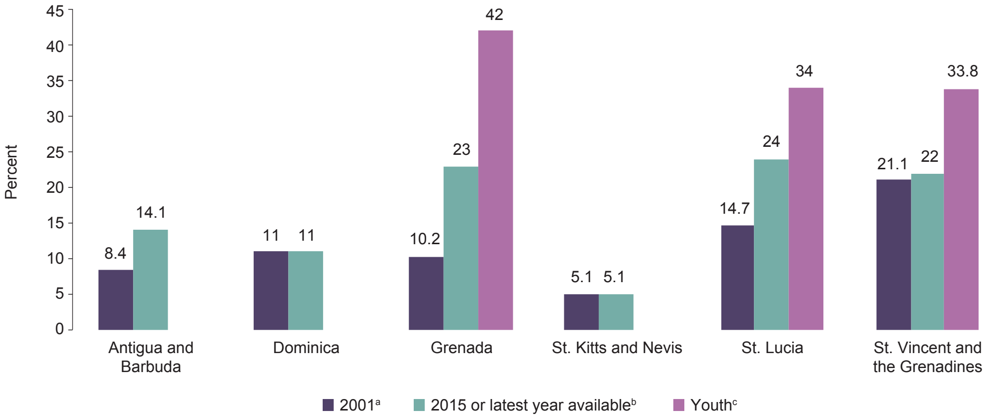
Sources: World Bank, World Development Indicators; Caribbean Development Bank, Country Poverty Assessment Reports; and Parra Torrado (2014).

after the global financial downturn. Average real wages in OECS countries have been growing over the past decade, especially in the public sector, where the average real wage has increased by 20 percent. At the same time, productivity during the period has been stagnant and moderate growth before the global crisis turned negative afterward, which led to an increase in unit labour costs (see Chapter 4 on productivity).

Youth unemployment is particularly high, ranging from 33.8 percent in St. Vincent and the Grenadines to 42 percent in Grenada (Figure 3.2). There is evidence that youth unemployment is higher among women (e.g., in St. Vincent and the Grenadines, the male youth unemployment rate is 27.8 percent and the female youth unemployment rate is 41.4 percent). Having many young adults out of school and not working has brought about other social issues, like crime and gang violence.

These poverty and employment trends paint a rough snapshot of the union's social structure. However, a better understanding of the evolution of social outcomes over the long term requires a closer look at health indicators, demographic trends, and education outcomes reflective of human capital accumulation. The following section addresses these perspectives.

Figure 3.2: **Unemployment: Total and Youth Unemployment, 2001 and 2015 (percent)**



Sources: World Bank, World Development Indicators; Caribbean Development Bank, Country Poverty Assessment Reports; and Parra Torrado (2014).

[a] 2002 for St. Lucia.

[b] Antigua and Barbuda (2015), Dominica (2011), Grenada (2015), St. Kitts and Nevis (2008), St. Lucia (2015), and St. Vincent and the Grenadines (2012).

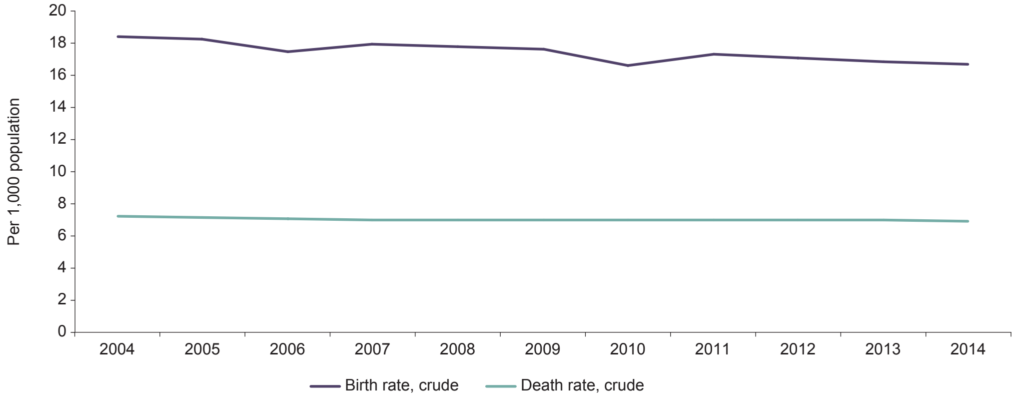
[c] Grenada (2008), St. Lucia (2010), and St. Vincent and the Grenadines (2008).

3.2. The Eastern Caribbean Has Overcome Most Health Challenges Typical of Lower-Middle-Income Countries

The OECS has made remarkable progress reducing mortality rates and infant mortality. In 2015, infant mortality stood at 12.3 per 1,000 live births, with Antigua and Barbuda at 5.8 live births and Dominica with the highest rate at 19.6 live births (Figure 3.3). The OECS average is better than the average for upper-middle-income countries and about half the level in ROSE countries. Likewise, life expectancy at birth stood at 74.9 years and fertility rates at around 2 percent, levels that are lower than those of other small economies and similar to the rate of countries in the same income bracket. Over 2004–2014, birth rates gradually declined from 18.4 to 16.7 per 1,000 population, while death rates remained relatively constant, averaging 7 per 1,000 population. The mortality rates for infants and for children under five years old are particularly low (Figure 3.4). The highest coverage of immunizations (using DPT as a proxy) in 2015 was recorded in Antigua and Barbuda and St. Lucia, reflecting government efforts to undertake vaccination campaigns (Figure 3.5).

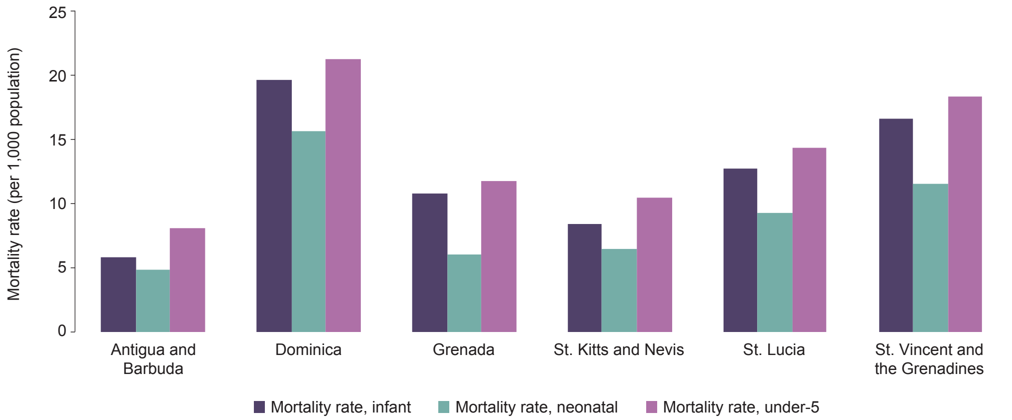
There are wide disparities in nutritional outcomes in the Eastern Caribbean. The overall tendency in the OECS has been an increase in obesity among children, and a move away from the under-nourishment of previous decades. Water-borne infectious diseases still affect pockets of the population, particularly in low-income areas that are subject to less water quality management. Antigua and Barbuda and Grenada report the highest prevalence of under-nourished citizens at 22 percent and

Figure 3.3: Birth and Death Rates in OECS Countries, 2004–2014



Source: World Bank, World Development Indicators.
Note: OECS = Organisation of Eastern Caribbean States.

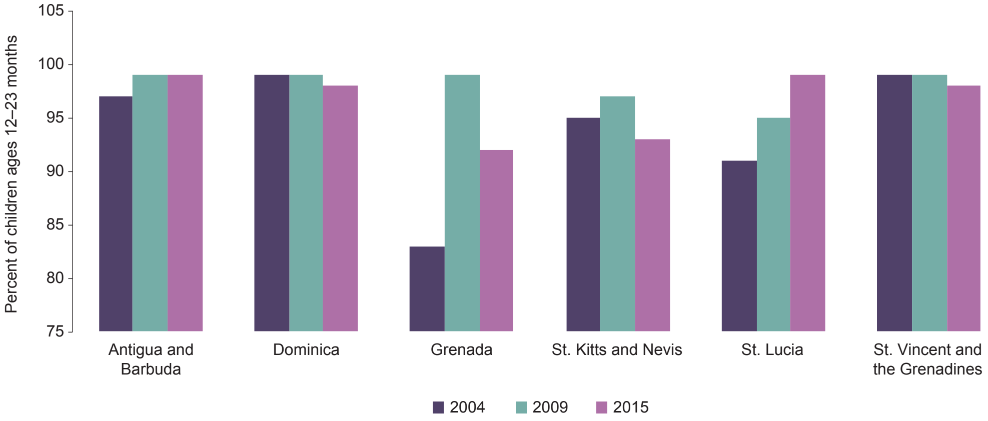
Figure 3.4: Infant Mortality Rates, 2015



Source: World Bank, World Development Indicators.

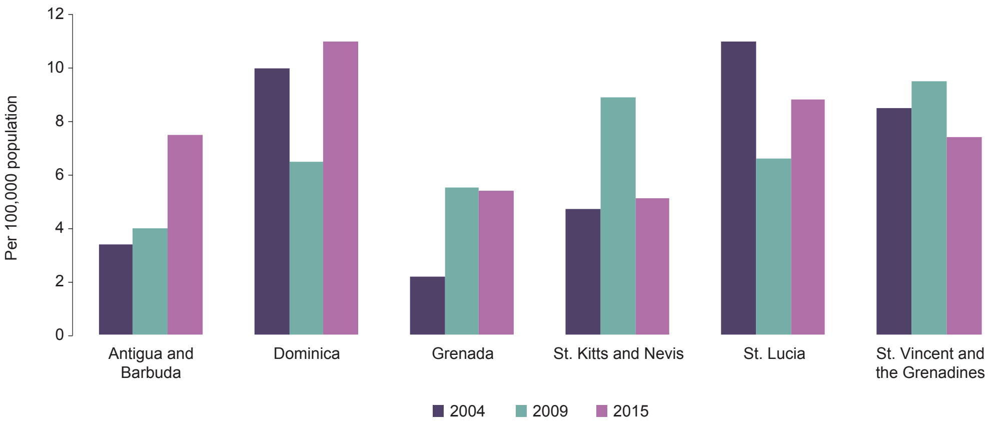
20 percent, respectively, which contrasts with Dominica's rate of 5 percent. In 2015, Dominica had the highest obesity prevalence at about 38.4 percent of males and 65.3 percent of females. Obesity rates were also high among females in St. Lucia, with estimated levels for 2015 of around 60 percent (World Bank 2012a). Bacterial diseases like tuberculosis have been on the decline since 2004, with Antigua and Barbuda and Dominica being the exception (Figure 3.6). In recent years, infectious diseases have been on the rise, particularly those that are mosquito-transmitted such as dengue, haemorrhagic dengue fever, chikungunya, and Zika. Inadequate

Figure 3.5: Immunisation, DPT, 2004, 2009, and 2015 (percent of children ages 12–23 months)



Source: World Bank, World Development Indicators.
Note: DPT = diphtheria, pertussis (whooping cough), and tetanus.

Figure 3.6: Incidence of Tuberculosis, 2004, 2009, and 2015 (per 100,000 population)

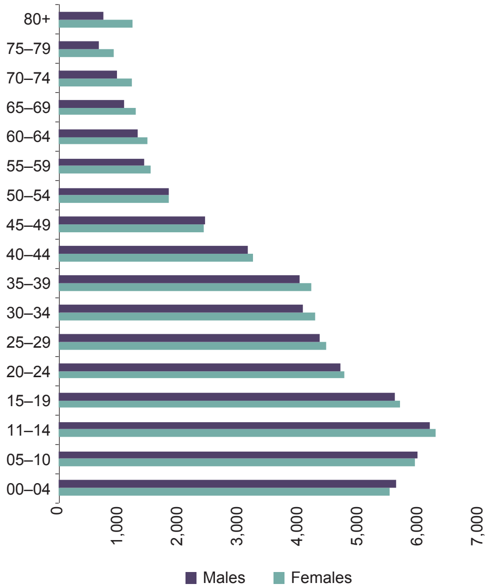


Source: World Bank, World Development Indicators.

solid waste management and sewage facilities have facilitated the spread of such diseases.

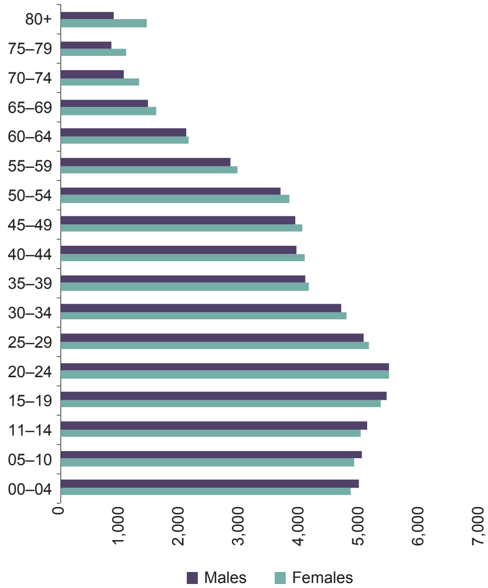
The OECS is undergoing a rapid demographic transition. With the decline in fertility and mortality rates, and longer life expectancy, its population is aging (Figures 3.7 and 3.8 and Table 3.2). By 2015, the fertility rate had fallen to 2 percent, compared to an average of 3.2 percent in the 1990s. Fertility rates in Grenada and St. Lucia dropped from 5 percent and 3.8 percent, respectively, in the 1990s to around 2 percent by 2014. If these trends persist, the union's population will age rapidly over the next few decades.

Figure 3.7: Population by Age Group in OECS Countries, 2000



Source: World Bank, World Development Indicators.
Note: Data for Dominica and St. Kitts and Nevis were unavailable. OECS = Organisation of Eastern Caribbean States.

Figure 3.8: Population by Age Group in OECS Countries, 2015



Source: World Bank, World Development Indicators.
Note: Data for Dominica and St. Kitts and Nevis were unavailable. OECS = Organisation of Eastern Caribbean States.

TABLE 3.2: Demographic and Health Indicators, 2015[a]

	Antigua and Barbuda	Dominica	Grenada	St. Kitts and Nevis	St. Lucia	St. Vincent and the Grenadines	Latin America and the Caribbean	Upper Middle Income	ROSE
Birth rate, crude (per, 1,000 population)	16.3	13.1	19.2	17.3	15.2	16.0	17.3	14.8	22.8
Death rate, crude (per 1,000 population)	6.1	8.3	7.2	10.8	7.2	7.1	5.9	7.3	7.4
Infant mortality (per 1,000 population)	5.8	19.6	10.8	8.4	12.7	16.6	15.2	15.2	25.1
Under 5 mortality (per 1,000 population)	8.1	21.2	11.8	10.5	14.3	18.3	18.0	19.1	32.4
Low birth weight (Percent < 2500 grams)	6.0	10.8	8.8	10.4	10.1	10.6	8.9	5.5	5.9
Total fertility rate	2.1	1.9	2.2	2.1	1.9	2.0	2.1	1.8	3.0
Life expectancy at birth (years)	76.1	77.8	73.4	73.8	75.2	73.1	74.9	74.4	69.9

Source: World Bank, World Development Indicators.
Note: ROSE = rest of the small economies of the world.
[a] Data for 2015 or latest year available.

The Caribbean Epidemiology Centre (CAREC) estimates that by 2025, persons above 60 years of age will constitute 17.1 percent of the Caribbean population, a significantly larger share than the 9.9 percent in 2003. An aging population will demand more care and will be costlier for the OECS health system.

The prevalence of non-communicable diseases (NCDs) has been increasing over time. The OECS mortality profile suggests that chronic NCDs (such as cerebrovascular diseases, cancers, respiratory diseases, and diabetes) have become the leading causes of death (Table 3.3). Cancer mortality is high, predominantly of the prostate, digestive organs and peritoneum, female breast, and stomach. Mortality rates due to cancer and diabetes are higher than the Latin American average and particularly worrisome in St. Vincent and the Grenadines (Table 3.3).

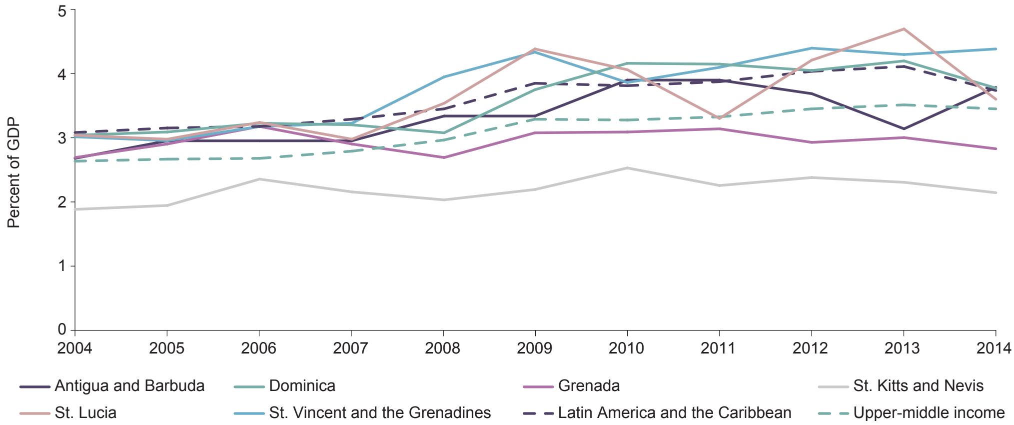
Treating NCDs is costly. The public healthcare system will require investment over the medium term to cope with the expected growth in demand for NCD care. It costs OECS countries an average of US$535 per patient annually for diabetic care alone. In St. Lucia, NCD patients spend 36 percent of their total annual household income on NCD care (World Bank 2012). NCD costs also have an adverse distributional effect. Poorer households in the OECS spend 48 percent of their per capita expenditure on healthcare compared to better-off households that spend less than 20 percent and have greater access to preventive medicine.

TABLE 3.3: Causes of Mortality, 2014 (per 100,000 population)

	Communicable Diseases	External Causes	Diabetes Mellitus	Isquemic Heart Diseases	Cerebrovascular Diseases	Breast Cancer
Antigua and Barbuda	77.1	35.3	50.5	55.9	65	28.3
Dominica	114.7	40.9	26	30.3	67.8	11.8
Grenada	126.9	31	81.5	79.5	79.3	26.3
St. Kitts and Nevis	…	…	…	…	…	…
St. Lucia	67.9	62.6	53.9	40.7	54.2	14.2
St. Vincent and the Grenadines	124.3	67.1	94.9	115.5	95.8	27.6
OECS average	102.2	47.4	61.4	64.4	72.4	21.6
Latin America and the Caribbean	79.9	68.8	43.7	63.7	42.2	13.1

Source: Pan American Health Organization.
Note: OECS = Organisation of Eastern Caribbean States.

Figure 3.9: Public Expenditure on Health, 2004–2014 (percent of GDP)



Source: World Bank, World Development Indicators.

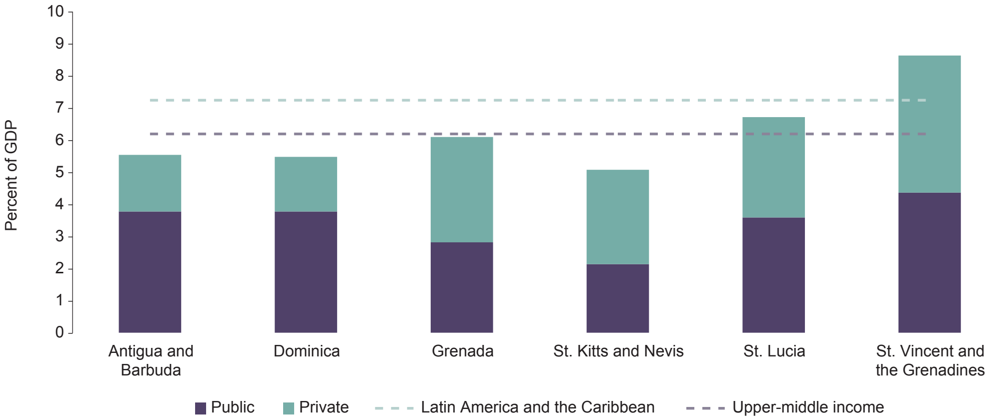
3.3. Public Expenditure on Health Was Protected Despite Constrained Fiscal Space

The post-2009 years were challenging in terms of limited fiscal space, but health remained a priority sector in the national budgets of OECS countries. Public expenditure on health increased up to 2008 and was stable at 3.5 percent of GDP thereafter (Figure 3.9). This represents an average per capita investment on health of US$881.6, which is below the level of upper-middle-income and Latin American countries and other small economies. Considering the OECS achievements in specific health outcomes, resources, while modest, were effective and came with high returns on the investment. As a share of government spending, the health sector received an average share of 12 percent, with Antigua and Barbuda and St. Vincent and the Grenadines leading the way at over 14 percent and St. Kitts and Nevis and Grenada allocating smaller shares at 6.9 percent and 9.2 percent, respectively.

About 40 percent of total health expenditure is financed through out-of-pocket payments. In 2014, public expenditure constituted about 55 percent of total expenditure on health across the OECS, with the remainder financed privately. Of these private expenditures, 91 percent were direct out-of-pocket payments (Figure 3.10 and Table 3.4).[2] This high reliance on out-of-pocket spending makes households very vulnerable to catastrophic financial losses from an illness episode. While there is limited household data to quantify the incidence impact of private spending in the OECS, the heavy reliance on out-of-pocket payments tends to be regressive because richer groups have greater access to health insurance and preventive medicine.

[2] World Bank, World Development Indicators, 2015.

Figure 3.10: Public and Private Expenditure on Health, 2014 (percent of GDP)



Source: World Bank, World Development Indicators.

TABLE 3.4: Demographic and Health Indicators, 2015

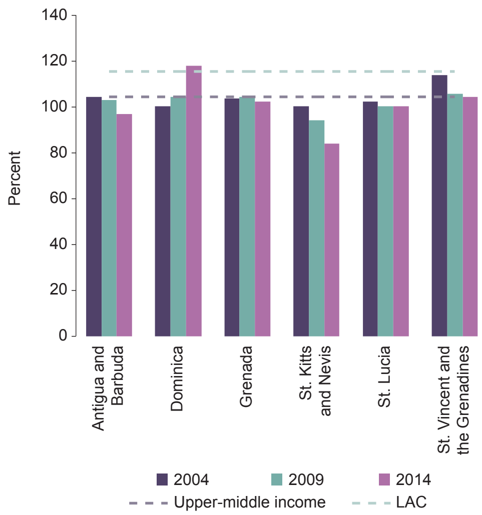
	Antigua and Barbuda	Dominica	Grenada	St. Kitts and Nevis	St. Lucia	St. Vincent and the Grenadines	Latin America and the Caribbean	Upper Middle Income	ROSE
Total expenditure (percent of GDP)	5.5	5.5	6.1	5.1	6.7	8.6	7.2	6.2	6.5
Private (percent of GDP)	1.8	1.7	3.3	2.9	3.1	4.2	3.5	2.8	2.0
Public (percent of GDP)	3.8	3.8	2.8	2.1	3.6	4.4	3.7	3.4	4.5
Public (percent of total)	68.3	68.7	46.4	42.2	53.6	50.8	51.2	55.2	70.7
Health expenditure, public (percent of public expenditure)	18.1	10.5	9.2	6.9	11.5	14.8	...	8.6	11.4
Out-of-pocket (percent of private expenditure)	75.2	91.4	95.8	88.5	94.9	100.0	68.6	72.4	70.9
Health expenditure per capita, PPP (constant 2011 international dollars)	1,208.1	586.9	728.3	1,151.7	698.3	916.6	1,111.6	926.1	1,033.2

Source: World Bank, World Development Indicators.
Note: ROSE = rest of the small economies of the world; ppp = purchasing power parity. Data for 2015 or latest year available.

3.4. The OECS Made Significant Progress on Education Outcomes at the Primary and Secondary Levels over the Past Decade

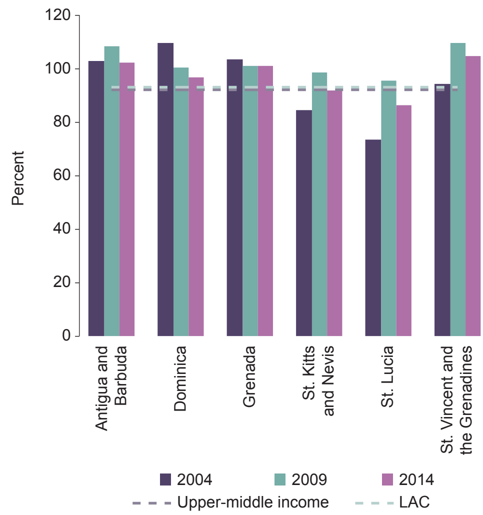
Despite limited fiscal space, the other sector where budget allocations were protected was education. This section explores the opportunities and challenges for human

Figure 3.11: Primary Gross Enrolment, 2004, 2009, and 2014 (percent)



Source: World Bank, World Development Indicators.
Note: LAC = Latin America and the Caribbean.

Figure 3.12: Secondary Gross Enrolment, 2004, 2009, and 2014 (percent)



Source: World Bank, World Development Indicators.
Note: LAC = Latin America and the Caribbean.

capital accumulation in the Eastern Caribbean and how public spending was allocated to address them.

The OECS countries improved education outcomes through sustained public investment at the primary and secondary levels. With free access to compulsory primary and secondary education, gross enrolment rates were around 100 percent in 2014 (Figures 3.11 and 3.12). However, literacy and numeracy remain significant challenges, and a large percentage of secondary school students are graduating without the minimum qualifications to move to the tertiary level. Thus, strengthening the quality of the education system is key to addressing low transition and high repetition rates.

Enrolment in early childhood education is relatively low across the union, with net enrolment at the pre-primary level at around 70 percent in 2014. The development of cognitive skills and a child's physical potential is highly linked to having access to early care interventions. Since children from rural and poorer households are less likely to attend pre-primary level, they tend to be at a disadvantage in primary school vis-à-vis children from better-off families.

Since 2009, gross enrolment rates in the OECS have declined at the primary and secondary levels (with Dominica being the exception at the primary level) (Figure 3.11).[3]

[3] Gross enrolment includes students of all ages. If there is late enrolment, early enrolment, or repetition, total enrolment can exceed the population of the age group, leading to ratios greater than 100 percent. Net enrol-

After peaking in 2009, enrolment levels have declined at the primary level, but more so at the secondary level. At the secondary level, however, rates have generally remained above LAC and other upper-middle-income countries (with the exception of St. Lucia in 2004 and 2014). In Antigua and Barbuda and St. Kitts and Nevis, gross primary enrolment dropped from 104 to 97 percent and from 100 to 84 percent, respectively, over 2004–2014. During the same period, the average gross enrolment rate for secondary education increased from 95 to 97 percent.

As students reach the tertiary level, gross enrolment levels drop significantly to around 24 percent, the OECS average for the 2004–2014 period. A combination of factors are associated with this large drop, including underperformance of secondary school graduates who are not transitioning and the limited provision of higher education services on some islands. Not surprisingly, Grenada has the highest tertiary level enrolment at 53 percent because an emerging education services sector is making it easier to study without travelling abroad. However, according to the OECS 2012–2021 Education Strategy, fewer than 10 percent of adults in the union have completed tertiary-level education (OECS 2012).

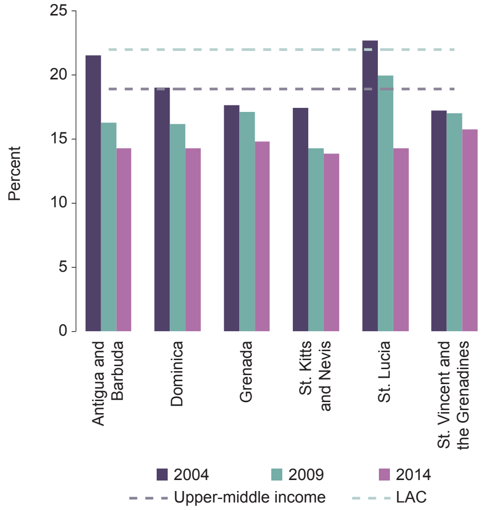
OECS citizens ages 25 and older have 8.4 years of formal education, which is below average by international standards. It is also much lower than the 11 years of formal education in developed countries and the 12.3 years reported by the top 10 ranked states in the United Nations Development Programme's (UNDP) 2015 Human Development Index. The Eastern Caribbean continues to face challenges in terms of the limited supply of tertiary education services, the availability of qualified teachers in subjects like mathematics, science, English, and information and communications technology, and the high rate of under-qualified graduates finishing secondary studies.

OECS students have lower educational attainment even though pupil-teacher ratios are at the level of developed countries. Lower student-teacher ratios tend to be associated with higher education outcomes and higher quality education systems because teachers can dedicate more time per student, which ensures more personalised instruction. However, the fact that smaller classes are not making a difference in the OECS suggests weaknesses in the quality of education. In 2014, the ratio of teachers to students in primary education averaged 14.5, which is below that of Latin American countries at 22 (Figure 3.13). Likewise, the secondary education ratio at 12.5 compares favourably to that of the upper-middle-income countries and the Latin American average at 15.8 and 16.9, respectively (Figure 3.14).

Further evidence of the lower quality of education is the underperformance of secondary students on international exams, as shown in Table 3.5. The figures for

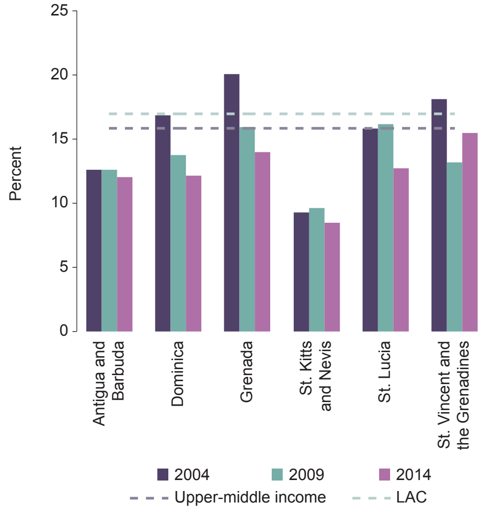
ment includes only children of the official school age, as defined by the national education system. Small discrepancies in the reported age of children may occasionally cause net enrolment rates to exceed 100 percent.

Figure 3.13: Pupil-Teacher Ratios, Primary, 2004, 2009, and 2014 (percent)



Source: World Bank, World Development Indicators.
Note: LAC = Latin America and the Caribbean.

Figure 3.14: Pupil-Teacher Ratios, Secondary, 2004, 2009, and 2014 (percent)



Source: World Bank, World Development Indicators.
Note: LAC = Latin America and the Caribbean.

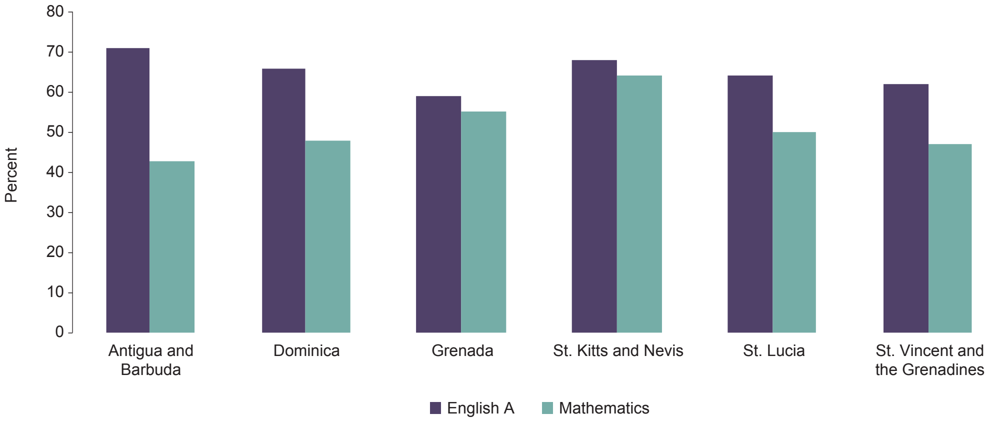
secondary students who graduated with passes in English A and Mathematics on the Caribbean Secondary Education Certificate (CSEC) exams in 2014 are just above average (Figure 3.15). The average pass rate in Mathematics was around 51 percent while English A stood at 65 percent. The lowest performing country was Antigua and

TABLE 3.5: Percentage of Students with Five CSEC Passes, 2011–2014

	2011			2012			2013			2014		
	M[a]	F[b]	Total	M[a]	F[b]	Total	M[a]	F[b]	Total	M[a]	F[b]	Total
Antigua and Barbuda	28	29	28	22	25	24	24	29	27	33	35	34
Dominica	34	36	35	15	27	22	28	42	35	36	49	43
Grenada	16	22	19	12	17	15	15	18	17	22	26	24
St. Kitts and Nevis	18	16	17	12	20	17	21	16	18	24	23	23
St. Lucia	25	30	28	18	26	22	21	29	25	37	44	40
St. Vincent and the Grenadines	18	20	19	14	21	18	16	24	20	25	33	29

Sources: World Bank, World Development Indicators.
Note: CSEC = Caribbean Secondary Education Certificate.
[a] M means male.
[b] F means female.

Figure 3.15: Percentage of Students with Passes in CSEC English A and Mathematics, 2014



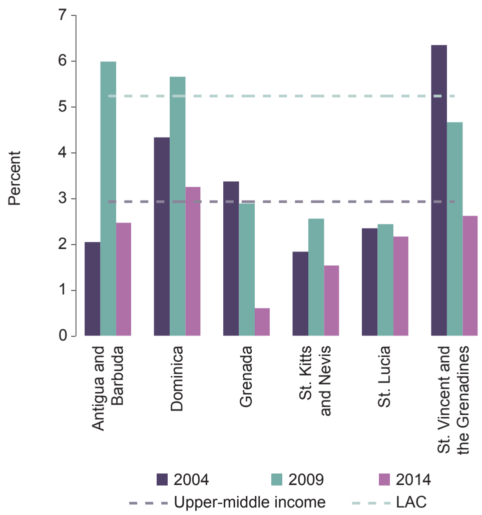
Source: World Bank, World Development Indicators.
Note: CSEC = Caribbean Secondary Education Certificate.

Barbuda, with pass rates in Mathematics of 43 percent, while the best performer was St. Kitts and Nevis, with a 64 percent pass rate.

Gender disparities are evident and females tend to outperform males in higher education. This distinct social characteristic differentiates the Caribbean region from the rest of Latin America. As students move to the upper secondary and tertiary levels, males drop out at a faster rate. Girls tend to have higher completion rates than boys with a higher percentage of passes at the CSEC level (girls average 27.4 percent and boys average 22.3 percent) (Table 3.5). When reaching tertiary education, the OECS male enrolment rate drops to 35 percent compared with 45 percent for females. In the OECS and wider Caribbean, public policy should focus on reducing the dropout rates of males and on increasing access and opportunities for males to graduate from higher education.

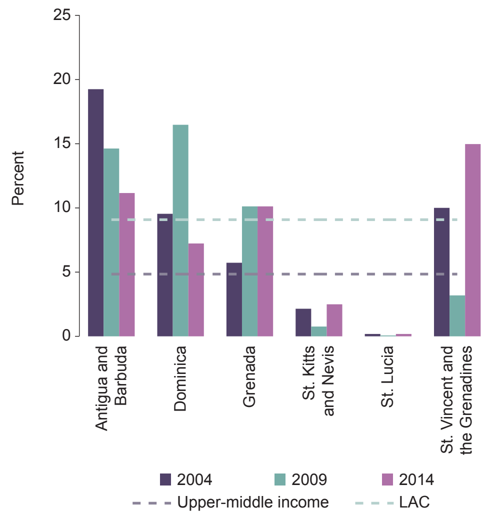
There is a large percentage of repeaters in both primary and secondary education in OECS countries (Figures 3.16 and 3.17). Repetition rates are indicative of students lacking the minimum qualifications to move to the next grade and should ideally be closer to zero. In 2009, around 4 percent of primary school students repeated, which is higher than the 2.9 percent average for upper-middle-income countries but lower than the Latin American average of 5.2 percent. By 2014, the primary repetition rate stood at 2.1 percent, with great variation among countries. Grenada reported the lowest primary repetition rate at 0.6 percent and Dominica the highest at 3.3 percent. For secondary school students, the OECS average repetition rate stood at 7.7 percent in 2014. St. Lucia had the lowest secondary repetition rate at 0.2 percent, while the rate for St. Vincent and the Grenadines at 15 percent was above the Latin American average. Antigua and Barbuda saw the largest drop over time, with an improvement in reducing repeaters from 14.6 percent to 11 percent from 2009 to 2014.

Figure 3.16: Repeaters in Primary Education, 2004, 2009, and 2014 (percent)



Source: World Bank, World Development Indicators.
Note: LAC = Latin America and the Caribbean.

Figure 3.17: Repeaters in Secondary Education, 2004, 2009, and 2014 (percent)



Source: World Bank, World Development Indicators.
Note: LAC = Latin America and the Caribbean.

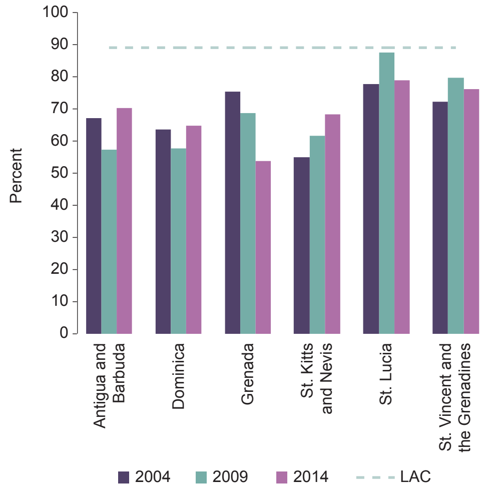
The number of trained teachers in the OECS increased on average at the secondary level. In 2014, the number of teachers trained at the primary level averaged 68.6 percent, which was similar to what was recorded in 2009, with St. Lucia leading the way at 78.8 percent (Figure 3.18). At the same time, for secondary school teachers, the OECS average rose to 51.5 percent, ranging from 40.6 percent in Grenada to 71.5 percent in St. Lucia (Figure 3.19). However, this rate is considerably lower than that for LAC, which stood at 82 percent.

3.5. The OECS Countries Are Under-investing in Education

Public expenditure on education in the OECS was lower than that of peers in the region and of other countries at a similar income level (Figures 3.20 and 3.21). While the level of public spending on education is not the only determinant of education outcomes—quality and efficiency of public spending also play an important role—it is a reflection of development priorities. On average, OECS countries allocated 4.2 percent of GDP to education over 2005–2014, which is much lower than other countries in the region, such as Barbados (5.6 percent) or Jamaica (6.3 percent), and less than the top 10 performers on the UNDP's Human Development Index (6.1 percent).[4]

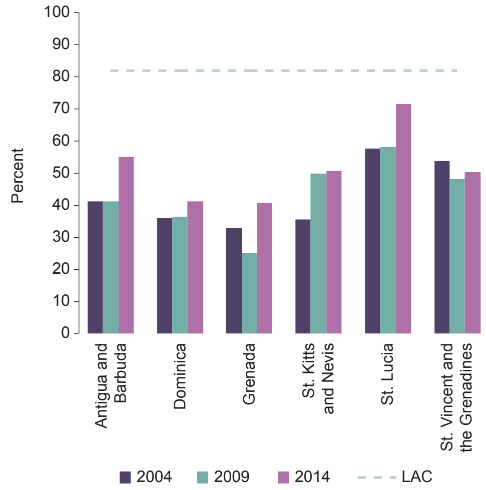
[4] Data for 2005–2014 are from the UNDP, *Human Development Report 2015*.

Figure 3.18: **Teachers in Primary Education Who Are Trained, 2004, 2009, and 2014 (percent)**



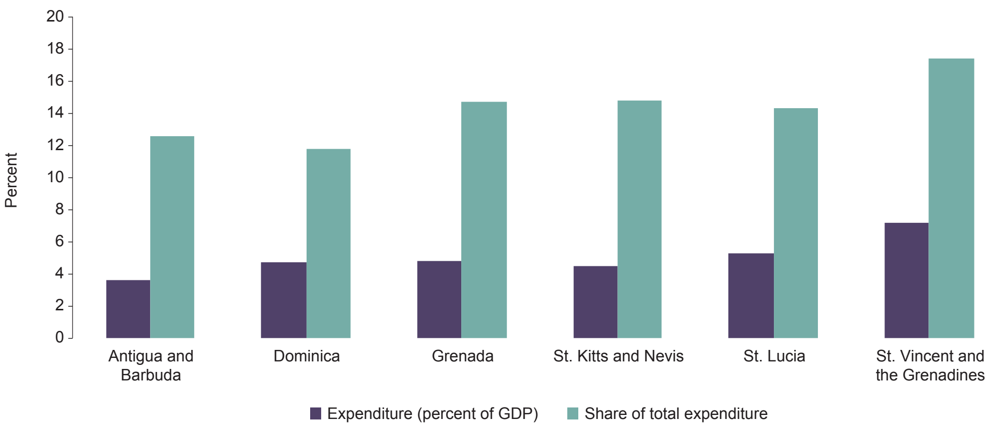
Source: World Bank, World Development Indicators.
Note: LAC = Latin America and the Caribbean. Data unavailable for upper-middle-income countries.

Figure 3.19: **Teachers in Secondary Education Who Are Trained, 2004, 2009, and 2014 (percent)**



Source: World Bank, World Development Indicators.
Note: LAC = Latin America and the Caribbean. Data unavailable for upper-middle-income countries.

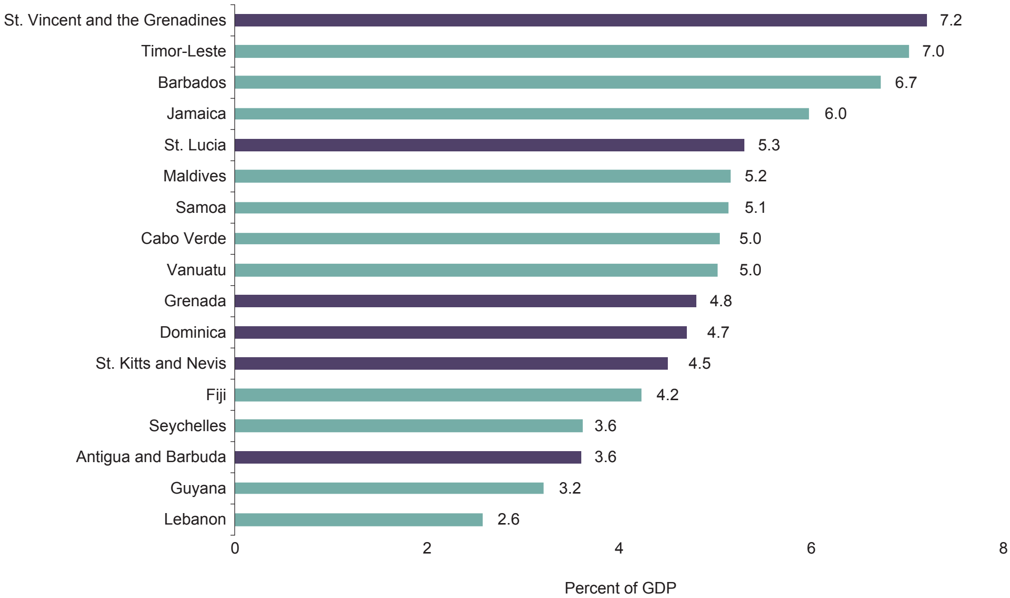
Figure 3.20: **Public Expenditure on Education, 2014 (percent)**



Sources: World Bank, World Development Indicators; and OECS (2012b).

The country that allocated the largest share of resources was St. Vincent and the Grenadines, which spent 5.1 percent of GDP on education from 2005–2014 and reached 7.2 percent at the end of 2014. On the other hand, Antigua and Barbuda spent only around 3.6 percent of GDP on education. In terms of the composition of public spending, in general the bulk of the education budget was shared between primary (27.7 percent)

Figure 3.21: **Public Expenditure on Education, 2014 (percent of GDP)**



Sources: World Bank, World Development Indicators; and OECS (2012b).

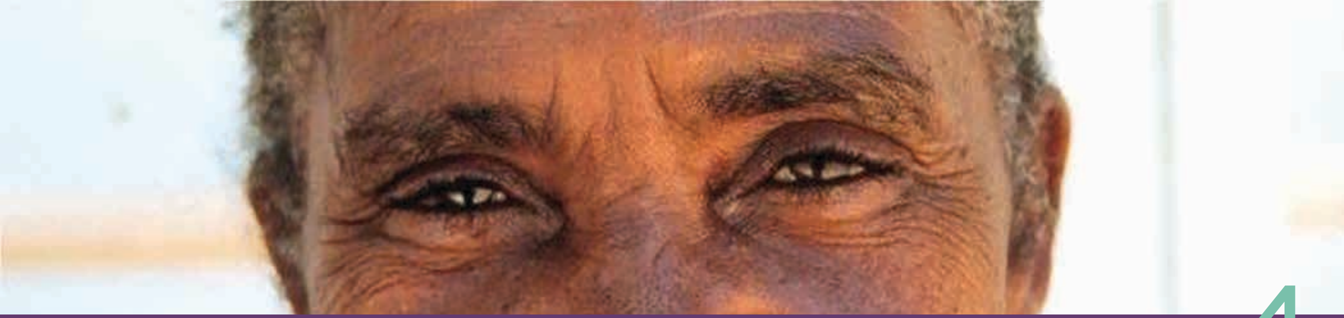
and secondary (34.7 percent), while post-secondary/non-tertiary received 14.3 percent as of the end of 2014 (Table 3.6). As a percent of the education budget, Grenada allocates only 0.8 percent to post-secondary education while Antigua and Barbuda spends the highest share at 30.1 percent.

While Chapters 1 and 2 focused on economic developments from a macro perspective, Chapter 3 took a closer look at the impact of those developments on social outcomes and people. However, these macroeconomic trends are greatly linked to domestic developments and reflective of opportunities and constraints at the micro-economic level. How is the private sector performing, and what are the opportunities and challenges that drive growth and employment within firms? These questions are the focus of the next chapter.

TABLE 3.6: Education Expenditure, 2014

	Antigua and Barbuda	Dominica	Grenada	St. Kitts and Nevis	St. Lucia	St. Vincent and the Grenadines
Public (percent of GDP)	3.6	4.7	4.8	4.5	5.3	7.2
Public (percent of total)	12.6	11.8	14.7	14.8	14.3	17.4
Primary (percent of education budget)	19.3	32.3	33.4	22.2	30.6	28.5
Secondary (percent of education budget)	46.0	36.1	28.7	27.5	36.0	33.9
Post-secondary/Non-tertiary (percent of education budget)	30.1	19.8	0.8	9.9	8.3	16.6
Public expenditure per primary student (constant PPP$)[a]	1,881.8	1,409.3	...	...	1,897.1	1,933.6
Public expenditure per secondary student (constant PPP$)[a]	2,022.1	1,579.2	...	...	2,743.4	2,323.1

Sources: World Bank, World Development Indicators; and OECS Education Statistical Digest 2013/14.
Note: PPP = purchasing power parity.
[a] Data from 2014 or latest year available.



Towards a Vibrant Private Sector in the OECS

4

The OECS maintains an open, regulated, and investment-friendly environment for doing business. However, private sector performance has been mixed and productivity has declined over time. Constraints on the supply side have kept firms smaller, older, and locally owned. The average firm does not export and undertakes little innovation. Enterprise Survey data show that firms perceive access to finance and a shortage of skills as the most pressing constraints to doing business.

While the private sector in the OECS shares similarities with that of the broader Caribbean, challenges in the union are magnified due to the smaller size of its domestic markets. In a challenged macroeconomic climate, with modest growth and limited fiscal space, the Caribbean is undergoing a structural transition, moving from a large public sector contribution to growth through public spending and employment to a more dynamic private-sector-led growth strategy. The private sector could still play a more dominant role and generate greater employment, but it underperforms across a range of competitiveness indicators when compared with other Latin American countries and by income levels. Firms are challenged by diseconomies of scale, low productivity, high emigration rates, and limited regional linkages. This section presents an overview of the main characteristics of the firms in the Eastern Caribbean based on the two most recent firm-level surveys conducted in the region.[1]

[1] The two surveys are the World Bank's 2010 Latin American and Caribbean Enterprise Survey (LACES), and Compete Caribbean's 2014 Productivity, Technology, and Innovation (PROTEqIN) Survey. PROTEqIN conducted interviews across 13 countries: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Sample size is representative of the non-agricultural private sector and includes selected manufacturing and service industries.

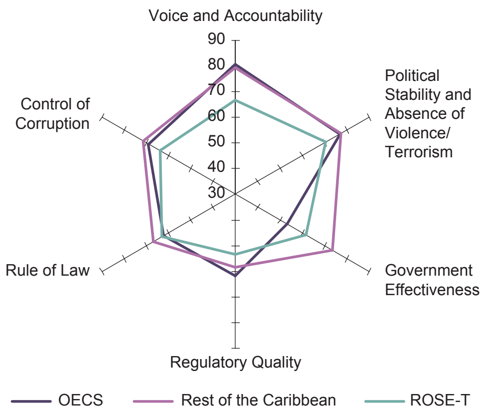
4.1. A Business Environment Conducive to Growth

The quality of public institutions is a key factor for economic growth, and the OECS ranks relatively well across governance indicators (Figure 4.1). Institutions matter, as the legal and administrative contexts that support private sector activity foster greater collaboration between public and private sectors, which in turn promotes greater productivity (Acemoglu, Johnson, and Robison 2005). On the World Bank's Governance Indicators, the OECS performs better than the C6 and the ROSE-T with respect to voice and accountability, control of corruption, regulatory quality, and political stability/no violence. Actually, the OECS is in the top 20th percentile for political stability and voice and accountability. However, on government effectiveness, the OECS ranks lower than its peers in the C6 and ROSE-T.

Corruption perception surveys suggest that corruption is not a binding constraint to doing business in the region. Transparency International's Corruption Perceptions Index ranks the OECS countries well in its annual composite index. St. Vincent and the Grenadines ranked 62nd out of 175 countries (2014) and Dominica ranked 58th.[2] This is a positive finding, as corruption acts as a tax on firms by raising production and transaction costs.

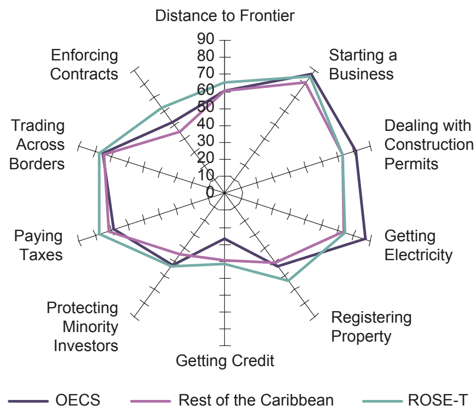
The OECS offers an open, regulated, and transparent investment climate (Figure 4.2). Countries on average outperform Caribbean peers on most Doing Business

Figure 4.1: Governance/Institutions Indicators, 2015



Source: World Bank, Worldwide Governance Indicators, 2015.
Note: Rest of Caribbean = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; ROSE-T = rest of the small economies of the world that are dependent on tourism.

Figure 4.2: Doing Business Indicators, 2015



Source: World Bank (2015a).
Note: Rest of Caribbean = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; ROSE-T = rest of the small economies of the world that are dependent on tourism.

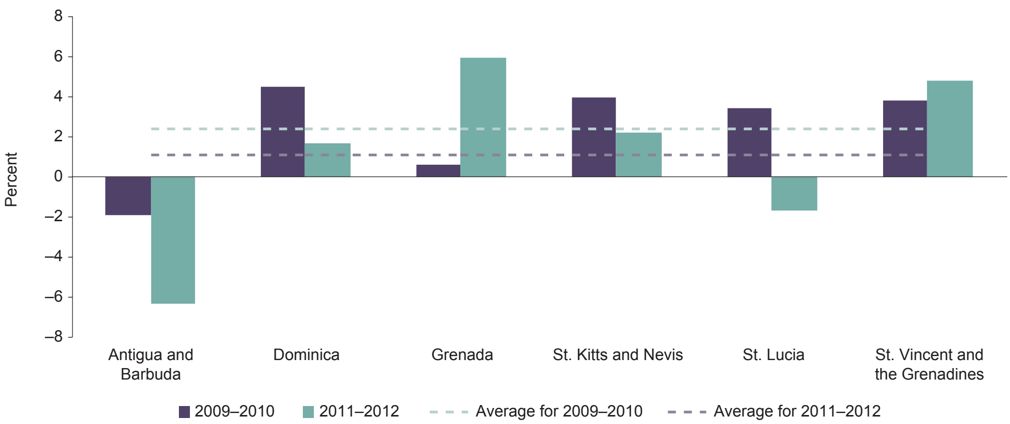
2 The Corruption Perceptions Index ranks countries and territories based on how corrupt their public sector is perceived to be. It is a composite index that is a combination of surveys collected by reputable institutions.

indicators, including the ease of starting a business, dealing with construction permits, and getting electricity. However, they fall behind on the ease of getting credit and paying taxes. Results are mixed for registering property, trading across borders, protecting investors, and enforcing contracts. However, the average ranking on ease of doing business in the union declined in relative terms from 103rd in 2014 to 106th in 2015.[3] The decline was most significant in Antigua and Barbuda, for which the ranking dropped from 83rd to 89th, and St. Lucia, which dropped from 95th to 100th. With an investment climate that overall is conducive to growth, one would expect a larger contribution to output from the private sector. However, across the OECS, as in the wider Caribbean, firms underperformed and grew below potential.

4.2. Firms Are Underperforming Over Time

Sales growth has decreased across the Eastern Caribbean, with the exception of St. Vincent and the Grenadines and Dominica (Figure 4.3). During 2009–2012, average sales growth dropped by more than 50 percent. In Antigua and Barbuda and St. Lucia, firms reported higher losses over the period. While outperforming the C6 in 2010, the OECS fell behind in sales growth in 2014, recording 3.2 percent sales growth compared to 3.9 percent for its peers (Table 4.1). These numbers reflect the union's overall output, which declined by 1.7 percent over 2009–2012.

Figure 4.3: Real Annual Sales Growth, 2009–2012 (percent)



Source: Compete Caribbean(2014b).

A country's or territory's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean).

[3] Yearly movements in rankings can provide some indication of changes in an economy's regulatory environment for firms, but they are always relative. An economy's ranking might also change because of developments in other economies.

TABLE 4.1: Caribbean Private Sector Performance, 2010 and 2014 (percent)

	2010		2014	
Growth in:	**Sales**	**Labour**	**Sales**	**Labour**
OECS				
Antigua and Barbuda	-1.2	4.5	5.5	-1.7
Dominica	0.5	2.1	2.0	-1.4
Grenada	3.9	4.9	6.0	-1.3
St. Kitts and Nevis	3.4	6.2	0.3	-1.6
St. Lucia	3.8	2.6	2.7	-0.3
St. Vincent and the Grenadines	1.9	3.8	2.5	-1.7
Average	**2.1**	**4.0**	**3.2**	**-1.3**
C6				
Bahamas, The	2.0	4.9	3.6	-1.5
Barbados	2.9	4.0	2.9	1.8
Guyana	4.7	5.7	5.7	6.3
Jamaica	-6.7	2.5	2.4	1.7
Suriname	-0.4	4.5	3.2	5.7
Trinidad and Tobago	2.6	6.9	5.6	-1.9
Average	**0.9**	**4.7**	**3.9**	**2.0**

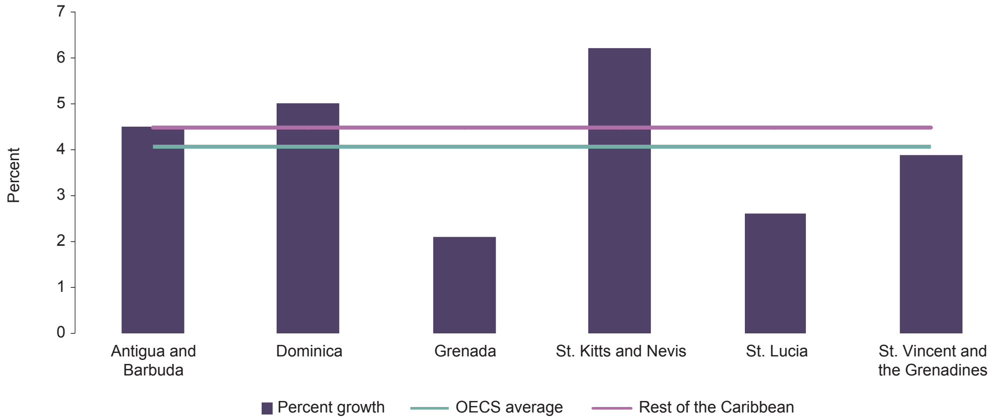
Sources: World Bank, Enterprise Surveys, 2010; Ruprah and Sierra (2016); and Compete Caribbean (2014b).
Note: OECS = Organisation of Eastern Caribbean States.

Firms lag behind peers and other small economies in employment growth (Figure 4.4, Table 4.1). Data from Compete Caribbean's Productivity, Technology, and Innovation (PROTEqIN) Survey show that the average firm in the OECS had 27 employees in 2014, less than the rest of the Caribbean at 32 employees on average, but above ROSE-T at 21 employees. During 2009–2010, employment grew on average by 4 percent, with St. Kitts and Nevis recording the highest employment growth at 6 percent. However, by 2014 labour figures contracted on average by 1.3 percent (Table 4.1). These were years of an adverse external environment and when the demand for tourism services declined. Firms felt the impact and cut jobs.[4]

It is expensive for firms to produce in the Caribbean. Electricity tariffs are amongst the highest in the world, inputs are imported, and real wages are higher than those in competing Latin American countries. Like other small economies, OECS countries are challenged by diseconomies of scale and indivisible fixed costs. Diseconomies of

[4] The composition of surveyed firms is as follows: tourism sector small firms (those with 5 to 19 employees) accounted for 56 percent, medium-sized firms (20 to 99 employees) accounted for 37 percent, and the remaining 6 percent were larger firms with over 100 employees.

Figure 4.4: **Firm Employment Growth, 2009–2010 (percent)**



Source: Compete Caribbean(2014b).
Note: Rest of the Caribbean = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago. OECS = Organisation of Eastern Caribbean States.

scale imply higher average costs, which are exacerbated in an environment that under-provides public goods. Limited connectivity and intra-regional travel, along with restricted freight logistics services, contribute to final costs and make goods and services very expensive.

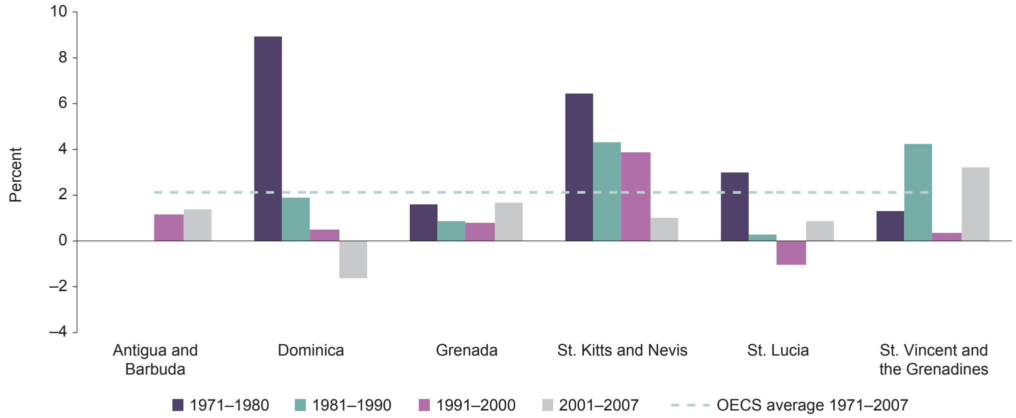
4.3. Declining Productivity Growth

Over the past three decades, the Caribbean saw limited and declining productivity growth. Productivity growth, which comes from more efficient use of inputs, can be achieved through improvements in production processes, organizational changes, or innovation. Total factor productivity (TFP) in the OECS fell from an average 3.9 percent during 1971–1980 to 0.6 percent in 2001–2007 (Figure 4.5). Likewise, labour productivity in the union averaged 0.6 percent during 1971–2007, with a smaller decline from 1.1 percent during 1971–1980 to 0.9 percent in 2001–2007 (Figure 4.6).

Across the Caribbean there is wide variance in TFP and output elasticities (Figures 4.7 and 4.8). Average TFP (adjusted for purchasing power parity) for firms across the OECS varies from St. Kitts and Nevis (3.2) to St. Vincent and the Grenadines (2.3). Input factor elasticities illustrate the responsiveness of firm sales to changes in the levels of each input factor used in production. In terms of input factor elasticities (output-capital and output-employment),[5] Dominica has the highest output-to-capital

[5] Using the three factors of production (capital, labour, and intermediate goods), the input factor elasticities were derived from the coefficients obtained from an estimation using a Cobb-Douglas production function. (Ruprah and Sierra 2016).

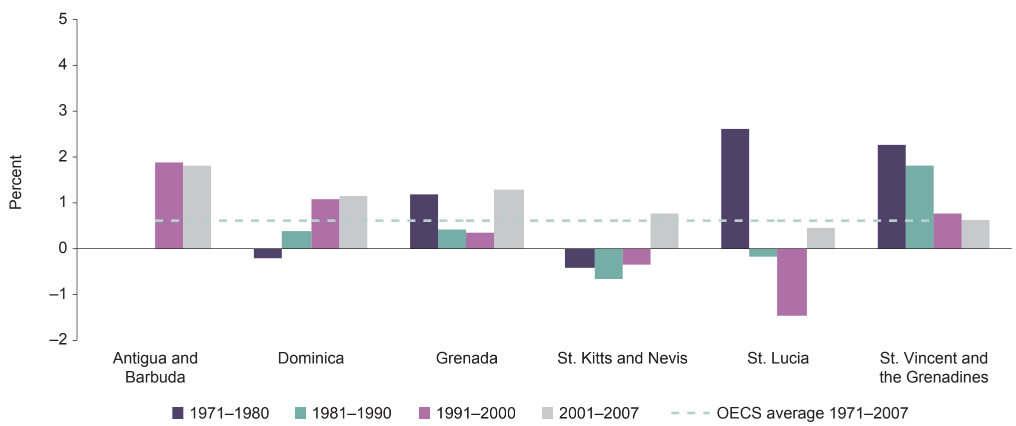
Figure 4.5: **Total Factor Productivity, 1971–2007 (average annual percent change)**



Sources: Heston, Summers, and Aten (2009); and IMF (2014).
Note: OECS = Organisation of Eastern Caribbean States.

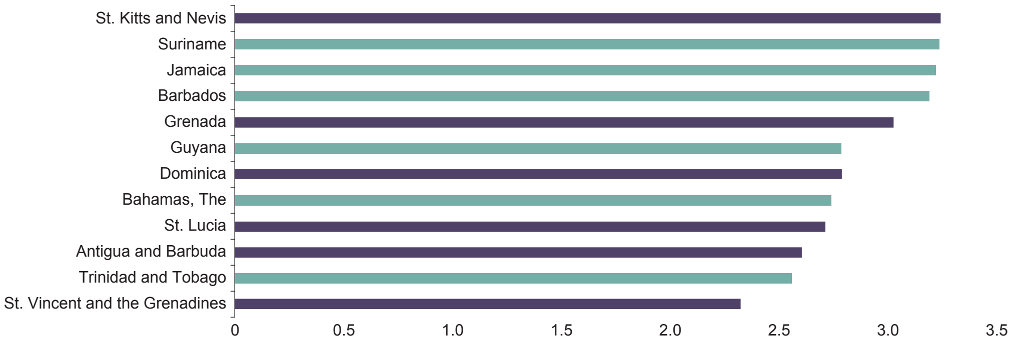
elasticity within the Caribbean region at 59 percent. A 10 percent increase in capital would result in an increase in output of 59 percent. The variance of productivity in the region is such that a 10 percent increase in capital would lead to an increase in output of 24 percent in St. Kitts and Nevis and 59 percent in Dominica. In the OECS, St. Lucia registered the lowest labour-to-capital elasticity at 0.01, and Grenada the highest at 0.83. A closer look at the structure of the typical firm in the Eastern Caribbean sheds light on why there is a performance gap.

Figure 4.6: **Annual Labour Productivity Growth, 1971–2007 (average annual percent change)**



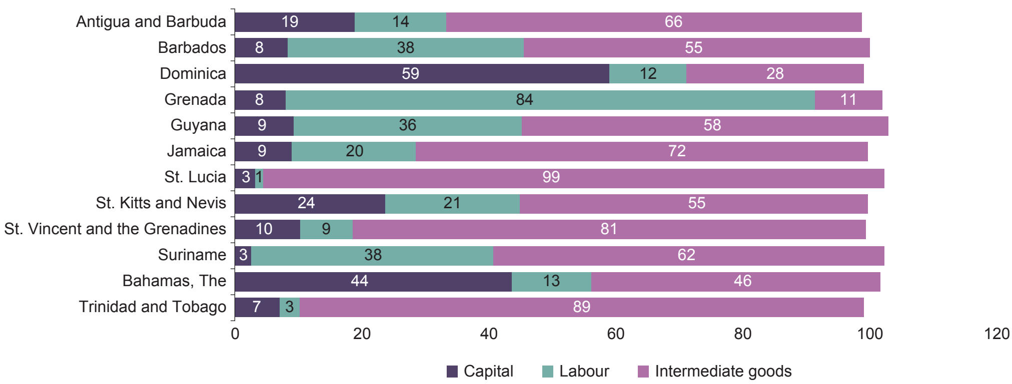
Sources: Heston, Summers, and Aten (2009); and IMF (2014).
Note: OECS = Organisation of Eastern Caribbean States.

Figure 4.7: Total Factor Productivity in the Caribbean, 2014 (adjusted for purchasing power parity)



Source: IDB calculations based on the 2014 Productivity, Technology, and Innovation (PROTEqIN) Survey; and IDB (2016).

Figure 4.8: Factor Elasticities for the Caribbean, 2014 (percent)



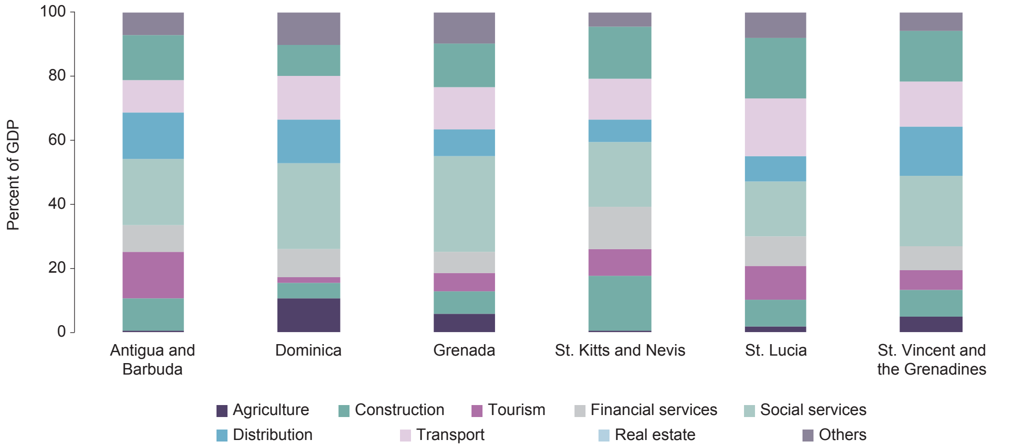
Source: Ruprah and Sierra (2016).

4.4. The Average OECS Firm Is Small, Older, Locally Owned, and Does Not Export

The OECS private sector is mostly comprised of small and medium-sized enterprises (SMEs). Businesses are mostly service providers (74 percent), while 25 percent are in manufacturing (Figure 4.9). The main activities of firms correspond to the retail and tourism sectors, with 24.5 percent and 23.8 percent, respectively (Figure 4.10). The manufacturing sector follows, focusing on food, light machinery, and equipment (Figure 4.11).

With fewer new businesses registered every year, the average Eastern Caribbean firm is getting older (Figure 4.12). The tendency towards aging has accelerated in recent years. The average business in the OECS is 22 years old, above the average of 20 years for the wider Caribbean and 17.6 years for ROSE-T. Only 2 percent of existing

Figure 4.9: Sectoral Contribution to GDP, 2015 (percent of GDP)

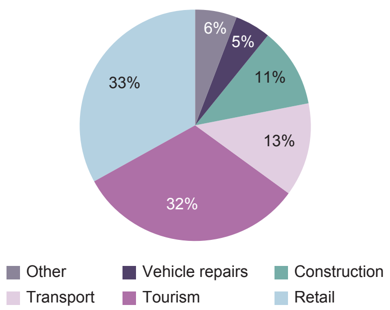


Source: Eastern Caribbean Central Bank.

firms were established between 5 and 10 years ago, and 58 percent of firms in the Eastern Caribbean were established in the last 20 years. Studies show that as firms age, their growth rates and productivity tend to decrease, as they adjust more slowly to a changing business environment and are less innovative (Evans 1987; Loderer and Waelchli 2010). Older Caribbean firms tend to report lower productivity growth than younger firms over time (Ruprah, Melgarejo and Sierra, 2014).

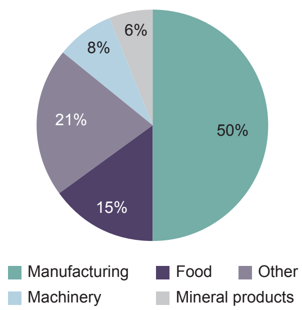
Firms in the OECS are missing out on positive externalities by not exporting. The typical business supplies to the local market and imports most inputs. About 65.3 percent of OECS firms import raw materials and around 19.5 percent of them export to foreign markets. Only 15 percent of those exporting receive over 50 percent of

Figure 4.10: Breakdown of Services in OECS Countries, 2010 (percent)



Source: Compete Caribbean (2014b).
Note: OECS = Organisation of Eastern Caribbean States.

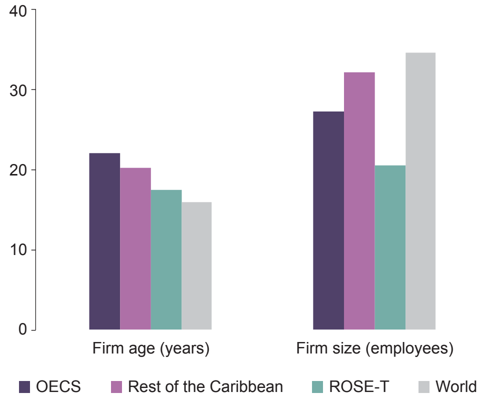
Figure 4.11: Breakdown of Manufacturing in OECS Countries, 2010 (percent)



Source: Compete Caribbean (2014b).
Note: OECS = Organisation of Eastern Caribbean States.

their sales income from abroad. The impact of trade on firm productivity is well documented in the literature: firms that engage in trade are more innovative, competitive, and exposed to new processes and ways of doing business. Through competition and trade, they can import innovation and internalise foreign know-how in an environment of limited investment in research and development (R&D) (Mohan, Strobl, and Watson 2014; Seker 2012).

Figure 4.12: Firm Size and Age, 2010

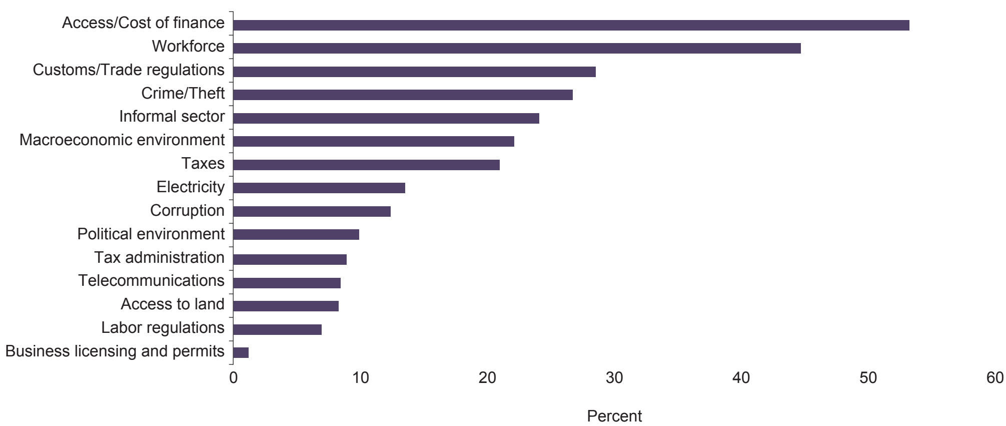


Source: Compete Caribbean (2014b).
Note: Rest of the Caribbean = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; OECS = Organisation of Eastern Caribbean States; ROSE-T = rest of the small economies of the world that are dependent on tourism.

4.5. What Is Driving the Performance Gap Across OECS Firms?

Three main factors contribute to limited productivity growth in the OECS and the lower use of capital per unit of labour: (1) lack of innovation; (2) constrained access to finance; and (3) difficulties in hiring an educated and trained work force. Combined, these constraints on the supply side have shaped firms' profiles. At the same time, firms reported in the PROTEqiN Survey that the most pressing constraints to doing business were the two latter factors: access to and the cost of finance, and limited access to qualified labour (Figure 4.13).

Figure 4.13: Main Obstacles to Firm Operations in OECS Countries, 2014 (percent of respondents)



Source: Compete Caribbean (2014b).
Note: OECS = Organisation of Eastern Caribbean States.

TABLE 4.2: Private Investment, 2005–2009 and 2010–2015 (percent of GDP)

	Private Gross Capital Formation (average 2005–2009)	Private Gross Capital Formation (average 2010–2015)
Antigua and Barbuda	...	...
Dominica	8.8	2.9
Grenada	23.3	11.2
St. Kitts and Nevis	33.0	21.4
St. Lucia	23.5	18.8
St. Vincent and the Grenadines	14.8	15.3
Bahamas, The	27.0	26.6
Barbados	11.2	10.4
Guyana	...	...
Jamaica	...	...
Suriname	29.0	53.0
Trinidad and Tobago	8.0	5.6

Source: IMF, *World Economic Outlook*, October 2016.

Private investment has declined over time in the Eastern Caribbean (Table 4.2). With limited fiscal space, public investment has decreased and has been crowded out by current expenditures. At the same time, firms are investing less over time. This has translated into a decline in gross capital formation and in the use of capital per unit of labour. The decline in private investment was largest in Dominica, with private gross capital formation falling from 8.8 percent of GDP on average over 2005–2009 to 2.9 percent of GDP over 2010–2015. St. Vincent and the Grenadines was the exception and saw an increase over the period, from 14.8 percent of GDP (2005–2009) to 15.3 percent of GDP (2010–2015). This was in part due to the country's large infrastructure projects, including the new airport and private hotels.

4.5.1. Innovation

The Eastern Caribbean has seen limited technological progress in recent years and firms report less innovation than other regions. In an environment of limited investment in R&D, exposure to greater innovation occurs through international trade (Figure 4.14). The fact that most OECS firms supply only the domestic market has come at the expense of greater productivity growth.

Overall, empirical evidence shows that innovation leads to higher productivity, especially through product innovation technologies.[6] Technological innovations

[6] Lasagabaster and Reddy (2010); Mohan, Strobl, and Watson (2014); Hall and Mohnen (2013); Ortiz et al. (2012); and Hall and Mohnen (2013).

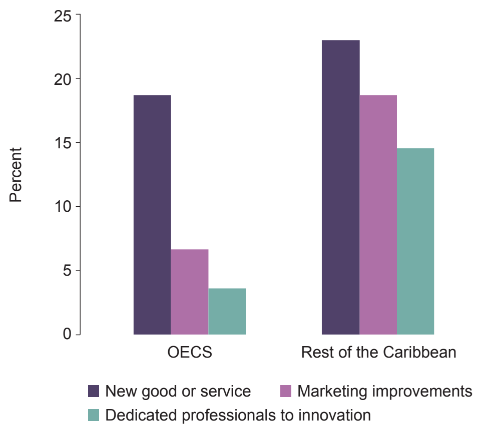
TABLE 4.3: Innovative Activity, 2010 (percent of firms)

	Patents Abroad	Patents Locally	Research and Development	Cooperate on Innovation	Receive Public Support for Innovation	Purchases of Licenses for Intellectual Property
Antigua and Barbuda	0	0	5	0	1	2
Bahamas, The	0	0	8	3	0	6
Barbados	0	0	18	5	6	6
Belize	0	0	4	1	0	10
Dominica	0	0	2	0	0	3
Dominican Republic	8	23	11	10	4	13
Grenada	0	0	5	3	1	3
Guyana	0	0	21	16	2	7
Jamaica	7	16	9	5	1	7
St. Kitts and Nevis	0	0	7	5	1	1
St. Lucia	0	0	5	0	0	2
St. Vincent and the Grenadines	0	0	10	6	3	3
Suriname	0	0	2	5	3	8
Trinidad and Tobago	2	5	5	4	0.2	3
Total	**2**	**6**	**8**	**5**	**2**	**6**

Source: Mohan, Strobl and Watson (2014).

(product or process) or non-technological innovations (organizational or marketing) can have a positive impact on productivity. However, compared with its peers, the OECS still shows lower levels of investment in R&D, which can spur innovation. During 2012–2014, around 18 percent of firms introduced a new or improved good or service to the market and only 6 percent introduced marketing improvements (Table 4.3 and Figure 4.14). In addition, foreign ownership does not seem to influence innovation in the Caribbean, which indicates that foreign firms are probably using the region as an outlet for products

Figure 4.14: Investment in Research and Development, 2014 (percent of firms)



Source: Compete Caribbean (2014b).
Note: OECS = Organisation of Eastern Caribbean States; Rest of the Caribbean = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

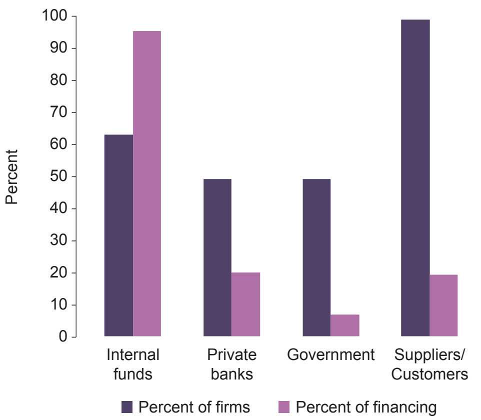
rather than as a testing ground to improve production (Mohan, Strobl, and Watson 2014).

4.5.2. Access to Finance

Access to finance was perceived as the most critical obstacle to doing business by firms. The constraints to accessing funding in the Eastern Caribbean are evident from the heavy reliance of businesses on their own resources for working capital. Relying on retained earnings for investment puts significant pressure on cash management. In 2014, 37 percent of firms identified access to finance as the major impediment, which is an increase over the 25 percent reported in 2010. Roughly 60 percent of surveyed firms supplied over 90 percent of their financing with their own working capital (Figure 4.15). While about half of the firms borrowed from private banks, the average lending met only 20 percent of their financing needs. Consequently, fixed assets represented about 70 percent of business financing (Figure 4.16). The burden fell heavier on smaller non-exporting firms, while larger firms obtained more credit from financial institutions (Table 4.4).

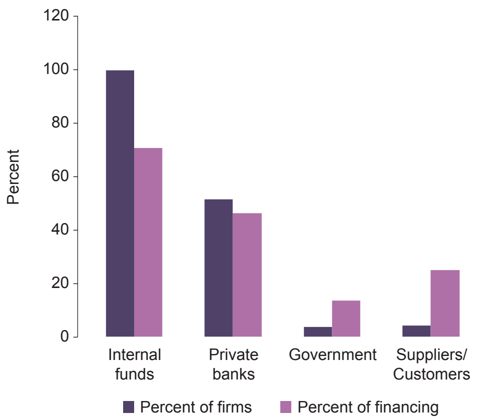
Higher collateral requirements prevented firms from receiving adequate funding from commercial banks. Firms in the OECS reported collateral requirements of more than 140 percent of the loan amount, with requirements ranging from 137 percent in Antigua and Barbuda to 148 percent in Grenada (Figure 4.17). Considering that the asset value of a typical firm averages US$1.2 million in net book value for its land and equipment, the loan amounts were relatively low and covered about 20 percent of

Figure 4.15: Sources of Financing: Working Capital in OECS Countries, 2014 (percent of respondents)



Source: Compete Caribbean (2014b).
Note: OECS = Organisation of Eastern Caribbean States.

Figure 4.16: Sources of Financing: Fixed Assets in OECS Countries, 2014 (percent of respondents)



Source: Compete Caribbean (2014b).
Note: OECS = Organisation of Eastern Caribbean States.

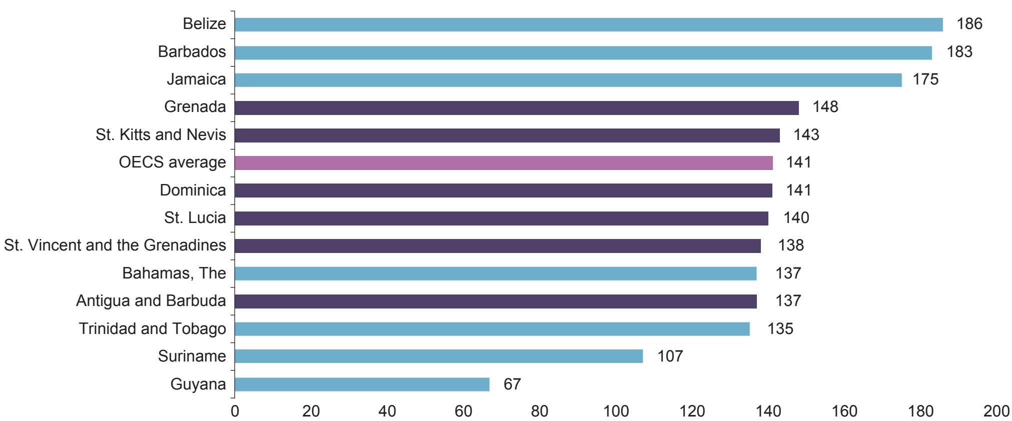
TABLE 4.4: Domestic Credit to the Private Sector, 2004–2009 and 2010–2015 (percent of GDP)

Countries	Domestic Credit 2004–2009	Domestic Credit 2010–2015
Antigua and Barbuda	66.4	68.7
Bahamas, The	48.3	54.9
Barbados	67.1	74.9
Dominica	56.7	62.8
Grenada	90.1	104.6
Guyana	48.2	52.6
Jamaica	72.7	78.9
St. Kitts and Nevis	73.7	...
St. Lucia	42.2	42.1
St. Vincent and the Grenadines	25.1	28.6
Suriname	20.9	27.5
Trinidad and Tobago	34.9	29.9
ROSE-T	68.7	83.0

Source: World Bank, World Development Indicators.
Note: OECS = Organisation of Eastern Caribbean States; ROSE-T = rest of the small economies of the world that are dependent on tourism.

firms' financing needs. The types of collateral accepted were land and buildings (45.3 percent), machinery (15.6 percent), accounts receivable (17.4 percent), and personal assets (15.2 percent). In 2014, of the 42 percent of the firms that applied for a loan, only 18 percent were successful in obtaining credit. About 15 percent of firms reported not applying because they believed they would be rejected. Thus, collateral requirements, along with underdeveloped capital markets, are a challenge to firm growth over time.

Figure 4.17: Collateral Required as a Percentage of Total Loan, 2014 (percent)

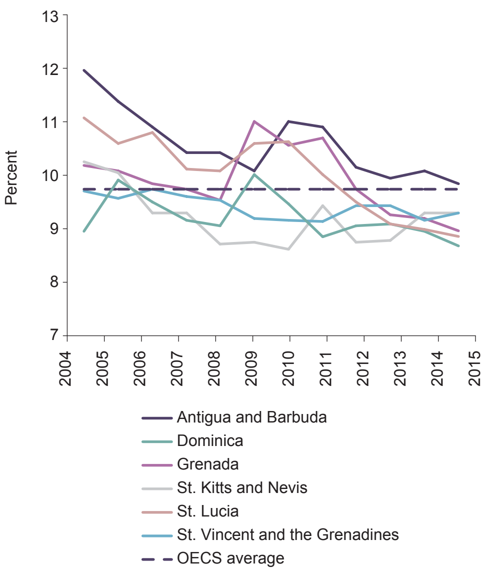


Source: Compete Caribbean (2014b).
Note: OECS = Organisation of Eastern Caribbean States.

Domestic capital markets are too small to meet financing needs, but are an important source of funding. Deepening regional capital markets and gaining greater access to international financing could structurally ease this barrier to firm growth, but it is a long-term endeavour. Currently, the Eastern Caribbean Securities Exchange is aiming to provide a regional alternative, but it is relatively small and dominated by public sector issuers and utilities. Its market capitalization, at about US$590 million in 2015 (11 percent of regional GDP), is small relative to other Latin American capital markets such as Colombia and Peru, where capitalization levels stand at 70 percent of GDP.

Domestic interest rates have been higher than international rates, making domestic financing costlier. During 2009–2015, the average OECS lending rate stood at 9.5 percent, much higher than international rates that dropped close to 0 percent (Figure 4.18). The heavy reliance on domestic financing of the public sector and monetary policy kept interest rates higher at a time of dropping global rates, which proved to be a disincentive to deepen investment. Antigua and Barbuda recorded the highest interest rates during the two periods. In 2015, its interest rate stood at 9.83 percent. (Table 4.5). Together, these figures demonstrate how constrained OECS firms are in accessing capital.

Figure 4.18: Lending Rates, 2004–2015 (percent)



Source: World Bank, World Development Indicators.
Note: OECS = Organisation of Eastern Caribbean States.

TABLE 4.5: Comparative Lending Rates, 2015 (percent)

Countries	Lending Rate
Antigua and Barbuda	9.8
Dominica	8.7
Grenada	9.0
St. Kitts and Nevis	9.3
St. Lucia	8.9
St. Vincent and the Grenadines	9.3
Bahamas, The	4.8
Barbados	8.1
Guyana	12.8
Jamaica	17.0
Suriname	12.6
Trinidad and Tobago	8.2
OECS average	9.2
ROSE-T	8.6

Source: World Bank, World Development Indicators.
Note: OECS = Organisation of Eastern Caribbean States; ROSE-T = rest of the small economies of the world that are dependent on tourism.

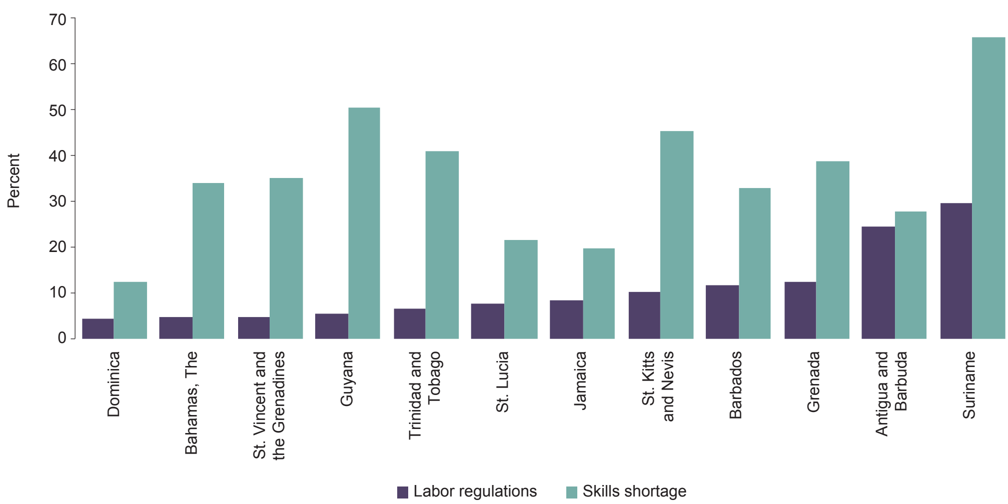
4.5.3. An Educated and Trained Workforce

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 the second most pressing constraint to doing business. For example, 45 percent of firms in St. Kitts and Nevis reported challenges meeting their workforce needs (Figure 4.19).

High net emigration rates have constrained the growth of the economically active population. According to Mishra (2006), the Caribbean countries have lost more than 70 percent of their labour force with more than 12 years of schooling through emigration (Table 4.6). This "brain drain" has limited the size of the labour market and comes with an economic cost greater than its corresponding inflow in remittances. Considering that governments invested significantly in subsidizing higher secondary and tertiary education, the brain drain has translated into lower returns to investment on education. Remittances averaged 3.7 percent in 2014 for the union, with St. Vincent and the Grenadines, St. Kitts and Nevis, and Dominica receiving the largest inflows at over 4 percent of GDP. However, remittances do not compensate for the accrued economic losses in foregone GDP and public investment in education that are double the amount of remittance inflows.

The skill gap has affected productivity levels within the OECS. Managers have had difficulties finding workers with the skill set and educational level firms require. With a staggering 75 percent of university graduates emigrating to member countries of the Organisation for Economic Co-operation and Development, the union is short of highly skilled professionals, particularly in the areas of accountancy, management, and information technology. Firms report difficulties in filling technical and service

Figure 4.19: Perceptions about Skills and Labour Regulations (percent)



Sources: World Bank, Enterprise Surveys, 2010; and Compete Caribbean (2014b).

TABLE 4.6: Migration and Remittances (percent)

	Education Level of Labour Force (percent of total)		Emigration Loss Plus Estimated Education Expenditure (percent of GDP)	Remittances, 2014 (percent of GDP)
	Secondary	Tertiary		
Antigua and Barbuda	64	67	13.2	1.7
Dominica	67	64	11.5	4.5
Grenada	71	85	11.0	3.4
St. Kitts and Nevis	42	78	9.7	6.0
St. Lucia	21	71	3.8	2.1
St. Vincent and the Grenadines	33	85	10.7	4.5
Caribbean average	42	70	10.3	5.2

Source: Mishra (2006).

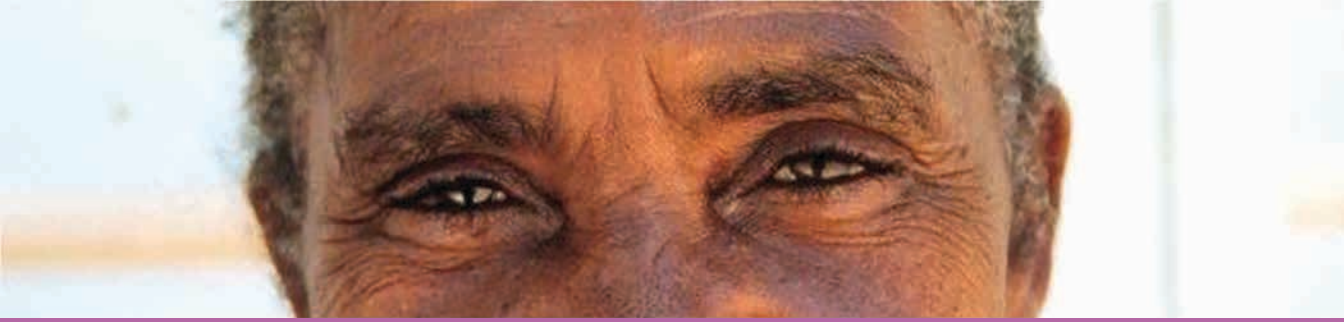
positions in the domestic labour market that require a college education. It took on average 13 weeks for a business to find a suitable candidate for management and professional positions and nine weeks for technical posts.

The private sector reports a mismatch between the skill sets of applicants and open vacancies. Youth unemployment is particularly high, ranging from 34 percent in St. Lucia to 42 percent in Grenada, and recent college graduates are not finding jobs easily. In Antigua and Barbuda, firms perceive labour regulations as being as much of an impediment as the skill shortage, but on the other islands the complaint is about skill shortages.

4.5.4. Customs and Trade Facilitation

Another factor that firms in the OECS identified as an obstacle is customs and trade regulations. While the mandate for the free circulation of goods is in Article 10 of the Protocol of the Revised Treaty of Basseterre that established the union, the movement of goods is not seamless. Technical requirements and standards are not harmonised among OECS states and there is no integrated system linking customs departments and border agencies. Since countries rely heavily on customs revenue, the incentives are against greater trade openness and lower tariffs. Firms reported that clearance times at customs accrued additional costs and took a toll on the quality of perishable goods. Also, the unpredictability of processes and outcomes brought greater uncertainty and affected trading. Businesses reported having to maintain larger "safety stocks" to cover for unexpected decisions. Finally, firms reported the need for greater transparency and clarity on rules and procedures.[7]

[7] World Bank, 2014 Enterprise Survey; and World Bank (2013).



Part II

Eastern Caribbean Country Profiles

Antigua and Barbuda

Summary

Antigua and Barbuda ranks favourably across social indicators. On the UNDP's 2015 Human Development Index, the country ranks 58th out of 188 countries, which is the highest among the OECS countries. It is classified as a high-income country by the World Bank. Literacy is close to universal at 99 percent, while gross primary enrolment rates average 98 percent and secondary rates 105 percent (2008–2014). The country has produced more qualified graduates than other OECS countries, with 24 percent of its students achieving five Caribbean Secondary Education Certificate (CSEC) passes (2009–2012), and with the second highest percentage of passes in English exams in 2012. Life expectancy at birth is estimated at 76.1 years. During 2010–2014, the birth rate averaged 16.6 percent while the death rate stood at 6.2 percent per 1,000 population. Poverty was estimated at 18.3 percent (2006).

Recent Economic Developments

Growth

Growth in Antigua and Barbuda moderated to 2 percent in 2016, following an expansion of 2.2 percent a year earlier. During 2011–2016, the economy averaged 1.9 percent growth, a sharp contrast to its pre-crisis levels of 7.2 percent for 2003–2007.

Tourism remains the engine of growth in Antigua and Barbuda, contributing 15.1 percent of GDP directly in 2015 and up to 57.1 percent indirectly. The tourism industry benefitted from increased connectivity at the end of 2015. Arrivals and total visitor expenditure grew by 13.8 percent and 1.1 percent, respectively. During 2007–2015, the UK market—the largest source market—gradually decreased from 37 to 29 percent of total long-stay arrivals. At the same time, while the U.S. and Canadian markets increased, they did not compensate for the fallout from the United Kingdom. More flights, particularly from JetBlue, Inter Caribbean, and Seaborne Airways, as well as inaugural cruise calls from Princess Regal, Mein Schiff 3, Norwegian Spirit, and P&O Cruises Britannia, were all growth-positive. During 2014–2015, connectivity improved, with more airlines increasing the frequency of arrivals and adding new routes. In August 2015, Antigua and Barbuda inaugurated a new airport that more than doubles the 860,000 passengers per year capacity of its previous facility.

Non-tradable sectors, construction, and services are also contributing to growth. Over 2012–2016, the contribution of the construction sector to growth averaged 9.2 percent of GDP, financial intermediation 9.1 percent, and real estate and other business services 13.9 percent. Both private and public sector projects drove construction, which grew by 4 percent in 2015 and 12 percent in 2016. In contrast, agriculture plays a marginal role in the economy and contributed less than 1 percent of GDP.

Fiscal

Since the conclusion of a three-year Stand-By Agreement (SBA) with the IMF in June 2013, there has been a policy reversal. The programme focused heavily on austerity and narrowed the fiscal deficit from 18 percent of GDP in 2009 to 1.2 percent in 2012. Fiscal adjustment and debt restructuring put the debt ratio on a downward path. However, contingent liabilities from the financial sector afflicted public finances in 2015, resulting in a fiscal deficit of 8.4 percent of GDP. The fiscal position improved in 2016 to record an overall surplus of 3.8 percent of GDP.

Recent policy measures could undermine revenue collection. The repeal of the personal income tax in April 2016 will cost the government US$13.7 million (or 1 percent of GDP) in foregone revenue. To offset this loss, the Revenue Recovery Charge—an indirect tax on consumption—will rise from 10 to 13 percent, and a tax will be introduced on gross income of unincorporated businesses, as well as on profits for offshore banks. These measures are expected to yield US$16.6 million (or 1.2 percent of GDP). Additional measures include rationalization of discretionary tax concessions (0.7 percent of GDP), and reductions in expenditures on transfers, wages and salaries, and goods and services (0.5 percent of GDP). Larger-than expected inflows from the Citizenship by Investment (CBI) Programme and a pick-up in foreign direct investment could significantly improve the outlook.

The risk of near-term public debt distress remains high.[1] While the country's debt-to-GDP profile is sustainable, it is vulnerable to disruptions in CBI and PetroCaribe inflows. Total public sector debt decreased in 2016 to 103 percent of GDP from 104.4 percent a year earlier. The IMF 2014 Article IV Staff Report projected the public sector's debt-to-GDP ratio to steadily decline to 81.2 percent by 2019, after the banking sector resolution. With the end of the SBA, the IMF is no longer a source of net external

[1] IMF Staff Report, November 2014.

financing, and the government has relied on domestic sources, mainly government securities through the Regional Government Securities Market, commercial bank loans, and credit from the ECCB. Antigua and Barbuda has limited access to the international capital market and currently does not have a sovereign rating by Standard & Poor's or other rating agencies.

External Sector

The current account deficit improved at the end of 2015. During 2012–2014, the deficit averaged 14.7 percent of GDP compared with 10.4 percent of GDP in 2011. However, in 2015, the external position improved to 10.2 percent of GDP, mainly due to the lower fuel import bill. Export growth from 2011–2015 averaged 3 percent, with the main exports being tourism services, manufactured goods, and machinery and transport equipment. Fuel is the largest component within imports, and the bill rose from 6 percent of GDP in 2003 to over 13 percent in 2014, but moderated to 8 percent at the end of 2015.

The cost of transportation and electricity remain high despite low international fuel prices. The price of gasoline and diesel stood at US$4.63 and US$4.52 per gallon, respectively, as of February 1, 2016, the highest in the OECS. A year earlier, these prices were at US$5.55 and US$5.63 per gallon, respectively. On the other hand, domestic electricity tariffs have not declined accordingly. In July 2013, the last month for which the Antigua Pubic Utilities Authority published data, consumers paid an average rate of US$0.44/kWh on Antigua and US$0.49/kWh on Barbuda, of which US$0.29 represents the adjustable fuel surcharge (Espinasa et al. 2015). These are amongst the highest electricity tariffs in the world. The decline in PetroCaribe financing may represent a fall-off of 1.3 percent of GDP.

Inflation in Antigua and Barbuda has remained low and stable, driven by weak domestic demand and declining global commodity prices. The Consumer Price Index declined from 2.9 percent in 2010 to 1.5 percent in 2016. Weak domestic demand, along with lower international commodity prices that impact imported food, are containing inflation.

Financial Sector

The resolution of the ABI Bank helped stabilise the financial sector. In November 2015, the ABI Bank ceased operations with deposits held in the bank of up to EC$500,000 per person being transferred to the Eastern Caribbean Amalgamated Bank Ltd. Deposits over the EC$500,000 threshold were transferred to a special Depositor's Protection Trust, to be paid out over time to account holders. This resolution was facilitated through a US$50 million loan from the Caribbean Development

Bank to the government of Antigua and Barbuda. The ABI Bank was intervened and controlled by the Eastern Caribbean Central Bank in 2011 when liquid assets fell below the statutory reserves requirement. Meanwhile, the Eastern Caribbean Court of Appeal ordered that the Antigua Overseas Bank (AOB) be liquidated after having been placed under receivership in 2012. The bank's total liabilities are significantly higher than estimated realised assets. The AOB is a member of the ABI Financial Group, as was the ABI Bank.

Private sector credit contracted by 11.3 percent in 2015, a trend evident since 2011. However, by November 2016, there was a turnaround, and 1 percent growth by end-December 2016. The loan-to-deposit ratio increased from 68.6 percent at the end of 2015 to 71 percent by November 2016. The average lending rate fell from 10.2 percent in 2011 to 9.2 percent by November 2016. Similarly, the average deposit rate fell from 3.1 percent in 2011 to 1.8 percent in 2016. However, non-performing loans stabilised at 8.6 percent for foreign-owned banks and 12.4 percent for locally-owned banks at the end of 2015

Outlook

Economic growth in Antigua and Barbuda is expected to increase slightly in 2017 to 2.4 percent. Tourism and construction are expected to remain dynamic, with spill-over effects into the services sectors. Private tourism projects and CBI-funded projects, such as ongoing work on Tamarind Heights, Pearns Point, Harbour Island, Hodges Bay Club, and Morris Bay, will continue to drive construction. In terms of public investment, the building of police stations and schools, as well as road and infrastructure works, will be growth-positive. Tourism will continue to benefit from continued growth in the main source markets in the short term. However, over the medium term Brexit and the weaker sterling are a downside risk to the tourism sector, which is exposed to the UK market. The general uplift in economic activity should provide impetus to wholesale and retail, transport, storage and communications, real estate, and business activities.

Antigua and Barbuda: Economy at a Glance

Figure A.1: Real GDP and Tourism Growth, 2010–2016 (percent)

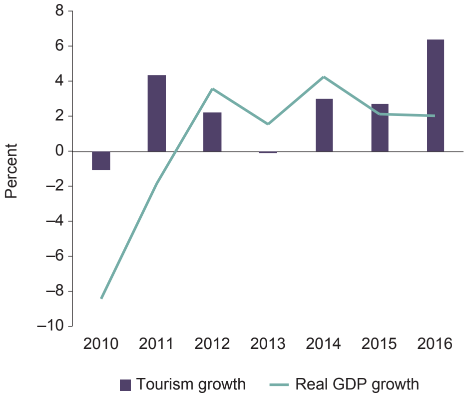


Figure A.2: GDP Contribution by Sector, 2010–2016 (percent of GDP)

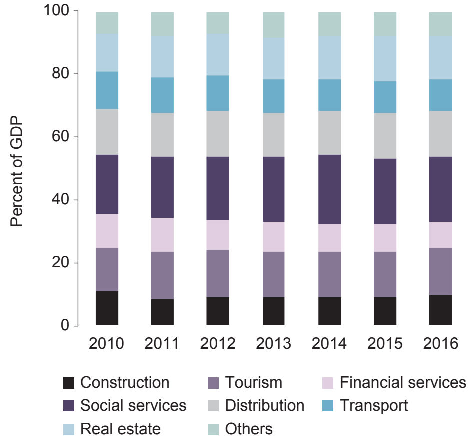


Figure A.3: Fiscal Balance, 2010–2016 (percent of GDP)

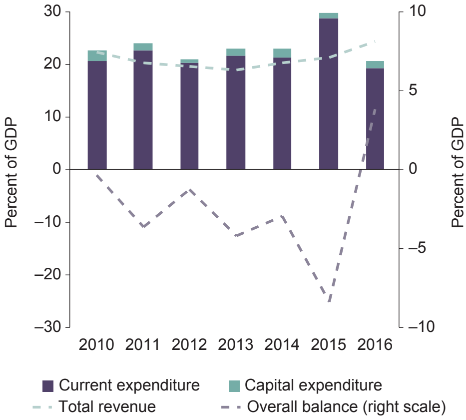


Figure A.4: Public Sector Debt, 2010–2016 (percent of GDP)

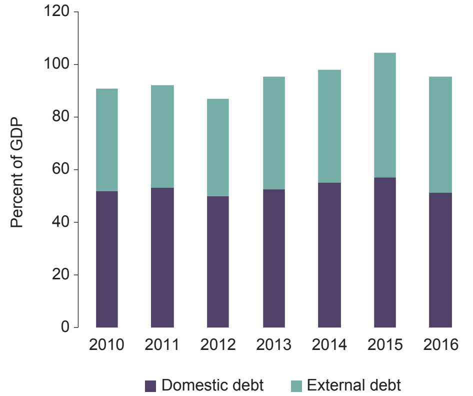


Figure A.5: Current Account Balance, 2010–2015 (percent of GDP)

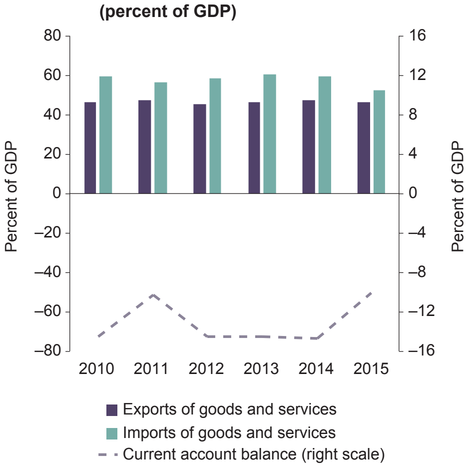


Figure A.6: International Reserves, 2010–2015

Sources: Eastern Caribbean Central Bank; IMF, *World Economic Outlook*, October 2016; IMF 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; and World Bank, World Development Indicators.

Dominica

Summary

Dominica's topography is different from that of other Caribbean islands. It is the most mountainous of the Lesser Antilles, with volcanic peaks as well as lush large tropical forests that allow agriculture to drive economic activity.

Dominica's banana production is particularly important, and the financial services sector is growing and playing an increasingly larger role in the economy. Tourism is focused on adventure travel, eco-tourism and natural parks, rather than large resorts and sandy beaches.

Dominica had a population of around 72,680 and per capita GDP of US$7,030 in 2015. It is classified as an upper-middle-income country by the World Bank. The country ranks relatively well in terms of its education and health indicators. On the UNDP's Human Development Index it ranked 94th out of 188 countries in 2015. Life expectancy at birth is 77.8 years (2014), the highest in the OECS, and adult literacy is 88 percent (2004). Gross enrolment rates at the primary level stood at 117.9 percent in 2014, while the secondary level averaged 97 percent from 2008–2014. Pupil-teacher ratios in Dominica are at the level of many developed countries, averaging 14.3 percent at the primary level and 12.2 percent at the secondary level in 2014.

Recent Economic Developments

Growth

Dominica's economy registered a slight recovery in 2016, with growth of 1.3 percent following a decline of 3.9 percent in 2015. This increase in 2016 was underpinned by public investment for reconstruction and rehabilitation, while tourism and agriculture were steadily recovering from Tropical Storm Erika.

The tropical storm, which hit Dominica in August 2015, caused an estimated US$483 million (or 96 percent of GDP) in losses (World Bank 2015b). Growth contracted by 3.9 percent at the end of 2015, compared with robust growth of 3.9 percent the previous year, because of the damage to infrastructure and the productive sectors. Losses in agriculture amounted to 10 percent of GDP as a result of damage to crops and livestock, and inaccessibility of farmlands due to the flooding and landslides. In the tourism sector, more than 30 of the country's 95 hotels were damaged by the storm. The main airport, the Douglas-Charles Airport, was closed temporarily and suffered US$15.2 million in damages. The island's transport infrastructure suffered damages equivalent to 57 percent of GDP.

Prior to the tropical storm in 2015, Dominica's economy was recovering from the 2009 downturn. The period directly following the crisis yielded an annual growth rate of –0.3 percent (2009–2013), while the pre-crisis growth rate was 4.2 percent (2003–2007). The largest contributors to output over 2012–2016 were social services (25.3 percent of GDP),[1] distributive trade (14.4 percent) transport, storage and communications (14.2 percent), and agriculture (10.9 percent). Hotels and restaurants, a proxy for tourism, directly contributed 2 percentage points of GDP on average over the period. The World Travel and Tourism Council estimated the total contribution of tourism at 39 percent of GDP in 2015.

Banana production has been declining since 2012 with the spread of the black sigatoka leaf spot disease and the loss of preferential agreements with Europe. In 2015, banana crop production fell by 29 percent and further declined by 8 percent in 2016. The plague was first detected in 2012 and efforts are under way to substitute existing plants with pest-resistant trees.

Fiscal

Dominica is pursuing fiscal consolidation accompanied by the IMF under its Rapid Credit Facility. The consolidation includes cumulative fiscal adjustment of 6.7 percent of GDP by FY2020/21, which would facilitate reaching a primary surplus of 3.5 percent of GDP.[2] The measures include new levies for highway maintenance, villas and airport security; increases on excise taxes on liquefied natural gas, kerosene, alcohol, and tobacco; a public sector wage freeze; and better monitoring of expenditures by state-owned enterprises.

The fiscal position deteriorated in 2016 as a result of reconstruction efforts. The deficit widened to 2.4 percent of GDP from a 0.9 percent surplus in 2015. The primary balance turned to a deficit of 0.1 percent of GDP from a surplus of 3.3 percent of GDP over the same period. Higher capital expenditures to support the reconstruction contributed to this fiscal deterioration, as grant revenues—though higher—were insufficient to meet the needs.

[1] Social services include education, health and social work, and public administration, defense and compulsory social security.

[2] IMF Article IV Staff Report 2016.

Prior to 2015, Dominica sustained an average fiscal deficit of 4.1 percent of GDP during 2010–2014. During this period, expenditures declined from 40.5 to 32.5 percent of GDP due in part to austerity measures and a reduction of capital expenditures from 16 to 7 percent of GDP. Capital expenditures in Dominica averaged 11 percent of GDP, the highest in the OECS. On the revenue side, there was a decline from 37 to 28.1 percent of GDP. Tax revenues were more stable, averaging 22 percent of GDP.

External Sector

The current account deficit expanded in 2016 to 12.6 percent of GDP relative to 9.4 percent a year earlier. Over 2012–2016, the deficit averaged 12.1 percent of GDP. This deterioration was mainly attributed to higher reconstruction investment. Tourism receipts remained flat at 25.1 percent of GDP, while foreign direct investment inflows increased to 7.1 percent of GDP in 2016 from 6.8 percent in 2015. Dominica's main goods exports are bananas, soap, bay oil, vegetables, grapefruit, and oranges, while fuel dominates imports.

Low oil prices reduced electricity costs to end consumers. The island has one of the highest electricity tariffs in the Eastern Caribbean at around US$0.43 per kWh (2012). Electricity prices take a toll on private sector competitiveness, and 66 percent of firms identified it as a major constraint to doing business in the World Bank's 2010 Enterprise Survey. With the decline in oil prices, Dominica Electricity Services (DOMLEC) dropped the fuel surcharge to US$0.16 per kWh in October 2015. Meanwhile, the price of gasoline dropped from US$4.75 per gallon in January 2015 to US$3.65 per gallon in 2016, and diesel dropped from US$4.57 per gallon to US$3.23. The IMF estimated that the oil trade deficit would decrease by 2.2 percent of GDP in 2015. Since Dominica is a member of PetroCaribe, there could be a fall-off of 0.4 percent of GDP in funding from this facility going forward.

The economy witnessed deflation of -0.1 percent in 2016 because of lower international oil and commodity prices and weak internal demand. The latest available employment statistics suggest that the unemployment rate in 2011 was 11 percent.

Financial Sector

The financial sector in Dominica remains weak. Credit to the private sector grew by 5.2 percent by November 2016 relative to end-2015. This represented the highest growth rate in the Eastern Caribbean, but was led by lending to the non-bank financial sector, while lending to businesses and households was flat.

Non-performing loans in the commercial banking system were high at 14.9 percent for local banks and 13.3 percent for foreign-owned banks prior to Tropical Storm Erika and increased to 16.8 and 13.6 percent in 2015, respectively, because of the damages.

The banking sector remains averse to extending credit to businesses, especially smaller ones. Indeed, collateral as a proportion of loan size in Dominica averaged 194 percent in 2010 (Compete Caribbean 2014a).

Outlook

The recovery in Dominica is expected to continue, with growth forecast to be 2.8 percent in 2017, before stabilizing at a potential growth rate of 1.7 percent per year.[3] The reconstruction efforts as a result of the storm, led by the public sector, are expected to continue to be growth-positive in 2017. Private sector projects, such as the Range Development, are also expected to boost construction activity.

Dominica is expected to start the construction of its geothermal plant in 2017, a growth-positive development. This initiative could ensure energy self-sufficiency, reduce electricity and fuel import costs, and enable energy exports to neighbouring islands.[4] The government invested over US$18.5 million (EC$50 million) in the exploration of geothermal energy and construction. The Geothermal Development Bill, a key piece of legislation to facilitate investment, was passed in the House of Assembly at the end of October 2016.

[3] IMF 2016 Article IV Staff Report Consultation.

[4] Dominica will seek to build a small plant capable of generating six to eight megawatts of electricity and is aiming to expand capacity to a larger plant of up to 120 megawatts that could supply neighboring Guadeloupe and Martinique.

Dominica: Economy at a Glance

Figure B.1: Real GDP and Agriculture Growth, 2010–2016 (percent)

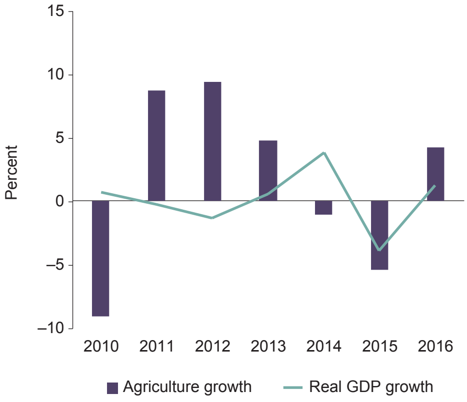


Figure B.2: GDP Contribution by Sector, 2010–2016 (percent of GDP)

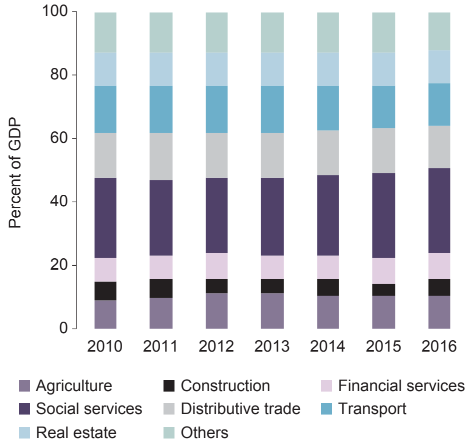


Figure B.3: Fiscal Balance, 2010–2016 (percent of GDP)

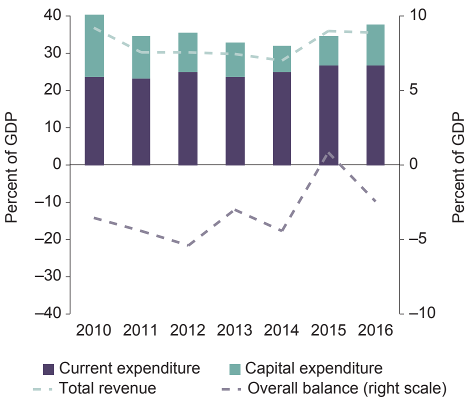


Figure B.4: Public Sector Debt, 2010–2016 (percent of GDP)

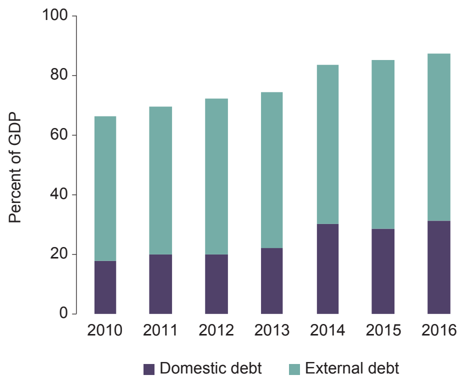


Figure B.5: Current Account Balance, 2010–2016 (percent of GDP)

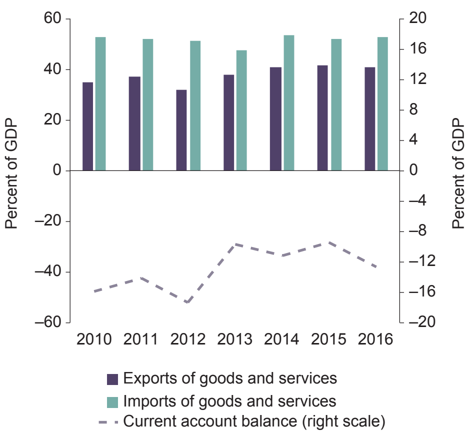


Figure B.6: International Reserves, 2010–2016

Sources: Eastern Caribbean Central Bank; IMF, *World Economic Outlook*, October 2016; IMF 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; IMF 2016 Article IV Staff Report for Dominica; and World Bank, World Development Indicators.

Grenada

Summary
Grenada ranks relatively well on education, health, and social indicators. It is third in the OECS and 79th out of 188 countries on the UNDP's 2015 Human Development Index. Grenada is classified as an upper-middle-income country by the World Bank. During 2008–2014, gross enrolment rates at the primary and secondary levels averaged 103 percent and 108 percent, respectively. Grenada has the highest tertiary enrolment in the Eastern Caribbean at 53 percent (2008–2014). However, as in all OECS countries, enrolment levels drop drastically when transitioning from the secondary to the tertiary level. During 2010–2014, birth rates averaged 19.4 percent while death rates stood at 7.4 percent per 1,000 population.

Recent Economic Developments

Growth

Growth moderated in 2016 to 3 percent from 4.6 percent in 2015. Construction and tourism continued to drive the economy. Construction expanded by 7 percent in 2016, having increased by 6.4 percent in 2015. Private tourism investment largely drove construction activity.

Tourism is historically the driver of economic growth. The sector contributed 7.5 percent of GDP directly in 2015 and 25.5 percent in total, per the World Travel and Tourism Council. At the end of 2015, the sector saw a marginal decline of 0.9 percent compared with significant growth of 40 percent at the end of 2014. Spending per tourist fell by 6.3 percent in 2015 to US$147.4 million, a deceleration from the 30 percent growth in 2014. Tourism arrivals increased in 2014 as a result of an intense marketing campaign by the Grenada Tourism Authority launching the *Pure Grenada* brand, the opening of the Sandals La Source Grenada, increased flights, and the hosting of the Cricket Test Match between England and the West Indies. By end-September 2016, arrivals had increased by 20.5 percent year-to-date compared to the same period in 2015.

Agriculture output fell to 6.4 percent of GDP in 2016, after reaching 7.9 percent of GDP in 2015. The main crops produced by Grenada include bananas, nutmeg, and cocoa.

Fiscal

Grenada is pursuing fiscal consolidation supported by the IMF's Extended Credit Facility (ECF). The IMF approved a three-year US$21.7 million arrangement in June 2014. The objectives of the programme are to improve competitiveness and medium-term growth prospects, restore fiscal and debt sustainability, and strengthen financial sector stability. The target is primary fiscal consolidation of 7.75 percent of GDP over three years to achieve a primary surplus of 3.5 percent of GDP. Some of the key fiscal adjustment measures included a public sector wage freeze for 2014–2016 (savings of 0.9 percent of GDP); the fixing of goods and services and transfers and subsidies in nominal terms at 2013 levels for 2014–2016; and a reduction in the personal income tax threshold to US$13,333, with a marginal rate of 15 percent on income up to US$22,222. Additionally, debt restructuring was pursued under the programme.

Grenada is making good progress in fiscal consolidation. In September 2016, it successfully completed the fifth review of its ECF program with the IMF and met its quantitative targets. The primary surplus reached 4 percent of GDP at end-August 2016, well ahead of the program target. Progress was made on clearing arrears, but these remained high at 10.9 percent of GDP at end-June 2016.

Grenada successfully completed debt restructuring on Eastern Caribbean (EC) dollar and U.S. dollar commercial bonds. It involved a 50 percent principal haircut in exchange for new bonds paid at 7 percent per annum, over 29 semi-annual instalments between March 2016 and March 2030. All holders of the EC dollar bonds, and 93 percent of holders of U.S. dollar bonds, agreed to the debt exchange. Bondholders taking part in the exchange will be paid a portion of the revenues received from the country's Citizenship by Investment (CBI) Programme, if the programme earns more than US$15 million in revenue in any given year and subject to the completion of a second restructuring in the third quarter in 2017. The deal is expected to reduce Grenada's public debt by 11 percent of GDP by 2017. At the time of the fifth review under the ECF, Grenada's debt fell to 89.2 percent (June 2016) from 107.6 percent of GDP in 2013.

External Sector

Grenada's current account deficit narrowed to 12.1 percent of GDP in 2016 from 14.5 percent of GDP in the previous year. This was an improvement over the balance averaging –22.9 percent of GDP for the 2010–2013 period. An increase of 5.9 percent in tourism receipts led to growth in exports of services by 5.4 percent. However, exports of goods fell by 14.2 percent. Net international reserves fell to 5.4 months of imports of goods and services in 2016, compared to 5.8 months recorded a year earlier.

The decline in oil prices improved Grenada's external position. Grenada's oil import bill, which increased to an average of 11.8 percent of GDP for 2011–2013, fell to 6.5 percent in 2015 because of lower oil prices. End consumers benefitted from the lower fuel costs and electricity tariffs. Grenada Electricity Services (GRENLEC) reduced its fuel charge from US$0.23 to 0.18 per KWh between January 2014 and January 2015, and further to US$0.11 by January 2016. However, the price of transportation increased to meet commitments to fiscal consolidation. The price of gasoline rose from US$4.04 per imperial gallon in January 2015 to US$4.56 by February 2016, while the price of diesel rose from US$4.15 per imperial gallon to US$4.19. The lower fuel prices would translate into a 0.5 percent of GDP reduction in the funding the island received from PetroCaribe.

Deflation remains and unemployment is high. Prices contracted by 0.2 percent in 2016 and in line with a decline of 1.2 percent recorded a year earlier. At the same time, unemployment declined from 32.5 percent in 2013 to 23 percent in 2015. Youth unemployment is particularly high, though it declined from 53.2 percent in 2013 to 45.5 percent in 2014.

Financial Sector

Private sector credit grew slightly by 0.9 percent at end-November 2016, compared to a 3.8 percent contraction in 2015. Non-performing loans (NPLs) declined to 10.7 and 7.5 percent for foreign and locally-owned banks, respectively, by end-2015, their lowest level since 2012. In the non-banking sector, NPLs remained stable at 5 percent at end-2015, which was much lower than the 7.4 percent in 2013. Profitability improved with a return on assets of 1.5 percent in 2015 for commercial banks, with the lower deposit rate significantly reducing the banks' interest expense. Banks in Grenada have sought to streamline their operations, with several banks closing branches,[1] reflecting challenges from the pre-crisis credit boom and the resulting fallout from the global financial crisis.

Outlook

Economic growth in Grenada is projected to moderate to 2.7 percent in 2017 and converge to around 2.7 percent in the medium term.[2] This outlook is based on a strong contribution from construction, tourism, and agriculture, with spill-over effects into

[1] The branches closed included two local and three foreign incorporated banks.

[2] IMF 2016 Article IV Staff Report Consultation.

other sectors. Construction will be supported by public and private investment, with the latter bolstered by CBI inflows. The tourism industry should benefit from an increase in room capacity as major hotel projects are completed. Public sector projects include the new Parliament building, the Disaster Vulnerability Reduction Project, road development, health centre reconstruction, the general hospital expansion, and the airport runway rehabilitation.

Debt restructuring and fiscal reforms could set the country on a path towards fiscal sustainability over the medium term. The decline in world oil prices and weak domestic demand are expected to contain inflation and improve external imbalances. The current account deficit is expected to improve in 2017 due to lower oil prices, notwithstanding the recent appreciation of the U.S. dollar.

Grenada: Economy at a Glance

Figure C.1: Real GDP and Tourism Growth, 2010–2016 (percent)

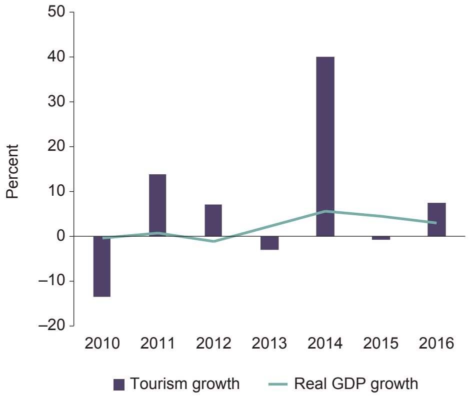


Figure C.2: GDP Contribution by Sector, 2010–2016 (percent of GDP)

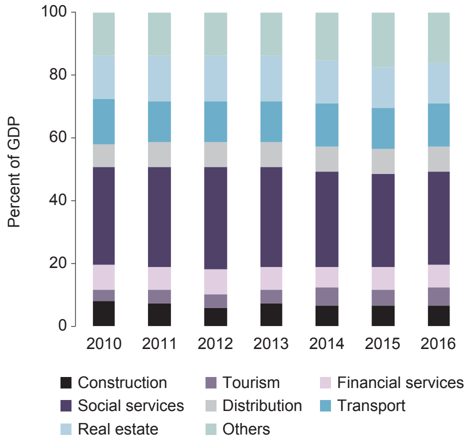


Figure C.3: Fiscal Balance, 2010–2016 (percent of GDP)

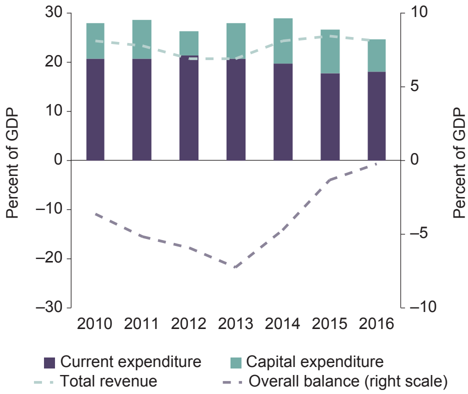


Figure C.4: Public Sector Debt, 2010–2016 (percent of GDP)

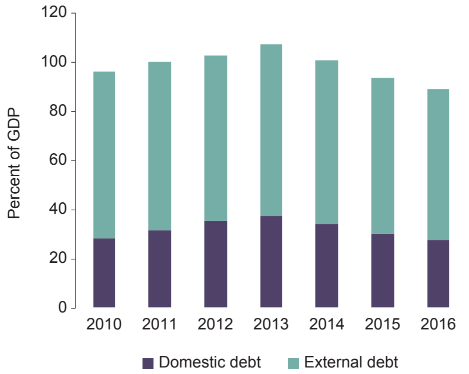


Figure C.5: Current Account Balance, 2010–2016 (percent of GDP)

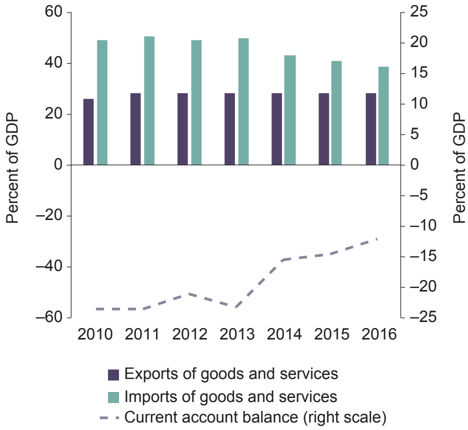


Figure C.6: International Reserves, 2010–2016

Sources: Eastern Caribbean Central Bank; IMF, *World Economic Outlook*, October 2016; IMF 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; IMF 2016 Article IV Staff Report for Grenada; and World Bank, World Development Indicators.

St. Kitts and Nevis

Summary

St. Kitts and Nevis ranked high on the UNDP's Human Development Index in 2015, at 77th out of 188 countries. The twin-island federation is classified as a high-income country by the World Bank. It enjoys life expectancy of 73.8 years, while mortality rates for children under five years of age declined over time to an average of 10.2 per 1,000 live births in 2013. Antenatal coverage was 100 percent of live births between 2008 and 2014. Gross enrolment rates were 93 percent for primary education and 93.5 percent for secondary education between 2003 and 2014. In the primary education system, 68.3 percent of teachers had some formal training as of 2014 while 50.7 percent of teachers in the secondary education system had such training. As such, the number of students completing secondary education with sufficient qualifications to advance to the tertiary level is low.

Recent Economic Developments

Growth

Robust growth has been supported by a vibrant Citizenship by Investment (CBI) Programme. The economy saw strong growth during 2013–2015, averaging above 5 percent per year. This is particularly attributable to a construction boom fuelled by the CBI Programme; output in the construction sector grew on average by 15 percent during 2013–2015. Activity in the sector has been particularly related to tourism development, including the Park Hyatt Hotel, Koi Resort, Embassy Suites, and Pelican Bay Resort on St. Kitts, and the Four Seasons Resort Estates, Tamarind Cove Marina Development, and Mount Nevis Hotel expansion on Nevis. However, growth tapered off slightly to 3.5 percent in 2016 with activity in the construction sector slowing down.

Tourism is a significant contributor to growth. The World Travel and Tourism Council estimates that tourism contributes around 28 percent of GDP. The sector also directly and indirectly employs 27 percent of the work force. The country aims to shift from mass tourism towards the higher-end market. In this regard, high-quality accommodations have been developed to meet the demands of the target clientele. The opening of a private jet terminal at the R. L. Bradshaw International Airport as well as the establishment of a yacht marina at Christophe Harbour are catering to this segment. Consequently, total visitor expenditure increased by 7.7 percent in 2014 and 6.7 percent in 2015 to reach US$133.9 million. The first nine months of 2016 saw a 2.4 percent increase in tourist arrivals compared to the corresponding period in the previous year.

Fiscal

St. Kitts and Nevis concluded a three-year Stand-by Agreement (SBA) with the IMF on July 27, 2014. The programme focused on reforms to support fiscal consolidation, improve debt sustainability through debt restructuring, improve the financial sector, and preserve a strong safety net. Before the start of its reform programme the country's debt level, at 159.3 percent of GDP, was amongst the highest in the world. Circumstances have changed and today St. Kitts and Nevis enjoys the benefits of its earlier adjustment.

Reforms to advance fiscal consolidation and ensure fiscal sustainability were at the forefront of the programme. Measures pursued on the revenue side included (1) establishing a unit in the Inland Revenue Department (IRD) dedicated to improving tax compliance; (2) operationalizing a Large and Medium Taxpayer Unit to strengthen tax collection and compliance; (3) launching an e-filing programme in the IRD to facilitate online tax filing; (4) revising tax administration procedures; and (5) passing a new Customs Law to facilitate enforcement of post-clearance audits at the Customs and Excise Department. On the expenditure side, reforms included (1) rationalization of the public sector wage structure and employment beginning with a payroll audit and functional reviews of selected departments; (2) a medium-term debt management strategy integrated into the annual budgeting process; and (3) a streamlined social safety net through the development of a National Social Protection System as well as the restructuring of the civil servants' pension system.

A fiscal surplus of 0.2 percent of GDP was realised in 2016. However, policy decisions in 2014 suggest policy reversal and could threaten fiscal sustainability. The number and range of food items exempt from the value-added tax (VAT) was increased, and these items are not subject to import duties either; VAT exemptions on medications were expanded to all medications from only those associated with threatening chronic diseases; and the VAT rate on commercial properties was reduced from 15 to 10 percent. On the expenditure side, the government granted all civil servants an extra month's salary in December 2014 while mandating an additional 10 percent increase in wages and salaries over three years starting in 2014.

Furthermore, the security forces were afforded a 20 percent increase in risk pay in 2016.

The CBI Programme has had a significant impact on the real and fiscal sectors. CBI fees amounted to 17.4 percent of GDP in 2015. While contributions from the CBI application fees have provided a fiscal buffer, the investment contributions to the Sugar Industry Development Fund (SIDF), along with real estate investments, have fuelled a construction boom, especially in tourism.

Public sector debt fell to 63.4 percent of GDP in 2016 following debt restructuring, but risks still exist.[1] Domestic banks exchanged debt for government land; bondholders and external creditors exchanged their debt instruments for new instruments with reduced net present values; and external debt with the Paris Club and other bilateral creditors was rescheduled with lower interest rates and longer amortization periods. Absent shocks, debt is forecast to fall below the ECCB's target of 60 percent of GDP by 2017, and further to 50.2 percent of GDP by 2020. However, the debt trajectory remains vulnerable to a variety of economic growth and natural disaster shocks, while external debt remains vulnerable to current account shocks. To improve debt management, all related functions have been centralised in the Investment and Debt Management Unit in the Office of the Financial Secretary. The unit also gained the added responsibility of managing the investment portfolio of the government of St. Kitts and Nevis.

External Sector

The current account stabilised at 12.2 percent of GDP in 2015. Absent CBI receipts, the current deficit would have been 24 percent of GDP for 2015. Tourism receipts also help to fund the external account, contributing 12.9 percent of GDP in 2015, and showing strong growth of 8.1 percent during 2014–2015.

Lower international oil prices have been beneficial to St. Kitts and Nevis as a net oil importer. The twin-island federation relies heavily on diesel for the generation of electricity. The decline in international oil prices has led to a reduction in the cost of electricity, as the Fuel Variation Charge (FVC) fell in January 2015.[2] The cost of transportation has also declined: the price of gasoline fell to US$4.29 per gallon in December 2014 from US$4.69 per gallon previously. The net effect of the lower fuel prices was a 1.8 percent of GDP improvement in the external position. While the country benefits from financing under the PetroCaribe Agreement, access to these flows would likely decline significantly over the medium term.

[1] IMF 2016 Article IV Staff Report.

[2] The FVC is a direct pass-through cost to the customer. It declined to US$0.04 per kWh in January 2015 from US$0.09 per kWh in September 2014.

Financial Sector

The financial sector remains stable following the restructuring of debt. During the restructuring, the establishment of a Banking Sector Reserve Fund helped to maintain stability in the domestic banking sector. However, the non-performing loan (NPL) ratio is high and rose to 22.2 percent for local banks at the end of 2015 following a ratio of 16.8 percent a year earlier.[3] Credit to the private sector expanded by 3.2 percent in 2015 but fell by 0.1 percent by end-November 2016, while the loan-to-deposit ratio stabilised at 37.5 percent in 2015–2016 from 35.8 percent in 2014. Supervision of the non-bank financial sector—insurance businesses, private sector pension plans, and credit unions—was strengthened through the establishment of the Single Regulatory Unit in October 2010.

Outlook

The near-term outlook for St. Kitts and Nevis is positive, although growth is expected to moderate. The IMF expects growth to stabilise to 3.5 percent in 2017 and 3 percent on average over the medium term.[4] CBI inflows will decline in 2017, reflecting increased regional competition and increased international scrutiny of the programme. Canada's decision to discontinue visa-free access to citizens from St. Kitts and Nevis made the programme less appealing to investors. These developments and the winding down of ongoing projects will result in moderation of the construction sector. A strong tourism performance is anticipated as major source markets continue to expand, tourism-related construction winds up (especially the Park Hyatt Hotel), and marketing initiatives intensify in the UK and Canadian markets.

[3] The rise in the NPL ratio in 2015 to 22.2 percent reflects reclassification of a Nevis Island Administration loan as non-performing. Discussions on the loan's resolution are ongoing.

[4] IMF 2016 Article IV Staff Report.

St. Kitts and Nevis: Economy at a Glance

Figure D.1: Real GDP and Tourism Growth, 2010–2016 (percent)

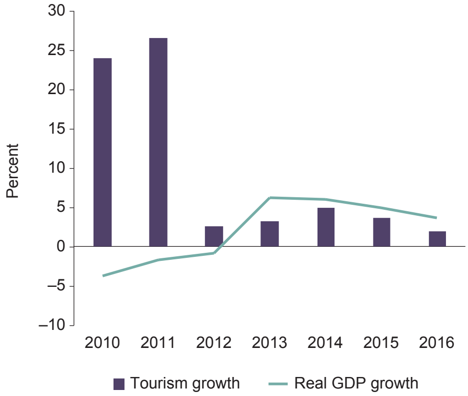


Figure D.2: GDP Contribution by Sector, 2010–2016 (percent of GDP)

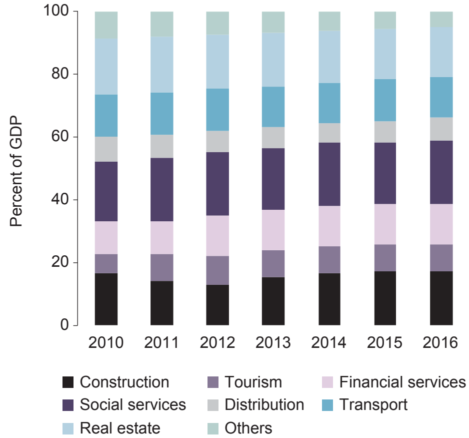


Figure D.3: Fiscal Balance, 2010–2016 (percent of GDP)

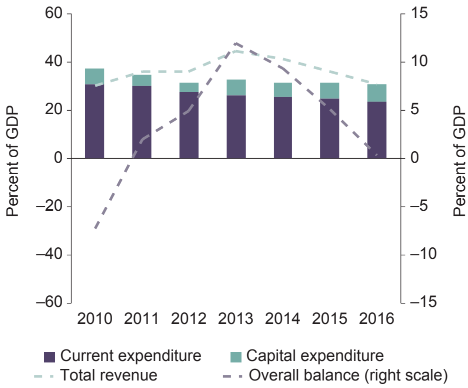


Figure D.4: Public Sector Debt, 2010–2016 (percent of GDP)

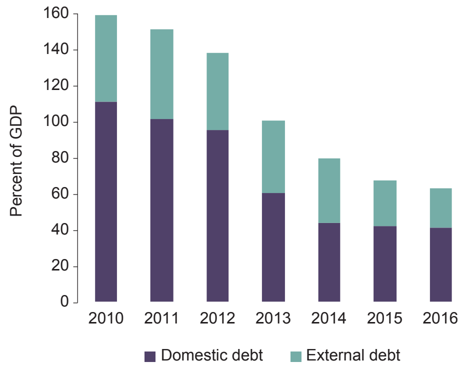


Figure D.5: Current Account Balance, 2010–2015 (percent of GDP)

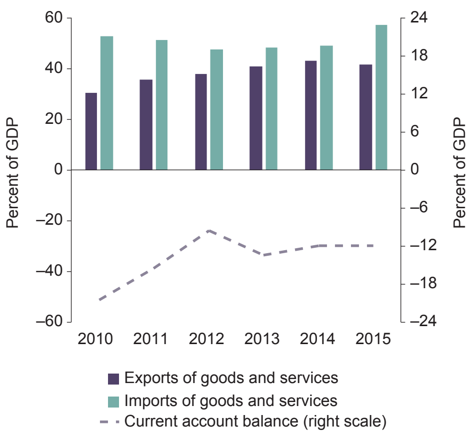
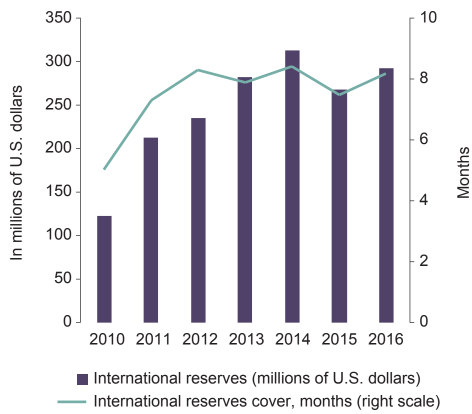


Figure D.6: International Reserves, 2010–2016



Sources: Eastern Caribbean Central Bank; IMF, *World Economic Outlook,* October 2016; IMF 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; IMF 2016 Article IV Staff Report for St. Kitts and Nevis; and World Bank, World Development Indicators.

St. Lucia

Summary

St. Lucia is the largest economy in the OECS, with real GDP estimated at US$1,431 million in 2015. The island has the largest population in the OECS at 185,000 and its per capita GDP is US$8,192. It is classified as an upper-middle-income country by the World Bank. St. Lucia was ranked 89th out of 188 countries on the UNDP's Human Development Index in 2015. Life expectancy at birth stood at 75.2 years in 2015, while the adult illiteracy rate in 2009 was 5.2 percent. Child mortality rates are relatively high at 12.7 per 1,000 live births for infants, 9.3 per 1,000 live births for neo-natals and 14.5 per 1,000 live births for children under five. Gross enrolment rates averaged 100 percent for primary education and 88 percent for secondary education between 2008 and 2014.

Recent Economic Developments

Growth

Economic activity expanded by 1.5 percent in 2016, following growth of 2.4 percent in 2015. Like much of the rest of the OECS, tourism is the main driver of output in St. Lucia, contributing 41.5 percent of GDP directly and indirectly to the economy in 2015, according to the World Travel and Tourism Council. Agriculture and manufacturing have historically been important sectors, but their contribution has diminished since the early 2000s.

Output remains marginally below its 2008 level. Prior to 2008, the economy grew at an average of 4.2 percent per year for the five-year period 2003–2007. Outside of tourism, the major contributors to GDP over 2012–2016 were social services (17.8 percent of GDP) transport, storage and communications (18.4 percent of GDP), real estate, renting and business activities (18.3 percent), and the financial services sector (9.2 percent).

Tourism continued its gradual recovery in 2015. The number of visitor arrivals increased by 4 percent in 2015 in comparison with 8 percent recorded a year earlier. Long-stay arrivals increased by 2 percent in 2015, with increases recorded from the United States (7 percent) and the Caribbean (13 percent) markets. The increase in flights and greater marketing were growth-positive. The United States continues to be the largest source market, accounting for 44 percent of long-stay arrivals, followed by the United Kingdom (19.8 percent). Cruise passengers increased by 6 percent in 2015, while the number of cruise ship calls grew marginally by 0.3 percent to reach 387. Total visitor expenditure increased by 1.7 percent to US$396.9 million in 2015 from US$390.4 million in 2014. The first nine months in 2016 saw a fall-off in arrivals of about 11.5 percent compared to the same period in 2015.

St. Lucia has benefitted from more dynamic non-traditional sectors. Construction increased by 2.5 percent in 2016, moderating from 7.4 percent growth in 2015. Its contribution to GDP has declined over time (it was 10.6 percent of GDP in 2008) and represented 8 percent of GDP in 2016. Real estate, renting, and business activities grew by 1 percent, having fallen by 0.3 percent in 2015. At the same time, the contribution to growth from agriculture fell from 3.2 percent of GDP in 2008 to 1.9 percent in 2016. Banana production suffered from hurricanes in 2010, adverse weather conditions in 2013, and the black sigatoka leaf spot disease.

Fiscal

The overall fiscal deficit stood at around 3.8 percent of GDP in 2016 with a primary surplus of 0.7 percent of GDP. The overall deficit averaged 3.8 percent of GDP over 2014–2016, having closed 2012 at 9.2 percent and 2013 at 5.9 percent of GDP. Measures have been taken recently to improve the country's fiscal position: in 2014 the value-added tax rate applied to hotel accommodation was increased from 8 to 10 percent, while a nominal wage freeze in 2014 helped contain spending.

Public sector debt is on an unsustainable path. Public debt rose from 62.4 to 83 percent of GDP between 2010 and 2015. The IMF 2015 Article IV Staff Report highlighted that "although the pace of debt accumulation is expected to slow down… debt dynamics remain unsustainable under the staff's baseline as well as standard adverse scenarios." The IDB's Debt Sustainability Analysis suggests that St. Lucia's debt will increase to 95 percent of GDP by 2030 in the absence of fiscal consolidation.

External Sector

The current account deficit improved from 6.8 to 3.7 percent of GDP in 2015. Lower commodity prices and weak domestic demand reduced imports of goods and services, which fell from 52.9 to 48.6 percent of GDP in 2015, while exports grew from 45 to 46.7 percent of GDP. Tourism accounted for 60 percent of total exports and 87 percent of service exports in 2015. St. Lucia's main goods exports are mineral fuels and related materials, manufactured goods and beverages, and tobacco. Net foreign direct investment inflows fell from 8.6 to 5.5 percent of GDP in 2015. The capital and financial account reported a surplus of 2.8 percent of GDP and led to an overall balance of payments surplus of 2.8 percent of GDP in 2015. The international reserves cover increased from 4.4 to 5.2 months of imports in 2015.

Lower oil prices were growth-positive in St. Lucia. The price of gasoline declined from US$5.87 per gallon in October 2014 to US$5.05 in January 2015, and the price of diesel fell from US$5.61 to US$4.89 per gallon. However, the respective fall in electricity tariffs was offset by a 50 cent (in Eastern Caribbean dollars) increase per imperial gallon in the fuel surcharge applied by the electricity company. The external position improved by 0.6 percent of GDP in 2015 because of the lower fuel import bill.

Inflation was contained in 2015, while the unemployment rate remained amongst the highest in the OECS. Prices in St. Lucia deflated by -2.6 percent at the end of 2015 compared with a 3.7 percent increase in 2014. Weak domestic demand, along with lower imported food prices and gasoline and transportation costs, contributed to deflation. Unemployment marginally declined from 24.4 to 24.1 percent in 2015. Youth unemployment remains particularly high at 41.8 percent.

Financial Sector

Private credit contracted by 6.8 percent in 2015, and by 4.8 percent by end-November 2016. The loan-to-deposit ratio decreased from 109 to 96.5 percent in 2015, and then to 89.8 percent by end-November 2016. The weighted average deposit rate declined to 1.9 percent in 2015, in comparison to 3.3 percent in 2010, following the decision by the ECCU Monetary Council to lower the minimum saving deposit interest rate from 3 to 2 percent (effective May 2015). This alleviated pressures on bank profitability and allowed some easing of monetary conditions. The lending rate fell marginally to 8.4 percent in 2015.

Outlook

St. Lucia’s growth outlook is positive. The IMF forecast economic output at 1.9 percent at the end of 2017. Stronger tourist arrivals will support the services and non-tradable sectors, such as transportation, real estate, and construction. Increases in the number of flights will be growth-positive for the tourism sector, with increases in the frequency of flights by United Airlines, British Airways, and Virgin Atlantic.

Construction will continue its gradual recovery. Both private and public investment will contribute to greater dynamism in this sector. Private tourism projects are growth-positive, including the Royalton Property, Harbour Club Hotel, Coconut Bay Resort, and Tides Sugar Beach Resort. Moreover, continued work on the Unicomer building and the Commercial Centre is likely to bolster construction activity. Public investment will concentrate on projects for roads, bridges, and other infrastructure.

St. Lucia: Economy at a Glance

Figure E.1: Real GDP and Tourism Growth, 2010–2016 (percent)

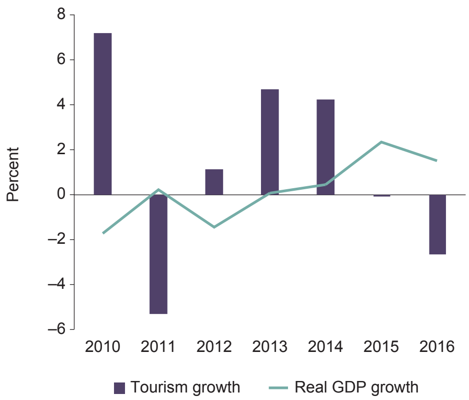


Figure E.2: GDP Contribution by Sector, 2010–2016 (percent of GDP)

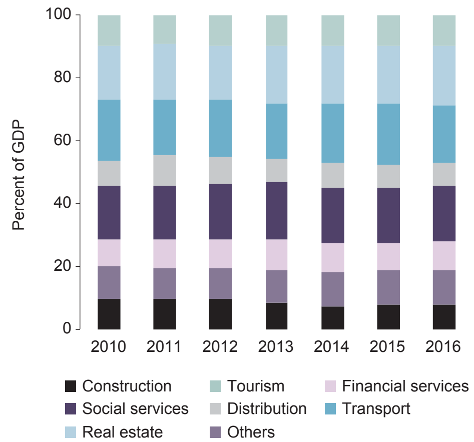


Figure E.3: Fiscal Balance, 2010–2016 (percent of GDP)

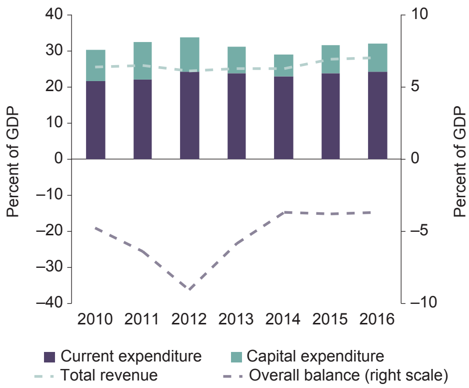


Figure E.4: Public Sector Debt, 2010–2016 (percent of GDP)

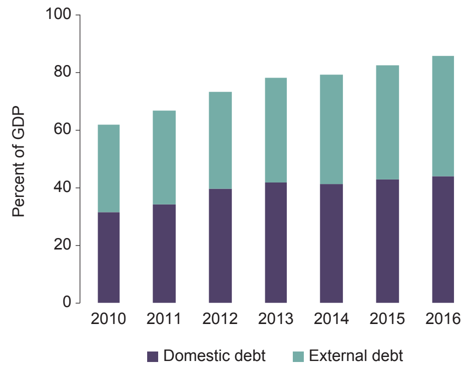


Figure E.5: Current Account Balance, 2010–2015 (percent of GDP)

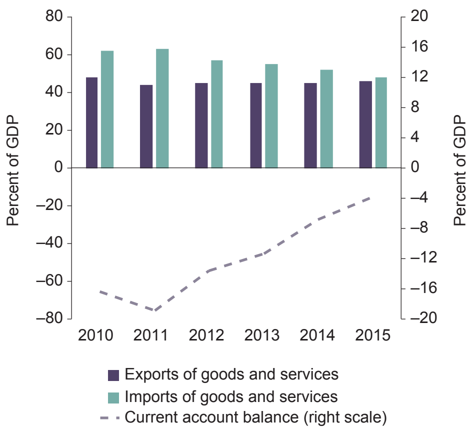
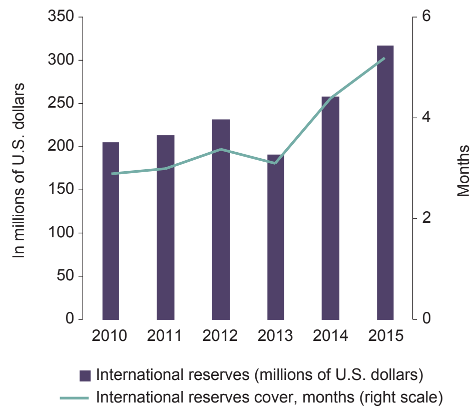


Figure E.6: International Reserves, 2010–2015



Sources: Eastern Caribbean Central Bank; IMF, *World Economic Indicators,* October 2016; IMF 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; and World Bank, World Development Indicators.

St. Vincent and the Grenadines

Summary

The nation of St. Vincent and the Grenadines is comprised of a main island, St. Vincent, and several inhabited and uninhabited smaller islands. With a population of around 109,500 and per capita GDP of US$6,882 (2015), it is classified as an upper-middle-income country by the World Bank. The services sector, tourism, and financial services are the drivers of output. Like Dominica, agriculture plays a more prominent role than in other OECS islands, particularly banana production. St. Vincent and the Grenadines has a high level of human development by Latin American standards, although it ranked lowest among the OECS countries at 97th out of 188 countries on the UNDP's Human Development Index in 2015. Life expectancy at birth is also the lowest in the union, at 73.1 years in 2015. The adult literacy rate in 2001 was 89 percent. The child mortality rate, at 16.6 per 1,000 live births in 2015, was higher than the rates of the country's peers. Gross enrolment rates were 105 percent for primary school and 104.7 percent for secondary school in 2014.

Recent Economic Developments

Growth

Over the past 10 years a series of natural disasters have taken a toll on economic activity. Hurricane Tomas in 2010 and floods in 2011 caused damage valued at 4.6 percent and 3.8 percent of GDP, respectively. Floods and landslides in December 2013 also generated losses of around US$108 million (or 15 percent of GDP) (IMF 2014b). Bridges, roads and houses were severely damaged and the hydroelectric supply was interrupted for much of the first half of 2014. These natural disasters, combined with an adverse external environment, the 2009 global downturn, and commodity price fluctuations, led to a cumulative economic contraction of 4.6 percent during 2008–2011. Since then, recovery has been modest, with growth at 1.6 percent at the end of 2015 before expanding to 2.2 percent in 2016.

The tourism sector remains stagnant. Tourism value-added averaged a contraction of 4.3 percent between 2009 and 2015. Output contraction was particularly sharp in 2009 (18 percent) and 2010 (14.2 percent). However, in 2015 total visitor arrivals increased 0.8 percent, having contracted on average by 7.1 percent annually between 2010 and 2013. Long-stay arrivals rose by 6.6 percent following increases in arrivals from the United States (11.2 percent), United Kingdom (6.8 percent), and the Caribbean (8.4 percent). The trend continued in 2016 with arrivals increasing by 5.9 percent over the first three quarters of 2016 relative to the first three quarters of the previous year.

The Argyle International Airport was completed in the first quarter of 2017. The airport will be able to process 1.5 million passengers per year and will give a much-needed boost to tourism arrivals. Its estimated cost was US$259 million, and it was funded through grants and loans from Cuba, Venezuela, Trinidad and Tobago, and Taiwan Province of China, among others.

Fiscal

The fiscal deficit closed 2016 at 2.1 percent of GDP, in line with 2015, while the primary balance improved slightly to 0.4 percent of GDP in 2016 from 0.1 percent of GDP a year earlier. Prior to 2015, the overall fiscal balance fluctuated significantly and averaged –3.6 percent of GDP over 2010–2014.

St. Vincent and the Grenadines outlined a plan to pursue fiscal consolidation in its funding request to the IMF's Rapid Credit Facility (RCF). It aims to improve the fiscal balance to primary surpluses of approximately 2 percent of GDP in the medium term. The IMF 2016 Article IV Staff Report highlights progress in enhancing tax compliance at the Inland Revenue Department, and in establishing a database and tracking system to monitor and manage arrears. However, there was limited progress on rationalizing exemptions, reducing transfers to state-owned enterprises, and implementing pension reform.

Public sector debt continues to accumulate, partly as a result of the natural disasters, and stood at 80 percent of GDP in 2016. The IMF 2016 Article IV Staff Report estimates that "in the absence of remedial measures, the risk of public debt distress has risen to high, even when abstracting from natural disasters and their additional fiscal burden, and other downside risks. Nonetheless, Authorities are committed to meet the ECCB public debt target of 60 percent of GDP by 2030."

External Sector

The size of the current account deficit suggests external imbalances. The deficit moderated from 29.2 percent of GDP in 2014 to 21.3 percent of GDP in 2016. Over the last five years, St. Vincent and the Grenadines had the highest current account deficit in the OECS, averaging 26.8 percent of GDP. Imports of construction material and equipment for the international airport and high oil prices up to 2013 contributed to a wider external position.

Reducing the cost of energy is a priority. Currently, 90 percent of electricity generation is provided by diesel, although there is potential to significantly reduce this share. The government entered an agreement with Reykjavik Geothermal Ltd, an Icelandic firm, and Emera Caribbean Ltd, an international energy company, to introduce geothermal energy into the nation's energy mix. Completion of the geothermal energy plant is planned for 2018, when it is expected to produce 10 megawatts of electricity per year and generate 80 percent of the electricity needs of the islands.

Lower oil prices had a positive economic impact. The cost of electricity to the consumer fell with the fuel surcharge falling by 31 percent, from US$0.22 per kilowatt hour in August 2014 to US$0.15 per kilowatt hour in December of that year. Transportation costs dropped with the decrease in the cost of gasoline from US$5.34 per gallon in October 2014 to US$5.11 per gallon in December 2014. The net effect translated into an increase in real disposable income and an improvement in the external position by 1.5 percent of GDP in 2015, with the lower fuel import bill.

Inflation continues to be low, while the unemployment rate is on the rise. The Consumer Price Index stood at 1.1 percent in 2016. The unemployment rate stood at 22 percent at the end of 2012, the latest year available.

Financial Sector

Commercial banks reported sound financial indicators by end-2015. Non-performing loans for locally-owned banks declined to 6 percent in 2015 compared with 6.2 percent in 2014, which is below the OECS average of 17 percent. Credit to the private grew by 1.7 percent by end-November 2016. At the same time, liquidity conditions improved slightly, as the loan-to-deposit ratio declined to 67.9 percent in 2015 from 68.1 percent in 2014. Meanwhile, the credit union segment underwent consolidation. The number of companies fell from nine in 2010 to four in 2015, while assets increased from US$93.8 million to US$119.7 million over the same period (World Council on Credit Unions 2016).

Outlook

The growth outlook for St. Vincent and the Grenadines is positive, with construction and tourism leading the way. Growth is estimated at 3.1 percent for 2017.[1] Tourist arrivals would be more dynamic with a greater number of flights. Private tourism projects—such as the announced hotel and golf course project at Mount Wynne Peter's

[1] IMF 2016 Article IV Staff Report Consultation.

Hope at a cost of US$200 million—will bring dynamism to the construction sector. Public investment will continue with the completion of the South Leeward Highway, and the Regional Disaster Vulnerability Reduction projects.

The fiscal deficit is expected to remain unchanged, while the current account position is likely to narrow in 2017. In the absence of measures to reduce transfers and subsidies, and with higher interest payments and lower financing from PetroCaribe, the current fiscal position will likely remain. The current account deficit is expected to narrow gradually, despite the projected recovery of oil prices, but with the gradual recovery of tourism receipts.

St. Vincent and the Grenadines: Economy at a Glance

Figure F.1: Real GDP and Tourism Growth, 2010–2016 (percent)

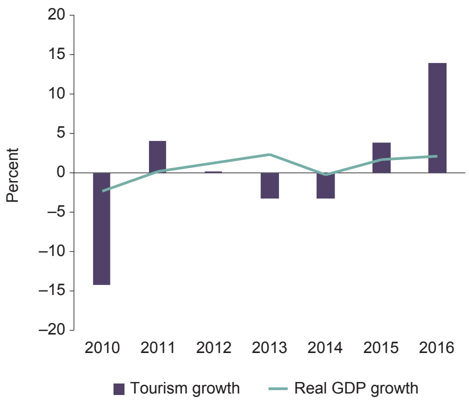


Figure F.2: GDP Contribution by Sector, 2010–2016 (percent of GDP)

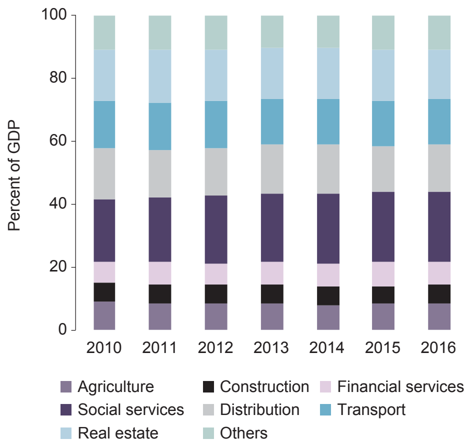


Figure F.3: Fiscal Balance, 2010–2016 (percent of GDP)

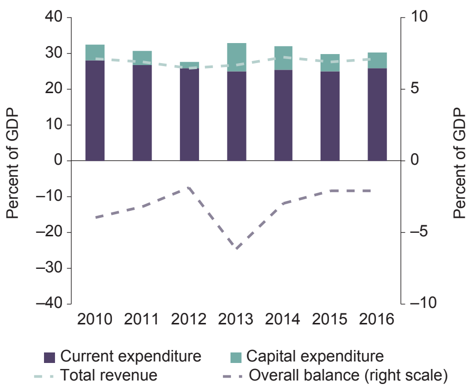


Figure F.4: Public Sector Debt, 2010–2016 (percent of GDP)

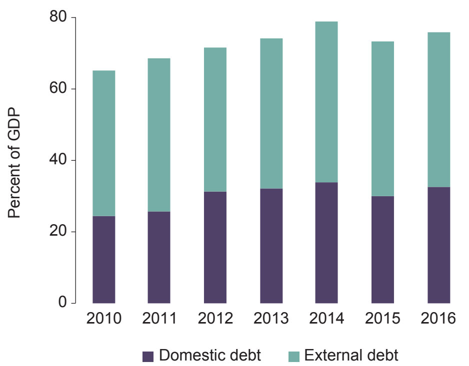


Figure F.5: Current Account Balance, 2010–2016 (percent of GDP)

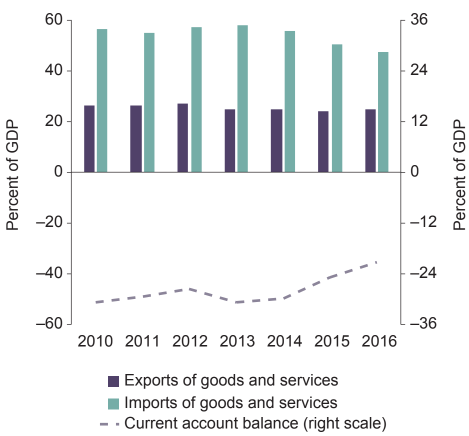
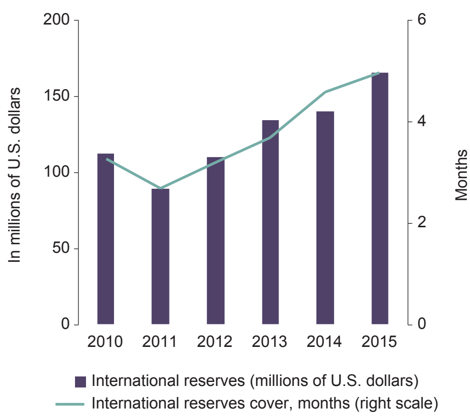
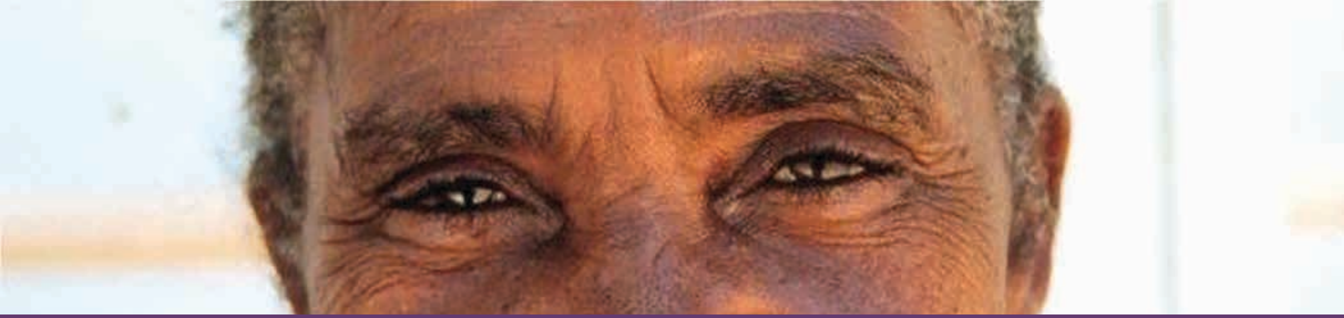


Figure F.6: International Reserves, 2010–2015



Sources: Eastern Caribbean Central Bank; IMF, World Economic Outlook, October 2016; IMF 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; IMF 2016 Article IV for St. Vincent and the Grenadines; and World Bank, World Development Indicators.



Annex: Selected Economic Indicators

Antigua and Barbuda: Selected Economic Indicators

Area (sq. km)	440	Unemployment rate (percent, 2015)	14.1
Population (2015)		Health	
Total (thousands)	91.8	Life expectancy at birth (2015)	76.1
Rate of growth (percent per year)	1.0	Infant mortality (per thousand live births, 2015)	5.8
Gross Domestic Product (2015)		Adult literacy rate (percent, 2013)	99
(Millions of U.S. dollars)	1,259	Pupil-teacher ratio in primary education (2014)	14.3
(Millions of EC dollars)	3,400	Pupil-teacher ratio in secondary education (2014)	12
U.S. dollars per capita	14,414		

	2010	2011	2012	2013	2014	2015	2016E
(Annual percentage change; unless otherwise specified)							
National Income and Prices							
Nominal GDP (market prices, millions of EC dollars)	3,066	3,051	3,253	3,242	3,297	3,400	3,517
Real GDP (factor cost)	-8.5	-1.9	3.6	1.5	4.2	2.2	2.0
Nominal GDP (market prices)	-5.9	-0.5	6.6	-0.3	1.7	3.1	3.4
Consumer prices, end of period	2.9	4.0	1.8	1.1	1.3	0.9	1.5
(In percent of GDP; unless otherwise specified)							
External Sector							
Current account balance	-14.7	-10.4	-14.6	-14.6	-14.8	-10.2	-9.4
Trade balance	-13.7	-9.2	-13.2	-14.6	-12.4	-5.4	...
Exports of goods and services[a]	46.1	47.6	45.1	46.0	47.3	46.8	...
Exports of goods and services (millions of U.S. dollars)	523.8	537.8	543.3	545.6	590.9	602.2	...
Percent change (year-on-year)	-6.7	2.7	1.0	0.4	8.3	1.9	...
Imports of goods and services[a]	59.8	56.8	58.3	60.8	59.5	52.1	...
Imports of goods and services (millions of U.S. dollars)	678.9	641.4	702.0	720.8	742.5	670.4	...
Percent change (year-on-year)	-3.9	-5.5	9.5	2.7	3.0	-9.7	...
Services, net	22.3	24.0	22.8	22.3	23.8	24.6	...
Of which:							...
Tourism receipts	26.2	27.6	26.5	26.5	25.6	25.1	...
Foreign direct investment (net)	8.9	6.0	11.4	8.5	12.4	12.0	...
External public sector debt (gross)	38.7	39.0	36.7	43.7	40.6	47.1	43.9
International reserves (millions of U.S. dollars)	137.0	148.0	162.0	203.0	297.0	356.0	...
International reserves cover (months)	2.3	2.6	2.6	3.1	4.9	6.1	...
(In percent of GDP)							
Public Sector							
Government revenue	22.5	20.4	19.8	18.9	20.2	21.5	24.5
Of which:							
Tax revenue	18.8	18.1	18.6	17.1	17.3	18.3	18.3
Government expenditure	22.7	24.1	21.0	23.1	23.1	30.0	20.7
Primary balance	1.9	-1.5	1.1	-1.6	-0.2	-5.6	6.9
Overall balance	-0.3	-3.6	-1.2	-4.2	-2.9	-8.4	3.8
Public and publicly-guaranteed debt (gross)	90.8	92.4	87.1	95.5	98.2	104.4	103
Financial Sector							
Loan-to-deposit ratio	88.5	85.9	79.6	78.1	73.3	68.6	71.0
Domestic credit (percent change, year-on-year)	-2.8	-2.9	-5.2	-1.0	-2.7	-13.8	2.6
Of which:							
Credit to private sector (percent change, year-on-year)	0.2	-4.0	-2.7	-4.5	-5.2	-11.3	1.0
Weighted average lending rate (year-end)	10.3	10.2	9.5	9.5	9.5	9.3	9.2
Weighted average deposit rate (year-end)	3.2	3.1	3.0	2.9	2.8	2.0	1.8

Sources: Eastern Caribbean Central Bank; IMF, *World Economic Outlook* (October 2016); IMF 2016 Article IV Staff Report for Eastern Caribbean Currency Union; and World Bank, World Development Indicators.

[a] Based on nominal GDP (market prices, millions of EC dollars) over 2014–2016, from the Eastern Caribbean Central Bank.

Dominica: Selected Economic Indicators

Area (sq. km)	750	Unemployment rate (percent, 2011)	11
Population (2015)		Health	
Total (thousands)	72.7	Life expectancy at birth (2014)	77.8
Rate of growth (percent per year)	0.5	Infant mortality (per thousand live births, 2015)	19.6
Gross Domestic Product (2015)		Adult literacy rate (percent, 2004)	88
(Millions of U.S. dollars)	500	Pupil-teacher ratio in primary education (2014)	14.3
(Millions of EC dollars)	1,349	Pupil-teacher ratio in secondary education (2014)	12.2
U.S. dollars per capita	7,030		

	2010	2011	2012	2013	2014	2015	2016E
(Annual percentage change; unless otherwise specified)							
National Income and Prices							
Nominal GDP (market prices, millions of EC dollars)	1,334	1,354	1,310	1,368	1,415	1,349	1,364
Real GDP (market prices)	0.7	–0.2	–1.3	0.6	3.9	–3.9	1.3
Nominal GDP (market prices)	0.9	1.5	–3.3	4.4	3.5	–4.7	1.1
Consumer prices, end of period	0.1	2.0	1.3	–0.4	0.5	–0.1	–0.1
(In percent of GDP; unless otherwise specified)							
External Sector							
Current account balance	–15.9	–14.1	–17.4	–9.8	–11.2	–9.4	–12.6
Trade balance	–18.0	–15.3	–18.9	–9.9	–12.4	–10.5	–12.6
Exports of goods and services	35.6	37.5	32.6	38.2	41.4	41.9	41.0
Exports of goods and services (millions of U.S. dollars)	175.6	188.3	158.4	193.5	217.1	209.4	207.0
Percent change (year-on-year)	18.7	7.2	–15.9	22.2	12.2	–3.6	–1.1
Imports of goods and services	53.6	52.8	51.5	48.1	53.8	52.4	53.6
Imports of goods and services (millions of U.S. dollars)	264.5	264.8	249.9	243.7	281.8	261.8	270.9
Percent change (year-on-year)	0.0	0.1	–5.6	–2.5	15.7	–7.1	3.5
Services, net	14.0	17.7	11.4	17.9	20.6	22.3	23.1
Of which:							
Tourism receipts	19.0	21.1	15.7	20.3	24.3	25.1	25.1
Foreign direct investment (net)	8.8	6.9	12.1	4.6	6.4	6.8	7.1
External public sector debt (gross)	49.0	49.6	52.6	52.6	53.4	56.6	56.4
International reserves (millions of U.S. dollars)	76.0	81.0	91.8	85.4	99.9	125.4	116.6
International reserves cover (months)	3.3	3.5	4.4	4.2	4.3	5.7	5.2
(In percent of GDP)							
Public Sector							
Government revenue	37.0	30.7	30.3	30.0	28.1	36.1	35.8
Of which:							
Tax revenue	24.2	22.6	22.2	21.9	22.9	24.9	24.5
Government expenditure	40.5	35.1	35.7	33.0	32.5	35.1	38.2
Primary balance	–1.9	–2.9	–3.4	–1.0	–2.9	3.3	–0.1
Overall balance	–3.5	–4.4	–5.4	–3.0	–4.4	0.9	–2.4
Public and publicly-guaranteed debt (gross)	66.8	69.7	72.6	74.7	83.9	85.5	87.7
Financial Sector							
Loan-to-deposit ratio	63.6	64.3	64.4	63.3	59.2	54.7	48.6
Domestic credit (percent change, year-on-year)	12.6	13.1	5.3	5.1	2.1	–14.3	–29.7
Of which:							
Credit to private sector (percent change, year-on-year)	9.5	6.6	4.3	–0.7	–2.2	0.3	5.2
Weighted average lending rate (year-end)	8.9	8.8	9.0	9.0	8.8	8.4	8.1
Weighted average deposit rate (year-end)	3.3	3.1	3.0	3.0	2.8	2.1	1.8

Sources: Eastern Caribbean Central Bank; IMF, *World Economic Outlook,* October 2016; IMF 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; IMF 2016 Article IV Staff Report for Dominica; and World Bank, World Development Indicators.

Grenada: Selected Economic Indicators

Area (sq. km)	340	Unemployment rate (percent, 2015)	23
Population (2015)		Health	
Total (thousands)	106.8	Life expectancy at birth (2014)	73.4
Rate of growth (percent per year)	0.4	Infant mortality (per thousand live births, 2015)	10.8
Gross Domestic Product (2015)			
(Millions of U.S. dollars)	954	Pupil-teacher ratio in primary education (2014)	14.8
(Millions of EC dollars)	2,575	Pupil-teacher ratio in secondary education (2014)	14
U.S. dollars per capita	8,937		

	2010	2011	2012	2013	2014	2015	2016E
(Annual percentage change; unless otherwise specified)							
National Income and Prices							
Nominal GDP (market prices, millions of EC dollars)	2,082	2,102	2,160	2,275	2,462	2,575	2,692
Real GDP (market prices)	−0.5	0.8	−1.2	2.4	5.7	4.6	3.0
Nominal GDP (market prices)	0.0	1.0	2.7	5.3	8.2	4.6	4.6
Consumer prices, end of period	4.2	3.5	1.8	−1.2	−0.6	−1.2	−0.2
(In percent of GDP; unless otherwise specified)							
External Sector							
Current account balance	−23.7	−23.6	−21.1	−23.2	−15.5	−14.5	−12.1
Trade balance	−22.6	−22.6	−20.6	−21.9	−14.6	−12.6	−10.5
Exports of goods and services[a]	26.6	28.2	28.9	28.5	28.9	28.9	28.8
Exports of goods and services (millions of U.S. dollars)	183.8	196.2	206.5	214.2	233.3	237.3	...
Percent change (year-on-year)	−1.9	6.8	5.3	3.8	8.9	1.7	...
Imports of goods and services[a]	49.2	50.8	49.5	50.4	43.5	41.5	39.3
Imports of goods and services (millions of U.S. dollars)	379.6	395.5	395.7	424.3	403.2	417.5	...
Percent change (year-on-year)	5.1	4.2	0.0	7.2	−5.0	3.5	...
Services, net	7.6	7.6	8.5	8.2	9.3	9.4	...
Of which:							
Tourism receipts	14.5	15.0	15.2	14.4	15.7	16.2	16.3
Foreign direct investment (net)	7.8	5.5	3.9	13.4	4.4	6.9	6.4
External public sector debt (gross)	68.9	69.0	67.6	70.2	67.1	64.1	61.9
International reserves (millions of U.S. dollars)	119.0	121.0	119.0	151.0	170.0	198.0	201
International reserves cover (months)	3.1	3.2	2.9	4.1	4.8	5.8	5.4
(In percent of GDP)							
Public Sector							
Government revenue	24.6	23.6	20.8	20.9	24.5	25.6	24.6
Of which:							
Tax revenue	18.7	18.4	18.0	16.6	18.2	19.9	20.0
Government expenditure	28.2	28.8	26.7	28.1	29.1	26.8	24.8
Primary balance	−1.5	−2.7	−2.5	−3.9	−1.1	2.2	3.1
Overall balance	−3.6	−5.2	−5.9	−7.3	−4.7	−1.3	−0.2
Public and publicly-guaranteed debt (gross)	96.9	100.7	103.3	107.6	101.4	94.3	89.2
Financial Sector							
Loan-to-deposit ratio	83.6	83.4	84.5	76.6	68.6	61.2	59.6
Domestic credit (percent change, year-on-year)	3.5	4.9	4.2	−8.7	−9.9	−13.5	−2.5
Of which:							
Credit to private sector (percent change, year-on-year)	5.6	2.2	0.2	−5.7	−5.1	−3.8	0.9
Weighted average lending rate (year-end)	9.5	10.3	9.2	9.1	9.0	8.7	8.4
Weighted average deposit rate (year-end)	2.6	2.9	2.7	2.5	2.2	1.6	1.5

Sources: Eastern Caribbean Central Bank; IMF, *World Economic Outlook,* October 2016; *IMF* 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; IMF 2016 Article IV Staff Report for Grenada; and World Bank, World Development Indicators.

[a] Based on nominal GDP (market prices, millions of EC dollars) from the Eastern Caribbean Central Bank.

St. Kitts and Nevis: Selected Economic Indicators

Area (sq. km)	260	Unemployment rate (percent, 2008)	5.1
Population (2015)		Health	
Total (thousands)	55.6	Life expectancy at birth (2014)	73.8
Rate of growth (percent per year)	1.1	Infant mortality (per thousand live births, 2015)	8.4
Gross Domestic Product (2015)		Adult literacy rate (percent, 2009)	97.8
(Millions of U.S. dollars)	915	Pupil-teacher ratio in primary education (2014)	13.8
(Millions of EC dollars)	2,471	Pupil-teacher ratio in secondary education (2014)	8.5
U.S. dollars per capita	16,110		

	2010	2011	2012	2013	2014	2015	2016E
(Annual percentage change; unless otherwise specified)							
National Income and Prices							
Nominal GDP (market prices, millions of EC dollars)	1,870	1,966	1,976	2,126	2,335	2,471	2,579
Real GDP (factor cost)	−3.8	−1.9	−0.9	6.2	6.1	5.0	3.5
Nominal GDP (market prices)	−2.3	5.1	0.5	7.6	9.8	5.8	4.4
Consumer prices, end of period	5.3	2.7	0.1	1.0	−0.6	−2.9	0.2
(In percent of GDP; unless otherwise specified)							
External Sector							
Current account balance	−20.8	−15.9	−9.8	−13.5	−12.2	−12.2	−16.4
Trade balance	−29.1	−26.0	−23.6	−31.7	−29.8	−26.3	−23.8
Exports of goods and services	30.6	35.9	38.1	41.3	43.1	41.6	…
Exports of goods and services (millions of U.S. dollars)	212.2	261.3	278.7	324.9	373.1	380.3	…
Percent change (year-on-year)	20.2	23.2	6.6	16.6	14.9	1.9	…
Imports of goods and services	53.0	51.4	48.1	48.3	49.1	58.0	…
Imports of goods and services (millions of U.S. dollars)	367.3	374.3	351.9	380.0	424.4	530.9	…
Percent change (year-on-year)	0.0	1.9	−6.0	8.0	11.7	25.1	…
Services, net	5.9	7.8	10.0	15.1	15.0	12.9	6.8
Of which:							
Tourism receipts	12.9	12.9	13.0	12.8	12.8	12.9	12.8
Foreign direct investment (net)	16.8	15.1	14.8	23.7	22.1	20.3	18.4
External public sector debt (gross)	48.1	49.8	43.3	40.8	35.7	25.9	22.4
International reserves (millions of U.S. dollars)	155.7	231.5	251.6	291.3	318.4	280.4	300.8
International reserves cover (months)	5.0	7.3	8.3	7.9	8.4	7.5	8.2
(In percent of GDP)							
Public Sector							
Government revenue	30.4	36.6	36.3	45.2	41.4	36.4	30.9
Of which:							
Tax revenue	18.3	20.8	20.3	19.9	20.6	19.9	19.3
Government expenditure	37.9	34.7	31.4	33.1	32.0	31.4	30.7
Primary balance	−0.6	8.3	10.9	16.0	12.1	7.2	1.9
Overall balance	−7.5	1.9	4.9	12.1	9.4	5.1	0.2
Public and publicly-guaranteed debt (gross)	159.3	151.7	138.4	101.2	79.8	67.8	63.4
Financial Sector							
Loan-to-deposit ratio	78.1	73.0	65.9	43.1	35.8	37.5	37.5
Domestic credit (percent change, year-on-year)	9.5	−4.6	−16.5	−24.0	−10.6	1.9	−14.7
Of which:							
Credit to private sector (percent change, year-on-year)	3.5	3.7	0.2	39.2	12.2	3.2	−0.1
Weighted average lending rate (year-end)	8.5	9.1	8.4	8.8	8.6	8.5	8.4
Weighted average deposit rate (year-end)	3.5	3.4	3.4	3.0	2.5	2.1	1.9

Sources: Eastern Caribbean Central Bank; IMF, *World Economic Outlook,* October 2016; *IMF* 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; IMF 2016 Article IV Staff Report for St. Kitts and Nevis; and World Bank, World Development Indicators.

St. Lucia: Selected Economic Indicators

Area (sq. km)	610	Unemployment rate (percent, 2015)	24.1
Population (2015)		Health	
Total (thousands)	185	Life expectancy at birth (2015)	75.2
Rate of growth (percent per year)	0.7	Infant mortality (per thousand live births, 2015)	12.7
Gross Domestic Product (2015)		Adult literacy rate (percent, 2009)	94.8
(Millions of U.S. dollars)	1,431	Pupil-teacher ratio in primary education (2014)	14.2
(Millions of EC dollars)	3,864	Pupil-teacher ratio in secondary education (2014)	12.8
U.S. dollars per capita	8,192		

	2010	2011	2012	2013	2014	2015	2016E
(Annual percentage change; unless otherwise specified)							
National Income and Prices							
Nominal GDP (market prices, millions of EC dollars)	3,353	3,458	3,507	3,559	3,743	3,864	3,884
Real GDP (market prices)	–1.7	0.2	–1.4	0.1	0.4	2.4	1.5
Nominal GDP (market prices)	5.1	3.1	1.4	1.5	5.2	3.2	0.5
Consumer prices, end of period	4.2	4.8	5.0	–0.7	3.7	–2.6	0.6
(In percent of GDP; unless otherwise specified)							
External Sector							
Current account balance	–16.3	–19.0	–13.6	–11.4	–6.8	–3.7	–6.7
Trade balance	–14.3	–18.9	–11.3	–9.6	–7.9	–1.8	...
Exports of goods and services[a]	48.7	44.4	46.0	45.5	45.0	46.7	...
Exports of goods and services (millions of U.S. dollars)	608.9	572.8	603.8	607.8	632.1	662.0	...
Percent change (year-on-year)	11.9	–5.9	5.4	0.7	4.0	4.7	...
Imports of goods and services[a]	63.0	63.3	57.3	55.2	52.9	48.6	...
Imports of goods and services (millions of U.S. dollars)	787.4	816.2	751.6	736.2	743.1	687.8	...
Percent change (year-on-year)	21.5	3.7	–7.9	–2.1	0.9	–7.4	...
Services, net	13.2	13.8	15.7	16.3	18.3	19.0	...
Of which:							...
Tourism receipts	24.7	24.8	25.7	26.5	27.8	28.0	...
Foreign direct investment (net)	9.5	8.7	8.4	10.4	8.6	5.5	...
External public sector debt (gross)	31.0	32.7	33.9	36.7	38.4	36.3	41.6
International reserves (millions of U.S. dollars)	206.0	213.0	232.0	192.0	258.0	318.0	...
International reserves cover (months)	2.9	3.0	3.4	3.1	4.4	5.2	...
(In percent of GDP)							
Public Sector							
Government revenue	25.7	26.2	24.7	25.3	25.5	28.0	28.5
Of which:							
Tax revenue	21.6	21.9	21.3	22.5	22.9	23.8	24.0
Government expenditure	30.6	32.7	34.0	31.3	29.2	31.9	32.4
Primary balance	–1.9	–3.5	–5.8	–2.1	0.1	0.3	0.7
Overall balance	–4.9	–6.5	–9.2	–5.9	–3.7	–3.9	–3.8
Public and publicly-guaranteed debt (gross)	62.4	66.9	73.7	78.6	79.7	83.0	86.0
Financial Sector							
Loan-to-deposit ratio	115.8	114.0	119.2	119.0	109.0	96.5	89.8
Domestic credit (percent change, year-on-year)	–1.7	6.0	8.5	1.9	–10.0	–8.7	–5.1
Of which:							
Credit to private sector (percent change, year-on-year)	1.1	2.6	5.1	–0.8	–6.7	–6.8	–4.8
Weighted average lending rate (year-end)	9.5	9.0	8.5	8.4	8.5	8.4	8.2
Weighted average deposit rate (year-end)	3.3	3.1	2.9	2.8	2.6	1.9	1.7

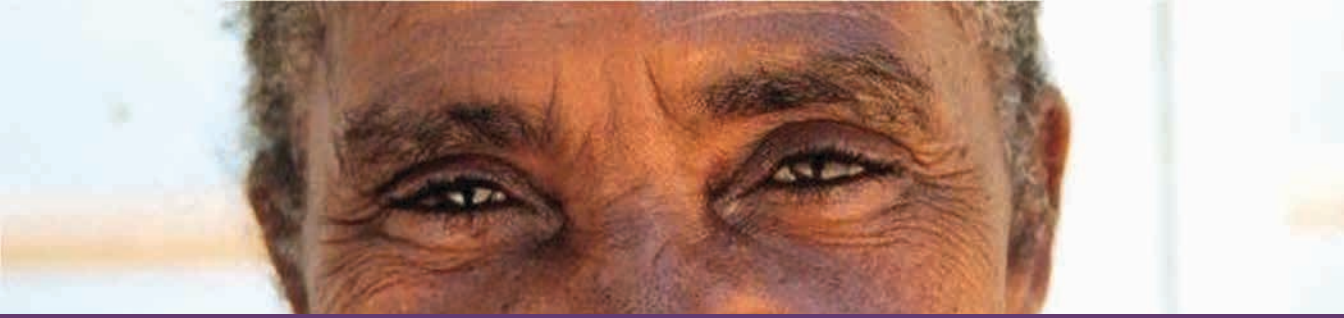
Sources: Eastern Caribbean Central Bank; IMF, *World Economic Outlook,* October 2016; *IMF* 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; and World Bank, World Development Indicators.
[a] Based on nominal GDP (market prices, millions of EC dollars) from the Eastern Caribbean Central Bank.

St. Vincent and the Grenadines: Selected Economic Indicators

Area (sq. km)	390	Unemployment rate (percent, 2012)	22
Population (2015)		Health	
Total (thousands)	109.5	Life expectancy at birth (2015)	73.1
Rate of growth (percent per year)	0.1	Infant mortality (per thousand live births, 2015)	16.6
Gross Domestic Product (2015)		Adult literacy rate (percent, 2001)	89
(Millions of U.S. dollars)	757	Pupil-teacher ratio in primary education (2014)	15.7
(Millions of EC dollars)	2,044	Pupil-teacher ratio in secondary education (2014)	15.4
U.S. dollars per capita	6,882		

	2010	2011	2012	2013	2014	2015	2016E
(Annual percentage change; unless otherwise specified)							
National Income and Prices							
Nominal GDP (market prices, millions of EC dollars)	1,839	1,826	1,871	1,946	1,970	2,044	2,118
Real GDP (factor cost)	−2.3	0.2	1.3	2.3	−0.2	1.6	2.2
Nominal GDP (market prices)	0.9	−0.7	2.5	4.0	1.3	3.7	3.6
Consumer prices, end of period	0.9	4.7	1.0	0.0	0.1	−2.1	1.1
(In percent of GDP; unless otherwise specified)							
External Sector							
Current account balance	−30.6	−29.4	−27.6	−30.9	−29.6	−24.8	−21.3
Trade balance	−30.2	−28.7	−30.4	−32.9	−31.4	−26.0	−22.5
Exports of goods and services	26.9	27.0	27.5	25.2	25.1	24.6	25
Exports of goods and services (millions of U.S. dollars)	183.2	182.8	190.7	182.0	185.9	188.2	196.1
Percent change (year-on-year)	−4.7	−0.2	4.3	−4.6	2.2	1.2	4.2
Imports of goods and services	57.1	55.7	57.9	58.1	56.5	50.6	47.5
Imports of goods and services (millions of U.S. dollars)	389.2	376.6	401.4	418.4	411.9	385.4	372.6
Percent change (year-on-year)	0.3	−3.2	6.6	4.2	−1.6	−6.4	−3.3
Services, net	6.9	8.1	8.0	4.9	5.0	6.1	7.2
Of which:							
Tourism receipts	12.7	13.6	13.6	12.8	12.8	12.8	13.2
Foreign direct investment (net)	14.3	12.7	16.6	22.1	18.9	18.6	17.8
External public sector debt (gross)	40.8	43.1	40.5	42.3	45.3	43.7	43.4
International reserves (millions of U.S. dollars)	112.7	89.6	111.0	135.1	140.6	166.0	...
International reserves cover (months)	3.3	2.7	3.2	3.7	4.6	5.0	...
(In percent of GDP)							
Public Sector							
Government revenue	29.0	27.9	26.1	26.9	29.2	27.9	28.7
Of which:							
Tax revenue	22.9	22.1	23.0	21.6	23.9	23.6	24.1
Government expenditure	32.9	31.1	28.0	33.0	32.2	29.9	30.7
Primary balance	−0.9	−0.7	0.4	−3.7	−0.7	0.1	0.4
Overall balance	−3.9	−3.2	−1.9	−6.2	−3.0	−2.1	−2.1
Public and publicly-guaranteed debt (gross)	65.4	68.8	72.0	74.7	79.5	73.8	80.0
Financial Sector							
Loan-to-deposit ratio	75.3	74.2	75.1	72.7	68.1	67.9	68.5
Domestic credit (percent change, year-on-year)	−13.3	1.6	5.8	4.1	2.1	4.8	−0.3
Of which:							
Credit to private sector (percent change, year-on-year)	1.8	4.1	3.5	1.3	−0.2	2.4	1.7
Weighted average lending rate (year-end)	9.0	9.1	9.4	9.4	9.3	9.2	9.1
Weighted average deposit rate (year-end)	2.8	2.9	2.8	2.6	2.5	1.9	1.8

Sources: Eastern Caribbean Central Bank; IMF, *World Economic Outlook,* October 2016; IMF 2016 Article IV Staff Report for the Eastern Caribbean Currency Union; IMF 2016 Article IV Staff Report for St. Vincent and the Grenadines; and World Bank, World Development Indicators.



References

Acemoglu, D., S. Johnson, and J.A. Robinson. 2005. Institutions as the Fundamental Cause of Long-Run Growth. In *Handbook of Economic Growth*, edited by P. Aghion and S. Durlauf. Elsevier.

Acevedo, S. 2014. Debt, Growth and Natural Disasters: A Caribbean Trilogy. IMF Working Paper 14/125. International Monetary Fund, Washington, DC.

Barbet-Gros, J., B. Samuel, R. Shahidsaless, and T. Thu Tran. 2015. Driving Tourism in the Eastern Caribbean: The Case for a Regional Ferry. World Bank, Washington, DC.

Briceno-Garmendia, C., H. Bofinger, M.F. Millan-Placci, and D. Cubas. 2014. Connectivity for Caribbean Countries: An Initial Assessment. World Bank, Washington, DC.

Caribbean Confederation of Credit Unions. 2016. CCCU Consolidated Statistics. Available at: http://www.caribccu.coop/about-caribbean-confederation-credit-unions/cccu-consolidated-statistics.

Caribbean Development Bank. 2015. Youth are the Future. The Imperative of Youth Employment for Sustainable Development in the Caribbean. Available at: http://www.caribank.org/wp-content/uploads/2015/05/Youth-Study-Imperative-of-Employment-CDB-2015.pdf.

Caribbean Energy Information System. Various years. Caribbean Petroleum Update. Available at: http://www.ceis-caribenergy.org/caribbean-petroleum-update/.

Castalia. 2010. Sustainable Energy Framework for Barbados. Castalia Strategic Advisors.

Cebotari, A., M. Tashu, S. Caner, D. Edwards-Dowe, B. Jones, V. Keene, R. Mills, and S. Ogawa. 2013. Enhancing Fiscal Revenue. In *The Eastern Caribbean Economic and Currency Union: Macroeconomics and Financial Systems*, edited by A. Schipke, A. Cebotari, and N. Thacker. Washington, DC: International Monetary Fund.

Compete Caribbean. 2014a. 2014 Dominica Private Sector Assessment Report. Inter-American Development Bank, Washington, DC.

Compete Caribbean. 2014b. Productivity, Technology, Innovation in the Caribbean PROTEqIN Data. Available at: https://mydata.iadb.org/Private-Firms-and-SME-

Development/Productivity-Technology-Innovation-in-the-Caribbea/y3wf-hhn6/data.

Eastern Caribbean Central Bank (ECCB). 2011. ECCB Assumes Control of the ABI Bank. ECCB Press Release. Available at: http://www.eccb-centralbank.org/News/press2.asp?pressID=382.

Eastern Caribbean Central Bank (ECCB). 2016. Online Statistics. Available at http://www.eccb-centralbank.org/Statistics/index.asp.

Energy Information Administration (EIA). 2016. Crude Oil Prices. Available at: http://www.eia.gov/.

Espinasa, R., M. Humpert, C. Gischler, and N. Janson. 2015. *Challenges and Opportunities for the Energy Sector in the Eastern Caribbean, Antigua and Barbuda Energy Dossier*. Washington, DC: Inter-American Development Bank.

Evans, D.S. 1987. The Relationship between Firm Growth, Size, and Age: Estimates for 100 Manufacturing Industries. *The Journal of Industrial Economics* 35(4): 567–81.

Gonzalez-Garcia, J., A. Lemus, and M. Mrkaic. 2013. Fiscal Multipliers in the ECCU. IMF Working Paper 13/117. International Monetary Fund, Washington, DC.

Government of Dominica. 2014. Budget Address for Fiscal Year 2014/15: Towards Expansion of the Economy. Available at: http://finance.gov.dm/phocadownload/budget_addresses/budget_address_2014_2015.pdf.

Government of Grenada. 2015. Findings of 2014 Labour Force Survey Revealed. Available at: http://www.gov.gd/egov/news/2015/jun15/23_06_15/item_1/findings-2014-lfs-revealed.html.

Government of Grenada. 2016. 2016 Budget Statement. Available at http://www.gov.gd/egov/docs/budget_speech/Budget-2016.pdf.

Hall, B.H., and P. Mohnen. 2013. Innovation and Productivity: An Update. *Eurasian Business Review* 3(1): 47–65.

Heston, A., R. Summers, and B. Aten. 2009. Penn World Table Version 6.3. Center for International Comparisons of Production, Income and Prices, University of Pennsylvania.

Inter-American Development Bank (IDB). 2016. Latin American and Caribbean Enterprise Surveys (LACES). Available at: https://mydata.iadb.org/Private-Firms-and-SME-Development/Latin-American-and-Caribbean-Enterprise-Survey/sg55-ptdh/data.

International Monetary Fund (IMF). 2013. Dominica 2012 Article IV Consultation. International Monetary Fund, Washington, DC.

International Monetary Fund (IMF). 2014a. St. Kitts and Nevis 2014 Article IV Consultation and the Seventh and Eighth Reviews under the Stand-By Arrangement and Request for Waivers of Applicability and Nonobservance of Performance Criterion—Staff Report; Press Releases. International Monetary Fund, Washington, DC.

International Monetary Fund (IMF). 2014b. St. Vincent and the Grenadines: Request for Disbursement Under the Rapid Credit Facility and Purchase Under the Rapid Financing Instrument - Staff Report; Press Release. December 23. Available at: https://www.imf.org/external/pubs/cat/longres.aspx?sk=42558.0.

International Monetary Fund (IMF). 2015a. Antigua and Barbuda Staff Report for the 2014 Article IV Consultation and Second Post-Program Monitoring—Press Release; and Staff Report. International Monetary Fund, Washington, DC.

International Monetary Fund (IMF). 2015b. St. Kitts and Nevis 2015 Article IV Consultation and First Post Program Monitoring Discussions—Press Release; and Staff Report. International Monetary Fund, Washington, DC.

International Monetary Fund (IMF). 2015c. St. Kitts and Nevis Ex Post Evaluation of Exceptional Access Under the 2011 Stand-By Arrangement—Press Release; Staff Report; and Statement by the Executive Director for St. Kitts And Nevis. International Monetary Fund, Washington, DC. Available at: http://www.imf.org/external/pubs/cat/longres.aspx?sk=43366.0.

International Monetary Fund (IMF). 2015d. Request for Disbursement under the Rapid Credit Facility—Press Release; Staff Report for Dominica. International Monetary Fund, Washington, DC. Available at: https://www.imf.org/external/pubs/cat/longres.aspx?sk=43402.0.

International Monetary Fund. 2015e. Press Release: IMF Executive Board Approves US$8.7 million Disbursement under the Rapid Credit Facility for Dominica. October 28. Available at: https://www.imf.org/external/np/sec/pr/2015/pr15483.htm.

International Monetary Fund (IMF). 2015f. *World Economic Outlook* (October). Washington, DC: International Monetary Fund.

International Monetary Fund (IMF). 2016a. Grenada 2016 Article IV Consultation. International Monetary Fund, Washington, DC.

International Monetary Fund (IMF). 2016b. St. Kitts and Nevis 2016 Article IV Consultation—Press Release; and Staff Report. International Monetary Fund, Washington, DC.

International Monetary Fund (IMF). 2016c. St. Vincent and the Grenadines 2016 Article IV Consultation. International Monetary Fund, Washington, DC.

International Monetary Fund (IMF). 2016d. Eastern Caribbean Currency Union 2016 Discussion on Common Policies of Member Countries—Press Release and Staff Report. International Monetary Fund, Washington, DC.

International Monetary Fund (IMF). 2016e. *World Economic Outlook* (April). Washington, DC: International Monetary Fund.

International Monetary Fund (IMF). 2016f. *World Economic Outlook* (October). Washington, DC: International Monetary Fund.

King, D., and D. Tennant. 2014. *Debt and Development in Small Island Developing States*. Palgrave Macmillan.

Klemm, A., and S. Van Parys. 2009. Empirical Evidence on the Effects of Tax Incentives. IMF Working Paper 09/136. International Monetary Fund, Washington, DC.

KPMG. 2016. Corporate, Personal and VAT Rates. Available at: https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online.html.

Kreft, S., D. Eckstein, L. Dorsch, and L. Fischer. 2016. Global Climate Risk Index 2016: Who Suffers Most from Extreme Weather Events? Weather-related Loss Events in 2014 and 1995 to 2014. Available at: https://germanwatch.org/fr/download/13503.pdf.

Lasagabaster, E., and R. Reddy. 2010. Supporting Innovation in Latin America and the Caribbean: Successful Examples of Technology Transfer Promotion. En breve 164 (November). World Bank, Washington, DC.

Loderer, C., and U. Waelchli. 2010. Firm Age and Performance. University of Bern, ECGI European Corporate Governance Institute.

Mishra, P. 2006. Emigration and Brain Drain: Evidence from the Caribbean. IMF Working Paper 06/25. International Monetary Fund, Washington, DC.

Mohan, P., E. Strobl, and P. Watson, 2014. Innovative Activity in the Caribbean: Drivers, Benefits, and Obstacles. Working Paper 2014-595, Department of Research, Ipag Business School.

Monroe, H. 2013. The Insurance Sector and the Collapse of CL Financial. In *The Eastern Caribbean Economic and Currency Union: Macroeconomics and Financial Systems*, edited by A. Schipke, A. Cebotari, and N. Thacker. Washington, DC: International Monetary Fund.

Organisation of Eastern Caribbean States (OECS). 2012. OECS Education Strategy 2012-21. Available at: https://www.collegesinstitutes.ca/wp-content/uploads/2014/05/OECS-Educ-Sector-Strategy-2012-2021-OESS-final-2012-05-18.pdf.

Organisation of Eastern Caribbean States (OECS). 2014. OECS Education Statistical Digest 2013/14. Available at: https://www.joomag.com/magazine/oecs-education-statistical-digest-2013-2014/0591869001423145461.

Ortiz, E.A., G. Crespi, E. Tacsir, F. Vargas, and P. Zuniga. 2012. Innovation for Economic Performance: The Case of Latin American and Caribbean Firms. IDB Technical Note 494. Inter-American Development Bank, Washington, DC.

Pan American Health Organization (PAHO). *Core Indicators 2016: Health Situation in the Americas*. Washington, DC: PAHO and the World Health Organization. Available at http://iris.paho.org/xmlui/handle/123456789/31289.

Parra-Torrado, M. 2014. Youth Unemployment in the Caribbean. Caribbean Knowledge Series (April). World Bank, Washington, DC. Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/18999/883620WP0Box385224B00PUBLIC00April02014.pdf;sequence=1.

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

Ruprah, I., K. Melgarejo, and R. Sierra. 2014. *Is There a Caribbean Sclerosis? Stagnating Economic Growth in the Caribbean*. Washington, DC: Inter-American Development Bank.

Schipke, A., A. Cebotari, and N. Thacker, editors. 2013. *The Eastern Caribbean Economic and Currency Union: Macroeconomics and Financial Systems*. Washington, DC: International Monetary Fund.

Şeker, M. 2012. Importing, Exporting, and Innovation in Developing Countries. *Review of International Economics* 20(2): 299–314.

Transparency International. 2016. Corruption Perceptions Index. Available at: http://www.transparency.org/research/cpi/overview.

United Nations Development Programme (UNDP). 2015. *Human Development Report 2015: Work for Human Development*. New York: UNDP.

World Bank. 2010. Enterprise Surveys. Available at: http://www.enterprisesurveys.org/data.

World Bank. 2012a. The Growing Burden of Non-Communicable Diseases in the Eastern Caribbean. Human Development Unit, World Bank, Washington, DC. Available at: http://documents.worldbank.org/curated/en/954761468224410323/The-growing-burden-of-non-communicable-diseases-in-the-Eastern-Caribbean.

World Bank. 2012b. *Attracting and Retaining Qualified Teachers in the OECS*. Washington DC: World Bank.

World Bank. 2013a. Trade Facilitation in the Caribbean: The Case of Customs Performance. Available at: http://documents.worldbank.org/curated/en/994511468010904535/pdf/785850WP03-0Tr00Box377349B00PUBLIC0.pdf.

World Bank. 2013b. Quality Education Counts for Skills and Growth. Available at: http://documents.worldbank.org/curated/en/782091468223479816/pdf/785970WP08-0Qu00Box377349B00PUBLIC0.pdf.

World Bank. 2013c. *Air Transport in the OECS: Flying Solo?* Washington DC: World Bank.

World Bank. 2014. Regional Partnership Strategy for the Organisation of Eastern Caribbean States (OECS) for the Period FY2015-2019. Available at: http://documents.worldbank.org/curated/en/681431468146985821/pdf/851560CPS0R201000Box385343B00OUO090.pdf.

World Bank. 2015a. Doing Business 2015: Going Beyond Efficiency. Available at: http://www.doingbusiness.org/reports/global-reports/doing-business-2015.

World Bank. 2015b. Rapid Damage and Impact Assessment Tropical Storm Erika. Global Facility for Disaster Reduction and Recovery (GFDRR).

World Bank. Various years. World Development Indicators. Available at http://data.worldbank.org/data-catalog/world-development-indicators.

World Council of Credit Unions. 2016. Statistical Report. Available at http://www.woccu.org/impact/global_reach/statreport.

World Travel and Tourism Council. 2016. Travel & Tourism Economic Impact Country Reports 2016. Available at: https://www.wttc.org/research/economic-research/economic-impact-analysis/.

Xu, X., A. El-Ashram, and J. Gold. 2015. Too Much of a Good Thing? Prudent Management of Inflows under Economic Citizenship Programs. IMF Working Paper 15/93. International Monetary Fund, Washington, DC.

IDB

Improving lives through research on the Caribbean.

Caribbean DEVTrends

Inter-American Development Bank
1300 New York Avenue NW
Washington, DC 20577