S&P Global Ratings

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Research Update:

Turks and Caicos Islands Upgraded To 'A-' From 'BBB+' On Strong Economy; Outlook Is Stable

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Overview

- We expect the economy of the Turks and Caicos Islands (TCI) will experience solid growth over the next three years on the back of multiple years of significant expansion that has boosted income per capita.
- We believe the government will maintain its strong commitment to fiscal prudence and save the windfalls this growth has generated, building on more than a decade of strengthening institutions.
- S&P Global Ratings raised its long-term foreign and local currency sovereign credit ratings on TCI to 'A-' from 'BBB+' and affirmed its 'A-2' short-term ratings. The transfer and convertibility assessment is unchanged at 'AAA'.
- The outlook is stable.

Rating Action

On Feb. 26, 2025, S&P Global Ratings raised its long-term foreign and local currency sovereign credit ratings on Turks and Caicos Islands to 'A-' from 'BBB+' and affirmed its 'A-2' short-term ratings. The transfer and convertibility assessment is unchanged at 'AAA'. The outlook is stable.

Outlook

The stable outlook reflects our view of balanced risks to TCI's creditworthiness over the next 24 months. A strong economy and stable institutions provide a foundation for asset accumulation to insulate against downside risks inherent in the territory's position as a small island economy vulnerable to external shocks.

Downside scenario

We could lower our ratings in the next two years if an unexpected external shock caused the economy to materially contract and we believed the territory would struggle to recover. At the same time, an unexpected weakening of institutional ties with the U.K. that negatively affects governance, as shown in our institutional assessment, could result in a downgrade.

Upside scenario

We could raise our ratings in the next two years if per capita growth significantly outperforms our expectations, and we believe the trend will continue for several years, all else being equal.

Rationale

Our 'A-' long-term rating on TCI reflects the territory's strong institutions, including its long record of prudent fiscal policy, as indicated by surpluses and accumulating government assets, along with its close institutional ties with the U.K. as a self-governing territory. The fiscal policies have also led to very low government debt and an overall net asset position that we expect will remain strong over the forecast horizon. Tourism has spurred TCI's economy to grow substantially in recent years, leading to high GDP per capita that we expect will remain elevated. The economy is very heavily dependent on tourism, which, given its small size and low-lying elevation, makes the territory vulnerable to external shocks. TCI is fully dollarized and lacks a central bank and lender of last resort, also limiting its monetary policy flexibility.

Institutional and economic profile: Higher incomes spurred by a booming economy and stable institutions will support the ratings.

- After increasing an estimated 78% in real terms over the past four years, growth will moderate but remain strong, keeping per capita incomes high, in our opinion.
- We expect policies that support prudent fiscal management will continue under the Progressive National Party (PNP), which was elected to its second consecutive term on Feb. 7, 2025.
- Despite TCI's high dependence on tourism and vulnerable geography as a small island state in the hurricane belt of the Caribbean, we believe the territory's wealth and strong government structures will help support its resilience to future shocks.

We expect real GDP growth will moderate somewhat but remain solid. TCI's economy is booming and we expect high interest in the destination from U.S. tourists will continue to drive steady, albeit more moderate growth in the coming years. Following three years of double-digit increases, the government estimates that real GDP growth moderated to a still-high 5.6% last year, and we expect that it will average about 4% over the next four years. In addition, for the second year, we are incorporating a rebased GDP data series that indicated a larger economy than previously estimated. We forecast this will spur GDP per capita to reach just above $35,000 in 2025. Tourism remains the core pillar of the economy, indirectly accounting for about 65% of GDP, making it highly concentrated in one sector. More than 90% of tourists come from the U.S. as per the latest available data, suggesting a very high concentration in tourism source markets, as well. Nevertheless, we believe TCI's affluent customer base, proximity to the U.S., and second-home market have provided some insulation from external economic fluctuations in the past and will continue to do so through future shocks.

We believe that beyond the tourism sector, construction and real estate activity will also support solid economic growth over the coming years. Resort and development projects, in addition to large infrastructure projects like the redevelopment of the Howard Hamilton International Airport in Providenciales, will spur investment and growth. Although we expect these projects will support growth, they reinforce the economy's dependence on the volatile tourism sector. In addition, we believe TCI will remain vulnerable to weather-related events given its location in the Atlantic hurricane belt. Our assessment of long-term GDP growth trends incorporates periodic disruptions caused by such events. However, the last significant storm to hit the islands was Hurricane Irma in 2017, which hurt growth that year but had a limited impact on fiscal outcomes because of TCI's high cash buffers.

We expect TCI's institutions will continue to deliver policies that support growth; mitigate the inherent risks in the small, open economy; and maintain strong public finances. On Feb. 7, 2025, the PNP was re-elected. The party won all but three of the seats in Parliament. This will be the first term under TCI's newly revised constitution that increases parliament's term to five years from four. Although we do not believe there are major ideological differences between the two main political parties in TCI--the PNP and the People's Democratic Movement--we do expect a re-elected PNP government will continue with similar policy priorities as in its previous term, and will maintain the prudence that we have come to expect from government in TCI.

Part of this prudence is tied to the accumulation of savings that we believe contributes to the government's prioritization of fiscal resiliency. In 2016, the government established a national wealth fund that invests savings set aside to stabilize the economy against external shocks or natural disasters, among other uses. The fund's balance was $92 million as of the publication of the government's latest 2025-2029 fiscal and strategy policy statement. We believe the government will continue to increase this fund, along with its other savings. The government also participates in the Caribbean catastrophe risk insurance facility to help mitigate any hurricane-related costs.

TCI is a self-governing territory of the U.K. Through its appointed governor, the U.K. retains control over security, external affairs, and key aspects of public finances and law and order. During the pandemic, the U.K. provided public health support and vaccine deliveries to the territory, which played a pivotal role in easing restrictions and promoting economic recovery. At the same time, the U.K. provides technical assistance to TCI regarding the growth in illegal immigration. We assess the political and institutional links between the U.K. and TCI as a positive rating factor that sustains political and policy stability and the rule of law.

Flexibility and performance profile: strong economic growth will support continued fiscal surpluses and increasing savings.

- We expect the government to sustain fiscal surpluses averaging 3% of GDP over 2025-2028.
- These surpluses will support the government's net asset position, which we expect will average 54% of GDP from 2025-2028.
- The government's fiscal cushion offsets its limited monetary policy flexibility, given the economy's dollarization and lack of a central bank.

We expect TCI will post another sizable general government surplus in fiscal 2024-2025 (ending March 31), spurred by robust economic activity that supports revenue generation, while the pace of capital spending lags budgeted amounts. The most important components of the government's revenue collection are the hotel, restaurant, and tourism taxes, and customs and related duties, both of which either directly or indirectly, depend on the tourism sector.

We forecast a general government surplus of $42 million for the full fiscal year, in part due to historical underspending patterns and conservative budgeting assumptions. We expect solid growth and stable fiscal policy will generate surpluses during the forecast horizon. We forecast an average change in net general government debt of negative 3% of GDP from 2025-2028.

TCI's reserves are a significant source of financial stability, which was evident during the volatile first year of the pandemic and when the territory has faced weather events such as Hurricane Irma in 2017. This highlights the importance of maintaining contingency funds. The government accumulated substantial savings over many years because of its conservative fiscal management underpinned by consistent surpluses, allowing it to manage the impact of these unexpected shocks with limited downside to creditworthiness. The TCI government entered the pandemic with substantial liquid financial assets, which provided a cushion and minimized the need for new debt. TCI has built back its cash reserves to $412 million, or 24% of GDP, as of the first quarter of the 2024-2025 fiscal year.

Over time, the government has repaid substantially all of its debt, and we expect it will remain a sizable net creditor over the next few years. TCI does incur small loans with the Caribbean Development Bank, which arise in the course of technical assistance for specific projects; the interest paid is low and we expect the territory's general government interest payments will represent well below 5% of revenues through 2028. We expect the general government's net asset position will average 54% of GDP from 2025-2028. Government assets include the investment assets of the National Insurance Board, the National Wealth Fund, and other accumulated liquid government assets that we expect to average 54% of GDP during the same period.

TCI has a public-private partnership (PPP) liability related to its hospitals. The obligations related to the PPP are incorporated into the territory's budgeting and the liability decreases over time. In addition, the TCI Airport Authority (TCIAA) and the government are in the final tender phase for a PPP design, build, finance, operate, and manage project to redevelop the Howard Hamilton International Airport in Providenciales. We expect the TCIAA and the government will provide a guarantee for this project. Although the total amounts and timing have not yet been finalized, the tender package is projected at about $350 million. We expect underlying revenue streams from the airport will support the payments associated with the project and that the TCIAA will purchase insurance to cover liability risk. We believe this project will be a contingent liability to the government that will rise over time as construction begins and progresses. Given the expected timing, amounts, and proposed structure of the project, we do not expect it will alter our view of the government's low debt burden and strong net asset position over the next several years.

We will continue to use TCI's new balance of payments and international investment position data, which led us to revise our approach in assessing the territory's external risks last year; TCI Statistics prepared the data with technical assistance from the Caribbean Regional Technical Assistance Centre. Based on the data provided and our forecast, we expect gross external financing needs will average 81% of current account receipts in 2025-2028. We expect TCI will remain a net external creditor over the same period, supported by its national insurance board's and banks' external assets. We continue to believe there are external data gaps in the territory's international investment position.

TCI is fully dollarized and lacks a central bank and lender of last resort, limiting its monetary policy flexibility. We do not expect this arrangement will change during the next few years.

Key Statistics

Table 1

Turks and Caicos Islands--selected indicators

	2019	2020	2021	2022	2023	2024e	2025f	2026f	2027f	2028f
Economic indicators (%)										
Nominal GDP (bil. LC)	1.4	0.9	1.2	1.4	1.6	1.7	1.8	2.0	2.1	2.2
Nominal GDP (bil. $)	1.4	0.9	1.2	1.4	1.6	1.7	1.8	2.0	2.1	2.2
GDP per capita (000s $)	31.9	20.6	26.8	30.1	33.2	34.3	35.0	36.1	37.1	38.0
Real GDP growth	5.0	(33.8)	29.6	14.1	13.7	5.6	4.5	3.5	4.0	4.0
Real GDP per capita growth	1.1	(36.2)	25.2	10.3	10.1	2.3	1.3	0.3	0.3	0.3
Real investment growth	5.0	(33.8)	29.6	14.1	13.7	2.0	2.0	2.0	2.0	2.0
Investment/GDP	27.0	27.3	27.5	28.7	30.1	30.8	31.4	31.4	31.5	31.5
Savings/GDP	50.7	23.0	40.5	54.5	57.9	61.9	61.1	59.7	58.4	57.0
Exports/GDP	117.7	119.1	119.8	124.9	131.1	133.9	136.8	130.1	130.2	130.3
Real exports growth	5.0	(33.8)	29.6	14.1	13.7	2.0	2.0	2.0	2.0	2.0
Unemployment rate	7.0	11.0	9.0	8.0	7.0	5.5	4.0	4.0	4.0	4.0
External indicators (%)										
Current account balance/GDP	23.7	(4.3)	13.0	25.8	27.8	31.1	29.7	28.3	26.9	25.6
Current account balance/CARs	29.1	(7.7)	17.9	27.0	28.4	30.0	29.2	28.4	27.7	26.8
CARs/GDP	81.3	55.9	72.7	95.6	98.1	103.8	101.7	99.5	97.3	95.3
Trade balance/GDP	(34.2)	(36.5)	(37.2)	(46.0)	(47.1)	(49.0)	(49.0)	(49.0)	(49.0)	(49.0)
Net FDI/GDP	(0.9)	2.5	(2.5)	(1.4)	(1.3)	(1.2)	(1.2)	(1.1)	(1.0)	(1.0)
Net portfolio equity inflow/GDP	12.3	(8.4)	(11.1)	4.0	10.3	7.4	7.0	6.6	6.2	5.9
Gross external financing needs/CARs plus usable reserves	108.4	164.9	117.2	96.4	89.1	79.9	80.5	80.9	81.3	81.8
Narrow net external debt/CARs	(54.6)	(153.0)	(151.6)	(107.2)	(103.2)	(105.7)	(103.7)	(100.8)	(97.9)	(95.4)
Narrow net external debt/CAPs	(77.0)	(142.0)	(184.7)	(146.8)	(144.0)	(151.0)	(146.5)	(140.8)	(135.3)	(130.3)
Net external liabilities/CARs	(77.7)	(188.8)	(152.5)	(110.9)	(79.9)	(82.9)	(79.6)	(75.6)	(71.8)	(68.5)
Net external liabilities/CAPs	(109.6)	(175.3)	(185.9)	(151.9)	(111.5)	(118.4)	(112.4)	(105.7)	(99.3)	(93.5)
Short-term external debt by remaining maturity/CARs	37.5	57.2	35.1	23.4	17.4	9.9	9.7	9.3	9.0	8.6
Fiscal indicators (general government; %)										
Balance/GDP	3.3	1.9	8.0	2.6	6.6	2.4	2.8	2.6	3.2	3.8
Change in net debt/GDP	(5.3)	(1.3)	(7.9)	(5.4)	(9.0)	(6.2)	(2.5)	(2.3)	(2.9)	(3.6)

Table 1

Turks and Caicos Islands--selected indicators (cont.)

	2019	2020	2021	2022	2023	2024e	2025f	2026f	2027f	2028f
Primary balance/GDP	3.3	1.9	8.0	2.6	6.6	2.4	2.8	2.6	3.2	3.8
Revenue/GDP	24.9	36.9	37.2	31.2	33.6	32.0	32.1	31.4	30.8	30.3
Expenditures/GDP	21.6	35.0	29.3	28.6	27.0	29.6	29.3	28.8	27.6	26.5
Interest/revenues	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt/GDP	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt/revenues	0.9	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Net debt/GDP	(37.4)	(57.2)	(50.4)	(48.9)	(51.7)	(54.8)	(54.4)	(53.4)	(53.1)	(53.6)
Liquid assets/GDP	37.6	57.3	50.5	49.0	51.8	54.8	54.4	53.4	53.1	53.6
Monetary indicators (%)										
CPI growth	2.2	2.3	4.5	6.0	5.5	3.0	3.0	3.0	2.5	2.1
GDP deflator growth	(0.6)	1.2	3.9	1.7	0.5	0.9	0.9	2.9	2.4	2.0
Exchange rate, year-end (LC/$)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Foreign currency share of residents' bank deposits	4.6	4.9	2.9	2.1	1.3	N.M.	N.M.	N.M.	N.M.	N.M.

Sources: International Monetary Fund, Ministry of Finance, Department of Statistics (Economic Indicators); International Monetary Fund, Ministry of Finance, National Insurance Board of Turks and Caicos (Fiscal Indicators); International Monetary Fund, Ministry of Finance, Department of Statistics, Financial Sevices Commission (Monetary Indicators); Department of Statistics, National Insurance Board of Turks and Caicos (External Indicators)
Adjustments: Our general government metrics include the NIB.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Turks and Caicos--ratings score snapshot

Key rating factors	Score	Explanation
Institutional assessment	2	Generally effective policymaking, supporting fiscal sustainability.
Economic assessment	3	Based on GDP per capita ($) as per Selected Indicators in Table 1.
		The country has a concentrated tourism-based economy.
External assessment	3	Based on narrow net external debt and gross external financing needs as per Selected Indicators in Table 1.
		The country is exposed to significant volatility in terms of trade in part because of its dependence imports to support the tourism sector.

Table 2

Turks and Caicos--ratings score snapshot (cont.)

Key rating factors	Score	Explanation
		The sovereign's external data lack consistency, as demonstrated by high errors and omissions and evolving IIP data.
Fiscal assessment: flexibility and performance	1	Based on the change in net general government debt (% of GDP) as per Selected Indicators.
		The territory also has large liquid assets/GDP as per Selected Indicators.
		The government also has a volatile revenue base with a considerable exposure to the tourism industry.
Fiscal assessment: debt burden	1	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators.
Monetary assessment	6	Turks and Caicos' monetary policy is limited by its lack of a central bank and full dollarization.
Indicative rating	a	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	(1)	At the existing rating level, a change in one rating factor can lead to a multinotch change in the indicative rating. GDP per capita is near the lower bound of its current assessment. TCI is also more vulnerable to external shocks than the majority of its peers in the rating category.
Final rating		
Foreign currency	A-	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt.
Local currency	A-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009
-

Related Research

- Sovereign Ratings List, Feb. 19, 2025
- Sovereign Ratings History, Feb. 19, 2025
- Sovereign Risk Indicators, Dec. 9, 2024
- Turks and Caicos Islands Outlook Revised To Positive From Stable On Prospects For Improved Economic Resilience, March 27, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed		
Turks and Caicos Islands		
Transfer & Convertibility Assessment		
Local Currency	AAA	
Upgraded; CreditWatch/Outlook Action; Ratings Affirmed		
	To	**From**
Turks and Caicos Islands		
Sovereign Credit Rating	A-/Stable/A-2	BBB+/Positive/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.