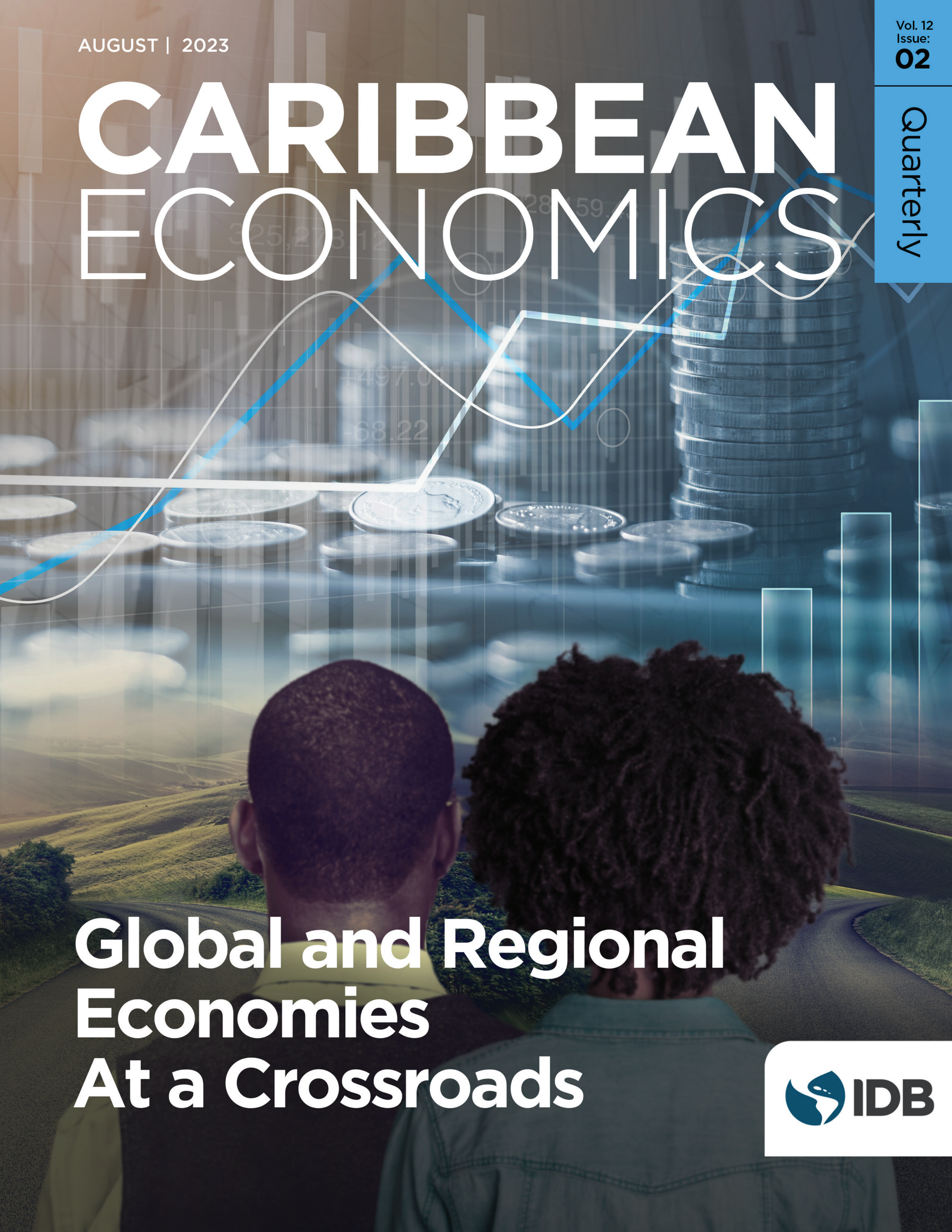

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CARIBBEAN ECONOMICS

Quarterly

Global and Regional Economies At a Crossroads

IDB

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Caribbean Economics Quarterly - August 2023

Regional Overview: Global and regional economies at a crossroads

David Rosenblatt, Henry Mooney and Khamal Clayton

Introduction

The global economy and Caribbean regional economies[1] are at a crossroads. In general terms, tourism-oriented economies have recovered more rapidly than expected from the sharp pandemic-induced contraction of 2020. Commodity prices have subsided; however, they remain above pre-pandemic levels, with persistent negative effects on households across the region, while at the same time buoying macroeconomic prospects for commodity exporters.

The global economy is characterized by softening growth combined with lingering above-average inflation, as noted in the spring edition of the IMF's World Economic Outlook. The IMF's Regional Economic Outlook for the Western Hemisphere carried the pithy title "slower growth, stubborn inflation." The IDB Macro Report earlier this year called for "preparing the macroeconomic terrain for renewed growth" as Latin America and the Caribbean face the triple threat of social, fiscal and growth challenges. The Caribbean is at a crossroads in addressing these challenges as well.

This report highlights the following:

- After the economic recovery of 2021 and 2022, key forecasters expect a global economic slowdown in 2023; however, that slowdown is mostly driven by an expected slowdown in advanced economies. That said, those advanced economies remain the key drivers of demand for Caribbean tourism exports as well as the prices of commodities.
- Regional economies have grown faster than the global economy, recovering from a deeper shock, but growth rates are likely to converge to pre-pandemic levels unless there are significant structural changes to enhance productivity, as noted in other editions of this periodical. In the near-term, key macroeconomic risks and economic growth opportunities remain relevant. Risks include external shocks from commodity prices, a potential synchronized downturn in advanced economies and external financing conditions. Emerging opportunities include near-shoring (especially for global services), a renewed impetus for regional integration (especially for agriculture), and strengthening of existing lead sectors, with a focus on environmental sustainability and green energy. Government and private sector responses to take advantage of emerging opportunities can steer economies onto the high path in the current crossroads, with superior economic growth than what was experienced pre-pandemic.

[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.

- Country circumstances vary substantially, as noted in the country sections of this report. Some countries' (e.g., The Bahamas and Jamaica) tourism sectors have recovered more rapidly than others (e.g., Barbados), and there is the hydrocarbon-fueled extraordinary growth of Guyana that dwarfs the economic growth of all countries in the Western Hemisphere. Key risks and opportunities also vary across countries, and these are analyzed in the country sections of the report.

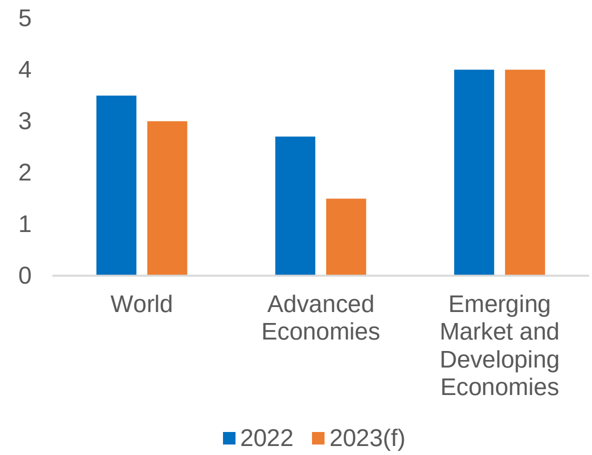
Global Trends and Regional Context

The IMF and World Bank both expect a slowing of the global economy in 2023, relative to 2022. The IMF (July World Economic Outlook Update) expects global GDP growth of 3% this year, compared to 3.5% last year (Figure 1(a)). In terms of broad country groupings, "advanced economies" are expected to grow by 1.5%, compared to 2.7% last year, with "emerging market and developing countries[2] growing by 4%, the same level as last year. In general terms, then, the global slowdown is due to the slowdown in "rich" countries. Similarly, the World Bank is expecting the slowdown to be driven by advanced economies. In the June edition of the Global Economic Prospects (GEP), the World Bank projects a slowdown in advanced economies from 2.6% last year to 0.7% this year, and emerging market economies to experience a slight *acceleration* of growth from 3.7% to 4.0%. Overall, the global economy's growth would slow from 3.1% growth last year to 2.1% growth this year (Figure 1(b)).[3]

[2] For information on IMF country classification definitions: https://www.imf.org/en/Publications/WEO/weo-database/2023/April/groups-and-aggregates.

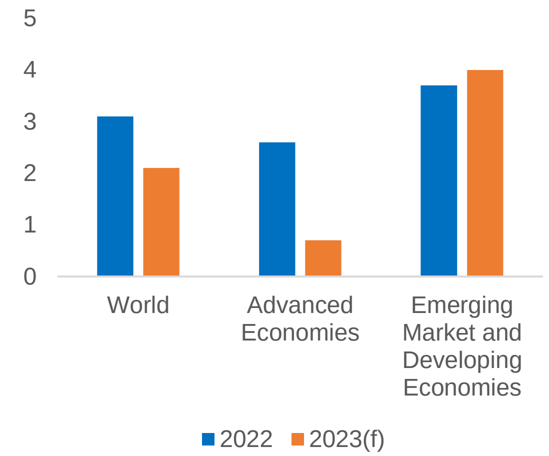
[3] The World Bank uses market exchange rates to aggregate countries GDPs while the IMF uses Purchasing Power Parity adjusted exchange rates for the aggregation. As a result, the World Bank's global growth numbers put a smaller weight on emerging market and developing countries than the IMF's global growth numbers. The GEP reports World growth of 3.3% and 2.7%, for 2022 and 2023 respectively, using PPP weights.

Figure 1(a): April WEO Real GDP Growth, 2022 and 2023, %



Source: IMF World Economic Outlook, July 2023 Update.

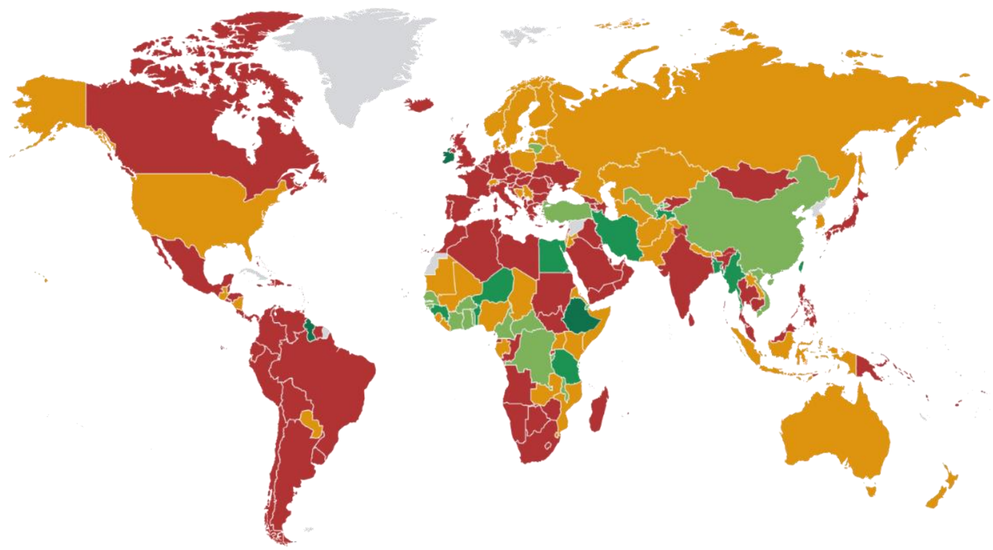
Figure 1(b): June GEP Real GDP Growth, 2022 and 2023, %



Source: World Bank Global Economic Prospects.

Part of this deceleration is a natural tendency for economies to return to longer term "potential" growth rates following the recovery from recession. One graphic vision of just how deep and widespread the recession was in 2020 is provided below (Figure 2(a)). As noted in earlier editions of this periodical, recessions were particularly severe in the tourism oriented Caribbean economies. We can also see that, despite the slower growth expected in 2023, economic growth has improved dramatically for a wide variety of countries around the world (Figure 2(a)), and this is the case for the Caribbean as well.

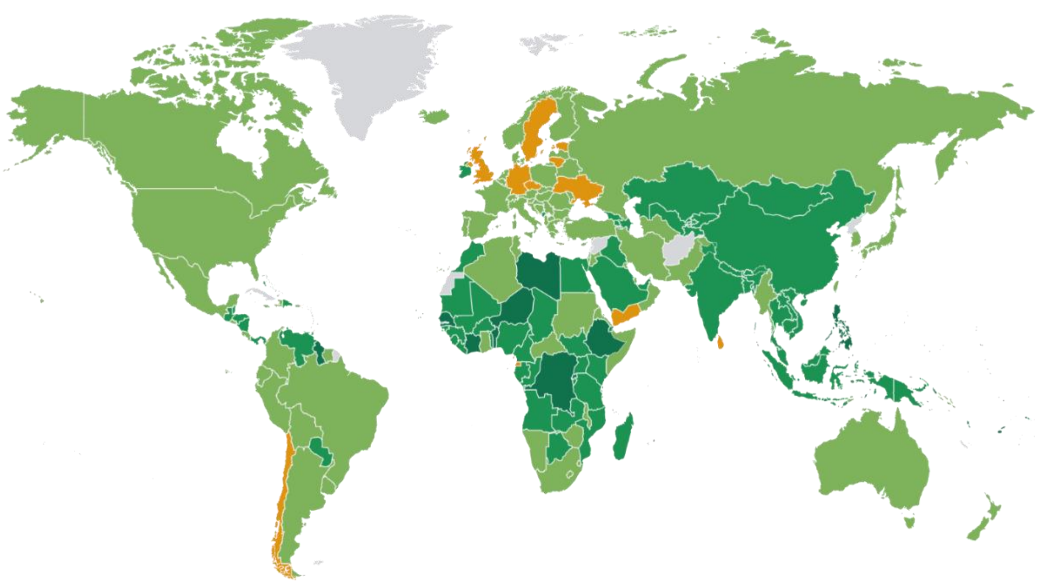
Figure 2(a): Map of GDP Growth in 2020, %



Legend: <-3% -3 to 0% 0 to 3% 3 to 6% >6%

Source: Reproduced from IMF Datamapper website.

Figure 2(b): Map of Projected GDP Growth in 2023, %



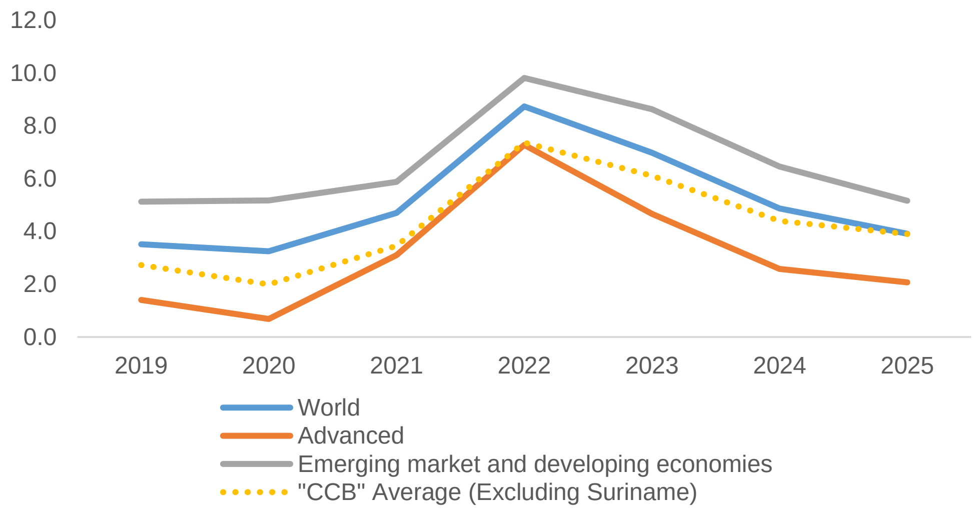
Legend: <-3% -3 to 0% 0 to 3% 3 to 6% >6%

Source: Reproduced from IMF Datamapper website.

That said, the global economy is at a crossroads. The full effect of monetary policy tightening may lead to more pronounced slowdown in the United States and Europe. As China has emerged from stringent pandemic lockdowns, there is uncertainty about renewed growth and the government's stimulus efforts. Housing markets there remain a concern. The war in Ukraine continues, as does the risk of potential impacts on commodity markets, and the latter could be further impacted by climate events. We will review each of these risks in more detail below.

As noted in the introduction, global forecasters now expect inflation to decline only gradually (Figure 3). The April WEO, for example, projects inflation in 2025 to be slightly above pre-pandemic levels, creating policy dilemmas for central bankers around the world.

Figure 3: Consumer Price Inflation, %



Source: IMF April 2023 WEO online database. "CCB" refers to the countries of the Caribbean Country Department (CCB) of the IDB: The Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago. Suriname was excluded from the line above given its status as a high-inflation outlier.

One of the key factors in the recent inflation experience has been the evolution of commodity prices. While commodity prices have moderated from the peaks of last year, they generally remain above the average level of 2015 to 2019 (Figures 4(a)-4(d)). The price of crude oil has fallen sharply from the high levels of last year; however, it remains well above the 2015-2019 average of $57 a barrel (Figure 4(a)). The figure below has data up to May 2023, but even as of mid-July, the Brent price hovered around $77, about 35% above the 2015-2019 average. Natural gas prices in the United States have dipped below the 2015-2019 average; however, in Europe – despite declining from the soaring prices of the middle of last year—the price of natural gas remains substantially above (about 70%) the pre-pandemic average (Figure 4(b)). Wheat prices have also subsided (Figure 4(c)), but remain above pre-pandemic levels, posing strain on household

budgets and food security concerns for lower income households. Relatively high rice prices (Figure 4(d)) pose an opportunity for rice producers in Guyana and Suriname.

The World Bank expects a continued softening of food and fertilizer prices in 2024, but prices would remain relatively high by historical standards.[4] The World Bank also expects the Brent oil price to hover around $84 to $86 a barrel through 2023 and 2024 and natural gas in the US to rise in 2024 to $3.70 per MMBtu.

Clearly there are risks—both geopolitical and climate-related--that could lead to unexpected increases in commodity prices. On the other hand, if there is a more accentuated deceleration in the global economy, commodity prices could soften more rapidly than forecasted. From a macroeconomic perspective, high commodity prices continue to create a burden on the external accounts for commodity importers in the Caribbean. For households across the subregion—regardless of commodity export status at the macro level—high commodity prices contribute to social challenges.

Figure 4(a): Crude Oil, Brent, $/bbl

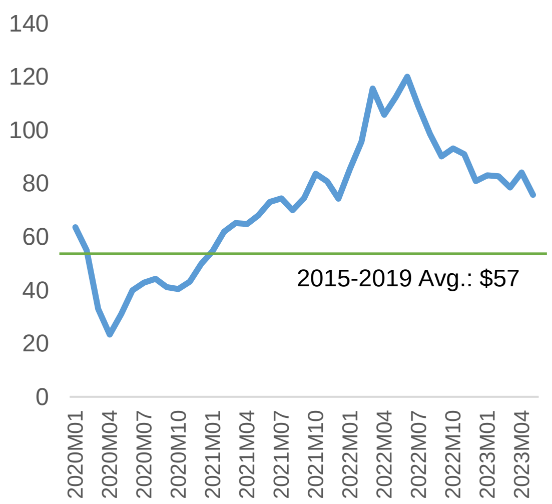
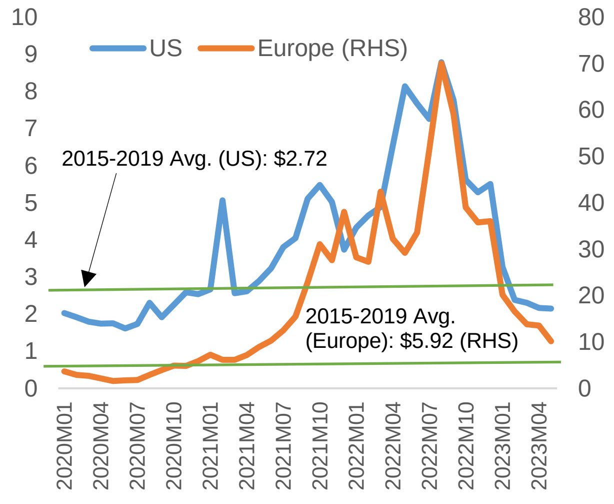


Figure 4(b): Natural Gas, $/MMBtu



[4] See the commodity price forecasts in the April Commodity Markets Outlook report.

Figure 4(c): Wheat (US HRW), $/mt

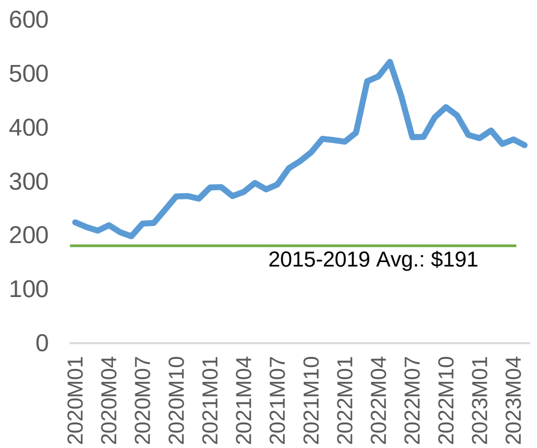
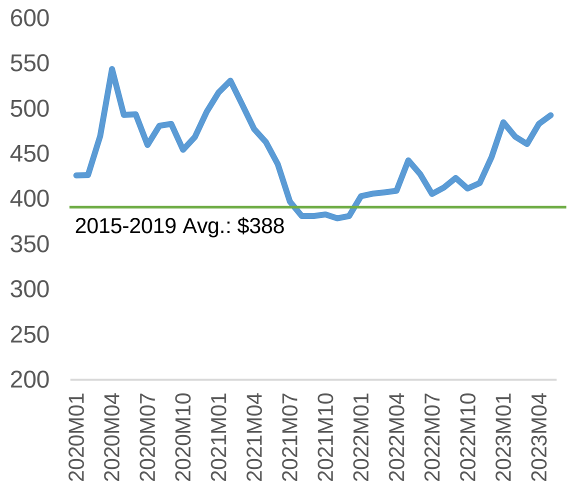


Figure 4(d): Rice, Thai A.1, $/mt

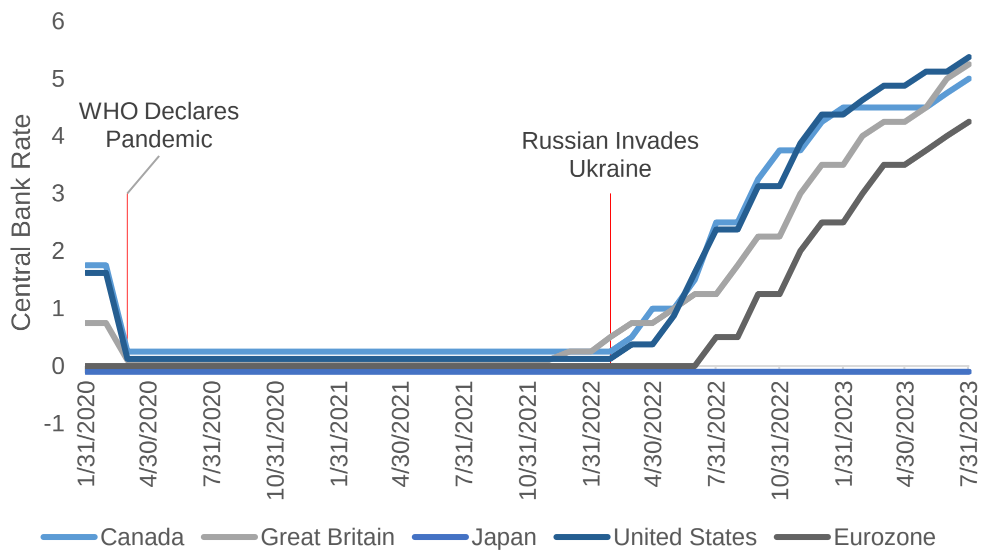


Source: World Bank "Pink Sheet" Database

Data presented above reveal a key source of higher inflation around the world: commodity price inflation. As these prices affected manufacturing and wages also increased, Central Banks–especially those with an explicit inflation target objective—responded by increasing interest rates (Figure 5). The timing and pace of these increases have varied substantially across countries, with Latin American and Caribbean countries generally anticipating the Central Banks of major financial centers and starting their tightening cycles earlier.[5] In the Caribbean, Jamaica, with its inflation targeting framework in operation, raised rates aggressively, while other countries' Central Banks did not.[6] In June, the Federal Reserve Board of Governor announced a pause in increases in the federal funds rate; however, it raised the rate by a quarter point at the end of July. Other major Central Banks followed with similar increases, except for Japan (Figure 5).

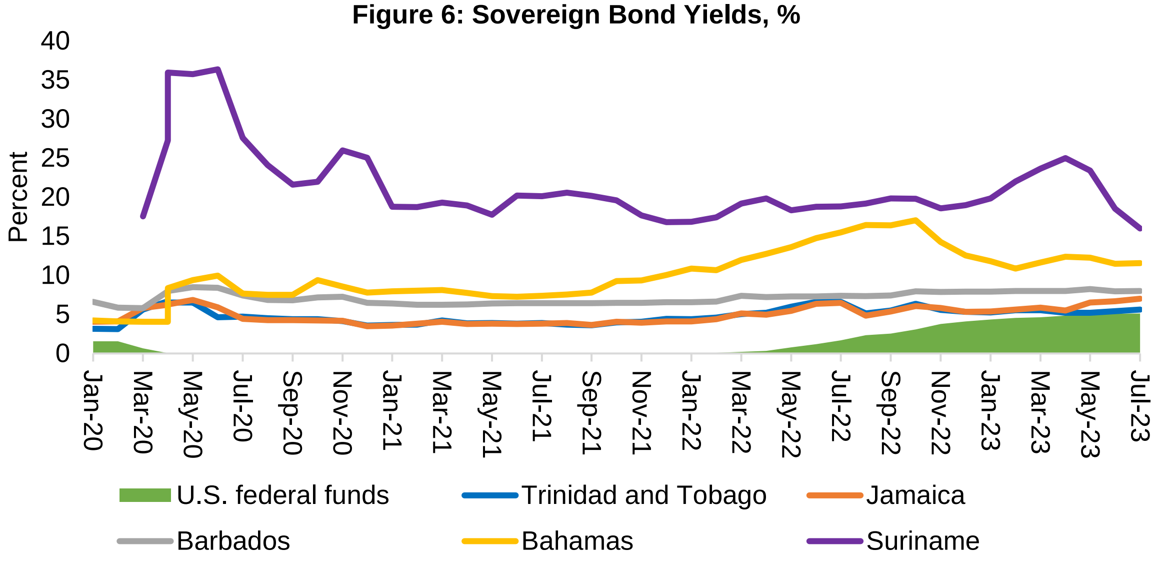
[5] See chapter 2 of IDB (2023) for a thorough review of the monetary policy response.
[6] Please see the country sections of the report for more details.

Figure 5: Central Bank Policy Rates, %



Source: Bank for International Settlements

Figure 6: Sovereign Bond Yields, %



Sources: IDB Treasury Department, St. Louis Fed (FRED). Guyana is not included since it does not have any international bonds in the markets.

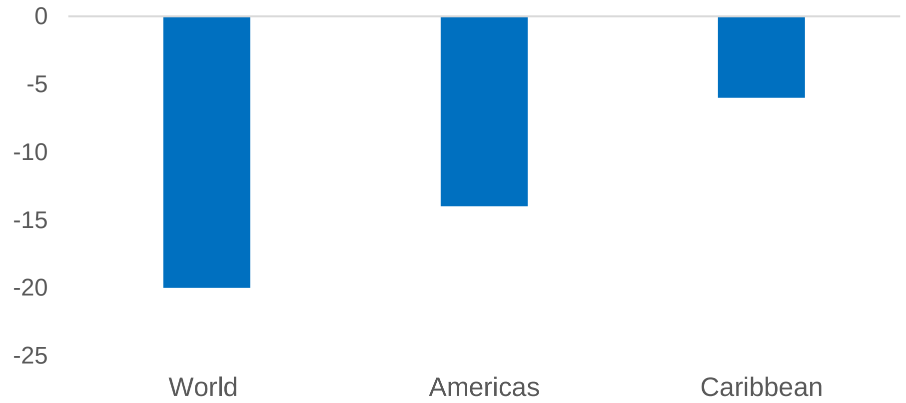
In the data above (Figure 6), we do not see a direct relationship between a rising US policy rate and yields on secondary markets for the Caribbean countries represented in the graph. That said, rates on official loans from multilaterals have increased, as they are tied to the cost of borrowing

for those institutions. Overall, a higher cost of borrowing and uncertain access to international markets pose macroeconomic risks moving forward.

Global and regional tourism trends are clearly critical for tourism-dependent countries. During 2022 and into the first quarter of 2023 international tourism arrivals began to surge back towards pre-pandemic levels (Figure 7). The World Tourism Organization data reveal differences across regions, and we see that the Caribbean sub-region has outperformed the Americas and the World recovery in this regard. While the international tourist arrivals in 2023Q1 were almost 20% and 15% below its pre-pandemic level in the World and Americas, respectively, the difference in the Caribbean was only 6%. Other regions have fared even better: North Africa and the Middle East reportedly are already above 2019 levels in the first quarter of 2023. In addition, in the countries focused on in this report, tourist arrivals in The Bahamas and Jamaica were already surpassing 2019 levels in early 2023.[7]

Uncertainty remains as to whether the global tourism recovery will eventually return to the growth trajectory prior to the pandemic or rise to an even faster growth trajectory. There were major structural changes in aggregate demand during the pandemic, as households could no longer spend on face-to-face services, including tourism. As travel restrictions receded, the “binge” shopping for consumer durables may have transitioned to “revenge” travel. It is not clear how long rising demand for tourism will last. The normalization of remote work creates the possibility for blended leisure and work travel overseas. On the other hand, some major employers are reducing the share of remote work allowed in their employment policies. Finally, a global recession could lead to a decline in global demand for tourism services in proportion to other sectors of the global economy.

Figure 7: International Tourist Arrivals, 2023-Q1, % Change Relative to 2019 Levels



Source: World Tourism Organization Tourism Barometer, May 2023

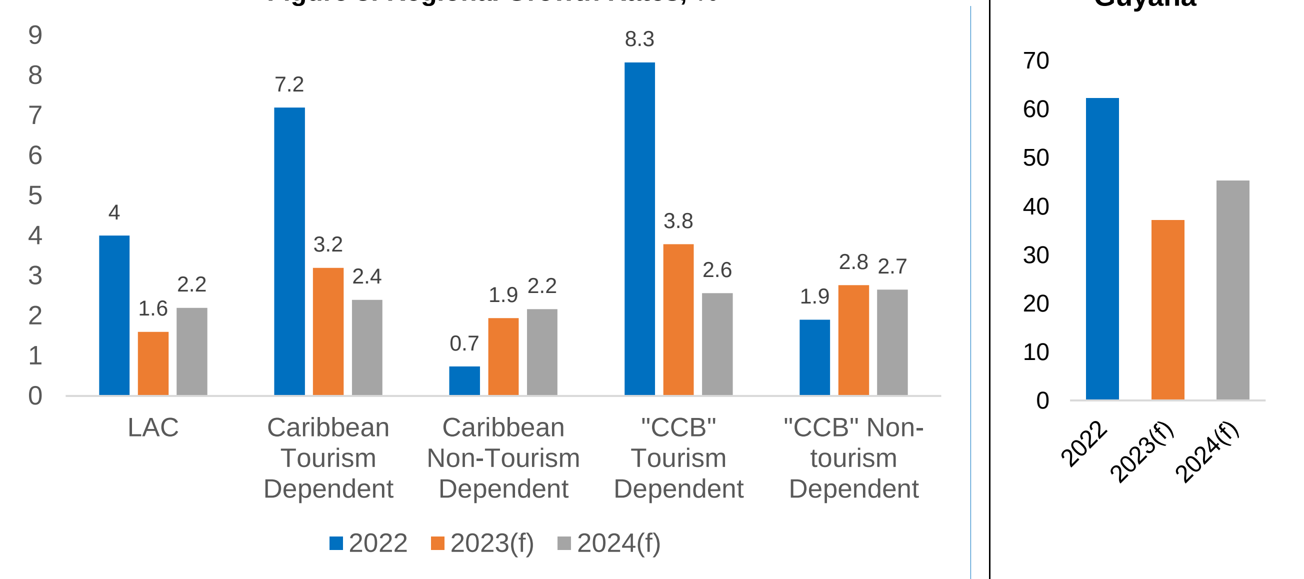
[7] See the country sections of this report for more details.

Countries and regions outperforming the global totals are necessarily experiencing an increase in market share. Again, it is difficult to predict whether this is a temporary or more permanent phenomenon. For example, American tourists may choose The Bahamas and Jamaica based on those countries' geographic proximity to the United States. Will this benefit be sustained, perhaps as first-time tourists to these destinations have now "discovered" these locations? At the same time, there is some evidence that the increase in tourism in those locations is also being driven by non-traditional source markets, and this bodes well for a possible permanent increase in market share.

Caribbean Regional Prospects

In the previous section, we have outlined the key global trends that provide the context for Caribbean regional macroeconomic performance. According to IMF forecasts, prospects for the six countries of focus in this report appear slightly better than the broader Caribbean and for Latin America and the Caribbean region (Figure 8).

Figure 8: Regional Growth Rates, %



Sources: WEO April 2023 Database and Western Hemisphere Regional Economic Outlook--IMF (2023b). Numbers reported for "CCB" are simple averages for each country grouping. "CCB" Tourism Dependent are The Bahamas, Barbados, and Jamaica. "CCB" Non-tourism Dependent are Suriname and Trinidad and Tobago. IMF aggregates include Haiti under Non-Tourism Dependent, but for this graph, Guyana has been removed. The Tourism Dependent Countries under the IMF aggregate excluding Dominican Republic, but it includes OECS countries and Belize.

As noted above, economies tend to return to their long-run pre-crisis growth rates following a downturn and recovery. It is not surprising that forecasters predict precisely that pattern. There are numerous policy reforms and investments that can improve the prospects for long-term growth, and many of these have been covered in other editions of this periodical. In the macroeconomic realm, ensuring a stable macroeconomic framework through appropriate fiscal and monetary policies is a necessary condition for establishing the business climate suitable for the investment and innovation required for faster growth. The country sections of this report delve into country specifics on their respective macroeconomic frameworks, including macro-financial linkages related to domestic financial systems.

Macroeconomic Risks and Opportunities Moving Forward

As always, the regional prospects presented above are subject to potential downside risks, many of which were discussed above, but a summary is provided here. Major Central Banks are attempting to engineer a “soft landing” for inflation that would not be accompanied by a recession. A recession would likely dampen demand for Caribbean exports. Global growth is sustaining relatively high commodity prices that favor the commodity exporters. Critical to global growth is China’s growth, and that growth is susceptible to a variety of risks, including possible weakness in the housing market.[8] The hurricane season is underway. The National Oceanic and Atmospheric Administration (NOAA) recently updated its forecast and is now predicting an above normal number of storms for this season.[9] The ongoing formation of an El Niño phenomenon could cause unusually hot and dry conditions.[10] Geopolitically motivated deglobalization could lead to supply-chain disruptions, and cross-border conflicts could materialize alongside the ongoing war in Ukraine.

That said, the current global context offers opportunities for Caribbean economies to raise long-term growth. Near-shoring or “friend-shoring” could spur stronger FDI and greater economic diversification, including the global services sector (where Jamaica, for example, already has a strong base). The commodity price shock served as a “wake-up call” on food and energy security, inspiring regional efforts to lower extra-regional food import bills, and to push for the investment in renewable energy. New agricultural technologies could increase scope for agriculture in countries currently without a strong base, and regional integration combined with investment and new technologies could expand and diversify agricultural production in those countries with a stronger tradition in the sector. Energy security, coupled with the growing recognition of climate change and multilateral funding, has spurred investments in alternative energy sources such as solar and wind. Declining cost for renewable energy solutions could further lower dependence

[8] A number of economists have been focusing on this risk for several years. See, for example, Rogoff and Yang (2021).
[9] See https://www.nesdis.noaa.gov/news/noaa-releases-updated-2023-atlantic-hurricane-season-outlook#:~:text=The%20outlook%20now%20includes%20a,the%20ongoing%20El%20Ni%C3%B1o%20event.
[10] See https://www.mona.uwi.edu/fst/caribbean-be-warned-el-nino-looking-more-likely

on costly and volatile hydrocarbon supplies. Also, at the recent CARICOM summit[11], leaders called for revisiting trade agreements with external partners, increasing labor mobility and moving towards regional capital market integration. The digital nomad phenomenon, created by the pandemic, can open the opportunity for new forms of tourism and other services. Investment in the blue and green natural assets of the Caribbean is another promising opportunity.

Government and private sector responses to take advantage of emerging opportunities can steer economies onto the high path in the current crossroads, with superior economic growth than what was experienced pre-pandemic. Continued efforts to mitigate risks through macroeconomic policy strengthening continue to be a key enabler for future investment and innovation.

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[11] See the communique at: https://caricom.org/communique-forty-fifth-regular-meeting-of-the-conference-of-heads-of-government-of-caricom-trinidad-and-tobago-3-5-july-2023/

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COUNTRY SUMMARIES

The Bahamas

José Luis Saboin

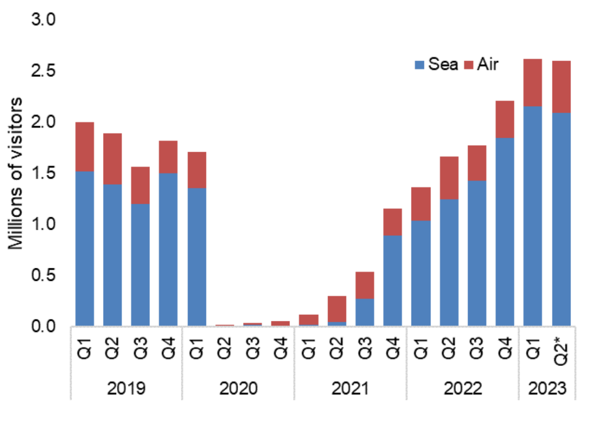
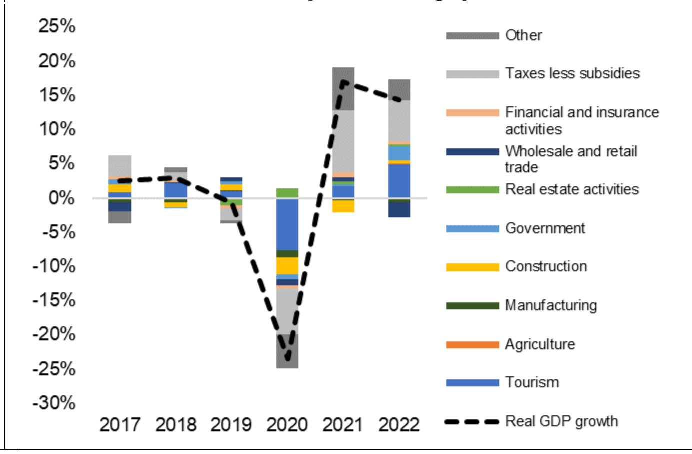
Introduction: Making the Most of the Tourism Tailwind

The Bahamas is experiencing a tourism boom since the easing of international travel restrictions since mid-2022, and visitors from key source markets make up for the inability to travel during the previous 2 years. Such boom is having the expected positive impact on the Bahamian economy: increasing employment and raising government revenue. Bahamian society is in a good position to make the most of the tailwinds from the tourism boom. Increasing investment in both physical and human capital to diversify the economy will be key to increasing medium-term growth and productivity. Accumulating international reserves while managing the fixed exchange rate regime and increasing fiscal buffers are key for the bad times that might come in the form of natural disasters. The monetary authorities have shown responsible monetary policy management and are addressing credit constraints through non-interest policy measures. Gradually unleashing the credit channel will be key to achieving the medium-term prospects the country aspires to.

Economic Recovery

The Bahamian economy has surpassed the ground lost during the pandemic after growing 14.4% in 2022[12]. Despite tighter financial conditions globally, the tourism sector in The Bahamas is experiencing a boom as it has fully recovered from the pandemic drop and is currently *above* its pre-pandemic trend. In 2020, tourist arrivals declined 75.2% with respect to 2019. In 2021, tourist arrivals increased 17.1% with respect to 2020 but still were 71% below the 2019 level. Preliminary figures for 2022 show a year-over-year increase in tourist arrivals of 233% reaching 7 million visits, the second highest level in the last 10 years. In the first half of 2023 the country received 5.2 million visits, the highest for a semester (Figure 1). While most of the recovery was initially driven by air arrivals, as Covid-related cruise restrictions eased, cruise activity resumed its traditional relevance in The Bahamas since the third quarter of 2022. Besides tourism, government spending and construction activities where the other main contributors to growth in 2022 (Figure 2).

[12] With the pandemic, real GDP fell 23.8% in 2020, then rebounded 17.0% in 2021.

Figure 1: The Bahamas: Tourism	Figure 2: The Bahamas: Economic Growth (year-over-year change)
	

Source: Central Bank of The Bahamas.
*Preliminary figures.

Unemployment at its Lowest Level in 15 Years

During May 2023, the Bahamas National Statistical Institute conducted its first labor force survey since November 2019. The labor force participation rate in The Bahamas is 75.9%. Women are the main contributor to the labor force representing 54% of the 219,465 persons that comprise it. When examined by age group, the survey shows that almost one quarter (23%) of the labor force is made up of persons between the ages of 25-34 years. In terms of educational attainment, 55% of the labor force completed secondary school and 26% had at least a bachelor's degree (33% for women) and only 4% had schooling to the primary level or none (2% for women).

The employed labor force recorded 200,175 persons (91.2% of the labor force). When examined by employment status, almost two thirds (61%) were engaged in the private sector, while 21% were government employees. The "Hotel and restaurant" sector accounted for 17% of employed persons. While the "Community, Social and Personal Service" industry, which includes public service, police service and domestic service continues to account for the largest share of the workforce with 39%. The share of self-employed (with and without employees) was 17%, a category that is most representative of men, representing 23% of the employed male labor force (vs. 12% for females).

At the time of the survey, there were 19,290 unemployed persons in the country resulting in an unemployment rate of 8.8%, the smallest in 15 years. By sex, the unemployment rate for men was higher (9.1%), compared to 8.5% for women. Young men (ages 15-24) as well at those aged 55 years and over were more likely to be unemployed when compared with women in their same age cohort. This way, the unemployment rate for young men aged 15 to 24 reached 19.2% compared with 18.2% for young women; although high, this figure is significantly lower than other

Caribbean average[13]. In terms of educational attainment, for those who had not completed secondary school, the share of unemployed males (13%) was larger than that of females (8%). Interestingly, for those who had completed university, the proportion of unemployed females (15%) was higher than for males (5%).

Figure 3: The Bahamas: Educational Attainment of the LF

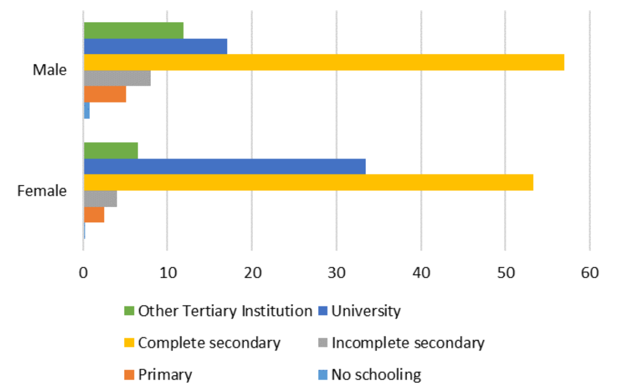
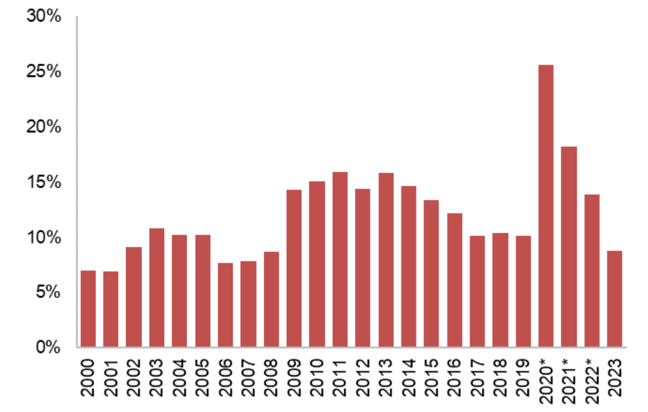


Figure 4: The Bahamas: Unemployment Rate



Source: Department of statistics
*IMF estimates.

Inflation and Monetary Policy Developments

Inflation

The annual inflation rate averaged 5.6% in 2022 and declined to 4.8% in the first quarter of 2023 year-on-year. Categories with the highest price increases include housing, food and non-alcoholic beverages, transport, and restaurant and hotels (Figure 5). The onset of the Ukraine-Russia war in late February 2022 impacted global prices of energy and food and caused further disruptions to global value chains that, together with the depletion of excess savings on the demand side, put pressure on global prices. For example, inflation in the US peaked in the months of June and July of 2022 (reaching 9% year-on-year). However, thanks to the monetary policy response from the FED and other major Central Banks, inflation has decelerated since reaching 4.0% in May 2023. In the Bahamas, inflation peaked in July 2022 at 7.1% and subsequently, following the global trend, decelerated to 4.1% in March 2023 (Figure 6). In an environment of tight financial conditions for the remainder of 2023 and part of 2024, inflation in The Bahamas is expected to decrease in the medium term towards 3%.

[13] According to The Caribbean Development Bank's (CDB) last report, youth unemployment in the Caribbean is among the highest in the world, with the unemployment rate for those aged 15 to 24 reaching 42.7%.

Figure 5: The Bahamas: Inflation Components (year-over-year)

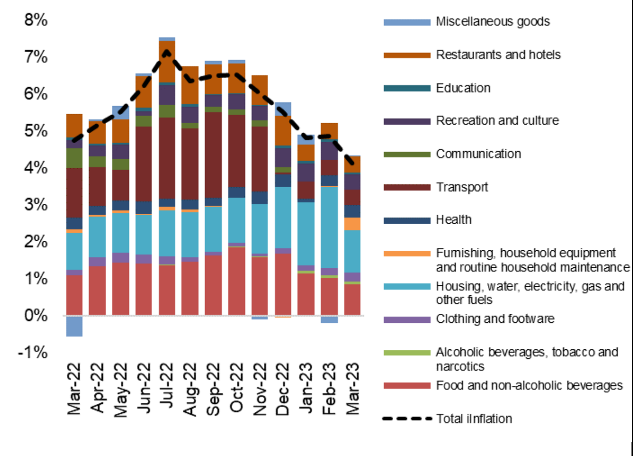
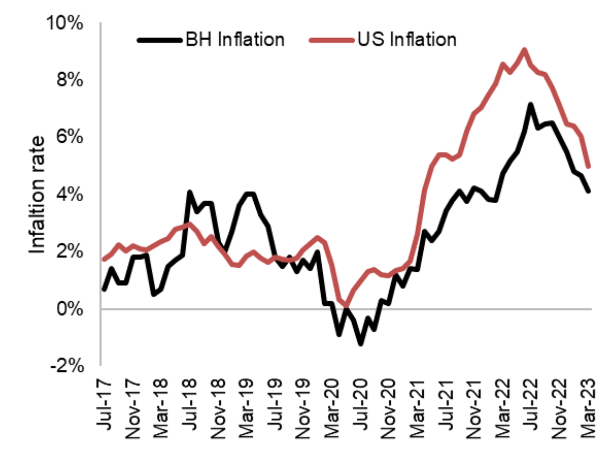


Figure 6: The Bahamas: Inflation Trends (year-over-year)



Source: Department of Statistics.

As a response to this challenging inflationary period, and in line with stated priorities for the FY2022/2023 budget, the GOBH introduced temporary price controls and raised the minimum wage from $210 to $260 per week, mitigating the erosion of real incomes for the most vulnerable. The price controls affect 38 basic food items, such as eggs and bread, and is explicitly meant to mitigate food inflation. Affected items will be limited to price increases of 15% for wholesalers and 25% for retailers. This policy took effect in October 2022 and lasted 6 months. On the other hand, the minimum wage is a permanent policy that applied retroactively a from July 2022 to public sector employees and from January 2023 to all other workers.

Monetary Policy

The context in which the monetary policy framework acted in 2022 was one of (i) a sustained domestic economic recovery (as the tourism sector recovered strongly), (ii) high inflationary pressures (both globally and domestic), (iii) international reserve accumulation (due to higher: tourism flows, government receipts from external borrowing and private sector capital inflows), (iv) improved baking sector credit quality indicators (as a consequence of improving economic conditions and loan write-offs), and (v) higher levels of bank liquidity, amid lower private sector credit.

The Monetary Policy Committee (MPC) managed the risks to the fixed exchange rate regime, particularly those concerning (i) inflation pressures on energy prices mentioned before, (ii) the consequent counter-inflationary responses from major central banks in the form of higher interest rates and tighter financial conditions and (iii) the high levels of liquidity of the banking system, as Bahamian banks continued their conservative lending posture. In this context, to fulfill its primary objective of supporting the fixed exchange rate, the CBOB maintained strict monitoring of its international reserve adequacy indicators, in particular the ratio of external reserves to the Central

Bank's demand liabilities, which stayed above 100% for most of 2022, well above the benchmark of 80%.

Figure 7: The Bahamas: Ratio of External Reserves to Broad Money

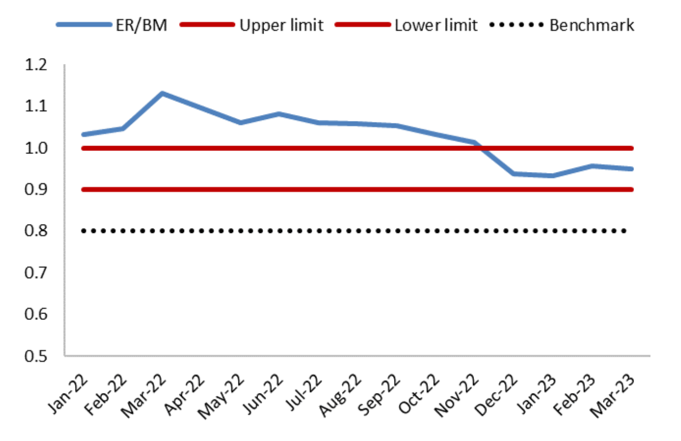
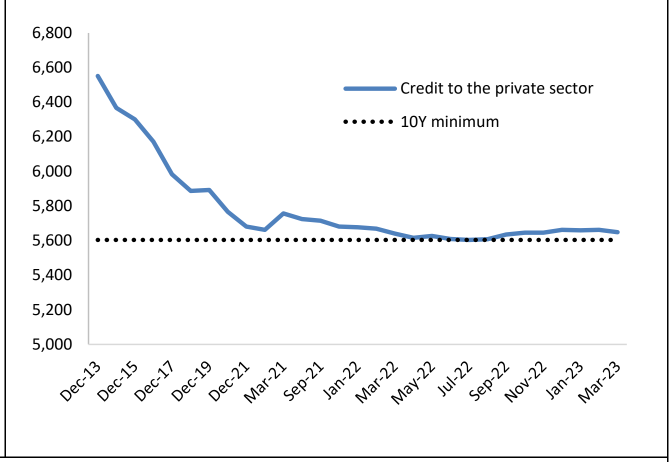


Figure 8: The Bahamas: Total Credit to the Private Sector



Source: Central Bank of The Bahamas.

Considering these satisfactory levels of international reserves, the strong economic recovery, and moderate demand for consumer credit, the CBOB maintained an accommodative posture for domestic credit throughout 2022. This approach primarily involved employing non-interest rate tools that influence the accessibility of credit. In August 2022, the Bank eased the minimum qualification criteria for personal loans, increasing the maximum debt service ratio from the previous range of 40%-45% to 50%. Additionally, except for residential mortgages, the Central Bank eliminated the requirement for a minimum equity or down payment on loans, allowing lenders to offer financing up to 100% of the borrower's needs. Considering these measures, the CBOB foresees a gradual rise in lending activities in 2023, while maintaining a moderate acceptance of a certain reduction in the stock of reserves.

Fiscal Policy and Public Debt

Between FY2010/11 and FY2019/20, the overall fiscal balance averaged -3.7% of GDP and the primary fiscal balance averaged -1.4% of GDP. Total government revenues averaged 15.5% of GDP, whereas total government spending averaged 19.2%. In FY2019/20 fiscal performance deteriorated due to the impact of Hurricane Dorian and the beginning of the COVID-19 shock, which further deepened in FY2020/21, with fiscal balance reaching -13.5% of GDP and primary balance -9.0% (Figure 9). This was the result of a fall in revenue collection of 9.1% with respect to FY2019/20, mostly due to subdued economic activity as well as an increase of 11.9% in expenditures due to additional spending aimed at supporting the lives and livelihoods of those affected by the pandemic.

Fiscal outcomes have improved over the last two fiscal years, outperforming the approved budgets. Results for FY2021/22 indicate that the fiscal deficit narrowed from $1.3 billion to $717 million, equivalent to 5.8% of GDP. For FY2022/23, the fiscal deficit further narrowed to 3.8% of GDP. The improvement is the result of higher revenue collection (36.7% increase year-on-year) driven by increased economic activity and improved tax administration, coupled with contained expenses, which increased 2.3% with respect to the previous fiscal year (Figure 10). The primary balance turned to a 0.5% of GDP surplus.

Figure 9: The Bahamas: Main Fiscal Aggregates

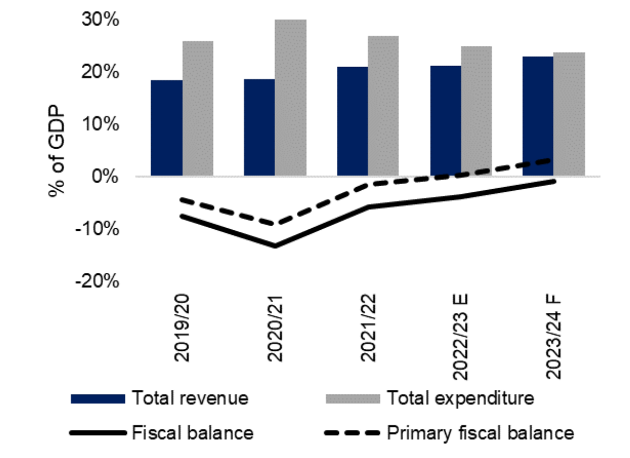
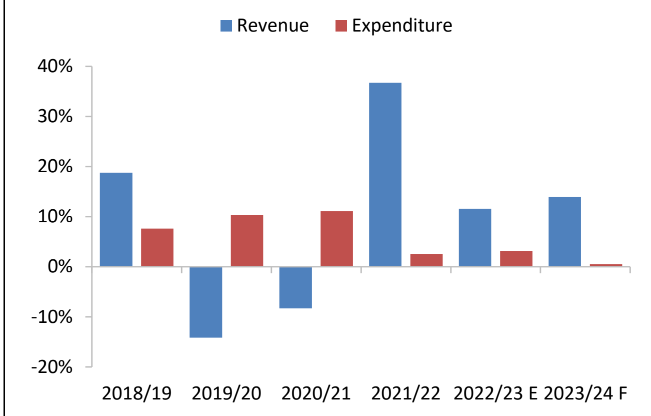


Figure 10: The Bahamas: Revenue and Expenditure (y-o-y growth)



Source: Ministry of Finance.

The FY2023/24 budget came into effect on July 1, 2023. It contemplates further fiscal consolidation as a result of anticipated higher revenue collection and the same level of total expenditures. It contemplates revenues 14.0% above those in the revised budget for FY2022/23 and total expenditures 0.5% higher—recurrent expenditure will increase 0.4%, while capital expenditure will expand 1.6%. The overall fiscal deficit will shrink by three quarters and reach $131 million, equivalent to 0.9% of GDP. The primary fiscal surplus is expected to increase from $39 million to $486 million (3.3% of GDP). The primary objective of the budget is to strengthen both national security and economic security. The Government's key priorities revolve around combating criminal activities, fostering initiatives to ensure domestic food security, promoting education and employment opportunities, and boosting economic activity, with a particular emphasis on encouraging investments in the real estate sector.

The FY2023/24 budget focuses on revenue measures and tax relief. There will be no general increase in taxes or rates, but the Government plans to enhance tax compliance to boost tax yields. This will involve creating a Taxpayer Unit and a national revenue targeting center to improve revenue collection and audit efficiency. Staff numbers in revenue collection agencies will also be increased. To raise non-tax revenue, the Government proposes an updated fee schedule for pleasure craft registration and plans to collect dividends from state-owned enterprises.

Additionally, the budget introduces tax relief measures for the real estate sector, including the acceleration of the rent-to-own program and extended benefits for homeowners. Concessions for housing projects by non-government entities will also be expanded.

Public Debt Developments

As fiscal consolidation advanced, The Bahamas' central government debt (including contingent liabilities) reached 87.6% of GDP at the close of 2022, down from 95.6% the year prior, and as end-June it stood at 94.5%. The ratio is still significantly above the 64.1% recorded prior to the pandemic. Total outstanding debt slightly increased to US$11.62 billion at end-June 2023 from US$11.426 billion at end-December 2022. Excluding contingent liabilities, the debt-to-GDP ratio reached 91.6% in end-June 2023.

Both foreign and domestic currency debt as a share of GDP have increased over the previous years, but foreign currency debt increased at a considerably faster pace. Foreign currency debt accounted for 43.0% of total debt and most of it is held by the private capital market (25.9% of total central government debt excluding contingent liabilities) and international financial institutions (10.2% of total central government debt excluding contingent liabilities). Domestic currency debt is majorly held by commercial banks (20.7% of central government debt excluding contingent liabilities) and other institutions (22.0% of total central government debt excluding contingent liabilities).

Although no sovereign external bonds will mature before 2024, between 2026 and 2032 there are bonds maturing every year of at least $250 million. Even though the country is not facing an immediate need to roll over external bonds, within ten years most of its bonds will mature and in 2029 alone the amount will reach $550 million. Amortization of external loans will also exert pressure, since within the next two fiscal years, $899 million will need to be repaid. Domestic debt is also elevated and in FY2023/24 securities amounting to $779 million are maturing. If market conditions continue deteriorating in the medium term, The Bahamas could potentially face difficulties to roll over existing debt. For these reasons, a close monitoring of debt trends and sound public debt management will be key during this and the next couple of years.

Financial System

There has been a deceleration in credit to the private sector in recent years (which only grew 0.2% in 1Q2023 year-on-year), while credit to the government and the rest of the public sector increased markedly (18% and 9.6% y-o-y, respectively). As a result, the share of total credit to the private sector has decreased, evidencing public sector crowding-out (Figure 8). Within the private sector, new consumer installment credit fell by 2.6% in the first 3 months of 2023 year-on-year. Residential and commercial mortgage commitments decreased both by 1.1% in the same period.

Banks have increased their already high levels of liquidity and capital. In 2020, as a response to the pandemic and building on trends stemming from Hurricane Dorian in 2019, liquid assets to total assets increased to 32.4%. By 2022, liquid assets to total assets had further increased to 37.3% and surplus assets stood at $2,786 million. In the first quarter of 2023, liquid assets

represented 37.5% of total assets and surplus assets increased to $2,798 million (Figure 12). In terms of capital, the ratio of capital to risk-weighted assets increased to 31.2% in 2022 (from 26.4% in 2021), significantly above the prescribed target and trigger ratios of 17% and 14%, respectivel*y.*

Despite the credit trends, bank profitability increased, and credit quality indicators have improved. Return on equity (REO) rose to 3.5%, from 2.3% in 2021, driven by reductions in bad debt provisioning and lower staff and occupancy costs. The value of total private sector loan arrears to private sector loans by the 1Q2023 stood at 10.9%, compared to 14.3% a year after the pandemic (Q1-2021) and 12.1% right before the pandemic (Q1-2020). Over the same two-year period, NPLs increased from 7.9% to 8.7% to then decrease during 2022 and reaching 7.5% in 1Q2023 (Figure 11). Around three quarters of total credit to the private sector falls into the “personal” category, 5% corresponds to the construction sector, and 4% to the distribution sector. In terms of interest rates, the weighted average interest rate spread at domestic banks increased from 9.9% in 2019 to 10.7% in the end of 1Q2023, reflecting higher risk aversion.

Figure 11: The Bahamas: NPLs and Provisions

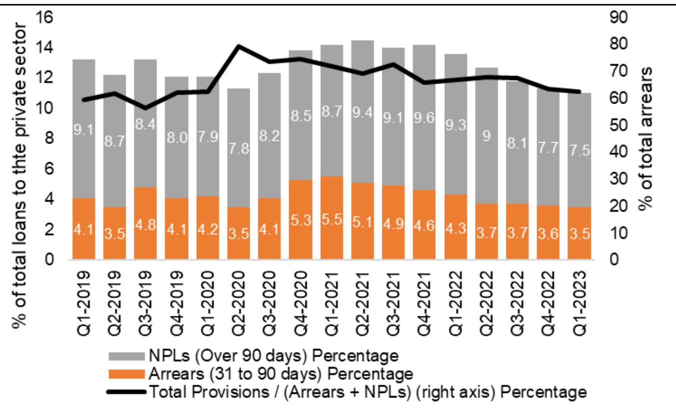
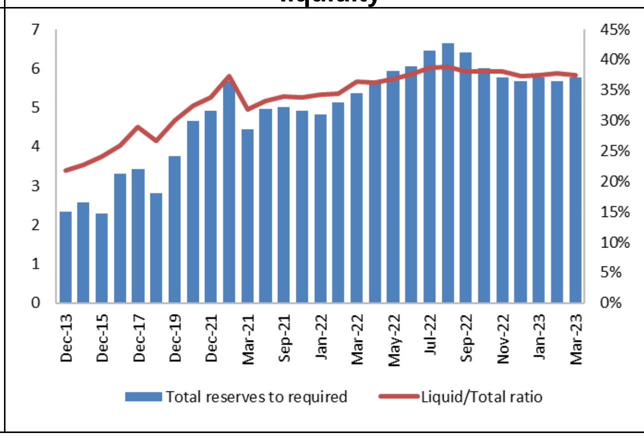


Figure 12: The Bahamas: Banking system liquidity



Source: Central Bank of The Bahamas

Macroeconomic Opportunities and Risks Moving Forward

The Bahamas suffered its worst economic downturn so far this century and one of the most severe crises in the history of the country. Multiple waves of COVID-19 cases negatively impacted economic activity, fiscal performance, and productivity. Tourism arrivals started to recover and right now all indicators point that the economy is going through a tourism boom. As financial conditions are expected to remain tight, it is plausible the flow of tourist visits converges toward its historical trend.

Beyond the short-term, the tourist boom is an important opportunity to be taken advantage of to improve Bahamian lives. These opportunities are not occurring only in activities associated with lodging (such as "experience entertainment") and related activities (such as local manufacturing

and personal services) but also for the structural development of the country such as the improvement physical and digital infrastructure and deepen human capital development. Macroeconomic policy management has proven resilient and able to deal with several and consecutive negative shocks, now it is time for the not easy task of administering a boom to accomplish the goals set up in the government’s budget.

The hard currency windfall from the boom will contribute to accumulating reserves and building other buffers that are key for the bad times that might come in the form of natural disasters, particularly now that the hurricane season is ongoing. The fiscal deficit has narrowed in a considerable way over the last two years of post-pandemic recovery thanks to the authorities’ efforts to increase revenue collection and contain and optimize fiscal expenditures as well as enacting a series of institutional reforms to support sounder fiscal management. All these efforts are just starting to bear fruit, so continuing this path will be very beneficial to lower the perception of risk in international markets as well as to also free up resources for the development of the private sector, particularly SMEs.

Barbados[14]

Cloe Ortiz de Mendivil

After three years from the onset of the COVID-19 pandemic, Barbados is finally on the recovery path. Prior to the pandemic, the economy had been struggling and public finances were distressed. In 2018, the situation became unsustainable, and the newly elected government created and decided to implement the Barbados Economic Recovery and Transformation (BERT) plan, which was supported by an International Monetary Fund (IMF) Extended Fund Facility (EFF) arrangement. The plan included debt restructuring, specific quantitative targets for public finances, and a set of reforms to boost the economy and achieve fiscal sustainability. The pandemic shock set back the country, making the case for a new economic plan, BERT 2.0, with a strong emphasis on building resilience towards climate change. Consequently, Barbados became the second country in the world to access funds from the IMF Resilience and Sustainability Facility (RSF), which was combined with a new 3-year IMF EFF program.[15]

The Economy has Reactivated Thanks to Increased Visitor Arrivals

Barbados has been particularly affected by the pandemic shock due to its dependence on the tourism industry. Compared to other countries in the region, recovery has been taking place at a slower pace. This can be explained by the severity and length of restrictions applied to contain the spread of the virus as much as possible, and by its geographical location, far from source markets.

Given the halt on economic activity in the first year of the pandemic, real GDP fell 13.3% in 2020 (Figure 1). Subsequent waves of COVID-19 cases both in Barbados and in source markets, coupled with adverse natural events such as ash fall from the La Soufriere volcano in neighboring Saint Vincent and the passage of hurricane Elsa, resulted in a stagnant economy in 2021. Following an ease of pandemic-related restrictions, recovery started to take place in 2022. Real GDP grew 9.8% and by December 2022 the unemployment rate decreased to 7.2%, below pre-COVID figures of around 10%. Tourist arrivals steadily climbed and in the last quarter of 2022 they reached 65% of 2019 levels (Figure 2). The positive trend continued and in the first quarter of 2023 such figure increased to 82% and real GDP grew 6.4%.

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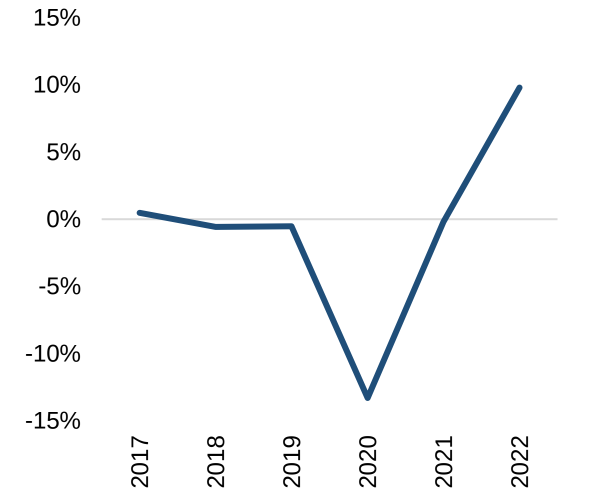
[14] Data for this section has been obtained from the IMF World Economic Outlook April 2023 and Country report No 23/241, the Central Bank of Barbados, including Review of Barbados' Economic Performance January to March 2023, and Barbados Statistical Service, unless otherwise noted.

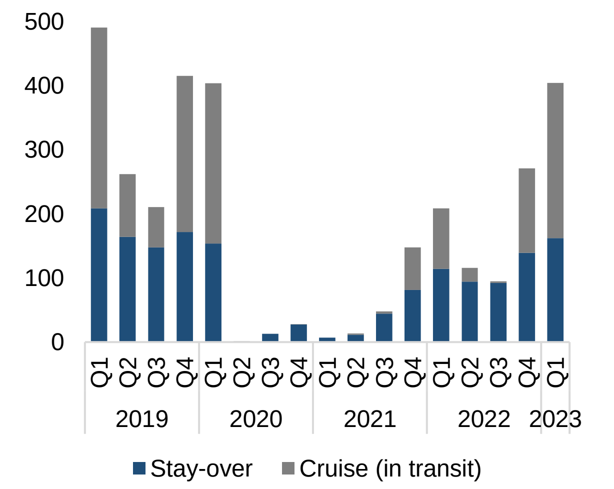
[15] The 3-year IMF EFF/RSF arrangement was approved in December 2022 with an estimated envelope of US$302 million.

Figure 1: Barbados: Real GDP Growth
Annual Growth Rate



Source: IMF.

Figure 2: Barbados: Tourist Arrivals
Thousands of Visitors



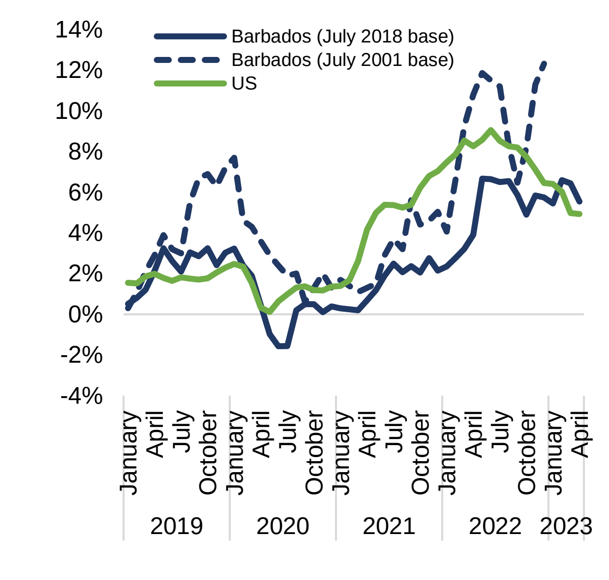
Source: Barbados Statistical Service.

Inflation Remains Elevated Due to High Global Food and Fuel Prices

Even though at the beginning of the pandemic inflation remained low due to subdued demand, it started to increase due to disruptions in value chains and pent-up demand. The ongoing war between Ukraine and Russia that started in February 2022 has pressured global prices of commodities, including food and fuels, and has also resulted in further disruptions of value chains.

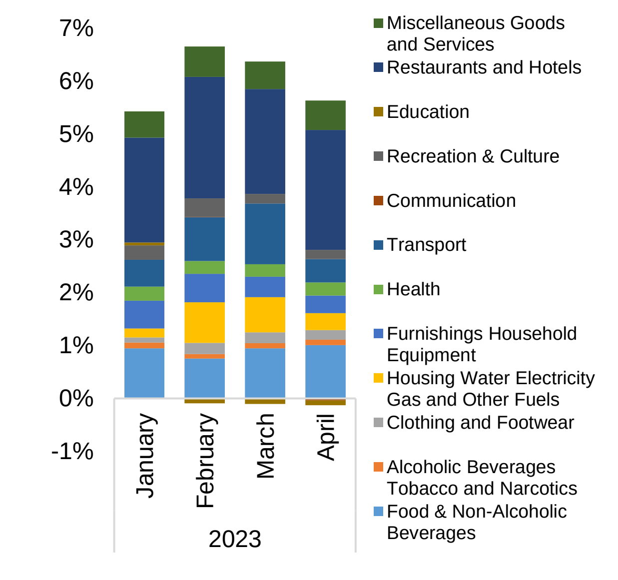
Barbados has recently rebased the retail price index and has modified the weights of the different categories that constitute the consumption basket to reflect changes in consumption patterns. In particular, the weight of food and non-alcoholic beverages has decreased from 30% to 22%, while for education it has increased from 1% to 10%, and for restaurants and hotels from 3% to 9%. Given that in recent years food prices have risen, the new inflation series reflects lower rates than the one using the old weights. While it was previously reported that inflation in Barbados reached 12.3% in December 2022 (point-to-point), after the rebasing exercise the rate for that period is 5.7%, which is below the 6.5% inflation rate in the United States (US). Even though during the second half of 2022 and the first months of 2023 inflation in the US has been on a downward trajectory, in Barbados such trend did not manifest until April, with inflation standing at 5.5% (Figure 3). Price increases in the category of restaurants and hotels and food and non-alcoholic beverages have been the main drivers of inflation in the first four months of 2023 (Figure 4). Inflationary pressure is expected to continue throughout the year, and ease in the medium term as value chain disruptions resolve and international prices of food and fuel level off.

Figure 3: Barbados: Inflation Rate in Barbados and the US
(Year-on-year growth rate)



Source: Barbados Statistical Service and Federal Reserve Bank of St. Louis.

Figure 4: Barbados: Retail Price Index Composition
(Year-on-year growth rate)



Source: Barbados Statistical Service.

Fiscal Performance is Back on Track

The government is committed to achieve high primary surpluses and reduce the debt-to-GDP ratio in the short and medium term. More than a decade of recurrent fiscal deficits resulted in an accumulation of public debt, which reached 158.3% of GDP in FY2017/18.[16] Debt restructuring coupled with fiscal discipline lowered such metric to 120.0% of GDP two years later, but the pandemic shock resulted in diminished revenues due to subdued economic activity and unexpected expenditures to strengthen the COVID response and support those most in need. In FY2022/23 Barbados fiscal performance improved significantly and a 2.5% of GDP primary surplus was recorded and debt-to-GDP decreased back to 122.5% (Figures 5 and 6). The approved budget for the current fiscal year contemplates a primary surplus of 3.5% of GDP. Under the IMF EFF/RSF primary surpluses are expected to gradually increase to 5.0% of GDP by FY2025/26 and remain high in the medium term in order to achieve a debt-to-GDP ratio of 60% by FY2035/36. To work towards that goal, important structural reforms are taking place in the areas of duty and tax exemptions, revenue administration, pensions, state-owned enterprises, and public financial management.

[16] Fiscal year in Barbados runs from April 1st to March 31st.

Figure 5: Barbados: Fiscal Balance
Percent of GDP

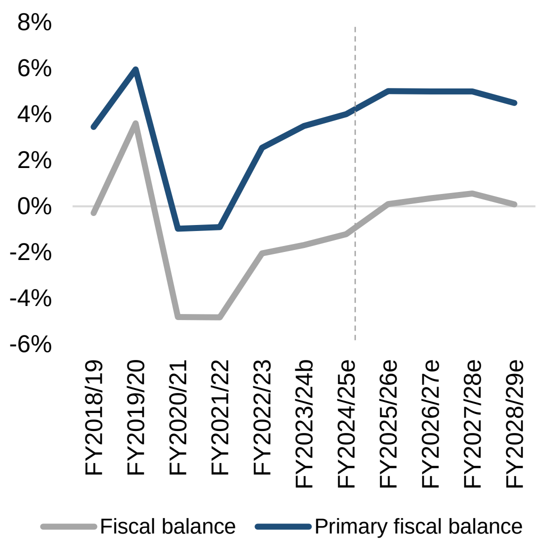
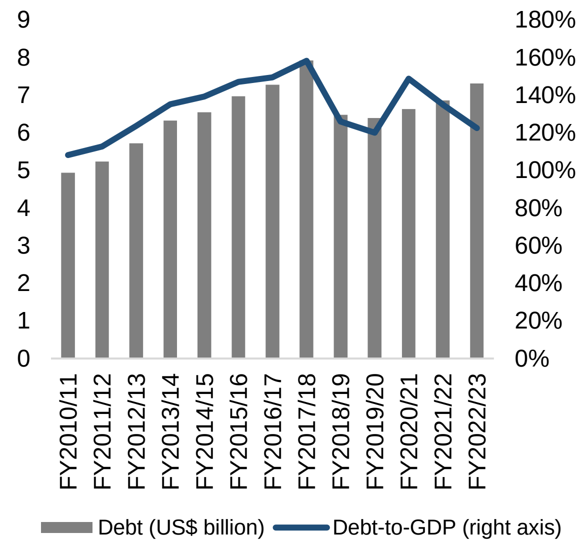


Figure 6: Barbados: Public Debt
$US Billion (left axis) and Percentage of GDP (right axis)



Source: IMF.

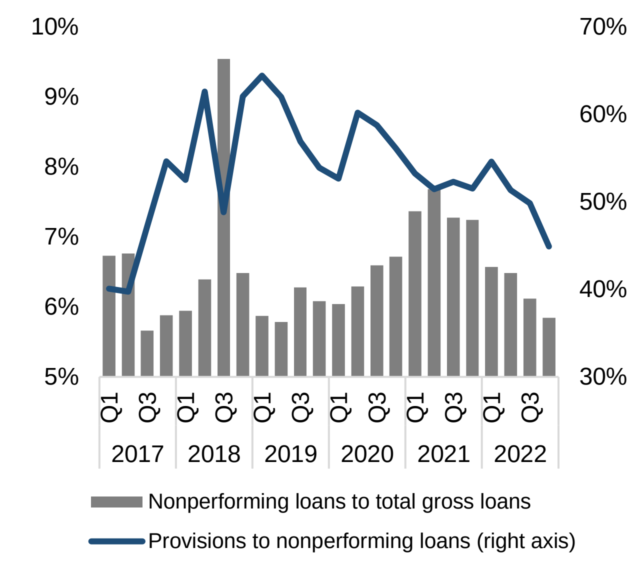
The Financial System Continues to be Stable and Liquid

After the public debt restructuring that started in 2018 and concluded the following year, liquidity of deposit taking institutions has been increasing, even during the pandemic years. Liquid assets to total assets peaked at 34.4% in the first quarter of 2022, and closed the year at 32.1% (Figure 7). The rise in global interest rates has not had an effect on local rates due to capital controls and excess liquidity and reserves in the banking system. The average lending rate remains historically low, at around 5%. Banks are well capitalized, with tier 1 capital to risk-weighted assets standing at 16.9% in the last quarter of 2022.[17] Non-performing loans increased during the first year of the pandemic and rose to 7.7% of total gross loans in the second quarter of 2022, but since then the ratio has been decreasing and reached 5.8% at the end of 2022, comparable to 2019 rates (Figure 8). Even though the ratio of provisions to non-performing loans has been recently going down, it is still well within comfortable levels.

[17] Under the Basel III accord, such ratio must be greater than 6%.

Figure 7: Barbados: Liquid Assets to Total Assets, Deposit Taking Institutions

Figure 8: Barbados: Non-Performing Loans, Deposit Taking Institutions



Source: Central Bank of Barbados.

Opportunities Lie in the Horizon, but Risks Remain High

Although economic reactivation is taking place in Barbados and the country is finally recovering from the pandemic shock, multiple risks need to be considered. The economy continues to heavily depend on the tourism sector and events such as high inflation in source markets and strong competition from other destinations could result in a slowdown of tourist arrivals. The rise in global prices not only affects visitor arrivals, but also impacts the cost of living for Barbadians since most of what is consumed is imported, and also pushes global interest rates up due to efforts to control inflation in main economies. The latter results in more costly external debt service, pressuring public finances. Further price pressures could impact the country. In addition, the island is highly vulnerable to the adverse effects of climate change and global warming and needs to heavily invest in adaptation and mitigation while facing restricted fiscal space. This year, the current weather pattern El Niño has brought a dry wet season and droughts are affecting local crops. The hurricane season remains active until November 30, posing a permanent risk.

Prime minister Mia Mottley has been very vocal in recognizing the challenges the world is facing with a cost of living, debt, and climate crisis, and has requested action from the international community. She has put forward the Bridgetown Initiative for the Reform of the Global Financial Architecture, which asks for (i) the provision of emergency liquidity and debt service suspension of all multilateral development bank loans to poor countries and COVID-related loans to middle income countries, (ii) the expansion of multilateral lending to governments by US$1 trillion, and (iii) a global mechanism for raising reconstruction grants and an acceleration of private sector

investment in the low carbon transition. In this spirit, the Government of Barbados announced at the Summit for a New Global Financing Pact a package of initiatives supported by a coalition of multilateral banks, including the IDB.[18] These initiatives consist of (i) a new Blue Green Bank, which will help finance green investments, (ii) new low-cost and long-term loan instruments from development finance institutions to create more resilient infrastructure, (iii) better and more affordable Public-Private Partnerships, and (iv) new non-debt investments in nature and social capital.

[18] The Summit for a New Global Financing Pact was held in Paris on June 22-23, 2023.

Guyana

Victor Gauto

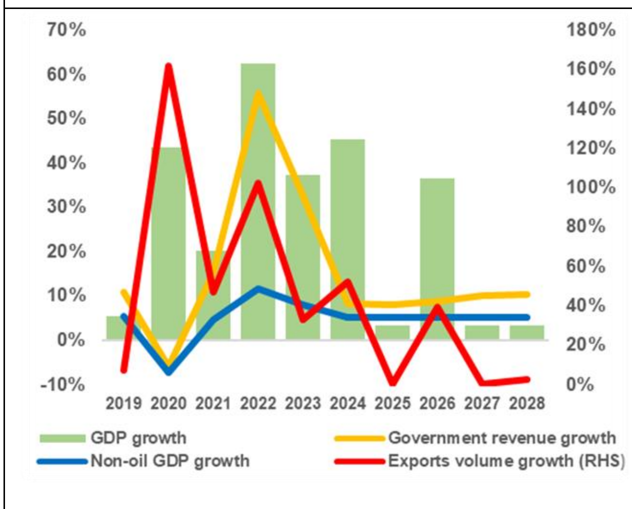
Introduction

Guyana's high-rate economic growth continues steadily, driven by a growing oil production sector. Recently, a new oil discovery was made, a new oil production vessel arrived in Guyana, and a fifth oil production license was approved. Against this backdrop, unemployment rates have declined, inflation rates have moderated, and lending to the private sector grew.

Economic and Policy Updates

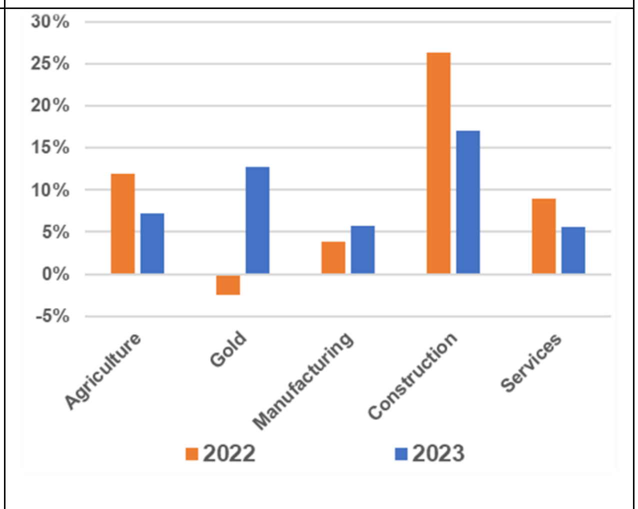
Guyana's macroeconomic context continues to be one of significant growth. The updated April 2023 IMF estimates for GDP growth incorporate oil production from two more Floating, Production, Storage, and Offloading (FPSO) vessels such that the new projections are based on oil production from 4 FPSOs. Consequently, the volume of total exports is expected to increase significantly. For example, the volume of total exports growth averaged 1% in 2015-2019, while it is expected to average 79% in 2020-2024. Average annual GDP growth estimates increased from 26.9% in 2022-2026 in the October 2022 IMF-WEO figures to 37.0% in the April 2023 edition. Government revenues and expenditures are expected to follow a similar trend, averaging annual growth rates of 23% and 15%, respectively, over 2022-2026, leading to overall balanced budgets in the medium-term (Figure 1).

Figure 1: Guyana: GDP Medium-term indicators



Source: IMF – World Economic Outlook 04/2023; IMF Art. IV,2022.

Figure 2: Guyana: Real GDP growth rate



Source: MOF – Mid-Year Report 2022

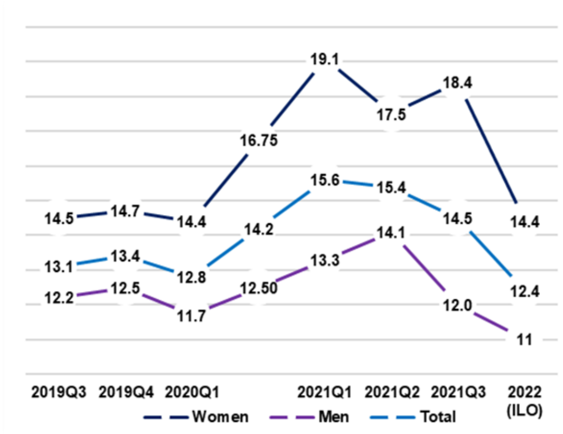
GDP growth is expected to continue expanding in 2023 with the arrival of Guyana's 3rd FPSO. GDP grew by a record 62.3% in 2022, on the back of increased oil production, and is expected to grow by an additional 37.2% in 2023. Guyana's 2nd FPSO (Liza 2) began production in February 2022 and a 3rd FPSO arrived in Guyana ahead of schedule in April 2023, yet to begin oil production. The non-oil economy grew by 11.5% in 2022 and is projected to grow by 7.9% in 2023. The main drivers of growth in the non-oil economy in 2022 were agriculture, services, and construction, which grew by 11.9%, 9.0%, 26.3%, respectively. For 2023, these sectors are projected to grow by 7.2%, 5.6%, and 17%. Gold production, which had contracted by 2.5% in 2022 is expected to recover with a growth rate of 12.7% in 2023 (Figure 2).

In April 2023, a new oil discovery was announced, and a 5th oil production license was approved. Since 2015, there have been more than 30 oil discoveries off the coast of Guyana, the most recent of which was in April. Similarly, a 5th oil production license was approved, contributing to expand Guyana's oil production potential. Average oil production levels have been increasing significantly from 74,300 barrels per day (bpd) in 2020 to currently over 350,000 bpd. The first FPSO has a production potential of 120,000 bpd (2020) and the second FPSO 220,000 bpd (2022). The 3rd FPSO which arrived in early April and has a production capacity of 220,000 bpd. Three operating FPSOs in 2023 would have a total production capacity of 560,000 bpd, which would later expand when the 4th and 5th FPSOs begin production in 2025 and 2026. Overall, Guyana's oil production potential could exceed 1 million bpd in 2026.

Unemployment rates and labor force participation. Unemployment rates, which had increased significantly in 2021 during the pandemic, started trending down towards the end of 2021. The unemployment rate declined from 15.6% in 2021 Q1 to 14.5% in 2021 Q3, driven mostly in declines in the unemployment rate of men, which dropped to 12% in 2021 Q3 compared to 18.4% for women (Figure 3)[19]. The International Labor Organization (ILO) estimates further declines in the unemployment rate in 2022, falling to 12.4%, (11% for men and 14.4% for women). Labor force participation rates remained stable between 2020 Q1 and 2021 Q3, through there was some variation by gender. The labor force participation of men increased from 60.6% in 2020 Q1 to 64.9% in 2021 Q1, potentially due to more men looking for jobs offsetting job losses within households during the pandemic. The labor force participation rate of men fell back to 62.1% in 2021 Q3. The labor force participation rate of women fell from 40.9% in 2020 Q1 to 37.8% in 2021 Q3 (Guyana Bureau of Statistics). In 2022, the ILO estimates the labor force participation of women and men was 39.6% and 61.3%, respectively.

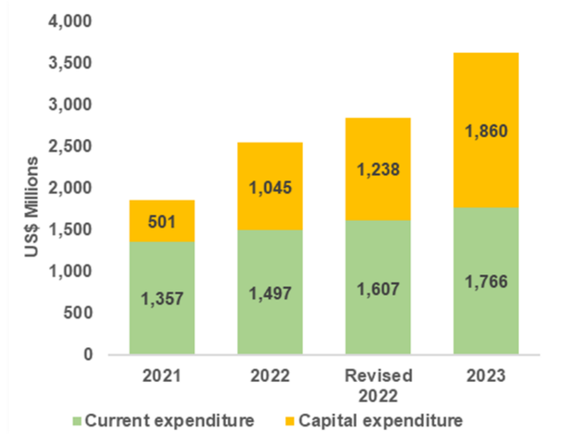
[19] The latest available Guyana Labor Force Survey is for 2021 Q3 which was interrupted due to the 2022 Census but is expected to continue.

Figure 3: Guyana: Unemployment Rates



Source: Budget Speech 2023, Ministry of Finance.

Figure 4: Guyana: Central Government Budget



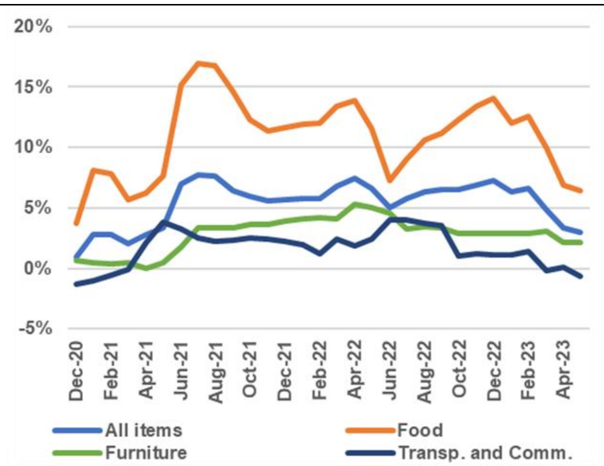
Source: Bureau of Statistics.

Budget 2023 was announced in January showing increasing expenditure levels. Budget 2022 was originally 37% higher than the actual Budget 2021, while the Revised 2022 Budget was 53% higher. The main increases in the revised 2022 budget relative to 2021 were capital expenditures which ended up being 147% rather higher than the original 109%. Current expenditures were also higher, increasing by 18.4% in the Revised 2022 Budget rather than 10.3% budgeted originally. Total revenues including grants and oil-relates resources were 61% higher in the Revised 2022 budget relative to 2021. For Budget 2023 total expenditures are projected to increase by 27% relative to 2022, with current expenditures increasing by 40% and capital expenditure by 11.5%. Transfers from the Natural Resource Fund (NRF) were budgeted to increase from US$607 million in 2022 to US$ 1 billion in 2023 representing 21% of 2022 expenditures and 28% in 2023 (Figure 3). The upward revision to the capital expenditure program suggests infrastructure development plans exceeded expectations. The projected fiscal balance as a share of non-oil GDP is projected to be -11.5% of GDP in 2023, smaller the NRF transfer to the budget which is 14.3% of non-oil GDP. The fiscal deficit relative to GDP is projected to be approximately 5% of GDP in 2023. The IMF projects a balanced budget starting in 2025 through the adoption of a fiscal framework maintaining a balanced budget in the medium-term. A key feature of the proposed fiscal framework is that the non-oil overall fiscal deficit be limited by the annual transfer from the NRF. In Budget 2023, the non-oil fiscal deficit, excluding the transfer from the NRF, is larger than the expected transfer.

New budget resources from carbon credits. In December 2022, Guyana became the first country to be issued forestry carbon credits. The Architecture for Reducing Emissions from Deforestation and Forest Degradation (REDD+) Transactions (ART) issued the world's first jurisdictional forestry carbon credits to Guyana. It is a unique achievement to be issued carbon credits specifically designed for the voluntary and compliance carbon markets for successfully preventing forest loss and degradation. Guyana was issued 33.47 million TREEs credits for 2016-

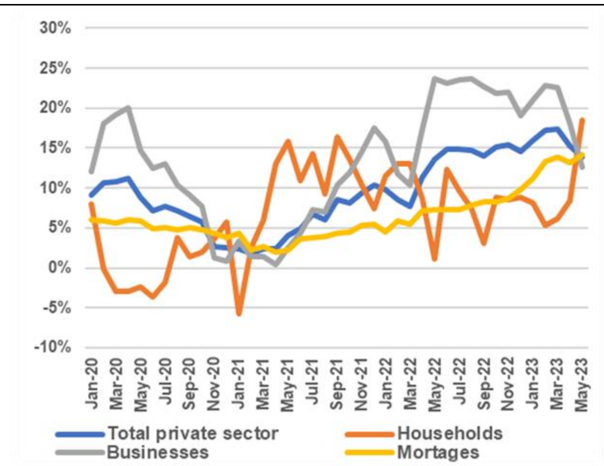
2020. Since then, Guyana signed an agreement with Hess Corporation for the sale of carbon credits for a total of US$ 750 million between 2023-2030. Guyana received its first payment of US$ 75 million in January 2023 and is expecting two more payments of US$ 37.5 each during the rest of 2023. Thus US$150 million were budgeted in 2023[20].

Figure 5: Guyana: Inflation Rate



Source: Bureau of Statistics.

Figure 6: Guyana: Private Sector Credit Growth



Source: Bank of Guyana.

Monetary policy has remained unchanged throughout the pandemic. The Bank of Guyana (BOG) is responsible for formulating and implementing monetary policy focusing on price stability. The issuance of treasury bills and foreign exchange interventions were the BOG's main tools in 2022, while the monetary policy rate has remained unchanged at 5 percent for many years. The reserve requirement ratio, which had been reduced from 12% to 10% in August 2020 as part of the relief measures in the face of Covid was returned to 12% in September 2022. In 2022, the inflation rate reached a high of 7.2% in April 2022, averaged 6.4% over the year, and closed at 7.2% in December. Since then, the inflation rate has continued to steadily decline falling to 3.0% in May 2023. Food inflation was particularly volatile, averaging 11.7% in 2022 and reaching a high of 14.1% in December 2022. Similarly, it has also followed a downward trend in 2023 falling from 12% in January 2023 to 6.4% in May 2023. The inflation rates for other goods were moderate. For example, the inflation rates for transportation and communication averaged 2.4% in 2022, while the inflation rate of housing averaged 1.7% and furniture averaged 3.8% (Figure 5).

[20] https://www.stabroeknews.com/2023/01/11/news/guyana/hess-makes-us75m-first-payment-for-guyana-issued-carbon-credits/

Net domestic credit has steadily increased through 2022 and early 2023[21]. The level of net domestic credit increased by almost 14% in 2022, reaching US$ 1.2 billion in December 2022 and increasing further to US$ 1.5 billion in May 2023. The main driver of this increase was lending to the Central Government, whose net credit position, increased from US$ 350 million in December 2021 to US$ 750 million in May 2023, approximately US$ 400 million. Net domestic credit includes lending to the private sector, net lending to the public sector, and net lending to Non-Bank Financial Institutions. Similarly, lending to the private sector has remained dynamic growing steadily since March 2021**.**

Lending to the private sector and financial soundness indicators remain stable. Private sector credit growth picked up significantly in 2022, by growing by more than 15% in December 2022 y-o-y, reached 17% in February and March 2023, before moderating slightly to almost 14% in May 2023. Out of the three major lending categories, lending to businesses experienced the most growth, averaging 20% in 2022. Household credit showed high, but lower levels of growth averaging 8.8% in 2022 and increasing to 18.5% in May 2023. Mortgage lending growth was also dynamic, though behind the other two categories, with an average of 7.3% in 2022 and reaching 14% in May 2023, all of which suggest robust economic activity (Figure 6). Businesses make up most of the private sector lending portfolio making up 54% of total loans, followed by mortgages 32% and households 12%. The financial system remains liquid and well capitalized, with improved quality of lending. The ratio of non-performing loan to gross loans of commercial banks dropped form 10.8% in 2020 to 4.7% in 2022.

Macroeconomic Opportunities and Challenges

Considering the current challenging global context, Guyana remains in a unique position benefitting from its newfound sources of revenue as well as resources related to environmental sustainability, such as the sale of carbon credits mentioned above. This places Guyana in an excellent position to continue pursuing its development objectives. The main challenges include the global context of increasing interest rates, affecting the cost of financing, and continuing to strengthen Guyana's fiscal framework. In this respect, the Natural Resource Fund, the medium-term expenditure framework, and the adoption of fiscal balance targets proposed by the IMF are important. Savings start accumulating in the NRF when annual oil revenues exceed US$ 500 million and grow with higher levels of government oil revenues[22].

[21] Net domestic credit includes the difference between lending to the Central Government and Non-Bank Financial institutions less their deposits in the financial system.
[22] The law states that 75% of oil revenues exceeding US$ 500 million are saved, 50% of those exceeding US$ 1 billion, 25% of those exceeding US$ 1.5 billion, 5% of those exceeding US$ 2 billion, and 3% of those exceeding US$ 2.5 billion (Natural Resource Fund Act 2021).

Jamaica

Monique Graham

Introduction

The government of Jamaica continues to demonstrate resilience to external shocks, and a strong commitment to fiscal prudence in pursuit of the Fiscal Responsibility Law's medium-term debt target of 60% of GDP. After years of steadfast progress with institutional and policy reform, the country developed strong fiscal buffers that helped to support the economy through the COVID-19 crisis. This resilience will now be reinforced by two recently approved IMF-supported programs, including a contingent facility of approximately US$967 million for unforeseen shocks. Against this backdrop, real output levels are set to return to pre-crisis levels by the end of 2023, and inflation is expected to return to within the central bank's target band by the end of the year. While risks to the outlook remain evident, including from continued geopolitical uncertainties, high inflation and interest rates, and the potential for a synchronized global downturn, Jamaica's improved fiscal and financial buffers leave it in a historically strong position to face any unforeseen shocks.

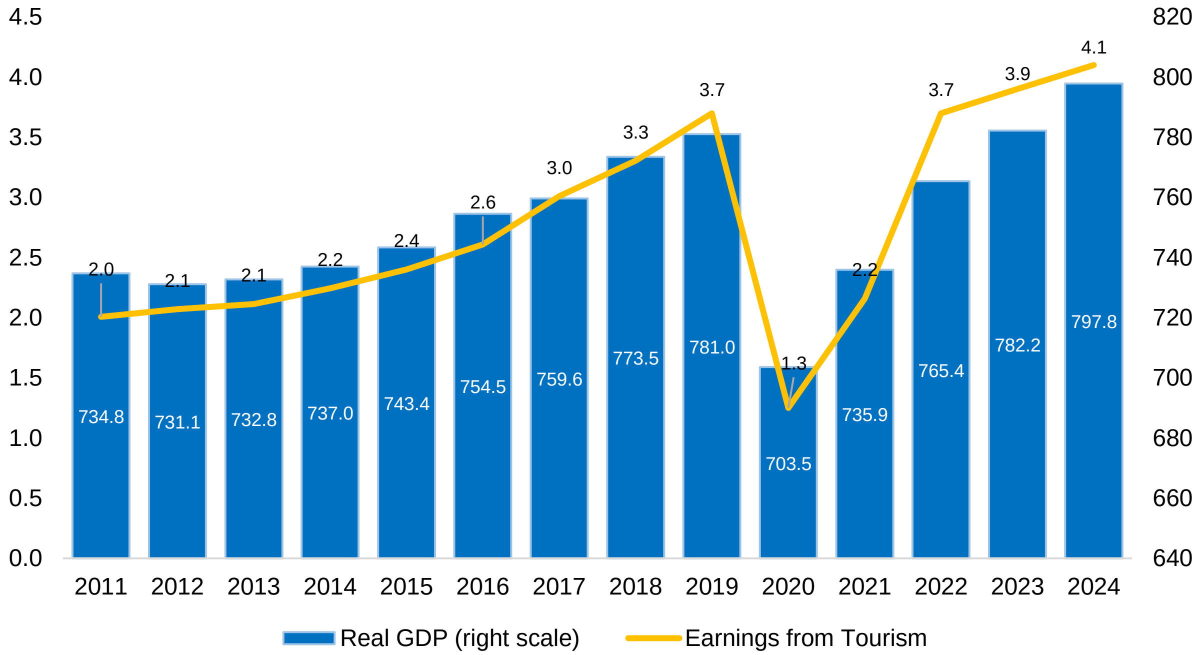
Economic recovery

The Jamaican economy has been steadily recovering, in line with global demand and particularly the tourism sector. As one of the most tourism-dependent economies on earth[23], COVID-19 travel restrictions led to a sharp decline in arrivals and demand. As a result, earnings from tourism fell by about 65% in 2020, to US$1.3 billion from US$3.7 billion in 2019 (Figure 1).[24] With the lifting of these restrictions in 2022, the tourism sector has resumed its role as a key driver of growth, with revenue again on par with pre-pandemic levels. Real GDP is expected to return to pre-pandemic levels by end-2023 (J$782 billion, based on April 2023 IMF WEO projections). It is anticipated that tourism earnings will exceed 2019 levels in 2023.

[23] See: https://www.iadb.org/en/news/idb-report-envisions-devastating-tourism-shocks-latin-america-and-caribbean

[24] Jamaica Tourism Board, Ministry of Tourism.

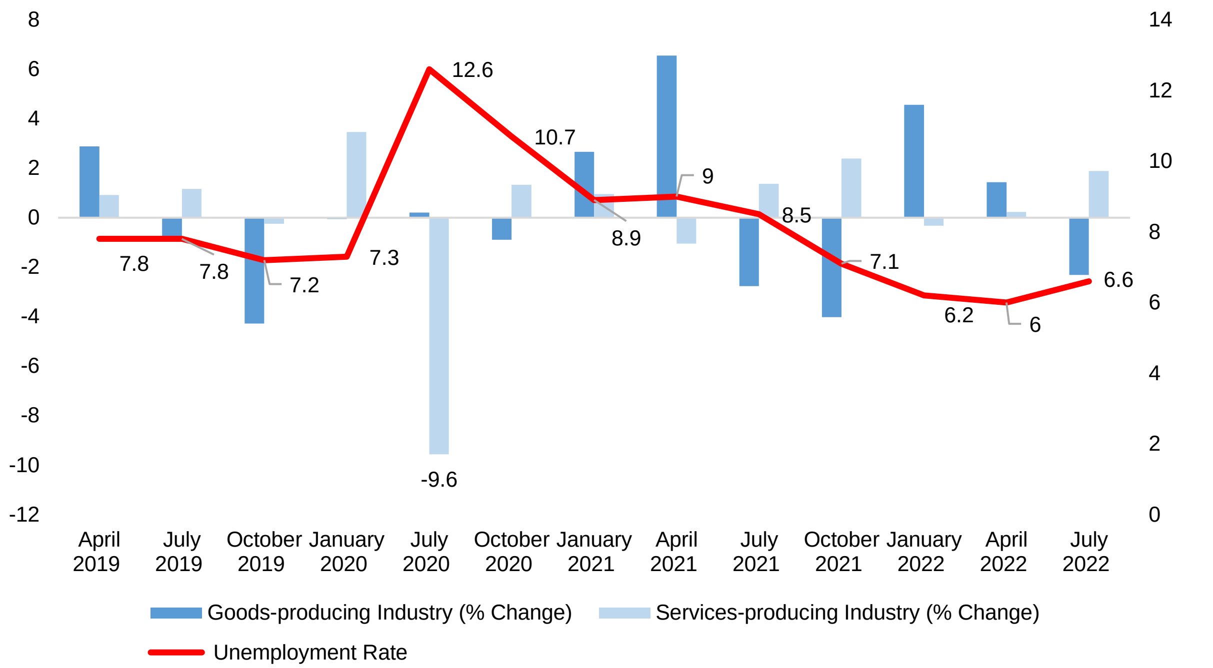
Figure 1: Jamaica: Real Gross Domestic Product and Tourism Sector Earnings, J$ Billions (Tourism in US$ billions)



Source: International Monetary Fund, April 2023 *World Economic Outlook*, Jamaica Tourism Board, Ministry of Tourism, and Author's calculations.
Note: Projections from 2023 onwards.

This recovery has contributed to a downward trend in the unemployment rate. Prior to the pandemic, unemployment steadily declined from 8.0% in January 2019 to 7.3% in January 2020 (Statistical Institute of Jamaica, see Figure 2). Unemployment rose sharply to nearly 13% in July 2020. Government efforts to bolster the economy, including stimulus packages targeting the services industry, supported employment in subsequent quarters. By July 2022 (latest available), the unemployment rate had fallen to 6.6 percent—lower than the pre-pandemic historic lows.

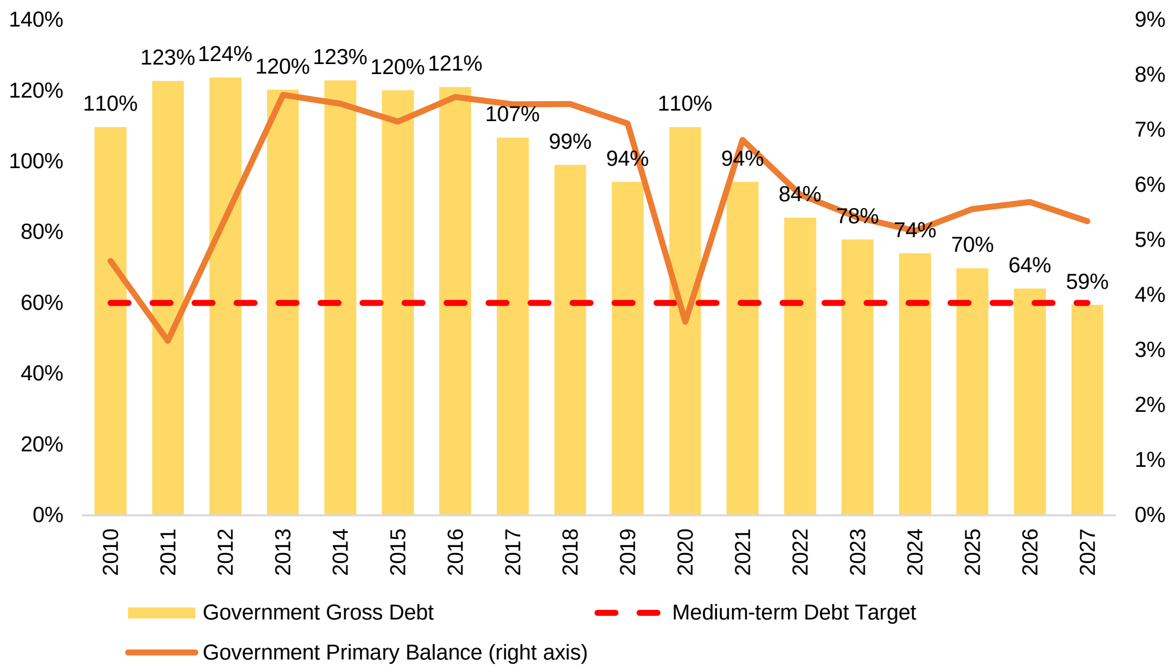
Figure 2: Jamaica: Change in Employment (by industries) and Unemployment Rate (%)



Source: Statistical Institute of Jamaica and Authors' Calculations.

Improving economic performance and prudent fiscal management continue to support progress towards achievement of the Fiscal Responsibility Law (FRL) target of a public debt-to-GDP ratio of 60% by 2028. While pandemic-related shocks to the economy in 2020 caused public debt to increase from about 94% to 110% of GDP, growth in real output and strong primary balances reduced public debt to 84% of GDP (Figure 3) by end 2022 (April 2023 IMF WEO). With sustained primary surpluses of over 5% of GDP anticipated for 2023 and 2024, the debt ratio is expected to fall to 78% and 74 percent, respectively, placing it on target to achieve a debt ratio of 60% of GDP by 2028.

Figure 3: Jamaica: Fiscal and Debt Position and Expectations (%GDP)



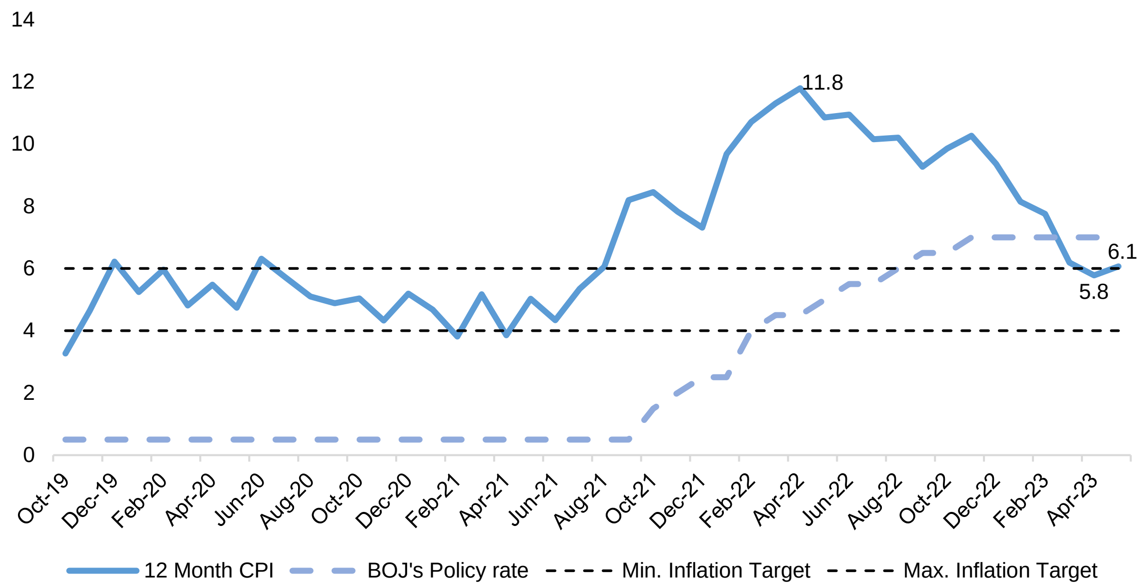
Source: International Monetary Fund, April 2023 *World Economic Outlook.*
Note: Projections from 2023 onwards.

Inflation and Financial Stability

Like most countries around the world, Jamaica was affected by higher commodity prices and supply chain bottlenecks beginning in 2021. Inflation increased rapidly from the lower bound of the central bank's target band of between 4% and 6% in mid-2021, to a peak of about 12% by early 2022 (see Figure 4). In line with its price stability mandate, the Bank of Jamaica (BOJ) began to aggressively tighten conditions, resulting in an increase in policy rates by about 650 basis points before pausing in November 2022. Annualized inflation fell back to within the target band in April 2023. Looking forward, the BOJ notes that it will remain vigilant to emerging price pressures, including recent increases in telephone and internet rates, the national minimum wage, and seasonally higher agricultural prices, as well as other externally driven uncertainties from the conflict in Europe and economic and financial conditions in advanced economies.[25]

[25] Bank of Jamaica Monetary Policy Report – June 2023

Figure 4: Jamaica: Inflation and Central Bank Policy Rate (%)



Source: Bank of Jamaica.

Despite tighter domestic and international financing conditions, indicators of financial stability continue to suggest that the system is sound and resilient to shocks. The capital adequacy ratio for the banking system in aggregate at end-March 2023 (latest available) stood at about 14%, which is well above the prudential requirement of 10% for reporting institutions. The ratio of non-performing loans (NPLs) to total loans stood at 2.4%, with provisions for loan losses equal to about 125% of NPLs, up from 123% in September. These and other prudential indicators for deposit taking institutions are listed below, and suggest that the system continues to perform, and remains resilient to shocks.

Table 1: Jamaica: Prudential Indicators for Deposit Taking Institutions

	end-March 2023	end-Sept 2022	end-Mar 2021	end-Mar 2020
Liquidity				
Average Domestic Currency Cash Reserve: Average Prescribed Liabilities	**4.7%**	4.7%	4.7%	6.5%
Average Domestic Currency Liquid Assets: Average Prescribed Liabilities	**20.9%**	21.7%	25.7%	27.5%
Asset Quality				
Prov. for Loan Losses: Total Loans (gross)	**3.0%**	3.1%	3.0%	2.6%
Prov. For Loan Losses: NPLs (3 mths & over)	**124.5%**	123.2%	104.1%	109.1%
NPLs (3 mths & over): Total Loans (gross)	**2.4%**	2.5%	2.9%	2.4%
Capital Adequacy				
Deposits + Borrowings: Capital	**807.0%**	826.0%	748.0%	751.0%
Capital Base: Total Assets	**10.2%**	10.0%	10.8%	10.7%
Capital Adequacy Ratio [CAR]	**14.2%**	13.8%	14.3%	14.2%
NPLs (3 mths &>): Capital Base + Prov. for Loan Losses	**10.9%**	11.1%	11.9%	10.4%

Source: Bank of Jamaica Prudential Indicators (May 2023 release).

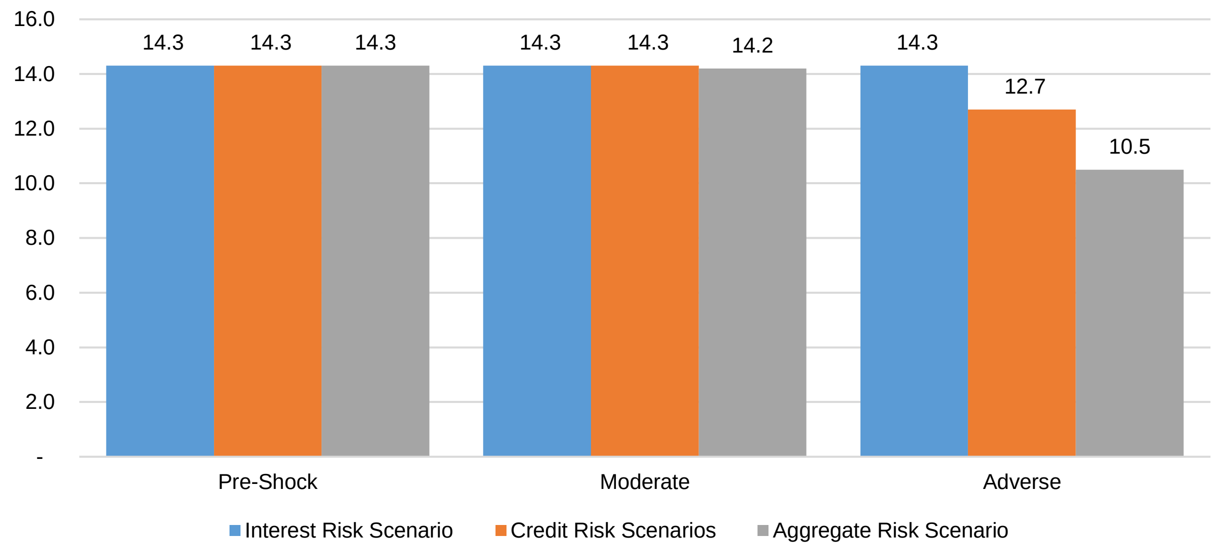
Despite these strong indicators of system soundness and stability, the BOJ acknowledges that heightened inflation, interest rates and geopolitical tensions create uncertainties, which can lead to volatility in asset prices with implications for financial institution balance sheets. Against this backdrop, stress tests were conducted, particularly designed to ascertain the potential impact of further increases in bond yields, as well as the potential for a deterioration in loan quality in the banking sector.[26] Results of these and related stress tests suggest that banks are resilient to plausible interest rates and credit risk shocks, with post-shock capital adequacy ratios remaining above prudential minimums. See results and shock assumptions/dimensions in Table 2, below.

[26] Interest Rate Shocks: The moderate / adverse interest rate shock scenarios involved domestic and foreign bond yields rising by 75 / 200 bps and 50 / 150 bps, respectively. Credit Risk Scenarios: Credit risk scenarios were developed assuming increases in NPLs derived from historical data, and assumptions regarding the potential impact of hypothetical events described—i.e., percentage point increases in NPLs relative to end-2022 levels (BOJ Financial Annual Financial Stability Report, 2022).

Table 2: Jamaica: Stress Tests and Results for Adverse Shocks to Credit and Interest Rates
Assumptions / Shock Dimensions
(percentage point increase in NPLs or basis points)

Risk/Scenario	Risk Factors	Moderate	Adverse
Credit Risk Scenarios	**Tourism (increase NPLs)**	29%	75%
	Overseas Residents (Increase NPLs)	30%	113%
	Tourism (past due loans becoming NPLs)	1%	1%
	Overseas Residents (past due loans becoming NPLs)	4%	7%
Interest Rate Risk Scenarios	**Increase Yields (local currency instruments)**	75 bps	200 bps
	Increase Yields (foreign exchange instruments)	50 bps	150 bps

Figure 5: Jamaica: Impact of Shocks on Capital Adequacy Ratios



Source: Bank of Jamaica Financial Stability Report 2022.

Suriname

Gisele Teixeira

Just a few months after being elected in July 2020, the Government of Suriname (GoS) prepared an economic recovery plan (*Herstelplan* 2020-2022)[27], with the goal of putting Suriname back on a path of sustainable and equitable growth. In November 2020, the GoS requested financial support to the International Monetary Fund (IMF) for its implementation. After a negotiation that started in early-2021, the Executive Board of the IMF approved a 36-month arrangement under the Extended Fund Facility (EFF) in December 2021 (US$688M)[28]. The First Review of the program was successfully concluded in March 2022[29], while the Second Review was approved in June 2023, bringing to an accumulated disbursement of around US$159M. Given unforeseen challenges faced by the GoS in the achievement of some performance criteria and the consequent delay in the financial plan of the arrangement, national authorities requested for a rephasing of purchases, including a reduction in the total access of the arrangement to an amount equivalent to US$516M. The six subsequent reviews, necessary conditions for disbursements under the arrangement, are scheduled to take place on a quarterly basis, from September 2023 to December 2024[30].

Economic Recovery

Suriname's economic recovery has been less dynamic than anticipated. Even though economic growth returned to positive territory, after contractions of 16% and 2.7% in 2020 and 2021, GDP in 2022 was still below its pre-pandemic level (Figure 1a). Preliminary calculation indicates that real GDP grew by 0.9% in 2022, 1.2 pp below the official Government forecast[31] in October 2022 (Figure 1b). Across sectors, production remained relatively constant with the tertiary sector representing two thirds of total output. Primary and secondary sectors represented 10% and 25% of GDP, respectively. As of February 2023, the Monthly Economic Activity Index contracted by 0.7%, driven by contractions in *Communication* and in *Mining*.

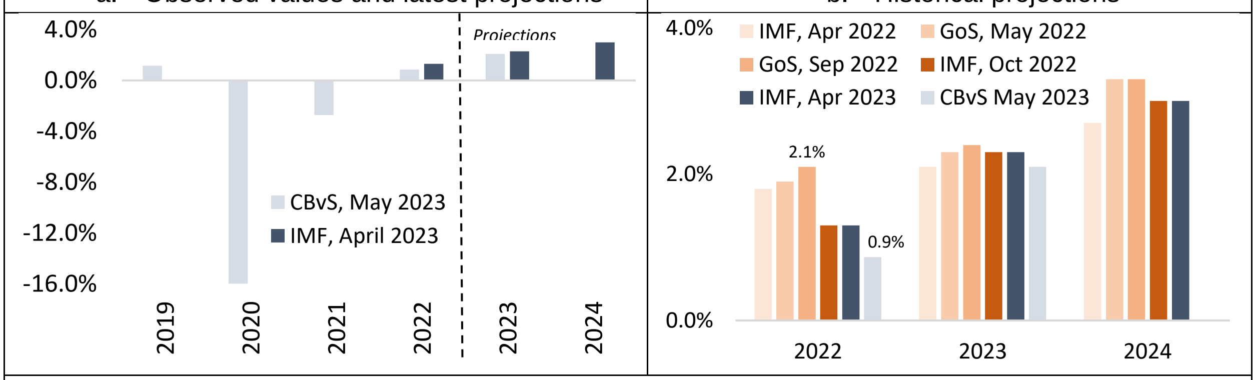
A more development-oriented management of natural resources revenues might promote economic diversification. In 2022, 54% of total public revenues were generated in the mining sector, an increase of 8.1 pp in relation to the previous year[32] (2021: 46%). Such increase is

[27] Government of Suriname, 2021. *Hersteplan* 2020-2022. Available at https://gov.sr/wp-content/uploads/2023/02/Herstelplan-2020-2022-versie-10-mei-2021.pdf.
[28] IMF, 2021. Press Release No. 21/400. Available at IMF Executive Board Approves Extended Arrangement Under the Extended Fund Facility for Suriname.
[29] IMF, 2022. Press Release No. 27/87. Available at IMF Executive Board Completes First Review of the Extended Fund Facility Arrangement for Suriname.
[30] IMF, 2023. Press Release No. 23/210. Available at IMF Executive Board Concludes Second Review of the Extended Fund Facility for Suriname.
[31] Planning Office Suriname, 2022. GDP Update, September.
[32] Ministry of Finance and Planning, 2022. Government Finance Statistics.

largely explained by the adjustments in royalty rate for small-scale gold exporters. Mining revenues changed from representing 12.5% of GDP in 2021 to 15.4% in 2022[33]. However, this dependence on natural resource revenues constitutes a risk for fiscal sustainability, given the volatile nature of the quantity produced each year and the managerial decisions of international companies with regards to business continuity in Suriname. In the same sector of natural resources, consecutive oil discoveries have been revealed since 2020, with flow test results indicating the potential of approximately 500+ million barrels of oil. Therefore, an eventual Final Investment Decision for commercial exploitation, which was not yet announced, could deepen the country's reliance on natural resources to finance public policies. Meanwhile, strengthening Suriname's medium-term fiscal framework, through improvements in public finance management, would increase efficiency and transparency, generating savings that could be driven to, among other ends, investment in economic diversification. In 2021, Suriname's export concentration index was 0.76, an increase of 0.27 from its index a decade ago and significantly larger than its peers[34] (GUY 2021: 0.51; TTO 2021: 0.29).

Figure 1: Suriname: Real GDP Growth

a. Observed values and latest projections | b. Historical projections



Source: CBvS, IMF, GoS (Planning Office Suriname).

Inflation and Monetary Policy Developments

Inflation remains stubbornly high. Even though inflation is below its peak (August 2021: 74.4%) and its previous measure (April 2023: 65.4%), the latest recorded rate of 64.9% in May 2023 is above the observed rates in the end of the last two years (2021: 60.7%; 2022: 54.6%) and is the seventh consecutive monthly increase[35]. Combined effects of exchange rate devaluation,

[33] As of January 2022, royalty rate for the small-scale gold sector increased from 2.5% to 4.5% (S.B. 2021 No. 177, 31 December 2021). An additional increase of 1pp to a rate of 5.5% was implemented from 1 January 2023 onwards (S.B. 2023 No. 10, 31 December 2022; S.B. 2023 No. 35, 20 February 2023).

[34] UNCTADStat, 2023. Export concentration index. An index value closer to 1 indicates that a country's exports are highly concentrated on a few products.

[35] General Bureau of Statistics, 2023. Consumer Price Indices and Inflation. June 2023.

implementation of the value added tax, and price adjustments on basic services and fuel contributed to overall acceleration. Price increases above the headline in *transportation* (88.1%) and *food away from home* (71.1%) are particularly challenging for lower income households. The IMF, however, projects a deceleration for end-2023. Effective implementation of fiscal and monetary policies would bring inflation to 36.4% and 18.5% in 2023 and 2024, respectively.

Aiming at stabilizing the price level, the CBvS complimented its open market operations with increased reserves requirements for local currency deposits. In July 2021, the CBvS transitioned to a reserve money targeting regime. To stabilize prices, near-term reserve money was expected to grow less than nominal GDP. Therefore, the CBvS engaged in open market operations (OMO) through weekly auctions of term deposits (TD) for general banks and other central bank securities, including central bank certificates (CBC), to absorb excess liquidity. However, the auctions have been undersubscribed[36], leading to small transmission rates of CBvS liabilities to deposits or lending rates. As a complementary measure, the CBvS increased the reserves requirements of commercial banks from 39% to 44% in April 2023. Moreover, the CBvS encouraged the local banks to limit the growth of nominal credit in local currency to the private sector at 20% until April 2024.

Even though local currency has devaluated by approximately 70% over the last twelve months, international reserves remained stable. Following the change from controlled floating to a fully floating exchange rate system in June 2021, nominal exchange rate was relatively stable until June 2021, in the range of SRD 20.3 to 23.5 to the USD. Moreover, the parallel premium has remained closed to zero. However, the exchange rate has increased by around 70% in the last year, going from SRD22.5: USD1 in June 2022 to SRD38.2: USD1 in June 2023. International reserves have increased firmly since its lowest record of US$520M in 2020 to US$ 1.195M in end-2022. The monthly amount of US$1.076M recorded in May 2023 is slightly smaller than the one in the previous month (US$ 1.138M).

Fiscal Policy and Public Debt

After a decade of recorded primary deficits, the Government reached a primary surplus in 2022. The primary balance improved substantially, with a fiscal surplus of 1.1% of GDP in 2022, compared to primary deficits of 7.5% and 1.3% of GDP in 2020 and 2021, respectively. Nevertheless, the result was not enough to reach the quantitative target set in the EFF for 2022 (primary surplus of 1.7% of GDP), given overspending on subsidies and wages. The Government, nevertheless, renewed its commitment to fiscal consolidation. To accommodate an increased demand for social protection to the most vulnerable population, a more gradual fiscal consolidation was agreed in the Second Review of the EFF, compared to the one in the First Review. The quantitative target for primary surplus in 2023 was reduced from 3.5% of GDP to 1.7% of GDP, whereas the one for 2024 is estimated at 3.5% of GDP, 1 pp less than originally

[36] The banking system liquidity is concentrated in the four largest commercial banks, which were not keen to increase their exposure to the Central Bank.

planned. A range of fiscal measures are expected to contribute for such performance, including an amendment to the VAT Act to broaden the tax base. Moreover, the wage bill is expected to decrease to at most 7% of GDP, subsidies would be reviewed in a way to reduce distortion and increase target, and procurement practices are to be amended.

Central government debt was estimated at around 119% of GDP in 2022. After decreasing from its peak at 144% of GDP in 2020 to an estimated 117% at end-2021, debt has increased slightly to 119% in 2022, still compatible with its intermediate target of the EFF. External debt represents 75% of total, while domestic debt is equivalent to the remaining 25%. The completion of debt restructuring, in combination with fiscal consolidation, is expected to bring debt back to its medium-term anchor. Suriname reached bilateral agreements with four (US$90M), out of five, Paris Club creditors in 2022. A debt renegotiation with India was reached in May 2023 (US$39M). Even though the restructuring with commercial creditors (US$912 plus arrears) and with China (US$545M plus arrears) are pending, Suriname reached an agreement in principle with Oppenheimer creditors, with the following terms: i) a new bond (US$650M); and ii) a value recovery instrument, in which Suriname will allocate a certain portion of royalty income from Block 58, if any, to compensate the bondholders for the losses incurred in the restructuring. According to the IMF restructuring scenario, public debt would follow a downward trend, reaching around 100% of GDP in 2025, 70% in 2030, and 50% in 2035.

Financial System

The banking system remains solvent, but concentration risk poses a high threat to national financial system. The capital adequacy ratio (CAR) for the banking system improved from 16.4 in April 2022 to 17.8 in April 2023. However, four banks have a CAR below the 10% minimum requirement. According to the IMF, the banking sector's need for provisioning and recapitalization is equivalent to 5% of GDP. The ratio of non-performing loans to gross loans increased from 12.8% in April 2022 to 15.7% in April 2023. The lending in foreign currency represented 61.9% of the total loans in April 2023, an increment of 6.3 pp in relation to April 2022. In April 2023, liquid assets amounted to 52% of total assets (April 2022: 58.4%) and to 101% of short-term liabilities (April 2022: 119%).

Domestic credit to the private sector represented around 24% of GDP in 2022 (Figure 2a). Suriname has one of the shallowest financial systems in the Caribbean, which was aggravated by macroeconomic instability[37]. Domestic credit to the private sector denominated in national currency shrank to 44% of the total, compared to a fraction of 49% in the previous year (Figure 2b), whereas the one denominated in foreign currency increased to 56% of total, in relation to the fraction of 51% recorded in 2021. The lending rate for domestic credit decreased by 1.5 pp in 2022 to be at 13.4%, explained mainly by the liquidity drainage that has been pursued by the CBvS. With retail auctions of term deposits and certificates, the Central Banks aimed to remove

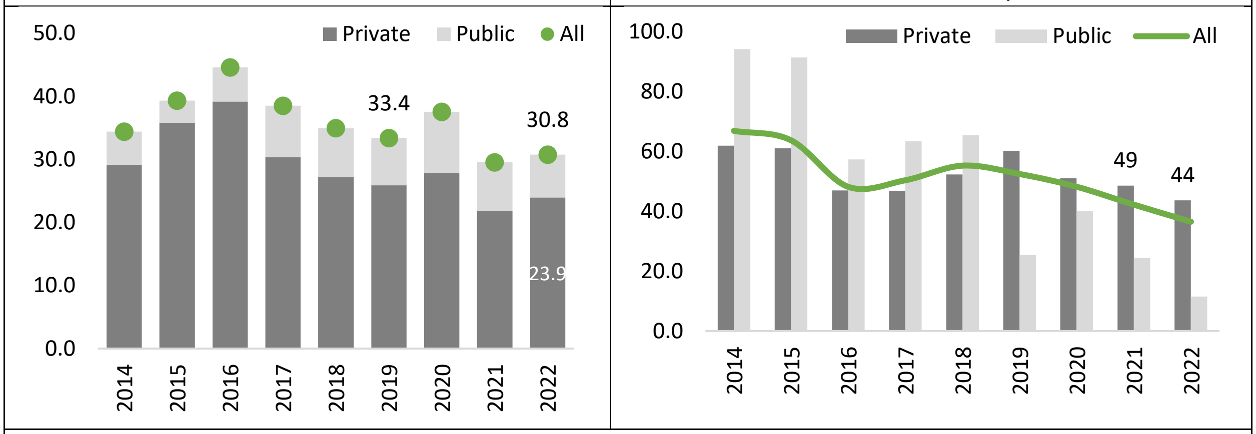
[37] IDB, 2022. Caribbean Economics Quarterly: Volume 11, Issue 2: Finance for Firms: Options for Improving Access and Inclusion. Available at [Caribbean Economics Quarterly: Volume 11, Issue 2: Finance for Firms: Options for Improving Access and Inclusion (iadb.org)](iadb.org).

part of the excess liquidity of the market. For domestic credit denominated in US dollars, the rate has been relatively stable, decreasing slightly from 8.5% in 2021 to 8.2% in 2022.

Figure 2: Suriname: Domestic Credit

a. Total (in percentage of GDP)

b. Local currency (in percentage of total credit)



Source: CBvS.

Macroeconomic Opportunities and Risks Moving Forward

Moving ahead, Suriname faces not only downside risks to the outlook, but also economic opportunities to promote a sustainable and more equitable economic growth. Even though the fiscal adjustments set in the EFF will require the implementation of large fiscal measures on the expenditure side, while increasing revenue collection, there are some measures that are economically less daunting, such as the update in its procurement practices. The Government presented the Draft Procurement Act 2023 to the National Assembly in January 2023, and its approval would promote more transparency and efficiency, adding to the efforts for achieving consecutive fiscal surpluses. On the other hand, oil and gas discoveries have the potential to change the structure of Suriname's economy, making it a more diversified and less resource-dependent country, if suitable measures are taken. Improvements in the institutional framework so that extraordinary revenues are used to invest in physical and human capital, as well to save for future generations, would facilitate the development of products and services that are otherwise imported from abroad, generating local economic opportunities, employment, and overall increase in wellbeing.

Trinidad and Tobago

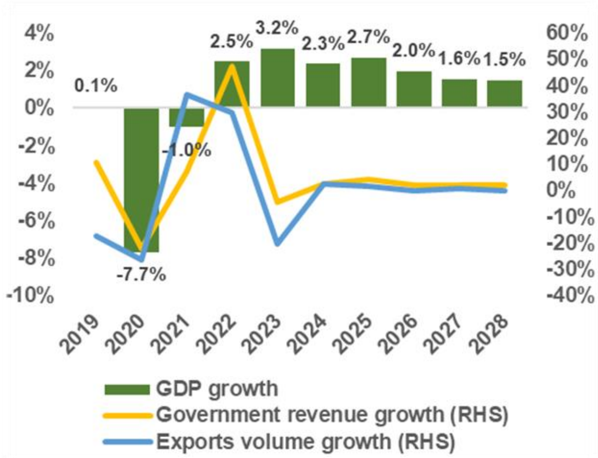
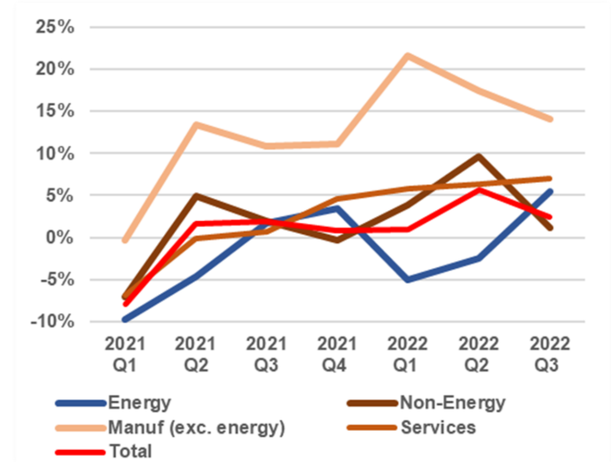
Nirvana Satnarine-Singh and Victor Gauto

Introduction

High energy prices supported economic recovery in 2022. Trinidad and Tobago benefited from higher-than-expected commodity prices in 2022, which supported economic growth, contributed to increasing exports, boosted the fiscal outturn, and reduced the debt to GDP ratio. With energy prices falling below budgeted assumptions for 2023, medium-term growth projections have moderated. Production of the country's main exported energy commodities have fallen below "boom" level, constraining output of the petrochemical industry. Even so, the non-energy sector pushed overall recovery as the services sector grew at dynamic rates through most of 2022. The unemployment rate fell almost on par with the pre-pandemic rate and commercial banks' lending to the private sector has recovered strongly.

Economic Recovery

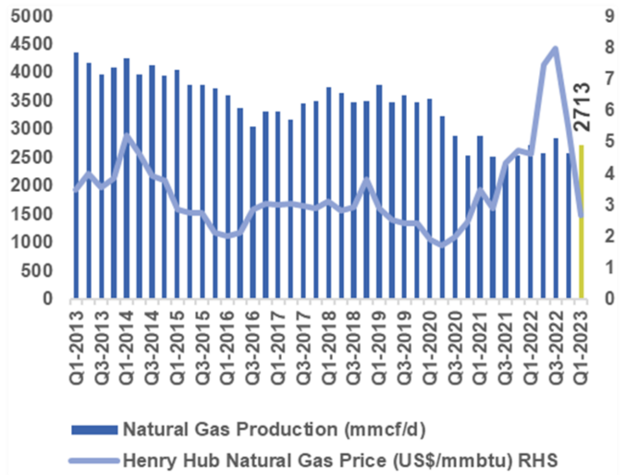
The economic recovery for 2022 is estimated to have moderated as energy prices slowed globally. According to the IMF (2023a), GDP grew by 2.5% in 2022. This is below their previously forecasted 4% but above the government's GDP growth projection of 2% (IMF 2022; Ministry of Finance 2022). Official data shows GDP growth for the first three quarters of the year was 3.0%. The Quarterly Economic Activity index reports a slight contraction of 0.7% in 2022 Q4 and an average growth rate of 3.1% for the year. GDP growth was supported by dynamic growth in the non-energy sector but endured challenges in the energy sector. In the medium-term, GDP growth is expected to average 2.5% in 2022-2026 as shown in Figure 1. The volume of exports of goods and services as a component of GDP growth, grew by an average of 33% in 2021-2022 after falling by 26% in 2020, the year of the pandemic. Part of the gain is projected to recede in 2023 with a contraction in the volume of exports of goods and services by 20%, before stabilizing at an average growth rate of 1% in 2024-2028, potentially related to supply constraints in the oil and gas industry. Government revenues are intrinsically linked to the level economic activity and exports, with revenues growing by 47% in 2022 before stabilizing at a projected average of 3% in 2024-2028 (Figure 1).

Figure 1: Trinidad and Tobago: GDP Medium-Term Indicators	Figure 2: Trinidad and Tobago: Quarterly Real GDP Growth Rate y-o-y
	
Source: IMF – World Economic Outlook 04/2023	Source: own calculations base on Quarterly GDP at Constant (2012) Prices, Central Statistical Office.

The recovery in 2022 was mainly driven by the non-energy sector. The IMF (2023a) estimated the non-energy sector to have grown by 4.3% while the energy sector contracted by 1.8%. In fact, official statistics state that the non-energy sector, which accounted for 70% of real GDP in the first three quarters of 2022, outperformed the energy sector in the first half of 2022. While the non-energy sector grew by an average of 4.9% in the first three quarters of 2022, the energy sector contracted slightly by 0.7%. However, in 2022 Q3 the energy sector had a strong recovery, expanding by 5.4% compared to 1.2% in the non-energy sector. Within the non-energy sector, the manufacturing and selected services[38] sectors had strong performances, averaging growth rates of almost 18% and 6.4%, respectively (Figure 2). These are both relatively large sectors of the economy, as manufacturing represented 8% of the economy and the selected services, which include finances, transportation, and information and communication, among others, represented almost 30% of the economy. Another important sector representing 18% of the economy, wholesale and retail (excluding petroleum distribution), grew by 19% in 2022 Q2 and averaged of 4.4% in the first three quarters (calculated based on CSO data – Figure 2). Both daily natural gas and methanol production improved by 5% in 2022, year over year (Figure 3). However, for 2022, ammonia production levels fell by 5% and urea by 31% relative to 2021. These trends have continued into the first quarter of 2023.

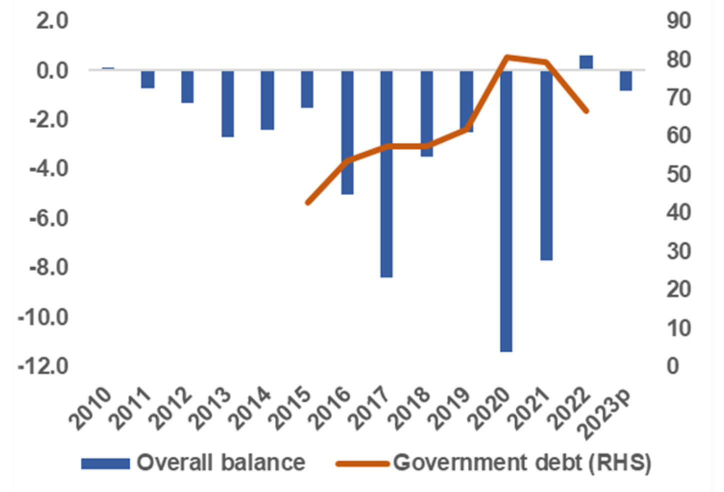
[38] Selected services include transport and storage, accommodation and food services, information and communication, financial and insurance activities, real estate activities, professional, scientific and technical services, administrative and support services, arts and entertainment, other service activities, domestic services.

Figure 3: Trinidad and Tobago: Natural Gas Production (mmcf/d) and prices (US$/mmbtu) RHS



Source: Central Bank of Trinidad and Tobago Data Centre.

Figure 4: Trinidad and Tobago: Fiscal Balance and Debt (% of GDP on fiscal year terms (Sept. – Oct.)



Source: Central Bank of T&T Data Centre and Central Bank Annual Economic Survey 2022. (P): projected.

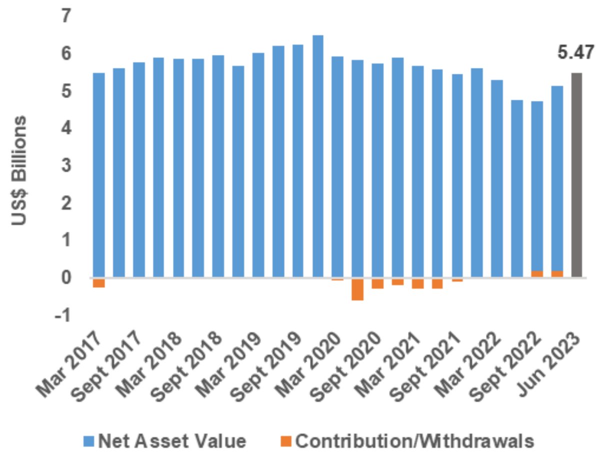
High levels of overall deficits receded in 2022, contributing to a reduced public debt to GDP ratio. After two years of fiscal deficits averaging almost 10% of GDP in 2020 and 2021, high energy prices supported closing 2022 with a fiscal surplus of 0.6% of GDP (Figure 4). The price of natural gas averaged 66% more in 2022 relative to 2021 as shown in Figure 3. The budget surplus along with higher levels of nominal GDP, growing at an average of almost 15% in 2020-2021, along with stable levels of debt contributed to decreasing the ratios of debt to GDP from 79.5% in 2021 to 66.5% in 2022. For 2023, expenditures are projected to be at least 8% higher the previous budget. Revenue for the first half of the fiscal year ending in 2023 (Sept.- Oct.) was 48% of total estimated revenues and 46 % of expenditures have been realized, suggesting the outturns are tracking the budget closely. Under current conditions of moderating energy prices, the overall balance is expected to fall to a deficit of 0.8% of GDP in 2023. The IMF (2023a) projects that the fiscal balance is expected to average 1.9% of GDP in 2024-2028 while public debt is projected to average 72.5% of GDP.

The Hertiage and Stabilization Fund (HSF), which played a significant role for pandemic response, received deposits as a result of higher-than expected revenues in 2022. The HSF, which holds oil and gas related government savings, supported government efforts during the pandemic. In 2020, 40% of the fiscal deficit was financed by the HSF, totaling US$ 980 million. Similarly, in 2021 50% of the deficit was financed with resources from the HSF for a total of US$ 900 million. However, in 2022, energy windfall revenues allowed US$345 million to be paid back into the HSF, reflecting the significance of the HSF for fiscal policy.[39] The balance of the HSF has

[39] The HSF Act 2007 states that some or all revenues exceeding petroleum revenue estimates must be deposited into the HSF.

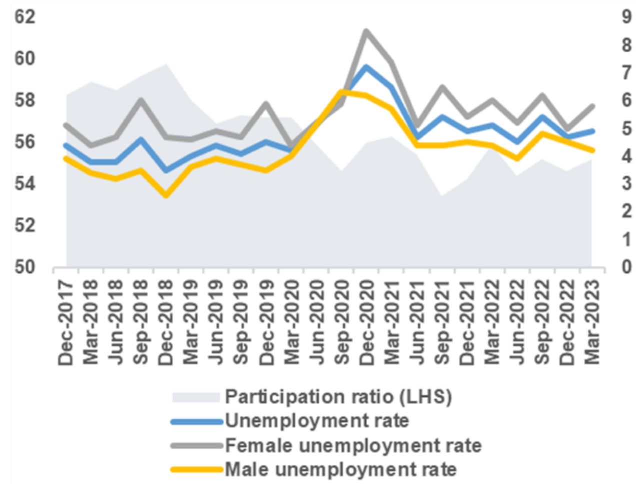
been exposed global trends in asset prices, such that its net valuation declined between 2020 and 2022 Q3. Since 2022 Q3 the net asset value has been recovering, increasing from US$ 4.7 billion in September 2022 to US$ 5.5 billion in June 2023 (Figure 5).

Figure 5: Trinidad and Tobago: Heritage and Stabilization Fund



Source: Ministry of Finance – Heritage and Stabilization Quarterly and Annual Reports. June 2023 data from June Media Release.

Figure 6: Trinidad and Tobago: Labor Force Indicators (%)



Source: Central Statistical Office – Labour Force Survey (LFS) Bulletins.

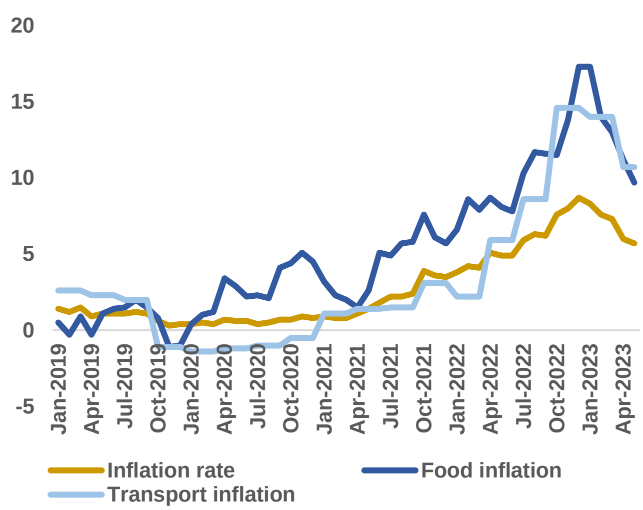
Unemployment rates and labor force participation. The unemployment rate fell to 4.7% in 2022 Q4 and remained stable at 4.9% in 2023 Q1, relative to 7.2% recorded at the height of the pandemic- in 2020 Q4. This is faintly above the 3.8% and 4.3% unemployment rates of 2018 and 2019, respectively. Recovery in labor force participation is also lagging, with around 55% of the working population joining the workforce in 2022 and early 2023, compared to 57-59% between 2018 and 2019. The gap between female and male unemployment remained almost unchanged when comparing pre and post pandemic periods, with the female unemployment rate surpassing the male rate by 1.6 percentage points at the end of March 2023. The unemployment rate of females was recorded at 5.8% while the unemployment rate of males was 4.2% in March 2023. The participation rate of females fell to 45%, compared to 47% in 2022 Q4, while the male labor force participation rate increased to 65.6% from 62.3% in 2022 Q4.

Domestic price levels were mainly influenced by external factors which spilled over to affect food and transportation costs. After having relatively moderate inflation rates in 2021, in 2022 inflations increased, following global trends affected by energy price spikes. The annual inflation rate climbed through 2022 reaching 8.7% in December. This increase in prices were moderate compared to some other countries in the Caribbean which experienced double digit inflation for some parts of 2022. The government reduced the fuel subsidy in September 2022 to strengthen its fiscal position, which could have contributed to higher prices levels. The IMF's 2023 Article IV recognized that most of Trinidad & Tobago's inflation was driven by external

factors such as higher international inflation rates and food prices. Food and transportation prices drove price increases since they reached the highest inflation rates among the other categories, reaching 17.3% and 14.6%, respectively in December 2022 before starting to decline in 2023 (Figure 7). For 2023, prices have cooled, declining to 5.7% in May 2023. The Central Bank maintained the monetary/repo policy rate of 3.5% since reducing the rate from 5% in March 2020**.** With many advanced economies tightening monetary policies in response to high inflation rates, the government maintained its position of keeping the monetary policy rate low to continue supporting private sector recovery, reflected in relatively high rates of private sector lending growth.

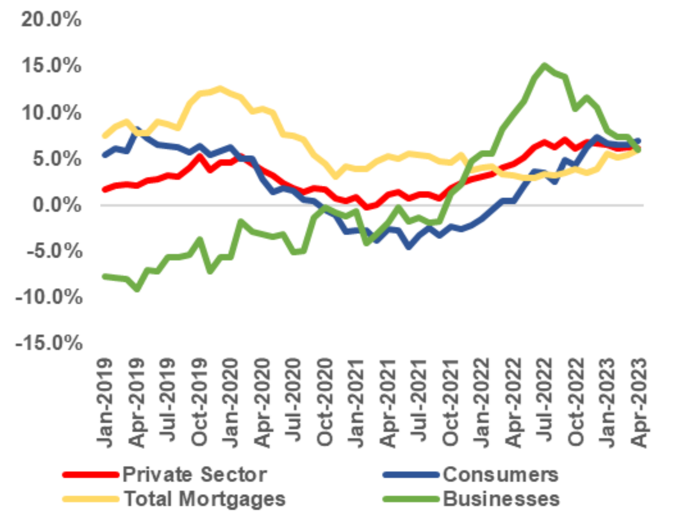
Lending to the private sector climbed in 2022 but moderated in 2023. Private sector credit growth, year over year, increased from 3.0% in January 2022 to 6.7% in November before declining slightly to 6.2% in April 2023, higher than the average rate of 1.2% in 2021. Within private sector lending, the category with greatest average growth was business lending which averaged 10.8% in 2022 and 7.2% from January to April in 2023. In 2023, mortgage lending growth averaged 5.5% while consumer lending averaged 5.5% (Figure 8). Regulatory capital to risk weighted asset was of 16.7% at the end of March 2023, above the minimum requirement of 10%. The percentage of nonperforming loans remained stable around 3.2% since 2016. Banks' profitability increased from a return on equity ratio of 11.9% in December 2020 to 16.10% in March 2023.

Figure 7: Trinidad and Tobago: Inflation Rates (%)



Source: Central Bank of Trinidad and Tobago – Data Centre.

Figure 8: Trinidad and Tobago: Commercial Bank Lending Growth to the Private Sector



Source: Central Bank of Trinidad and Tobago – Data Centre.

Uncertainty of the global economy presents downside risks to the economy. Natural gas prices plummeted to US$2.10 per mmbtu in May 2023 and crude oil prices are now estimated to average US$73.13 per barrel in 2023, then fall further in 2024.[40] In the short term, GDP growth and debt targets are dependent on increasing energy sector production. The authorities have therefore introduced several incentives to promote exploration. Thrusts towards digitalization and renewable energy projects can boost activity in the non-energy sector and promote diversification.

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[40] This is based on the IMF's World Economic Outlook, April 2023.

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