Republic Economic
NEWSLETTER

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An Erosion of Gains

OVERVIEW

Based on available information, the third quarter of 2018 was yet another challenging period for the domestic economy. During the period, the performance of the energy sector is estimated to have deteriorated further, with most gauges of the industry's health trending down. In the non-energy sector, the positive developments in the second quarter, that were identified in our September 2018 Republic Economic Newsletter (Volume 26, No.4), all but evaporated in the third. Particularly disheartening, was the sharp reversal of the gains in the construction sector, which were realised after prolonged weakness. When compared to the previous quarter, Republic Bank estimates that the domestic economy contracted by 2.5 percent between July and September 2018. Given weaker economic activity, unemployment is projected to have increased slightly, while inflation remained controlled in the context of subdued demand, averaging 1.2 percent. Given the foregoing, the further decline in stock market activity during the period comes as no surprise. The Composite Price Index fell by 1.3 percent at the end of September, compared to the end of June 2018.

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATOR	2017	2017.3	2018.3 p/e
Real GDP (% change)	-2.3	1.9*	-2.5
Retail Prices (% change)	1.9	0.3	0.3
Unemployment Rate (%)	5.4	5.1	6.1
Fiscal Surplus/Deficit ($M)	-12,643.5	-2,796	Deficit
Bank Deposits (% change)	-1.9	-1.4	0.3
Private Sector Bank Credit (% change)	5.1	1.0	1.2
Net Foreign Reserves (US$M)	11,143.1	11,431.1	10,198.8
Exchange Rate (TT$/US$)	6.73/6.78	6.73/6.78	6.73/6.78
Stock Market Comp. Price Index	1,266.4	1,241.6	1,219.43
Oil Price (WTI) (US$ per barrel)	50.79	48.16	69.69
Gas Price (Henry Hub) (US$ per mmbtu)	2.99	2.95	2.93

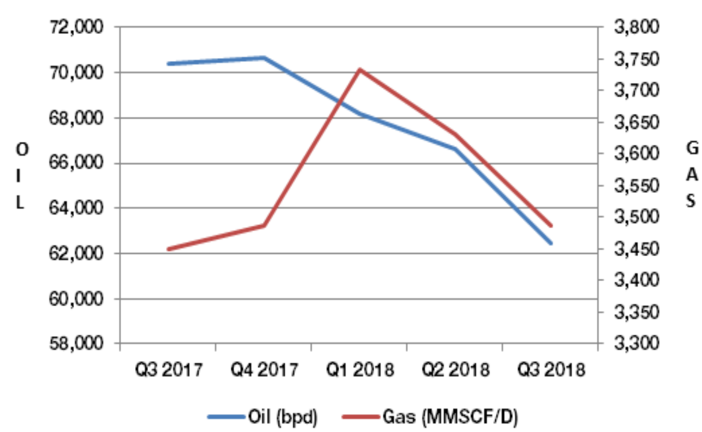
Source:
Central Bank of Trinidad and Tobago, TTSE, Energy Information Administration
p – Provisional data
e – Republic Bank Limited estimate
* – Estimate based on CBTT's Index of Economic Activity

ENERGY

While ongoing efforts to restructure PETROTRIN continue to dominate the headlines, it is difficult to ignore the continued slide in production in the upstream sector and most of the downstream sector. In the third quarter, oil production fell by 6.2 percent when compared to the previous quarter, to average 62,478 barrels per day, while gas output decreased by 3.9 percent to 3.5 billion cubic feet per day (bcf/d) (Figure 1). In the downstream sub-sector, the manufacture of Methanol and LNG contracted by 14.9 percent and 5.6 percent, respectively, while ammonia output increased by 5.8 percent. The data related to exploration activity was more positive, with depth drilled rising by 30.1 percent and rig days falling marginally from 408 in second quarter 2018 to 395. In terms of prices, the West Texas Intermediate (WTI) oil price increased to an average of $69.69 per barrel between July and September 2018 from US$68.07. Likewise, gas prices increased to US$2.93 per million British thermal units (MMBTU) from US$2.85.

With regard to PETROTRIN's restructure, in November, the industrial court ordered the company to meet with the recognised majority union, the Oilfield Workers Trade Union (OWTU), in good faith to address specific issues. The court also fined the company $4,000, having found that it did not act in good faith with regard to the restructuring exercise. However, this ruling did not prevent the company from terminating workers as it sought to meet its November 30th deadline to wind down PETROTRIN's operations. Information has since emerged that separation packages will be provided for 1,100 temporary workers, while another 600 will be retrenched without this benefit. The company will be replaced by Heritage Petroleum Company and Paria Fuel Trading Company. Heritage's operations will be centred on exploration, while Paria will handle fuel logistics and trading.

Figure 1: Upstream Production



Source: Ministry of Energy & Energy Industries

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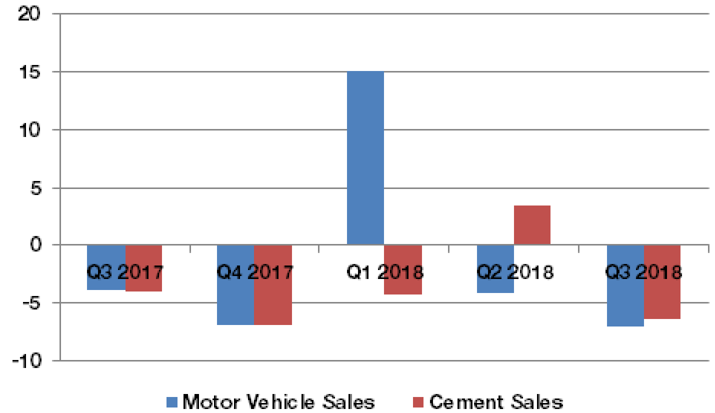
NON-ENERGY

The ongoing woes of the construction industry are perhaps the best example of how difficult it is to boost and sustain economic activity in the non-energy sector at the moment. After a 20 percent increase in cement sales during the second quarter of 2018 compared to the first, cement sales fell by 20.1 percent between July and September, suggesting an erosion of the brief momentum gained in construction activity. This is likely related to delays in government projects. On a year-on-year (y-o-y) basis cement sales fell by 7 percent during the third quarter (Figure 2). Judging by new motor vehicle sales, activity in the trade and repair sector remained anaemic during the period. In the third quarter, new motor vehicle sales increased marginally by 0.6 percent compared to the second quarter of 2018, but was 7 percent below the figure recorded during the same period in 2017. In general, the progress of the non-energy sector continues to be curtailed by fragile demand.

Figure 2: **Cement Sale & New Motor Vehicle Sales** (% Chge. y-o-y)



Source: Central Bank of T&T

FISCAL

The Ministry of Finance's Review of the Economy 2018 indicated that the fiscal deficit for the fiscal year ended September 2018 was $6,261.6 million or 3.9 percent of GDP. This was less than half the outturn of the previous year and was due largely to a 32.1 percent increase in energy sector revenue, which in turn was achieved on the basis of increased gas production and higher oil prices. Total revenue expanded by 17.8 percent during the fiscal year. On the other hand, total expenditure fell by 1.7 percent, primarily because of a 2 percent fall in current expenditure. In October, the 2018/2019 budget was presented and it caters for expenditure of $51.8 billion, revenue of $47.7 billion and a fiscal deficit of $4.1 billion (2.5 percent of GDP). Public debt for the fiscal year fell marginally to 60.9 percent of GDP.

MONETARY

Domestic price pressures remain well contained, with inflation averaging 1.2 percent during the third quarter. Core inflation increased slightly from an average of 0.8 percent to 1.4 percent in third quarter 2018. Conversely, food price inflation decelerated from 2 percent to average 0.2 percent. Given this low inflationary environment and continued weak economic activity, the Central Bank's Monetary Policy Committee (MPC) decided to maintain the 'Repo' rate at 5 percent. However, the complexity provided by international monetary policy, in particular in the U.S., has also influenced the MPC's decision. After increasing its benchmark rates in September 2018, the U.S. Federal Reserve (Fed) decided against a further increase in November, but it remains unclear if similar action will be taken in December, when the next monetary policy announcement is due. The Fed has suggested that there is still room for further increases, but the threat to U.S. GDP growth provided by mounting global trade tensions and Brexit, is expected to feature increasingly in the Fed's deliberations. As a result of the increase in September, the differential between domestic and U.S. 3-month treasury yields expanded to 86 basis points. The MPC will continue to monitor this negative spread and in particular its effect on capital flows from Trinidad and Tobago to the international market.

Between July and September, there was evidence that the 25 basis point increase in the 'Repo' rate in June 2018 was being manifested in commercial banks' prime lending rates. The commercial banks' average prime lending rate increased from 9.08 percent in June to 9.17 percent in September, before reaching 9.20 percent in November. Despite this, the demand for credit remained positive, as business credit increased by 1.2 percent over the second quarter and by 7.2 percent above the level recorded in third quarter 2017. There were also increases in consumer loans (6.1 percent y-o-y) and mortgage loans (4.6 percent).

RESERVES

Consistent with recent trends, the country's reserves of foreign exchange, represented by the net foreign position fell to US$10,198.8 million (8.1 months of import cover) from US$10,734.6 million (8.6 months of import cover) in June. Needless to say, this is reflective of still tight market conditions. During the period, the net sale of foreign currency increased by 0.9 percent from the previous quarter to US$388 million, but fell 1.1 percent below the figure recorded during the same period in 2017. The TT/US exchange rate fell marginally to TT$6.78 per US$1.

OUTLOOK

Several industries in the non-energy sector are expected to benefit from the seasonal boost that normally occurs during the fourth quarter of 2018. The positive response to the various "Black Friday" sales would provide some optimism to retailers concerning the prospects for the rest of the year. Nevertheless, the performance of the non-energy sector is likely to be mixed heading into the first quarter of 2019, unless construction sector activity increases markedly at the turn of the year. In the energy sector, there are two developments that are cause for concern. The first issue relates to the decreasing trend in oil and gas production, which could restrict growth heading into early 2019, but may also warrant a downward revision of CSO's growth estimates for 2018. With regard to gas production, two successive quarters of decline means that total output is unlikely to average the 3.8 bcf/d projected by government. The second challenge is associated with the slide of oil prices in mid-November 2018. Prices fell to the lowest level since October 2017, hovering around US$50 per barrel, suggesting a fair amount of instability still exists on the international fuel market. Despite these challenges economic activity may improve on a y-o-y basis heading into 2019.

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Make Hay

OVERVIEW

December 1st marked the end of what has thankfully been an uneventful Atlantic hurricane season. On December 5th, at the 24th annual United Nations (UN) climate conference, it was reported that carbon emissions (universally accepted as the key driver of climate change) after holding steady from 2014 to 2016, grew by 1.6 percent in 2017 and are set to grow by 2.7 percent in 2018. UN Secretary General Antonio Guterres was succinct. “It is hard to overstate the urgency of our situation,” he said. “Even as we witness devastating climate impacts causing havoc across the world, we are still not doing enough, nor moving fast enough, to prevent irreversible and catastrophic climate disruption.”

The third quarter, indeed this past year, has been a relatively good one for the Caribbean. With no real weather challenges, the tourism-based states have seen healthy arrivals, Barbados is taking steps to right the ship of state, Jamaica’s is sailing steadily along, Suriname and Trinidad and Tobago’s descent seems to have bottomed out, and despite some hiccups, Guyana’s economy continues to grow, as it eagerly anticipates the “Good Life”. In this scenario, the old adage ‘Make hay while the sun shines’ comes to mind. Now is the time for regional states to push even harder to strengthen their economies, build resilience, increase their competitiveness and take proactive steps to lay the foundation for the nation they would like to be; while also doing their part to retard climate change. For certain, these are not quick and easy changes, but rather, major, transformational ones that are necessary.

BARBADOS

With its Extended Fund Facility (EFF) having been approved by the International Monetary Fund (IMF) on October 1st, Barbados received its first disbursement of US$49m. The country also received a US$100m loan from the Inter-American Development Bank (IDB), as well as two loans totaling US$115m from the Caribbean Development Bank (CDB) to support the Barbados Economic and Recovery Transformation (BERT) programme.

For the first nine months of 2018, Barbados recorded a 2.9 percent increase in tourist arrivals, driven largely by healthy growth in U.S. (8.7 percent) and Canadian (3 percent) visitors. The continued decline in the visitors’ length of stay however, restricted the growth of tourism activity to 1.4 percent. With no large-scale private-sector projects after 2017, the construction sector is estimated to have contracted significantly this year. With initial data suggesting that other non-traded sectors declined moderately, economic activity is estimated to have declined by 0.5 percent over the January – September period.

On November 16th, Standard & Poor’s (S&P) raised its long and short term local currency ratings for Barbados from selective default (SD/SD) to B-/B. S&P also assigned a B- local currency issue rating on the domestic debt issued in the recent debt exchange. There is likely to be more money in circulation and downward pressure on interest rates following the reduction of the securities reserve ratio for commercial banks from 20 percent to 17.5 percent on November 29th. Seeking to fulfil commitments made to the Organisation for Economic Cooperation and Development (OECD), Barbados will harmonise its domestic and international corporation tax regimes, by December 31, 2018. As a result, most corporate entities in Barbados will be taxed on a sliding scale between 5.5 percent and 1 percent.

CUBA

Unofficial data from Cuba’s Ministry of Tourism indicate that 3.5m tourists visited the island from January to September 22nd. Although this represents a 3 percent decline year on year, it also points to the resilience of sector that, over the past 12 months has had to deal with recovery from Hurricane Irma and the re imposition of travel restrictions by the U.S. government in November 2017. The 2017-2018 sugar harvest suffered badly, from Irma, as well as the long rainy season that followed. The resulting low sugar production, saw Cuba, at one time the world’s largest sugar producer, suffer the ignominy of importing 40,000 tonnes of sugar from France this year. The country’s 2018 growth projection was revised downward from 2 to 1 percent, with Economy and Planning Minister Alejandro Gil Fernandez, attributing the lowered GDP growth forecast to lower-than-expected revenues from Cuba’s central revenue sources, tourism, sugar and nickel. Cuba’s withdrawal of over 8,000 of its doctors working in Brazil, will almost surely add to its economic challenges going forward.

Ceiba Investments, a Cuban investment fund, raised US$39m in its first day of trading on the London Stock Exchange on October 22nd. The initial public offering (IPO) underscores continued foreign investor interest in Cuba’s tourism industry, the most dynamic sector of the economy. According to official estimates, Cuba needs FDI of around US$2.5bn per year to develop and diversify the economy, a figure that is well above recent inflows. The Economist Intelligence Unit (EIU-UK) estimates that inward FDI averaged US$570m per year in 2014 17 but will increase to an estimated average of US$1.1b a year in 2018-19.

GRENADA

On November 21st, Prime Minister Dr. Keith Mitchell presented Grenada’s 2019 Budget. In the $1.134 billion fiscal package, the country’s 2018 economic growth was estimated at 5.2 percent, and was driven by expansion in the main sectors, tourism, construction, private education, transport and manufacturing. Over the first nine months, tourist arrivals increased by 10.3 percent over the 2017 period, from 109,289 to 120,493. U.S. visitors, led the charge with growth of 14 percent from 49,671 to 56,688 visitors. With an average length of stay of 9.3 days, total value-added increased by 8.9 percent. The sector is expected to be lifted further by the opening of the Silver Sands Resort on December 1st. For 2018, growth in the construction sector was estimated to be 14.9 percent. The private education sector, which has grown by an estimated 4.3 percent, remains the largest contributor to Grenada's economy, accounting for 19.3 percent of GDP. The unemployment rate fell from 23.6 percent in December 2017, to 20.9 percent in June 2018, while average annual inflation was estimated at 2.8 percent. Grenada's debt-to-GDP ratio is expected to end 2018 at 62.7 percent, down from 68.9 percent a year earlier.

GUYANA

On November 26th Minister of Finance Winston Jordan, presented Guyana's 2019 Budget. With the theme Transforming the Economy, Empowering People, Building Sustainable Communities for the Good Life, the $300.7 billion fiscal package represented a 12.6 percent increase over the 2018 budget. Guyana's economic growth for 2018 was estimated at 3.4 percent. While this return was solid, it was lower than the projected figure, which was itself revised twice, due to the economy's fluctuating performance during the year. Growth in the agriculture, fishing and forestry sector was estimated at 1.1 percent for 2018, despite a 25.2 percent contraction in sugar production. Despite high growth expectations for the bauxite sub-sector (26.3 percent), the mining and quarrying sector likely contracted by 2.3 percent, as a decline in gold declarations by small scale and medium scale miners, led to a 13.1 percent reduction in total gold declarations. On the other hand, public and private investments drove growth estimated at 12 percent in the construction sector.

The Guyana dollar stood at $208.50 to $US1 in October, a 1 percent depreciation from January. Average annual inflation increased slightly from 1.5 percent in 2017 to a still low estimate of 2 percent in 2018. Notwithstanding, there was a downward trend in interest rates, with the small savings rate, weighted average lending rate and treasury bill rates all declining marginally during the year. Guyana's total public debt as a percentage of GDP, was projected to decrease to 44.4 percent at the end of 2018, from 2017's 47 percent.

SURINAME

In late October, Suriname's legislature approved the country's membership in the Islamic Corporation for Insurance of Investments and Export Credits (ICIEC) and the International Islamic Trade Finance Corporation (ITFC). Membership of the ICIEC and the ITFC opens potential avenues for co-operation between Suriname and the other 57 members of the bank.

Following an IMF Article IV consultation in November, Suriname's 2018 GDP growth was estimated to be 2 percent. Consumer prices continued to decline significantly, with the average inflation rate slowing to 7.5 percent from 22 percent in 2017. The government continued to spend more than it earned, with the fiscal balance estimated to be -7.5 percent of GDP. Notwithstanding this, Suriname's debt position improved markedly from 77.2 percent of GDP in 2017 to 68.9 percent of GDP in 2018. Driven primarily by gold production, gross international reserves grew strongly to US$552 million.

Two years after commercial production began in October 2016, Newmont Mining's Merian mine registered one million ounces of gold poured. Merian has an estimated mine life of 15 years based on current reserves, but the company is exploring other parts of the property. In some more positive developments in gold mining, Iamgold Corporation (Canada), the operator of the Gross Rosebel gold mine, announced a 51 percent increase in its estimated recoverable gold reserves due to the declaration of reserves at nearby deposits.

REGION

In its Regional Economic Outlook – October 2018, the IMF estimated 2017 growth for the Eastern Caribbean Currency Union (OECS member countries) at 1.8 percent and projected 2 percent economic growth in 2018. One year on from the destructive Hurricanes Irma and Maria, anecdotal evidence suggests that this forecast may have been surpassed. Virtually all the Eastern Caribbean countries along with others such as the British overseas territory of The Turks and Caicos Islands and the Dutch dependency of Sint Maarten are on course to register solid expansions in economic activity this year. Aided by benign weather, growth has been driven largely by healthy tourist arrivals (of which U.S. visitors generally dominate) along with solid construction sector activity. Notwithstanding this, previous challenges persist. The Organisation for Economic Cooperation and Development (OECD) has now set its sights on citizenship and residence programmes. In October the OECD released a list of 21 countries, nine of them in the Caribbean, that offer "golden passports" or visas that could help people evade tax. Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia, and the Turks and Caicos Islands are on the list. Then, on November 26th, the European Union's Economic and Financial Affairs Council, (ECOFIN), in its efforts to promote greater international transparency, added three countries to its draft list of non-cooperative jurisdictions – the Bahamas, St Kitts and Nevis and the US Virgin Islands – and deleted three others, Bahrain, the Marshall Islands, and Saint Lucia. ECOFIN also added four names to its "grey" list, Anguilla, Antigua and Barbuda, the British Virgin Islands and Dominica.

OUTLOOK

Over the next six months, the U.K. economy is likely to see increased turbulence while the U.S. economy should maintain its momentum. Also, despite some fluctuations, oil prices are likely to remain relatively low (US$50-55 per barrel) as US oil production steadily increases and the Organisation of Petroleum Exporting Countries (OPEC) struggles to re-establish its earlier discipline. Consequently, tourism should continue to be a solid driver for most Caribbean economies, with a tourist mix skewed increasingly towards US visitors. The commodity exporters should continue to survive rather than thrive. The sun has been out and is likely to continue shining into the near future. Will the Caribbean make hay or excuses?

Jamaica
A Brief Look

Island Gem

Jamaica, a land of pristine beauty. From the green, lush flora of the Blue Mountains to the white sand and crystal blue water of the Negril Seven Mile Beach, this Caribbean island offers unadulterated splendour for the avid naturalist. It is no wonder that when Christopher Columbus first landed on the shores of Jamaica back in 1494, he said, “It is the fairest island that eyes have beheld.”

This statement has irrefutably stood the test of time, as millions of tourists flock to this island paradise each year. Unsurprisingly, the tourism sector is established as one of the main drivers of economic growth for Jamaica (Chart 1). However, those with knowledge of the rich history of this island gem would know that this was not always the case.

Economic History

Prior to its independence on August 6, 1962, Jamaica existed as a plantation economy for centuries, with agriculture, first sugar then bananas and citrus, being the mainstay of the economy and the livelihood for the majority of its citizens. In the 1950s, the nation entered an industrial phase with the commencement of bauxite and alumina mining, as well as light manufacturing. By the 1960s, Jamaica was one of the world’s top producers of bauxite and this was mainly attributed to the fact that both Yugoslavia and Hungary, which were two of the leading producers of the ore in the world at that time, were recovering from the destruction of World War II. Jamaica benefitted greatly from its position as a leading supplier, as the global demand for the commodity was high during the post-World War II reconstruction period.

Chart 1: % CONTRIBUTION TO GDP BY INDUSTRY FISCAL 2017

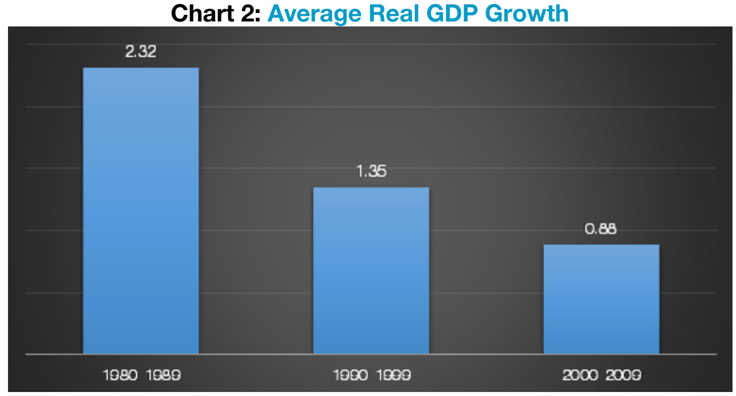
Source: BANK OF JAMAICA

As the bauxite industry emerged as the main source of economic activity, agriculture began to decline. Up until the early 1970s, the Jamaican economy experienced periods of healthy growth but inevitably, its heavy reliance on bauxite left the island vulnerable to external shocks. This was manifested when the major global oil price shock in the early 1970s, arguably served as the main catalyst for the decline in Jamaica’s bauxite industry and consequently, its economy. Given the related challenges, the country was forced to turn to the IMF for assistance in 1977. However, the economy was never able to return to the heights of the 1960s and early 1970s, being restricted by certain lingering challenges. For instance, the public debt burden continued to worsen, reaching as high as 178 percent of GDP in 1991.

Some economists have asserted that the expansion of the services sector in the 1980s together with financial liberalisation in 1992 were instrumental in crippling both the manufacturing and agriculture sectors. As the services sector grew, less focus was placed on developing other sectors. The removal of exchange rate controls was followed soon after by a significant depletion in foreign reserves, a depreciation in the domestic currency and high inflation. Moreover, a reduction in manufacturing sector output had increased the country’s dependency on imported goods, thus creating a higher demand for foreign exchange which caused the Jamaican dollar to weaken further.

To add to its economic woes, by the mid-90s, the financial and banking sector had slumped so badly that it required a sizeable government bail-out. Periods of fiscal and macroeconomic instability ensued and real GDP growth trended downward with each passing decade (Chart 2).

Chart 2: Average Real GDP Growth



Source: IMF

Resilient People

In spite of these economic hardships, the Jamaican people remain resilient. In fact, Jamaica with a land mass of around 11,000 km2 and a population of 2.9 million is known for punching above its weight.

As depicted in the movie, Cool Runnings, Jamaica was the first tropical country to send a bobsled team to the Winter Olympics in 1988. Jamaica was also the first English-speaking Caribbean nation to qualify for the World Cup Finals (France 1998). Famous cricket icons like Sir Lawrence Rowe, Michael Holding, Courtney Walsh and Chris Gayle were all born and bred in this Caribbean isle. Olympic track and field legend, Usain Bolt, is well-known throughout the globe for his eight gold medals and world-records in both the 100 and 200-metres events, which both stand to this day. But Jamaicans have not only excelled in sports. Marcus Garvey was declared as Jamaica’s first national hero and one of the world's first advocates in the fight against the notion of black inferiority. Bob Marley was a trailblazer for reggae music and many of his hits have indisputably become immortalised in the annals of legendary music. The list of Jamaican heroes and global achievements does not stop there and this serves as ample evidence that the élan vital of the Jamaican people is strong.

Table 1: Key Economic Indicators

	2015	2016	2017	2018p
Real GDP Growth (%)	1.0	1.4	0.9	1.7
Inflation (Avg.) (%)	3.4	2.4	4.6	5.0
Unemployment Rate (%)	13.3	12.7	9.7	8.4*
Fiscal Balance (% of GDP)	-0.3	-0.2	0.5	-0.2
Debt/GDP (%)	121.3	121.8	109.1	104.8
Gross Foreign Reserves (US$M)	2,894	3,324	3,657	3,709
Import Cover (Weeks)	23.5	26.0	24.7	25.7
Exchange Rate (J$/US$)	119	127	128	130

Source: IMF
P – provisional
*July 2018

Recent Economic Performance

The current administration was able to meet all performance criteria and structural benchmarks under the IMF's US$1.6 billion 3-year Stand-By Arrangement (SBA), which began in November 2016. Public debt is provisionally estimated to reach 104.8 percent of GDP in 2018, down from 121.8 percent in 2016, while government is expected to register a fiscal deficit equivalent to 0.2 percent of GDP in 2018 (Table1). Economic activity remains positive, with real GDP growth estimated at 1.7 percent in 2018. This performance was underpinned by increased mining and quarrying output, as operations at the Alpart alumina plant were ramped up. Unfortunately, weather-related shocks have negatively impacted the performance of the agriculture sector.

One of the crowning achievements in 2018 was the reduction of the unemployment rate to 8.4 percent in July, an all-time low for Jamaica. Over the last couple of years, employment has increased, with more jobs being created in Business Process Outsourcing (BPO). Construction sector employment was also lifted with ongoing infrastructure projects in the nation's capital.

Inflation was mostly contained below the target band of 4-6 percent and this was reflective of weak domestic demand, the deceleration in food prices and the lagged effects of currency appreciation in late 2017 and early 2018. However, in the latter half of 2018, stronger oil prices and higher costs for agricultural products began to filter through, with headline inflation accelerating to 4.7 percent in August, 2018.

Although the Bank of Jamaica (BoJ) has been reducing the overnight policy rate since July 2017, it decided to keep the rate unchanged at 2 percent after its November 2018 monetary policy meeting. This decision was based on the committee's expectation that inflation will veer to the upper end of the 4-6 percent range by mid-2019, as an increase in domestic demand and higher utility prices could stoke inflationary pressures. The banking sector remains well capitalised and private sector credit growth was healthy at 16.2 percent, as at the end of September, 2018 (Table 2).

Table 2: Financial Sector Indicators

	2015	2016	2017	Mar 2018
Return on Average Assets	2.1	2.1	2.1	2.1
Pre-tax Profit Margin	19.8	26.8	24.9	28.0
Capital Adequacy Ratio	14.9	14.5	14.5	14.5
NPLs/Capital + Prov for Loan Losses	14.5	11.0	10.0	11.6
Domestic Currency Liquid Assets	26.5	27.4	31.5	30.8
NPLs/loans	4.1	3.5	3.5	3.5
Prov for loan losses/NPLs	106.4	117.5	121.3	111.2

Source: IMF

Global Competitiveness

Jamaica is currently ranked 79th out of 140 nations in the World Economic Forum's Global Competitiveness Report 2018, compared to 78th out of 135 nations in the 2017 edition. Tax rates, access to financing, corruption and crime were highlighted as the key hindrances to competitiveness. While the crime situation remains a cause for major concern, there was a slight deceleration in criminal activity after a state of emergency was declared in certain crime hot spots in 2018. After peaking at 65th in 2016, Jamaica's rank in the Ease of Doing Business (EoDB) report has been falling. It fell from 70th in the 2018 report to 75th in the 2019 edition, despite its score actually increasing from 67.27 to 67.47. Despite falling one notch, Jamaica is ranked sixth in the world in terms of starting a business, and remains the Caribbean's highest ranked EoDB country.

Outlook

As the SBA with the IMF is set to expire by November 2019, the current administration will most likely have one eye on post-SBA fiscal policy reforms and the other eye on the general elections in 2021. Hard decisions loom and missing IMF-set fiscal targets could negatively affect business sentiment and thereby impede the growth of investment, which could result in weak credit demand, reduced job creation and ultimately slower GDP growth. Having merged or closed 14 public sector bodies already, the government plans to continue public sector reform with 18 more public sector bodies. There is likely to be some resistance to this plan, since it may result in job losses.

Hopefully, upon completion of this IMF programme, Jamaica will be well on its way to institutional and policy reformation that would set the country on a path to sustainable growth and debt reduction. However, in the lead up to the 2021 elections, the government may be tempted to veer from prudent fiscal management and increase public spending in order to appease citizens, who are probably quite exhausted with austerity measures. Weather-related shocks will remain a downside risk for the tourism sector and global protectionism could negatively impact remittances. Tight global financial monitoring and increased compliance measures also provide future risks for foreign direct investment, credit growth and overall economic activity for Jamaica.