

FEBRUARY 15th 2019

Excerpts from the 2019 Budget address: Part Two

The Economic Outlook

Introduction

GLOBAL, REGIONAL AND LOCAL ECONOMIC ENVIRONMENT

The Global Environment

Forecasts for the prospects of the global economy are mixed, but becoming increasingly pessimistic. The health and growth of Saint Vincent and the Grenadines' small, open economy is directly affected by global economic trends. As such, these worsening global forecasts are not simply of academic interest. Our own growth and development prospects are inextricably bound up with those of our neighbours and the wider international economy.

In October 2018, the International Monetary Fund's *World Economic Outlook*⁹ predicted that global growth in 2019 will be 3.7% – a 0.2 percentage point reduction from an estimate provided by the IMF six months earlier. The prospects for the developed countries most directly connected to the Vincentian economy – the United States of America and the United Kingdom – are less positive, driven by uncertainties relating to trade wars, rising oil prices, increasing levels of debt, local political issues and Brexit. Similarly, in Latin America, growth prospects remain tepid. Projected 2019 Growth in the United States (2.5%), the United Kingdom (1.5%) and Latin America and the Caribbean (2.2%) all fall well below the predicted global average.

The World Bank's more recent *Global Economic Prospects*¹⁰ Report, subtitled "Darkening Skies," was released in January and presents a more sobering forecast. The Report's Executive Summary begins with the sentence "[t]he outlook for the global economy has darkened." It predicts global growth in 2019 of 2.9% – almost a full percentage point below the IMF estimate. While its 2019 predictions for United States' growth (2.5%) are in line with the IMF forecast, its projections for the United Kingdom (1.4%) Latin America and the Caribbean (1.7%) are less optimistic.

The Local Environment

Preliminary estimates indicate that the economy of Saint Vincent and the Grenadines grew by at least 2.3% in 2018, exceeding projections of a year ago. Growth was driven by improved performance in the tourism, fishing, construction and manufacturing sectors. A full analysis of the past year's performance is annexed to this Budget Statement as the "*Saint Vincent and the Grenadines Economic and Social Review*" for 2018.

For 2019, the International Monetary Fund projects growth of 2.3%, an improvement on its 2018 estimate, which proved to be slightly conservative. This growth is expected to be driven by increased tourism arrivals and tourism-related activities like hotel construction and expansion. As with last year, we consider the IMF's projections to be conservative, and premised on status-quo levels of implementation of our capital programme, which we hope to improve markedly in 2019.

In keeping with their more guarded view of the global economy, and our subregion in particular, the World Bank forecasts that growth in the Vincentian economy will be a more modest 1.6% in 2019, while ECLAC's preliminary prediction is 1.5%.¹³ Notwithstanding, the imprecise nature of the forecasting models and the underlying statistical data, we consider these predictions to be unduly pessimistic at this stage, barring some unforeseen event. As always, the grave and gathering menace of climate change and natural disasters looms as a direct threat to growth and development prospects. The massive 14% contraction in the Dominican economy last year, post-Hurricane Maria, is indicative of the ever-present threat of frequent and severe climate events. Other exogenous threats could include weaker-than-expected performance among our developed economy trading partners, rising oil prices and tightening global financial conditions. A specific threat is the European Union's continued war on the viability of the financial services sector in Saint Vincent and the Grenadines and the wider Caribbean. The bullying hypocrisy of the extraterritorial imposition of EU law will undoubtedly impact the sector in ways that are difficult to forecast.

Closer to home, the IMF's predictions¹⁵ of flat growth in our main regional trading partners of Barbados (-0.1%) and Trinidad and Tobago (0.9%) – if accurate – may pose challenges to specific sector prospects in the Vincentian Economy. The bellicose sabre-rattling of those external forces spoiling for robust intervention and regime change in Venezuela has recently reached near-crisis levels, raising the real threat of military confrontation and widespread social and economic fallout across the southern Caribbean.

SECTORAL SUMMARY

The Budget presented this year is, as always, an interconnected set of initiatives and compromises that represent the Government's best collective judgment about how to effectively move Saint Vincent and the Grenadines forward on our developmental journey and improve the lives of Vincentians. While the Budget, as a developmental roadmap, is greater than the sum of its constituent parts, it is useful to spend some time providing a non-exhaustive synopsis of the major initiatives within certain sectors of the society and economy. The respective line ministers will undoubtedly have opportunities to expand on the sectors within their direct responsibility.

Agriculture and Fisheries

Saint Vincent and the Grenadines has long understood the developmental potential of the agricultural sector, and the transformative power of farming and fishing in the lives of Vincentians. As the largest exporter of food and live animals in the Eastern Caribbean Currency Union, our farmers and fisherfolk continue to be leaders in the production of the healthy and high-quality agricultural produce consumed throughout our region.

In 2019, we recommit to the farmers and fisherfolk as the indispensable cornerstone of our productive economy. As other countries in our region have drifted away from agriculture as an employer of citizens, as a generator of wealth and as an engine of development, we choose instead to deepen our emphasis on agriculture in Vincentian life and economy. Over time, the crops may change, the manner of production will differ, and the export markets shall evolve; but the centrality of our farmers and fisherfolk in the life and economy of Saint Vincent and the Grenadines will be a constant guiding light. More than any other occupation in Saint Vincent and the Grenadines, farming has freed many citizens to live lives that their parents and grandparents could only imagine.

To be continued...