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Headwinds Facing The Post-Pandemic Recovery

IDB

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Regional Overview: Headwinds facing the post-pandemic recovery

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Introduction

Just as Caribbean economies are emerging from the sharp recessions associated with the COVID-19 pandemic, a confluence of external shocks now complicates the recovery. Commodity prices started rising in late 2021, and the Russian invasion of Ukraine in late February of this year disrupted supplies and led to further price increases. The macroeconomic effects are varied across the Caribbean, depending on each country's trade specialization. However, households across the region are feeling the impact on their purchasing power. In addition, the normalization of monetary policy in global financial centers is increasing the cost of external borrowing for governments, with knock-on effects for borrowing costs for firms and households.

The key findings of this issue of the *Caribbean Economics Quarterly* are the following:

- *Rising commodity prices have effects on the terms of trade*. The rise in hydrocarbon prices has an obvious positive effect for net hydrocarbon exporters but a negative effect for net hydrocarbon importers. The case is similar for net exporters versus net importers of agricultural commodities. One simple way to measure the potential impact is to look at the net trade value of these commodities as a share of GDP. For net importers (The Bahamas, Barbados, Guyana, and Jamaica), net imports of hydrocarbon and agricultural commodities ranged from about 5 to 15 percent of GDP in 2021. This implies that substantial price increases of those products can have a significant impact on the trade balance and real incomes.

- *Rising inflation is "imported" from commodity price inflation*. The annual Inflation rate climbed to an average of 8 percent by mid-summer in the Caribbean countries covered in this report, excluding Suriname, which has been coping from high inflation since the fall of 2020.[1] This average inflation rate is lower than many other countries in the world. For example, according to the International Monetary Fund (IMF), average inflation for Central America, Panama, and the Dominican Republic rose to 9 percent in August 2022 (Boz et al. 2022), and average annual inflation of 12.5 percent is projected for Latin America in

[1] This report is focused on the six countries of the Caribbean Country Department at the Inter-American Development Bank: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago. The underlying data for the average inflation rate are taken from national central bank sources. July is the last month for which data were available for five of the six countries for which the average is calculated.

2022 (IMF 2022).[2] Part of the lower inflation in the Caribbean is due to direct actions to keep prices from rising, and these actions are discussed in this report.

- *The rise in reference rates increases borrowing costs*. The Russian invasion of Ukraine occurred just as central banks in financial centers – in particular, the United States – were starting a tightening cycle. The additional price pressures may either accelerate or lengthen the tightening cycle, or do both. From the onset of the pandemic until March 2022, the U.S. Federal Reserve (Fed) had maintained the main policy rate (the federal funds rate) at near zero. After an initial increase to the ¼ to ½ percent range in March, the Fed is now targeting to 4.25 to 4.5 percent (as of mid-December 2022). This is the fastest rise in policy rates in decades. The rise in the reference rate invariably raises the cost of borrowing in international markets for most countries and companies. In addition, on domestic markets, there is pressure to raise domestic interest rates as well.

- *Households and businesses are feeling the impact of price increases*. Although domestic inflation has been somewhat less severe in Caribbean countries, rising prices diminish real incomes for households and increase business costs for firms. Online surveys from the World Food Programme even suggest a sharp rise in food insecurity across the Caribbean.

Policy Response

At the macroeconomic level, the traditional response to fight inflation would be to raise interest rates. Jamaica's central bank is a good example of a bank that has deployed that policy change within the context of its overall inflation-targeting monetary policy framework. Some Caribbean countries have responded by freezing the price of electricity (effectively subsidizing the cost) and freezing the price of select lists of foodstuffs at the retail level. However, directed price controls are difficult to sustain and can create distortions in consumer choices. A general recommendation is to target the most vulnerable low-income households and to separate the assistance from the price of the commodities. Targeted cash transfers or vouchers can achieve these ends, and numerous countries around the world have implemented these types of programs in response to price shocks. Caribbean countries have responded to this period of high inflation with several temporary measures, as discussed below.

The price shocks have also inspired regional leaders to promote regional longer-term solutions to the dependence on imports from outside the region (Government of Jamaica 2022). The Caribbean Community (CARICOM) has announced a "25 by 2025 Initiative" to reduce food import

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[2] This is an unweighted average of values for 2022 projected for 18 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay (IMF 2022).

dependence by 25 percent by 2025. This promising objective could be achieved through a combination of increased domestic production and enhanced regional trade.

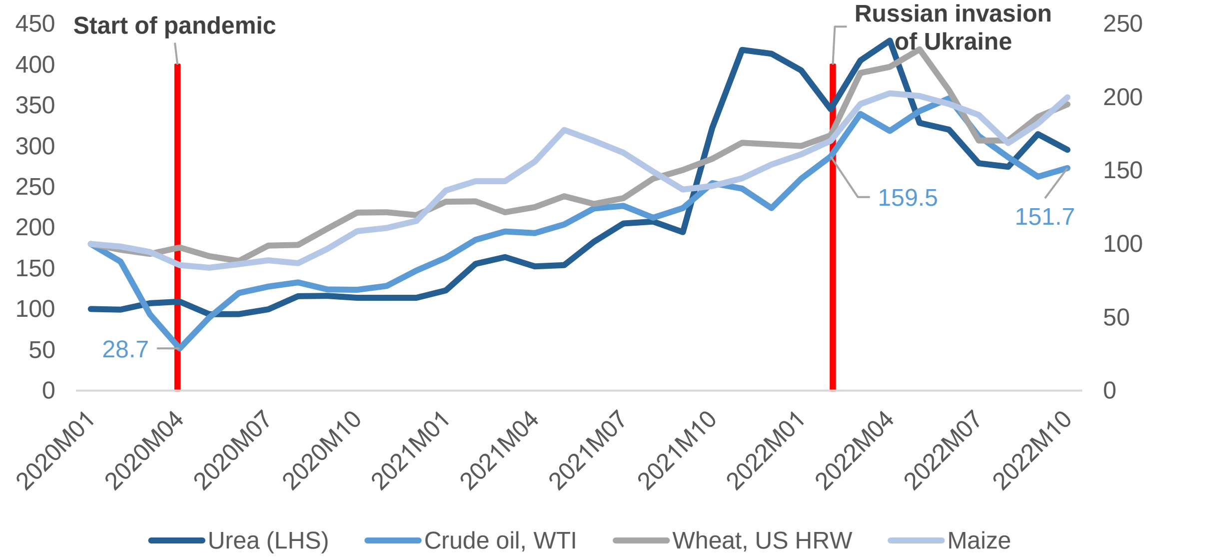
This volatile context is also creating the possibility of a sharp slowdown in global economic growth, as noted in the IMF's October 2022 *World Economic Outlook* (IMF 2022). Ultimately, the global slowdown could affect demand for the rapidly recovering tourism industry, other Caribbean exports, and even foreign investment into the region.

External Shocks: What in the World is Going On?

At the onset of the Russian invasion of Ukraine in late February 2022, crude oil, wheat, and maize prices had already increased by 51 percent, 95.1 percent and 100 percent, respectively, compared to January 2020 (Figure 1). Meanwhile, fertilizer prices had more than tripled, with the price of urea – to cite just one example – rising 195.4 percent. For grains, the price increases started in late 2020, while fertilizer price increases started earlier but really spiked at the end of the third quarter of 2021. There was a sharp price decrease in the price of oil at the start of the pandemic, but the price then recovered steadily throughout 2021 and 2022, as economies around the world recovered. It is important to note that the price of oil as a key input to multiple production processes has knock-on effects on the prices of fertilizer, agriculture, transport, and manufacturing.

Grain, oil, and fertilizer prices rose sharply during the first few months of the war in Ukraine, but in recent months they have subsided to close to the pre-war level. Russia is a major supplier of all three of these commodities, while Ukraine is a major global supplier of grains and fertilizer. The war and associated sanctions restricted supplies. In addition, some countries imposed export bans to protect domestic supplies of commodities. Since the summer, shipments of Ukrainian grain have resumed, and oil markets have stabilized somewhat. Nonetheless, headwinds remain, as unexpected weather patterns – including persistent droughts and flooding in major producing countries – present risks to agricultural commodity markets.

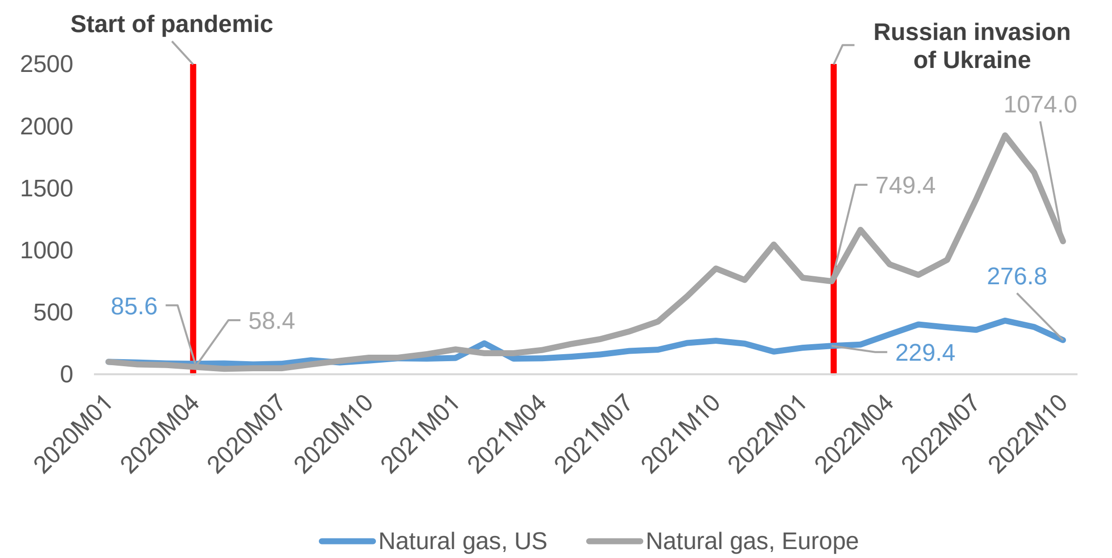
Figure 1. Price Trends of Selected Commodities (Index, January 2020 = 100)



Source: World Bank (2022)

Natural gas prices have also increased sharply but at a dramatically more rapid pace in Europe than in the United States (Figure 2). Since most natural gas is transported by fixed pipeline infrastructure, market supplies are not integrated, so prices can vary substantially between different regions of the world. Figure 2 reveals that natural gas prices in the United States (Henry Hub) have increased nearly four-fold since the start of 2020, while in Europe they increased 20-fold at their peak, and stood at 10 times the early 2020 price as of October 2022. The role of the sharp reduction in the Russian gas supply to the European market is painfully apparent.

Figure 2. Natural Gas Prices in the United States and Europe
(Index, January 2020 = 100)



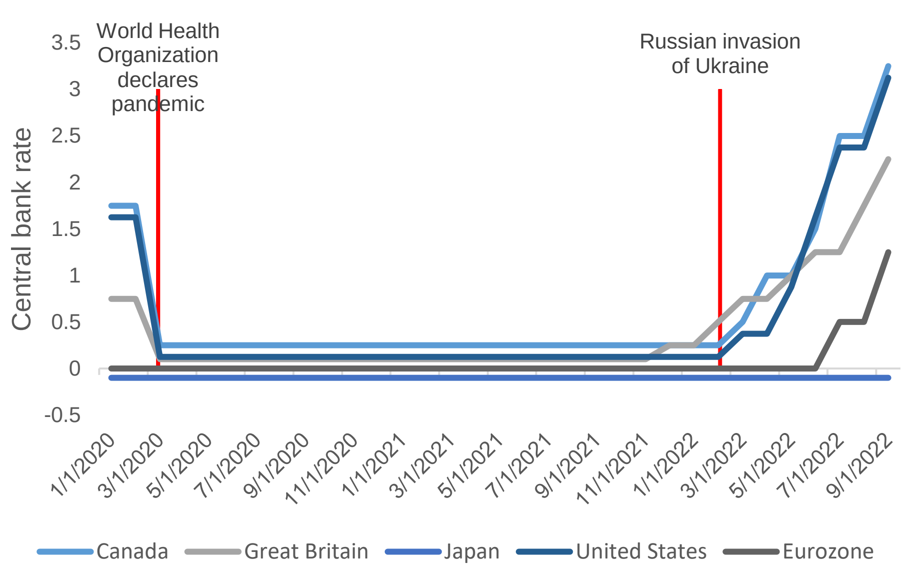
Source: World Bank (2022)

The softening of prices in recent months has occurred as supply conditions have stabilized somewhat and as global economic growth has weakened substantially. China's economic growth decelerated sharply to a projected 3.2 percent in 2022, and the U.S. economy shrank slightly during the first two quarters of the year. Eurozone economies have also seen sharp declines in growth rates relative to 2021 and are projected to grow by 3 percent in 2022. As noted in the IMF's latest *World Economic Outlook*: "More than a third of the global economy will contract this year or next, while the three largest economies—the United States, the European Union, and China—will continue to stall. In short, the worst is yet to come, and for many people 2023 will feel like a recession" (IMF 2022, page xiii).

Further pain will be inflicted from inevitable policy actions to combat the rising cost of living in financial centers like the United States, the United Kingdom, the eurozone, and perhaps eventually, Japan. The policy response has been mixed across these financial centers. In the United States, the last decrease of the federal funds rate was in March 2020 in response to the emerging pandemic, when the target range was lowered by 1 percentage point to 0 to 0.25 percent. Starting with a 25 basis point (0.25 percent) increase in March 2022, the U.S. Federal Reserve began a cycle of tightening, with the latest increase of 75 basis points in early November, bringing the federal funds rate range to 3.75 to 4 percent. This is the highest rate since 2007. *(As this report is being finalized, the Fed announced another 50i basis point hike on December 14th.)*

Meanwhile the European Central Bank (ECB) has raised rates more gradually (Figure 3). The Main Refinancing Operations (MRO) rate had been at zero since 2019, and the ECB started its tightening cycle in late July 2022, raising the rate to 0.5 percent. In line with the U.S. Federal Reserve, in early November 2022, the ECB raised the MRO rate by 75 basis points, resulting in a rate of 2 percent. Meanwhile, the Bank of England (BoE) maintained its policy rate at 0.1 percent during most of the pandemic. The BoE's tightening cycle started earlier, but it was more gradual, with the first increase in late December 2021. In its most recent increase in early November, the BoE accompanied the ECB and the U.S. Federal Reserve by raising the rate by 75 basis points to 3 percent. Meanwhile, the Bank of Japan's policy rate remains at -0.1 percent.

Figure 3. Key Central Bank Policy Rates



Source: Bank of International Settlements (BIS).

The strong U.S. dollar is also impacting many developing economies. There are many factors that affect exchange rates, including inflation and growth expectations, as well as the expectation of future exchange rate changes and inherent risk factors (such as political risk, a prime example being two prime minister resignations in a matter of months in the United Kingdom). That said, it is not surprising that the U.S. dollar has appreciated in the presence of the significant wedge between U.S. interest rates and other financial center interest rates. For countries with fixed exchange rates, this can hurt competitiveness, as the local currency accompanies the increasing value of the U.S. dollar. For example, tourism services in Barbados become more expensive for an important market, visitors from the United Kingdom.

Looking ahead, the World Bank (2022) is projecting modest declines in commodity prices in the coming two years. For energy prices – that is, an aggregate index of different energy commodities – the World Bank projects a decline of 11 percent in 2023 and 12 percent in 2024. For a broad index of agricultural prices, it projects a decline of 5 percent in 2023 and stable prices in 2024. These declines would still leave prices substantially above the averages of the last five years. While the World Bank notes that there is great uncertainty in these forecasts, it is likely that relatively high food and fuel prices will persist into 2023 and perhaps 2024.

Another commodity worth mentioning is gold, since it is an important export for Guyana and Suriname. Given the somewhat limited industrial use of gold, its value is mostly as a safe haven store of value during market turbulence or as a hedge against inflation. At the same time, a rise in interest rates tends to lower the price of gold, since alternative stores of value (e.g., U.S. government bonds) offer ever higher rates of return as interest rates rise. Over the last year, the price of gold has fallen 6.3 percent (World Bank 2022).

In summary, the external shocks described in this section are interrelated and likely to persist well into 2023 and perhaps 2024. A persistent rise in commodity prices has set off inflationary pressures around the world, and central banks of the major financial centers have responded by raising interest rates. This tightening cycle is not over, and it is difficult to foresee how long it will last and how high interest rates will go.

The Macroeconomic Impact on the Caribbean

The external shocks described in the previous section – both the rise in commodity prices and higher international interest rates – have macroeconomic consequences for Caribbean economies. These impacts vary across countries depending on their economic structure (e.g., commodity importers versus commodity exporters) and on initial macroeconomic conditions (e.g., the level of public indebtedness and financing needs). This section presents an overview of these impacts, starting with the rise in commodity prices, followed by the rise in international interest rates.

The Rise in Commodity Prices

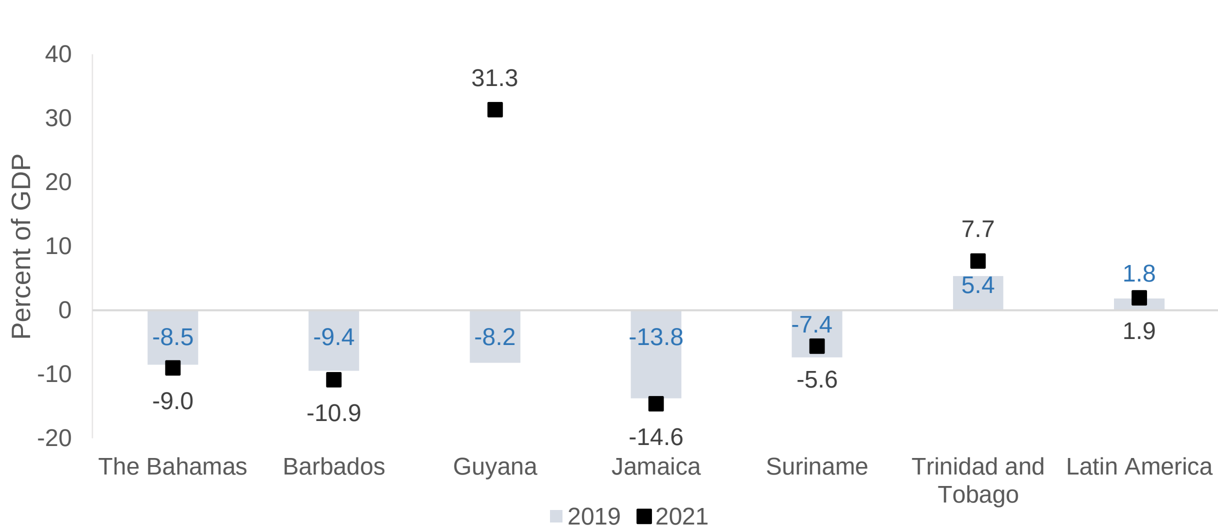
The rise in commodity prices has both “nominal” (inflation) effects and real effects on economies across the region. When the prices of a country’s imports rise, all else being equal, real GDP per capita declines as the rising value of imports lowers net exports (exports minus imports). Naturally, this also has an impact on the balance of payments through the trade balance component of the balance of payments.

As mentioned above, the impact varies depending on the structure of the economies, and in particular, the structure of trade. One way of measuring how exposed a country is to these effects

is to calculate the net trade (exports minus imports) for those commodities that have been increasing in value as a share of GDP.

Trinidad and Tobago, as a hydrocarbon exporter, has an overall positive net trade position in these commodities, and the positive balance increased as gas and oil prices already started to increase in 2021 (Figure 4).[3] Guyana switched from a negative balance to a large positive balance between 2019 and 2021 as oil production came onstream. Other countries have fairly substantial negative balances, although the price effects did not produce large increases in these deficits in 2021, based on preliminary national data. That said, the numbers provide a measure of the relative exposure to price increases for these commodities.

Figure 4. Net Trade in Agriculture and Fuels (Percent of GDP)

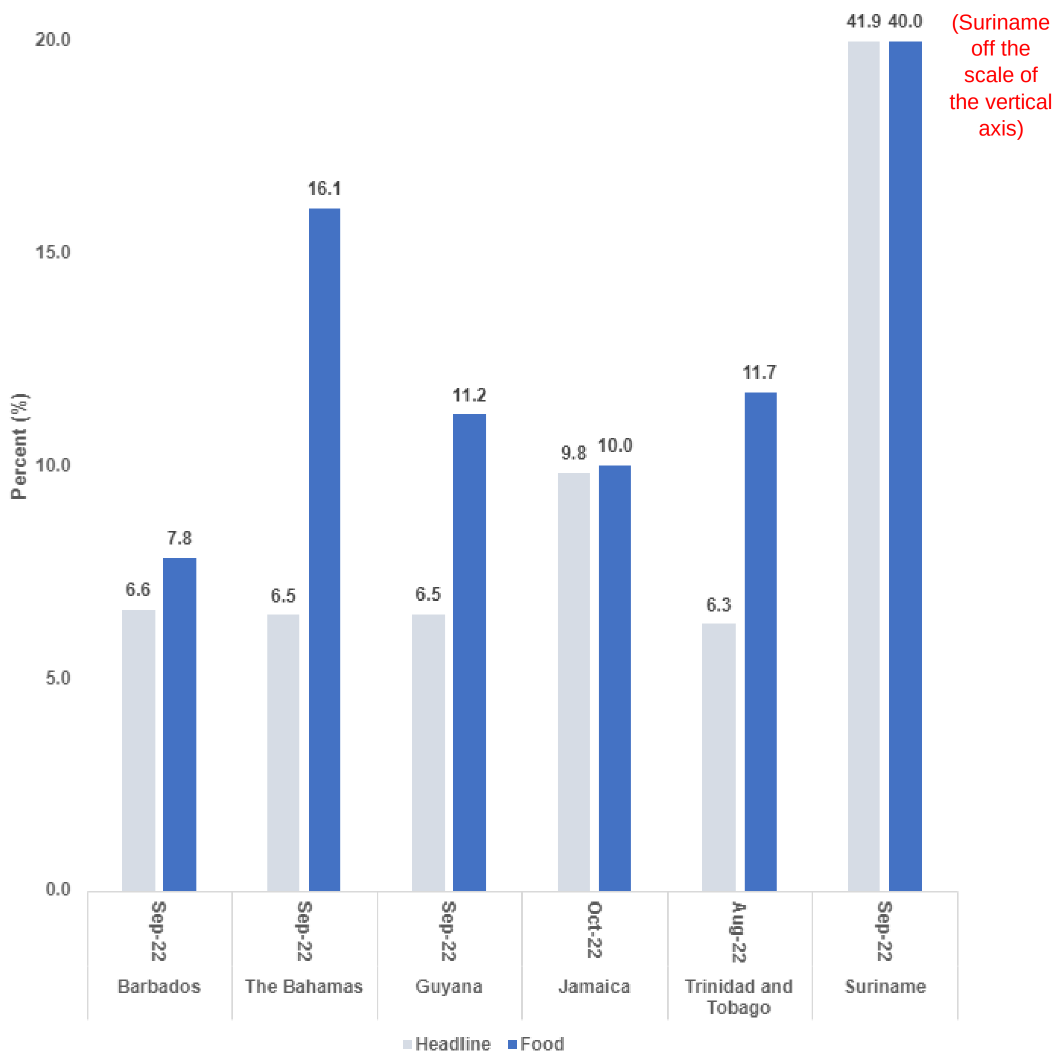


Sources: UN Comtrade database; and national statistics offices.

The balance of payments is exposed to the shock in commodity prices, and firms themselves are also exposed. Firms need to cover their costs in order to earn a return on their investment. Temporary increases in input costs can be tolerated without increasing prices, and in competitive settings, the owners of firms may choose to absorb temporary losses in order to preserve market share. As noted above, commodity price increases have persisted. As a result, the pass-through of these price increases inevitably has led to inflation, and overall annual inflation reached the low double-digits in several countries this summer (Figure 5).

[3] Data for Jamaica in 2021 are from the Statistical Institute of Jamaica, while data for The Bahamas from 2019 to 2022 are from The Bahamas National Statistical Institute. According to the Standard International Trade Classification (SITC), net trade is defined as the value of total exports minus the value of total imports. The agriculture and fuels category is composed of mineral fuels, lubricants and related materials; food and live animals; and animal and vegetable oils, fats and waxes.

Figure 5. Annual Inflation Rates (Percent)



Sources: Central banks.
Note: Most recent available data for each country.

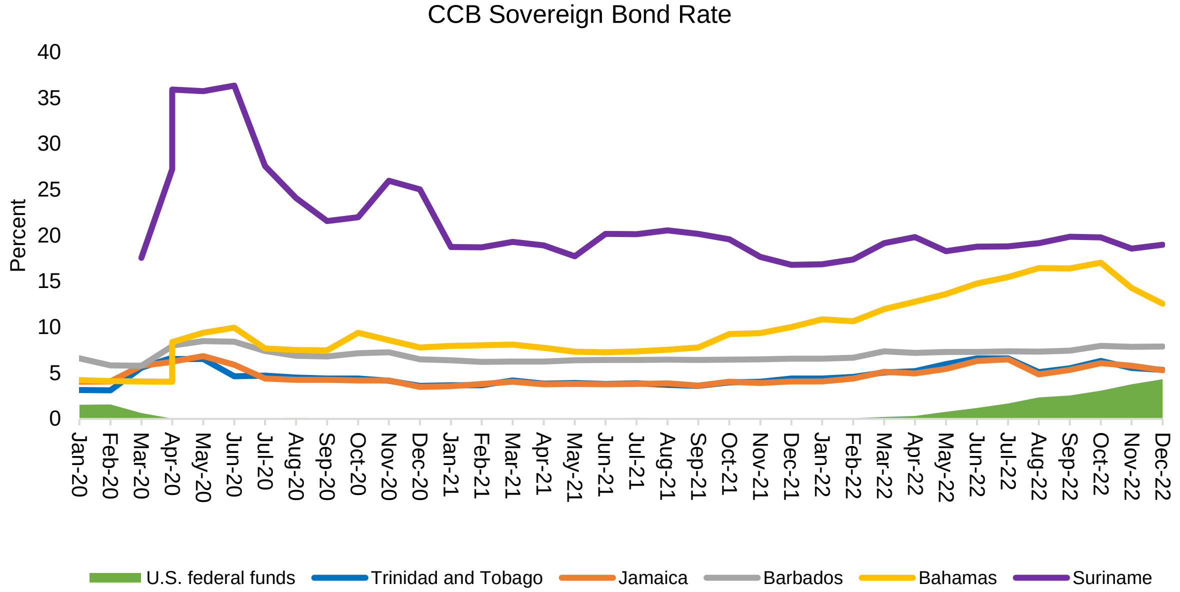
In some cases, depreciating currencies have contributed to inflationary pressures. The most notable case in this regard is Suriname, where the currency has depreciated by about 30 percent since May (from about 22 SRD/U.S. dollar to about 29 SRD/U.S. dollar in early November).

Finally, it is important to note that food prices have been rising faster than overall inflation. This is to be expected, given the rise in international prices of food as a driving force for overall inflation. However, the increase is important from a social perspective. The overall price index is based on a typical consumption basket for consumers, but the consumption basket of lower-income families is often more heavily weighted towards food. If food inflation is higher than overall inflation, then these lower-income households will suffer a larger cost of living effect than the average household. This will be discussed in more detail in a later section.

The Rise in Global Financing Costs

Of the converging headwinds affecting developing and emerging market economies, higher financing costs are among the most consequential**.** Figure 6 highlights the evolution of indicative external private sovereign funding costs for five of the six Caribbean economies between January 2020 and November 2022, set against the U.S. federal funds rate. Note that for all five economies for which data were available (excluding Guyana), the onset of the crisis in early 2020 caused indicative sovereign bond yields to increase and spreads against risk-free assets to widen owing to uncertainty and generalized market risk aversion. By October 2022, yields on outstanding debt were higher than in January 2020; in some cases, by wide margins. In other cases, the increase in sovereign yields has been more in line with the change in global policy rates. It is important to note that for small economies, the secondary markets for sovereign bonds are extremely thin, so spreads should be interpreted with that in mind. The market signal may be distorted. But regardless of the magnitude of change, increasing funding costs at home and in foreign markets have been driven by foreign policies, generalized risk aversion (now driven by economic uncertainties and the war in Ukraine), and domestic factors linked to solvency assessments. The latter depends on fiscal and debt positions as well as external balances. The country chapters provide an update on the status of each of the countries covered in this report.

Figure 6. External Private Debt: Indicative Yields versus the U.S. Federal Funds Rate (Percent)



Sources: Bloomberg; U.S. Federal Reserve; and author calculations.
Note: Reflects sovereign bond trading levels on outstanding instruments available at the time.

Microeconomic and Social Impacts on the Caribbean

The external shocks mentioned above have microeconomic and social impacts. Since some goods such as food and fuel have seen higher price increases than others, there are changes in relative prices. Productive sectors that use these goods more intensively as inputs for production suffer cost increases that are higher than for sectors that use these inputs less intensively. Similarly, firms or sectors that are more dependent on external finance will suffer more from rising international interest rates. Finally, the appreciation of the U.S. dollar can affect competitiveness of sectors that export to non-U.S. markets, particularly for those exporting countries that have an exchange rate that is tied to the U.S. dollar.

Global Sectoral and Social Impacts and Consequences for the Caribbean

Tourism depends on transportation, and transportation is intensive in fuel. Globally, increases in transportation costs could shift consumer demand away from tourism, a critical sector for The Bahamas, Barbados, and Jamaica. That said, within the global tourism sector, there could be destination substitution effects, as tourists save on transportation costs by choosing geographically closer destinations. That effect could bode well for The Bahamas and Jamaica, which traditionally depend on the nearby United States source market.

As noted above, the rise in interest rates is expected to slow global economic growth or perhaps result in recessions in many countries. To the extent that tourism is considered a luxury good, this could dampen global tourism demand.

Agricultural producers globally are coping with higher fertilizer and fuel prices but are enjoying higher prices for the products they sell, especially wheat and corn. Overall, the net impact appears to be positive.

Global hydrocarbon producers are recording record profits. Governments in countries that are net exporters of hydrocarbons are benefiting from increased revenues related to hydrocarbon production.

Social impacts are highly correlated with both income levels and dependence on food and fuel imports. Low-income per capita countries have proportions of their population that devote much or most of their income to the consumption of food. Sadly, the World Bank (2022) projects that more than 200 million people are suffering from severe food insecurity in 2022. The global forces described above are a major contributor to the problem, but local conflict situations and local extreme weather effects play a role as well. The extent and complexity of this problem is likely to keep food security at center stage in global policy forums in the coming year.

The Lack of Good Data on Sectoral and Social Impacts in the Caribbean

As noted in the country chapters of this report, sectoral specialization patterns imply very different impacts of these external shocks across countries. Food and fuel importers face softening domestic consumption demand due to these higher costs, but the tourism sectors in these same countries appear to be recovering strongly, though somewhat less so in Barbados. For Barbados, distance combined with the strengthening of the dollar could inhibit tourism spending from the important United Kingdom market. Hydrocarbon exporters are enjoying the high prices, and their respective governments are enjoying the increase in hydrocarbon-related revenues. Details at the country level are provided in the country chapters.

Household survey data can be used to measure the impact on household consumption and how this varies across income segments. These data can also be used to simulate the impact of different future food and fuel price scenarios on poverty rates. The IDB's social sector department has developed this type of simulation tool, but, unfortunately, household survey data for the

Caribbean countries covered in this report are out of date, making it impossible to use this tool reliably.

Online surveys from the World Food Programme (WFP) suggest a sharp rise in food insecurity across the Caribbean (WFP 2022). The WFP has been conducting online surveys on the topic every six months since the start of the pandemic. Between the February 2021 and August 2022 surveys, "yes" responses to the question "I went without eating for a whole day" increased from 16 to 22 percent. That said, as noted by the WFP, the survey samples are not representative. One might imagine that there could be sample selection bias in terms of who decides to take the survey.

In brief, a lack of good data inhibits the ability of economists to analyze the social impacts of the external shocks.

Policy Response

Governments across the Caribbean have responded in a variety of ways to the external shocks they are facing. One can divide the policy response into three categories: macroeconomic policies, microeconomic and social policies, and regional coordination policies.

Macroeconomic Policies

With rising inflation and interest rates in global financial centers, one standard policy response would be for the central bank to raise interest rates. The only one of the six Caribbean countries to follow this path has been Jamaica.[4] The Bank of Jamaica started a tightening cycle late last year, raising the policy rate from the 0.5 percent level that had prevailed during much of the pandemic to the current 7 percent.

Commodity importers with fixed exchange rates entered this period of shocks with substantial foreign exchange reserves, which will be a key element to monitor moving forward.

As noted in the most recent IMF *World Economic Outlook*, fiscal policy should not be expansionary so as to avoid further pressures on the balance of payments for commodity importers and to avoid overheating in commodity exporters (IMF 2022). Government spending may be redirected, however, to social policies to support those segments of society most affected by the external shocks.

Microeconomic and Social Policies

The country chapters provide more information on the policy response followed by each Caribbean country. In several countries, electricity prices have not been fully adjusted to take into account the rise in costs emanating from rising fuel prices. Instead of across-the-board

[4] Suriname continues to implement its reserve money targeting framework, agreed to in its IMF program, as it struggles with a longer standing and much more severe inflation problem.

subsidies of this nature, the support can be better targeted. For example, in Jamaica, between April and July of this year, the government provided a targeted subsidy of 20 percent of electricity bills of households consuming 200 kWh or less, provided one-off vouchers to taxi operators, and permanently increased the transportation benefit for participants in the country's conditional cash transfer program, the Programme of Advancement Through Health and Education (PATH).[5] Beyond energy prices, The Bahamas has recently responded with price controls across an array of goods – including breadbasket items such as eggs and carrots – and medicines.

One important approach is to provide additional targeted assistance to lower-income groups, including the elderly. For example, in Guyana, the government's public assistance payments for vulnerable groups were increased from US$57 to US$67 per month, benefitting approximately 18,000 people. The Old Age Pension Program, which benefits approximately 65,000 senior citizens, also provided a series of increases that raised the monthly payment from US$98 in 2020 to US$134 in 2022. In Trinidad and Tobago, the government provided targeted support for vulnerable groups on government assistance programs, providing a one-time transport grant of approximately US$150 for 175,000 people.

Regional Coordination

The price shocks have also inspired regional leaders to promote longer-term regional solutions to the dependence on imports from outside the region (Government of Jamaica 2022). CARICOMs aforementioned 5 by 2025 Initiative aims to reduce food import dependence by 25 percent by 2025. This promising objective could be achieved through a combination of increased domestic production and enhanced regional trade. Another example of the increased impetus for regional collaboration is the Saint Barnabas accord signed by the governments of Barbados and Guyana in July.[6]

Finally, longer-term energy security can be enhanced by reducing dependence on imported fuel for electricity generation. Renewables offer the hope of both greater energy independence and a "greener" future.

[5] Jamaica Information Service, "$200M For Needy Families Not On PATH Programme," 8 March 2022, available at https://jis.gov.jm/200m-for-needy-families-not-on-path-programme/

[6] For details, see Barbados Ministry of Foreign Affairs and Trade, "Saint Barnabas Accord for Cooperation signed!" 5 July 2022, available at https://www.foreign.gov.bb/saint-barnabus-accord-for-cooperation-signed/

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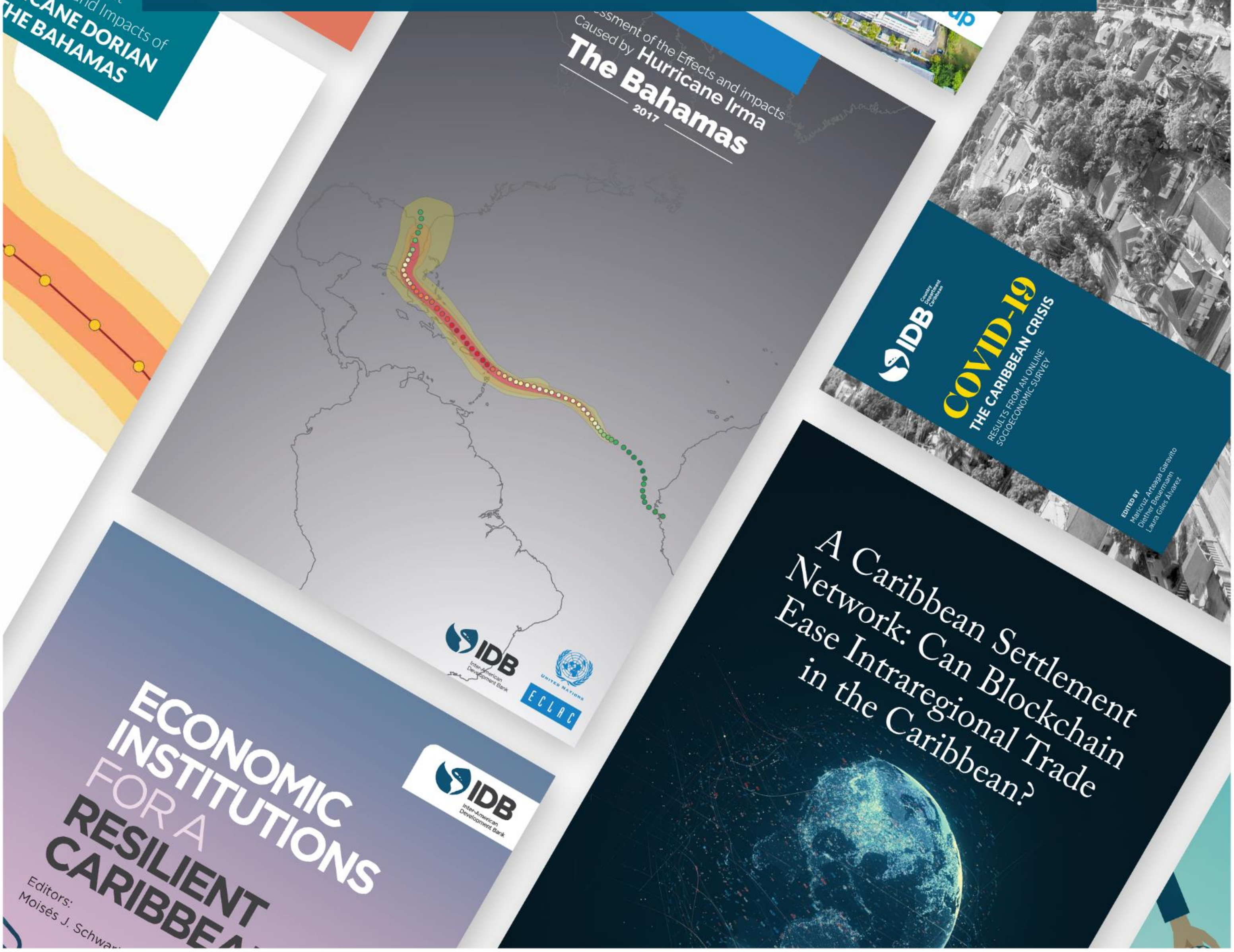

COUNTRY SUMMARIES

The Bahamas

Khamal Clayton and Cloe Ortiz de Mendivil

Macroeconomic Update

The Bahamas is still recovering from the effects of the COVID-19 pandemic. The economy saw a contraction of 23.8 percent of real GDP in 2020 and a rebound of 13.7 percent in 2021. Despite additional global shocks in the last six months, the economy is projected to grow by an additional 8 percent in 2022.[7] The pandemic brought the tourism-dependent economy to a standstill for almost two years, but tourism arrivals in the first seven months of 2022 reached 81 percent of those recorded during the first six months of 2019, thus suggesting a robust recovery. The removal in September 2022 of all pre-arrival testing, regardless of vaccination status, should further stimulate growth in time for the winter travel season.

The country's twin deficits continue to be pressing issues, despite improvements. The current account deficit is projected to improve slightly to 18.2 percent of GDP in 2022, from 23.1 percent the year prior. However, that is still significantly above the 2.6 percent deficit of 2019. However, international reserves are projected to remain strong, despite the challenges posed by the pandemic, thanks to inflows from international financial institutions such as the IDB and acquisition of other external debt. As of September 2022, international reserves had reached US$3.205 billion. The second deficit--the fiscal deficit--narrowed from a multi-decade high of 13.6 percent of GDP in FY2020/2021 to 5.7 percent in FY2021/2022, driven largely by increased tax revenue and a reduction in pandemic-related social support.[8]

Macroeconomic Effects of Headwinds

Inflation and the broad global economic slowdown represent headwinds to the recovery in The Bahamas. The Russian invasion of Ukraine is a shock that has reverberated globally, particularly in the commodities markets. Like most small island developing states, The Bahamas is a net food and fuel importer and, thus, has acutely felt the impacts of sharp commodity price shocks. In October 2022, the International Monetary Fund (IMF) revised its April projections to suggest that the end-of-year inflation rate will be 7.2 percent, an increase of 0.5 percentage points over the previous projection, and that overall real GDP will reach 94 percent instead of 96 percent of pre-

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[7] Macroeconomic data are from the International Monetary Fund's October 2022 *World Economic Outlook* (WEO) (IMF 2022a) and from the Central Bank of The Bahamas, unless otherwise noted. Projections are from the WEO.

[8] The fiscal year in The Bahamas runs from July 1 to June 30.

pandemic figures (IMF 2022a, 2022b). Furthermore, although the hurricane seasons between 2020 and 2022 produced several devastating hurricanes, The Bahamas was largely spared a large-magnitude storm. Still, future hurricane seasons will continue to be a tangible risk to the country's fiscal and economic recovery. Despite these headwinds and risks, GDP is still projected to return to its pre-pandemic levels by 2024.

Microeconomic and Social Impacts

For Bahamians, particularly the most vulnerable, the most pressing issue is likely the increasing cost of living, as reflected by food inflation. The Bahamas has a one-to-one currency peg against the U.S. dollar that mitigates against inflation pass-through from exchange rate depreciation. Nonetheless, as of August 2022, headline inflation was 6.4 percent year-over-year, while food and transport prices grew by 14.3 percent and 23.8 percent, respectively, over the same period. Furthermore, Bahamas Power and Light announced in early October that the monthly fuel charge will increase progressively by 2 cents per kWh if consumption is less than 800 kWh and 4.3 cents per kWh otherwise, in four phases until August 31, 2023.[9] Therefore, there will be four increases for a total of 8 cents per kWh (76 percent increase) for consumption less than 800kWh and 17.1 cents per kWh (163 percent increase) otherwise. Taken together, these increases in food, transportation, and electricity prices will disproportionately impact the most vulnerable given the weight of such items in their consumption basket.

To address high inflation, particularly for food, the Bahamian government has responded with a combination of temporary and permanent policies (Table 1). These policies include an increase in the minimum wage for all workers, an increase in the value-added tax (VAT) exemption threshold, import tariff exemptions, and the expansion of price controls for a list of key breadbasket items and medicines. The increase in the minimum wage is the first since 2015 and is more targeted than the other policies, so it will benefit the lowest-earning workers in the formal labor market.

[9] See Press Statement on Fuel Charge Amendments

Table 1. The Bahamas: Summary of Key Policy Responses to High Inflation

Policy	Description	Effective Timeline
Price Control (Drug) (Amendment) (No. 2) Regulations, 2022	List of drugs and their price mark-ups for both retailers and wholesalers; revised after consultations with stakeholders	October 17, 2022 to January 17, 2023 (subject to review and may be extended)
Price Control (Application to Additional Items) (No. 2) Regulations 2022	Expands list with 38 staples and their price mark-ups for both retailers and wholesalers; as of November 8, 2022, rejected by stakeholders and thus may be revised again	October 17, 2022 to April 17, 2023 (subject to review and may be extended)
Minimum Wage Increase	From $210 weekly to $260 weekly; last increase was in 2015	Public sector - July 2022 onward Private sector - January 2023 onward
Tariff (Amendment) Act 2022 and Excise (Amendment) Act 2022	Reduced or eliminated import tariff rates for several breadbasket items	May 23, 2022 onward
Value Added Tax (VAT) Bill (amendment) 2022	Raised the VAT exemption for electricity bills from $300 to $400	November 2022 onward

Sources: Office of the Attorney General and Ministry of Legal Affairs; and Bahamas Information Services.

The price controls, which were updated after consultations with the affected stakeholders, cap the mark-up of several medications and 38 breadbasket items at wholesalers and retailers. For affected medications, mark-ups are capped at 20 percent for wholesalers and 40 percent for retailers, while breadbasket items are capped at 15 percent for wholesalers. Additionally, to account for differences in economics due to geography, retailers located in New Providence and Grand Bahama are capped at 25 percent and 30 percent, respectively, for dry goods (e.g., soap) and perishables (e.g., apples), while retailers in the remaining Family Islands will receive an additional 5 percentage point mark-up for both categories. Perishables, as their name suggests, have a limited shelf life and thus cannot be stored for long periods. Therefore, sold perishables also must cover the cost of unsold produce in addition to other operating costs such as refrigeration and labor. At least 17 goods (44 percent) can be categorized as perishable and, for a few items (Table 2), their estimated spoilage rates are high enough that the required mark-up is approximately the same as the maximum markup allowed in the original proposal (i.e., 25 percent). These figures are based on U.S. supermarket chains, which likely have more reliable cold storage supply chains, and thus may under-estimate figures for their Bahamian counterparts, especially in the Family Islands. Occasional load shedding, especially during tropical storms, is an added risk that increases spoilage rates for Bahamian grocers and supermarkets. Under the original proposal, when other operating costs are included, it is possible that several items may become unprofitable, especially for small- and medium- enterprises operating in the Family

Islands, where transportation and refrigeration costs are higher. Nevertheless, the current updated proposal makes important distinctions between perishables and dry goods, as well as between the different market dynamics that exist across the islands of The Bahamas.

Table 2. The Bahamas: Estimated Minimum Mark-ups to Cover Food Losses, 2012 (Percent)

	Apples	Limes	Lettuce	Onions	Bell Peppers	Chicken	Pork
Spoilage rate	19.2	13.9	21.0	8.8	11.3	12.8	10.1
Minimum mark-up	23.8	16.1	26.6	9.6	12.7	14.6	11.2

Sources: IDB staff calculations; and Buzby et al. (2016).
Note: Data based on an average of a sample of supermarket chains in the United States in 2012.

A price control, at least in terms of behavior if adequately enforced, is a de facto combined turnover tax and income redistribution policy (i.e., a cash transfer from business to consumers). Revenues for specific products that would have accrued to specific businesses, and possibly to the government in the form of an increased VAT, would now be transferred to all Bahamians. Additionally, despite the updates, the price controls do not differentiate using size or profitability. Therefore, this policy is likely to impact small and medium-sized enterprises negatively and disproportionately because they are more likely to have neither the volume of sales nor the economies of scale to absorb the per unit loss of revenue. In addition, they will have to use these same diminished margins to cover increasing electricity bills and labor costs. Furthermore, like price controls, the VAT exemption for electricity bills – and even more so the import tariff reductions and exemptions – would result in government revenues transferred to Bahamians, including those who are least affected by inflation. Hence, except for the minimum wage, the remaining policies outlined are effectively untargeted subsidies for everyone--both the rich and the poor. That said, as a short-term temporary measure, the price controls have the advantage of not imposing any direct expenditure costs on the budget.

Alternative Policy Options

Unlike price controls, which are blunt policy tools, a more targeted response – such as a conditional or unconditional cash transfer – could build on existing programs such as emergency food assistance that provides food stamps to qualifying families. Beneficiaries of this policy would be Bahamians who earn less than a pre-defined income threshold – low enough to ensure that only the most vulnerable qualify but high enough that it does not distort incentives for those earning close to the minimum wage. Beyond targeting food insecurity, well-designed and innovative cash transfers could have other beneficial secondary effects. For example, instead of food stamps, the government could transfer Sand Dollars to restricted digital wallets, which would have the secondary effect of increasing the use of digital currency and fostering financial inclusion

for the unbanked and underbanked. The economic literature has broadly shown that well-designed and targeted conditional cash transfers can have positive and statistically significant effects, as seen in Jamaica’s Programme of Advancement Through Health and Education and Brazil’s Bolsa Familia (Levy and Ohls 2010; Hellman 2015). Furthermore, in July 2022, in line with a broad economic consensus, the IMF, World Bank, Food and Agricultural Organization, World Trade Organization, and World Food Programme argued in a joint statement that cash transfers to the most vulnerable are more effective – both in cost and impact – than untargeted food and energy subsidies.[10]

Increasing Financing Costs: A Growing Fiscal Liability

Relying on the capital markets to finance a deficit or any additional social support programs has grown more costly, with Moody’s downgrading its unsecured sovereign debt to B1, the second such downgrade in 13 months. Additionally, the United States, which has already raised rates five times in the last six months, and other developed markets will see incremental increases in their policy rates, as discussed in the regional chapter of this report. With the likelihood of a global recession increasing, appetite for emerging market assets will decrease and the cost of financing debt will also increase as investors favor safe assets such as U.S. Treasury bonds. This development is particularly concerning, as reconstruction costs following any severe tropical storm will likely be funded using progressively scarce and expensive debt. Moreover, the Bahamian government’s financing needs remain elevated, and in the medium-term external debt service will rise given already acquired commitments. Fiscal space for The Bahamas’ will continue to be constrained in the short to medium term.

Conclusion

The Bahamas is expected to have a robust economic recovery as tourism activity progressively returns to pre-pandemic levels. However, broad macroeconomic challenges, driven primarily by external shocks, will continue to present risks in the short to medium term. The government faces an unenviable balancing act to ensure that its pursuit of food security does not jeopardize its need for fiscal discipline. The government’s tight fiscal space – both high debt and persistent fiscal deficits – will constrain its policy options and thus underscore the need for targeted and consensus-driven responses to mitigate the inflationary impact, particularly for the most vulnerable.

[10] See Joint Statement by the Heads of the Food and Agriculture Organization, International Monetary Fund, World Bank Group, World Food Programme, and World Trade Organization on the Global Food Security Crisis

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Barbados

Cloe Ortiz de Mendivil and Ariel McCaskie

Macroeconomic Update[11]

Tourism-dependent economies have been hit hard by the COVID-19 pandemic, and although recovery is taking place, not all countries are regaining strength at the same speed. Barbados' economy only grew 0.7 percent in 2021 in real terms, after having declined by 13.7 percent the year prior. The economy is expected to expand by 10.5 percent in 2022, but real GDP will not return to pre-pandemic levels until a year later. During the first half of 2022, tourist arrivals to the island were only 43 percent of those in the same period of 2019 and cruise activity has been completely paused since May 2022. COVID-19 protocols have been eased as a measure to reactivate the tourism sector. Since May, vaccinated travelers have not needed to be tested prior to arrival, and mask-wearing policies were eased in September. However, air connectivity remains limited, some routes have been suspended, and the cost of airfare is high, which poses a barrier to attracting visitors.[12] As the winter season starts and cruises resume, activity is expected to increase.

The unemployment rate has decreased and in June 2022 stood at 9.3 percent, which is in line with pre-pandemic levels. Inflationary pressures have been rising during 2022 in line with global developments, and reached 7.8 percent in September (12-month inflation), with lower-income households being particularly impacted. Food, transport, energy, and fuels have experienced higher price surges.

Prior to the implementation of the Barbados Economic Recovery and Transformation (BERT) program supported by the International Monetary Fund (IMF) Extended Fund Facility (EFF) in 2018, the country's fiscal stance had been weakening for two decades. The program aimed to restore fiscal sustainability and implement reforms to boost growth. Progress was adequate until the pandemic hit in March 2020. Extraordinary expenses and decreased revenue collection negatively impacted fiscal performance. However, authorities remained committed to the reform agenda. The program, which was supported by US$435 million in disbursements, ended in September 2022, but authorities decided to engage in a subsequent program with the IMF to support a new BERT plan. The new IMF EFF will be combined with access to the Resilience and Sustainability Facility (RSF) and will represent access to US$300 million in funds over the next three years.[13] The program will have a strong focus on climate change and resilience while

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[11] Macroeconomic data are from the IMF's October 2022 *World Economic Outlook*, the Central Bank of Barbados' *Quarterly Review of the Economy*, and the Barbados Statistical Service, unless otherwise noted.
[12] Virgin Atlantic suspended its Edinburgh and Manchester winter flights to Barbados, and Eurowings cancelled all of its flights to the Caribbean.
[13] The IMF reached a staff-level agreement with Barbados on September 28, 2022.

promoting structural reforms in areas such as state-owned enterprises, public financial management, tax and customs administration, and the public pension system.

Overall, the macroeconomic outlook remains uncertain. Even though authorities remain committed to fiscal prudence and to the reform agenda, public debt levels are elevated (135.4 percent of GDP in FY2021/2022) and high fiscal surpluses in the short and medium term are required to achieve fiscal sustainability.[14] In addition, the ongoing economic recovery is still weak and will depend on the evolution of global tourism trends and the capacity of Barbados to regain its market share. High inflation in source markets might restrict demand for travel, and there could be substitution towards cheaper destinations. Moreover, the recent depreciation of the sterling pound against the U.S. dollar could discourage UK visitors, which represent the largest share of tourism arrivals in Barbados.[15]

Macroeconomic Effects of Headwinds

Although the pandemic health shock has started to recede, with new contagious waves being less deadly and posing less pressure on the health system, the economic effects are still hard-felt and new headwinds are affecting many countries around the globe, including Barbados. Rising food, energy, and transport prices are particularly affecting the island given its high level of dependency on imports, and this is having a negative effect on the terms of trade and the trade balance. In addition, although the country has access to low-cost lending provided by international financial institutions, financing costs are on the rise now that other countries such as the United States are tightening their monetary policy in an effort to control inflation. Finally, the looming threat of a global recession poses risks to the incipient recovery of the economy of Barbados.

Inflation is on the Rise

During the first quarter of 2020, international oil prices were trending down and then collapsed with the onset of the pandemic due to decreased demand as countries closed their borders.[16] Oil prices gradually increased and stabilized for the remainder of the year, but in 2021 prices kept going up due to pent-up demand derived from the economic recovery. The Russian invasion of Ukraine in February 2022 provoked a spike in prices and, although prices started to decline over the summer, they are still well-above pre-COVID-19 levels. In combination with value-chain disruptions throughout the pandemic and a lower supply of certain cereals due to the war, this has resulted in higher inflation both internationally and domestically. In Barbados, year-over-year inflation increased from 4 percent in January 2022 to 11.9 percent in May and remained elevated

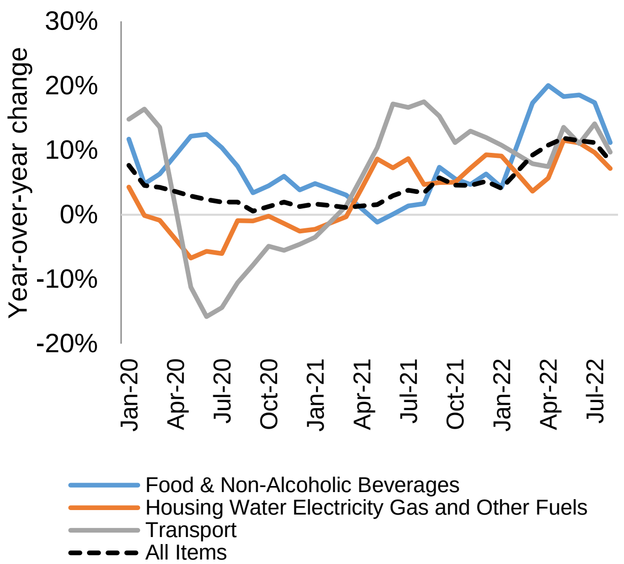
[14] The fiscal year runs from April 1 to March 31.

[15] Visitors from the United Kingdom accounted for 40 percent of total visitors in the January-September 2022 period. Visitors from the United States were the next highest category, representing 31 percent.

[16] The price of Brent oil went from close to US$70 per barrel at the end of 2019 to under US$20 per barrel in April 2020. The price stabilized at above US$40 during the second half of 2020 and in 2021 continued an upward trajectory and passed US$130 after the onset of the war. It closed October at around US$95 per barrel. Source: Federal Reserve Bank of Saint Louis.

at 8.3 percent in August (Figure 1). Food prices in particular have risen, and even surpassed the 20 percent mark in April. Transport and housing utilities and fuels have also been particularly affected, since the energy matrix is heavily reliant on imported fossil fuels. Temporary measures to control inflation have been adopted, such as a cap on the maximum value-added tax (VAT) to be charged on gasoline and diesel, caps to the cost of freight used to calculate customs duties, and a reduced VAT on certain goods.

Figure 1. Barbados: Inflation rate, selected categories (percent)



Source: Barbados Statistical Service.

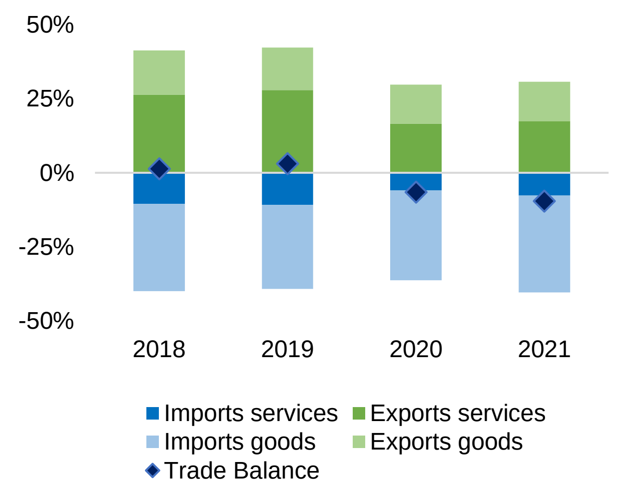
High Dependency on Imports of Goods Poses Risks

As a consequence of a slow tourism recovery and price trends, the trade balance in Barbados has been deteriorating since the onset of the COVID-19 pandemic. The 3.1 percent of GDP surplus recorded in 2019 reversed to a 6.5 percent deficit in 2020, which further deepened to 9.6 percent in 2021 (Figure 2). Forecasts for 2022 point to a 6 percent deficit.[17] The initial deterioration was driven by a drop in exports of services, especially tourism, larger than the fall of imports of goods. Subsequently, pent-up demand for goods and disruptions of value chains started to result in higher international prices, driving up the value of imports. The ongoing recovery of the tourism

[17] Actual figures are obtained from the Central Bank of Barbados and forecasts from the IMF's October 2022 *World Economic Outlook*.

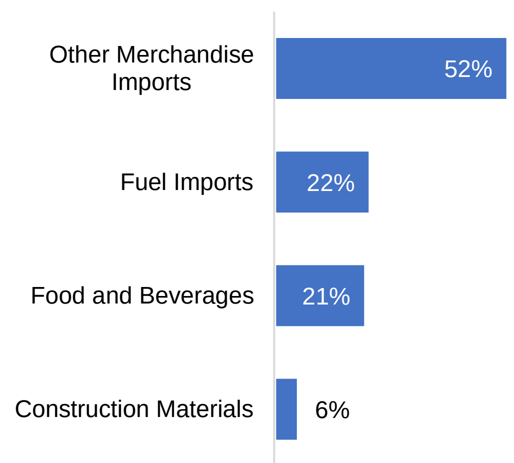
sector should relieve some of the pressure on the trade balance, despite continuous global inflationary trends. Barbados is heavily dependent on imports, which amount to 40 percent of GDP. Fuel and food jointly represent 42 percent of imports of goods, construction 6 percent, and other merchandise the remaining half (Figure 3). Therefore, the country is particularly vulnerable to price shocks.

Figure 2. Barbados: Trade flows as a percent of GDP (percent)



Source: Central Bank of Barbados.
Note: Trade flows are obtained from the balance of payments. Exports of goods include domestic exports, re-exported goods, and net exports of goods under merchanting. In 2021, these categories accounted for 34 percent, 18 percent, and 47 percent of trade flows respectively.

Figure 3. Barbados: Composition



Source: Central Bank of Barbados.

Financing Costs on an Upward Trend and a Global Recession on the Horizon

In an effort to control rising inflation, advanced economies have been increasing interest rates, which directly impacts financing costs for countries around the world.[18] Given the threat of a global recession and rising uncertainty, the appetite for sovereign debt of countries considered risky is decreasing. Luckily, Barbados underwent a debt restructuring in 2018 that provided longer maturities, lower rates for its debt, and a commitment from domestic debt holders to roll over short-term debt. Entering into an IMF program also unlocked access to cheap financing from international financial institutions. Since then, the country has not needed to tap into international private markets to secure resources. The new IMF three-year program will result in extended access to cheap funds, but in the medium term debt service will increase again, as the support

[18] The U.S. Federal Reserve has increased the target rate for federal funds six consecutive times in 2022, and that rate is now at 3.75-4 percent, the highest level since 2008.

from international financial institutions will need to be repaid. If the global recession and high financing costs extend over time, Barbados could face difficulties in securing new affordable resources.

Policy Responses

Since the start of FY2022/2023, the government of Barbados has been announcing measures to control inflation. The VAT has been lowered to zero for some critical care products such as diapers and vitamins, among others. The VAT on gasoline and diesel was capped for a six-month initial period starting in March 2022, then extended until the end of January 2023.[19] Remarkably, Barbados has one of the highest gasoline retail prices in the world.[20] Freighting costs have been temporarily capped for the purpose of calculating customs duties. In July, the government announced an agreement with the private sector to restrict the mark-up of 44 essential items to between 12 and 15 percent until the end of January 2023, and to expand the list of items with a zero percent VAT and no import duties.[21] Also in July, the VAT rate for the first 250 kilowatt/hour of electricity supply for households was lowered from 17.5 to 7.5 percent for a six-month period.[22]

VAT reduction policies, although well-intentioned, tend to be regressive and untargeted. Other policies such as cash transfer programs targeted to the most vulnerable households are more appropriate. In October, the government announced that it will soon launch the 1,000 Most Vulnerable Families Program.[23] This comprehensive program will include monetary transfers and aims to improve overall living conditions. The government has also stressed the need to collaborate with the private sector and services clubs to bring relief to those most in need.

[19] The VAT on gasoline is capped at BDS$0.47 per liter and on diesel at BDS$0.37 per liter. Barbados operates under a fixed exchange rate regime with US$1 = BDS$2.

[20] According to the Global Petrol Prices database, Barbados ranked fifth in the world in retail gasoline price as of October 31, 2022.

[21] The items under the agreement include a selection of canned and dry food, toiletries, and meat products. See Barbados Government Information Service, "Government to Sign Agreement with Private Sector," 14 July 2022, available at https://gisbarbados.gov.bb/blog/government-to-sign-agreement-with-private-sector/

[22] As per Policy Note 006/2022.

[23] See Barbados Government Information Service, "Launch of 1,000 Most Vulnerable Programme Coming Soon," 19 October 2022, available at https://gisbarbados.gov.bb/blog/launch-of-1000-most-vulnerable-programme-coming-soon/

Conclusion

The economic recovery of Barbados is proceeding at a slow pace. Distance from source markets for tourism, coupled with decreased and expensive air connectivity, is taking a toll. Moreover, inflationary trends, the elevated dependency on goods from abroad, and the threat of a global recession are risks that need constant monitoring. Although rising financing costs are not affecting Barbados as much as other countries, in the medium term those costs could represent an obstacle if public finances are not strong. Therefore, it is crucial that the country achieves and maintains high fiscal surpluses to bring down debt levels, and that it positions itself on a stronger footing. The impact on the most vulnerable households should not be minimized, and active and well-targeted policies to provide support are welcomed.

Guyana

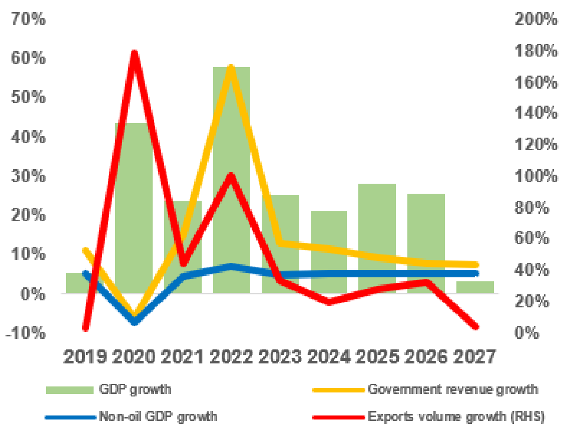
Victor Gauto

Macroeconomic Update

Guyana's macroeconomic context continues to be one of a booming economy, with oil production driving growth in exports, GDP growth, and government revenues and expenditures in the medium term. In its October 2022 *World Economic Outlook* (WEO), the International Monetary Fund (IMF) increased its estimates for oil production and GDP growth as a result of incorporating oil production from two additional floating, production, storage, and offloading (FPSO) vessels (IMF 2022a). In addition to considering higher levels of oil production, the new estimates account for higher energy prices, significantly supporting Guyana's main export flows. Consequently, the country's volume of exported goods is projected to increase by an annual average of 50 percent over 2022–2026, as opposed to the IMF's earlier estimate of 22.5 percent in its April 2022 WEO (IMF 2022b). The inclusion of additional FPSOs in the IMF estimates also almost doubled annual average GDP growth estimates, which were projected at 31.6 percent over 2022–2026 in the October 2022 WEO as opposed to 18.5 percent in the April WEO (Figure 1). Government revenues and expenditures are expected to follow a similar trend, averaging annual growth rates of 20 percent and 11 percent, respectively, over 2022–2026, leading to fiscal primary surpluses and near balanced budgets in the medium term.

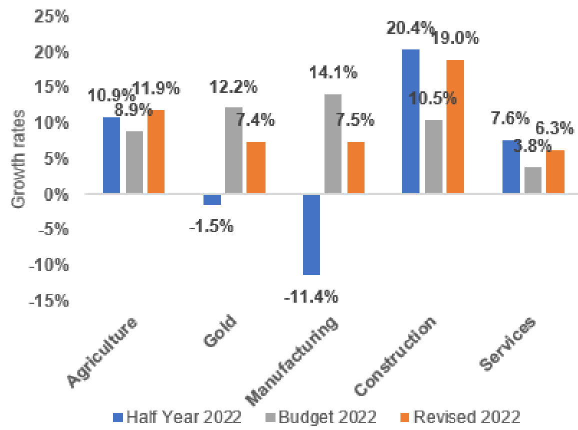
GDP growth is expected to significantly expand in 2022 and includes stronger recoveries in some non-oil sectors. The GDP growth rate in 2021 was 20.1 percent. GDP is expected to expand by a further 56 percent in 2022 on the back of increased oil production, as the Liza 2 field came online in February. The oil sector is expected to expand by 113 percent in 2022, accounting for approximately 90 percent of GDP growth this year. The non-oil economy is also projected to have a better-than-expected turnout of 9.6 percent for 2022 compared to 7.7 percent projected in the country's 2022 budget. The main drivers of growth in the non-oil economy include agriculture, services, and construction, which are projected to grow by 11.9 percent, 6.3 percent, and 19 percent, respectively, all higher than originally estimated in the budget. All three sectors showed dynamic growth in their mid-year results. In contrast, gold production and the manufacturing sector contracted in the first semester of 2022, leading to a downward revision of growth estimates for the year for those sectors to 7.4 percent and 7.5 percent, respectively (Figure 2).

Figure 1. Guyana: GDP Medium-term Indicators (Percent)



Sources: IMF (2022a, 2022c).

Figure 2. Guyana: Real GDP Growth (Percent)



Source: Guyana Ministry of Finance (2022). Mid-Year Report 2022.

Macroeconomic Effects of Headwinds

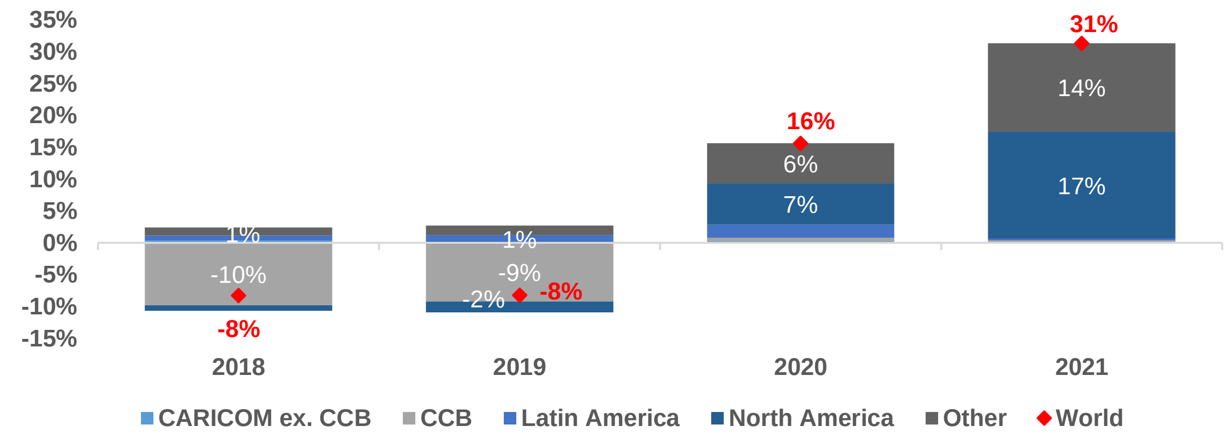
The current global context of high commodity prices affects countries differently, depending on whether they are mainly commodity importers or exporters, and directly affecting their terms of trade. Countries that mainly export products whose prices increase benefit from improved terms of trade, which means imports become relatively cheaper, supporting a country's purchasing power. For Guyana, this development is two-fold, since the country is not only benefitting from higher energy prices but also from higher levels of oil production.

Specific commodities such as oil and aluminum are projected to have relatively high prices through 2024. The average price of the main oil benchmarks (Brent, WTI, and Dubai) reached a high of US$98 per barrel in 2022, up from US$61 before the COVID-19 pandemic. The price is expected to remain over US$80 through 2024, before dropping to US$71 by 2027. Similarly, aluminum prices were 50 percent higher in 2020 relative to pre-pandemic levels and are expected to remain around 40 percent higher through 2027. While soybean prices are also expected to remain around 40 percent higher than the pre-pandemic level in the medium term, international rice prices have remained relatively stable (IMF 2022a). Gold prices are currently about 30 percent higher than in 2019.

These price trends, and, more importantly, Guyana's higher levels of oil production, have significantly affected the profile of the country's net trade in agricultural products and mineral fuels with the rest of the world. Guyana rapidly moved from being a net importer of agricultural products and mineral fuels, representing 8 percent of GDP in 2018 and 2019, to being a net exporter of the same commodities, with a trade surplus of 16 percent of GDP in 2020 and 31 percent in 2021 with the rest of the world. Prior to oil production, Guyana's main suppliers driving the trade deficit

in these products were the Caribbean Community (CARICOM) countries. After the start of oil production, the main destinations of Guyana's trade surplus were North America and other countries outside of North and South America. The share of net exports to these countries increased through 2021, reaching 17 percent of GDP for net exports to North America and 14 percent of GDP to other countries (Figure 3). As oil production continues ramping up, these trade surpluses are likely to continue growing.

Figure 3. Guyana: Net Trade of Agriculture and Mineral Fuels as a Percent of GDP



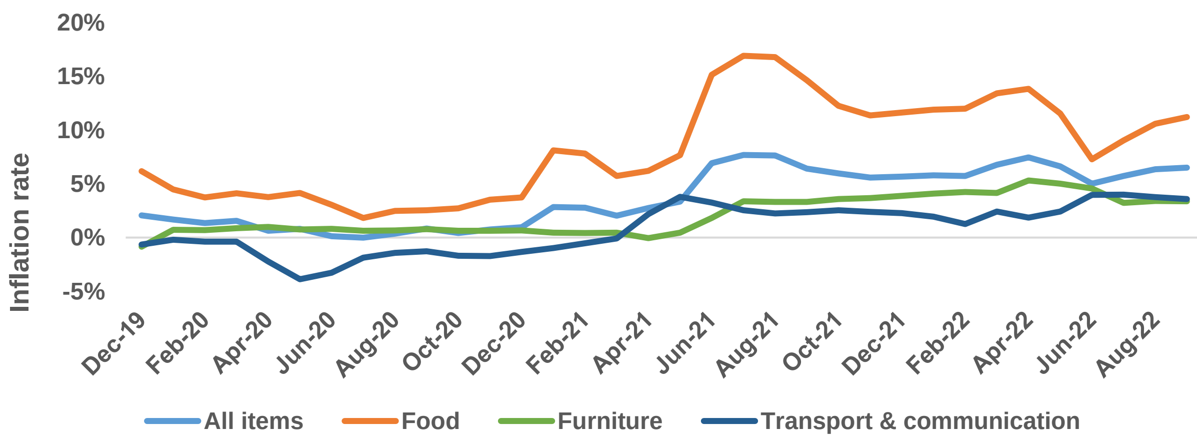
Source: UN Comtrade Database.
Note: CARICOM: Caribbean Community. CCB refers to the six countries in the IDB's Caribbean Department that are the subject of the Quarterly Bulletin.

There have also been important local effects of these global headwinds that have not been as favorable as the improvements in the terms of trade, mainly through their impact on local price levels. The inflation rate has been above historical levels since mid-June 2021. The annual inflation rate was 2.1 percent in December 2019, remained subdued through 2020 and early 2021, and then reached 6.9 percent in June 2021 (Figure 4). The inflation rate averaged 6.6 percent in the second half of 2021 and 6.2 percent through September 2022. More notably, food prices have seen even higher rates of inflation, averaging 11.2 percent this year through September. The implications of this challenging global context driven by high energy prices and disrupted supply chains is that consumer purchasing power has eroded in the face of increasing price levels, contributing to higher poverty levels and inequality. A recent IDB study, Arias et al. (2022), estimates that a 20 percent increase in food prices in 23 countries in Latin America and the Caribbean would lead to an increase of 1.6 percent in moderate poverty and 1.8 percent in extreme poverty, increasing the total number of people living in moderate and extreme poverty by 9.8 million and 10.8 million, respectively.

Policy Responses

Guyana has initiated several policy responses to address some of the challenges it faces, even in light of its increased GDP growth. First, the fiscal sector has benefitted from higher payments to the Natural Resource Fund, which had received a total of US$1.45 billion through September 2022 since its inception in 2020, including almost US$840 million in 2022 (NRF Quarterly Reports – MOF, 09/2022). Second, to strengthen food security, the government has promoted the Vision 2025 by 25 policy initiative, which seeks to reduce extra CARICOM food imports by 25 percent by 2025. Third, Guyana is among the governments in the region that have been organizing investment forums to promote technological improvements in agriculture and foreign direct investment.

Figure 4. Guyana: Inflation Rate (Percent)



Source: Guyana Bureau of Statistics.

At the micro level, to support productive sectors and vulnerable populations, the government introduced several policies. The excise tax on petroleum was reduced from 20 to 10 percent in January, then reduced further to zero in March. Tariffs on public utility services such as water and electricity have remained fixed, with the government absorbing higher operating costs. In addition, US$4.8 million was allocated for the purchase and distribution of fertilizer for farmers to reduce operating costs, and US$ 3.8 million was distributed in the form of one-time cash grants for households in the rural interior and riverain communities (US$120 per household). The government's public assistance payments for vulnerable populations were increased from US$57 to US$67 per person per month, benefitting approximately 18,000 people. The payments were later expanded to provide lifelong support for people with permanent disabilities. Finally, the Old Age Pension, which benefits approximately 65,000 senior citizens, saw a series of increases that brought it from a monthly payment of US$98 in 2020 to US$134 in 2022 (MOF, 2022).

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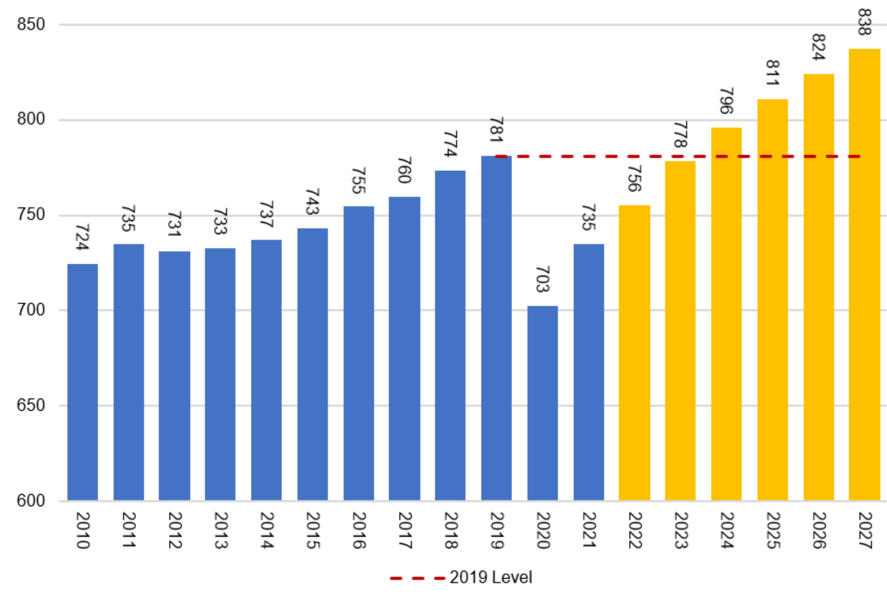
Jamaica

Anna-Kaye Walters, Monique Graham, and Henry Mooney

Macroeconomic Update

Jamaica made tremendous strides with respect to economic stabilization and reforms in the years leading up to the COVID-19 pandemic that helped to support the economy through the crisis. Jamaica is one of the world's most tourist-dependent economies,[24] so the shock to tourism arrivals driven by pandemic-related travel restrictions was unprecedented: a contraction of real GDP of -10 percent in 2020.[25] With global travel restrictions now largely withdrawn, Jamaica's tourism sector has seen a rapid recovery, with tourist arrivals back to pre-pandemic levels as of earlier this year.[26] Despite this strong recovery, however, the latest projections suggest that real GDP will not fully return to end-2019 levels until the end of 2023 (Figure 1).

Figure 1. Jamaica: Real GDP (Billions of Jamaican dollars)



Source: International Monetary Fund, October 2022 *World Economic Outlook.*

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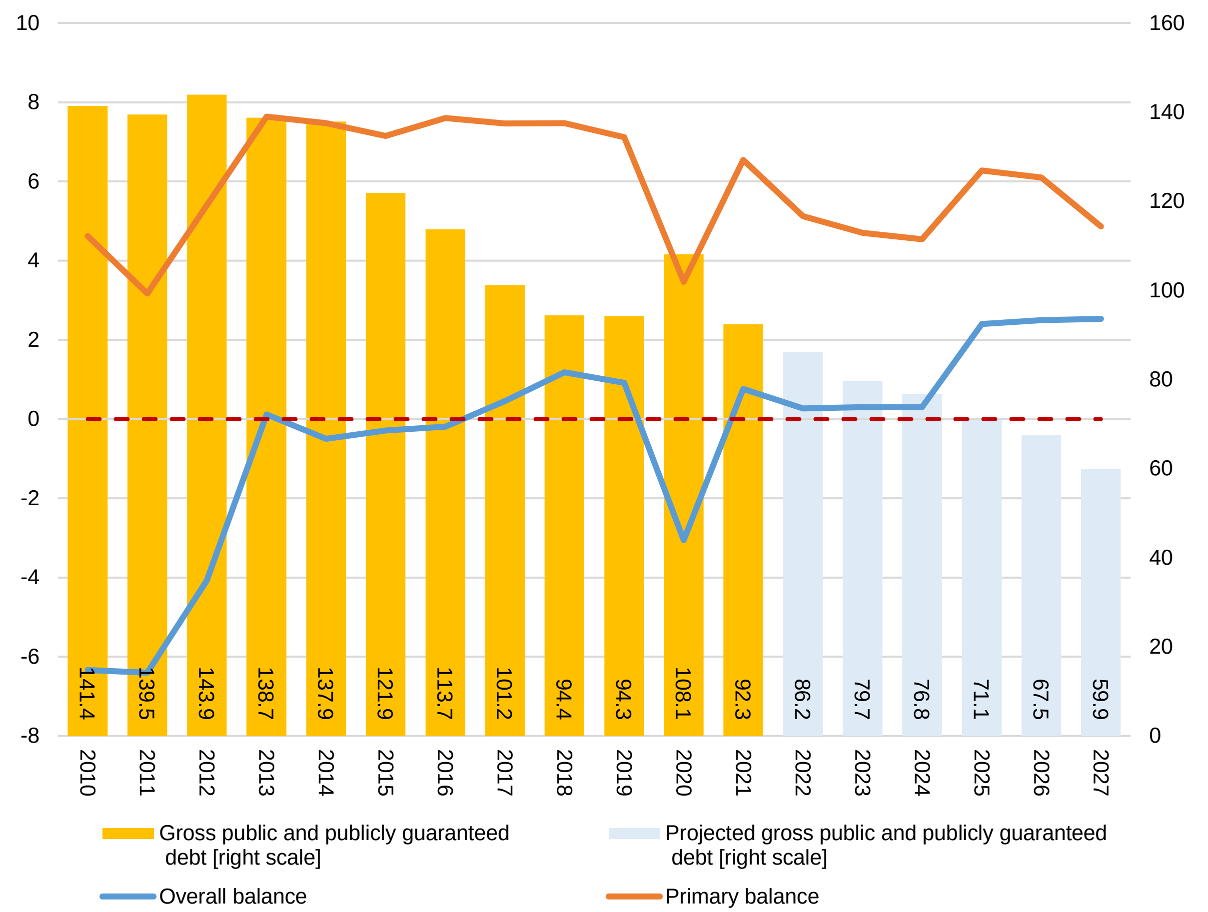
[24] Jamaica ranked 11th out of 175 countries globally on the IDB's Tourism Dependency Index (Mooney and Zegarra 2020).

[25] See the May 2021 Caribbean Quarterly Bulletin.

[26] Rochelle Williams, Jamaica Poised to Generate Record Tourism Earnings of US$5 Billion in 2023, October 2022, https://jis.gov.jm/jamaica-poised-to-generate-record-tourism-earnings-of-us5-billion-in-2023/

Against this backdrop, real GDP grew by about 4.6 percent in 2021, and is projected to grow by about 3 percent in 2022 and 2023. This relatively strong rebound in terms of output, along with a prudent budgetary stance focused on maintaining strong primary budget surpluses (averaging 5 percent of GDP for 2020 and 2021), have supported progress towards the fiscal responsibility framework's medium-term target of a public-debt-to-GDP ratio of 60 percent or lower by FY2027/2028. This makes Jamaica one of the region's best performers with respect to debt consolidation and related fiscal outcomes since the onset of the Covid-19 crisis (Figure 2).

Figure 2. Jamaica: Public Debt and Overall and Primary Balances (Percent of GDP)

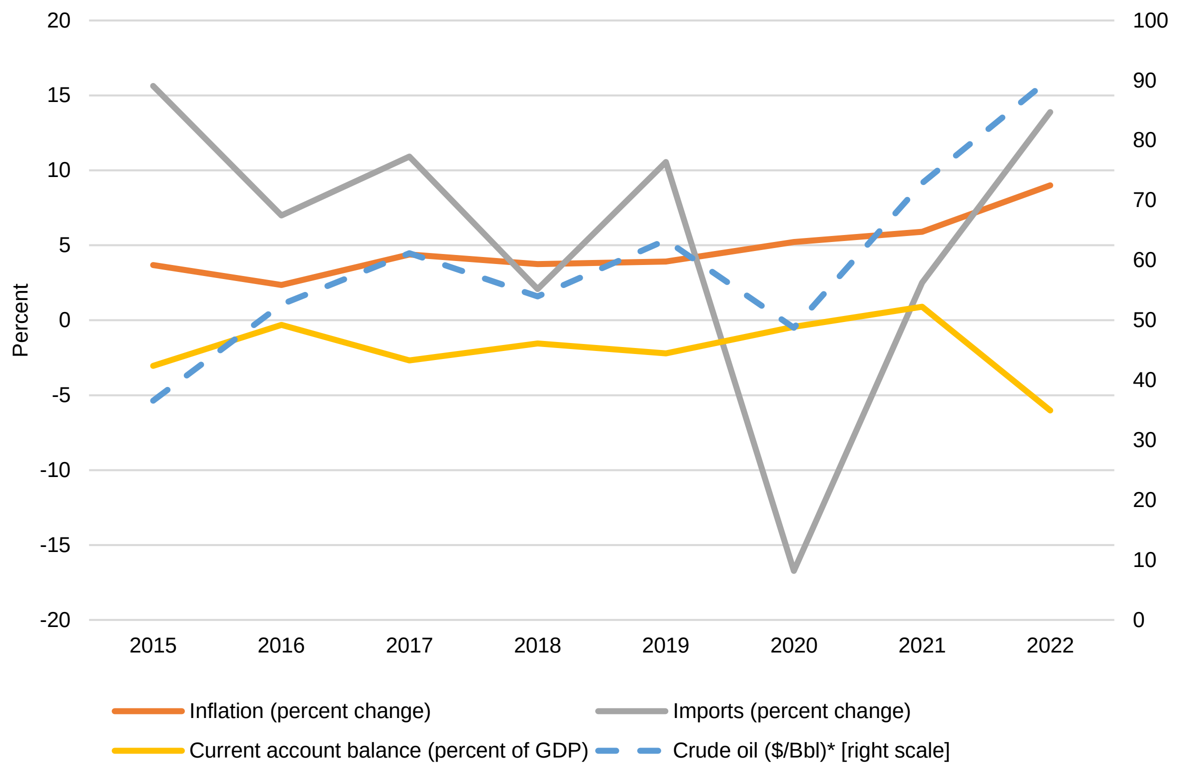


Source: International Monetary Fund, October 2022 *World Economic Outlook*.

Macroeconomic Effects of Headwinds

Despite its strong pre-crisis performance and recent recovery, Jamaica, like other countries across the Caribbean and beyond, faces several challenges linked to the pandemic's lingering effects and new global shocks. The current account did not deteriorate during the 2020 shock because the decline in tourism revenues was largely offset by higher remittance inflows and lower fuel consumption and related prices. However, crude oil prices increased from an average of about US$49 per barrel at end-2020 to about US$90 per barrel at end-October 2022. The rapid increase in commodity prices has affected Jamaica through its impact on local prices for most goods and services, owing in large part to the country's near total reliance on hydrocarbons for power generation. This, along with other import price increases linked to supply chain bottlenecks and the war in Ukraine, has caused the current account balance to deteriorate from a modest surplus in 2021 to what is expected to be a deficit of about 6 percent of GDP in 2022 (Figure 3).

Figure 3. Jamaica: Inflation, Import Volumes, and Oil Prices

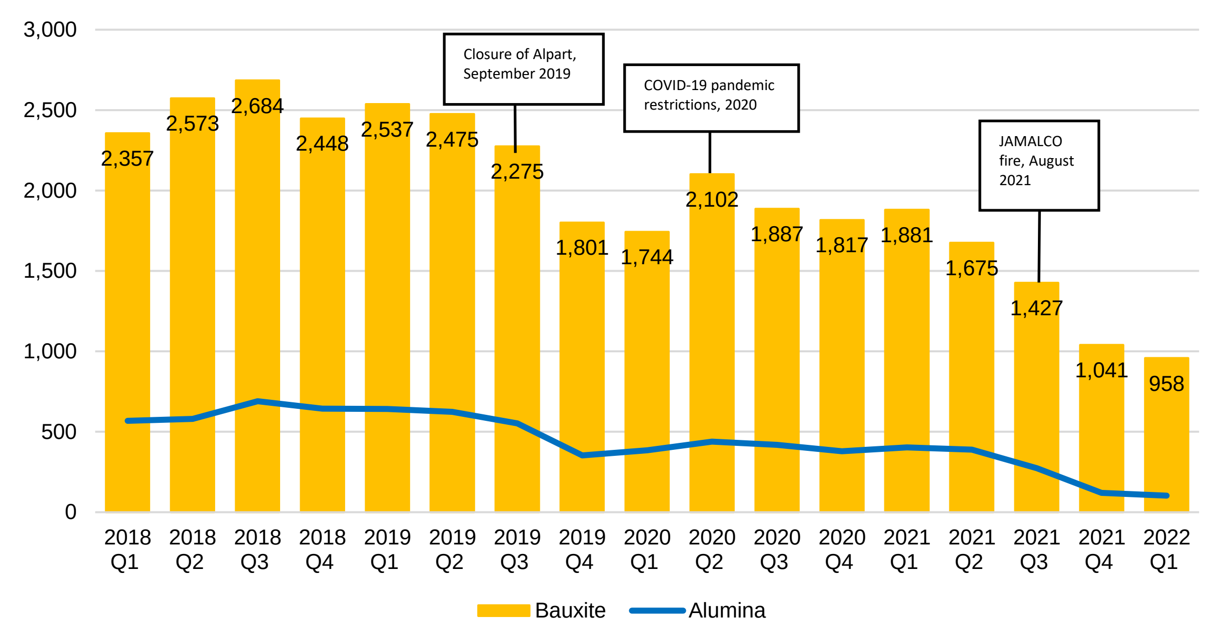


Sources: International Monetary Fund, October 2022 *World Economic Outlook* for inflation, imports, and current account; and World Bank for oil prices.
Note: (*) 2022 data point is from September 2022 (last available).

Against this backdrop, inflation increased from about 4 percent in 2019 to as high as almost 12 percent (on an annualized basis) earlier this year, before beginning to moderate. Inflation stood at about 10 percent in November 2022.

Exacerbating these shocks to trade and the economy is an extractive sector that has faced a series of disruptions. The mining and quarrying industry – primarily bauxite and alumina – is the largest contributor to goods exports (not including trade in services such as tourism). Over the past decade, the industry was responsible for at least 35 percent of all domestic exports, before peaking at about 64 percent in 2018. However, production of alumina was severely disrupted by the closure of the largest operator in the sector, JISCO Alpart,[27] from September 2019 through mid-2020 (Figure 4). Global COVID-19 restrictions, factory closures, and supply chain issues also curtailed demand from key import markets such as the United States, Canada, and the Netherlands. Finally, closure of the second largest producer, JAMALCO, due to a fire in August 2021 caused another significant decline in sector activity (Figure 4). These and related factors have driven a 65 percent contraction of output from the extractive sector relative to 2020.

Figure 4. Jamaica: Jamaican Bauxite and Alumina Production (thousands of tons)



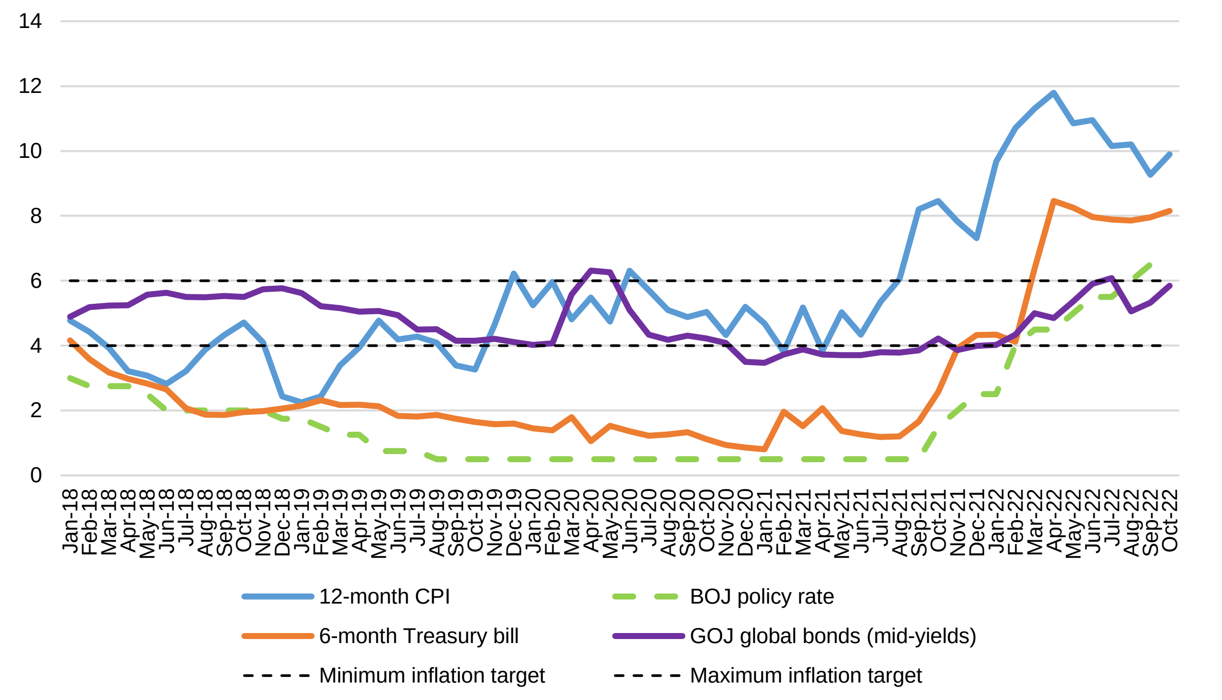
Source: STATIN Jamaica.

[27] Jamaica Observer, The Failings of Bauxite/Alumina Provide Harsh Lessons, May 2022, https://www.jamaicaobserver.com/editorial/the-failings-of-bauxite-alumina-provide-harsh-lessons/

Impacts of the War in Ukraine

As noted above, the war in Ukraine has intensified global commodity price shocks and related uncertainties, which has driven higher rates of inflation in Jamaica than might otherwise be the case. In response to price changes breaching the upper band of the target range, the Bank of Jamaica has made ten policy rate increases since September 30, 2021, with the rate standing at 7 percent in late November. This has, inter alia, caused local funding costs to increase, including for the government. Against this backdrop, yields on domestic public debt instruments have increased – for example, six-month Treasury bill yields increased by about 650 basis points between September 2021 and October 2022 (Figure 5). In parallel, yields on pre-existing external debt instruments have also increased – for example, the government of Jamaica global bonds maturing in 2028 have seen yields increase from 3.9 percent in September 2021 to 5.8 percent in October 2022. These higher funding costs have also affected corporate debt issuers and households in Jamaica and across the region.

Figure 5. Jamaica: Inflation and Government Bond Yields (Percent)



Source: Authors' calculations based on latest available Bank of Jamaica and Bloomberg data.
Note: BOJ: Bank of Jamaica; CPI = consumer price index; GOJ: Government of Jamaica.

Social Impacts and Government Responses to Related Challenges

The external shocks discussed above have had tangible implications for Jamaica's enterprises and citizens. For example, a comparison of the World Food Programme's February 2022 and August 2022 surveys indicate that food insecurity among Jamaican households has intensified (World Food Programme 2022), suggesting that an increasing number of households were forced to change their consumption patterns to cope with rising prices. These include purchasing cheaper or less-preferred foods, and buying smaller quantities than usual.

Mounting pressures on the financial capacity of households and businesses have also reduced access to essential goods and services, including transportation and electricity, which have long been areas of concern for less-affluent households. In 2021, local gas prices (grades 87 and 90 of gasoline, and automobile diesel) soared by 47 percent, from J$112.05 to J$165 per gallon, compared to a 13 percent decline in 2020. This drove higher transport and electricity costs. While the latest poverty data indicate that 12 percent of the population falls below the poverty line, it is expected that the impact of higher fuel prices will drive an increase in poverty, including extreme poverty, as poorer households apportion a larger share of incomes to food and transportation (Giordano and Michalczewsky 2022).

As also noted above, micro, small, and medium-sized enterprises are facing higher debt service costs due to the tightening of monetary policy conditions.[28] The increased costs make it difficult for businesses to invest and expand. Similarly, while the Bank of Jamaica has raised its policy rate appreciably over the past year, the pace at which interest rates on deposits are responding is slow, as deposit-taking institutions had only increased rates by 0.37 percent as of September 2022.[29]

In March 2022, the government presented its budget for the 2022/2023 financial year, including targeted assistance to Jamaicans aimed a dampening the impact of rising oil prices. These initiatives included vouchers for taxi operators, additional assistance through the Programme of Advancement Through Health and Education (PATH), and an energy co-pay programme.[30] Other social assistance efforts included food assistance to 75,000 non-PATH beneficiaries and a cash incentive for lower-income account holders (Government of Jamaica 2022). These and many other initiatives have benefitted and will continue to benefit households and businesses in Jamaica, particularly those suffering most from the implications of the crisis.

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Suriname

Gisele Teixeira Braun

Macroeconomic Update

Real GDP in Suriname is anticipated to recover, but at a slower pace than its medium-term projection. After two consecutive annual contractions of 15.9 and 3.5 percent in 2020–2021, GDP is forecasted to grow by only 1.3 percent and 2.3 percent in 2022-2023.[31] Over the medium-term, the IMF projects a growth rate of 3 percent,[32] which would be supported by the structural reforms outlined in Suriname's economic recovery plan.[33] In line with forecasts, Suriname's Monthly Economic Activity Index increased by 0.9 percent in June 2022. However, the index remains below the pre-COVID-19 pandemic level[34].

The fiscal position is expected to improve. Total revenues are estimated to be above the historical average, driven by improvements in tax collection and introduction of the value-added tax. Public expenditure is expected to decrease, given the phasing out of the electricity subsidy, and capping of the public sector wage bill. For 2022 and 2023, total revenues are expected to be equivalent to 27.6 percent and 31.1 percent of GDP, respectively, whereas total expenditure is expected to be reduced to 31.3 percent and 26.6 percent of GDP, respectively. Therefore, the fiscal balance is projected to improve strongly from deficits of 12.1 percent and 7.6 percent of GDP in 2020 and 2021, respectively, to 3.7 percent of GDP in 2022, and to a fiscal surplus of 0.5 percent of GDP in the following year. As of July 2022, revenues and expenditures were equivalent to 15.3 percent and 15.5 percent of annual GDP, respectively.

Public debt is expected to return to a sustainable level as the government concludes the debt restructuring. The ongoing fiscal adjustment and the appreciation of the real exchange rate brought the debt from 146 percent of GDP in 2020 to 126 percent in 2021. The accumulation of external arrears is anticipated to increase that ratio to 134 percent by end-2022. External debt arrears were estimated at 11.7 percent of GDP at mid-2022. However, the debt-to-GDP ratio is

[31] IMF, *World Economic Outlook,* October 2022.

[32] Ibid.

[33] The recovery plan is supported by the IMF in collaboration with other international financial institutions. The IMF Executive Board approved a 36-month arrangement for Suriname under the Extended Funding Facility in December 2021.

[34] The Monthly Economic Activity Index (MEAI) is a short-term indicator to measure movements of economic activity in Suriname. The MEAI uses survey data and administrative records from Customs, Central Bank of Suriname, the General Bureau of Statistics (GBS), financial reports, and production data of selected companies. It is a fixed-based index that uses the structure of the economy in 2015 as a base year. Subsequently, the *Laspeyres* formula is applied to generate an index for each activity. Weights by industry derived from the nominal value added as published by the GBS, are used to generate the total index for the economy. The growth rates are based on the 12-month moving average approach.

expected to decrease by almost 17 percentage points to 117 percent in 2023 as the government concludes the debt restructuring. Suriname reached an agreement with the Paris Club in June and aims to conclude the negotiations with bilateral and private creditors by end-2022.

Suriname's international reserves have recovered. The reserves were bolstered by the Special Drawing Rights allocation and disbursements scheduled under the IMF program. The authorities have committed to a free-floating, market-determined exchange rate, and to refraining from interventions in the market. As of September 2022, reserves amounted to US$1,029 million and were enough to cover about five months of imports, according to the Central Bank of Suriname.

Macroeconomic Effects of Headwinds

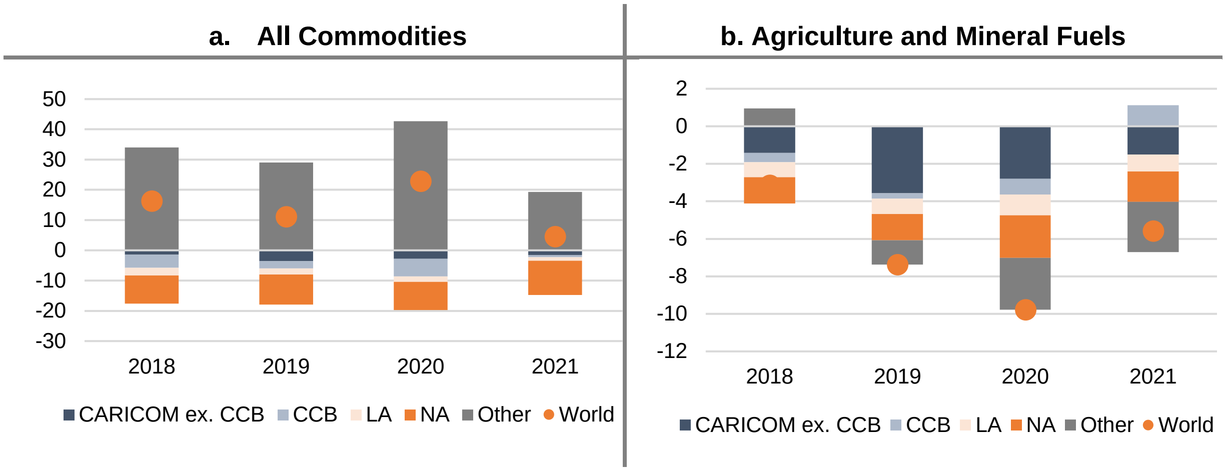
The COVID-19 pandemic crisis and the global commodity price shock have exacerbated the macroeconomic imbalances that stemmed from the 2015 commodity shock. Suriname's dependence on the extractive sector stunted the recovery of GDP, which grew at an average of only 0.7 percent over 2016–2019. When the pandemic crisis hit Suriname, there was already no fiscal space to accommodate additional public expenditures. Fiscal and external balances deteriorated further, inflation skyrocketed, and international reserves reached their lowest level ever. The new administration that took office in July 2020 presented an economic recovery plan to restore fiscal sustainability and reached an agreement with the IMF.

Terms of Trade

Suriname's net trade of commodities deteriorated over the last four years. The ratio between total values of exports and imports has been decreasing since 2018. The net trade of commodities declined by 11.7 percentage points between 2018 and 2021 and is equivalent to 4.6 percent of GDP (Table 1a). Despite an increase in 2020, net trade for agriculture and mineral fuels decreased from -3.1 percent of GDP in 2018 to -5.6 percent of GDP in 2021 (Table 1b). The deterioration is partially explained by decreases in mineral production at the national level and the rise in international prices of food and oil.[35]

[35] Non-monetary gold is the principal commodity exported by Suriname, accounting for more than 80 percent of total exported goods. Even though the international price of gold increased by approximately 10 percent annually from 2018 to 2021, the total value of exported gold decreased by around 3 percent over the same time period, reflecting the smaller exported volume.

Table 1. Suriname: Net Trade by Partner (Percent of GDP)



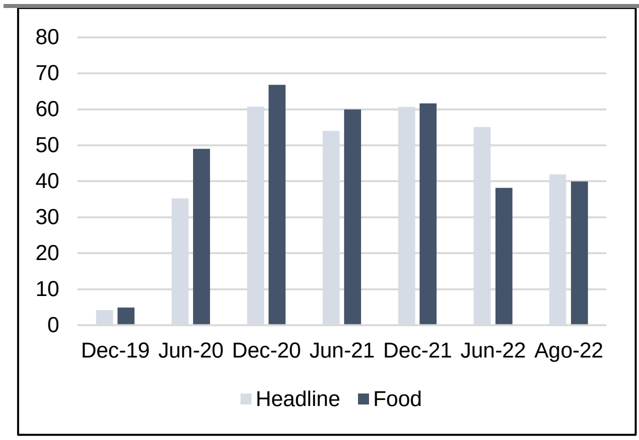
Source: IDB Caribbean Country Department calculation based on International Monetary Fund, *World Economic Outlook* October 2022 and UN COMTRADE data. Note: CARICOM: Caribbean Community; CCB: Caribbean Country Department; LA: Latin America; NA: North America.

The country's dependence on food imports to meet demand and ensure adequate nutrition constitutes a food security risk. Suriname is self-sufficient in the production of eggs and rice but relies completely on imports to meet the demand for wheat and maize. Moreover, the national production of meat is not sufficient to meet national demand, despite the improvement in production of bovine meat in the last decade, which increased from 50 percent of domestic consumption in 2010 to 67 percent in 2019. Additionally, most of Suriname's imported food comes from partners outside Latin America, increasing its vulnerability to disruptions in global value chains.

Inflation

Inflation is expected to remain a major challenge, exacerbated by the country's reliance on imports. Suriname faces a persistent double-digit inflation rate. Although higher inflation is a worldwide phenomenon, Suriname's heavy reliance on food imports makes foodstuffs comparatively harder to afford than in other countries, sparking warnings of nutritional insecurity. Rising prices of fuel and food have undermined the purchasing power of all families, but especially the poor, who spend a large share of their income on meals and transportation. Even though headline inflation is projected to decelerate in 2022–2023, it is expected to remain elevated (Table 2). The year-over-year change in the Consumer Price Index is expected to be at 35.2 percent at end-2022, a decline of more than 25 percentage points from end-2021. The adjustments to electricity tariffs and the increase in international fuel prices contributed to the persistent price increase, which reached 41.9 percent in August.

Table 2. Suriname: Inflation Rate (Year-over-year percent change)

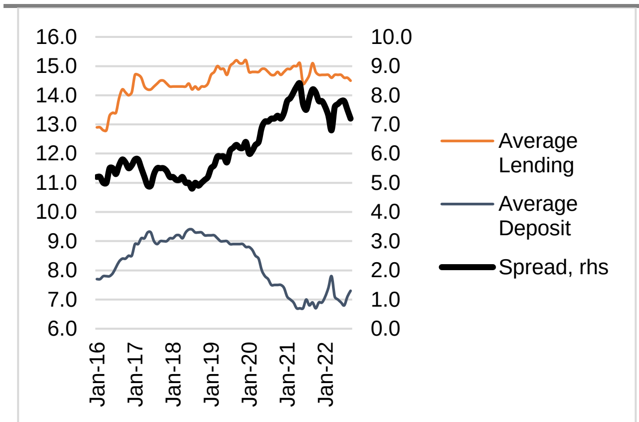


Sources: Suriname General Bureau of Statistics; Central Bank of Suriname.

Financing Costs

The interest rate spread is expected to remain elevated, adding concerns about food security. The net interest rate spread in Suriname increased by 1.2 percentage points from January 2020 to September 2022, reflecting both the increase in the average lending rate and the decrease in the deposit rate (Table 3). These trends have the potential to increase unmet financing needs, as they constrain economic agents' capacity to secure resources to afford normal consumption, including of foodstuffs.

Table 3. Suriname: Interest Rate (Percent)



Sources: Suriname General Bureau of Statistics; and the Suriname Central Bank.

Microeconomic and Social Impacts

The availability of microeconomic data on the social impact of recent shocks in Suriname is limited. At the end of 2019, the proportion of unemployed in relation to the economically active population was 10.5 percent, but the impact from both the COVID-19 pandemic crisis and the last global food price increase has yet to be determined. Nevertheless, a recent survey by the Caribbean Community (CARICOM) and the World Programme pointed to a deterioration in food consumption and diets. In February 2022, there was an increase in the number of respondents who reported skipping meals or eating less than usual, compared to February 2021. Moreover, 7 percent of respondents declared going an entire day without eating in the week leading up to the survey, compared to no such in the February 2021 survey.

The current account is anticipated to become negative in 2022–2023. The IMF forecasts that the current account balance will deteriorate from a surplus of 5.8 percent of GDP in 2021 to deficits of 2 percent and 0.9 percent of GDP in 2022 and 2023, respectively. The Central Bank of Suriname recorded a current account deficit of US$14.8 million in 2022:Q2 compared to a surplus of US$37.4 million for the same period in 2021. Similarly, export values fell by 21.7 percent, while import values increased by 46.6 percent over the same period.

Policy Response

The government of Suriname has implemented fiscal measures to cope with the increasing cost of living, ensuring greater financial protection for the most vulnerable. The government readjusted the cash transfers for social programs, incorporated support allowances for pensioners, and readjusted the monthly allowance for civil servants.[36] Moreover, the government created a fuel subsidy to protect all citizens and businesses against the turbulence of the international oil market. Over time, this object subsidy will be phased out and replaced by a system of subject subsidy. The government also expanded the supply of urea by means of a public tender. The measure was estimated to save farmers at least 30 percent compared to prices they would have faced buying urea directly on the market. Finally, the government established the National Development Fund for Agribusiness in March 2022 to increase credit access and promote agricultural production.

[36] The benefits for the following programs were adjusted: (i) General Old Age Provision (AOV); Financial Assistance for People with Disabilities (MMEB); and Financial Assistance for Weak Households (ZWHH). Civil servant salaries were adjusted by 25 percent plus a monthly bonus of around US$55. Pensioners were entitled to an additional monthly support allowance and a tax-free exchange rate compensation of approximately US$40.

Trinidad and Tobago

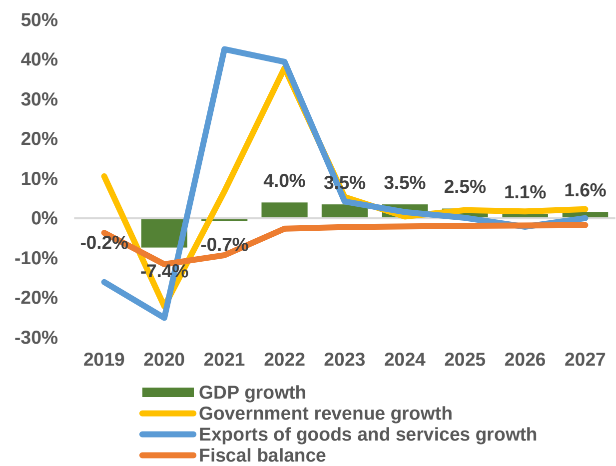
Victor Gauto and Nirvana Satnarine-Singh

Macroeconomic Update

A post-COVID-19 pandemic recovery buoyed by high energy prices is projected to support economic activity in the medium term in Trinidad and Tobago. The country's economic performance is significantly dependent on the energy sector, which continues to be an integral source of exports and fiscal revenue. After two years of contractions, the economy is projected to recover in 2022 and maintain moderate levels of growth through 2024, as high energy prices are expected to continue through 2024. Higher energy prices are reflected in higher levels of the value of exports in the medium term, but they do not necessarily reflect higher levels of production. In its October 2022 *World Economic Outlook* (WEO) the International Monetary Fund (IMF) estimates that the value of goods exports will grow by an average of 17.4 percent over 2022–2025, while growth in the volume of exports is estimated to average 11.2 percent over the same period. The average annual value of export goods for 2022 through 2025 is estimated in the IMF's October 2022 WEO to be almost 60 percent higher than the estimates in the IMF's April 2022 WEO (IMF 2022a, 2022b).

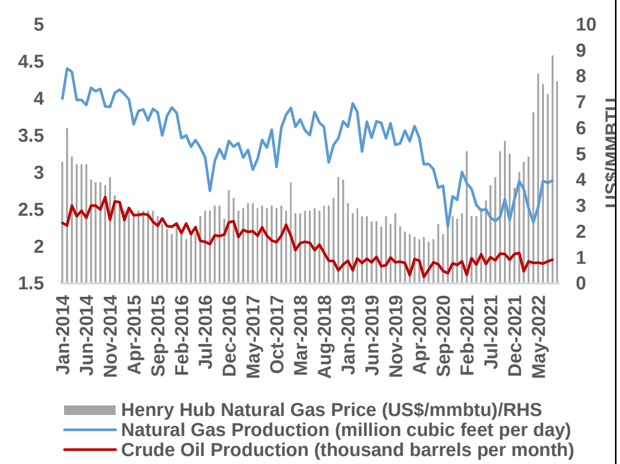
GDP is expected to expand by 2 percent in 2022, as the oil economy faces production constraints while the non-oil sector is expected to have a stronger recovery. The IMF estimates an average annual growth rate of 3.4 percent over 2022–2025. Boosted by high energy prices, government revenues are expected to grow by 38 percent in 2022 and average 11 percent growth for over 2022–2025, contributing to a fiscal deficit projected to decline from more than 11 percent of GDP in 2020 to less than 2 percent during 2025 to 2027 (Figure 1). Similarly, debt-to-GDP levels are expected to decline from 80 percent of GDP in 2020 to 63.6 percent in 2024, supported by smaller fiscal deficits and growing nominal GDP levels. In the first quarter of 2022, real GDP of the non-energy sector increased by 2.2 percent (year-over-year). The manufacturing sector grew by 4.1 percent, mainly driven by the food and beverages industry, where real GDP increased by 36.2 percent. There was also significant GDP growth in for transportation and storage, other service activities, and accommodation and food services, which expanded by 21.2 percent, 19.6 percent, and 12.2 percent, respectively. Real GDP of the energy sector declined by 5.1 percent in the first quarter of 2022 due to contractions in natural gas exploration and extraction and in refining, which fell by 5.1 percent and 4.1 percent respectively (Ministry of Finance, 2022). Natural gas production has lagged increasing natural gas prices, which has prevented a stronger post-pandemic recovery (Figure 2).

Figure 1. Trinidad and Tobago: GDP Medium-term Indicators (Percent)



Sources: IMF (2022a, 2022c).

Figure 2. Trinidad and Tobago: Production and Gas Prices



Source: Trinidad and Tobago Ministry of Finance (2022).

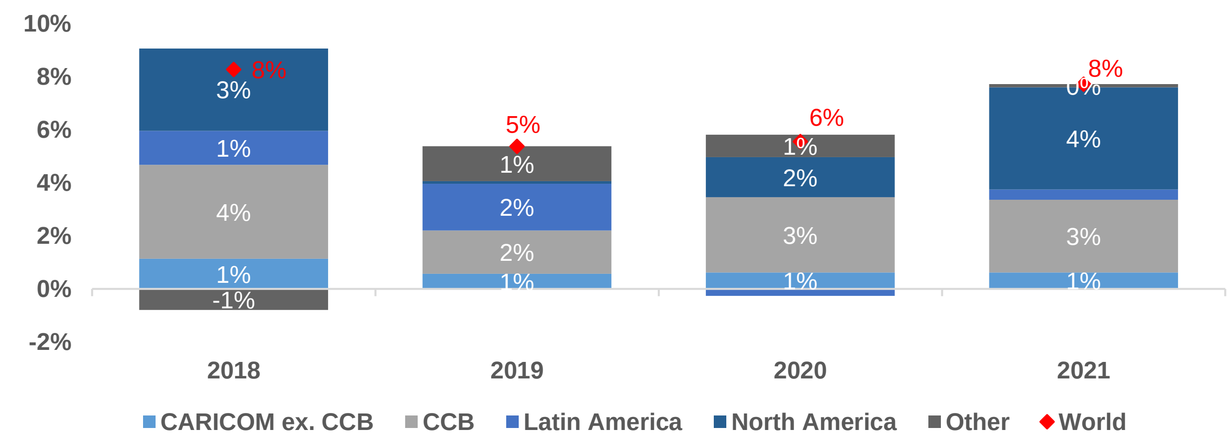
Macroeconomic Effects of Headwinds

Trinidad and Tobago is a small and open energy exporting economy, and the external shocks associated with various headwinds are having mixed effects on its economy. The war in Ukraine, on the heels of the COVID-19 pandemic, has intensified inflationary pressures and constrained the supply of several imported staples. In this context, the prices of Trinidad and Tobago's main exports have continuously increased over the last couple of years. Relatively high prices are projected through 2024 for specific commodities such as oil and natural gas. The average price of the main oil benchmarks (Brent, WTI, and Dubai), reached a high of US$98 per barrel in 2022, up from US$61 before the pandemic, and are expected to remain over US$80 through 2024, before dropping to US$71 by 2027. Natural gas prices are averaging almost twice what they were in 2019 and are projected to remain at least 30 percent above pre-pandemic levels through 2025 (IMF 2022a). Similarly, fertilizer prices have also increased significantly, with the price of ammonia booming to more than four times what it was at the end of 2019, methanol almost doubling, and urea more than doubling.

These price trends have impacted Trinidad and Tobago's terms of trade, allowing the economy to import more goods for the same level of exports even though the prices of imports, such as food, have also increased. Despite these price variations, Trinidad and Tobago has been a net exporter of agricultural and energy products, as shown in Figure 3. Net exports of agriculture and mineral fuels to the rest of the world was 8 percent of GDP in 2018, then dipped to 5 percent in 2019 and 6 percent in 2020, before climbing back to 8 percent in 2021. Trinidad and Tobago's trade surpluses with different parts of the world have remained stable over time, with North

America and the countries of the Caribbean Community (CARICOM) being the main destinations of Trinidad and Tobago's goods, varying between 3 and 4 percent of GDP. However, the trade surplus with Latin America fell from 1 percent of GDP in 2018 and 2 percent in 2019 to almost zero in 2020 and 2021.

Figure 3. Trinidad and Tobago: Net Trade of Agriculture and Mineral Fuels as a Percent of GDP



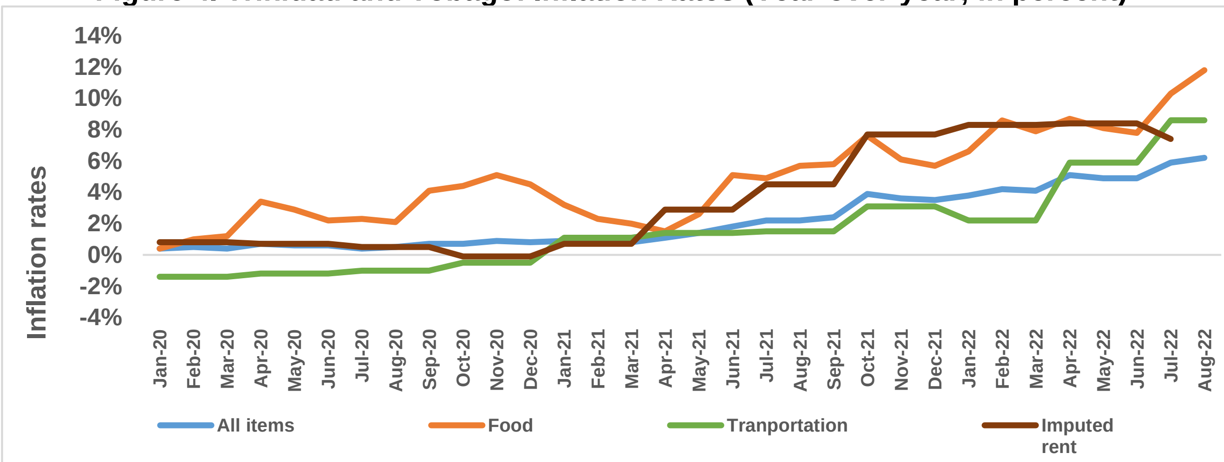
Source: UN Comtrade Database.
Note: CARICOM: Caribbean Community. CCB refers to the six countries in the IDB's Caribbean Department that are the subject of the Quarterly Bulletin.

Price variations have affected both the fiscal position and the external sector. Government revenue for the first half of 2022 was therefore 57.6 percent above 2021 values, while total exports reached US$4 billion in 2022:Q1, 82 percent more than in the previous year, with energy exports making up 88.6 percent of total exports. Total imports increased by 29.2 percent in 2022:Q1 (year-over-year), with non-fuel imports increasing by 13.8 percent in the same period (year-over-year) and fuel imports more than doubling.

Despite a consistent increase in general price levels in 2022, inflation in Trinidad and Tobago remained relatively contained compared to other countries in the Caribbean, with the year-on-year inflation rate averaging 4.9 percent for January to August 2022 and reaching a high of 6.2 percent in August 2022. Food prices were mainly affected by external factors, as food commodities accounted for 17.7 percent of total commodity imports in 2021. In August 2022, food inflation reached 11.7 percent compared to 5.7 percent one year prior. Relatively large price increases were also seen for transportation, with prices increasing by 8.6 percent in August 2022, as well as for imputed rent, which increased 7.4 percent in July 2022 (year-over-year). As shown in Figure 4, inflation rates gradually increased for these categories through 2022, reaching the highest rates for some in July and August 2022. The implication of rising prices is important. A recent IDB study, Arias et al (2022), estimates that a 20 percent increase in food prices in 23 countries in Latin America and the Caribbean would lead to an increase of 1.6 percent in moderate

poverty and 1.8 percent in extreme poverty, increasing the total number of people living in moderate and extreme poverty by 9.8 million and 10.8 million, respectively.

Figure 4. Trinidad and Tobago: Inflation Rates (Year-over-year; in percent)



Source: Central Bank of Trinidad and Tobago.

Policy Responses

The focus of policy responses in Trinidad and Tobago has been on supporting economic activity, maintaining price stability, and providing relief for cost-of-living increases. At the macro level, the Central Bank of Trinidad and Tobago has maintained the monetary policy rate at 3.5 percent since March 2020, signaling support for private sector lending. Moreover, fuel subsidies have contributed to keeping price levels stable. However, because the cost of these subsidies has been high, the government introduced measures to gradually reduce the fuel subsidy as part of its 2023 budget. This is expected to reduce total fuel subsidies from US$390 million (5 percent of total expenditures) in FY2022 to US$320 million in FY2023. In this challenging context, the Heritage and Stabilization Fund has played an important role, providing buffers to support government finances at the height of the pandemic. At the micro level, the government introduced a series of policies in the 2023 budget, including raising the eligibility threshold for personal income taxes, exempting those with a monthly income of US$1,100 or less, and increasing the value-added registration threshold, providing support for small and medium-sized enterprises. The government also provided targeted support for vulnerable groups on government assistance programs, providing a one-time transport grant of approximately US$150 for 175,000 people.

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