Republic Economic
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NON-ENERGY ENERGY

OVERVIEW

The third quarter of 2023 represented the tail end of a period that saw a number of global forces in operation, with different, sometimes contrasting effects. The first half of the year saw the continued decline of food and fuel prices, as both supply chains and markets adjusted to the major shock presented by the Russia-Ukraine war. As the windfall profits for the producers of these commodities declined, so did some of the upward pressure on global inflation. However, any fillip to major economies that could come from lower-priced commodities, would have been dampened by frequent interest rate increases, which curb both inflation and economic activity. By the end of June, the slide in oil prices was reversed to some extent by ongoing production cuts by the members of OPEC+.

Domestically, the unemployment rate fell significantly from 4.9 percent in the first quarter to 3.7 percent in the second, with an increase in the labour force from 595,200 to 609,800 over the period. This supports indications that the stronger growth impetus of the non-energy sector versus the energy sector in previous quarters, continued through the third quarter. Based on these developments Republic Bank estimates that economic activity grew by 1.5 percent in the third quarter compared to the second and the unemployment rate remained steady at 3.7 percent in the third quarter. The Composite Stock Price Index fell by 0.56 percent to reach 1,209.60 at the end of September. Trinidad and Tobago's (T&T's) foreign reserves, typified by net foreign position, stood at US$9,960.8 million at the end of September, down from US$10,451.4 million at the end of June.

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATOR	2022	2022.3	2023.3 p/e
Real GDP (% change)	1.5	3.3	1.5
Retail Prices (% change)	5.8	2.2	0.6
Unemployment Rate (%)	4.9	5.4	3.7
Fiscal Surplus/Deficit ($M)	1,332.80	-1,783.6	-3,500.7
Bank Deposits (% change)	1.1	0.94	0.03
Private Sector Bank Credit (% change)	6.7	1.1	1.33
Net Foreign Reserves (US$M)	10,998.1	10,721.2	9,960.8
Exchange Rate (TT$/US$)	6.73 / 6.78	6.73 / 6.78	6.71 / 6.78
Stock Market Comp. Price Index	1,332.15	1,343.20	1,209.60
Oil Price (WTI) (US$ per barrel)	94.91	93.07	82.25
Gas Price (Henry Hub) (US$ per mmbtu)	6.42	7.99	2.59

Source: – Central Bank of Trinidad and Tobago, TTSE, EIA
p – Provisional data
e – Republic Bank Limited estimate

ENERGY SECTOR

After averaging 55,893 barrels per day (b/d) in the second quarter, crude oil production declined by 3.8 percent to average 52,591 b/d in the third quarter, with this output some 9.1 percent lower than that of one year ago. Natural gas production moved further away from the 4.2 bcf (4,200 million standard cubic feet per day - mmscf/d) level needed for this country's LNG and petrochemical plants to operate at full capacity, with output falling by 1.2 percent quarter-on-quarter (q-o-q) to 2,538 mmscf/d, a year-on-year (y-o-y) drop of 10.8 percent. The value of both commodities increased in the third quarter relative to the second, with the average West Texas Intermediate oil price rising by 11.9 percent to US$82.25 per barrel and the average Henry Hub gas price 19.9 percent higher at US$2.59 per million British thermal units (mmBtu). These third quarter oil and gas prices were, however, 11.6 percent and 67.6 percent, respectively, lower than they were a year ago.

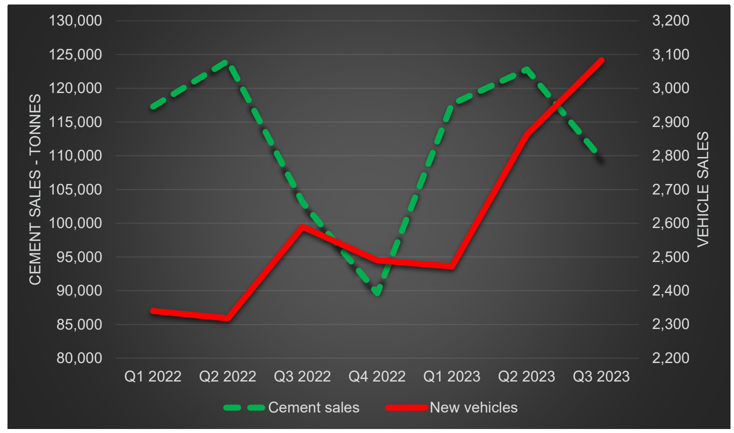
Liquefied Natural Gas (LNG) production, at an average monthly output of 1,404,055 cubic metres (m^3) declined by 2.1 percent q-o-q. Ammonia output fell by 3.7 percent over the same period, while methanol production increased by 5.2 percent. Third quarter production of LNG, ammonia and methanol was 13.7 percent, 15.5 percent and 3 percent, respectively, lower than that of the same period in 2022. Rig days (321) and depth drilled (79,261 ft.) increased by 16.3 percent and 49.9 percent, respectively, q-o-q, but declined by 18.3 percent and 22.3 percent, respectively y-o-y.

In a positive development, on December 5th, the Government of Trinidad and Tobago signed the agreement for a new unitised commercial structure for Atlantic LNG (ALNG). This new structure sees T&T, through the National Gas Company of T&T, having a 10 percent shareholding across all four ALNG trains, compared to the previous ownership structure where T&T had a 10 percent share of Train 1, an 11 percent share of Train 4 and no share of Trains 2 and 3. This new arrangement has the potential for current and future benefits as this country now has a greater share of a major gas enterprise. Prior to this, on October 17th, the US government, through the Office of Foreign Assets Control (OFAC), extended the life of the licence that allows this country to negotiate a potential Dragon Gas field deal with Venezuela, to October 31, 2025. The amendment to the licence also allows the T&T government, as well as NGC and Shell plc, to make payments to the Government of Venezuela in fiat currency, including US dollars or bolivars. In the wake of the removal of these major obstacles, subsequent negotiations between Energy Minister Stuart Young and Venezuelan authorities seemed to have put the 'Dragon Deal' on a clearer path to fruition. However, the aggressive moves by President Nicolas Maduro to claim the Essequibo region of fellow CARICOM member Guyana as Venezuela's own, has transformed this 'path' into a geopolitical tightrope for the T&T government.

NON-ENERGY SECTOR

In the absence of third quarter statistics, anecdotal evidence suggests that the non-energy sector had a generally good performance, with solid returns in multiple sectors likely offsetting a weak performance in a key sector. The number of people employed in the construction sector increased strongly from approximately 64,900 in the first quarter of 2023 to 78,400 in the second. Interestingly, the sector's unemployment rate increased from 6.2 percent to 7.2 percent as the construction sector labour force increased by 15,200. Despite this strong interest in construction at the time, indications are that activity in the sector fell off in the July-September period, as cement sales of 109,528 tonnes, while 6.3 percent higher than the same period a year ago, were 10.8 percent lower than the previous quarter. The hotels and restaurants sector almost certainly would have received a lift from this country's hosting of the Commonwealth Youth Games in early August and the return of the Republic Bank Caribbean Premier League in September. The trade and repair sector also likely fared well as the 3,083 new vehicles sold, represented a 7.7 percent q-o-q increase and a 19.1 percent y-o-y increase.

Figure 1: Cement sales and New Vehicle sales

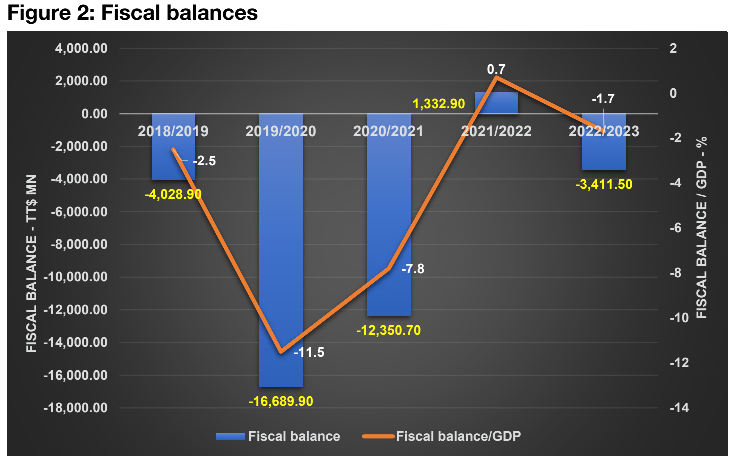


Source: Central Bank of Trinidad & Tobago

FISCAL POLICY

The overall balance for the 2022/2023 fiscal year is estimated at -$3,411.5 million. With the balances for the first, second and third quarters of the fiscal year at $1,978.8 million, -$1,211.1 million and -$678.5 million respectively, calculations show that the fourth quarter of the fiscal year (July – September) registered a deficit of $3,500.7 million. The $3,411.5 million deficit for the last fiscal year, (equivalent to 1.7 percent of GDP), represents a return to budget deficits following the $1,332.9 million surplus of the 2021/2022 fiscal year, which was the first fiscal year this country earned more than it spent, since 2009.

Figure 2: Fiscal balances



Source: Central Bank of Trinidad & Tobago

MONETARY POLICY

The trend of moderating inflation rates (where the size of the price increases becomes smaller over time) that began in 2023, continued into the third quarter. Average food prices were 2.3 percent higher than in the second quarter and were 6.3 percent higher than the third quarter of 2022. Overall prices in the third quarter increased by 0.6 percent q-o-q and 4.2 percent y-o-y.

Liquidity, which was generally high in the first half of the year, peaked in August 2023 with commercial banks' average excess reserves at $7.238 billion, the highest level since November 2021. It declined thereafter, averaging $5.965 billion in September and $4.854 billion in October. Interest rates remained unchanged, with the commercial banks' average basic prime lending rate still at 7.57 percent. In the July – September period, private sector credit grew by 1.33 percent q-o-q and 7.16 percent y-o-y. Consumer credit saw somewhat stronger growth at 1.62 percent q-o-q and 8.27 percent y-o-y. Commercial bank total deposits increased marginally (0.03 percent) in the quarter to $123,008 million.

The external pressure on domestic interest rates decreased slightly. As reported by the Central Bank's Monetary Policy Committee (MPC), the differential between short term interest rates in T&T and the United States narrowed as domestic rates edged up and the US Federal Reserve paused its rate increases. Consequently, the differential on 3-month treasuries (TT/US) reached -464 basis points in August 2023 down from -476 basis points in May 2023. Taking this development into consideration, as well as other factors such as the uncertainty of the direction of global inflation, the contribution of slowing domestic inflation and buoyant private sector credit growth to economic activity, the MPC agreed to hold the repo rate at its current level (3.50 percent) after its September deliberations. The next Monetary Policy Announcement is scheduled for December 29, 2023.

OUTLOOK

Wars and major disagreements between states, including the Venezuela-Guyana dispute, promise to maintain the increased tension, anxiety and fractured relations that have characterised the geopolitical environment since early 2022. On the other hand, with the US, UK and Europe adopting a wait-and-see approach to further interest rate increases, global economic developments are likely to remain a bit more predictable over the short term. While the members of OPEC+ will endeavour to keep oil prices high, barring a major conflict with, or in, oil-producing regions, oil prices are unlikely to return to 2022 levels.

The trajectory of this country's oil and gas production and the level of economic activity of the energy sector are unlikely to change materially over the next six months. The momentum of the non-energy sector, however, is expected to continue, bolstered by solid performances from different sub-sectors. The manufacturing sector is expected to continue its steady performance as it pushes to increase exports, while the hotels and restaurants and entertainment sub-sectors should be lifted by the current festive season, which leads into an early Carnival season in 2024. The construction sector should benefit from increased projects in the coming months, particularly in the public sector, with the government having signalled its intent early on to execute all of its planned projects. As improbable as that may be, the authorities will certainly seek to make a fist of it. However, the challenges presented to many service-providers by the public procurement system, may frustrate their efforts. The strong increase in new vehicle sales in the third quarter augurs well for the trade and repair sector going forward, as the October – December period traditionally sees the highest sales numbers. Further, both the wholesale and retail trade and the finance and insurance sectors are potential beneficiaries of increased revenue-generating activity in early 2024 with the recent disbursement of outstanding backpay to public servants. In this scenario, the unemployment rate could remain below 4 percent during the next two quarters.

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Continued Growth Accompanies Record Heat

Overview

In the third quarter of 2023, many Caribbean countries recorded below average rainfall and thankfully, little disruption related to the impact of a major storm or hurricane, even though there were some incidents of flooding. With conditions generally drier than usual, the Caribbean joined several other regions in the world in posting record high temperatures during the recurring heat waves that characterised much of the period. Unfortunately, these conditions were less than ideal for the agriculture sector, with many farmers reporting lower than expected crop yields and great difficulty in accessing adequate water supplies for livestock. It will be interesting to see the full impact on the sector when official data becomes available. Further, while the region was spared the major infrastructural damage that usually accompany hurricanes, the consistent, intense heat resulted in a marked rise in demand for air conditioning units and electricity usage, resulting in increased costs for businesses and households. Notwithstanding these challenges, economic activity remained positive during the third quarter, powered largely by the continued growth of the tourism sector, as arrivals continue to approach 2019 levels in most destinations.

In the realm of trade and international relations, the move to update the framework governing the EU's relationship with the 79 members of the Organisation of African, Caribbean and Pacific States (OACPS) has generated some consternation among key groups in the Caribbean. The Samoa Agreement replaces the Cotonou Agreement and covers various issues including, sustainable growth and development, human rights and security. However, several groups in the Caribbean, including religious bodies, have expressed fears that the new agreement will impose laws on the region that are not aligned with the culture and values of its people. The Samoa agreement will be introduced on a provisional basis in January 2024 and will be fully enforced once it is approved by the European Parliament and ratified by all EU member states and at least two-thirds of the OACPS countries. The agreement is expected to grant trade opportunities and other economic benefits to participating countries.

Anguilla

The weakness in credit demand that was observed in the second quarter of 2023 likely continued in the third quarter. In the second quarter, total loans grew marginally by 0.6 percent over the levels of the same period in 2022 but were 3.5 percent below the levels of the previous quarter. During the period, construction, real estate activities, transport and storage, and wholesale and retail registered year-on-year growth in loans. However, the country continues to contend with a very high level of non-performing loans, which averaged 20 percent of gross loans during the second quarter, slightly down from 22.3 percent in second quarter 2022. Outside of the financial sector, activity was relatively more upbeat in the tourism industry, with stay-over arrivals expanding by 35 percent during the first eight months of 2023. This performance was achieved against a backdrop of increased demand from all major source markets, with the US market continuing to provide the lion's share of visitors (68.8 percent). Total arrivals were 97 percent of 2019 levels.

Barbados

Economic activity expanded by 4.4 percent during the first nine months of 2023, with the bulk of the momentum coming from the tourism and construction sectors. Regarding the tourism sector, it recorded an 18.7 percent increase in stay-over arrivals during the period, with arrivals from the largest market, the UK, expanding by 3.1 percent. By comparison, growth in arrivals from the US (14.7 percent), Canada (49.9 percent), Europe (16.1 percent) and Caricom (64 percent) were much more eye-catching. The number of cruise visitors more than doubled to 295,386 but remained 33 percent below 2019 levels, while stay-over arrivals were 13.3 percent lower. In the construction sector, activity was supported by ongoing projects in the tourism industry, as well as public sector initiatives. Increased food crop production powered growth in the agriculture sector, despite a 7.2 percent decline in milk output in the third quarter, due to extreme heat. In the financial sector, the demand for credit was encouraging, with private sector credit rising by 1.7 percent, driven mainly by the 5 percent rise in loans to businesses. In this setting, unemployment fell to 8.5 percent in the second quarter of 2023, from 9.3 percent a year earlier. Turning to the country's fiscal accounts, public debt fell to 115.4 percent of GDP in September 2023, down from 120.7 percent in September 2022. Central government incurred a small deficit (0.5 percent of GDP) in the first half of the fiscal year (April – September) compared to a surplus equal to 0.7 percent of GDP a year ago. In October, Barbados saw its Fitch credit rating outlook revised to positive from stable and its 'B' Long-Term Foreign Currency Issuer Default Rating (IDR) affirmed. The action reflects the overall improvement in the country's fiscal accounts and its strengthening economic recovery. The nation continues to meet its targets under the Extended Fund Facility (EFF) arrangement with the IMF and has thus far implemented all reform measures under the Resilience and Sustainability Facility (RSF).

British Virgin Islands

In his 2024 budget presentation, Premier and Minister of Finance Dr. Natalio Wheatley, described a fiscal package which caters for a $5.65 million increase in government revenue to $382.67 million. Recurrent and capital expenditure are projected to reach $376.95 million and $70.9 million, respectively, during the fiscal year. The capital budget is intended to be financed by funds from a combination of sources including the Development Fund, Transportation Network Improvement Fund, Reserved Fund, Miscellaneous Purpose Fund and existing and new loans. The Premier also indicated that the economy is projected to grow by 5.5 percent in nominal terms in 2023. A significant portion of this expansion would have been due to the impact of the tourism sector. Government expects total tourist arrivals to surpass pre-pandemic levels by the end of 2023. Regarding the stay-over subsector, arrivals increased by 60.5 percent in the first nine months of 2023, but were still 12.9 percent below 2019 levels. A significant acceleration will be required in the final quarter of 2023 for this segment of the industry to surpass pre-pandemic figures. On the other hand, the cruise sub sector is running ahead of pre-pandemic levels, with arrivals in the first three quarters just 13.3 percent below the figure for the entire year in 2019.

Cayman Islands

The country was removed from the Financial Action Task Force (FATF) grey list in October 2023, after taking the requisite actions to remedy deficiencies in its Anti-money Laundering regime. The grey list is made of up jurisdictions which are subject to intensive monitoring of their anti-money laundering (AML) regimes due to shortcomings in said regimes. The Cayman Islands was placed on the list in 2021 for three main flaws, including a failure to demonstrate that it was prosecuting all types of money laundering in line with its risk profile and that such prosecutions were resulting in the application of effective sanctions. In other positive developments, economic activity continues to be positive, with preliminary information suggesting growth in most sectors between January and September 2023. This was reflected in the fall in unemployment to 2.4 percent as at June, from 3 percent a year earlier. A major contributor to the positive performance is the tourism sector, which recorded 83.3 percent growth in stay-over arrivals between January and August 2023, largely on the basis of an 87.8 percent explosion in arrivals from the US, which accounted for 83.9 percent of all arrivals in this category. However, the other major source markets also recorded robust performances. During the first eight months of the year, stay-over arrivals were 83.4 percent of pre-pandemic levels, while the 876,686 cruise ship visitors were only 70.5 percent of the levels of 2019. The sector is expected to receive a further boost in the coming months, with increased airlift provided by Delta Airlines' new winter service from St. Paul International Airport in Minneapolis to Owen Roberts International Airport in the Cayman Islands.

Cuba

On November 2, 2023, the UN General Assembly voted overwhelmingly to condemn the US embargo on Cuba for the 31st consecutive year. The result of the vote was 187 in favour of the resolution to condemn, two against and one abstention. While General Assembly resolutions are not legally binding, the repeated calls by most nations for the sanctions to be ended provides, at minimum, a sense of moral support and a platform for Cuba to protest. For the US's part, its requirements for removing the sanctions are clear, namely a meaningful transformation of the island's political and economic structure and policies. In this regard, change has been slow. The country's economic reforms continue to be implemented on a piecemeal basis, although it can now boast of 9,000 private small businesses, which employ 260,000 people. In terms of political reforms, they have been minor. Accordingly, no major warming of relations between the US and Cuba is envisaged for the foreseeable future.

The island continues to be beset by significant economic challenges, not least of which is the ongoing fuel shortages, which continue to inhibit commercial activity and contribute to uncomfortable living conditions. Positively, however, stay-over tourist arrivals continue to recover in the wake of the pandemic, growing by 71.6 percent in the first eight months of 2023, with the strongest growth being recorded in arrivals from Canada, which as the largest source market, accounted for 40.6 percent of all arrivals. Sadly, with stay-over arrivals still 46.7 percent below 2019 levels, Cuba's tourism recovery continues to be among the slowest among global destinations. The halt of activity in the cruise sub-sector, since a US court enforced specific provisions under the Helms-Burton Act in December 2022, only serves to intensify the problem.

Dominica

The nation experienced a 33.4 percent rise in stay-over visitor arrivals between January and August 2023, despite a 7.5 percent decline in arrivals from the US. The fall in tourist arrivals from the US was offset by increased arrivals from Canada, Europe and other markets by 23.9 percent, 47 percent and 54.6 percent, respectively. This was accompanied by a 76.1 percent rise in total cruise tourists. While the number of cruise ship arrivals were beyond 2019 levels, stay-over arrivals remained 24.5 percent below. The ongoing tourism recovery provided meaningful momentum for other sectors but was not enough to result in a substantial increase in credit demand during the period. According to the latest available data, total outstanding commercial bank loans fell by 3.6 percent year-on-year (y-o-y) in the second quarter and by 2.8 percent from the preceding quarter. There was some improvement in the quality of loans though, with the non-performing loans to gross loans ratio falling to 12.89 percent compared to 14.33 percent in the second quarter of 2022. In August, the 2024 National Budget was delivered and projected total expenditure of $1,341.2 million, of which $701.6 million (52.3 percent) was earmarked for capital expenditure. The capital budget is intended to fund a mixture of ongoing and new projects, including the international airport, a marina in the northern part of the island and various initiatives to increase the output and enhance the resilience of the agriculture and fisheries sector.

Grenada

The tourism sector is expected to receive a short-term boost because of the recent addition of flights by JetBlue and Virgin

Atlantic. Starting in December, Virgin Atlantic will add a third weekly flight from Heathrow Airport in London via Barbados, for the winter season, while JetBlue launched a year-round, nonstop service between the island and Boston in November. Just a month earlier, it was announced that Grenada had signed an air service agreement with Qatar, as that country continues its drive to increase the number of destinations that are serviced by its national carrier, Qatar Airways. The agreement allows the national carriers of both countries to operate an unlimited number of passenger and cargo flights, with full transportation rights and as such could help to diversify Grenada's tourism source markets and trading partners. Turning to the sector's most recent performance, in the first eight months of 2023, stay-over arrivals were 3.1 percent above the comparable period in 2019 and 45.4 percent above the figure of a year ago. While the number of cruise ship passengers increased by a robust 84.3 percent, it was short of the 2019 outturn by 11.2 percent. In other developments, Grenada signed a US$100 million loan with the Saudi Fund for Development (SFD) in October. The resources are expected to be directed toward the development of climate-smart infrastructure in the towns of St. George's, Grenville, and neighbouring areas in Grenada. The SFD is a Saudi Arabian government agency that provides concessional loans to developing countries to finance development projects.

Guyana

In recent months, the news of the remarkable developments taking place in the country's energy sector have taken a back seat to its longstanding border dispute with Venezuela. The area under dispute is roughly 160,000 square kilometres of mostly thick jungle known as the Essequibo region and accounts for over 60 percent of Guyana's land mass. In 1899, an international tribunal awarded the territory to Guyana, which was then a British colony. For its part, Venezuela always contended that the decision of the tribunal was unlawful. The disagreement has since been subject to years of unsuccessful mediation. After the case was referred to the International Court of Justice (ICJ) by then UN Secretary General António Guterres in 2018, the court ruled, in April 2023, that it does have jurisdiction over the case, despite Venezuela's objections. The decisions of the ICJ are final. With a final ruling on the case a long way off, Venezuela held a referendum on the issue on December 3, 2023; a move some observers fear could result in the Bolivarian Republic seeking to annex the territory. Others believe it is part of a ploy to drum up support for the ruling party ahead of elections in 2024. Notwithstanding conflicting reports about the level of voter turnout, the majority of the Venezuelans that participated in the referendum, voted to reject the 1899 decision.

Tensions have significantly escalated in the wake of the referendum, with bold moves by Venezuela to advance its cause. These measures include the reconfiguration of Venezuela's map to include the Essequibo region and the issuance of a directive to state-owned oil company, PDVSA to exploit the resources of the area, including the granting of licences for oil and gas exploration. President Maduro also revealed plans to grant Venezuelan citizenship to the inhabitants of the region. These developments have occurred in the face of the ICJ's ruling on December 1, 2023, which prohibits Venezuela from taking any action that would alter Guyana's control over the territory. The area is rich in gold, diamonds, timber and other natural resources, but discovery of oil and gas near the maritime border in recent times have added new vigour to Venezuela's claims over the territory.

After strong growth in both the non-oil (12.3 percent) and oil (59.5 percent) sectors in the first half of 2023, similarly robust activity is estimated to have taken place in the third quarter. As has been the case in recent times, output from the energy sector provided most of the growth impetus. The sector also received a further long-term boost with the government's announcement of a significant discovery by ExxonMobil with the Lancetfish-2 appraisal well, in the Liza Petroleum Production Licence area. Several non-energy sectors are also estimated to have recorded positive performances in the third quarter, including construction, agriculture, mining and manufacturing. Within the mining sector, the 11.4 percent decline in gold declarations that occurred in the first half of the year, meant that the country was not able to take full advantage of the 4.6 percent rise in gold prices to US$1,975.93 per troy ounce during the second quarter. In the third quarter, Guyana was confronted by a lower price (US$1,928.48). Government's plan to pay a tax-free, one-time bonus of $25,000 to pensioners, public servants, and members of the disciplined services in December, will provide further stimulus for the non-energy sector as the year ends and 2024 begins.

Sint Maarten

Latest official data indicates that the domestic economy expanded by 5 percent in the first quarter of 2023, led by the tourism sector, the stay-over segment of which, by then, had long returned to pre-pandemic levels. The sector is estimated to have expanded by 16.7 percent during the period and provided significant stimulus for ancillary sectors, such as wholesale and retail, and transport, storage and communication. Meanwhile, ongoing public and private projects, including works in the housing market and the reconstruction of the Princess Juliana International Airport's main terminal building, contributed to the 10.9 percent growth of the construction sector. In the absence of official data for the succeeding two quarters, the economy is estimated to have recorded positive performances during those periods, though likely more contained. This projection is based on the continuation of work on key projects in the construction sector and the continued growth of the tourism sector which is the main pillar of the economy. After expanding 20.9 percent in the first quarter of 2023, stay-over arrivals registered a marginal 0.3 percent contraction in the April-May period but likely recorded growth in the ensuing four months. Although it expanded by 99.2 percent during the first half of the year, cruise arrivals were only 80.4 percent of pre-pandemic levels.

St. Kitts and Nevis

St. Kitts and Nevis registered a 36.7 percent increase in stay-over tourist arrivals in the first eight months of 2023, with solid growth in all major markets. Visitors from the US, which accounted for 66 percent of all arrivals, expanded by 33.5 percent, with tourists from Canada, Europe and other markets growing by 66.8 percent, 40 percent and 40.1 percent, respectively. Although this was a very encouraging development, total stay-over arrivals were only 77.3 percent of the level registered in the period January-August 2019. The latest available data indicate that between January and May 2023, the number of cruise ship visitors were 87.8 percent of the figure attained in the same period in 2019, even though it rose by 120.1 percent y-o-y. In the financial sector, total loans outstanding rose by 1.7 percent y-o-y in the second quarter of 2023 but were 1.2 percent below the level of the previous quarter. Loans to real estate activities grew by 10 percent, while construction and manufacturing posted marginal loan growth. In contrast, the demand for credit fell in several sectors, including wholesale and retail. The banking sector experienced a small decrease in the non-performing loans to gross loans ratio to 20.27 percent from 21.93 percent in second quarter 2022. With global energy prices still high and not expected to fall substantially for the foreseeable future, Prime Minister, Dr. Terrance Drew, has advised citizens to take every opportunity to conserve electricity in light of the country's $100 million energy subsidy, which he described as unsustainable.

St. Lucia

The domestic tourism sector benefitted from a 22.7 percent rise (y-o-y) in visitor spending in the first half of 2023. This was facilitated by an 11.7 percent increase in stay-over arrivals and a 162.8 percent rise in the number of cruise visitors between January and July. Regarding stay-over arrivals, underwhelming performances in the two largest markets, the US and Europe, were counterbalanced by strong growth in arrivals from Canada and other markets. The number of US visitors in this category grew by 1.6 percent, while those from Europe contracted by 2.1 percent. While these markets represented 55.9 percent and 22.9 percent of stay-over visitors, respectively, Canada and the other market grouping accounted for 9.5 percent and 11.7 percent, respectively. Like several of its regional peers, St. Lucia is yet to see the full return of its tourism sector to pre-pandemic levels. In the first seven months of the year, stay-over arrivals were 89.3 percent of 2019 levels and total cruise visitors were 9.9 percent short of the corresponding figure in that year. Given the launch of the cruise season on October 8th, activity in the industry is expected to pick up significantly in the coming months, with the country expected to benefit from 400 cruise calls and 600,000 passengers during the season. The tourism sector is expected to receive a long-term boost with the opening of the new Courtyard Marriott branded hotel, in 2025, in Pointe Seraphine, Castries.

St. Vincent and the Grenadines

With broad-based growth led by the construction and tourism sectors, the economic performance of St. Vincent and the Grenadines is set to eclipse that of its peers in the OECS in 2023. Stay-over arrivals expanded by 43.9 percent to 40,081 in the first half of 2023, just 7.7 percent short of the 43,439 registered in the same period in 2019. Although all major markets registered very strong growth, the 113.1 percent expansion in the Canadian market was the clear stand-out. Nevertheless, the US market continued to account for the largest share of visitors at 40.9 percent. The prospects of the stay-over sector are expected to be further enhanced when Sandals Resorts International opens its 301-room resort on the main island on March 27, 2024. In the cruise sub-industry, the number of visitors surged by 230 percent y-o-y and was also 14.4 percent above the figure recorded in January-June 2019. The cruise sector's performance is likely to be further enhanced in the wake of the just started 2023/2024 season, with the number of cruise calls expected to increase to 377 compared to 311 in the 2022/2023 season and 234 before the pandemic. In the financial sector, total commercial bank loans expanded by 2.4 percent y-o-y with mixed performances among major sectors. While construction and real estate activities loans fell, there was growth in household and wholesale and retail loans. The wind-up of the operations of the First St. Vincent Bank Ltd (FSVB) was completed on August 31st, 2023, when the Eastern Caribbean Central Bank revoked the bank's licence, after placing it in receivership in May. In other developments, government's decision to increase the personal income tax allowance and the minimum wage in 2024 should provide some ease for the affected citizens and possibly a boost to the domestic economy. While the details of the minimum wage increase are not yet available, the personal income tax allowance will increase to $25,000 from $22,000.

Suriname

The IMF completed the third review under its Extended Fund Facility (EFF) arrangement with Suriname in September. According to the multi-lateral agency, Suriname's commitment to the required adjustments is beginning to bear fruit, with signs of the economy stabilising. The aim of the EFF is to support the government's economic recovery plan to restore sustainability through fiscal consolidation and debt restructuring. Concerning debt restructuring, negotiations are ongoing with China, the last remaining creditor with which Suriname is yet to reach an agreement. However, the IMF acknowledged the commitment by both countries to work towards an agreement on terms comparable with those of the other creditors. After securing the agreement to restructure debt with bondholders in May, Suriname offered a US$675 million debt swap for a new 10-year bond, maturing July 15, 2033, to the holders of bonds maturing in 2023 and 2026. The new bond has an annual interest rate of 7.95 percent.

Although the country's gold producers faced a 2.4 percent fall in international prices in the third quarter of 2023 compared to the previous quarter, at US$1,928.48 per troy ounce, gold prices were still 11.5 percent above the levels of a year earlier. This likely contributed to the increase in foreign currency reserves to US$864.1 million in September 2023 from US$791.1 million a year earlier. Turning to Suriname's continued price pressures, inflation remains at very high levels, reaching 42.9 percent in October, after falling from its 2023 peak of 65.4 percent in April.

Region

The tourism industry in the Bahamas recorded a very strong performance during the first nine months of 2023. According to government estimates, there were a total of 7,209,165 visitors during the period, with 1,332,752 representing stay-over tourists. Growth in the stay-over segment was encouraging, expanding by 20 percent over 2022 figures but still 8.6 percent short of 2019 figures. On the other hand, cruise arrivals were 45 percent above pre-pandemic levels and 60 percent greater than the corresponding period in 2022. The sector is expected to benefit from increased airlift during the winter season, with Delta Airlines adding more flights from Atlanta to four different islands in the Bahamas in November and Bahamasair relaunching its twice-weekly service between Grand Bahama and North Carolina.

According to the Planning Institute of Jamaica, the Jamaican economy recorded another positive performance in the third quarter of 2023, expanding by 1.9 percent, compared to 2.3 percent in the previous quarter. The performance was impelled largely by increased capacity utilisation in the mining and quarrying industry and continued growth in the tourism sector. In the tourism sector, the latest available data indicates that the number of cruise visitors expanded by 70.9 percent in the first nine months of the year, measuring only 77.9 percent of pre-pandemic levels. Stay-over arrivals increased by 5.5 percent year-on-year in the third quarter after rising by 26.8 percent in the first half of the year. The outturn between January and June exceeded pre-pandemic levels by 9.4 percent. Excluding Europe, stay-over arrivals from all major markets rose during the period. Output in the goods producing sector grew by 2.3 percent, with manufacturing activity growing by 3.2 percent. The mining and quarrying sector expanded by 102 percent, based on a 136.6 percent increase in alumina production. Conversely, drought conditions resulted in a 9 percent contraction in the agriculture, forestry and fishing sector. The economy experienced a marginal increase in inflation to 6.4 percent in the third quarter, from 6.1 percent in the previous quarter.

Outlook

Economic activity in the Caribbean is expected to remain upbeat heading into 2024, supported by the ongoing growth momentum in tourism and the associated spill-over opportunities it provides to other industries. The tourism sector itself is projected to record increased arrivals over the next few months as winter conditions in key source markets stoke demand for both cruises and air travel to the region. Regarding the commodity producers, Guyana is expected to record continued strong growth, while the others, further subdued performances. With the Caribbean registering a drier-than-usual rainy season in 2023, there are reasonable fears that the upcoming dry season could be particularly harsh. This could impose significant challenges on the region’s agriculture sector as crop yields will likely be negatively impacted. While the impact of the Russia-Ukraine war on the global economy has waned notably, the outbreak of the Israel-Hamas conflict could rekindle some of those challenges if it spreads to other countries. This is also true for the Russia-Ukraine war. These potential developments represent downside risks for the Caribbean.

Slower Growth amid Global Uncertainty

Ghana Economic Review and Outlook

Overview

Over the last several years, Ghana has made significant strides in sectors such as agriculture, mining, and services, which have all contributed to its economic development. However, in recent years, significant external shocks like the COVID-19 pandemic and the Ukraine-Russia war have placed serious strains on its economy. These global shocks, together with pre-existing vulnerabilities, including unsustainable fiscal accounts, led to an economic crisis in 2022. The country faced a decrease in its foreign reserves, which resulted in instability in the local currency (Cedi), as it recorded several bouts of depreciation, causing inflation to accelerate considerably. With economic growth and government revenue restricted, the persistent incurrence of sizeable fiscal deficits pushed public debt up. With the assistance of the International Monetary Fund (IMF), the Ghanaian authorities have been addressing these challenges and as 2023 draws to a close, there are signs of improvement.

Table 1: Key Economic Indicators

	2019	2020	2021	2022	2023
Real GDP Growth (% Change)	6.5	0.5	5.1	3.1	2.3
Inflation Rate (Avg.) (%)	7.1	9.9	10.0	31.9	42.2
Fiscal Balance (% of GDP)	-7.5	-15.2	-12.1	-11.8	-4.6
Public Debt (% of GDP)	62.9	76.7	78.6	73.1	98.1
Current Account Balance (% of GDP)	-2.2	-2.5	-2.7	-2.1	-2.5

Source: IMF, BoG

Economic Review

Economic Activity

In the first half of this year, the Ghanaian economy expanded by 3.2 percent with non-oil GDP growth at 3.9 percent. The services and agriculture sectors each expanded by 6.3 percent, while the industry sector contracted by 2.2 percent. Within the industry sector, mining and quarrying was the only sub-sector to register growth for the period. During the peak pandemic years (2020 and 2021), the mining and quarrying sub-sector contracted by 9.2 percent and 12.2 percent, respectively. However, the sub-sector rebounded in 2022, growing by 8.1 percent, only to slow in the first half of 2023, due to a decline in oil output (-13.2 percent). Nevertheless, there is reason for optimism as Britain's Tullow Oil commenced operations at its Jubilee Southeast (JSE) project in July. Once this project becomes fully operational, it is expected to produce over 100,000 barrels of oil per day (bpd). Meanwhile, the African Finance Corporation secured approval in October 2023, to develop the Pecan field project, which has the potential to churn out 80,000 bpd. Furthermore, in November 2023, first gas flowed from the Tema Regulating and Metering Station, which is part of the larger West African Gas Pipeline (WAGP) project. This pipeline transports gas from Nigeria to Benin, Togo and Ghana. This initiative should support the industrial development of Ghana and provide job opportunities for its citizens.

In the mining and quarrying sub-sector, the gold industry performed well in 2023. During the first eight months of the year, gold export earnings increased by 10.1 percent year-on-year (y-o-y) as a result of both price and production increases of 4.9 percent and 8.5 percent, respectively.

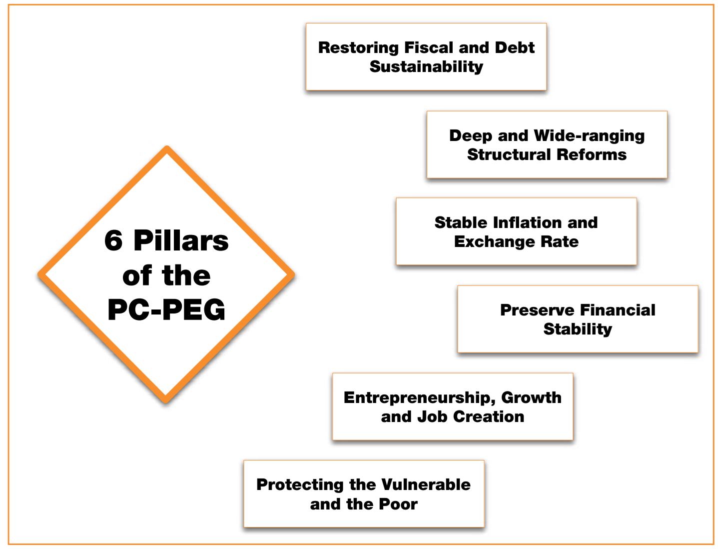
The agriculture sector recorded an improved performance with growth of 6.3 percent in the first six months of 2023 compared to 4.3 percent in the same period in 2022. This improvement was mainly driven by the livestock and crops sub-sectors, which expanded by 6.7 percent and 6.8 percent, respectively. The cocoa industry, which is a major driver of economic activity in Ghana, experienced substantial slowing in 2022, registering growth of just under 1 percent compared to 10.4 percent in 2021. This occurred despite elevated cocoa prices as output contracted, due to a shortage of fertiliser and pesticide. The shortage was related to the impact of the Ukraine-Russia war, which constrained supplies, given that Russia is a leading fertiliser producer on the global stage. In the first half of 2023, cocoa production continued to underwhelm, growing by just 0.4 percent, compared to 1.6 percent in the same period of the previous year. Unfavourable weather conditions and the Cocoa Swollen Shoot Virus Disease (CSSVD) were both responsible for the production challenges.

In the services sector, the Information and Communication, and Health and Social Work sub-sectors were the two top contributors to growth while the Trade, Repair of Vehicles and Household Goods sub-sector recorded the only contraction for the period.

Fiscal Accounts

On October 6, 2023, the International Monetary Fund (IMF) concluded its first review under the 36-month Extended Credit Facility (ECF) which supports the country's Post COVID-19 Programme for Economic Growth (PC-PEG). The PC-PEG is based on six pillars (Figure 1) and aims to restore macroeconomic stability and debt sustainability. It includes wide-ranging reforms to build resilience and lay the foundation for stronger and more inclusive growth. The successful review entitled the country to immediate access to US$600 million to further advance the aims of the programme. Regarding Ghana's latest fiscal performance, figures from the Ministry of Finance indicate a fiscal deficit equivalent to 3 percent of GDP was recorded in the first eight months of 2023. This compares favourably with the programmed target (4.6 percent) and was achieved on the basis of a faster rise in revenue, relative to expenditure. Total revenue in the first eight months of the year was 38.8 percent above the levels of a year earlier, while total expenditure grew by 18.1 percent. While total revenue (GH¢79.1 billion) was 3.8 percent below the programmed target, the fiscal outturn was notably better than the target because total expenditure, at GH¢104.6 billion, was 14.1 below the programmed figure. Between January and August 2022, government incurred a fiscal deficit of 6.7 percent. For the entire year, government is expected to incur a fiscal deficit of 4.6 percent. Public debt fell to 66.4 percent of GDP at the end of September 2023 from 73.1 percent at the end of 2022.

Figure 1: 6 Pillars of PC-PEG



Monetary Policy

Following a period of steady upward adjustments to policy rates starting in 2022, the Monetary Policy Committee (MPC) of the Bank of Ghana (BoG) has slowed its interest rate increases since March 2023 (Refer to Figure 2). In May of this year, the policy rate was held at 29.5 percent and only raised by 50 basis points (bps) in July 2023 to 30 percent. Since then, the MPC has left the rate unchanged in both of its monetary policy announcements in September and November. This decision was based mainly on improvement in the domestic economy, the easing of inflationary pressures and a relatively stable exchange rate over the past few months. In October 2023, headline inflation decreased to 35.2 percent from 40.1 percent in August and 38.1 percent in September. Declines in both food and core inflation contributed to the overall fall in prices. Food inflation decreased to 44.8 percent in October from 49.3 percent in the previous month, while core (non-food) inflation eased to 27.7 percent from 29.3 percent.

The US-Cedi exchange rate reached as high as US$/GH¢ 13.10 in November 2022 but remained below that level during the first nine months of 2023, averaging US$/GH¢ 11.00. The improved stability of the Cedi was reflective of a rebound in economic activity, following the lows experienced during the pandemic and increased liquidity from both IMF-ECF disbursements and the BoG's domestic gold purchase programme. Moreover, as market confidence returned, there was a lower demand for foreign exchange, which eased tightness in the foreign exchange market somewhat.

Figure 2: BoG Policy Rate Adjustments

January 31st, 2022	Unchanged	14.5%
March 21st, 2022	Increased	17.0%
May 23rd, 2022	Increased	19.0%
July 25th, 2022	Unchanged	19.0%
October 6th, 2022	Increased	24.5%
November 28th, 2022	Increased	27.0%
January 30th, 2023	Increased	28.0%
March 27th, 2023	Increased	29.5%
May 22nd, 2023	Unchanged	29.5%
July 24th, 2023	Increased	30.0%
September 25th, 2023	Unchanged	30.0%
November 27th, 2023	Unchanged	30.0%

Financial Sector

The performance of the financial sector was a mixed bag in the first nine months of 2023, with strong profitability, solid asset growth, moderate credit growth and a reduction in asset quality. In September 2023, profit after tax increased by 43.8 percent over the levels of a year earlier. In comparison, profits grew by 19.5 percent y-o-y in September 2022. Total assets expanded by 14.9 percent y-o-y to reach GH¢250.7 billion as at the end of September 2023. On the other hand, credit growth slowed because of the industry's stricter lending criteria, with gross loans and advances increasing by 2.8 percent y-o-y compared to growth of 41.7 percent in the same period in 2022. The Capital Adequacy Ratio (CAR) stood at 13.8 percent in September 2023, which was lower than 16.4 percent in September 2022 and was the result of the losses incurred by banks following Phase I of the Domestic Debt Exchange Programme (DDEP) in the earlier part of the year. The DDEP forms part of wider efforts by the country to restructure its debt, in line with the parameters under the IMF's ECF programme. Asset quality declined with the Non-Performing Loans (NPL) ratio increasing to 18 percent in September 2023 from 14.1 percent in September 2022.

Outlook

Real GDP growth is expected to slow further in 2023 to 2.3 percent from 3.1 percent in 2022. Next year, economic activity is expected to accelerate slightly, with stronger growth in non-oil GDP. Meanwhile, new oil output from the JSE project is expected to stimulate activity in the Mining and Quarrying industry. The energy sector is expected to receive a further boost over the medium-term with 17 oil and gas projects in the pipeline for the 2023-2027 period, consisting of three upstream projects, nine midstream projects, and five downstream projects. The Pecan field project will commence operations in the 2025-2026 period, while the midstream sector should profit from the development of the Tema Floating Liquefied Natural Gas (FLNG) Plant, the Dixcove Oil Storage Facility and the Tema-Akosombo II pipeline between the 2023-2027 period. The agriculture sector is expected to moderate in 2024 due to a projected slowdown in the crops sub-sector and lingering base effects from the strong growth performances in both 2020 and 2021. Real GDP is projected to expand by 2.8 percent in 2024, before accelerating gradually in the ensuing two years. Major downside risks include uncertainty with respect to geopolitical tensions and volatility in key commodity prices.

Ghana's fiscal accounts are expected to be strengthened gradually over the medium-term as it continues to implement and adhere to the reforms under the IMF-supported PC-PEG programme. Steps by government to address the significant gap in the administration of VAT via the implementation of the second phase of the electronic invoicing system (e-VAT), will contribute to the enhanced fiscal stability. The system will cover 600 large taxpayers and more than 2,000 small and medium taxpayers. Although ongoing fiscal reforms are expected to enhance the country's long term economic prospects, they will likely contain economic growth in the short to medium-term.

The exchange rate is expected to remain relatively stable over the next six months or so, supported by inflows from the cocoa syndication loan, the second tranche of the IMF loan, mining sector inflows and the deepening of the Gold-for-Oil Programme (GoP).