

ECLAC SUBREGIONAL  
HEADQUARTERS  
FOR THE CARIBBEAN

# Economic Survey of the Caribbean 2020

## Facing the challenge of COVID-19

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## Abstract

This survey examines the economic performance of economies of the Caribbean in 2019 and the first half of 2020 and comprises six chapters. The first chapter gives an overview of global, regional and subregional economic performance in the Caribbean. The second provides an analysis of the subregion's fiscal performance and debt burden. The third looks at monetary policy and their impacts. The fourth is focused on the external sector. The fifth chapter focuses on the COVID-19 lockdown measures implemented globally as well as in Caribbean countries and their impact on the tourism and energy sectors, while the sixth chapter concludes. The annex includes individual country briefs which give an overview of the economic situation for the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, Trinidad and Tobago and a subregional assessment of the countries of the Eastern Caribbean Currency Union.





## I. Global and subregional performance

### A. Global analysis and performance

In 2019 global economic growth was 2.9% (see table 1) and it represented one of the weakest economic performances in a decade. This slowdown was attributable to myriad economic factors, which included trade tensions, a downturn in manufacturing as well as global trade and financial market uncertainty. Contractions in large emerging market economies such as Brazil, India, Mexico and Russia, along with geopolitical tensions in Iran and social unrest in Venezuela, Libya and Yemen also contributed to this weakening of economic activity (IMF 2020a).

At the start of the year, the global economy was projected to grow by 3.3% in 2020 (IMF 2020a). Since the rapid global spread of COVID-19 in 2020, uncertainty in economic markets has risen while projected growth rates have fallen. In April, earlier in the spread of COVID-19, the global economy projection was at -3.0% (IMF2020b). By June, a few more months into the pandemic, the global economy was projected at -4.9% (IMF 2020c), with the growth of advanced economies as well as emerging and developing countries expected to contract by -8.0% and -3.0%, respectively.

The projected decline in growth is set to be realized across both the advanced, and emerging and developing economies. In the euro area, France, Spain, Italy and United Kingdom are all expected to shrink by 12.5%, 12.8%, 12.8% and 10.2%, respectively. Other major reductions among the advanced economies are expected by the United States of America (8%) and Canada (8.4%). In the emerging and developing group of economies, reduced growth is expected in Brazil, Mexico and South Africa by 9.2%, 9.0% and 8.0%, respectively. Only China is anticipated to have marginal positive growth of 1.0%.

Following this negative performance in 2020, the global economy is projected to grow by 5.4% in 2021. This increase is expected to be led by the contribution towards growth by emerging and developing markets of 5.9%. Advanced economies are also expected to grow by 4.8% in 2021. Improvements in the world trade in goods and services are expected to make significant contribution to the global economy. World trade in goods and services' growth are projected to be 7.2% and 9.4% in advanced and emerging and development economies, respectively.

The region of Latin America and the Caribbean was expected to grow by 1.3% in 2020 (ECLAC 2019). The impact of the COVID-19 pandemic, however, has now significantly reduced this projection to -9.1%. A major contributory factor to decline in this growth rate, for the region, is the projected performances of the larger economies. Mexico's growth is expected to contract by 9.0% primarily due to falling oil prices among other macro-economic issues. Argentina is expected to shrink by 10.5% because of extended quarantine practices as well as falling external demand and commodity prices. High levels of uncertainty will cause Brazil's growth rates to fall by 9.2%. Another contributing factor to this expected reduction in growth within the region comes from the current impact of COVID-19 on the Caribbean's tourism and commodities market. The Caribbean's tourism market is linked to the economic performances of the advanced economies in Europe and the North America. As these economies remain in recession, there is likely to be contraction in the tourism sector throughout the Caribbean. Although borders are gradually reopening in the region, regularized tourist arrivals are expected to occur over time. In addition to tourist-based economies, commodity exporters in the region will also experience negative growth rates because of contraction in in exports and fiscal revenues.

It is anticipated that the health situation will improve, and this will result in an expected recovery for 2021. With health improvement alongside macro-economic policies tailored to fuel recovery, the region is expected to grow by 3.7% in 2021.

**Table 1**  
Global economic performance and prospects, 2018-2020  
(Percentages)

	2018	2019	2020
European Union	1.9	1.3	-10.2
Advanced Economies	2.2	1.7	-8.0
United States	2.9	2.3	-8.0
Latin America and the Caribbean	1.1	0.1	-9.1
Emerging market and Developing countries	4.5	3.7	-3.0
World	3.6	2.9	-4.9

Source: International Monetary Fund, World Economic Outlook Database, June 2020, Economic Commission for Latin America and the Caribbean, 2020b.

Note: Projections for 2020.

## B. Caribbean growth performance and prospects

The Caribbean economies grew by 1.0% in 2019, down from 1.4% in the previous year. Growth among the goods producing economies<sup>1</sup> was 0.6%, while the service producers grew by 1.4%.

The goods producers were constrained by a contraction of 0.4% in their largest member, Trinidad and Tobago. This contraction, which marked the fourth straight year of negative growth for the country, was mainly due to weak energy sector performance caused by the closure of the Petrotrin refinery in late 2018 as well as lower yield from mature energy fields. Guyana had the highest growth rate in this group (5.4%) as energy sector investments flowed in, in advance of its commencement of oil production in 2020.

<sup>1</sup> The goods producing economies are Belize, Guyana, Suriname and Trinidad and Tobago. The service producing economies are Anguilla, Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

Among the service producing economies, the ECCU group outperformed the average, with growth of 2.8%. Dominica posted growth of 5.7%, the highest in the subregion, while Anguilla grew by 5.4%. The other service producing economies of The Bahamas, Barbados and Jamaica all exhibited sluggish performance. The Bahamas and Jamaica grew by 1.8% and 0.9 % respectively, while Barbados shrank by 0.1%.

In 2020 contractions are expected in all Caribbean economies except Guyana, which is expected to grow by 37.8%. While this is still tremendous growth and the highest forecasted in the world, it is down from pre-pandemic estimates of 85.6%. The remaining goods producers' economies will shrink by 7.5%, while the service producers will fall by 8.1%. The largest contraction is estimated in Belize, at 14%. The service producing economies will be more adversely affected by the COVID-19 restrictions, given their greater dependence on travel and tourism; four of these economies (Antigua and Barbuda, the Bahamas, Grenada, Saint Kitts and Nevis and Saint Lucia) are expected to post double-digit contractions.

**Table 2**  
**Caribbean GDP growth rates, 2019-2020**  
(Percentages)

	2019	2020 <sup>a</sup>
Anguilla	5.4	-25.5
Antigua and Barbuda	4.5	-13.8
Bahamas	1.8	-10.5
Barbados	-0.1	-8.8
Belize	0.3	-14.0
Dominica	5.7	-8.7
Grenada	3.1	-12.4
Guyana	5.4	37.8
Jamaica	0.9	-5.3
Montserrat	4.5	-4.0
Saint Kitts and Nevis	2.5	-15.1
Saint Lucia	1.5	-18.1
Saint Vincent and the Grenadines	0.3	-6.3
Suriname	2.1	-7.0
Trinidad and Tobago	-0.4	-7.1
<b>Caribbean<sup>b</sup></b>	<b>1.0</b>	<b>-6.0</b>
<b>Goods Producers</b>	<b>0.6</b>	<b>-2.9</b>
<b>Service Producers</b>	<b>1.4</b>	<b>-8.6</b>
<b>Caribbean excluding Guyana</b>	<b>0.8</b>	<b>-8.1</b>
<b>Goods producers excluding Guyana</b>	<b>0.1</b>	<b>-7.5</b>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

<sup>a</sup> Forecast.

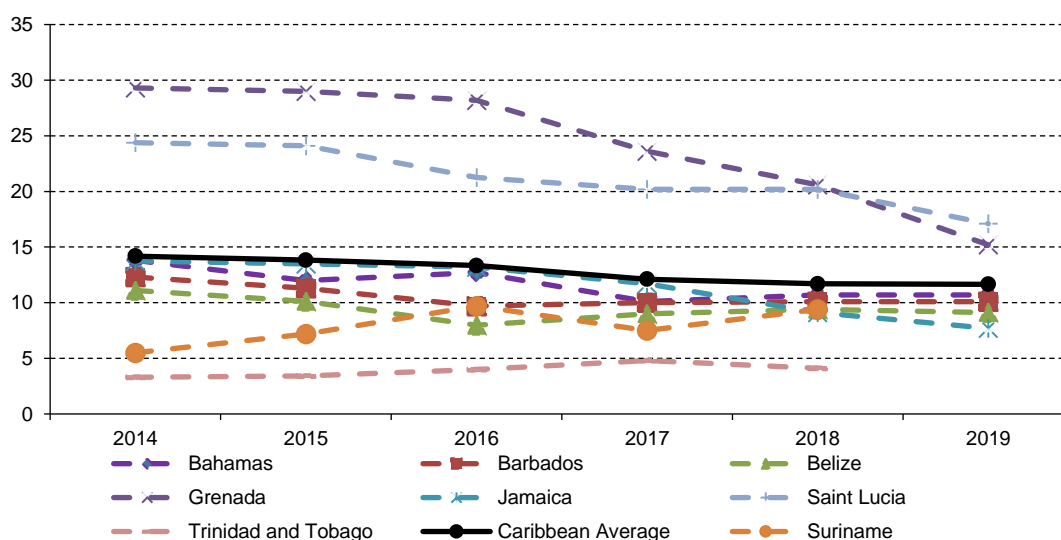
<sup>b</sup> Aggregates are weighted averages.

## C. Unemployment

Average unemployment rates in the Caribbean in 2019 remained unchanged from 2018 at 11.7%, but there were improvements in several countries (see figure 1). Both the Bahamas and Barbados maintained their 2018 rates of 10.7% and 10.1% respectively while unemployment decreased in Belize, Grenada, Jamaica and Saint Lucia. The largest declines were seen in the ECCU countries (with available data) of Grenada (5.4 percentage points) and Saint Lucia (3.1 percentage points). Unemployment has been trending downward in this subregion due to the pick-up in economic activity and implementation of targeted training-based employment creation programmes<sup>2</sup>.

Given the high dependence on tourism among most Caribbean economies, the impact of the COVID-19 pandemic on employment will be severe. Early estimates by ECLAC (2020) indicate that total employment will be reduced by nine percentage points in the Caribbean, compared to two percentage points in Latin America. Saint Lucia, The Bahamas, Antigua and Barbuda and Saint Kitts and Nevis will experience the largest declines in employment, all at over 13 percentage points. Conversely, the goods producing economies of Suriname, Guyana and Trinidad and Tobago will experience minimal changes in their total employment (all below one percentage point) as a result of the tourism slowdown.

**Figure 1**  
Unemployment rates, 2014-2019  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

<sup>2</sup> Unemployment data was not available for Suriname and Trinidad and Tobago in 2019.

## II. Fiscal and debt performance

This section analyses the recent fiscal performance and the expected impacts of the COVID-19 pandemic, the fiscal response of governments and the implications for the short to medium-term.

### A. Fiscal

In recent years the region has been striving to reduce its fiscal deficit as a path to restoring healthy public finances and as a platform for growth and social welfare. The COVID-19 pandemic is likely to reverse the gains that Caribbean countries have made towards medium-term fiscal consolidation and debt reduction.

In the last five years, the average median deficit declined from 3.0% to 1.5% of GDP, suggesting progress towards fiscal consolidation. The overall fiscal position had stabilized with a median deficit of 1.0% of GDP in 2018, following unbudgeted spending on hurricane relief and reconstruction spending after the active 2017 season. There was slippage in the fiscal position in 2019 with the median deficit rising to 2.4% of GDP. The deficit increased in the goods-based economies, but declined in the services producers. Among the goods producers, Belize and Guyana registered higher deficits of 2.8% of GDP and 3.6% of GDP, respectively, owing to lower net revenues in Belize and growth in spending that offset higher tax revenues in Guyana. Meanwhile, the deficit contracted to 10.3% of GDP in Suriname and to 2.4% of GDP in Trinidad and Tobago. Despite recent fiscal challenges, Suriname was able to reduce its deficit by 1.2 percentage points to 10.3% of GDP in 2019, due to growth in revenues that offset higher spending.

Fiscal performance varied among the service-based economies, influenced in part by the performance of their dominant tourism sector and other services, the impact of natural disasters and the importance of the state in the economy. Their median fiscal deficit declined from 0.67% of GDP in 2018 to 0.01% of GDP in 2019. The deficit declined in six economies and increased in the other five. Dominica experienced a spike (13.8%) in its deficit, as a consequence of rehabilitation and reconstruction spending after Hurricane Maria in 2017. Sizeable increases in the deficit were also recorded in Montserrat (up 5.9 percentage points) and Saint Vincent and the Grenadines

(up 4.2 percentage points). Jamaica, Saint Kitts and Nevis and Grenada, which have undertaken IMF-supported adjustment programmes have all posted fiscal surplus in the last three years.

**Table 3**  
**Fiscal balances 2014- 2019**  
*(Percentages of GDP)*

	2014	2015	2016	2017	2018	2019
Anguilla	2.53	0.44	-0.36	0.56	0.13	3.96
Antigua and Barbuda	-2.78	2.21	-0.38	-2.44	-3.19	-3.32
The Bahamas	-4.40	-3.26	-2.60	-5.44	-3.36	-1.68
Barbados	-7.50	-9.16	-5.43	-4.52	-0.30	3.69
Belize	-2.97	-8.01	-3.35	-2.81	-0.74	-3.55
Dominica	-1.70	-1.74	13.88	-4.50	-7.87	-21.66
Grenada	-4.68	-1.19	1.80	3.01	4.91	4.68
Guyana	-4.10	-1.05	-3.41	-3.34	-2.70	-2.78
Jamaica	-0.52	-0.29	-0.20	0.46	1.20	0.86
Montserrat	-6.16	18.82	-0.36	1.19	-6.52	-12.43
Saint Kitts and Nevis	9.74	5.90	4.69	1.90	3.22	9.59
Saint Lucia	-3.27	-2.08	-0.50	-1.15	-0.67	-0.01
Saint Vincent and the Grenadines	-2.06	-0.21	2.19	-1.14	-1.04	-5.27
Suriname	-4.70	-9.81	-11.28	-9.32	-11.46	-10.25
Trinidad and Tobago	-2.51	-1.70	-5.36	-8.88	-3.53	-2.39
<b>Average Caribbean</b>	<b>-2.3</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-2.4</b>	<b>-2.1</b>	<b>-2.7</b>
<b>Goods Producers</b>	<b>-3.6</b>	<b>-5.1</b>	<b>-5.9</b>	<b>-6.1</b>	<b>-4.6</b>	<b>-4.7</b>
<b>Service Producers</b>	<b>-1.9</b>	<b>0.9</b>	<b>1.2</b>	<b>-1.1</b>	<b>-1.2</b>	<b>-2.0</b>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

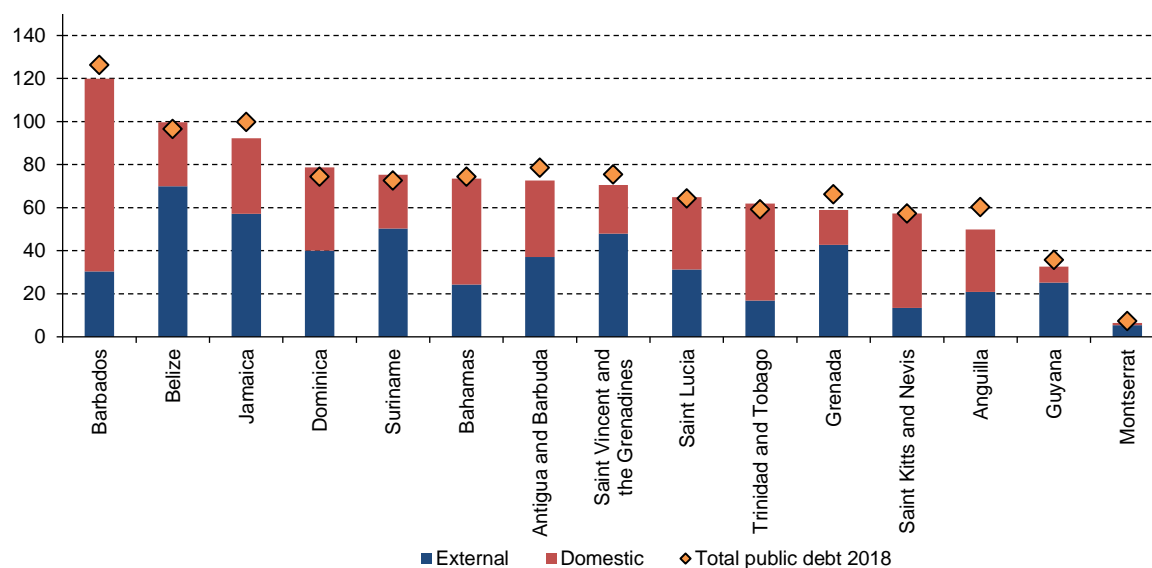
The COVID-19 pandemic will lead to a reversal of efforts towards fiscal consolidation and debt reduction. The pandemic has been a perfect storm for regional governments, leading to loss of revenue, significant growth in necessary fiscal spending and debt for many countries, which were already overleveraged. Across the region government expenditure has increased significantly to provide health equipment and supplies, unemployment and food support and support to small businesses, especially in the badly affected tourism sector. The first round of spending has been estimated at US\$1.3 billion. The Caribbean's fiscal responses have ranged between 0.5% and 5% of GDP. This is expected to lead to increases in the fiscal deficit in some countries by more than 5.0 percentage points.

## B. Debt

Public debt declined from 69.9% of GDP in 2018 to 67.6% of GDP in 2019 (figure 2 below), reflecting a decline in both foreign and domestic debt. Public debt fell in the service-based economies, from 71.3% of GDP in 2018 to 67.7% of GDP in 2019. This reflected a substantial reversal after growth in public debt to finance rehabilitation and reconstruction following Hurricanes Irma and Maria in some countries in 2017. In line with the winding down of hurricane-induced borrowing, debt contracted by 10.4 percentage points to 49.9% of GDP in Anguilla. Jamaica and Grenada were also able to reduce their debt by 7.6 and 7.4 percentage points, respectively as they undertook adjustment programmes, with

assistance from the IMF. Jamaica cut expenditure by around 2.0%, while posting modest growth in revenues. St. Kitts and Nevis' debt stabilised at just over 57% of GDP, as fiscal and debt operations were favourably impacted by inflows from its Citizen by Investment programme.

**Figure 2**  
**Total public debt, 2019**  
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

Meanwhile, debt increased by 4.3 percentage points in Dominica to 78.7% of GDP, partly due to continued borrowing for reconstruction after Hurricane Maria. Debt rose by 2.7 percentage points, respectively in Trinidad and Tobago and Suriname. Borrowing in Trinidad and Tobago was used to finance the construction of roads and bridges, a hospital and for budget support among other activities.

Increased borrowing across most countries to cope with the pandemic is expected to lead to a spike in public debt in 2020. The increase in debt in countries will vary according to their prior fiscal strength. Public debt is expected to increase by more than 10 percentage points in some of the most severely affected tourism-based economies. Governments in these economies have borrowed to provide relief to the tourism sector and to citizens who have been affected by the pandemic.

## C. Debt Service Payments

In the Caribbean debt service payments as a proportion of government revenue declined from an average of 33.5% in 2018 to 29.5% in 2019 (see table 4 below). The debt service ratio contracted by 6.4 percentage points in the service-based economies and rose by 0.5 percentage points in the goods-based economies.

Among the service producers, there was a dramatic decline in the ratio for The Bahamas from 113.6% in 2018 to 50.9% in 2019, partly reflecting a 47% fall in debt service payments. The debt service payments of Suriname declined by 12.4 percentage points, reflecting an increase in revenue and grants and a fall in debt service payments. Trinidad and Tobago's debt service to ratio fell by 5.1 percentage points to 15.6% of revenue, as firm growth in revenues (7.9%) had a positive impact on the ratio. The pandemic is expected to lead to rising debt service costs in 2020 since the region has so far gotten little debt relief.

**Table 4**  
**Debt service payment ratios for the Caribbean**

	Total Debt Services Payments (percentages of government revenue)				
	2015	2016	2017	2018	2019
Anguilla	9.2	22.3	21.1	20.6	17.3
Antigua and Barbuda	42.7	57.4	62.6	57.3	71.1
Bahamas	38.3	43.3	82.8	113.6	50.9
Barbados	59.6	n.a.	n.a.	n.a.	n.a.
Belize	27.1	17.9	19.2	17.4	18.6
Dominica	14.3	9.0	10.7	10.0	18.1
Grenada	23.9	27.5	32.4	27.9	33.3
Guyana	13.1	7.0	7.1	7.9	26.2
Jamaica	102.8	43.0	65.5	41.7	39.6
Montserrat	0.1	0.1	0.1	0.1	0.2
Saint Kitts and Nevis	25.5	11.8	11.3	7.9	6.2
Saint Lucia	25.1	26.0	29.6	71.4	43.2
Saint Vincent and the Grenadines	23.5	24.3	27.8	30.2	37.1
Suriname	37.6	70.2	31.4	42.4	30.0
Trinidad and Tobago	9.9	12.2	18.6	20.7	15.6
<b>Caribbean</b>	<b>30.2</b>	<b>26.6</b>	<b>30.0</b>	<b>33.5</b>	<b>29.1</b>
<b>Goods Producers</b>	<b>21.9</b>	<b>26.8</b>	<b>19.1</b>	<b>22.1</b>	<b>22.6</b>
<b>Service Producers</b>	<b>33.2</b>	<b>26.5</b>	<b>34.4</b>	<b>38.1</b>	<b>31.7</b>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.



### III. Monetary Policy

Prior to the COVID-19 pandemic, overall, monetary policy in the subregion remained unchanged in an environment of high liquidity and low interest rates. Most economies, namely, the Bahamas, Barbados, Belize, Guyana, Eastern Caribbean Currency Union (ECCU) and Trinidad and Tobago, left main monetary policy instruments unchanged in 2019, in order to balance the dual objectives of stimulating growth and achieving price stability through fixed or stable exchange rates.

Meanwhile, the Bank of Jamaica reduced its policy interest rate on four occasions bringing it to the historic low of 0.50%. The Bank also lowered the cash reserve requirement on two occasions by a cumulative 5.0 percentage points to 7.0%, which increased liquidity in the financial system. In contrast, the Central Bank of Suriname increased the reserve requirement for foreign-currency deposits and required that at least half of commercial banks' USD cash deposits and all Euro deposits be held at the Bank.

In the first half of 2020, the Caribbean Central Banks eased monetary policies substantially to facilitate smooth market functioning and weather the economic fallout of the COVID-19 pandemic. Barbados, Trinidad and Tobago and ECCU cut their policy rates by 5.00%, 1.50% and 4.50%, respectively. In addition, Suriname reduced domestic currency reserve requirement from 35.0% to 27.5% to increase liquidity in the system. The Bank of Jamaica has taken several measures to inject liquidity into the financial system, including commencement of a bond buying programme, re-introduction of a longer-term lending facility and re-activation of the Emergency Liquidity Facility, while keeping its policy rate unchanged at the historical low of 0.50%.

#### A. Interest Rates

Due to the continued accommodative monetary policy stance in the Caribbean, commercial bank lending rate and deposit rate decreased in 2019. The Caribbean's average lending rate stood at 8.86%, which was 0.20 percentage points lower than the 9.07% average lending rate of 2018. The average deposit rate stood at 1.74%, relative to its 1.81% in 2018. As a result, the interest rate spread contracted by 0.12 percentage points from 7.25% in 2018 to 7.13% in 2019.

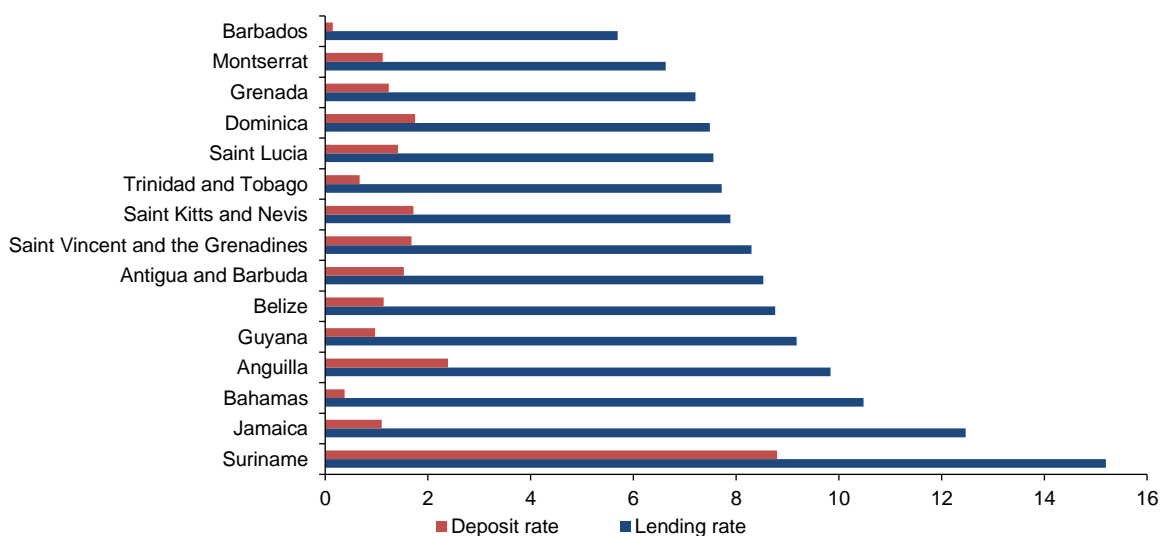
There was a contraction in the lending rates for both goods producing countries and service producing countries over the review period. The lending rates in the goods producing economies declined by 0.14 percentage points from 10.35% in 2018 to 10.22% in 2019, while the service producing economies recorded a larger 0.23 percentage points decline in the lending rates, from 8.60% in 2018 to 8.37% in 2019. In 2019, Suriname and Jamaica reported the highest nominal lending rates in the region of 15.20% and 12.47% respectively (See figure 3).

The average deposit rate in the goods producing countries decreased by 0.14% from 3.03% in 2018 to 2.90% in 2019, and the service producing economies recorded a contraction in their average deposit rates from 1.37% in 2018 to 1.32% in 2019.

There was a contraction in the average interest rate spread for service producing countries, shrinking by 0.17 percentage points from 7.23% in 2018 to 7.06% in 2019. The goods producing economies interest rate spread stood unchanged at 7.32% in 2019. Jamaica and the Bahamas reported the largest interest rate spreads of 11.37% and 10.10% respectively. However, out of all the countries in the subregion, Jamaica recorded the largest decline in the lending rate (-0.99%) and the interest rate spread (-0.81%) due to the highly accommodative monetary policy. In contrast, Suriname recorded the largest increase in the lending rate (0.80%) and the interest rate spread (1.20%) on account of overdrafts in the current account facility, which is mainly provided to enterprises.

Over the first three to six months of 2020, developments in interest rates were mixed across six Caribbean economies where data are available. Guyana, Barbados and Jamaica recorded a decline in interest rate spread (-0.29%, -0.26% and -0.09%, respectively) due to a decrease in lending rate. Also, the interest rate spread in Belize (-0.14%) declined as the deposit rate increased more than the lending rate. Contrary, the Bahamas recorded a 0.57% increase in the interest rate spread due to the increase in lending rate, while Suriname registered a 0.30% increase in the spread as the lending rate remained unchanged and the deposit rate decreased.

**Figure 3**  
Lending rate and deposit rate 2019  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

## B. Money supply and credit

Using the M2 (narrow money plus savings deposits and time deposits) as a measurement of liquidity in the banking system, the Caribbean-wide liquidity declined for two consecutive years after reaching its peak of 69.2% of GDP in 2017. The M2 decreased from 68.4% of GDP in 2018 to 67.4% of GDP in 2019. In the goods producing economies M2 to GDP ratio increased by 2.1 percentage points, while in the service producing economies M2 to GDP ratio decreased by 2.1 percentage points. (See table 5).

However, the overall decline in M2 was driven by a sizable contraction in two small economies, namely Dominica (-15.7 percentage points) and Montserrat (-9.8 percentage points), which recorded the highest level of liquidity in the subregion in 2019. Excluding the two economies, M2 to GDP ratio in the subregion increased from 59.4% in 2018 to 60.2% in 2019. In Belize, Jamaica and Guyana, strong growth in domestic credit resulted in the expansion in M2. St. Vincent and the Grenadines and the Bahamas also registered an increase in M2 owing to an uptick in net foreign assets despite slow or negative growth in domestic credit.

Overall, credit to the private sector continued to decline for two consecutive years, from 49.6% of GDP in 2018 to 47.5% of GDP in 2019. In the service producing economies, the private sector credit decreased from 54.5% of GDP in 2018 to 51.6% of GDP in 2019. In contrast, the goods producing economies registered a slight increase in private sector credit, from 36.0% of GDP in 2018 to 36.1% of GDP in 2019.

**Table 5**  
**Monetary aggregates and domestic credit to the private and public sector, 2018-2019**  
(Percentages of GDP)

	M1		M2		Domestic Credit to the Private Sector		Domestic Credit to the Public Sector	
	2018	2019	2018	2019	2018	2019	2018	2019
Anguilla	9.0	8.1	36.7	33.0	73.3	60.3	-12.1	-7.0
Antigua and Barbuda	22.3	23.1	73.3	68.9	44.4	43.1	9.9	8.8
Bahamas	22.0	25.3	54.0	56.9	47.4	45.9	24.3	23.9
Barbados	89.8	90.4	106.7	106.8	80.4	79.0	40.4	39.1
Belize	42.7	44.9	80.6	85.2	55.4	58.5	16.8	18.1
Dominica	30.0	23.1	109.0	93.2	52.0	45.2	-10.5	2.6
Grenada	22.3	23.0	68.4	67.3	50.8	49.0	-15.9	-16.6
Guyana	17.6	23.3	39.7	42.8	23.5	23.5	5.5	7.3
Jamaica	12.4	13.6	25.9	29.1	32.2	36.3	4.4	3.7
Montserrat	40.6	44.9	145.3	135.5	52.6	48.3	-50.5	-43.1
Saint Kitts and Nevis	20.3	22.3	76.3	78.0	55.2	53.9	-52.4	-45.1
Saint Lucia	19.5	19.6	56.3	56.4	60.7	57.7	-8.1	-7.2
Saint Vincent and the Grenadines	23.6	26.0	68.3	72.0	50.3	49.4	0.2	-3.0
Suriname	17.8	19.3	30.0	31.9	29.1	25.4	16.0	19.1
Trinidad and Tobago	27.9	26.1	55.5	54.3	36.2	37.0	3.5	5.4
<b>Caribbean</b>	27.8	28.9	68.4	67.4	49.6	47.5	-1.9	0.4
<b>Goods Producers</b>	26.5	28.4	51.4	53.6	36.0	36.1	10.4	12.5
<b>Service Producers</b>	28.3	29.0	74.5	72.5	54.5	51.6	-6.4	-4.0
<b>ECCU</b>	23.4	23.8	79.2	75.5	54.9	50.8	-17.4	-13.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

All eight ECCU countries recorded a decline in private sector credit to GDP ratio, as commercial banks remained largely risk averse, paying considerable attention to reducing the level of non-performing loans. In Jamaica, on the other hand, the credit to the private sector grew strongly, in line with the active monetary policy easing and increasing economic activity. When expressed in nominal terms, Guyana also recorded a strong increase in private sector credit (8.6% on a year-on-year basis).

There was an increase in the credit to the public sector in the Caribbean region from -1.9% of GDP in 2018 to 0.4% of GDP in 2019. For the goods producing economies and the service producing economies, the public sector credit to GDP ratio increased by 2.0 percentage points and 2.4 percentage points, respectively. The largest increase (13.0 percentage points) was recorded in Dominica to support public sector reconstruction and recovery efforts. In Guyana, the public sector credit also expanded, mainly as a result of a worsening central government net credit position stemming from higher capital expenditure.

Over the first three to six months of 2020, year-on-year changes in M2 and private sector credit decreased in most of the six Caribbean economies where data are available, due to the decline in economic activities resulting from the COVID-19 pandemic. On the other hand, growth in credit to the public sector accelerated as the governments increased borrowing to finance fiscal packages to combat the pandemic.

## C. Inflation

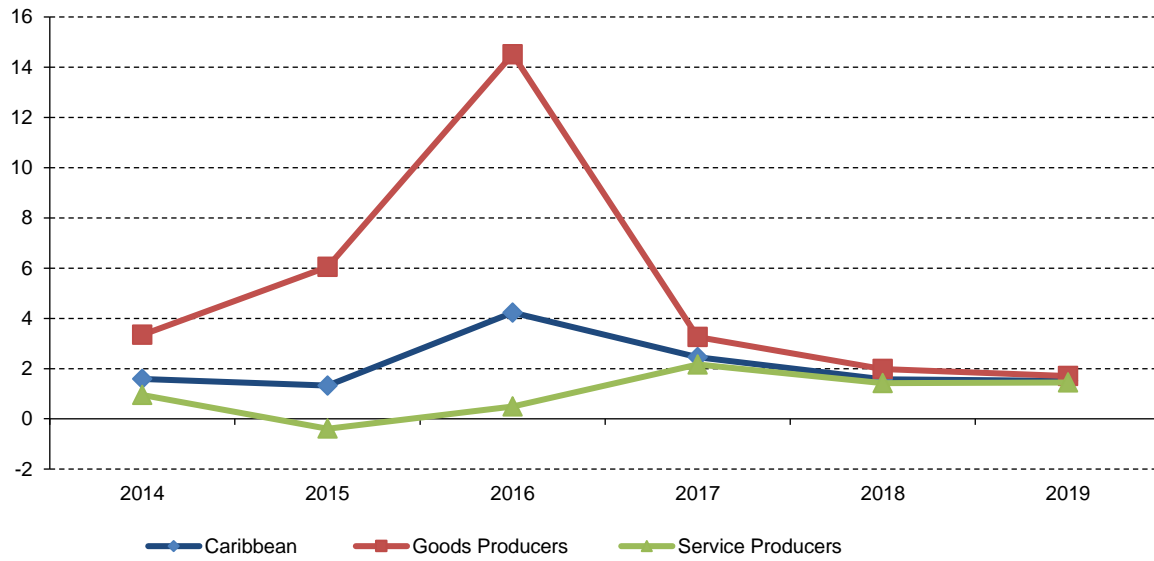
In 2019, average inflation rate in the Caribbean subregion remained low at 1.5%, slightly down from 1.6% in 2018. Inflation in the goods producing economies declined from 2.0% in 2018 to 1.7% in 2019, while in the service producing countries, inflation remained unchanged at 1.4% (See figure 4).

The decline in inflation in the goods producing economies was driven by Suriname and Trinidad. The effects of the devaluation that occurred in November 2015 led to Suriname's inflation being exceedingly high in 2016, standing at 52.4%, but it managed to reduce its inflation to 4.2% in 2019. In Trinidad and Tobago, inflation decreased from 1.0% in 2018 to 0.4% in 2019, which was the lowest level in more than 50 years. Food inflation had been volatile, increasing from 0.1% in December 2018 to 2.0% in August 2019 due to the harsh weather conditions but declined to -1.0% at the end of the year. Core inflation also declined from 1.3% in 2018 to 0.6% in 2019, dragged down by a decline in transportation prices and a slowdown in housing prices.

In the service producing economies, ECCU member countries recorded a decline in inflation, but it was offset by higher inflation in Barbados and Jamaica. Inflation in ECCU declined from 1.3% in 2018 to 0.1% in 2019, largely due to lower international energy and imported food prices. In contrast, Barbados and Jamaica experienced significant increases in inflation. In Barbados, inflation increased from 0.6% in 2018 to 7.2% in 2019 on account of disruptions from persistent drought conditions on non-sugar agriculture, the impact of sargassum on fish prices and measures to increase cost recovery at certain state-owned enterprises. In Jamaica, inflation was 6.2% in 2019, which was above the upper bound of the Bank of Jamaica's inflation targeting (4.0% to 6.0%). The increase in inflation was largely due to higher agricultural prices due to drought conditions.

Over the first one to five months of 2020, the average inflation rate increased from 3.4% to 6.8% in the six Caribbean economies where data are available. The uptick in inflation was driven by a rapid price increase in Suriname. Inflation rate in Suriname increased from 4.2% in December 2019 to 26.2% in April 2020 due to the sharp currency depreciation. If Suriname is excluded, average inflation rate slightly decreased from 3.2% to 3.0% over the same period. In Jamaica and Guyana, inflation decelerated to 4.7% (in May 2020) and 1.6% (in March 2020), respectively, reflecting a slowdown in agricultural food price inflation.

**Figure 4**  
**Caribbean Inflation rates , 2014-2019**  
*(Percentages)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.



## IV. External sector developments

### A. Tourism arrivals

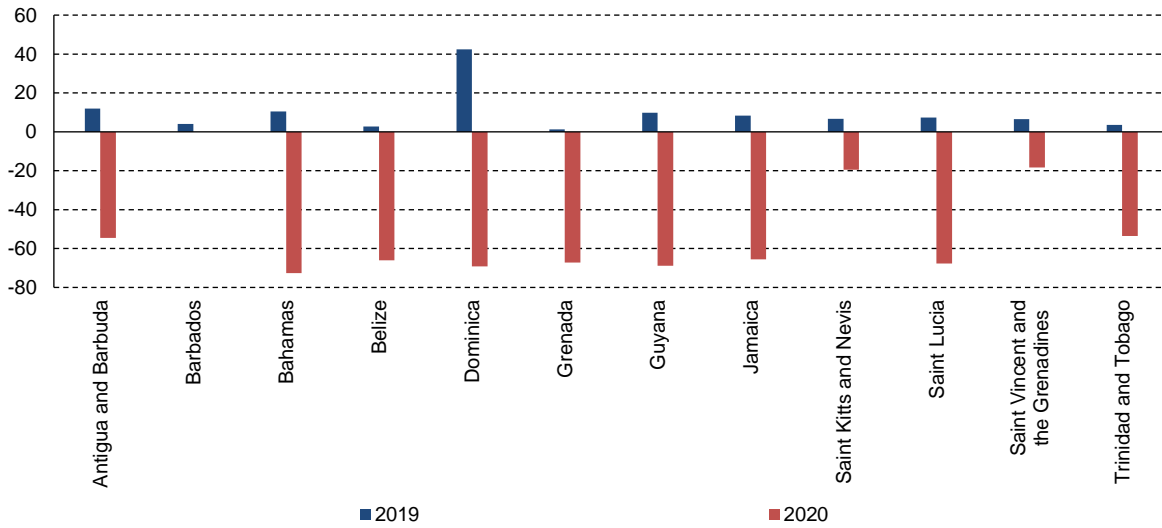
After weathering the impact of a destructive 2017 hurricane season, tourist arrivals across the Caribbean subregion rebounded in 2019. Tourist stay-over arrivals grew on average by 9.6% in 2019; up from 7.5% in 2018 and well above the global 2019 growth rate of 4.0% (UNWTO). Stay-over arrivals in all economies grew in 2019 (figure 5) with Dominica leading the way; rebounding in the aftermath of Hurricane Maria with a growth of 42.3% relative to 2018. Notable rebounds were also reported for Antigua and Barbuda and The Bahamas with growth in tourist stay-over arrivals of 11.9% and 10.5%, respectively. Driving these improvements were consolidation of arrivals to hurricane impacted economies, improved air connectivity between regional destinations and source markets, and promotional efforts abroad.

Alternatively, growth in cruise passenger arrivals in 2019 were mixed (figure 6). Arrivals in Dominica (11.3%), The Bahamas (11.9%) and Saint Vincent and the Grenadines (11.9%) strengthened considerably. Re-introduction of cruise destinations such as Dominica to Caribbean cruise itineraries contributed to the positive outturn. Cruise visits, however, declined for economies such as Trinidad and Tobago (-27.2%), Jamaica (-15.9%) and Antigua and Barbuda (-7.7%). Some destinations were affected by restoration of regular cruise schedules as ports affected by hurricanes were recommissioned while others suffered from reduced international marketing and promotion to bolster the sector.

By the close of 2019, although there was some uncertainty over the geopolitical climate and the impact of climate change and hurricanes, no economy could predict the scale of the economic shock stemming from restrictions to limit the spread of the COVID-19 virus. The impact has been catastrophic on global tourism and even more so on the tourism-dependent small island developing States of the Caribbean. Caribbean destinations either totally or partially closed borders and ports to mitigate the spread of the virus. Moreover, all major tourism source markets implemented varying levels of restrictions. Several hotels were forced to temporarily close and furlough employees while others, particularly smaller hotels have had to close their doors. Based on available mid-year data, year-on-year tourist stop-over

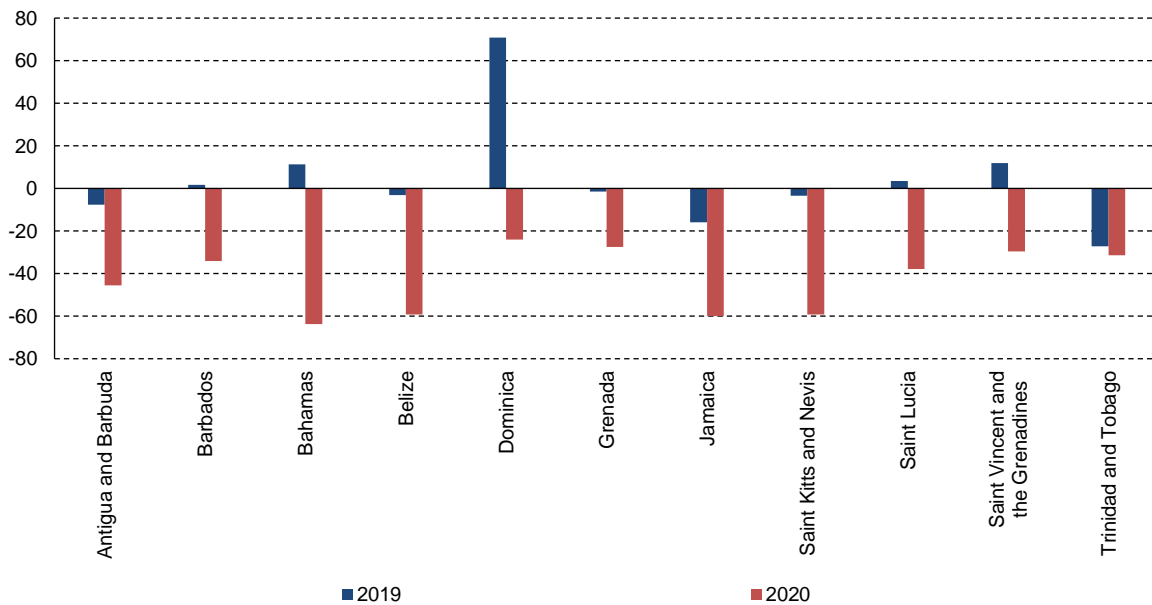
arrivals in 2020 have so far declined to -56.6%; a historic low for the subregion. After voluntary suspension of cruise activity worldwide until September 2020, cruise passenger arrivals fell to -42.9%.

**Figure 5**  
Year-on-year growth in tourism stay-over arrivals, 2019-2020  
(Percentages)



Source: Caribbean Tourism Organization; Eastern Caribbean Central Bank.

**Figure 6**  
Year-on-year growth in cruise ship arrivals, 2019-2020  
(Percentages)



Source: Caribbean Tourism Organization; Eastern Caribbean Central Bank.



Caribbean tourism dependent economies have had to balance public health protection measures with restoring economic activity. Countries have been implementing a variety of health and safety protocols to ensure secure travel experiences. Several destinations are employing marketing promotions such as discounted trips and liberal cancellation policies to boost arrivals. Other travel boosting policies in the pipeline include the implementation of a CARICOM travel bubble in September 2020 whereby persons permitted to participate in the bubble are not required to take a COVID-19 test or quarantine. Tourism arrivals are expected to pick up slightly by the end of 2020 while recovery among cruise visits is expected to be slower. Downside risk to any improvements is the downturn in global economic growth and the resurgence of COVID-19 cases in major source markets, particularly the United States. Given the enormity of the economic shock to the sector and the uncertainty in eliminating the virus, any meaningful recovery in travel and tourism across the subregion is unlikely to occur in the short to medium-term.

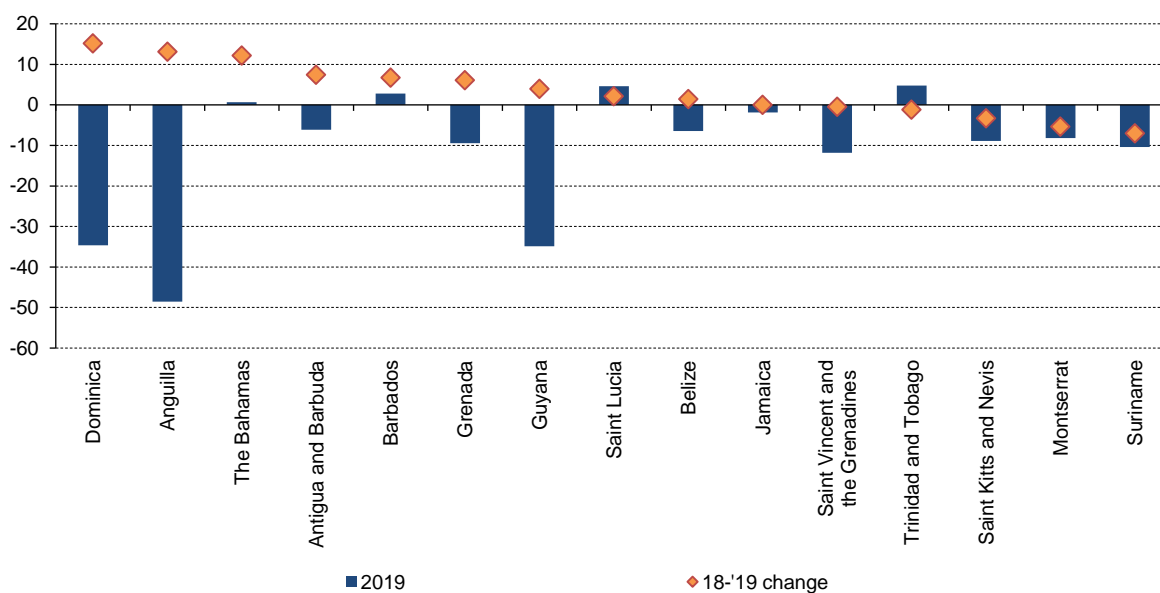
## B. Current account

The average current account balance in the Caribbean narrowed to -11.4% of GDP in 2019 relative to -14.7% of GDP in 2018. The improvement in the current account balance was primarily supported by narrowing of the current account deficit in several service producing economies where the average current account deficit improved from -16.0% of GDP in 2018 to -11.0% of GDP in 2019 (figure 7). Dominica and Anguilla, two economies with the largest deficits (-34.7% of GDP and -48.5% of GDP, respectively) across the subregion, which were impact by devastating hurricanes, reported the largest contractions in their current account balance. This improvement was driven by higher travel inflows for both economies, higher goods exports in Dominica and higher financial services inflows along with unchanged import payments in Anguilla. However, as net importers, some service producing economies such as the ECCU continue to depend on borrowing to finance their deficit.

Among the goods producing economies, the current account deficit widened slightly from -11.1% of GDP in 2018 to -12.5% of GDP in 2019. Although Guyana presently has the largest current account deficit among the goods producing economies, Suriname reported the largest expansion in current account deficit with a 7.5 percentage point decline to -10.9% of GDP in 2019 relative to 2018. This expansion stemmed from a decline in the goods surplus from 16% of GDP in 2018 to 10.8% in 2019 worsened by an increase in imports (mining equipment and government car imports). Guyana, alternatively, was the goods producing economy with a largest contraction in their current account deficit in 2019 with a 4.0 percentage point improvement to -34.8% of GDP.

In 2020 any gains made in 2019 among the service producing economies will be reduced, while the current account balance position among goods producing economies is expected to worsen. Much uncertainty remains regarding the outcome of the COVID-19 pandemic and its continued impact on the region's current account balance. If current conditions persist or worsen, the balance of payment current account deficit for most Caribbean economies is expected to widen significantly on account of a collapse in tourism receipts, lower remittance inflows, and deteriorating international energy prices related to the effects of the COVID-19 pandemic. Guyana will remain the exception, where a surplus is expected in 2020 for the first time in eight years as petroleum exports boost export receipts.

**Figure 7**  
**Current account balance, 2019**  
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

## C. Foreign direct investment

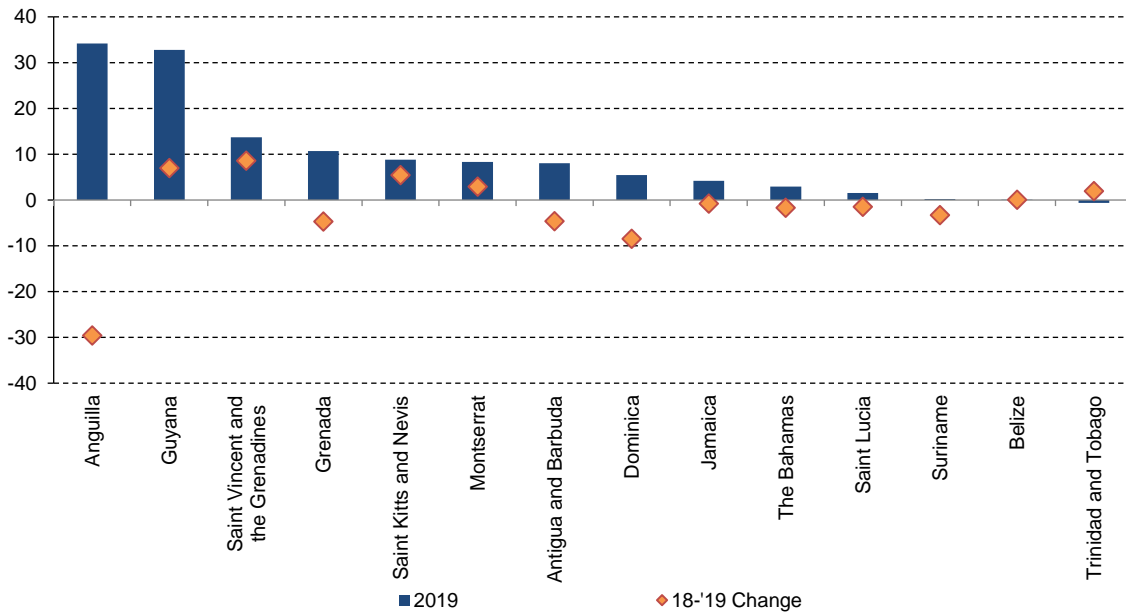
Foreign direct investment (FDI) plays an important role in promoting the participation of the Caribbean in global trade and financial markets. This is particularly true for the small open economies of the Caribbean. FDI inflows in the Caribbean declined from 11.3% of GDP to 9.3% of GDP from 2018 into 2019 (figure 8). This represents a 2 percentage-point decrease relative to the 3.5 percentage point increase from 2017 into 2018. Service producing economies recorded FDI inflows of 9.8% of GDP; down 3.4 percentage points relative to 2018. Anguilla simultaneously recorded the highest 2019 FDI inflows (34.2% of GDP) and the largest decline (29.5 percentage points lower) in 2019 relative to 2018 across the subregion. The steep decline is attributed to reduced Hurricane Irma related investments as the economy stabilized. Saint Lucia, on the other hand, recorded the lowest FDI inflow (1.5% of GDP) among the service producing economies in 2019.

Alternatively, FDI inflows among the goods producing economies increased by 1.4 percentage points to 8.1% of GDP primarily attributed to strong energy inflows from Guyana. For 2019, Guyana registered the highest FDI inflows among the goods producing economies increasing by 7.0 percentage points to 32.8% of GDP relative to 2018. These inflows were related to large investments in the oil and gas sector. FDI inflows were largely subdued for the remaining goods producing economies. In particular, Trinidad and Tobago was the only economy reporting negative FDI inflows (-0.6% of GDP) in 2019 as repatriated investments outpaced new investments in the economy. These inflows, however, represented a 1.9 percentage point improvement relative to 2018.

With the onset of the COVID-19 pandemic and grounding of international travel, FDI projects so far in 2020 have slowed considerably. While there have been efforts to push forward with planned tourism projects, the future of additional tourism investments is uncertain given the sizeable losses in tourism. Nevertheless, Caribbean economies are making efforts to boost FDI. For example, a major

source of FDI for OECS economies has been the Citizens by investment (CBI) program<sup>3</sup>. However, the collapse in tourist arrivals on account of the global COVID-19 pandemic restrictions have forced these economies to reduce costs associated with participating in the CBI programmes.

**Figure 8**  
**Foreign Direct Investment, 2019**  
*(Percentages of GDP)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

<sup>3</sup> A Citizen by Investment programme is the process of obtaining a second citizenship and passport by investing in the economy of the host country. Citizenship is usually conferred faster than traditional immigration processes.



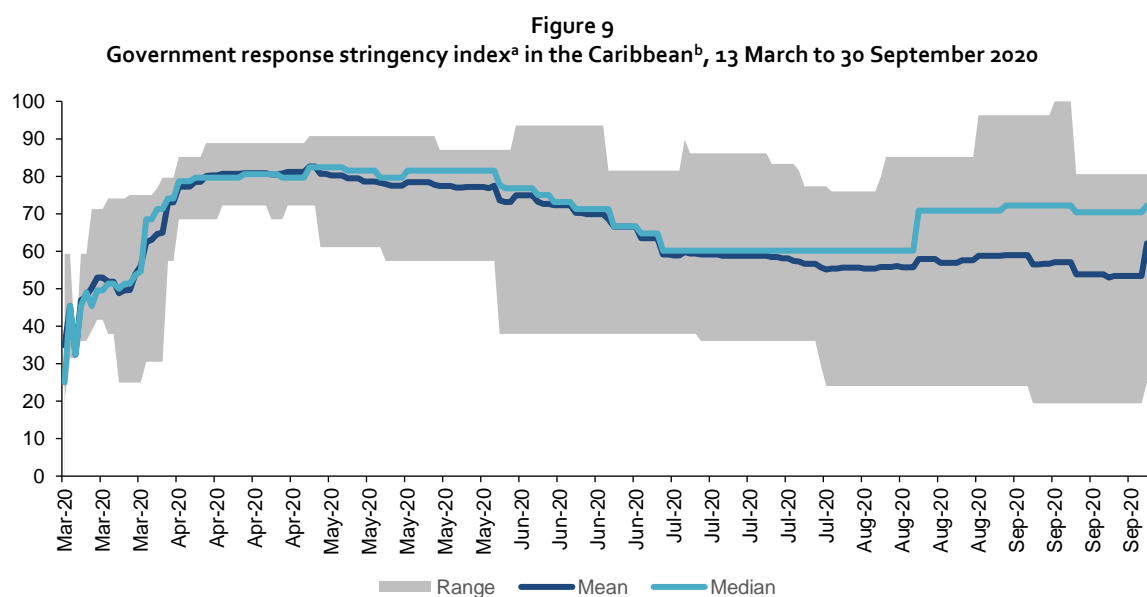
## V. COVID-19 focus

### A. Lockdown measures

The first case of COVID-19 in the Caribbean was diagnosed on 12 March in Jamaica. By 27 March there was a positive case in each of the fifteen economies covered in this report. Authorities quickly responded by implementing several measures aimed at curbing the spread of COVID-19. Given the role of travel in spreading the virus around the world, all Caribbean economies implemented border control measures to limit or stop the flow of visitors into their respective territories. Many economies implemented mandatory quarantines for persons who did enter the country.

To slow the spread of the disease within their borders, policy makers introduced several social-distancing measures meant to reduce personal contact between persons. Mass gathering events were cancelled, including carnival festivities in several islands. Many governments placed a limit on the number of persons that could gather in one place, resulting in activities that invited people to congregate being banned; these included religious services, sporting and entertainment events and marketplaces. Many governments also implemented states of emergency, curfews and limited activity to essential services. Beaches, restaurants, bars, cinemas, shopping malls and gyms were closed, among others. These emergency measures had the inevitable effect of drastically slowing commercial activity in all sectors. Without being able to interact with customers, many businesses were unable to operate, leading to an increase in layoffs. This decrease in employment has further reduced income and subsequent consumption demand. As a consequence, the supporting of business closures and workers' retrenchments has placed a large cost on Caribbean governments.

The intensity of the measures implemented varied across economies and over time. Some jurisdictions implemented stricter measures than others. In some places, the spread of COVID-19 was contained fairly quickly, and governments moved to reopen their economies, with precautions. Some governments, such as Belize, Trinidad and Tobago and Suriname, relaxed measures, only to be met with a resurgence of infections, which led to renewed lockdowns. Figure 9 depicts the average stringency of government measures across the subregion between March and September.



Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

<sup>a</sup> The government response stringency index is composite measure based on 9 response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest response).

<sup>b</sup> The economies included are Anguilla, Barbados, Belize, Dominica, Guyana, Jamaica, Montserrat, Suriname and Trinidad and Tobago.

## B. Tourism impacts

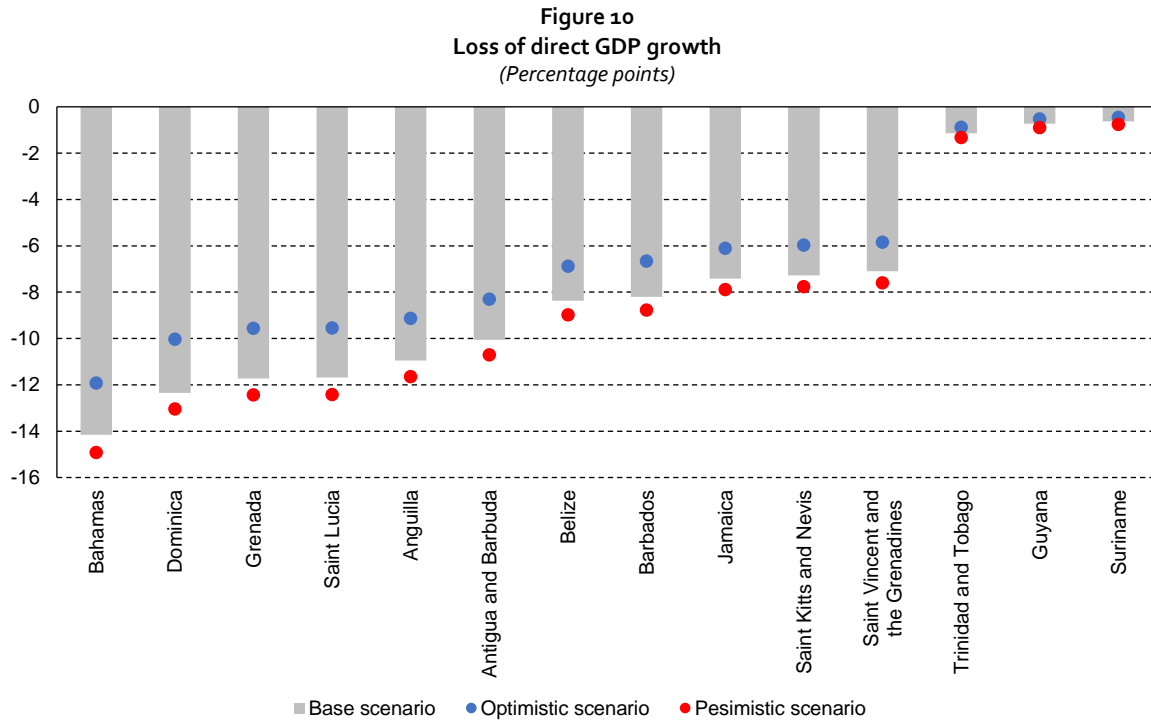
The border closures with in the Caribbean and abroad have presented a crisis to the subregional tourism industry. The immediate fall in arrivals following the implementation of lockdown measures resulted in a shut down of economic activity in the Caribbean's most important sector. On average tourism's direct contribution to GDP in the Caribbean was 11.8% in 2019, while its overall contribution was 28.5% (WTTC 2019). The dependence on tourism varies across Caribbean economies, as the direct contribution ranged from 1.1% of GDP (total contribution 2.6%) in Suriname, to 30.4% (total contribution 73.6%) in Aruba. Tourism also accounts for 1 in 6 jobs, a majority of which are held by women.

ECLAC estimated the impact of COVID-19 and government's mitigating measures on the tourism sector and the wider economy; the impact of inbound tourism (stayover visitors<sup>4</sup>), as well as domestic tourism was estimated. First, a baseline of tourist arrivals was projected up to December 2021 for each economy, based on long term trends. Then, given the uncertainty inherent in the progress of COVID-19, three recovery scenarios were estimated. In the base scenario, international tourist arrivals is expected to fall by 71%, while in the optimistic and pessimistic scenarios, arrivals is expected to fall by 58% and 76% respectively. Domestic tourism activity is projected to decline by 50% in the base scenario, 30% in the optimistic scenario, and 70% in the pessimistic scenario. The difference in tourism activity from the baseline for each scenario was used to estimate the losses in GDP growth and tourism exports.

On average, the losses in tourism activity will result in a GDP growth loss of 8.0 percentage points in the base scenario, 6.6 percentage points in the optimistic scenario, and 8.5 percentage points in the pessimistic scenario (figure 10). The reduction in tourism activity within the economies will result in a

<sup>4</sup> Cruise tourism passengers were excluded from the calculations due to limited availability of data. For those economies with both stayover and cruise passenger data, cruise passenger expenditure losses were estimated to be 4.1% of stayover losses in total. Individually, cruise losses as a per cent of stayover losses ranged from 0.5% in Trinidad and Tobago to 15.3% in Saint Kitts and Nevis.

loss in service exports of 52.9% of exports of goods and services<sup>5</sup> in the base scenario, and 43.3% and 56.4% in the optimistic and pessimistic scenarios respectively (figure 11). The worst impacted will be the economies most dependent on tourism, while the least dependent economies will be less impacted.

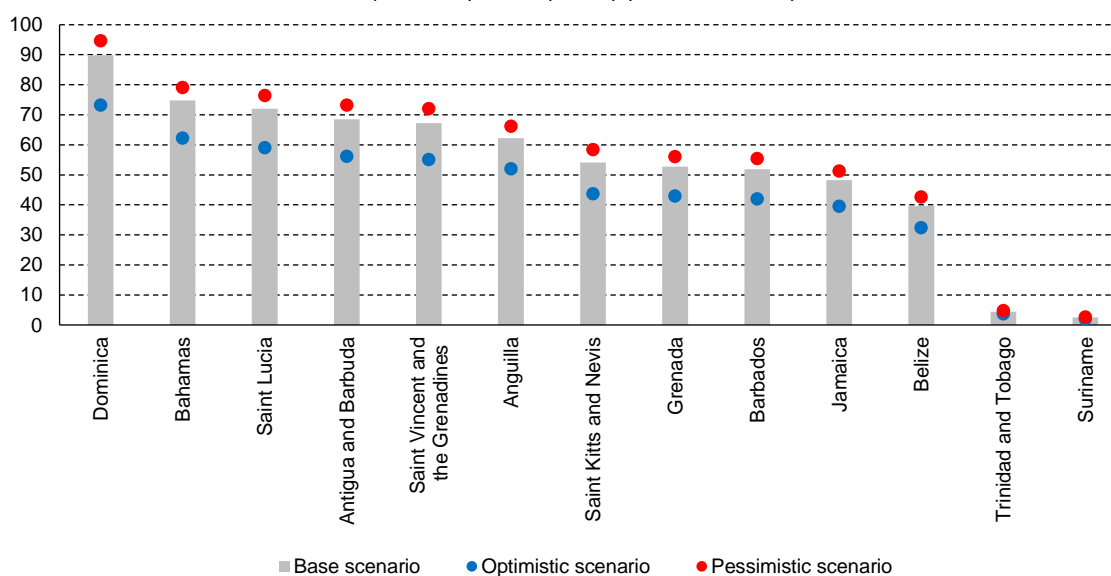


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

In the recovery phase of the COVID-19 pandemic, policy makers need to balance the need to restart the tourism industry and to keep their citizens safe. Governments need innovative policies to encourage visitors to return and replace lost revenue. CARICOM has already implemented a “travel bubble” among its Members States to encourage subregional travel. A few Caribbean countries have encouraged long-stay tourism to attract workers forced to work remotely long-term due to the pandemic. In the medium-term, the Caribbean needs to redirect its product development, marketing and promotion pitch to the adventure, luxury and youth tourism segments that are expected to recover more quickly.

<sup>5</sup> The losses were calculated as a per cent of 2018 exports of goods and services due to a lack of recent data for several economies.

**Figure 11**  
**Stayover and cruise tourism expenditure losses by economy, 2020**  
*(Per cent of 2018 exports of goods and services)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on data from UNCTAD.

## C. Energy impacts

The lockdown measures and travel restrictions around the world brought on by the COVID-19 pandemic resulted in an unprecedented decline in global energy demand and energy prices. According to the International Energy Agency (IEA), global energy demand is expected to drop by 6% in 2020, the steepest decline in 70 years (IEA, 2020). Brent crude, an international benchmark for oil prices, dropped to \$18/barrel on 30 April 2020 from \$68/barrel on 31 December 2019, triggered by the spread of COVID-19 as well as by the (production stand-off and ensuing) oil price war involving Saudi Arabia, Russia and the US, the effects of which were not sufficiently offset by the subsequent OPEC-backed agreement to cut production by 10%.

The disruption in the global demand and prices would severely hit some goods producing economies in the Caribbean where the energy sector is an important source of income, fiscal revenues and foreign exchange earnings. For example, in Trinidad and Tobago, the energy sector accounts for 26% of economic activity, 84% of export and 34% of fiscal revenues. While for Guyana, which commenced commercial oil production in December 2019, it was projected that the energy sector would account for 33% of economic activity, 59% of export and 15% of fiscal revenues (excluding savings in the Natural Resource Fund).

ECLAC assessed the impact of COVID-19 on the energy sector in the major energy exporting countries in the Caribbean. Under the base scenario assumptions of a 10% decrease in global oil demand, a 50% decline in oil price and a 20% drop in natural gas price, total real GDP is estimated to fall by 4.4% in Trinidad and Tobago and by 8.2% in Guyana, and total nominal GDP is expected to decline by 13.5% and 20.5%, respectively (table 6). Further, using the pessimistic scenario<sup>6</sup>, it is estimated that

<sup>6</sup> The pessimistic scenario assumes a 14.5% decrease in global oil demand, a 60% decline in oil price and a 30% drop in natural gas price.



for Trinidad and Tobago, the impact on nominal energy sector GDP (-57.5%) would be relatively larger than the decline observed during the Global Financial Crisis (-52.9%) of 2009.

The downward pressures on employment would be amplified by the indirect impact of the cut in fiscal expenditure, with total employment being reduced by 0.9% in Trinidad and Tobago and by 1.9% in Guyana. Total exports are expected to drop by 38.3% and 32.8%, for Trinidad and Tobago and Guyana respectively, which would result in a significant loss of foreign exchange earnings, particularly in Trinidad and Tobago. Total fiscal revenue is also projected to decline by 14.4% in Trinidad and Tobago and by 8.8% in Guyana, although the governments have been working on filling this huge fiscal gap.

**Table 6**  
**Summary of the COVID-19 impact on the energy sector**

			Trinidad and Tobago			Guyana		
			Base	Pessimistic	Optimistic	Base	Pessimistic	Optimistic
Assumptions about global trend	Oil demand		-10.0	-14.5	-6.3	-10.0	-14.5	-6.3
	Oil price	(% change)	-50.0	-60.0	-40.0	-50.0	-60.0	-40.0
	Gas price		-20.0	-30.0	-10.0	-20.0	-30.0	-10.0
Real GDP	Direct	(% change of total GDP)	-2.6	-3.7	-1.6	-4.6	-6.7	-2.9
	Indirect		-1.8	-2.1	-1.6	-3.6	-4.3	-2.9
	Total		-4.4	-5.8	-3.2	-8.2	-11.0	-5.8
Nominal GDP	Direct	(% change of total GDP)	-11.7	-14.9	-8.7	-18.2	-22.6	-14.0
	Indirect		-1.8	-2.0	-1.5	-2.3	-2.8	-1.9
	Total		-13.5	-17.0	-10.2	-20.5	-25.4	-15.9
Employment	Direct	(% change of total employment)	-0.1	-0.1	-0.1	-0.2	-0.3	-0.1
	Indirect		-0.8	-1.0	-0.7	-1.7	-2.1	-1.4
	Total		-0.9	-1.1	-0.8	-1.9	-2.3	-1.5
Trade balance	Export	(% change of total export)	-38.3	-48.7	-28.4	-32.8	-40.8	-25.3
	Import	(% change of total import)	-13.5	-16.7	-10.4	-7.0	-8.4	-5.6
	Balance	(% change of total balance)	-81.2	-104.2	-59.6	-88.9	-111.4	-68.1
Fiscal revenue	(% change of total revenue)	-14.4	-16.6	-12.3	-8.8	-10.6	-7.0	

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

The scenario analysis has also revealed several economic challenges facing Trinidad and Tobago and Guyana, which include: 1) a possible decline in FDI and a long-run negative impact on the economy; 2) indirect impact on the non-energy sector employment; 3) a decline in exports and attendant reduced foreign exchange availability in Trinidad and Tobago; and 4) lower fiscal revenues.

In order to address the identified economic challenges, it is recommended that the following remedial actions be pursued: 1) consideration of incentives to oil companies to encourage investment in new oil projects under the low oil price circumstance, and removal of political uncertainty; 2) postponement of downward adjustment in fiscal expenditure for at least one year to avoid creating further unemployment, and full utilization of fiscal buffers such as the HSF in Trinidad and Tobago in the short-term; 3) reduction of dependence on food import, accelerated development of the renewable energy, thereby facilitating increased export of petroleum products, and diversification of goods production and export; and 4) a gradual downward adjustment in fiscal expenditure after the recovery from the negative impact of state border closures and lockdowns, and a development of long-term fiscal consolidation programme.



## VI. Conclusion

The economic fallout of the COVID-19 pandemic is very challenging for Caribbean economies, particularly for economies which are highly dependent on the tourism sector. Economic losses are forecasted to be 5% to 6% of GDP, and as much as 15% to 20% of GDP for the Eastern Caribbean economies. In order to mitigate the economic downturn, Caribbean economies have been implementing emergency fiscal and monetary measures. The fiscal measures range from 1% to 4% of GDP (except Barbados, which announced a fiscal package of 19% of GDP).

However, the outlays required to prevent a healthcare crisis and a prolonged recession are straining existing budgets and further exacerbating already high debt risks. Out of 15 Caribbean economies, 10 had debt to GDP ratios of over 60% in 2019. Furthermore, the average debt servicing costs were just under 30% of government revenue at the end of 2019, which is considerable. The economies with the highest debt servicing burden from 2009 to 2019 were Jamaica (66%), Barbados (46%) and Antigua and Barbuda (45%).

The debt accumulation poses a fundamental risk to the stability of the financial system as the combination of high debt and low growth can turn liquidity problems into insolvency crises. However, the set of policy instruments that are available to the subregion is very limited, particularly for the smaller economies. What is therefore required is decisive action through the introduction of innovative policy and financing instruments to assist the subregion to mitigate the fiscal and development challenges precipitated by COVID-19. There are a few options for dealing with the high debt risks in the subregion:

- **ECLAC debt swap initiative:** ECLAC has proposed a debt for climate adaptation swap initiative to address low growth and high debt burdens. The objective is to attract resources to reduce the debt from a variety of sources and create a resilience fund to invest in climate adaptation and green industries.
- **Caribbean Resilience Fund:** ECLAC has proposed the establishment of a Caribbean Resilience Fund to finance investments in green industries order to build climate resilience; create

mechanisms to quickly provide low-cost medium-term finance to support sustainable development of small vulnerable economies through debt for SDG or climate swaps and facilitate debt relief in the countries of the subregion. ECLAC has encouraged the IFIs, development finance agencies and international development partners such as the Green Climate Fund (GCF) to support the capitalization of the CRF.

- **New SDRs issuance and reallocation to middle income countries (MICs):** To address the liquidity, solvency and debt challenges facing the Caribbean, ECLAC supported member states in advocating for new resources through the issuance of new SDRs. Issuance of US\$ 500 billion would amount to \$2 billion in extra international reserves in the Caribbean. ECLAC has also proposed the **reallocation of SDRs** from developed countries that do not require them, to countries with liquidity challenges. This can be done **through a Trust Fund at the IMF**.
- **Providing fiscal space:** Regarding the assistance provided by the international financial institutions (IFIs), there must be cognizance that borrowing won't necessarily be the solution for the small countries of the region. What is required of the IMF and the World Bank, is the crafting of bespoke instruments predicated on the fiscal position of developing economies that are highly indebted. Therefore, deeper and wider debt relief and grant funding is necessary, in conjunction with concessional financing.
- **Expanding eligibility of G-20 Debt Service Suspension Initiative (DSSI):** While debt reduction is urgent, countries that are faced with the COVID-19 challenge especially due to the closure of the tourism sector or a decline in energy prices will need bridging finance to support businesses, and to improve the health and education sectors. ECLAC has supported the extension of the Debt Service Suspension Initiative of the G20 (to waive interest and principal payments to the end of 2020), both in terms of extending the term to at least the end of 2021 and broadening its scope to include middle income beneficiaries including the Caribbean. This is important since it is unlikely that tourism will return to normalcy by the end of the year.
- **Private sector participation in the DSSI:** The current proposal is for voluntary private participation, which makes the request for sovereigns to seek broad participation among creditors to support fair burden sharing challenging.
- **Sovereign debt restructuring architecture:** ECLAC has advocated the establishment of an international mechanism for orderly sovereign debt restructuring. This should be accompanied by a rethinking of the regulation under which credit rating agencies operate and of their objectives.
- **Institutionalizing SCDIs:** There are a variety of state-contingent debt instruments (SCDIs), which allow for payment standstills or maturity extensions that respond to the volatility of income, liquidity pressures and debt distress arising from exogenous shocks. Hurricane clauses are an example of these instruments and have already been used in the Caribbean. We want to see such instruments become a norm as part of new borrowing requirements. By linking debt service to a measure of the sovereign's capacity to pay, income-linked bonds can increase fiscal space. Therefore, these instruments are key to providing much needed fiscal support for middle income countries, while reducing the likelihood of debt default. Such instruments are crucial to the economic recovery in the Caribbean.

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## **Annex**

## Annex 1

### Country notes

#### Bahamas

##### (a) General trends

The Bahamian economy grew by 1.8% in 2019, an improvement on the 1.6% recorded in 2018, and better than expected, given the severe impact of Hurricane Dorian on Abaco and Grand Bahama. Economic activity picked up, driven by strong growth in both high value-added stay-over and cruise visitor arrivals. Construction activity was buoyed by foreign direct investment (FDI) in tourism. Inflation was 1.8%, partly fuelled by higher prices of alcoholic beverages and tobacco, and of transportation. The rate of unemployment for New Providence was lower than in 2018, falling 30 basis points to 10.7%. However, country-wide unemployment was expected to be higher in the aftermath of Hurricane Dorian in Abaco and Grand Bahama. Despite the hurricane's fiscal fallout, the fiscal deficit halved from 3.4% of GDP in 2017/18 to 1.7% of GDP in 2018/19. Public finances were bolstered by a 19.7% increase in tax revenues, thanks to a sharp rise in VAT receipts, combined with muted growth in expenditure. The balance-of-payments current account reversed from a deficit of 12.0% of GDP in 2018 to a small surplus of 0.7% of GDP in 2019. This outturn was a result of substantial net current transfers, stemming from reinsurance inflows to settle claims from Hurricane Dorian and a fall in the goods trade deficit.

The economy is projected to decline sharply in 2020, by 10.5%. The coronavirus disease (COVID-19) pandemic has had a severe impact, with a slump in tourism arrivals and spending, and harmful spillover effects on other sectors such as commerce and distribution. In the first quarter of 2020, total visitor arrivals plummeted by 14.7% to 1.7 million year-on-year, with declines of 28.0% and 10.5% in air and sea arrivals, respectively. This situation was compounded by slower domestic activity, owing to the lockdown to contain the spread of the disease. With the slowdown in activity, unemployment is expected to surpass the level seen in 2019. Inflation is projected to be relatively stable, as a result of lower oil prices and subdued domestic demand. The recent budget forecasts a fiscal deficit of 1.3 billion Bahamian dollars (B\$), equivalent to 11.6% of GDP. This would be the largest deficit on record in the Bahamas. Public debt is projected to expand sharply to B\$ 9.5 billion, or 82.8% of GDP. The balance of payments current account deficit is also expected to widen, owing to lower tourism receipts and goods exports.

##### (b) Economic policy

###### (i) Fiscal policy

Fiscal policy was contractionary in fiscal year 2018/19,<sup>7</sup> and the fiscal deficit shrank to 1.7% of GDP, from 3.4% of GDP in fiscal year 2017/18. Total revenues rose by 18.5% to B\$ 2.42 billion, bolstered by a 19.7% expansion in tax receipts. Revenues were boosted by upbeat growth of 31.7% in VAT receipts. Stamp duties and taxes on goods and services also contributed to the increase in revenue. Non-tax proceeds grew by 9.5%, surpassing the budgeted amount by B\$ 4.5 million.

Total expenditure rose by 7.2% to B\$ 2.635 billion. Current expenditure increased 10.5%, partly driven by a spike in procurement of goods and services for relief and rehabilitation after the hurricane. Interest payments on debt rose by 3.4% to B\$ 324.5 million. Capital expenditure, which accounted for 8.2% of the total, declined by 19.2%, owing to lower acquisitions of non-financial assets and smaller outlays on infrastructure-related capital transfers. Public debt climbed from 66.4% to 66.8% of GDP, driven by domestic currency debt. The ratio of debt service to revenue declined from 10.5% to 8.3%.

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<sup>7</sup> The fiscal year runs from 1 July to 30 June.



In the first nine months of fiscal year 2019/20, the fiscal deficit expanded to B\$ 255.9 million from B\$ 140.3 million for the same period of fiscal year 2018/19. The larger deficit was mainly a result of a 6.6% increase in current expenditure (B\$ 112.7 million), largely owing to outlays on employee compensation, including allowances for civil servants displaced by Hurricane Dorian. Capital expenditure rose by 55.2% to B\$ 198.9 million, driven up by spending on rehabilitation and reconstruction after the hurricane. Meanwhile, total revenue increased by 4.1% to B\$ 1.7 billion.

### **(ii) Monetary and exchange-rate policy**

Monetary policy remained neutral in 2019, and the central bank left its policy discount rate unchanged at 4.0%. The year was marked by an increase in liquidity and external reserves, as deposit growth outpaced the increase in domestic credit. Liquidity was bolstered by reinsurance inflows from Hurricane Dorian and higher foreign exchange receipts from tourism.

There was a turnaround in broad money supply, with growth of 8.9% to B\$ 7.893 billion, following a decline of 4.1% in 2018. The supply was boosted by a 14.7% increase in private sector savings deposits and a slower decline in fixed deposits. There was meagre growth of 0.5% in domestic credit, compared to 0.8% in 2018. Growth in credit to the government slowed to 3.2%, while lending to the private sector grew by 0.1%, after declining in 2018. A portion of this limited growth in lending was to productive activities, including tourism and manufacturing.

The weighted average interest rate spread narrowed by 89 basis points to 9.61%, reflecting an 88-basis-point fall in the loan rate to 10.46%, offsetting a 1.0-basis-point rise in the deposit rate to 0.85%.

### **(iii) Other policies**

The 2020/21 budget is focused on rebuilding after Hurricane Dorian and on a resilient recovery after the COVID-19 pandemic. The government has implemented a number of economic support actions in response to the pandemic. Key measures include an allocation of B\$ 250 million for unemployment assistance, a food assistance programme, a temporary monthly increase in the old age pension of B\$ 50.00, support for the public health sector, B\$ 30 million for business support and business continuity loan programmes for entrepreneurs and small businesses, and a VAT deferral programme for eligible businesses to receive tax credits and waivers for three months. The government aims to develop an entrepreneurial ecosystem and has earmarked B\$ 55.0 million in the new budget to provide financing for small businesses.

## **(c) The main variables**

### **(i) The external sector**

The external position improved, with the current account reversing from a deficit of 12.0% of GDP in 2018 to a surplus of 0.7% of GDP in 2019. This outturn stemmed from significant inflows of insurance payments to settle claims for damage caused by Hurricane Dorian and a lower goods trade deficit. Net current transfers turned around from an outflow of US\$ 68.6 million in 2018 to an inflow of US\$ 846.3 million in 2019. This reversal reflected a surge in hurricane-related insurance receipts and lower outflows for workers' remittances.

The goods trade deficit narrowed from 21.5% of GDP in 2018 to 18.0% of GDP in 2019. This reflected a 10.6% decline in imports, alongside a 2.0% increase in exports. Lower international fuel prices helped to contain domestic fuel prices, benefitting producers and consumers. The services account surplus grew by 8.1% to US\$ 2.098 billion, driven by a 7.3% rise in tourism receipts from increased stay-over and cruise passenger arrivals and lower net payments for transportation services. The income account deficit contracted by 19.9% to US\$ 547.3 million, linked to lower investment outflows.

The capital and financial account surplus, including errors and omissions, declined significantly from 10.2% of GDP to 3.7% of GDP. This was a result of a reversal in “miscellaneous investments”, which shifted from a net inflow of US\$ 150.0 million in 2018, to a net outflow of US\$ 3.5 million in 2019, owing to lower private sector debt financing. Net FDI contracted by 46.2% to US\$ 265.0 million, mainly because of a sharp decline in net equity receipts and lower real estate sales. As at 22 May 2020, international reserves stood at US\$ 1.97 billion, covering 28 weeks of imports, but they are expected to decline when the reopening of the economy relieves pent-up import demand. Nonetheless, the authorities are aiming to manage reserves to maintain the viability of the currency peg to the United States dollar.

### **(ii) Economic activity**

Despite the devastation wrought by Hurricane Dorian in the Family Islands, economic growth picked up slightly to 1.8% in 2019 from 1.6% in 2018. Growth was driven by a resurgence in tourism, with higher tourist arrivals and spending. Total visitor arrivals rose by 9.4% to 7.2 million, the fastest growth in nine years, extending the expansion of 7.2% in 2018. Air arrivals, which include the high value-added stop-over segment, grew by 6.7% to 1.7 million, while sea arrivals rose by 10.2% to 5.6 million. Arrivals improved in New Providence and in the Family Islands that were unaffected by the hurricane. Performance indicators for a sample of large hotels in New Providence and Paradise Island showed 18.0% revenue growth and a 5.4% rise in the average occupancy rate to 67.1%. The average daily rate (ADR) rose by 6.5% to US\$ 266.92, compared with 4.7% growth in 2018. However, in the wake of the travel restrictions imposed to contain the COVID-19 pandemic in the first quarter of 2020, tourism activity plummeted relative to the same period of 2019, with visitor arrivals declining by 14.7%, on account of a 28.0% drop in air arrivals and a fall of 10.5% in sea arrivals to 1.3 million.

Construction activity in 2019 was buoyed by FDI-supported projects in tourism, but domestic activity remained sluggish. After growing 11.6% in 2018, total mortgage disbursements for construction and repairs slipped by 6.6% in 2019, reflecting muted domestic activity.

The fallout from the pandemic and the lingering effects of Hurricane Dorian will pose a major challenge to growth and stability in the Bahamas. In 2020, GDP is projected to decline by 10.5%. The mainstay tourism industry has been severely affected by the pandemic, with a substantial fall in tourist arrivals and spending and spillover effects on distribution and other sectors.

### **(iii) Prices, wages and employment**

The 12-month rate of inflation fell from 3.7% in September 2018 to 1.8% in the same month of 2019. This fall was driven by the decline in both core and food and non-alcoholic beverages inflation rates, which dropped by 3.9 percentage points and 2.9 percentage points, respectively.

The rate of unemployment in New Providence remained stable at 10.7% in 2019. However, as Hurricane Dorian devastated Grand Bahama and Abaco the national rate is expected to be higher. Survey data indicated that 3,360 people were relocated following the hurricane, many of whom are likely to be unemployed.

## **Barbados**

### **(a) General trends**

Prior to the onset of the COVID-19 pandemic, the Barbadian economy was showing signs of improvement in fiscal accounts, international reserves and public sector debt levels. The fiscal measures introduced by the Government of Barbados had subdued economic growth, and by the close of 2019, economic stimulus was greatly needed. Instead, the COVID-19 pandemic triggered a shock that brought economic activity almost to a halt, requiring the government to shift its focus from fiscal management to stemming the economic fallout. The economy remained in recession as of March 2020, with GDP growth contracting to -3% relative to -1% in March 2019. Despite the weak growth performance, gross

international reserves increased by US\$ 254.8 million to US\$ 787.3 million, representing 19.4 weeks of import cover as of March 2020 relative to the same period in 2019. By the end of the first quarter of 2020, fiscal targets had been met, with a primary surplus of 6.1%, and the fiscal deficit stood at 3.7% of GDP for fiscal year 2019/20 relative to 0.3% of GDP for 2018/19. Following the restructuring of US dollar-denominated commercial debt for new bonds in December 2019, Standard and Poor's upgraded its credit rating for Barbados from default to B-. The gross public sector debt stock stood at 118% of GDP as of March 2020 compared to 125.5% of GDP in the year-earlier period.

Based on available data, the average unemployment rate remained unchanged at 10.1% at the end of December 2019. However, unemployment is expected to increase dramatically given the severe impact of pandemic containment measures, particularly within the tourism sector. Despite falling international energy and imported food prices, the moving average rate of inflation rose to 4.3% in March 2020 relative to 2.1% in March 2019 on account of drought conditions, sargassum seaweed and increased cost recovery at State-owned enterprises. However, inflation is expected to fall considerably given dampened demand and low crude oil prices. In an environment of economic activity weakened by fiscal adjustment efforts, the COVID-19 pandemic has further exacerbated economic conditions in the country. As a result, real GDP is now forecast to contract to -8.8%. The government has introduced a US\$ 1 billion economic stimulus package to counter the fallout, with considerable focus on advancing private sector construction projects and providing much-needed assistance to vulnerable groups. The initiative is focused on easing job losses and bridging the spending gap. However, considerable downside risk remains amid the global economic recession and a slow recovery in tourist arrivals as source markets struggle to contain the virus.

## **(b) Economic policy**

### **(i) Fiscal policy**

After entering a 48-month Extended Fund Facility (EFF) programme with the International Monetary Fund (IMF), the government made substantial progress in addressing its macroeconomic challenges. By the close of fiscal year 2019/20, the primary surplus stood at 6.1% of GDP, slightly higher than the 6.0% of GDP targeted under the EFF programme. However, revenue dipped to 28.7% of GDP in fiscal year 2019/20 relative to 29.4% of GDP in 2018/19. Several factors contributed to the decline, including revenue reforms, reduced inflows as revenue was redirected to finance statutory bodies, declines in personal income tax and corporation tax revenues, a shortfall in tourism-related tax revenues owing to administrative issues, and lower-than-expected collection of excises. A new personal income tax structure that entered into force in July 2019 resulted in a 7.8% decline in corresponding revenues for fiscal year 2019/20 relative to 2018/19, while corporation tax revenues fell by 15.0% during the same period. Revenues from indirect taxes in fiscal year 2019/20 were comparable to those of 2018/19, with a slight increase of 0.43% in value added tax (VAT) receipts. However, this was offset by a 9.6% year-on-year decline in excise tax revenues as of March 2020. Total expenditure also decreased from 29.7% of GDP in fiscal year 2018/19 to 25.0% of GDP in 2019/20, primarily on account of a 36.6% decline in interest as a result of debt restructuring and a 25.1% drop in transfers and subsidies. The reduction in transfers was driven by changes in financing for the Queen Elizabeth Hospital (QEH), Barbados Tourism Marketing Inc. (BTMI) and the Sanitation Service Authority (SSA) with off-budget revenues. Spending on goods and services exceeded the level seen the previous fiscal year by 3.0% as the health service ramped up preparations for the COVID-19 pandemic. Overall, the fiscal balance stood at 3.7% at the end of fiscal year 2019/20 relative to a deficit of 0.3% in 2018/19.

Following debt restructuring from 2018–2019 to create fiscal space and rebuild international reserves, the public debt stock stood at 118% of GDP as of March 2020 relative to 125.5% in the year-earlier period. After concluding a domestic debt exchange for Barbados dollar-denominated debt and that of several State-owned agencies, the government exchanged US dollar-denominated

commercial debt for new bonds in December 2019. Eurobonds and a Credit Suisse loan facility were included in the restructured debt, which incorporated capitalized arrears. With the issuance of the new bonds, total outstanding liabilities were reduced by 26.3% as of 1 October 2019 and the first tranche of a staggered upfront payment of capital interest amounting to US\$ 40 million was made in December 2019. By the end of 2019, Standard and Poor's had upgraded its credit rating for Barbados from default to B-.

Despite the improved management of fiscal accounts, the ongoing coronavirus pandemic has presented major challenges and is expected to slow the progress made by the government. The focus has now shifted to countercyclical fiscal stimulus. Following discussions with IMF, the government is now aiming for a primary surplus of 1% of GDP for fiscal year 2020/21 compared to the original target of 6%. IMF has proposed a US\$ 90 million augmentation of the extended facility, which is pending approval by the IMF Executive Board. Upon completion of the third review under the EFF arrangement, it was decided that US\$ 140 million will also be made available to Barbados. In order to address the challenges posed by the pandemic, the government has introduced several fiscal measures to stabilize the economy. These include increasing emergency health and capital expenditure to manage and mitigate the spread of infection, boosting capital spending to mitigate the effects on the economy, clearing outstanding income tax and VAT arrears to provide liquidity to households and businesses, and establishing a tourism loan facility to provide urgent working capital and investment loans to hotels.

#### **(ii) Monetary and exchange-rate policy**

Prior to the pandemic, monetary policy at the Central Bank of Barbados remained unchanged in an environment of ample liquidity and low interest rates. However, as economic activity is now projected to contract further, the central bank has taken a more accommodative stance to help financial institutions withstand the shock and facilitate their assistance to personal and business clients during the pandemic. The central bank's discount rate, at which it provides overnight lending to banks and deposit-taking non-banks licensed under the Financial Institutions Act, was reduced from 7% to 2%. The securities ratio for banks was also reduced from 17.5% to 5%, while the 1.5% securities ratio for non-bank deposit-taking licensees was eliminated. Collateralised loans for up to six months will also be made available as liquidity support for licensees, if required.

Over the years, the real effective exchange rate has appreciated as international reserves have declined. However, as weak demand and low oil prices increase deflationary pressure, the real effective exchange rate will likely depreciate in the short term. The central bank has put considerable effort into maintaining the fixed exchange rate by managing international reserve levels. In pursuit of looser exchange controls and greater ease of doing business, the central bank has liberalized foreign currency transactions by allowing authorised dealers to approve and execute larger foreign currency transactions, meaning that they can now remit payments abroad without prior approval from the central bank.

#### **(iii) Other policies**

As part of the government's economic stimulus package in response to the COVID-19 pandemic, a Pandemic Solidarity Bond will be issued to provide cash to the National Insurance Scheme (NIS), with \$US 105 million being made available to the most vulnerable households.

### **(b) The main variables**

#### **(i) The external sector**

As of March 2020, gross international reserves climbed to US\$ 787.3 million or 19.4 weeks of import cover compared to US\$ 532.5 million or 13.6 weeks of import cover during the year-earlier period. This increase was not only supported by IMF financing but also by commercial banks satisfying increased private sector demand and contributing positively to the net sale of foreign exchange to the central bank

as travel receipts increased and oil prices weakened during 2019 and into the first quarter of 2020. By the end of 2020, weaker-than-normal travel receipts and the resumption of external debt payments will likely have a negative impact on international reserves.

The external current account surplus of 3.2% of GDP as of March 2019 became a slight deficit of 0.7% of GDP by March 2020, on account of an increase in goods imports and deteriorating travel receipts as tourist arrivals plummeted. The 2.2 percentage point rise in goods imports to 29% of GDP derived from an expansion in intermediate goods, such as airline fuel for resale, crude materials and construction materials. Consumer goods imports also increased as demand for food and beverages and motor vehicles grew. Meanwhile, the financial account surplus expanded by a further 0.6 percentage points to 2.1% of GDP as declines in net public sector inflows were offset by increases in net private sector inflows.

### **(ii) Economic growth**

An environment of weakened economic activity has persisted amid the government's efforts to stabilize the country's fiscal position. However, in the first quarter of 2020, the situation worsened considerably owing to the COVID-19 pandemic. Unsurprisingly, economic growth remained subdued in 2019 as the government's fiscal adjustment efforts continued. Real economic activity stood at -0.1% in 2019 relative to -0.6% in 2018. Weak consumption and slow private sector investment constrained overall economic activity. The tourism sector, however, posted moderate growth with long-stay arrivals increasing by an estimated 3.5%, supported by increased airlift from the United Kingdom and the United States. Cruise arrivals also increased by 1.6% in 2019 relative to 2018. The other sectors of the economy mainly recorded declines. In particular, the construction sector slumped because of delays in some large-scale tourism projects.

By the end of March 2020, the COVID-19 pandemic arrived in Barbados amid fragile economic conditions, weighing heavily on economic activity and contributing to a 3.0% contraction in real GDP. Tourism sector activity, which is a cornerstone of the Barbados economy, plummeted by 16.2% relative to March 2019, owing to sharp reductions in airlift, visitor cancellations and the closure of hotels and restaurants. This poor performance in turn spilled over into supporting services such as tour operating, car rental, transportation, and visitor attractions. Meanwhile, the construction sector recorded growth of 5% relative to 2019. Nonetheless, the introduction of curfew and other measures likely stemmed further growth in the first half of 2020.

The government's US\$ 1 billion economic stimulus package is likely to limit some of the fallout from measures taken to curb the COVID-19 pandemic in the medium term. While much of the stimulus focuses on mitigating job losses and filling the spending gap as a result of the shutdown, the private sector is expected to invest over US\$ 442.5 million through the launch of six major construction projects. These include the Sam Lord's Castle project (US\$ 200 million), The Crane Resort project, the upgrade of the Apes Hill Golf course (US\$ 12.5 million), the Sandals at Dover expansion project (US\$ 30 million), the Sagacor Retirement Village project (US\$ 100 million) and the Hyatt Zero project (US\$ 200 million). The government will establish the Barbados Tourism Facility, which will provide \$US\$ 100 million in working capital and investment loans to hotels to improve their facilities. The government will also launch the Homes For All programme which includes plans to build a US\$ 180 million Green Energy Park supplying 30 megawatts of renewable energy. Such initiatives will ease the economic fallout of the local and global recessions and the continued restrictions on travel from major tourism source markets such as Canada and the United States. Despite early expectations for economic improvements in 2020, the pandemic has worsened the economic landscape and created considerable uncertainty, and real GDP growth is now forecast at -8.8%. However, there is considerable downside risk to this forecast, in the form of lengthy border closures or restrictions and a slow recovery in tourist arrivals as a result of a second or third wave of the coronavirus in international and regional tourism source markets.

### ***(iii) Prices, wages and employment***

Compared to the same period in 2018, unemployment remained unchanged at 10.1% in December 2019. The impending economic recession, coupled with the severe impact of the pandemic on the tourism sector, is expected to increase this rate significantly in 2020. Temporary layoffs because of restricted business activity have led to unprecedented unemployment claims (26% of the labour force). While this may be partly resolved by the extension of unemployment insurance and by funds set up for businesses that commit to retaining 75% of staff in the short run, the medium- to long-term impact will be significant.

Notwithstanding falling international energy and imported food prices, inflation increased slightly to 4.1% in 2019 relative to 3.7% in 2018, on account of disruptions owing to the impact of persistent drought conditions on non-sugar agriculture, of sargassum seaweed on fish catches and of policy measures to increase cost recovery at some State-owned enterprises. In March 2020, the moving average rate of inflation stood at 4.3% relative to 2.1% in the year-earlier period. However, by the end of 2020, the inflation rate is expected to drop sharply given that pandemic containment measures have dampened demand. Historically low crude oil prices are expected to decline further in 2020, lowering the inflation rate even more. This may be offset by ongoing changes to the tax system.

## **Belize**

### **(a) General trends**

Growth in the Belizean economy slowed to -2.0% in 2019, down from 2.1% in 2018. Activity in the primary sector contracted by 0.9%, owing to the impact of disease on the citrus industry and farmed shrimp production, which was only partly offset by higher sugar cane and banana output. Secondary sector activity declined by 11.7%, reflecting reduced construction activity and electricity generation. By contrast, tertiary sector value added rose by 2.6% on account of growth in distributive trades and government services, which outweighed the decline in tourism. Inflation picked up slightly to 0.01% in 2019, from -0.02% in 2018. Average unemployment increased marginally to 10.4% from 9.4% in 2018. Despite the government's focus on consolidation, fiscal policy was expansionary in 2019, with the overall deficit widening to 3.5% of gross domestic product (GDP), a five-fold increase on 2018. The fiscal outturn stemmed from lower revenues and higher capital investments in road infrastructure and sports and other facilities. The external position also weakened, with the balance-of-payments current account deficit widening to 9.5% of GDP in 2019, from 8.1% of GDP in 2018. This was driven by an expansion in the trade deficit, as a result of lower goods exports, tourism receipts and remittances inflows, and higher goods imports.

The economy is projected to decline significantly in 2020, by 14.0%, owing to a slump in tourism demand amid border closures in response to the coronavirus disease (COVID-19) pandemic. In line with other countries, Belize took a number of measures, including stay-at-home orders, physical distancing and border closures, the combined effect of which reduced foreign tourist arrivals and domestic demand. Before the pandemic, growth was projected at 0.4%, curbed by the impact of drought conditions on agriculture, fewer visitor arrivals and lower tourism spending. Weak domestic demand and subdued international fuel prices are expected to lead to lower inflation. Unemployment is expected to increase, as reduced demand results in job losses in tourism, distribution and other sectors.

The recently approved budget projected a deficit of 3.23% of GDP. However, higher spending on health and public assistance and lower government revenues may well cause the deficit ratio to more than double. An increased deficit would lead to growth in public debt, reversing governments efforts at debt consolidation. The balance of payments current account deficit is expected to widen significantly owing to a collapse of tourism receipts and lower goods exports and remittances. Combined with

reduced capital inflows, this could put a strain on foreign exchange reserves, which are needed to pay for essential imports.

## **(b) Economic policy**

### **(i) Fiscal policy**

Fiscal policy was expansionary in 2019, and characterized by a sharp rise in the overall fiscal deficit from 0.7% of GDP to 3.5% of GDP on a calendar year basis. This fiscal outturn is attributable to a 1.9% fall in total revenues to 1.171 billion Belize dollars (BZ\$), reflecting reduced non-tax revenues and grant receipts that overshadowed an increase in tax receipts. Tax revenues rose by 2.2% to BZ\$ 1.046 billion on the back of higher proceeds from income tax, sales taxes, stamp duty, and excise duties. However, non-tax revenues and grants fell, owing to lower income from Belize Telemedia Ltd (BTL) and the ship registry and a 60% fall in grant receipts.

Total expenditure climbed 6.5% to BZ\$ 1.301 billion, with a 28.9% increase in capital investments to BZ\$ 217.0 million. There was a strong focus on transport infrastructure—including three major highways, and roads and bridges—, housing projects, and sports and health facilities.

Public sector debt rose by 3.3% to BZ\$ 3.733 billion, equivalent to 99.7% of GDP. The higher level of debt stemmed from increases in both domestic and external borrowing. Net domestic financing amounted to BZ\$ 54.3 million and net foreign borrowing BZ\$ 117.3 million.

In the first quarter of 2020, the fiscal deficit more than doubled to BZ\$ 80.9 million. Total revenues and grants declined 4.8%, while total expenditure expanded 8.5%. The deficit is expected to increase substantially in 2020, owing to higher government spending to combat and contain the fallout from the COVID-19 pandemic and lower tax and non-tax revenues. The government has obtained a US\$ 6.2 million loan from the Inter-American Development Bank (IDB) to help mount an effective response to the pandemic.

### **(ii) Monetary and exchange-rate policy**

Monetary policy was neutral in 2019, with the central bank leaving its policy reserve requirement for commercial banks unchanged. Monetary developments were marked by a 5.8% expansion in the broad money supply, the largest growth since 2015. The money supply was boosted by a 6.2% (BZ\$ 166.3 million) increase in net domestic credit, driven by a rise in private sector credit to tourism, agriculture, construction and other sectors. Commercial banks lent BZ\$ 115.7 million to the private sector, the largest amount since the global financial crisis of 2008.

This growth in credit reduced liquidity in the banking system. Therefore, commercial banks' excess liquid assets declined by BZ\$ 40.0 million to 30.7% above the statutory benchmark. The net foreign assets of the banking system contracted, owing to lower holdings by commercial banks on account of higher payments for imported goods and services, while the central bank's share declined as a result of higher external debt service payments.

The weighted average deposit rate fell by 10 basis points to 1.1%, despite the tightened liquidity conditions. The weighted average loan rate declined by 20 basis points to 8.8%. As a result, the interest rate spread narrowed by 10 basis points to 7.7%.

### **(iii) Other policies**

The 2020/21 budget proposed a range of measures to increase the ease of doing business, facilitate business development, upgrade infrastructure and to improve the welfare of marginalised groups. Measures included the reform and modernization of the customs department to improve the efficiency of cargo clearance, maximise revenue generation and protect the country's borders. Further steps will be taken to reform public procurement through training and improved alignment with public policy. The

government has also adopted key measures to address the pandemic. It has allocated funds for medical equipment and supplies, and for Cuban medical personnel. A loan of BZ\$ 75 million has been secured from the central bank to provide assistance for the unemployed for the next seven months and a loan of BZ\$ 100 million is earmarked to top up the Building Opportunities for Our Social Transformation (BOOST) cash transfer programme for the needy.

### **(c) The main variables**

#### **(i) The external sector**

The balance of payments current account deficit widened from 8.1% of GDP in 2018 to 9.5% of GDP in 2019. This worsening position was a result of an increase in the goods deficit from 24.9% of GDP to 27% of GDP and repatriation of more earnings by local banks. Goods imports grew by 5.5%, reflecting higher import payments for fuels, manufactures and other goods. Total goods exports increased by 5.8%, owing to higher exports of sugar, molasses, marine products and bananas.

The services account surplus expanded from 20.4% of GDP to 21.6% of GDP, bolstered by an 8.1% (US\$ 466.3 million) increase in net travel receipts in line with the growth in high-spending stay-over visitor arrivals. This was supported by improvements in the transportation and government services sub-accounts. The income account deficit widened from 7.8% of GDP to 8.5% of GDP, fuelled mainly by higher repatriated and reinvested earnings by banks. This was only partly offset by remittance inflows, which grew by 7.1% to US\$ 5.6 million.

The surplus on the capital and financial account increased from 7.1% of GDP to 8.5% of GDP. Net foreign direct investment (FDI) inflows amounted to US\$ 100.8 million, bolstered by higher investments in tourism-related construction projects, but they were partly offset by lower inflows into agriculture and real estate. Financing inflows were also boosted by US\$ 24.9 million of net public sector borrowing, including a United States Treasury Note purchase by the Caribbean Community Climate Change Centre and an increase in trade credit for the import of electricity from Mexico. Gross international reserves contracted by US\$ 17.8 million, covering 3.2 months of goods imports.

#### **(ii) Economic activity**

Economic activity slowed in 2019, with meagre growth of 0.3%, compared with 2.1% in 2018. Primary activity was dampened by a severe drought that led to reduced agricultural output and hydroelectricity production. The drought resulted in a substantial decline in maize and vegetable crops but boosted sugar cane deliveries and the sucrose content of the harvest. Therefore, sugar cane deliveries rose by 5.1%. Citrus yields declined by 9.6%, owing to the effects of disease and drought. In the secondary sector, the drought conditions led to a 23.5% fall in electricity generation, which was partly offset by higher manufacturing sector output.

The services sector provided some optimism, with growth of 2.6%. Buoyant activity in distribution, financial intermediation and government services compensated for the slowdown in tourism; although stay-over arrivals rose by 2.0% to a record 447,068 visitors, this was substantially lower than the 12.6% growth in 2018. Arrivals were affected by security concerns, combined with the spread of sargassum seaweed along the coast and slower economic growth in key markets. Cruise passenger arrivals fell by 3.1%, following exceptional growth in 2018 when ships diverted to Belize to avoid hurricane-ravaged islands in the Caribbean.

The combined effects of COVID-19 and drought conditions on agriculture are expected to lead a contraction of 14% in 2020, one of the largest in the Caribbean. There has been a substantial decline in tourist arrivals and spending with knock-on effects on other sectors and employment.



### **(iii) Prices, wages and employment**

Inflation was flat (0.01%) in 2019, after mild deflation (-0.02%) in 2018. Food and non-alcoholic beverage costs increased by 0.1%, following a decline of 0.6% in 2018. There were also small increases in prices for education and hotel and restaurant services. This growth was partly offset by falls in the prices of clothing and footwear, housing, water, electricity, gas and other fuels, and health services.

The average rate of unemployment fell slightly to 9.1% in 2019 from 9.4% in 2018 owing to job growth in the services sector, and especially in distributive trades. The growth in employment outpaced a parallel increase in the labour force participation rate.

## **Eastern Caribbean Currency Union (ECCU)**

### **(a) General trends**

The Eastern Caribbean Currency Union (ECCU) posted its ninth consecutive year of economic expansion in 2019. Average real GDP growth in the Union was 2.8% for 2019, down from 3.5% in the previous year, with all ECCU economies again generating positive outturns. This increased economic activity was primarily fuelled by growth in the hotels and restaurants, and transport, storage and communications sectors, and to lesser extent the wholesale and retail trade, and the construction sector.

The coronavirus disease (COVID-19) pandemic forced ECCU economies to shut their borders, increase fiscal spending on the health sector and to take steps to keep the economy afloat. The result of the crisis has been a virtual collapse of the tourism sector in many islands and the liquidation of the regional airline LIAT. The crippling effect of the COVID-19 pandemic on the tourism sector, including the Union's airline industry, and on global and domestic demand is expected to cause a double-digit economic contraction across the ECCU economies in 2020. Citizen by Investment Programme (CIP)-fuelled construction activity, government-funded infrastructure projects and education tourism—with concomitant positive spillovers into key ancillary sectors such as wholesale and retail—are expected to be the main mitigating drivers of economic activity. In the short term, economic activity across the Union is expected to be dampened by the weakness of the projected recoveries in tourism, construction and ancillary sectors, reduced inflows of foreign direct investment (FDI), increased public debt and debt service costs, a sluggish global economic recovery, weak demand, deferral of investments in response to global economic uncertainty, and challenges to the Union's offshore financial services sector owing to greylisting and blacklisting of ECCU economies.

ECCU economies began to ease their fiscal consolidation efforts in 2019, given the need to further stimulate economic activity. This led to a substantial increase in the aggregate fiscal deficit, as growth in current revenue was outstripped by the upturn in current expenditure. There was a concomitant shrinking of the primary surplus, indicating a deterioration of the fiscal positions of all the ECCU economies. The Union's debt stock increased, owing to a 1.6% uptick in the outstanding debt of central governments, although its debt to GDP ratio continued to decline.

The Union's monetary policy stance remained unchanged in 2019, focusing on maintaining the fixed exchange rate peg to the United States dollar. Strong real sector performance drove an expansion in both money supply (M1) and quasi-money, allowing an expansion of monetary liabilities (2.4%) in 2019, albeit marginally slower than the previous year. However, private sector time deposits continued to decline, suggesting that interest rates remain unattractive, with the weighted average deposit rate again remaining steady at 1.6%. Moreover, ECCU international trade performance improved in 2018 as the goods trade deficit narrowed.

Despite stronger oil prices, price pressures in ECCU were subdued, with inflation at 0.1% in 2019. In 2020, inflationary pressures are expected to be contained by a combination of slower global growth—driving down oil prices—sluggish domestic consumption and continued fiscal prudence from member

governments. Unemployment rates continued to trend downward owing to the pick-up in economic activity in some member States and the continuation of targeted, training-based employment creation programmes such as the Short-Term Employment Programme in Saint Lucia and the Skills Training Empowerment Programme in Saint Kitts and Nevis (both known as "STEP"), and New Imani (Grenada). Addressing youth unemployment, however, is still a structural challenge for ECCU.

## **(b) Economic policy**

### **(i) Fiscal policy**

There was a slight loosening of fiscal consolidation and debt reduction efforts during the review period, as ECCU economies sought to increase public spending to stimulate economic activity, increasingly focused on achieving the target of 5.0% growth. As such, there was a significant year-on-year widening of the consolidated fiscal deficit of central governments.

This weakening of the Union's fiscal position was primarily driven by the failure of the marginal uptick in current revenue to offset a larger increase in current expenditure and an accompanying contraction in grants. Moreover, while current expenditure as a share of GDP increased in 2019, both current revenue and grants as a percentage of GDP declined. However, capital expenditure contracted, suggesting that spending on infrastructure development projects was curtailed in 2019, as reconstruction and rehabilitation activity following the 2017 hurricane season began to taper off.

On the revenue side, there was an increase in value added tax revenue, which offset a contraction in non-tax revenue, allowing current revenue to remain steady, although it fell relative to GDP. The Union's non-tax revenue receipts were driven by CIP inflows, which despite declining by 9.7%, were estimated to be 747.89 million East Caribbean dollars (EC\$) in 2019. Saint Kitts and Nevis (EC\$ 455.94 million), Dominica (EC\$ 147.81 million) and Antigua and Barbuda (EC\$ 112.22 million) accounted for 96% of CIP inflows to ECCU over the review period. In particular, Antigua and Barbuda saw an 88% increase in its CIP inflows in 2019.

On the expenditure side, at the aggregate level the Union largely kept spending growth in check, with only a marginal 3.8% uptick in current expenditure. At the country level, Saint Kitts and Nevis' current expenditure was largely underpinned by a rise in transfers and subsidies (15.6%), and in personal emoluments (4.2%) with the continuation of initiatives such as the payment of an extra month's salary in December, the Poverty Alleviation Programme, and the Skills Training Empowerment Programme (STEP). There was a similar upward trend in personal emoluments payments (8.5%) and transfers and subsidies (2.4%) in Saint Lucia and in Saint Vincent and the Grenadines, where compensation payments to employees (5.5%) and transfers (8.4%) both increased. Current expenditure remained relatively flat in Antigua and Barbuda but saw an upswing of 6.1% in Grenada as a consequence of increased spending on subsidies and transfers, personal emoluments, and goods and services.

In 2019, ECCU governments continued to invest in repairing, upgrading or modernizing key economic infrastructure. Nonetheless, there was a downswing in capital expenditure over the review period. Antigua and Barbuda (2.3%), Saint Kitts and Nevis (10.2%), Saint Lucia (25.7%) and Saint Vincent and the Grenadines (32.2%) were the only ECCU economies which increased capital expenditure. Saint Lucia continued to spend on key infrastructure projects such as the rehabilitation and maintenance of road networks, and Hewanorra International Airport (HIA), and Saint Vincent and the Grenadines embarked on a multimillion dollar (US\$ 27 million) geothermal energy project, with financing from the Caribbean Development Bank (CDB). The Government of Antigua and Barbuda continued its Road Infrastructure Rehabilitation Project, port redevelopment and enhancement project and affordable housing project, as well rebuilding public infrastructure and private homes in Barbuda. The Government of Grenada incurred capital spending on activities such as rehabilitation of the Maurice Bishop International Airport and retrofitting of the Hillsborough Health Center and Princess Royal Hospital in

Carriacou. Public expenditure in Saint Kitts and Nevis focused on construction of the second cruise ship pier, Phase II of the Road Improvement and Maintenance Project, resurfacing of the airport runway and construction of the new Basseterre High School.

Growth in the Union's outstanding public debt stock was slower in 2019 (0.9%) than in 2018 (2.7%). This marginal upswing largely reflected an increase in central government debt. Several central governments incurred further debt to fund crucial public expenditure and budget shortfalls, offsetting a contraction in the debt of public corporations. Increased borrowing by Dominica, Saint Kitts and Nevis and Saint Lucia was the major driver of the Union's increased central government debt. However, the Union's debt to GDP ratio continued to improve, reaching 67.2% at the end of 2019, compared to 69.4% at the end of 2018. In real terms, total debt service payments fell 5.7% to EC\$ 1.8 billion owing to the smaller obligations of Saint Kitts and Nevis and Saint Lucia. However, as a percentage of total revenue, debt service payments increased 40 basis points to 35.8% in 2019.

### **(ii) Monetary policy**

The Eastern Caribbean Central Bank (ECCB) has overarching responsibility for designing and implementing ECCU monetary policy. Over the review period, the monetary policy stance of ECCB remained unchanged, primarily pursuing price stability by maintaining the fixed exchange rate peg to the United States dollar. The nominal exchange rate between the East Caribbean dollar and the United States dollar was unchanged at its fixed rate of EC\$ 2.7 = US\$ 1 at the end of 2019.

Strong year-on-year real sector performance and substantial CIP inflows contributed to further increases, albeit slight, in narrow money (6.6% compared to 6.7% in 2018) and broad money (2.6% compared to 2.8% in 2018), with the latter generated by positive outturns in all forms of money. An expansion in private sector demand for credit buoyed monetary liabilities (M<sub>2</sub>). Money supply expanded 14.7% after contracting (-2.09%) in the previous year in Saint Kitts and Nevis, while M<sub>2</sub> contracted by 6.3% in Dominica as money supply declined by 16.82%.

ECCU commercial bank liquidity remained well above the mandated threshold of 20% in 2019, with volumes of issued treasury bills and of bonds both increasing. This relatively high liquidity coupled with comparatively flat private sector credit activity (a 0.02% uptick) and heightened competition among commercial banks drove down the weighted average lending rate (down 20 basis points to 7.8%). The weighted average deposit rate, however, was 1.6% for the second consecutive year. Commercial banks in the ECCU remained largely risk-averse in 2019, focused on reducing the level of non-performing loans, and private sector credit as a share of GDP contracted 2.5 percentage points to 49.7%. The central bank adopted various measures to address the consequences of the COVID-19 pandemic, including reducing the monetary policy reference rates for the first time since 2003.

### **(ii) Other policies**

In March 2019, ECCB launched as a pilot a new blockchain-based digital East Caribbean dollar (DXCD) and Digital EC Cash (DCash), which will operate in tandem with the existing East Caribbean dollar. This new digital currency will be issued and controlled by ECCB.<sup>8</sup> This initiative seeks to facilitate cross-border transactions and international trade, and mitigate the threat of de-risking. This project is a component of the wider Strategic Priorities of the ECCU Payment System Modernization Initiative.

Over the review period ECCB continued to support ECCU economies' efforts to achieve the targeted reduction in the Union's public debt to 60% of GDP by 2030, through national fiscal responsibility frameworks and initiatives geared towards strengthening debt management. By the end

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<sup>8</sup> Other cryptocurrencies such as bitcoin are not issued by central banks. These cryptocurrencies are autonomous, and do not fall under the jurisdiction or control of any specific institution.

of 2019, the Union had made steady progress, with an average debt to GDP ratio for the ECCU of 67.2% and Saint Kitts and Nevis (57.4%) already meeting the target.

Given that the Caribbean Community is the Union's second largest tourism source market, the issue of restructuring of the regional airline LIAT emerged as a downside risk to ECCU economic growth in the third quarter of 2019. The airline's restructuring plan, which was designed by CDB (the airline's largest creditor), requires a reduction in the airline's US\$ 60 million debt burden, implementation of a minimum revenue guarantee payable annually (in particular, on routes that are not viable), and a reduction in management and pilot remuneration by up to 10%. The plan also calls for greater efficiency system-wide, including reducing the workforce and re-fleeting ten new aircraft from the manufacturer ATR.

In the education services sector, in an effort to systemically address the challenge of ECCU having the lowest rates of youth tertiary education enrolment and the highest youth unemployment rates in the region, the University of the West Indies (UWI) Five Islands Campus was established in Antigua and Barbuda. The Five Islands Campus begun admitting its first students in September 2019.

With respect to climate change mitigation and geothermal energy use, Saint Vincent and the Grenadines, commenced drilling work in the first quarter of 2019 in collaboration with Iceland Drilling Company, with the aim of completing four wells. Dominica also began its drilling projects in 2019.

## **(b) The main variables**

### **(i) The external sector**

With respect to international trade, there was a marginal widening (0.5%) of the ECCU goods trade deficit to US\$ 2.319 billion (33.03% of GDP) in 2019, despite Antigua and Barbuda, Dominica and Saint Lucia all managing to narrow their goods trade deficits. Buoyed by a significant upswing in travel receipts as visitor arrivals from the major source markets increased, the deficit on the Union's balance of goods and services, however, shrank from US\$ 378.6 million in 2018 to US\$ 123.3 million in 2019. Performance of the ECCU-wide current and capital accounts both improved in 2019, with the current account deficit shrinking (28.7% to US\$ 538.8 million) and the capital account surplus expanding (3% to US\$ 320 million). Although the borrowing position of the Union improved as a result, by virtue of being a net importer, ECCU continued to incur debt to offset its current account deficit.

### **(ii) Economic activity**

Despite economic growth slowing from 3.5% in 2018 to 3.1%, 2019 was the ninth consecutive year of increased economic activity for ECCU<sup>9</sup>, with all member economies again posting positive outturns. This result was primarily driven by growth in the tourism sector (hotels and restaurants), and the transport, storage and communications sector, and to a lesser extent by wholesale and retail, and construction. The Union's economic performance was largely driven by strong economic activity in the fastest-growing ECCU economies: Antigua and Barbuda (5.8%), Dominica (5.7%) and Grenada (3.1%).

In the tourism sector, total visitors to the Union increased during in 2019, as a 9.4% upswing in stay-overs (to 11.9 million) more than offset a marginal decline in cruise-ship visitors. The number of stay-over visitors increased in all ECCU countries in 2019. In addition, driven by an 85% increase in calls to Dominica, the number of cruise ship calls to ECCU increased (by 23) to 1,949 over the review period. Antigua and Barbuda and Dominica also saw significant rises in yacht calls. This increased tourism activity fuelled a robust expansion (56%) in tourist spending across ECCU to US\$ 3.46 billion. Moreover,

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<sup>9</sup> Refers to the six ECLAC Caribbean ECCU countries: Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

value-added in the hotels and restaurants sector, which is a measure of tourism sector activity, expanded by 8.4% in 2019, up from 7.9% in the previous year.

A number of developments across individual ECCU economies contributed to the strong tourism outturn. For instance, Antigua and Barbuda increased the marketing budget for its Tourism Authority, which launched its #WhatCoolLooksLike summer campaign in 2019. During the review period, new flights were added from Miami, New York and North Carolina, and the Royalton and Hammock Cove resorts both opened their doors. The collective result was a 11.9% increase in stayover arrivals in Antigua and Barbuda. In Saint Lucia, JetBlue, British Airways, Sunwing, Virgin Atlantic and United Airlines all maintained their services and some even increased their presence at Hewanorra International Airport (HIA), contributing to the 7.3% increase in stay-overs. Saint Kitts and Nevis continued to promote sports tourism, particularly golfing holidaymakers from Canada and United Kingdom, driving a 6.6% uptick in stay-over arrivals. In Grenada, flights also increased, the Tourism Authority intensified marketing efforts, and there was a continued focus on rehabilitation and expansion of room stock, contributing to a 1.2% increase in stay-overs. In Saint Vincent and the Grenadines, Caribbean Airlines introduced a weekly flight from New York to Saint Vincent and Air Canada launched a winter service from Toronto, both of which contributed to increased (6.5%) stayover numbers.

Construction value-added expanded 7.9% in ECCU, driven by positive outturns in Antigua and Barbuda (17%), Dominica (6.7%) and Saint Kitts and Nevis (2%). Fuelled by growth in CIP inflows, private construction activity focused on tourism-related projects. Public sector construction, such as the Antigua and Barbuda Road Infrastructure Rehabilitation and the St. John's port redevelopment project, placed emphasis on modernization, reconstruction and rehabilitation of key economic infrastructure. Following strong performance in the prior year, manufacturing activity in the Union was muted in 2019, with sectoral value-added contracting marginally (0.6%). This came despite an increase in sectoral value-added of 9.1% in Dominica owing to growth in production of beverages and soaps and a rise of 6.1% in Grenada. Agricultural output picked up considerably (with value-added increasing by 10.6%) in 2019, as sectoral value-added expanded in all ECCU economies except Saint Lucia. Moreover, crop production increased (particularly nutmeg), as did the value of banana exports. The education services sector in Grenada, which accounts for 17.2% of GDP, rebounded in 2019 to grow by 4.5% following a 5.1% dip in the previous year.

The crippling effect of the COVID-19 pandemic on the tourism sector—including the Union's airline industry—and on global demand is expected to cause a double-digit economic contraction across ECCU economies in 2020, with CIP-fuelled construction activity, government-funded infrastructure projects, and concomitant positive spillovers into key ancillary sectors such as wholesale and retail providing the main mitigating drivers of economic activity.

### ***(iii) Prices, wages and employment***

The modest inflation of 1.3% seen in ECCU in 2018 slowed almost to a halt in 2019, reaching 0.1% by year-end, as price pressures remained moderate, despite relatively strong oil prices which averaged US\$ 59.60 per barrel in 2019. Indeed, Saint Kitts and Nevis (-0.84%) and Saint Lucia (-0.70%) experienced deflation in 2019, while the consumer price index was largely unchanged in Grenada, recording a minimal rate of inflation of 0.07%. Communication, and food, alcoholic and non-alcoholic beverages trended upward in most ECCU economies, while gas and fuel prices trended downward in Grenada and Saint Lucia. Sluggish domestic demand in ECCU economies is expected to further cool endogenous inflationary pressure in 2020. Inflation is expected to be further constrained by a combination of weak global growth and demand owing to the COVID-19 pandemic, weak oil prices, and fiscal prudence by member governments in response to the economic contraction.

Statistics on wage levels are generally not available. High unemployment, particularly among youth, has been a major structural challenge for ECCU economies. However, in recent years,

unemployment rates have been trending downward owing to the pick-up in economic activity and implementation of targeted training-based employment creation programmes such the Short-Term Employment Programme in Saint Lucia and the Skills Training Empowerment Programme in Saint Kitts and Nevis (both known as "STEP") and New Imani in Grenada. However, there was a slight reversal in this trend in some economies in 2019, with the number of persons employed in the Commonwealth of Dominica contracting by 1.7% (to 4,163), and youth unemployment rising 4.7 percentage points year-on-year to 34.7% in September 2019. However, Grenada's unemployment rate continued its downward trajectory during the first quarter of 2019, falling to 15.2% from 16.7% at the end of the third quarter of 2018. In Saint Lucia overall unemployment fell 3.4% year-on-year to 17.5% in September 2019.

## Guyana

### (a) General trends

Economic activity in Guyana had accelerated ahead of the commencement of commercial oil production in December 2019, with growth estimated at 4.7% in 2019, up from 4.1% in 2018, fuelled by oil and gas sector investments and the buoyant performance of traditional industries, including rice, gold and tourism. Growth is projected to jump to 44.3% in 2020, as commercial oil production is expected to reach the full potential (120,000 barrels per day) of the Liza Phase I project. The schedule has been set back, however, owing to challenges with the gas compressor. In addition, downside risk is high as the return of technical crews to Guyana has been delayed by restrictions to contain the spread of coronavirus disease (COVID-19). Growth in the non-energy sector is also expected to have been negatively impacted by the COVID-19 pandemic, as well as by the political uncertainty related to the regional and general elections held in early March 2020.

Although fiscal revenue increased by 10.9% owing to increases in tax revenues, the central government's fiscal deficit expanded modestly to 3.5% of gross domestic product (GDP) in 2019, up from 3.4% in 2018. Current expenditure rose by 8.3%, reflecting higher staff costs and increases in purchases of goods and services, while capital expenditure increased by 20.4%, largely due to disbursements in housing, power generation and education. The fiscal 2020<sup>10</sup> budget had not been presented as of the end of July when this report was prepared, but total revenue is expected to increase further, driven by revenues from oil production, although the oil revenues will likely be lower than previously estimated owing to the declines in international oil prices. Fiscal expenditure is also expected to expand because of the government's likely inclusion of a fiscal package to tackle the COVID-19 crisis.

The monetary policy stance remained accommodative in 2019, as net redemptions of treasury bills issued for monetary policy purposes amounted to 20.0 billion Guyana dollars (G\$), while the central bank rate and the reserve requirement ratio were unchanged at 5.00% and 12.0%, respectively. Commercial interest rates continued to fall, and year-on-year private sector credit expanded by 8.6% in 2019. Inflation increased from 1.6% in 2018 to 2.1% in 2019, reflecting higher food prices (6.2%). In 2020, overall inflation is expected to be subdued as non-energy sector activity will be weak owing to the restrictions to contain COVID-19, although inflationary pressures are likely to exist for some essential goods and services.

The current account deficit widened from 37.2% of GDP in 2018 to 44.2% in 2019, largely as a result of increases in imports of capital goods and parts and accessories, reflecting investments in the oil and gas sector. The current account deficit is expected to narrow in 2020, as Guyana starts to collect large revenues from oil exports, although this will be partly offset by outflows of profits to foreign oil companies.

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<sup>10</sup> The fiscal year in Guyana is concurrent with the calendar year.

**(b) Economic policy****(i) Fiscal policy**

In 2019, the central government's fiscal deficit edged up to 3.5% of GDP in 2019 from 3.4% in 2018. Current expenditure rose by 8.3%, reflecting higher staff costs and increases in purchases of goods and services, while capital expenditure increased by 20.4%, largely due to disbursements in housing, power generation and education. On the other hand, fiscal revenue increased by 10.9%, owing to increases in income tax from private corporations and individuals, as well as value added tax (VAT) and excise taxes.

The fiscal 2020 budget had not been presented as of 11 June, as Parliament was dissolved on 30 December 2019 to hold the regional and general elections on 2 March 2020. As both the ruling coalition, A Partnership for National Unity (APNU), and the main opposition, the People's Progressive Party/Civic (PPP/C), claimed victory after the elections, a recount was held. The final declaration of the election result was expected to be delivered by 16 June.

In the absence of an approved budget, the government is authorized to spend only one twelfth of the 2019 budget for recurrent expenses each month, as well as rolled over capital projects, but may not sign new capital contracts. Meanwhile, the government announced or implemented a number of relief measures to deal with COVID-19, including the removal of VAT on utility bills, waiver of VAT and duties on medical supplies, extension of the deadline for the filing of tax returns, the distribution of food packages to support the vulnerable population affected by the COVID-19 pandemic and cash transfers for small farmers.

Once the final election result is declared, the government will present the fiscal 2020 budget. Fiscal expenditure is expected to expand from 2019, as the government will likely include a fiscal package to tackle the COVID-19 crisis, as well as delivery on some of the election promises. Total revenue is also expected to increase, driven by the revenues from oil production, although declines in international oil prices will make these lower than previously estimated.

In order to finance the fiscal measures to combat the negative impacts of the COVID-19 pandemic, the government is seeking to tap funding from international sources, such as the United States and India, and agencies, including the World Bank and the International Fund for Agricultural Development (IFAD).

**(ii) Monetary policy**

The Bank of Guyana has maintained an accommodative monetary policy stance since the 2008–2009 global financial crisis. Although the central bank lending rate, the bank rate, has remained at 5.00%, treasury bill rates declined in 2019, following G\$ 20.0 billion net redemptions of treasury bills issued for monetary purposes. For example, the 182-day treasury bill rate decreased from 0.96% in December 2018 to 0.89% in December 2019, and the 364-day treasury bill rate came down from 1.23% to 1.00%. The average small savings rate and the weighted average lending rate also fell, from 1.04% to 0.97% and from 10.02% to 9.18%, respectively. During the first three months of 2020, most interest rates remained unchanged.

Falling interest rates underpinned the surge in net domestic credit, up 17.5% in 2019, as more loans were granted to both the public and private sectors. Private sector credit increased by 8.6% in 2019, driven mainly by higher credit to the other services sector and real estate mortgage loans. Public sector credit expanded significantly, by G\$ 23.7 billion, mainly as a result of a worsening central government net credit position. Owing to the uptick in domestic credit as well as in net foreign assets, the broad measure of money supply, M2, increased by 16.8% in 2019.

The central bank has implemented several financial measures in response to the COVID-19 crisis, including a three-month moratorium before classifying affected loans as non-performing, and has encouraged financial institutions to offer relief such as reduction in interest rates and deferral of loan

payments. During the rest of 2020, the monetary policy stance is expected to remain accommodative, unless unexpected inflationary pressures arise with the commencement of oil production.

**(iii) Exchange-rate policy**

The central bank's exchange rate remained constant at G\$ 208.5 to US\$ 1 over 2019 and the first three months of 2020, although the market exchange rate recorded a small depreciation. Throughout the rest of 2020, the exchange rate is expected to remain stable as the government seeks to stabilize prices.

**(iv) Other policies**

The government established the Natural Resource Fund (NRF), a sovereign wealth fund to manage oil revenues for sustainable development, in January 2019. The management of NRF is to be steered by the principles of good governance, including transparency, accountability and international best practices. In February 2020, the government's first entitlement of crude oil was lifted from the oil production facility of the Liza Phase I project, amounting to over 1 million barrels. The corresponding payment to NRF, in March 2020, was US\$ 54.9 million, and this was followed in April by a further US\$ 4.9 million in royalty payments for the first quarter of 2020.

**(b) The main variables**

**(i) The external sector**

Despite higher receipts from gold and rice exports, the current account deficit widened from 37.2% of GDP in 2018 to 44.2% of GDP in 2019, as a result of increased imports of capital goods and parts and accessories, following large investments in the oil and gas sector.

The merchandise trade deficit jumped from 26.7% to 35.6% of GDP, reflecting a 25.3% increase in merchandise imports. There was a 128.5% surge in imports of mining machinery, and imports of parts and accessories rose by 34.3%, as a result of large investments in the oil and gas sector. Meanwhile, exports increased by 13.8%, largely due to a 14.3% increase in gold exports and 19.7% growth in rice exports. Higher international gold prices and improved road conditions contributed to the expansion in gold exports, while better agronomic practices and higher-yielding varieties of rice (for example, the Guyana Rice Development Board (GRDB) 15 variety) boosted rice exports.

The net services deficit decreased marginally, when expressed as a GDP ratio, from 22.5% in 2018 of GDP to 21.7% of GDP in 2019, as the non-factor services deficit narrowed. The latter was attributable to lower payments for insurance services, consulting and management services, and advertising and marketing research services, while payments for other business services increased, including oil exploration services. Conversely, the deficit on the factor services account edged up from 0.7% to 1.1% of GDP, as a result of lower investment income.

Net inflows on the capital account increased from 2018 to 2019, thanks to larger inflows of foreign direct investment to the mining and oil sector. As the larger net capital inflows offset the expansion in the current account deficit, the overall balance-of-payments deficit narrowed from 3.4% to 1.2% of GDP. The balance-of-payments deficit was financed by debt reduction resulting from a bilateral debt settlement agreement signed with the Government of Kuwait, contributing to an improvement in international reserves from US\$ 528.4 million at the end of 2018 to US\$ 575.9 million at the end of 2019. However, in terms of import cover, international reserves decreased from 1.8 to 1.6 months, due to the increases in goods and services imports.

A surplus on the balance of payments is expected in 2020 for the first time since 2012, against a backdrop of a lower current account deficit as petroleum exports boost export receipts. Meanwhile, the capital account is expected to record a lower surplus than in 2019, as a result of the adverse effects of the COVID-19 pandemic.



## **(ii) Economic activity**

Guyana's economic growth continued to accelerate, reaching 4.7% in 2019, up from 4.1% in 2018, primarily on the basis of oil and gas sector investments and an uptick in traditional industries such as rice, gold and tourism. Rice production increased by 8.8%, owing to improved agronomic practices and higher-yielding varieties, while gold declaration increased by 4.7% as output of small- and medium-scale miners increased by 23.9% thanks to improved road conditions. Gains in the tourism industry were driven by American Airlines' new non-stop flights from Miami, as Guyana has been working to position itself as an ecotourism destination. The construction industry also experienced growth, resulting from execution of public infrastructure projects, while the services sector, including financial and insurance industries, wholesale and retail trade, real estate, transportation and storage and other services, experienced increased activity driven by higher demand from oil and gas, tourism and construction activities.

Conversely, sugar production decreased by 11.9% in 2019, to below 100,000 tons for the first time since 1926. The decline resulted from a late start of the second crop resulting from the extended rainy season, adverse weather from the last week of November, mechanical failures of factories due to delays in capital investments and increasing industrial unrest. Output of bauxite also contracted by 0.3%, owing to industrial unrest at the Bauxite Company of Guyana in early 2019, despite favourable export market conditions.

Growth is projected to jump to 44.3% in 2020, as commercial oil production commenced in December 2019 and is expected to reach the full potential (120,000 barrels per day) of the Liza Phase I project in 2020. The schedule has been delayed, however, owing to challenges with the gas compressor, which forced ExxonMobil to cut oil production from 80,000 barrels per day to between 25,000 and 30,000 barrels per day in June to avoid flaring large volumes of gas. The company is committed to rectifying the compressor by July, but the downside risk is high as the return of technical crews to Guyana has been delayed by restrictions implemented to contain the spread of COVID-19.

Growth in the non-energy sector is expected to have been negatively impacted by the great uncertainty stemming from the COVID-19 pandemic, as well as the contested regional and general elections in 2020. The government has imposed emergency measures to combat the pandemic, including the closure of the country's airspace to all international arrivals from 18 March 2019, and the closure of non-essential businesses and the enforcement of a nationwide curfew from 3 April.

These emergency measures have been maintained, and on the date this report was prepared international airports remained closed, although the government is preparing for a possible reopening in the last quarter of 2020, and a possible return to normalcy in 2021.

The emergency measures have been severely affecting the tourism sector, the retail and restaurant sector and the construction sector. According to the Private Sector Commission, economic activity in the tourism sector has come to a halt, while businesses in the retail and restaurant and the construction sectors have seen declines of between 40% and 50%.

In the agricultural sector, sugar production has been negatively affected by the social distancing measures as well as by several protests seeking wage increases. The preliminary result of the first crop production in 2020 stood at 31,740 tons against a target of 46,476 tons, although the shortfall is expected to be mitigated by continued production thanks to good weather. In contrast, rice production was not affected significantly by the COVID-19 pandemic. The yields of the first season approached the record yields produced in 2019, thanks to the improvement of extension services of the Guyana Rice Development Board and the expansion of public agricultural investments. The mining industry has been affected by the COVID-19 pandemic and response measures, as some operations in gold and bauxite subsectors have been suspended owing to the departure of expatriate workers and management from the country, as well as an industrial dispute.

### **(iii) Prices, wages and employment**

Inflation ticked up from 1.6% in 2018 to 2.1% in 2019, reflecting higher food inflation as well as lower deflation in footwear and repairs. Food prices rose by 6.2% in 2019, up from 3.1% in 2018, affected by adverse weather conditions and higher prices of imported food items. Footwear and repairs prices continued to decline, but the pace of this decline slowed considerably, from -12.6% to -1.2%. By contrast, lower fuel prices contributed to the disinflation in the housing and the transportation and communication items, which declined by 0.8% and 0.6% respectively. In February 2020, the overall inflation rate declined to 1.4%, as food inflation decreased to 3.7%. Inflation is expected to be subdued for the rest of the year, as non-energy sector activity is set to remain weak owing to the restrictions to contain COVID-19, although some inflationary pressures may exist for certain essential goods and services.

Although employment within core civil services increased by 1.3%, the job cuts at the State-owned Guyana Sugar Corporation contributed to a 0.8% fall in total public sector employment in 2019. In the private sector, jobs were created in the construction, transport, distribution and financial service sectors, thanks to increased infrastructure projects, growing incomes and favourable investment flows. In addition, the oil and gas industry created some local employment for support and technical services.

In the framework of the government's commitment to improve wages and salaries, wage increases for public servants were announced in 2019, ranging from 9% for those earning less than G\$ 100,000 a month to 3% for those with monthly salaries starting at G\$ 1 million. Nevertheless, industrial unrest increased in 2019 as the number of strikes increased to 59 from 44 in 2018, reflecting disputes over wages, working conditions and other matters.

## **Jamaica**

### **(a) General trends**

The Jamaican economy grew again in 2019, albeit at a slower rate of 0.9% in 2019, relative to 1.9% in 2018. However, a downturn is expected in 2020 owing to the impact of the coronavirus disease (COVID-19) pandemic on the Jamaican economy. Public policy has focused on protecting people, and all activities have been affected, with fiscal support being provided to many sectors. As a result of the pandemic, tourism, which is the engine of the economy, has almost ground to a halt. Furthermore, gross remittances declined by 9.8% between January and April 2020 and GDP is expected to contract by 5.3% in 2020.

The economic policy of the past three years was influenced by the US\$ 1.64 billion Stand-by Arrangement (SBA) with the International Monetary Fund, an agreement that was treated as precautionary and which ended in November 2019.

The annual average inflation rate in 2019 was 6.2%, slightly above the 6.0% upper limit of the Bank of Jamaica (BOJ) target. During the year, BOJ continued to ease monetary policy, reducing its policy interest rate on four occasions by a total of 125 basis points to a record low of 0.50% per annum. The central bank also lowered the cash reserve requirement on two occasions by a cumulative 5 percentage points to 7.0%, increasing liquidity in the financial system by J\$ 28.1 billion.

Public debt fell to an estimated 91.1% of GDP at end-2019, down from 120.2% in 2016. The public debt overhang, despite trending downwards, remains a significant challenge to the performance of the economy, and the expenditures to address COVID-19 will undoubtedly increase the debt burden. Therefore, the fiscal consolidation programme to rein in expenditure and increase revenue is still necessary to bring these high debts down to manageable levels.

Throughout 2019, the exchange rate against the United States dollar was characterized by cycles of appreciation and depreciation. In fact, the Jamaican dollar experienced five marked cycles of

upswings followed by downswings. On average in 2019, the Jamaican dollar depreciated by 3.6% against the United States dollar, compared with depreciation of 0.9% in 2018.

The weighted average selling rate (WASR) closed the first quarter of 2020 at 135.39 Jamaican dollars (J\$) to US\$ 1.00, with depreciation of 2.1% on the fourth quarter of 2019 and depreciation of 7.1% relative to end-March 2019.

BOJ maintained a strong net international reserve position during 2019, with reserves rising by US\$ 157.1 million to close at US\$ 3.163 billion. Gross reserves amounted to US\$ 3.631 billion at end-2019, representing more than 110% of the IMF Assessing Reserve Adequacy (ARA) metric.

## **(b) Economic policy**

### **(i) Fiscal policy**

Jamaica's medium-term macroeconomic programme and policies were supported by a three-year SBA with IMF, which came to an end in November 2019.

The end of the agreement marked six and a half years of continuous IMF-supported reform programmes under two successive arrangements. Macroeconomic stability has improved, public debt is significantly lower, and unemployment is at a historic low. Despite this, for most of the past six years, economic growth has remained slow. The Jamaican government has nonetheless remained committed to policy continuity, in order to build confidence in the economy.

As part of fiscal adjustment, in 2019 overall expenditure was down by 1.9% relative to the total budget and all categories of current expenditure ended the year under budget. Final capital spending was also 1.2% lower than budgeted. On the revenue side, overall revenues and grants were 0.7% higher than budgeted, and capital and non-tax revenue were overbudget the most, in percentage terms. Interest payments were down by 5.5% and amortization was 5.3% under budget. Central government operations for fiscal year 2019 resulted in an overall surplus of 0.9 % of GDP which was smaller than the year before.

The COVID-19 crisis will be the focus of fiscal policy in 2020, as a raft of incentives have had to be rolled out to support households and businesses. Despite the country's fiscal constraints, which limit the scope for strong stimuli, the relief programmes (estimated to amount to 1.2% of GDP), include tax breaks, targeted credits and direct cash transfers to those most affected by the containment measures. Other actions have been taken to help farmers affected by the agriculture sector fallout caused by the closure of the tourism industry and lower demand for agricultural produce from hotels and related business.

Despite trending downwards, the public debt overhang remains a significant challenge to the performance of the economy. Fiscal discipline contributed to a reduction in the debt-to-GDP ratio from 135.3% in fiscal year 2012/13 to 101.0% in 2017/18. Debt has continued to decline steadily and was estimated to be 96.4% at the end of fiscal year 2018/19 and 90.9% at the end of 2019/20, 5.1 percentage points below the internal target of 96.0%.

Total debt service as a percentage of revenue and grants is estimated at 45.8% for fiscal year 2018/19, down from 65.5% in 2017/18. The ratio is also projected to decline over the medium-term, improving the government's capacity to meet debt service obligations. However, in light of COVID-19 and the tourism industry challenges, debt service payments are likely to increase in 2021 since the emergency expenditures draw on reallocated funds and new loans. The country's tight fiscal policy is likely to be relaxed this year, as the government will have to sacrifice short-term debt dynamics if it is to cushion the impact of the inevitable GDP contraction in 2020 and provide a boost to the recovery when it eventually materializes. The recovery cannot be robust if failing businesses are not supported.

## **(ii) Monetary policy**

During 2019, BOJ maintained accommodative monetary policy aimed at promoting faster credit expansion to support economic activity and job creation. In terms of actual policies, the central bank reduced its policy interest rate on four occasions, bringing it to a historic low of 0.50% per annum. The central bank also lowered the cash reserve requirement on two occasions by a cumulative 5 percentage points to 7.0%, increasing liquidity in the financial system by J\$ 28.1 billion.

The BOJ monetary policy objective is also to maintain inflation between 4.0% and 6.0%. Inflation within this target range is projected to facilitate sustained growth and economic development. However, no robust growth has yet occurred.

In line with the positive but slower economic growth, narrow money (M1) grew from 14.16% in December 2018 to 11.6% at end-2019. Broad money (M2) grew over the same period by 9.5%, a similar rate to the prior year. At February 2020 Broad money (M2) had grown by 16.1% year-on-year, compared to the BOJ projection of 13.0%. This growth in broad money at February 2020 reflected a 16.2% increase in local currency deposits, mainly owing to growth in savings and demand deposits of 14.7% and 21.5%, respectively. This is not surprising in light of increasing saving in response to the COVID-19 crisis.

In 2019, net loans by deposit-taking institutions (DTI) expanded by 17.2% in a context of increasingly favourable credit conditions. Loans to corporations and households increased by 20.3% and 16.5%, respectively, compared to 15.3% and 12.4% the previous year. At the end of the year, gross loans accounted for half of DTI assets, the first time this has happened in over two decades.

According to the Quarterly Monetary Policy Report (QMPR), annual growth in total private sector loans and advances by DTIs was 16.5% in February 2020 relative to growth of 18.1% in December 2019. The growth in overall private sector loans and advances mainly resulted from an increase of 18.2% in lending to the productive sector, underpinned by loans to the transport, construction and distribution industries. Lending to consumers also expanded, by 15.3%, relative to 16.5% in December 2019.

Turning to the integrity of the banking system, according to BOJ, continued positive macroeconomic conditions meant that risks to financial stability remained subdued in 2019. DTIs remained sound, well-capitalized, liquid and profitable, and asset quality improved in the year. The financial system continued to demonstrate resilience in macroprudential stress tests during the year. Notably, the central bank's macrofinancial and microprudential indices remained well below their respective crisis thresholds, demonstrating the relative health of the banking system.

In monetary policy, a number of important changes are being considered. BOJ has been moving towards a transparent and more market-based exchange rate pricing mechanism, with a floating exchange rate system. It is hoped this will improve competitiveness in the foreign exchange market and facilitate the central bank's market purchases for international reserves. Secondly, BOJ is seeking to further enhance financial sector supervision, crisis preparedness, and the anti-money laundering and combating the financing of terrorism framework. The central bank is also supporting legislation that will strengthen its independence.

## **(iii) Exchange-rate policy**

Throughout 2019, the exchange rate was characterized by cycles of appreciation and depreciation. According to the data, the Jamaican dollar experienced five marked cycles of upswings followed by downswings. On average in 2019, the Jamaican dollar depreciated by 3.6% against the United States dollar, compared with depreciation of 0.9% in 2018. The depreciation of the local currency in 2019 was mainly due to spikes in demand to fund real sector and other activities.

The weighted average selling rate (WASR) closed the first quarter of 2020 at J\$ 135.39 to US\$ 1.00, with depreciation of 2.1% on the fourth quarter of 2019 and depreciation of 7.1% relative to

end- March 2019. In light of the expected decline in tourism receipts owing to the closure of the sector in response to COVID-19 and a possible slow return to normality, the Jamaican dollar is likely to depreciate significantly in 2020. A major source of foreign currency is remittances. Gross remittances fell by 9.8% or US\$ 19.9 million between January to April 2020.

#### **(iv) Other policies**

In the budget presentation of March 2019, the Minister of Finance outlined a number of initiatives to stimulate growth and improve efficiency in the banking system. These measures included: a BOJ foreign- exchange trading platform to promote greater inter-bank trading and increase the depth and liquidity of the market; introduction of derivative products such as forwards and swaps by BOJ to improve the functionality of the foreign-exchange market and the experience of end-users; an increase in the threshold below which regulatory approval is not required to issue securities in United States dollars; and the Bank of Jamaica (Amendment) Act 2018 to modernize, strengthen and increase independence and resources for BOJ, which is currently before a Joint Select Committee of Parliament. However, the progress of these proposals is uncertain in light of the challenges of responding to the COVID-19 crisis.

#### **(c) The main variables**

##### **(i) The external sector**

The current account deficit of 2% of GDP in 2019 is expected to jump to about 5% in 2020 as a result of the fallout in many sectors, including tourism and remittance inflows.

The reserve position in 2019 was bolstered by a large improvement in the service balance to 10.8% of GDP relative to 8% in 2018, while most other categories remained the same. The exception was the goods balance, where there was an increase in the deficit to 25% of GDP, largely owing to a decline in exports (2% of GDP) and a slight rise in imports.

BOJ maintained a strong net international reserve position during 2019, with reserves increasing by US\$ 157.1 million to close at US\$ 3.163 billion. Gross reserves amounted to US\$ 3.631 billion at end- 2019, more than 110% of the IMF Assessing Reserve Adequacy (ARA) metric. The drastic changes in the pattern of economic activity in Jamaica because of the COVID-19 pandemic will affect Jamaica's external accounts. The current-account deficit in the balance of payments is projected to worsen by more than five percentage points of GDP in fiscal year 2020/21 to 7.5% from the 2.3% estimated for 2019/20. As a precaution, the Government of Jamaica has obtained support from IMF amounting to 100% of its quota (the equivalent of 382.9 million special drawing rights (SDR) or approximately US\$ 520 million) under the Rapid Financing Instrument (RFI).

##### **(ii) Economic activity**

The Jamaican economy grew by an estimated 0.9% in 2019, after expanding 1.9% in 2018. Nevertheless, quarter-on-quarter growth progressively slowed during the year from 1.5% in the first quarter to 0.1% in the fourth quarter. Growth during the year largely reflected faster growth in manufacturing and tourism, partly offset by declines in mining and construction. Manufacturing growth was supported by rises in food production and petroleum refining. The decline in mining was largely related the temporary closure of the Alpart alumina processing plant for upgrades and softer demand owing to slower global economic growth. In construction, the downturn was mainly a result of various road rehabilitation projects being completed and the start of the Southern Coastal Highway Improvement Project (SCHIP) being delayed. In agriculture, growth slowed, primarily as a result of the impact of adverse weather on domestic food production.

The COVID-19 pandemic stifled growth in the first quarter of 2020. Real GDP contracted by an estimated 1.7% in the first quarter of 2020 compared with the final quarter of 2019. In particular, the

services industry contracted by 2.5%, largely reflecting a downturn in transportation, storage and communication, hotels and restaurants, and other services.

GDP is projected to decline by 5.3% in 2020 as a result of the fallout in tourism, and its impact on agriculture, remittances and foreign direct investment. Despite domestic policies, since the economy is heavily dependent on external tourism source markets, and especially the United States, the situation abroad will clearly affect Jamaica's performance in 2020 and even 2021.

### **(iii) Prices, wages and employment**

Annual inflation was 6.2% in 2019, within the lower limit of the BOJ target range. This rise was largely due to higher agricultural prices because of drought conditions, and higher fuel prices. The BOJ monetary policy objective is to maintain inflation within between 4.0% and 6.0%. The inflation target range is a policy choice by the Minister of Finance and the public service in consultation with BOJ. Inflation at this level is expected to facilitate sustained growth and development in the economy.

By the end of March 2020, annual inflation had slowed to 4.8%. This deceleration primarily reflected a slowdown in food price inflation and a decline in transport-related costs, partly offset by an acceleration in housing, water, electricity, gas and other fuels. BOJ projects average inflation of 4.4% for the next eight quarters, followed by a gradual rise towards the mid-point of the target range (5.0%) in the medium term. The current forecast is mainly based on the impact of the COVID-19 pandemic, which is expected to result in smaller year-on-year increases in several components of inflation, including energy and transport and non-processed food prices. Nonetheless, given the decline in foreign exchange due to COVID-19, and depending on the duration of the crisis, prices are expected to rise owing to deterioration of the exchange rate.

In the labour market, conditions improved significantly, as the unemployment rate fell to 7.3% in January 2020, from 9.8% in July 2019. At the same time, the employed labour force increased from 1,360,800 in July 2019 to 1,369,500 in January 2020, an increase of around 6%. In addition, opposing trends in employment were seen for men and women. While the number of employed men decreased by 2,200 over the period, the number of women in employment rose by 10,900. Employment increased for women in all occupations while for men employment only increased for skilled agriculture and fisheries workers, and fell in all other categories.

Youth employment continues to lag, with unemployment at 20.2% in July 2019, although the percentage did fall to 19.0% in January 2020. In light of the COVID-19 challenge and the virtual collapse of the tourism sector, which is an important source of employment and foreign exchange earnings, unemployment is likely to increase, especially towards the end of the year. While Jamaica has begun to open its borders to tourists, the lack of a vaccine and the ongoing challenges in the United States will stifle employment for some time.

## **Suriname**

### **(a) General trends**

In 2019, Suriname's economy marked its third year of positive growth —2.0%— since the 2016 crisis. Agricultural products and refined mining products were the main contributors to this economic growth, while most other sectors remained fairly flat. Domestic consumption and imports increased as a result of steady, low inflation, which fell to 4.2% at the end of the year.

Although the central government narrowed the fiscal deficit in 2019, it remained high, at 10.8% of GDP year-on-year. Total revenue and total expenditure increased by 10.2% and 7.8%, respectively. A rise in spending on wages and salaries offset a decline in subsidies. Public debt increased by 6.5 percentage points to 79.1% by the end of 2019.

The current account deficit expanded to 10.9% of GDP in 2019, owing to a lower goods surplus, which in turn stemmed from higher imports of mining and transport equipment.

The shortage of United States dollars, which have been difficult to access since 2018, was a major concern for Suriname in 2019 and continues to be in 2020. While the official exchange rate has remained steady at 7.52 Suriname dollars (Sur\$) to US\$ 1 since 2018, the parallel rate has increased significantly. In March 2020 the government implemented currency controls which prompted local industry strikes and were subsequently reversed. The shortage of United States dollars and rising parallel rate led to a 17.6% jump in year-on-year inflation in March 2020.

The first case of COVID-19 in Suriname was diagnosed on 13 March 2020. The country's borders were closed in March and a state of emergency went into effect on 8 April. The authorities have applied fiscal, monetary and other measures to tackle the crisis, and the impact on Suriname's economy is expected to be severe and wide-ranging. Most 2020 macroeconomic data after March, when most of the measures were implemented, are not yet available. The fiscal deficit and public debt ratios are expected to increase, while economic output will likely contract. A growth rate of -7.0% is estimated for 2020.

## **(b) Economic policy**

### **(i) Fiscal policy**

In 2019, fiscal policy was expansionary and reflected progress in implementation. A public financial management law which improved revenue and expenditure management was passed. However, the introduction of VAT, which was initially scheduled for 2018, was postponed once again. In 2019 the government revoked a memorandum of understanding with the Central Bank of Suriname that prohibited monetary financing of the budget and as a result, part of the 2019 budget was financed by the central bank.

On the basis of annualized data for the first 10 months of the year, the overall fiscal deficit in 2019 is estimated at 10.8% of GDP,<sup>11</sup> down from 11.7% in 2018. Total expenditure grew by 7.8% in absolute terms, though it decreased from 34.6% of GDP in 2018 to 34.0% in 2019. Payment of arrears from previous fiscal years decreased by 12% after expanding by 352% in 2018 and 109% in 2017. The subsidies and capital expenditure categories declined by 4.5% and 1.4%, respectively. Although spending on other goods and services and on interest rose by 8.6% and 4.3%, respectively, wages and salaries recorded the strongest growth in expenditure, up by 31.4%. This category is the second largest spending component (behind subsidies) and grew from 27% of total expenditure in 2018 to 33% in 2019.

Total revenue grew by 10.2% in absolute terms in 2019: tax revenue and non-tax revenue rose by 12% and 6%, respectively. The mining sector contributed 30.1% to total revenue, while the remaining 69.9% came from the non-mining sector.

Central government debt grew from 72.6% of GDP at the end of 2018 to 79.1% at the end of 2019. The government increased borrowing from both domestic and external sources in 2019. Borrowing from the central bank, which jumped by 55.3%, accounted for the lion's share of the increase, while lending from commercial banks and the rest of the private sector grew by 9.8% and 6.4%, respectively. The expansion in external debt was largely as a result of increases in lending from bilateral creditors (27%) and private creditors (20.9%). The biggest agreement signed in 2019 was a US\$ 196 million loan from the Export- Import Bank of China for an airport expansion project. The National Debt Act was revised to raise the debt ceiling from 60% of GDP to 95% of GDP.

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<sup>11</sup> Includes payment of arrears from previous years.

The fiscal deficit and public debt ratios are expected to increase further in 2020 because of COVID-19 measures. Reduced economic activity will likely result in a decline in revenue, while expenditure on measures to slow the spread of the virus and to provide financial support to the affected population are expected to increase. The government has implemented a number of fiscal measures in response to the crisis. The COVID-19 Exceptional Condition Act was passed on 8 April and was expected to remain in force for three months. The Act provides Sur\$ 400 million (US\$ 53.2 million) for health sector expenditure but also removes the public debt limit, allows the government to exceed the budget without informing parliament and allows for further monetary financing while converting all current debt owed to the central bank to long-term debt. Two new funds were announced on 11 May: one of Sur\$ 400 million for unemployment support, pensions and assistance to children and the other of Sur\$ 300 million for domestic production.

### **(ii) Monetary policy**

Although the reserve requirement is the main policy instrument of the central bank, in July 2019 this body began using two new market-based instruments to influence money supply: gold certificates and central bank certificates of deposit. In mid-2019 the central bank increased the reserve requirement for foreign-currency deposits and required that at least half of commercial banks' United States dollar cash deposits and all their euro deposits be held at the bank. In September, it introduced open market operations with intraday liquidity facilities, short-term liquidity facilities, and deposit facilities. In January 2020, over USD 200 million of commercial banks' deposits with the central bank were used by the government for basic goods imports and foreign exchange intervention.

The interest rate spread increased over the course of 2019, as average lending rates rose from 14.4% in December 2018 to 15.2% by September 2019. The current account lending rate was responsible for the increase in the overall lending rate, which rose from 15.6% in December 2018 to 19.1% by December 2019, owing to current account overdrafts provided mainly to businesses. All other lending rates remained relatively stable. The average deposit rate fell from 9.2% in December 2018 to 8.8% in December 2019. Among individual deposit rates, time deposits of one year or less fell from 11.6% at the end of 2018 to 10.6% at the end of 2019. Time deposits of more than one year posted a decrease from 13.6% to 12.8% over the same period. The interest rate spread continued to widen in the first quarter of 2020: while the average lending rate remained at 15.2% up to March, short-term deposit rates continued to fall, with the average deposit rate decreasing to 8.6% at the end of the first quarter.

After contracting in 2018 (-4.0%), lending to the private sector returned to positive, albeit sluggish, growth in 2019 (0.5%), and grew by 1.7% from December 2019 to March 2020.

The central bank has implemented measures in response to the pandemic in the first half of 2020. It reduced the domestic currency reserve requirement from 35% to 27.5% to increase system liquidity and allowed commercial banks to assist affected persons, companies and institutions by granting deferrals of payments for three to six months and by providing loans at 7.5% interest, which is below market lending rates.

### **(iii) Exchange-rate policy**

Following devaluations in late 2015 and early 2016, the monetary authorities adopted a freely floating exchange rate system in 2016. However, the United States dollar selling rate has remained fixed at Sur\$ 7.52 to US\$ 1 since August 2018, marking a return to exchange rate support. Also in 2018, a shipment of United States dollars in cash was seized by Dutch authorities in the Netherlands,<sup>2</sup> resulting in a limited supply of that currency in Suriname since then. A parallel exchange rate emerged, which grew higher than the official exchange rate as demand for United States dollars outstripped supply. While cashless transactions remain unaffected, commercial banks began restricting withdrawals of United States dollars by businesses and customers. The central bank made foreign currency available to certain



importers at the official rate to meet some of the excess demand. In March 2020, the government implemented currency controls which prompted a strike by the Association of Surinamese Manufacturers and the Association of Surinamese Industry. The currency controls were subsequently overturned through legal action. In November 2019, the unofficial selling rate was approximately Sur\$ 8.05 to US\$ 1 in some currency exchange businesses. It rose to over Sur\$ 11.5 to US\$ 1 in March 2020, but then settled at Sur\$ 10.0 to US\$ 1 in late May 2020.

#### **(iv) Other policies**

The first case of COVID-19 in Suriname was diagnosed on 13 March 2020. Travel restrictions and social distancing measures soon followed. The Johan Adolf Pengel International Airport was closed indefinitely to international travel on 14 March. Public markets and schools were closed, and all gatherings of more than 100 persons were banned. Most government offices closed or introduced limited hours. A night-time curfew was implemented on 29 March.

The spread of COVID-19 in Suriname was relatively slower than in other parts of the Caribbean. Up to 17 May, there were only 10 confirmed cases in the country and 1 death. The authorities began to ease lockdown measures from 9 May. However, at the end of May the number of positive COVID-19 tests began to spike and total cases exceeded 100 in early June.

#### **(c) The main variables**

##### **(i) The external sector**

The current account deficit expanded from 3.4% of GDP in 2018 to 10.9% of GDP in 2019. The goods balance was the main contributor to this performance, as the goods surplus fell from 16% of GDP in 2018 to 10.8% of GDP in 2019. A decrease in exports was compounded by an increase in imports, which grew by 14% in 2019, following growth of 16.1% in 2018 and 8.8% in 2017. The largest contributions to the increase in imports came from the investment goods and transportation categories, owing to imports of equipment for mining projects, police cars and buses. Exports fell across all major categories except rice and wood and wood products, which both grew slightly. The 'other' category grew by 20.6%. The services deficit expanded from 11.1% of GDP in 2018 to 13.1% of GDP in 2019, while the income deficit and transfer balance both contracted slightly.

The financial account surplus more than doubled, from 8.7% of GDP in 2018 to 20.6% of GDP in 2019, driven by strong expansion in other investment assets, from -3% of GDP in 2018 to 13.3% in 2019, owing largely to a new foreign currency reserve requirement established by the central bank. Direct investment fell to 0.2% of GDP in 2019, from 3.5% of GDP in 2018, as a result of an increase in the repatriated earnings of mining sector firms.

While balance-of-payments data are still unavailable for the first quarter of 2020, the current account deficit is expected to narrow this year. The reduction in consumption owing to COVID-19 measures is projected to reduce imports. In addition, rising gold prices are expected to increase export values. The international gold price jumped by more than 17% between December 2019 and May 2020.

International reserves grew by 11.5% in 2019. However, the increase in imports meant that the import cover fell to 1.6 months, the lowest level since 2015.

##### **(ii) Economic activity**

The economy is estimated to have grown by 2.0% in 2019, following growth of 2.6% in 2018 and 1.8% in 2017. Growth was fairly balanced across sectors, with the largest contributions coming from the agriculture, hunting and forestry sector and the manufacturing sector, with 0.7 and 0.6 percentage points, respectively. The growth in manufacturing stemmed from increased production of refined petroleum. The mining and quarrying sector is estimated to have contributed -0.1 percentage points in

2019, but the opening of the Saramacca gold mine near the end of 2019 is expected to increase production in 2020. Gold and oil production were relatively flat in the first half of 2019, and the sector was also affected by shutdowns at the Rosebel gold mine in August and October owing to clashes between artisanal miners and the police.

Growth in 2020 is expected to be -7.0%, owing to a steep fall in private consumption and investment as a result of the social distancing measures implemented to combat the spread of COVID-19. The contraction in consumption is expected to be compounded by high and rising inflation because of the United States dollar shortage. These factors are also likely to lower imports, resulting in an improved goods balance and in turn offsetting the economic contraction to some extent. This growth estimate is highly uncertain because of the unforeseeable evolution of the COVID-19 pandemic.

### **(iii) Prices, wages and employment**

Prices remained stable in 2019. Headline inflation fell from 5.5% at the start of 2019 to 4.2% at the end of the year. Year-on-year growth in the subindex for clothing and footwear prices grew throughout the year, from 1.3% in January to 11.7% in December. Conversely, health care and transportation prices reflected a downward trend over the period, declining from 12.5% and 7.6%, respectively, in January 2019, to 3.8% and 0.4%, respectively, in December 2019.

Inflation increased rapidly in the first quarter of 2020. Headline inflation grew from 4.2% in January to 6.9% in February and 17.6% in March. The higher parallel exchange rate was responsible for the sharp increase in prices. Inflation is expected rise further through the rest of 2020, especially in the case of further devaluation.

In 2019, the National Assembly passed legislation that is expected to have an impact the labour market. The Labour Protection for the Family Act, which grants maternity and paternity leave to new parents, was approved in April 2019. This new leave will be partly financed by a new fund that is yet to be established. In July 2019 the Minimum Wage Act was updated to increase the minimum wage to Sur\$ 8.4 per hour.

## **Trinidad and Tobago**

### **(a) General trends**

The economic activity of Trinidad and Tobago is estimated to have contracted by 0.4% in 2019, due to a decline in the energy sector. The weak energy sector outcome reflects the closure of the Petroleum Company of Trinidad and Tobago (Petrotrin) refinery in October 2018 as well as lower yields from mature oil fields. In 2020, real GDP is projected to decline by 7.1%, owing to the strict State border closure and the shutdown of non-essential economic activities to contain the spread of the coronavirus disease (COVID- 19). The implementation of "stay-at-home" measures from 30 March 2020 affected the services sector severely, reflected in a decrease of more than 60% in the number of visits and length of stays at retail and recreation locations according to Google's Community Mobility Reports.<sup>12</sup>

The government budget deficit for fiscal 2019 (October 2018 to September 2019) narrowed to 2.5% of GDP from 3.6% in fiscal 2018. Total revenue increased by 7.9% in fiscal 2019. Tax collection improved as a result of a tax amnesty that encouraged payment of outstanding taxes without penalties or interest. There was also an increase in energy revenues owing to a higher royalty rate introduced during fiscal 2018 and extraordinary payments from Shell based on an agreement on gas-related issues such as the gas price formula. Total expenditure increased by 3.4%, driven by an increase in transfers and subsidies. Despite the decline in the budget deficit, net public debt, which excludes instruments from open-market operations, rose from 60.1% of GDP at the end of fiscal 2018 to 63.2% of GDP at the end of fiscal 2019,

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<sup>12</sup> Google LLC, Google COVID-19 Community Mobility Reports [online] <https://www.google.com/covid19/mobility/> accessed 30 June 2020.

as the central government issued bonds to finance the closure of the Petrotrin refinery. In fiscal 2020, the fiscal deficit is expected to expand significantly owing to the negative impact of falling oil prices on energy revenues, downward pressure on tax revenues from the economic lockdown and increased spending on health-care and social sector programmes. In the 2020 Mid-Year Budget Review, the government projected an increase in the overall deficit to 14.5 billion Trinidad and Tobago dollars (TT\$), equivalent to 8.8% of GDP, up from the originally estimated TT\$ 5.3 billion (3.2% of GDP). The country has amended the regulations of the Heritage and Stabilization Fund (HSF) to allow emergency drawdowns of up to US\$ 1.5 billion (TT\$ 10 billion) for budgetary support, and also has taken steps to access international financial assistance from multilateral agencies.

Headline inflation fell to the lowest level in more than 50 years as a result of the ongoing economic contraction and a decline in food inflation, dropping from 1.0% in 2018 to 0.4% in 2019, and standing at 0.5% year-on-year in February 2020. Meanwhile, the central bank eased its monetary policy stance to mitigate the negative impacts of COVID-19 and oil price declines in 2020. For the first time in 90 months, the central bank cut the repo rate by 150 basis points to 3.50% and lowered the primary reserve requirement ratio from 17% to 14% in March 2020. As regards the country's currency, there was slight appreciation from TT\$ 6.786 to US\$ 1 in December 2018 to TT\$ 6.779 in December 2019, and to TT\$ 6.773 in April 2020. Depending on how the pandemic progresses and on international oil prices, the central bank may ease its monetary policy stance again in 2020.

Despite a fall in energy exports, the external current account surplus expanded to 6.3% of GDP in the first three quarters of 2019 from 4.1% of GDP in the same period of 2018. Reduced deficits in the "other business services" and "primary income" accounts contributed to this performance. In contrast, energy exports declined by 26.2%, owing to the closure of Petrotrin refinery and a slump in energy prices. In 2020, the current account is expected to deteriorate as international energy prices have dropped further in response to the global spread of COVID-19.

The unemployment rate declined to 4.1% in the first three quarters of 2018 from 5.0% in the corresponding period of 2017. However, this fall was attributable to a reduction in the labour force, owing to an outflow of job seekers who were discouraged by the difficulty of finding work. The labour market remained soft in 2019, as reflected by the number of job advertisements published in print media, which shrank by 10.3%, indicating weaker labour demand. In 2020, unemployment is expected to increase significantly due to the stay-at-home measures. As at 12 June 2020, around 22,000 persons have received the salary relief grant, as they have been retrenched or are receiving reduced income.

## **(b) Economic policy**

### **(i) Fiscal policy**

In fiscal 2020, the Government of Trinidad and Tobago is struggling to close the fiscal gap caused by COVID-19 and the decline in energy prices. In the 2020 Mid-Year Budget Review, the government projected a fiscal deficit of TT\$ 14.5 billion (8.8% of GDP), compared to TT\$ 5.3 billion (3.2% of GDP) in the original budget. In addition, the revised deficit is bigger than the TT\$ 13.5 billion recorded in fiscal 2017, when a decline in energy prices and gas production critically reduced fiscal revenues.

The total projected revenue loss compared to the original budget as a result of COVID-19 is TT\$ 9.2 billion: TT\$ 3.8 billion in taxes on income and profits, TT\$ 2.5 billion in royalties and production-sharing in the energy sector, TT\$ 1.2 billion in profits from state enterprises, TT\$ 750 million in revenue from the Business Levy and Green Fund Levy, and TT\$ 600 million in taxes on goods and services and international trade.

In the Mid-Year Budget Review, total expenditure was estimated to be TT\$ 71 million above the original fiscal 2020 budget, as reallocation of priority areas for spending reduced the amount of net additional spending. The government increased spending on COVID-19-related measures by

TT\$ 2.7 billion, but this was offset by cuts to expenditure on existing projects. The additional expenditure includes a provision for the health-care sector (TT\$ 225 million), a TT\$ 200 million subsidy to credit unions to lower interest rates, salary relief grants (TT\$ 400 million) to those who have been retrenched or are receiving reduced income, and increased food card and other social support (TT\$ 762 million). The government also finalized a TT\$ 300 million government-guaranteed loan programme to provide support for small and medium-sized enterprises and provided VAT and income tax refunds in cash (TT\$ 700 million) and in bonds (TT\$ 900 million).

To fill the large fiscal gap, the government has amended the regulations of HSF to allow emergency drawdowns of up to US\$ 1.5 billion (TT\$ 10 billion) for budgetary support, and has also taken steps to access US\$ 300 million (TT\$ 2 billion) from multilateral agencies including the World Bank (US\$ 20), the Inter-American Development Bank (US\$ 130 million) and the Development Bank of Latin America (US\$ 150 million). In addition, the borrowing limit of the government was increased by TT\$ 10 billion by an amendment to the Development Loans Act, which was passed by the parliament in March 2020. The government has borrowed TT\$ 1 billion under the Development Loans Act as at 12 June 2020 and withdrew US\$ 400 million (TT\$ 2.7 billion) from HSF on 15 May. The country has a sufficient fiscal buffer in the short term, as the net asset value of HSF is US\$ 6.0 billion (TT\$ 40 billion) as at 12 June 2020.

On 21 May 2020, the international credit rating agency Moody's maintained its rating for Trinidad and Tobago at Ba1, changing the country's outlook from stable to negative. Although Moody's has downgraded ratings for a number of commodity-exporting countries following commodity price declines in the first quarter of 2020, the agency maintained Trinidad and Tobago's rating as they took a positive view of the country's shock absorption capacity, supported by a good track record during the previous period of oil price declines in 2015.

## **(ii) Monetary policy**

After keeping the repo rate at 5.00% throughout 2019, the Central Bank of Trinidad and Tobago eased its monetary policy stance to mitigate the negative impact of COVID-19 in 2020. For the first time in 90 months, in March 2020 the central bank cut the repo rate, lowering it by 150 basis points to 3.50% and reducing the primary reserve requirement ratio by 3 percentage points to 14%. These actions increased liquidity in the banking system by TT\$ 2.6 billion and allowed for a reduction in lending rates. Depending on how the COVID-19 pandemic progresses and how international oil prices perform over the remainder of 2020, the central bank may adjust its policies further.

Liquidity levels in the domestic banking system, which are measured as commercial banks' holdings of excess reserves at the central bank, increased from TT\$ 3.282 billion in 2018 to TT\$ 4.006 billion in 2019 owing to the injection of liquidity by the central bank through the TT\$ 10.4 billion net maturities of open-market operation securities, although net domestic fiscal injections, the main driver of liquidity, decreased to TT\$ 3.4 billion. In 2020, the liquidity in the banking system increased to TT\$ 5.737 billion in April, as the central bank reduced the primary reserve requirement ratio in March.

The weighted average lending rate of commercial banks decreased from 8.01% in December 2018 to 7.72% in December 2019, reflecting the higher excess liquidity in the financial system and the competitive lending environment. After the interest rate cut of 150 basis points in March 2020, the median basic prime lending rate fell from 9.25% to 7.50%.

Private sector credit rose by 4.6% in 2019, slightly faster than the 4.3% growth in 2018. Growth in mortgage lending accelerated to 12.5% in 2019 from 6.6% in 2018, driven by lower interest rates on mortgages. Consumer credit remained robust, expanding by 6.1% in 2019, slightly more than the 6.0% recorded in 2018, as lending for debt consolidation and refinancing continued to drive the segment. In contrast, business lending declined (5.2%) for the first time in six years, dragged down by weak

economic activity. Despite the increase in private sector credit, growth in M2 —the broad measure of money supply— slowed to 0.1% in 2019 from 3.1% in 2018, due to the demonetization of the TT\$ 100 cotton note in December 2019, which was replaced with a new polymer \$100 bill. As a result, currency in active circulation declined by 39.8%, although this was partly offset by an increase (3.3%) in demand deposits. In 2020, private sector credit continued to increase by 4.6% on a year-on-year basis in February, and growth in M2 recovered to 4.8% as demand deposit growth accelerated to 12.2%.

### **(iii) Exchange-rate policy**

The Trinidad and Tobago dollar appreciated slightly against the United States dollar, from TT\$ 6.7861 to US\$ 1 in December 2018 to TT\$ 6.7791 in December 2019 and then to TT\$ 6.7731 in April 2020. This appreciation has encouraged capital outflows, but an improvement in interest rate differentials between Trinidad and Tobago and United State short-term rates partly alleviated the pressure in 2019. The 91-day treasury bill rate decreased by 22 basis points to 1.08% at the end of 2019, while interest rate cuts by the United States Federal Reserve resulted in a decline in short-term rates in the United States. Thus, 91-day Treasury rate spread between Trinidad and Tobago and the United States narrowed from -115 basis points at the end of 2018 to -47 basis points at the end of 2019. In 2020, the interest rate differential turned positive (87 basis points at the end of April 2020), as the Federal Reserve cut the interest rate to zero and launched a new round of quantitative easing in March 2020. The improvement in interest spreads should partly alleviate the pressure on the foreign exchange market in 2020.

Market purchases of foreign currency by authorized dealers increased to US\$ 4.286 billion in 2019, 4.5% growth on 2018. The increase was largely a result of higher demand for local currency from the energy sector, stemming from increased payments to the government. Meanwhile, authorized dealers sold US\$ 5.940 billion on the market in 2019, an increase of 4.6% on 2018, resulting in an increased net sales gap of US\$ 1.654 billion, slightly wider than the US\$ 1.576 billion recorded in 2018. The retail and distribution sector and settlement of credit card transactions absorbed more than half of the foreign-exchange sales. The central bank supported the market by selling US\$ 1.504 billion to authorized dealers. Over the first five months of 2020, foreign-exchange market demand fell by 24.1% year-on-year, while supply declined by 17.4% supply. However, the foreign-exchange market remained tight, as there was excess demand of US\$ 444.9 million.

As the central bank continued to sell United States dollars, net official reserves declined to US\$ 6.929 billion at the end of December 2019 from US\$ 7.575 billion at the end of December 2018. At the end of December 2019, the reserves were equivalent to 7.7 months of imports, well above the international benchmark of three months. By the end of May 2020, net official reserves had declined slightly to US\$ 6.894 billion.

## **(c) The main variables**

### **(i) The external sector**

Trinidad and Tobago's current account surplus expanded to US\$ 1.151 billion or 6.3% of GDP in the first three quarters of 2019, from the previous year's surplus of US\$ 729.3 million or 4.1% of GDP, owing to smaller deficits on the "other business services" and "primary income" accounts. A smaller deficit of US\$ 467.4 million was recorded in the "other business services" account, 48.9% lower year-on-year, as imports of technical, trade-related and other business services declined. The deficit on the primary income account shrank by 77.1%, largely owing to lower dividend and interest payments by energy companies. Energy exports decreased by 26.2% over the same period, due to the closure of the Petrotrin refinery and the decline in energy prices.

The current account surplus was offset by net financial outflows, as a net outflow of US\$705.2 million (3.8% of GDP) was recorded in the financial account in the first three quarters of 2019, a slight increase from the net outflow of US\$ 599.4 million (3.4% of GDP) in the corresponding period

of 2018. The net outflow was driven by portfolio investment, with a net outflow of US\$ 972.2 million (5.3% of GDP), up US\$ 478.0 million (2.7% of GDP) year-on-year. The rise in portfolio investment outflows was due to increases in investment in foreign money-market instruments, bonds and notes by financial institutions and energy companies. Meanwhile, as a result of an investment in a local financial holding company and increased reinvestment of earnings, Trinidad and Tobago received a net direct investment inflow of US\$ 172.5 million (0.9% of GDP) in the first nine months of 2019, following an outflow of 491.6 million (2.8% of GDP) in the first three quarters of 2018. The net inflow of other investment dropped to US\$ 322.7 million (1.8% of GDP) from US\$ 412.0 million (2.3% of GDP), partly due to higher accounts receivable and loans to non-residents by domestic financial institutions. However, outflows through net errors and omissions remained high, at US\$ 1.128 billion (6.1% of GDP), resulting in an overall balance deficit of US\$ 676.1 million (3.7% of GDP).

In 2020, the current account is expected to deteriorate as international energy prices have dropped further in response to the spread of COVID-19. In its base scenario, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the international oil price decline resulting from the COVID-19 pandemic could shave US\$ 3.128 billion (12.8% of GDP) off the trade surplus.

### **(ii) Economic growth**

The economy of Trinidad and Tobago is estimated to have contracted by 0.4% in 2019. According to the central bank's Quarterly Index of Real Economic Activity (QIEA), output in the energy sector declined by 3.6%, while activity in the non-energy sector slightly increased by 0.5%.

The weak energy sector performance reflects the closure of the Petrotrin refinery in October 2018, which resulted in 27.5% decline in refinery throughput. Natural gas production was flat during 2019, while crude oil production declined by 7.3% owing to lower yields from mature oil fields. While the launch of the new natural gas project, Angelin, initially boosted natural gas production, the effects of unplanned shutdowns of some energy installations outweighed these gains.

The growth of the non-energy sector was driven by a 1.3% increase in the wholesale and retail trade sector and 3.4% growth in the financial and insurance sector. The wholesale and retail sector growth was driven by private vehicle sales, while the financial and insurance sector was propelled by continuing growth in demand for consumer and real estate credit. In contrast, the manufacturing sector and the water production and electricity generation sector recorded negative growth of 0.8% and 2.6%, respectively. A severe dry season and the shutdown of the Petrotrin refinery contributed to the fall in water production and electricity generation.

In 2020, real GDP is projected to fall by 7.1%, owing to the restrictions on non-essential economic activities to contain the spread of COVID-19, declines in global demand, and falling prices in the energy sector. The implementation of stay-at-home measures from 30 March 2020 affected the services sector severely. The number of new motor vehicles sold plummeted by more than 30% year-on-year in March 2020, and the number of visits and length of stay at retail and recreation places decreased by more than 60% according to Google's Community Mobility Reports. Although the government started gradually lifting the restrictions on economic activities from 11 May 2020, activity in the services sector does not look set to return to the pre-COVID-19 level soon, as strict social distancing measures will be put in place to prevent a second wave of the disease.

Declines in global energy demand and prices have been hurting the energy sector in Trinidad and Tobago. The International Energy Agency has forecast that global energy demand will drop by 6% in 2020, the steepest decline in 70 years. In addition, according to the United States Energy Information Administration the Brent oil spot price tumbled from US\$ 68 per barrel at the end of 2019 to US\$ 9 per barrel on 21 April 2020, subsequently partially recovering to around \$40 per barrel on 8 June. In response, the State-owned oil producing company, Heritage Petroleum, decided to store produced oil,

to be sold when the market recovers. Moreover, in the downstream sector, five petrochemical plants that produce goods such as fertilizer, methanol and ammonia, were shut down temporarily. The five closed plants account for 15%–20% of the total natural gas supply to the Point Lisas Industrial Estate, where the majority of heavy industry in Trinidad and Tobago is located.

### ***(iii) Prices, wages and employment***

Headline inflation slackened from 1.0% in 2018 to 0.4% in 2019, the lowest level in more than 50 years. Food inflation was volatile, rising from 0.1% in December 2018 to 2.0% in August 2019 due to the harsh weather conditions, but dropping to -1.0% at year-end. Core inflation also declined, from 1.3% in 2018 to 0.6% in 2019, dragged down by a fall in transportation prices and a slowdown in housing prices. The dip in transportation prices was the result of the end of the base effect from the increase in fuel prices in 2018. Inflation in housing prices slowed from 2.7% in 2018 to 0.7% in 2019, owing to slower increases in the cost of home ownership.

Headline inflation subsequently edged up to 0.5% in February 2020, as food inflation recovered to 1.0%, while core inflation dropped further to 0.2%. Inflation is expected to be subdued throughout the rest of 2020, as global energy prices have plummeted and demand for non-essential goods and services has fallen due to the spread of COVID-19. Nonetheless, prices of some essential items may increase.

The unemployment rate declined to 4.1% in the first three quarters of 2018 from 5.0% in the corresponding period of 2017, but the decrease was attributable to a reduction in the labour force. The number of persons with jobs remained unchanged, indicating that jobseekers left the labour force out of discouragement at the difficulty of finding work. In 2019, while the number of people who received retrenchment notices fell to 1,397 from 1,681 in 2018, the number of job advertisements published in print media declined by 10.3%, indicating lower labour demand. Given the severe labour market conditions, wage growth remained moderate during 2019. Based on collective agreements registered with the Industrial Court, the median wage increase was 3.00% in 2019, unchanged since 2017.

Between 31 May 2019 and 14 June 2019, 16,523 Venezuelan migrants were registered and granted the legal right to work in the country for up to one year, with a re-assessment every six months.

In 2020, the unemployment rate is expected to increase significantly due to the stay-at-home measures to contain the COVID-19 virus, which were put in place on 30 March 2020. As at 12 June 2020, around 22,000 persons have received the salary relief grant, as they have been retrenched or are receiving reduced income. Although the government raised the minimum wage from TT\$ 15.00 per hour to TT\$ 17.50 per hour in December 2019, total earnings will be reduced severely by a decline in working hours resulting from the restrictions on economic activities to contain COVID-19.







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