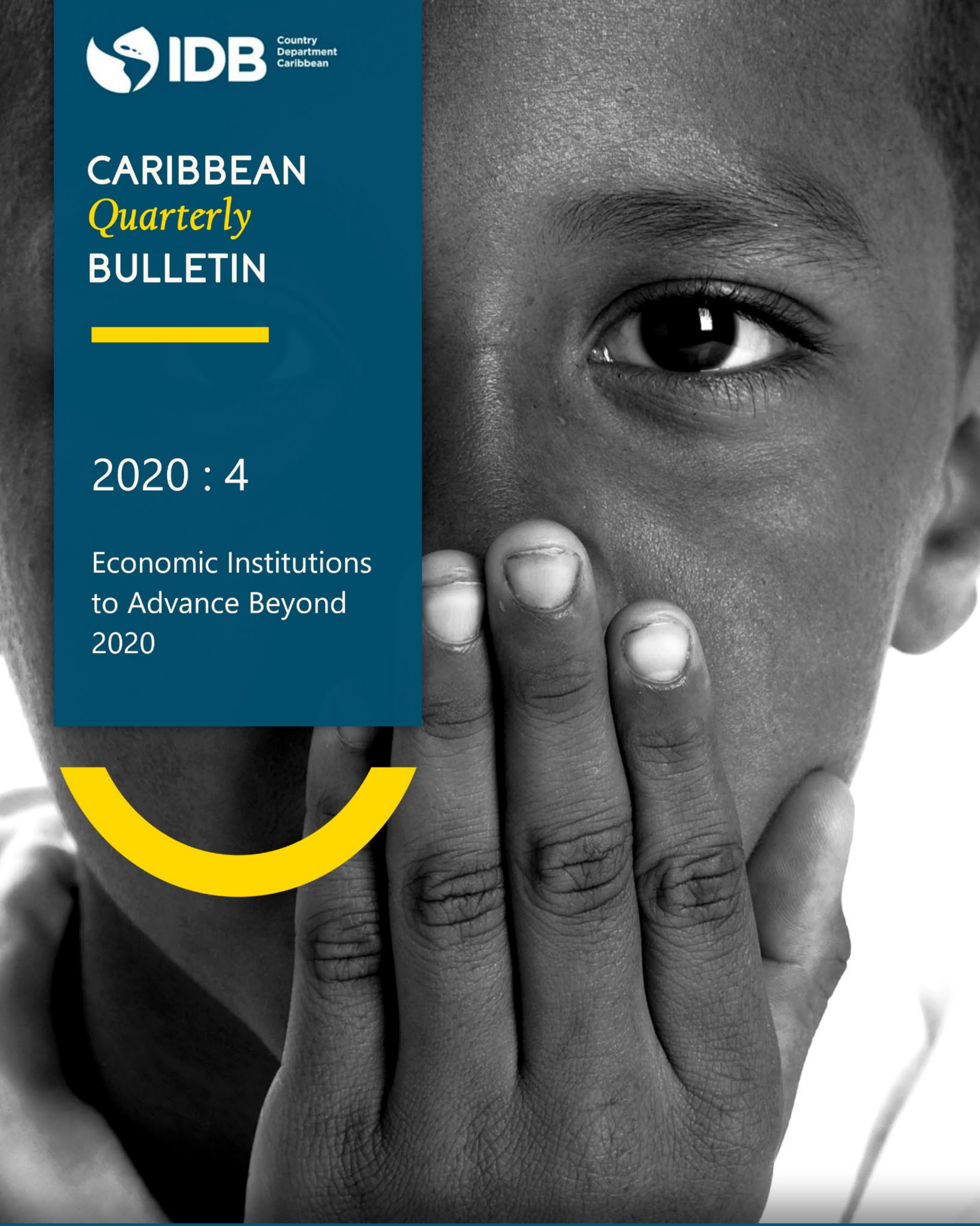
IDB Country Department Caribbean

CARIBBEAN *Quarterly* BULLETIN

2020 : 4

Economic Institutions to Advance Beyond 2020



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REGIONAL OVERVIEW

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I. Introduction

For most Caribbean countries, the COVID-19 pandemic will translate into the deepest single-year contraction of real GDP on record in 2020 (Table 1).[1] With the exception of Guyana, countries have experienced deep recessions, severe increases in unemployment, and long-lasting damage to many corporate and household balance sheets. The social consequences of the crisis continue to mount, and despite governments' best efforts to buffer the shock to families, enterprises, and domestic markets, there remains a dire need for continued and more broad-based stimulus to ensure that economic capital—both human and otherwise—remains intact.

Table 1. The COVID-19 Pandemic's Devastating Impact on Caribbean Economies

	COVID-19 (2020)	Deepest Single Year Shock (1975–2019)	
	Percent of GDP	Percent of GDP	Year
The Bahamas	-14.8	-14.8	1975
Barbados	-11.6	-5.7	1992
Guyana	26.2	-13.2	1982
Jamaica	-8.6	-6.7	1976
Suriname	-13.1	-8.8	1980
Trinidad and Tobago	-5.6	-10.3	1983

Source: World Bank, World Development Indicators (1975–2019); International Monetary Fund, October 2020 *World Economic Outlook* for 2020.
Note: The largest negative shock for each country is highlighted. A shock of a magnitude similar to that generated by COVID-19 affected The Bahamas in 1975. The year 1975 was chosen as the starting point for the series owing to data availability.

While the recent rapid progress towards the development and distribution of a vaccine appears to be an increasingly bright light at the end of the tunnel, Caribbean economies that depend on external demand from advanced economies are not likely to see a full return to normal for some time.

[1] The Caribbean region refers to the six member countries of the Inter-American Development Bank's Caribbean Country Department: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

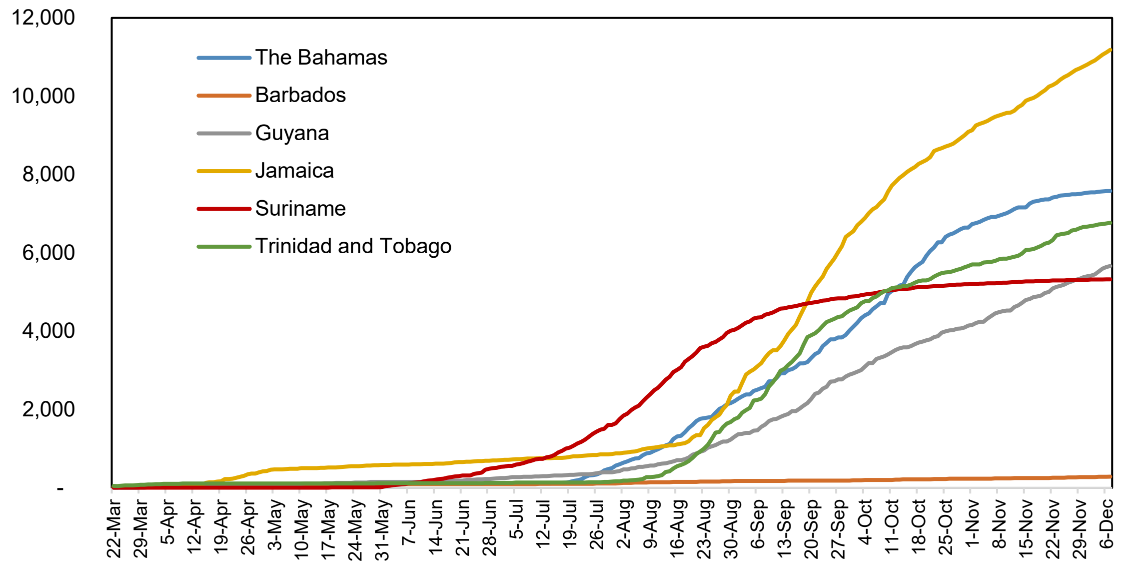
This edition of the Caribbean Quarterly Bulletin briefly reflects on notable economic developments in 2020, then shifts to longer-term issues, including a summary of an upcoming IDB publication, *Economic Institutions for a Resilient Caribbea*n, as well as summaries of the book's key diagnostics and recommendations for each country. In some cases, country sections focus on specific areas of institutional reforms. For example, the Suriname section focuses on fiscal institutions, given the public debt distress there.

II. COVID-19 Status Report

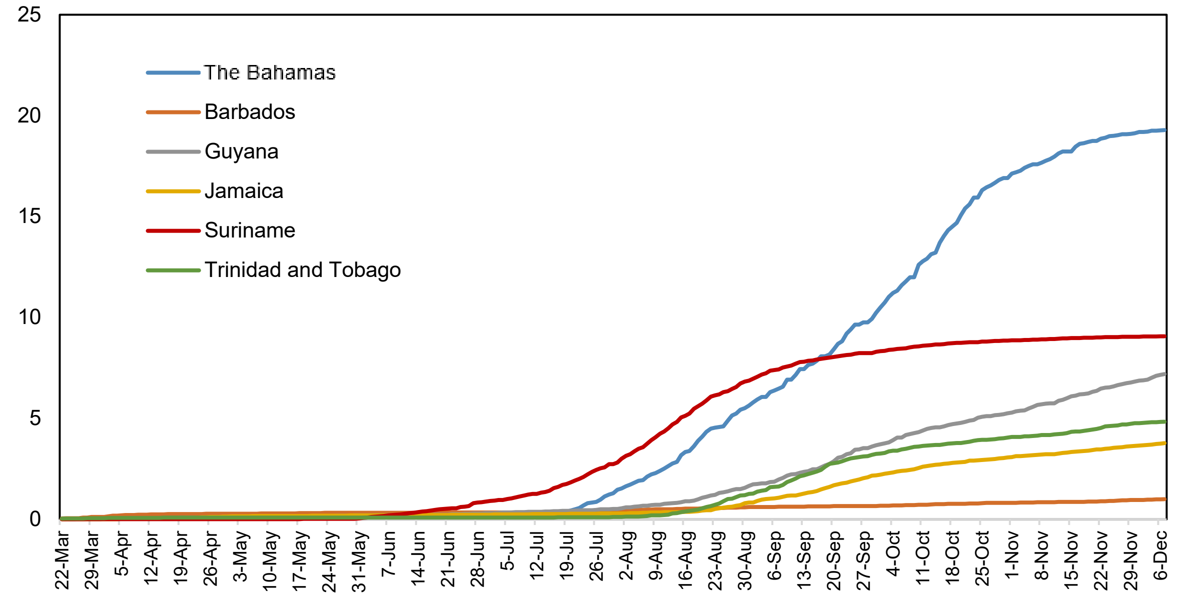
The October 2020 edition of The Bulletin presented data on the late-summer surge in COVID-19 cases that occurred following a combination of in-person elections (Suriname, Trinidad and Tobago, and, later, Jamaica) and the easing of border and domestic containment restrictions. Barbados was the only exception in terms of avoiding this surge. Renewed efforts since then have resulted in a flattening of curves, as evidenced in Figure 1. By late November and early December, daily new cases per 100,000 population had dipped well down into the single digits (seven-day average). As of this writing, these Caribbean countries are among the few on earth with such low new daily infection rates. Hopefully, this success will continue into the new year.

Figure 1. COVID-19 Cases in the Caribbean

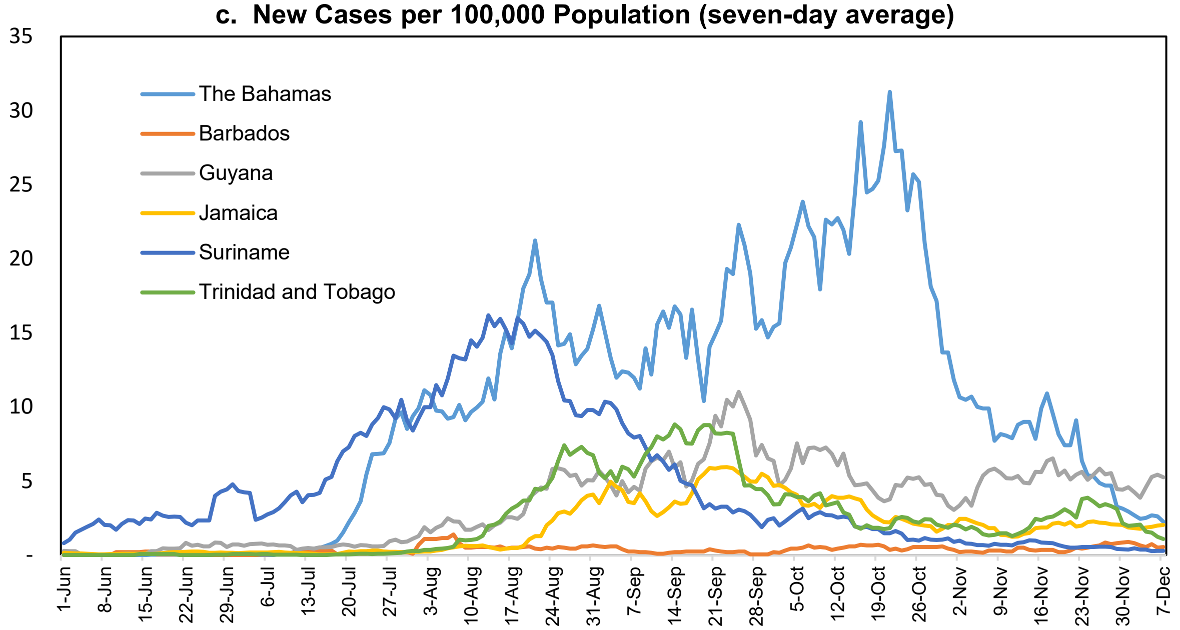
a. Cumulative Cases



b. Cumulative Cases per 1,000 Population



c. New Cases per 100,000 Population (seven-day average)



Sources: World Health Organization; United Nations population data; and authors' calculations.

III. A Brief Macroeconomic Overview of 2020

As in other regions around the world, the measures required to contain COVID-19 negatively affected short-run economic growth in the Caribbean. In addition, both tourism-based and natural-resource-based economies in the Caribbean suffered from external shocks.

In the spring of 2020, as the virus spread around the world and borders closed, the July 2020 edition of The Bulletin focused on one critical sector of particular importance for many Caribbean economies: tourism. For Jamaica, Barbados, and The Bahamas, tourism's contribution to GDP (both direct and indirect) ranges from about one-third to nearly half of the total. As borders closed, it was clear that a sharp economic contraction was inevitable. What was less clear at that time was how deep the decline would be and how long it would last. Simulations were conducted based on various scenarios: 25, 50, and 75 percent reductions in tourism arrivals and one, two, or three quarters of the year in terms of the duration of the decline in arrivals.

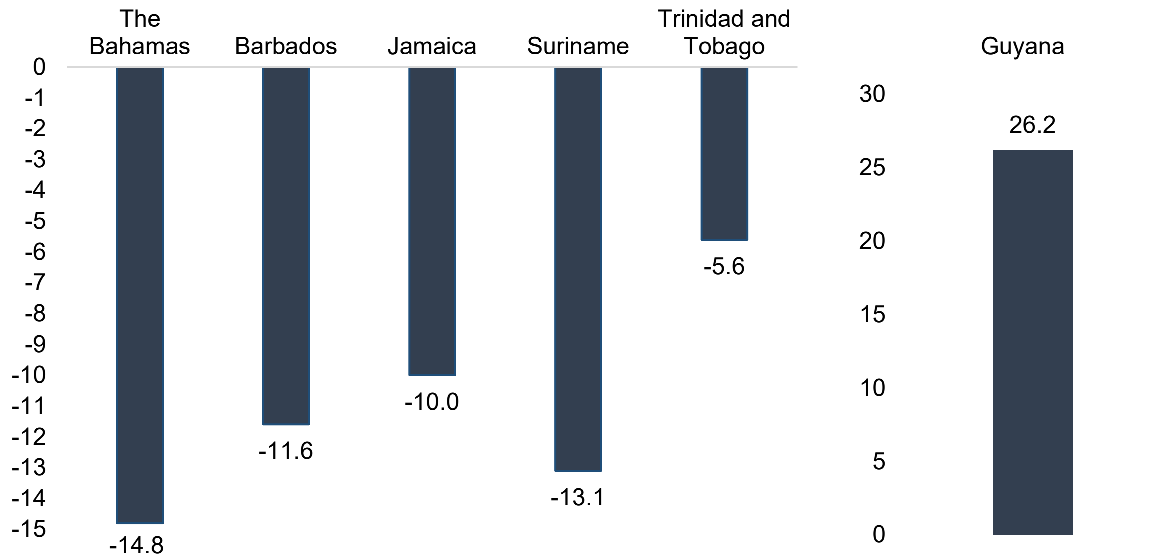
The reality now is that tourism is returning at a painfully slow pace. Data are limited, but the Central Bank of The Bahamas (2020, 1) estimates a 68 percent decline in tourism arrivals for the first three quarters of 2020 (including a robust first quarter pre-COVID-19) compared to the same period of 2019. The Central Bank of Barbados (2020, 5) estimates a tourism decline of 66 percent for the first nine months of 2020. And the Planning Institute of Jamaica (2020) estimates a decline in tourism of 74.4 percent through October 2020, relative to October 2019.

In brief, the worst-case scenarios of the simulations from March 2020 have unfortunately been realized.[2] Those simulations showed that the impact on the economy of The Bahamas, for example, could be as bad as 26 percentage points' lower growth than if there had been no tourism shock.[3] However, the simulations considered neither the mitigating effects of fiscal and monetary policy responses by governments,[4] nor the mitigating effect of lower oil prices. As a result, the estimated growth rates for these countries are not as dire as those originally simulated (Figure 2). The government policy responses have been effective in that regard. That said, social and employment impacts have been severe.[5]

Moving forward, prospects for the tourism sector depend on global progress in controlling the coronavirus, effective distribution of the vaccine and the vaccination of populations in key source countries, and the ability of the Caribbean countries themselves to maintain health protocols and limit both imported cases and community transmission, as they have succeeded in doing recently.

[2] See Mooney and Zegarra (2020a, 2020b).
[3] IDB (2020a) provides details on the scenarios.
[4] IDB (2020c) provides an overview of the fiscal and monetary policy response of Caribbean governments to the COVID-19 crisis for both tourism-based and natural-resource-based economies.
[5] IDB (2020b) provides simulations of the employment impacts as well as summary data from an online survey of social conditions.

Figure 2. Growth Estimates for 2020 (percent)



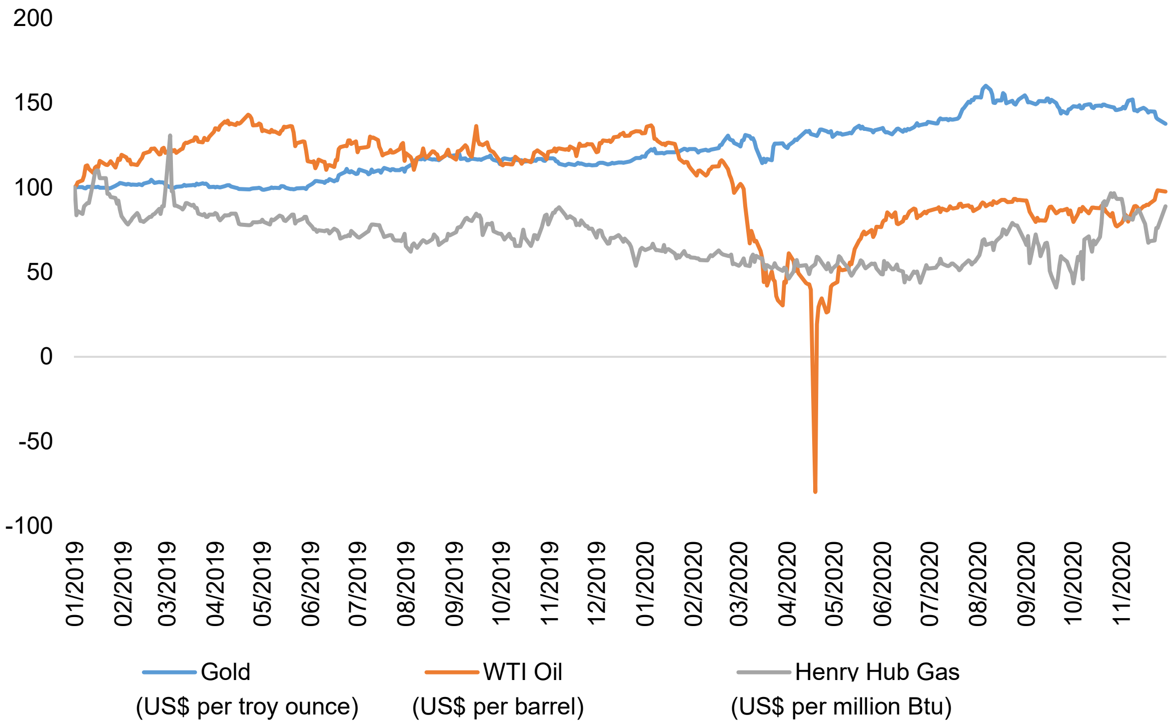
Sources: International Monetary Fund, World Economic Outlook database, October 2020; and Government of Jamaica estimates.

For commodity exporters in the region, the global economic shock has produced an external shock in the form of lower commodity prices, as reported in earlier editions of this Bulletin. Prices for oil and natural gas have stabilized since the extreme volatility experienced in the second quarter of the year (Figure 3), but oil prices remain about 20 percent below the average for 2019. In addition, the virus itself has affected production levels for some essential commodity exports such as gold in Guyana and Suriname, though production appeared to be recovering in the latter part of the year. In Jamaica, the Planning Institute reports that alumina production was up 36 percent (year-over-year) in October and crude bauxite production was up 3.6 percent.

Futures markets for key commodities suggest continued stability in key commodity prices during 2021. Oil futures in 2021 range from US$47 to US$48 per barrel (WTI); Henry Hub Natural gas prices range from US$2.66 to US$2.98 per million British thermal units (btu); and gold prices range from US$1,854 to US$1,878 per troy ounce.[6] For natural gas, such prices will represent a substantial increase if they hold until the end of the year. The others are right in line with current spot prices. It could be that the degree of uncertainty in the global economy, and consequently in global commodity markets, is resulting in future prices that follow a "random walk", that is, the market's best guess is today's current price.

[6] Information from CME Group futures, available at https://cme-group.com (accessed on 16 December 2020).

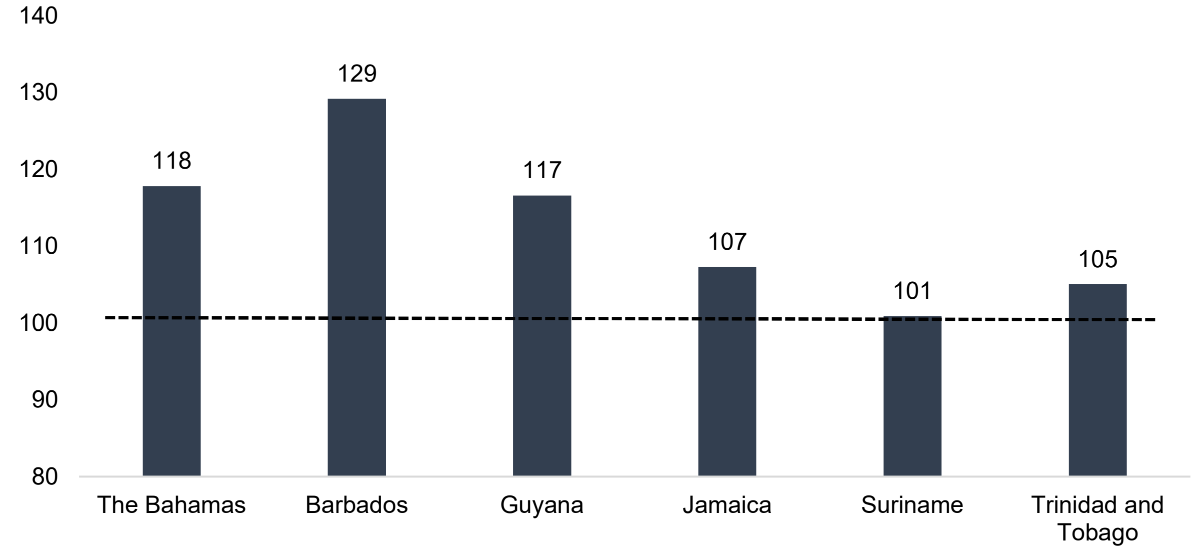
Figure 3. Evolution of Key Commodity Prices (January 2019 = 100)



Source: Federal Reserve Bank of St. Louis database.

The April 2020 edition of The Bulletin analyzed the potential balance of payments impact of the external shocks (IDB 2020a). Only limited data are available even now on actual trade and financial flows for the Caribbean countries in 2020. However, there are data showing that international reserves have held up well (Figure 4), even if supported by higher-than-usual disbursements from multilateral institutions, including the International Monetary Fund (IMF) Rapid Financing Instruments in Jamaica and The Bahamas, and the IMF Extended Fund Facility in Barbados. It should be noted that Suriname was facing foreign currency shortages even before COVID-19.

Figure 4. Current Gross International Reserves versus Pre-Covid-19 Levels (pre-Covid = 100)



Sources: Central banks of the respective countries.
Note: Comparisons are for February to October except for Barbados (March-September) and Guyana (February to September).

Finally, to move beyond the current recessionary cycle, infrastructure spending could provide a boost, as discussed in the October edition of the Bulletin (IDB 2020c). In the longer run, though, economic institutions are critical for both managing short-run cycles and spurring the higher productivity growth that drives long-run economic growth.

IV. Economic Institutions for a Resilient Caribbean

In their 2018 book, *Nurturing Institutions for a Resilient Caribbean*, Diether W. Beuermann and Moisés Schwartz systematized the theoretical underpinnings and empirical evidence regarding the link between socioeconomic growth and a broad set of institutions in the Caribbean. More specifically, authors looked at political, rule of law, human capital development, and economic institutions, and specifically applied them to the Caribbean countries analyzed here. The book documented that critically important economic institutions necessary for growth and resilience were largely absent or in need of significant improvement in the Caribbean.

However, the breadth of institutions analyzed in that study precluded a deeper inspection of each type of institution in Caribbean countries. In a forthcoming publication, *Economic Institutions for a Resilient Caribbean*, the authors follow up on their 2018 study in order to examine economic institutions that can jointly establish the conditions for more robust fiscal systems, effective monetary policy, and sounder financial systems in the Caribbean.

The forthcoming volume focuses on economic institutions, defined as rules and organizational arrangements that, if they govern the design and implementation of fiscal and monetary policies effectively,

can better align those policies with the long-run interests of citizens. Economic institutions covered are those that promote more sustainable fiscal management, adequate implementation of monetary policy, and more resilient financial systems. On fiscal management, the book covers public revenue administrations, public financial management systems, public debt management institutions, fiscal rules, medium-term fiscal frameworks, independent fiscal councils, and the design features of sovereign wealth funds. While pension schemes are not a fiscal institution, they are also analyzed because of the fiscal burden and contingencies that they may entail. In terms of institutions that support effective monetary policy, the focus is on the importance of central bank independence and transparency. On financial systems, the book analyzes the relevance of financial regulation and supervision to promote more stable and efficient markets that are better suited to confront challenges and more resilient against external shocks. Some institutional enhancements that foster access to credit and deeper financial systems are also analyzed.

While *Economic Institutions for a Resilient Caribbean* was being written, the world experienced the shockwaves of the COVID-19 crisis. Every region in the world has felt the drastic impact of the pandemic both in terms of human loss and economic activity, but the Caribbean has been hit particularly hard (Arteaga-Garavito, Beuermann, and Giles-Alvarez 2020). Of course, dealing with shocks is certainly nothing new for the Caribbean: the region has long been prone to recurrent natural disasters such as tropical storms and hurricanes that have had devastating economic and social consequences (Heinen, Khadan, and Strobl 2019; Beuermann and Pecha 2020). Furthermore, these economies, are highly dependent on external activity and vulnerable to commodity shocks, and in this context have endured prolonged episodes of uncertainty in terms of economic activity.

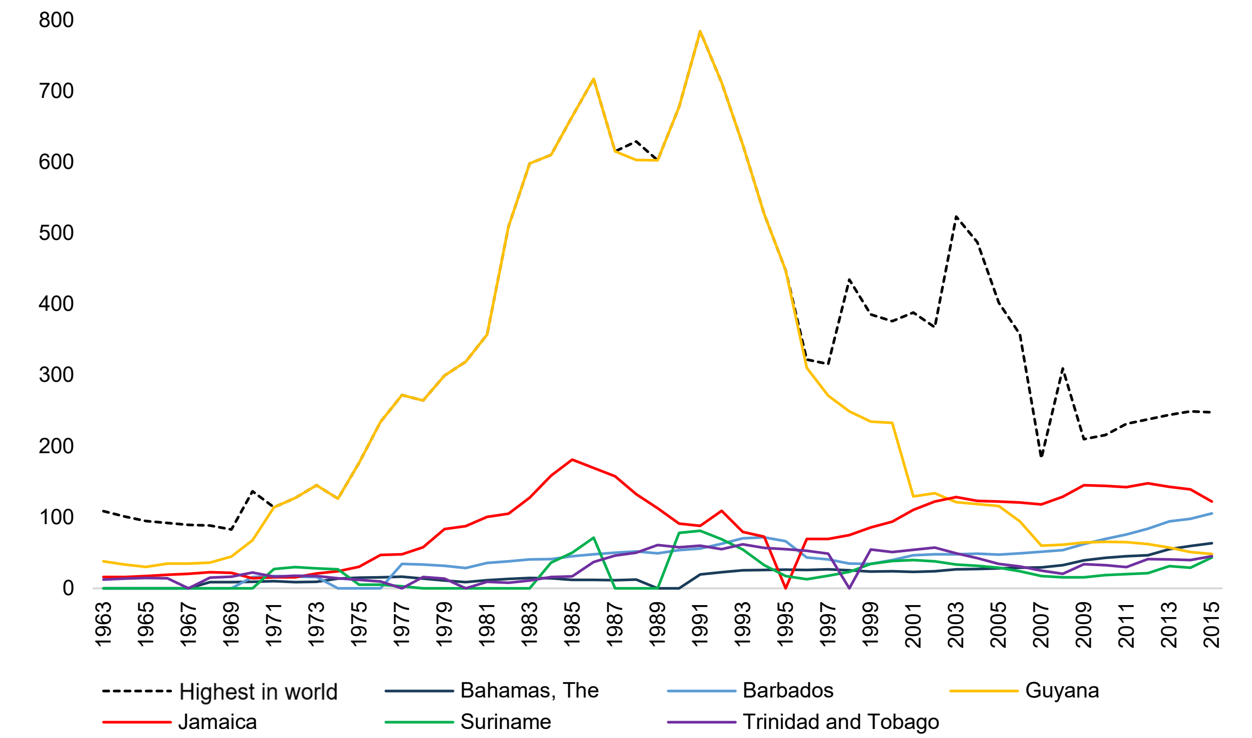
A sound institutional framework by no means constitutes a full-fledged protective shield against such devastating shocks, but it does provide a more formal structure to respond to them. Countries that have engaged in institutional development have proven better equipped to confront these challenges, more resilient in responding to them, and have better prospects to recover more rapidly.

Each chapter in the volume is devoted to dual objectives regarding a specific institution. The first objective is to document the international evidence on the effectiveness and most desirable designs of each institution, and how this varies with respect to differing contexts. The second objective is to provide actionable policy recommendations on the design and implementation of each institution for each Caribbean country, guided by documented international evidence and the context of each country.

The book first deals with economic institutions related to fiscal management in the Caribbean. The relevance of this issue speaks for itself: public investments are not feasible without effective collection of public revenues. On the revenue side of the equation, the chapter on public revenue administration puts special emphasis on the relationship between tax policy and tax administration, as well as on the main organizational characteristics that have been shown to increase the effectiveness of tax collection. Given the volatility of tax revenue collection due to external vulnerabilities, appropriate refinements are required to support more fluid collection of government revenue. Important developments in Big Data and Artificial Intelligence, among other areas, are highlighted on this front as crucial technologies.

On the expenditure side of the equation, Caribbean countries have undergone episodes of high public debt, as shown in Figure 5. As a result of these episodes, many debt restructurings have taken place in Caribbean countries, and policymakers have introduced fiscal reforms in the face of emergency adjustment initiatives aimed at restoring debt sustainability and macroeconomic stability. In this context, Caribbean countries could benefit from a well-designed and adequately resourced debt management institutions to ensure that debt management practices are consistent with the macroeconomic framework, including debt sustainability prerogatives and economic and financial stability. As debt levels rise because of the COVID-19 crisis, related reforms have become even more important.

Figure 5. Public Debt: The Caribbean versus the Highest Levels Worldwide (percent of GDP)



Source: Mooney, Prats, and Rosenblatt (forthcoming).
Note: 'Highest in world' represents the highest debt level out of 197 countries for which data were available starting in 1963.

To address the challenges of fiscal management and promote a sustained and high-quality adjustment of public finances, Caribbean countries could also benefit from the implementation of fiscal rules and independent fiscal councils. Fiscal rules, which aim to achieve specific numerical targets for key budget aggregates over a specified time horizon, have gained more ground over time. In 1990, only five advanced economies had implemented this institutional arrangement; by 2015, that number had increased to 92 (including 31 advanced, 34 emerging, and 27 low-income countries). The main challenge in the design of this institution is achieving an optimal balance between the simplicity, flexibility, and enforceability of the rules. Within the Caribbean context, the need for flexibility and appropriate escape clauses from rules is

particularly relevant because of the region's exposure to, for example, recurrent weather shocks such as hurricanes.

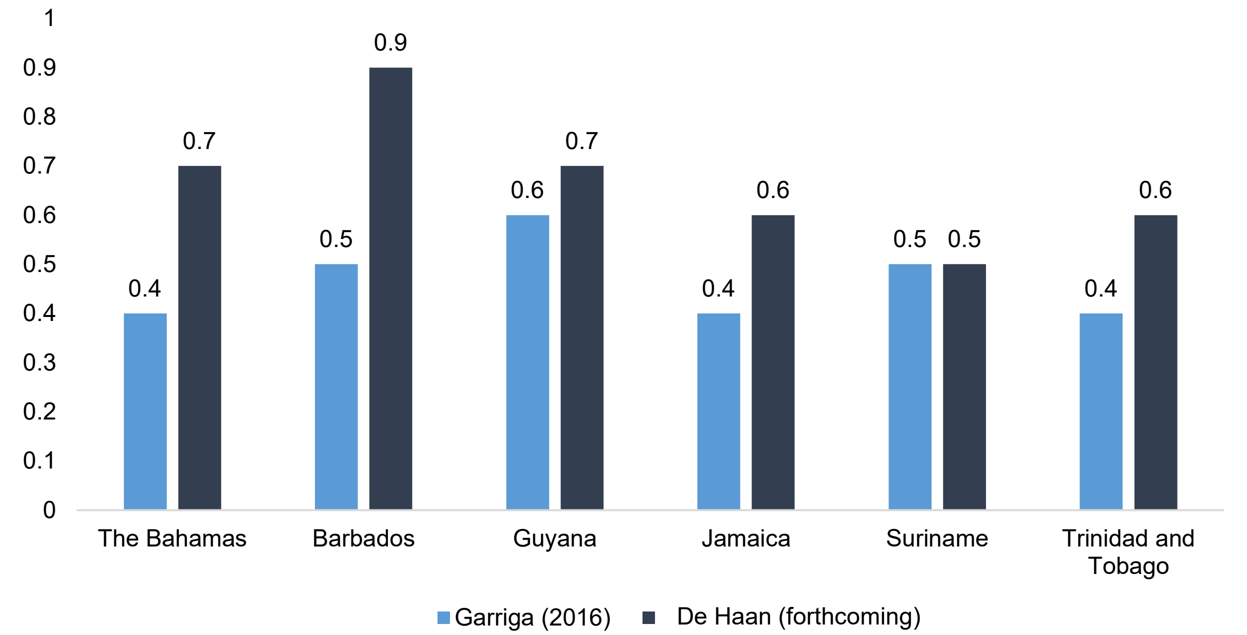
Enforceability of rules has been shown to be better achieved with the presence of independent fiscal councils. There is growing consensus, both in the literature and in international practice, that independent fiscal "watchdogs" can play a useful role in promoting responsible and sustainable fiscal policies by subjecting the conduct of such policies to technical analysis free of political bias and by publicly reporting the results of such analyses.

Another relevant institution is sovereign wealth funds. These are government-owned, special-purpose investment funds designed to achieve one or more objectives. The most common objectives include macroeconomic stabilization, long-term savings, pension reserves, foreign exchange management, and national development. These institutions are particularly important for resource-rich countries. Therefore, the analyses focus on Guyana, Suriname, and Trinidad and Tobago. The emphasis is on issues related to the domestic operations of funds, asset management, governance, transparency, and accountability. Suggestions are then provided for improvement vis-à-vis relevant best international practices applicable to these countries. While the establishment of some type of desirable fiscal institution is welcome, a fully effective institutional structure should be conceived as a synergic system, rather than stand-alone entities.

The book then assesses pension systems in Caribbean countries. The analysis shows how demographic trends, high administrative costs for social protection programs, and discrepancies between civil servant pensions and those of the rest of the population could lead Caribbean pension systems to become unsustainable. Furthermore, without pension reform, sizable increases in public pension expenditures in the coming years will strain public finances and reduce the availability of resources, thus crowding out other relevant public sector expenditures and investments. The book also stresses the importance that Caribbean policymakers periodically review the design of their pension schemes and assess what parametric and non-parametric changes are required to achieve adequate benefits, expanded coverage, and financial sustainability.

Having addressed fiscal institutions, the book analyzes institutions related to monetary policy. The authors assess the independence and transparency of central banks, as these factors affect the credibility and effectiveness of these institutions in controlling inflation and providing a proper environment for economic growth and prosperity. Up until 2012, Caribbean countries had relatively low levels of central bank independence. Since then, because of ongoing reforms, many countries have improved the independence of their central banks. Indeed, Figure 6 reproduces a graph from the book showing central bank independence indexes for 2012 (as reported in Garriga 2016) and for 2020 (computed by De Haan, forthcoming). A noticeable improvement is observed for Barbados because of a recently approved amendment to the central bank law that will become effective in the first quarter of 2021. The new law complies with most international best practices, placing Barbados at a very high level of central bank independence (0.9 out of a maximum of 1).

Figure 6. Central Bank Independence, 2012 and 2020 (index: 0 to 1)

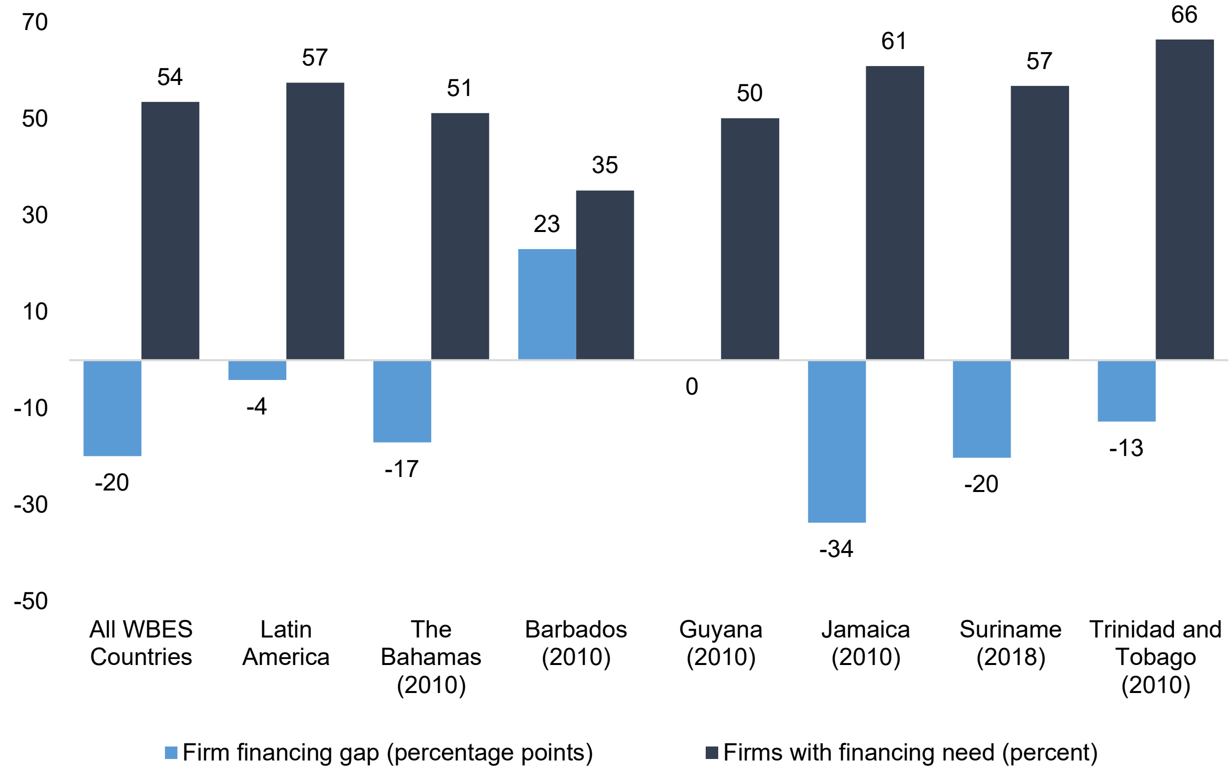


Source: Schwartz and Beuermann (forthcoming).
Note: The index ranges between zero (lowest level of central bank independence) and one (highest level of central bank independence).

The book then moves to financial regulation and inclusion, documenting the most recent approaches to financial regulation and supervision, and their applicability to Caribbean countries. Particular attention is given to the addition of macroprudential standards to the traditional microprudential framework. The analysis highlights the role of the macroprudential approach to avoid credit procyclicality and build resilience against external shocks. It is noted that Caribbean countries have important features that warrant implementation of the macroprudential approach to regulation. These features include the high degree of international financial integration, which amplifies the risks of contagion and calls for a need to harmonize banking regulations. The book then proceeds to summarize the main institutional enhancements applicable to each Caribbean country to strengthen its financial regulatory framework.

When analyzing financial inclusion across the Caribbean, authors found relatively small banking systems within environments of relatively low competition. This situation has resulted in unsatisfied demand for credit. Indeed, the book proposes a new measure of financial adequacy that reports the incidence of unsatisfied demand for credit among firms. The new measure is called the 'Firm Financing Gap', which equates to the difference between the share of firms that have credit access, and the share of firms that need credit regardless of whether they have secured access. In showing the results of this measure, Figure 7 reveals that, except for Barbados and Guyana, all countries analyzed display unsatisfied credit demand with negative financing gaps.

Figure 7. New Measure of Firm Financing Gaps (percentage points)



Source: Beck and Mooney (forthcoming).
Note: The firm financing gap equals the proportion of firms reporting that they had secured a loan or line of credit minus the proportion of firms reporting having had a financing need. Positive results (i.e., Barbados and Guyana) indicate that more firms had secured loans or lines of credit than had reported a need for financing (vice-versa for negative results). “All WBES countries” refers to the 143 countries included in the World Bank Enterprise Survey.

This situation calls for reforms to foster credit competition and facilitate better financial access. These reforms include, for example, the establishment of credit registries and bureaus to facilitate more effective sharing of credit performance records, strengthened property rights and insolvency procedures, as well as improved financial technologies with adequate safeguards.

Each of the broad categories into which economic institutions are grouped in the forthcoming volume—fiscal institutions, monetary policy, and financial systems—entails a complex set of agencies and policies that need to complement one another within their own sphere, and among the rest of the economic institutions. That is, for fiscal policy to be more sustainable, monetary policy to be more effective, and financial systems to be more resilient and competitive, each set of economic institutions needs to work in tandem among themselves and with the other economic institutions.

While one could still go deeper in the analysis and incorporate other relevant economic institutions such as those for labor, competition, trade, and investment, the forthcoming book covers a wide array of relevant issues and puts forward a comprehensive agenda for reform. In sum, the reforms needed in Caribbean countries should not be underestimated or postponed. To place the region on a more sustainable path toward strengthened resilience to unexpected shocks such as the current COVID-19 pandemic, many of the institutional aspects discussed require attention. Some of these elements are more urgent than others, and some of the countries have already made significant progress in implementing them. Policymakers and the various stakeholders in each country face the task of identifying the best way to move forward and determining which of the many institutions need to be strengthened. This could be challenging for small countries with limited capacity, and that have been severely affected by the pandemic. However, the institutional reform agendas presented throughout *Economic Institutions for a Resilient Caribbean* have the potential to build resilience and foster sustainable development. The hope is that the detailed analyses and tailored country-by-country reform agendas presented in the volume become an evidence-based, practical tool to motivate and inform institutional enhancements with the potential to improve lives across the Caribbean.

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Recent Publications from Caribbean Country Department Economics Team (2020)

January 2020	Abstract or Blog Link
Maria Alejandra Zegarra and Juan Pedro Schmid Impact of Hurricane Dorian in The Bahamas: A View from the Sky Technical Note	Hurricane Dorian was among the most devastating natural disasters ever to hit The Bahamas. The estimated damage and losses from it amount to US$3.4 billion, a number equivalent to a quarter of the country's GDP. Dorian's effects also resulted in the revision of The Bahamas' economic growth forecast. The IMF reduced GDP growth estimates for 2019 to 0.9 percent, and the economy is expected to contract in 2020. Under these circumstances, this Technical Note proposes a methodology to track the economic recovery of The Bahamas on a monthly basis. The results suggest that the GDP growth rate in most of the 19 islands that make up The Bahamas suffered a sharp decrease because of Hurricane Dorian. The islands that suffered the most from this event have recorded significant decreases in their economic activity. Abaco showed a reduction in monthly economic activity of 54 percent comparing September 2019 to September 2018, and Grand Bahama registered a 34 percent decrease. These estimates were obtained by comparing the spatial variation of satellite night lights as an indicator of the country's economic activity before and after Hurricane Dorian. Satellite night lights observed from space are publicly available and have been used before to measure economic activity. This study also presents a new annual series of regionalized GDP estimates by island from 1992 to 2018, and on a monthly basis from January 2012 to September 2019.
Jeetendra Khadan, Eric Strobl and Theophiline Tuffour Poverty and Intra-Household Resource Allocation in Surinamese Households Working Paper	This paper examines poverty rates within households in Suriname. Toward this end it employs a bargaining model estimation framework that allows for identifying the allocation of resources across adults and children. The analysis, using the Suriname 2016/2017 Survey of Living Conditions, shows that there are considerable differences between men and women, but that there is no gender bias among children. The analysis also finds that children are the least poor members of households.
Jeetendra Khadan Tax Buoyancy in the Caribbean: Evidence from Heterogenous Panel Cointegration Models Working Paper	This paper provides long- and short-run tax buoyancy estimates for a group of 12 Caribbean countries over the period 1991–2017. By using panel regressions, the paper finds that the tax buoyancy estimates are statistically significant and exceed one. However, the results vary by tax categories: with respect to indirect taxes—which account for almost 65 percent of total tax revenues—the buoyancy of the long-run coefficient is significantly less than one (0.35), while for direct taxes it is significantly higher than one (1.33). For taxes on goods on services, the single most important tax for most countries, the long-run buoyancy coefficient is lower than one. The analysis also found that long-run tax buoyancy was lower in the post-global financial crisis period. With respect to short-run buoyancies, corporate and trade taxes were found to be the most buoyant for Caribbean countries.
Laura Giles Álvarez and Henry Mooney	This Policy Brief presents an assessment of financial market development, access, and inclusion for Barbados. Based on a review of indicators, survey data, and other metrics, the analysis suggests that recent fiscal and macroeconomic stability concerns, as well as increasingly stringent administrative requirements, have negatively affected financial access and inclusion, particularly for smaller firms. For

Financial Access and Inclusion: A Diagnostic for Barbados Policy Brief	some firms, high collateral requirements, administrative and documentation-related hurdles, and shortcomings in the institutional and regulatory framework are key impediments to greater financial access. Policy recommendations that flow from this analysis include the importance of durably addressing macroeconomic imbalances, reinforcing the regulatory and institutional frameworks, supporting the availability of information regarding credit and related counterparty risks, and developing a coordinated approach to institutional and policy reform aimed at promoting financial inclusion (e.g., via development of a national financial inclusion strategy).
Kimberly Waithe Four Key Reforms to Bring Back Economic Growth to Barbados Blog	https://blogs.iadb.org/caribbean-dev-trends/en/four-key-reforms-to-bring-back-economic-growth-to-barbados/
February 2020	**Abstract or Blog Link**
Laura Giles Álvarez and Henry Mooney Barriers to Financial Access in Barbados: Key Challenges and Focal Areas for Reform Blog	https://blogs.iadb.org/caribbean-dev-trends/en/barriers-to-financial-access-in-barbados-key-challenges-and-focal-areas-for-reform/
Kimberly Waithe Crying Out for Credit: Improving Access to Finance in Barbados Blog	https://blogs.iadb.org/caribbean-dev-trends/en/crying-out-for-credit-improving-access-to-finance-in-barbados/
David Rosenblatt Caribbean Potential Takes Center Stage as Caribbean Governors Meet Blog	https://blogs.iadb.org/caribbean-dev-trends/en/caribbean-potential-takes-center-stage-as-caribbean-governors-meet/

March 2020	**Abstract or Blog Link**
Lode Smets [What determines the adoption of fiscal rules in resource-rich developing countries? An empirical investigation] Discussion Paper	Over the past three decades, fiscal rules have increasingly been used as a tool to promote fiscal responsibility and macroeconomic stability. In principle, fiscal rules have numerous benefits, especially for resource-rich economies. Many countries, however, still opt to leave fiscal policy unconstrained. This paper investigates the reasons for this by determining the economic, institutional, and political factors that influence the likelihood that a country will adopt a fiscal rule. It focuses on resource-rich countries and accounts for the role of development agencies. Results from a conditional fixed-effects logit model indicate that strong macroeconomic fundamentals and government stability are associated with the adoption of a fiscal rule. Furthermore, the evidence shows that the presence of more development partners, especially multilateral agencies, increases the likelihood of adoption, even when controlling for the volume of aid and the presence of an International Monetary Fund program. Generally, these results are robust to the use of different estimation techniques, an alternative measure for commodity dependence, and a restriction on the estimation sample.
Maria Alejandra Zegarra Hurricane Dorian from the Sky Blog	https://blogs.iadb.org/caribbean-dev-trends/en/hurricane-dorian-from-the-sky/
Henry Mooney and Maria Alejandra Zegarra COVID-19: Tourism-Based Shock Scenarios for Caribbean Countries Blog	https://blogs.iadb.org/caribbean-dev-trends/en/covid-19-tourism-based-shock-scenarios-for-caribbean-countries/
April 2020	**Abstract or Blog Link**
Henry Mooney; David Rosenblatt; Laura Giles Álvarez; Maria Alejandra Zegarra; Victor Gauto; Jason Christie; Edmund Amann; Jeetendra Khadan [Caribbean Region Quarterly Bulletin] Magazine	This special edition of the Caribbean Quarterly Bulletin focuses on the evolving economic and human consequences of the ongoing COVID-19 outbreak for countries in the Caribbean region. The IDB team of economists based in countries across the region has been working to assess the situation and advise senior management and stakeholders from member countries about the potential implications of the shock and policy responses best suited to mitigate its effects. First and foremost, the focus is on reducing the human impact of the crisis. Lives are at stake, but that said, so are livelihoods. As a result, it is important to try to understand the economic forces at work in order to think through appropriate policy responses.

Diether W. Beuermann and C. Kirabo Jackson The Short and Long-Run Effects of Attending the Schools that Parents Prefer (Journal of Human Resources)	Using meta-analysis we document that (across several contexts) attending sought-after public secondary schools does not tend to improve student test scores. We argue that this fact does not preclude the possibility that these schools could lead to gains in the future. We explore this notion using both administrative and survey data from Barbados. Using a regression discontinuity design, preferred schools have better peers but do not improve short-run test scores. However, the same students at the same schools have more post-secondary school completion and improved adult well-being (based on an index of educational attainment, occupational rank, earnings, and health). These long-run benefits are larger for females who also experience reduced teen motherhood. Mechanisms are explored.
May 2020	**Abstract or Blog Link**
Jeetendra Khadan COVID 19: Socioeconomic Implications on Suriname Technical Note	As of May 5, the Surinamese authorities had confirmed a total of 10 COVID-19 cases, including one COVID-19-related death, nine people who had recovered, and 69 people in quarantine. The country confirmed its first imported COVID-19 case on March 13, 2020. The authorities acted swiftly to contain further importation of the virus by closing all borders (land, sea, and air) indefinitely. The authorities also limited social gatherings, closed all schools and universities, and restricted in-restaurant and bar dining services to prevent community spread. While these measures would have contributed to "flattening the curve," they are having adverse socioeconomic implications. This note examines the forecast macroeconomic impact and the vulnerability of households and firms to the ongoing shock.
Diether W. Beuermann, Laura Giles Álvarez, Bridget Hoffman, and Diego Vera Cossio Covid-19: The Caribbean Crisis Blog	https://blogs.iadb.org/caribbean-dev-trends/en/covid-19-the-caribbean-crisis/
Henry Mooney, David Rosenblatt, and Maria Alejandra Zegarra Caribbean Economies in the Time of the Coronavirus Blog/Podcast	https://blogs.iadb.org/caribbean-dev-trends/en/caribbean-economies-in-the-time-of-coronavirus/
Diether W. Beuermann and Camilo J. Pecha The effects of weather shocks on early childhood	This study analyses the effects of exposure to tropical storms and hurricanes during pregnancy on children's anthropometric measures taken within the first five years of life. We merge destruction indexes calculated at the district level with 13 yearly rounds of household level surveys from Jamaica. The empirical strategy exploits variation arising from the storms' timing and intensity across different cohorts within the same district. The findings rule out medium-to-large overall adverse effects of

development: Evidence from 25 years of tropical storms in Jamaica (Economics and Human Biology Journal)	tropical storms. However, when expectant mothers living in coastal-rural areas are affected by the cumulative destruction of two hurricanes, their children experience negative impacts on both weight-for-age and weight-for-height measures.
June 2020	**Abstract or Blog Link**
Diether W. Beuermann, Diego Ubfal, Irani Arraiz, Michael Frese, and Alessandro Maffioli The Impact of Soft-Skills Training for Entrepreneurs in Jamaica Working Paper	A randomized controlled trial with 945 entrepreneurs in Jamaica showed positive short-term impacts of soft-skills training on business outcomes. The effects were concentrated among men and disappear 12 months after the training. The main channel was increased adoption of recommended business practices, exclusively observed in the short run. Persistent effects were observed on an incentivized behavioral measure of perseverance after setbacks, a focus of this training. An intensive course on soft-skills was compared to one that combined soft-skills with traditional business training. The effects of the combined training were never statistically significant.
Henry Mooney and Maria Alejandra Zegarra Extreme Outlier: The Pandemic's Unprecedented Shock to Tourism in Latin America and the Caribbean Policy Brief Center for Economic Policy Research (CEPR) Book version: https://voxeu.org/content/covid-19-developing-economies	The COVID-19 crisis will have devastating implications for countries around the world, particularly tourism-dependent economies. This Policy Brief highlights the vulnerability of many Latin American and Caribbean countries that are among the most dependent in the world on the tourism sector. Using shock simulations applied to tourism activity, it highlights how potentially damaging the pandemic could be for output, employment, and the balance of international payments across the region. The analysis suggests the pandemic is likely to imply an unprecedented shock, and that governments will have to look beyond traditional policy tools to safeguard their economies and citizens. They will need to ensure that both operators and those employed by the tourism sector will be in a position to resume their substantial contribution when the crisis dissipates. COVID-19 represents an unprecedented extreme outlier event, and governments' efforts to protect the sector and their citizens must be equally unparalleled.
Victor Gauto and Henry Mooney Review of Financial Development and Inclusion for Guyana: Assessment and Options for Reform Policy Brief	Guyana's economy is on the verge of a historic transformation owing to recent oil discoveries. In this context, maximizing the benefits of faster growth and increased revenues will depend crucially on the financial sector. This Policy Brief presents an assessment of financial development, access, and inclusion for Guyana. Policy recommendations that flow from this analysis include the importance of durably addressing macroeconomic imbalances, reinforcing regulatory and institutional frameworks, supporting the availability of information regarding credit and related counterparty risks, and developing a coordinated approach to institutional and policy reform aimed at promoting financial inclusion (e.g., via development of a national financial inclusion strategy).

Victor Gauto and Henry Mooney Six Recommendations to Ensure Guyana's Oil Wealth is More Financially Inclusive Blog	https://blogs.iadb.org/caribbean-dev-trends/en/six-recommendations-to-ensure-guyanas-oil-wealth-is-more-financially-inclusive/
July 2020	**Abstract or Blog Link**
Henry Mooney; David Rosenblatt; Laura Giles Álvarez; Maria Alejandra Zegarra; Victor Gauto; Jeetendra Khadan Caribbean Region Quarterly Bulletin Summer 2020 edition	Governments in the Caribbean region have been relatively successful in flattening the infection curve of the coronavirus in their countries. Geographical isolation is a contributing factor, but decisive and determined government action has been effective in reducing community transmission. Many potential deaths have been prevented. Yet this accomplishment has yet to be compensated with an economic reward. As these countries begin to open their domestic economies, they are still battered by external shocks. This is particularly the case for the tourism-dependent economies that experienced a virtual shutdown of the sector during the second quarter of the year. The natural-resource-based economies are also suffering from the lingering effects of the decline in commodity prices and related external demand. This second special edition of the IDB Caribbean Quarterly Bulletin provides an update of economic conditions in the region. It also focuses on important evolving issues, including the potential impact of the COVID-19 crisis on countries' balance of payments, and on new data from the IDB on the real-time social effects of the crisis.
Henry Mooney and Maria Alejandra Zegarra Extreme Outlier: The Pandemic's Unprecedented shock to Tourism in Latin American and the Caribbean (Blog version)	https://blogs.iadb.org/caribbean-dev-trends/en/extreme-outlier-the-pandemics-unprecedented-shock-to-tourism-in-latin-america-and-the-caribbean/
August 2020	**Abstract or Blog Link**
Maricruz Arteaga Garavito, Diether Beuermann, Laura Giles Alvarez, Victor Gauto, Jeetendra Khadan, Henry Mooney and Lodewijk Smets	COVID-19 has triggered a severe and unprecedented economic crisis in the Caribbean region. The combination of the halt in tourism arrivals, the fall in international oil prices, and a widespread rollout of curfews is having a severe economic impact on the region. All six countries in the IDB's Caribbean Department – The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago – are now expecting a worse economic outlook than that forecast in January 2020. Most of these economies are forecast to contract in 2020, their fiscal out-turn has worsened, and their debt is growing at a faster pace than had originally been forecast for 2020. This Policy Brief presents the results of these online surveys by

COVID 19: The Caribbean Crisis—Results from an Online Socioeconomic Survey	country. The hope is that the evidence presented on livelihoods will inform policymakers and add to the body of research being produced during these unprecedented times.
Juan Carlos de la Hoz, Laura Giles Alvarez, Francisco Javier Urra When Facing a Black Swan: Let's Work Together Blog	https://blogs.iadb.org/caribbean-dev-trends/en/when-facing-a-black-swan-lets-work-together/
David Rosenblatt and Henry Mooney The Pandemic Saga Continues: Caribbean Quarterly Bulletin (Blog version)	https://blogs.iadb.org/caribbean-dev-trends/en/the-pandemic-saga-continues-caribbean-quarterly-bulletin/
September 2020	**Abstract or Blog Link**
Marcos Allende López, Antonio Alleyne, Laura Giles Alvarez, Jeetendra Khadan, Kimberly Waithe A Caribbean Settlement Network: Can Blockchain Ease Intraregional Trade in the Caribbean?	This paper analyzes the potential effects that distributed ledger technology (DLT) could have on intraregional trade volumes in the Caribbean. Using a two-step panel regression gravity model for 15 CARICOM countries, the analysis finds that nontariff barriers, such as distance and culture, bilateral exchange rates, transfer fees, and required documentation, have negative effects on trade. There are a rising number of pilot projects across the world that apply DLT for payment settlements and trade facilitation. These are starting to generate encouraging evidence that the application of DLT could indeed help reduce the prevalence of some of these nontariff barriers and thus promote trade.
Diether W. Beuermann and Camilo J. Pecha The effect of eliminating health user fees on adult health and labor supply in Jamaica (Journal of Health Economics)	This paper estimates the effects of Jamaica's elimination of user fees in public health facilities on the health and labor supply of working-age individuals. The policy change affected about 83 percent of the population, that is, those who lack health insurance and mainly rely on the public health system. The analysis finds no effects among individuals younger than 40 years old. However, for individuals within the 40–64 age range, the analysis finds that the policy reduced the number of lost days due to illness by 44.3 percent. No effects were found on employment or labor formality at the extensive margin. However, consistent with a reduced number of lost days, the analysis identified a positive effect on labor supply at the intensive margin equivalent to 3.04 weekly hours. Finally, overall benefits are relatively stronger for women, thereby reducing the observed baseline disadvantages relative to men.

October 2020	Publication or Blog Link
Jeetendra Khadan Suriname in Times of COVID: Navigating the Labyrinth Technical Note	Suriname is facing severe macroeconomic disequilibrium characterized by large fiscal and external imbalances and a sharp decline in economic growth. Although the country is in a precarious economic situation in the short term, there are high expectations that recent developments in the oil sector will make an important contribution to economic recovery over the medium term. However, much work on policy reforms is needed to put Suriname's economy on a sustainable path. In the coming years, policymakers have the salient task of strengthening the country's macroeconomic policy framework and related institutions to prudently manage any proceeds from the oil sector as well as the country's natural resource wealth. This will be important to restore and sustain macroeconomic stability, advance on socioeconomic outcomes, and stimulate competitiveness in the private sector. The COVID-19 pandemic has also elevated longstanding issues such as the lack of digitalization and Fintech and inadequate infrastructure, all of which have become even more critical to inclusive growth and development as the pandemic continues. This note examines the ongoing impact of the COVID-19 pandemic on Suriname and highlights some opportunities to achieve macroeconomic stabilization and prepare the private sector to navigate the pandemic and support inclusive and sustainable socioeconomic recovery for Suriname.
Diether W. Beuermann, Veronica Frisancho, and Laura Giles Álvarez Financial Literacy in the Caribbean: The Case of Barbados Blog	https://blogs.iadb.org/ideas-matter/en/financial-literacy-in-the-caribbean-the-case-of-barbados/
Maricruz Arteaga Garavito, Diether W. Beuermann, Laura Giles Álvarez, and Ariel McCaskie The Consequences of COVID-19 on Livelihoods in Barbados: Results of a Telephone Survey Policy Brief	A telephone-based nationally representative survey of Barbados was conducted between May and June 2020. The main objective was to quantify the early consequences of the COVID-19 pandemic. The survey documents significant labor market disruptions with relatively more severe consequences among low-income households. In addition, it presents for the first time objective financial literacy measures. The findings suggest that increased financial literacy is correlated with more resilience to the detrimental consequences of the pandemic. In terms of policymaking, the results point to several recommendations. First, job protection and business support will be important to bridge the gap that the country will experience until it can completely reopen and tourism can safely start again. Existing measures to promote employment should be maintained and further prioritized going forward. Second, means to support financial resilience are important for households to better cope during the period, whether in the form of savings or greater financial literacy. These two issues should be further prioritized in the government's strategy going forward to cushion people from shocks. Finally, the social protection system has been the most vital tool to support the population during these hard times. Despite some leakage, the new programs showed signs of better targeting and are the most important lifeline for many in the country.

	Maintaining these programs and improving their efficiency and targeting will be of the utmost importance in this crisis. Going forward, it is important to generate more evidence on the severity and length of the shock, and to improve the understanding of how to better target social assistance programs to provide efficient and sustainable support to the citizens of Barbados.
November 2020	**Publication or Blog Link**
Henry Mooney and David Rosenblatt Policy Options for Economic Recovery in the Caribbean	https://blogs.iadb.org/caribbean-dev-trends/en/policy-options-for-economic-recovery-from-the-pandemic-in-the-caribbean/
Jeetendra Khadan and Shreshta Chotelal Suriname's Private Sector Is Hurting: More Digitalization, Financial Inclusion and Infrastructure Can Help	https://blogs.iadb.org/caribbean-dev-trends/en/surinames-private-sector-is-hurting-more-digitalization-financial-inclusion-and-infrastructure-can-help/
Diether W. Beuermann, Laura Giles Álvarez. and Ariel McCaskie Understanding Financial Vulnerability and Promoting Resilience in Barbados during COVID-19	https://blogs.iadb.org/caribbean-dev-trends/en/understanding-financial-vulnerability-and-promoting-resilience-in-barbados-during-covid-19/
Henry Mooney, David Rosenblatt, Laura Giles-Álvarez, Victor Gauto, Jeetendra Khadan, Ariel McCaskie, Elton Bollers, and Nazera Abdul-Haqq Caribbean Quarterly Bulletin 2020:3 Pandemic Surge and Evolving Policy Responses	Except for Barbados, the Caribbean region experienced a new surge of COVID-19 cases in the middle of this summer. Several factors contributed to this unfortunate situation: a rise in imported cases as borders opened, a rise in community transmission as domestic social distancing measures were eased, and elections with in-person voting in three countries, Suriname, Trinidad and Tobago, and Jamaica. Governments are adjusting their sanitary precautions and social and economic policy responses to the evolving situation. In addition to these current events, the "pre-existing" conditions in terms of poverty and inequality – along with the pre-crisis institutional situations in the countries – have an effect on how governments can, and should, respond to the current crisis. This third special edition of the IDB Caribbean Quarterly Bulletin provides an update of health and economic conditions in the region. It also focuses on the policy response from both the comparative and institutional perspectives with the aim of distilling lessons from policy interventions undertaken within the region and elsewhere that have been successful in dampening the current shock, while also providing the basis for stronger future growth.

December 2020	Publication or Blog Link
Jeetendra Khadan and Laura Giles Álvarez Mind the Gender Gap: A Picture of the Socioeconomic Trends Surrounding COVID-19 in the Caribbean with a Gender Lens	This paper provides an insight on the gender impact of the COVID-19 pandemic in the Caribbean. The analysis makes use of the April 2020 online COVID-19 survey that the Inter-American Development conducted in all of its six Caribbean Department member countries. The analysis finds that the pandemic is having different effects on men and women. For example, job losses have been more prevalent among single-females, while business closures have been more prevalent among single males. Quality of life also seems to have worsened more for single females than for single males and partners (married or common-law partnership), and domestic violence against women has been on the rise. Although the coverage of social assistance programs has increased substantially during the pandemic, the analysis finds that more targeting of households with single females could be beneficial, particularly as they show lower levels of financial resilience. Going forward, the paper recommends further gender targeting in social assistance programs and the collection of gender-disaggregated data that will allow for more thorough investigation of the gender effects of these types of shocks.

COUNTRY SUMMARIES

I. The Bahamas

Laura Giles Alvarez and Gralyn Frazier

Economic Context

The macroeconomic and fiscal stances of The Bahamas have worsened in recent years. Nearly a decade of sizable fiscal deficits has caused a rise in the level of government debt. The Bahamas' primary fiscal deficit averaged 1.3 percent of GDP between FY2009/2010 and FY2019/2020, which contributed to increasing the debt level from 35.1 percent of GDP in FY2009/2010 to 69.2 percent of GDP in FY2019/2020. Macroeconomic and fiscal indicators have also worsened as a consequence of recurring external shocks. The Bahamas has been hit by six hurricanes over the past decade and is still facing severe challenges due to COVID-19.[7] The government has started a consolidation effort, and to this end Parliament approved a comprehensive Fiscal Responsibility Act in November 2018.[34] The act set a numerical fiscal rule and established an independent oversight fiscal council and a reporting schedule, both of which are still being implemented.

COVID-19 is having a severe impact on the Bahamian economy. The pandemic has resulted in an almost complete halt in tourism arrivals since March 2020. Total tourism arrivals contracted 52 percent in the first half of 2020 compared to the same period in 2019. Construction also remained subdued in the first half of 2020 due to limited domestic-financed activity, counteracted by ongoing commercial foreign investment projects. The economy is expected to contract 14.8 percent in 2020 (Figure 1). The severity of the shock also contributed to Moody's credit downgrade from Baa3 to Ba2 in June 2020 and to Standard and Poor's credit downgrade to BB-.

Unemployment has soared in 2020 as a result of the halt in key sources of economic activity. As of September, 38,598 persons had applied for unemployment benefits from the National Insurance Board and US$93.3 million had been disbursed. Inflation is projected to reach 1.8 percent in 2020 compared to 2.5 percent recorded in 2019.

[7] The hurricanes were Irene (2011), Sandy (2012), Joaquin (2015), Matthew (2016), Irma (2017), and Dorian (2019). Hurricane Dorian caused damage and losses worth over a quarter of the country's GDP.

Figure 1. The Bahamas: Real GDP Growth

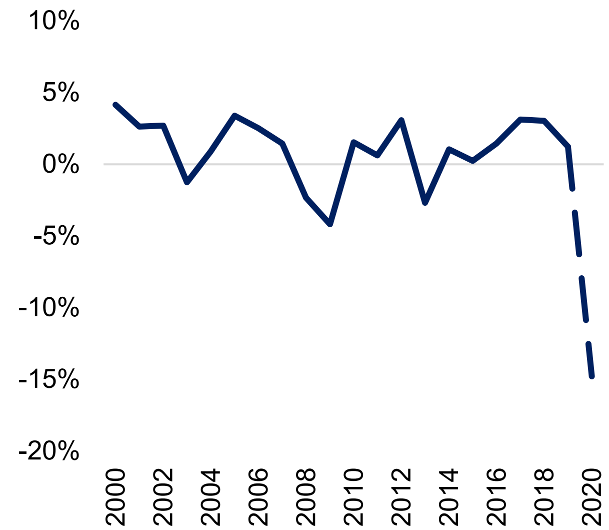
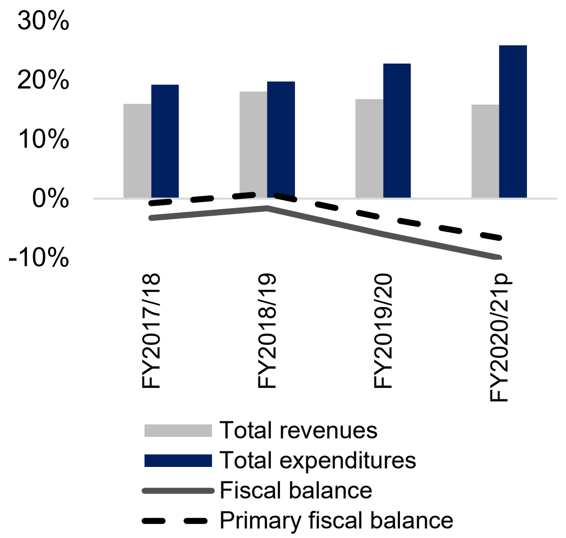


Figure 2. The Bahamas: Fiscal Balances



Source: International Monetary Fund, October 2020 *World Economic Outlook*.

The fiscal deficit continues to widen. At the close of FY2019/2020, the government of The Bahamas recorded a fiscal deficit of 6 percent of GDP (Figure 2). Total revenues fell 7.2 percent due to a combination of slower economic activity on the islands affected by Hurricane Dorian and a reduction in business activity in the last quarter of the fiscal year. Expenditure outlays increased 15.5 percent, buttressed by additional spending linked to reconstruction activities from Hurricane Dorian and COVID-19. The FY2020/2021 budget, which came into effect on 1 July 2020, outlines a wider fiscal deficit reaching $1.3 billion (11.6 percent of GDP) (Figure 2). In response to this worsening fiscal outturn, the FY2020/2021 budget set a $1.3 billion envelope for borrowing (11.6 percent of GDP). Budget support from the IDB, the Caribbean Development Bank, and the International Monetary Fund has been approved, and additional funding from the IDB and the World Bank is being proposed for the rest of the fiscal year. The government of The Bahamas also issued a US$600 million external bond and reopened US$225 million worth of 2032 notes in the last four months of 2020.

The level of international reserves remains adequate, despite the external sector shock. The level of international reserves stood at $2,128.1 million in August 2020. Lower travel tourism receipts in 2020 are contributing to reducing the level of reserves, counteracted by lower international oil prices, reduced import demand from sectors such as tourism, and higher external borrowing. To date $1,090 million has been borrowed from international financial institutions or issued in the international capital market and $300 million is in the pipeline for the rest of FY2020/2021. COVID-19 has also triggered an external shock, with an expected current account deficit of 17.5 percent of GDP, compared to a current account surplus of 0.6 percent in 2019. The impact on the domestic financial sector remains uncertain as loan moratoriums remain in place. Throughout 2020, bank profitability indicators worsened, as banks' net income fell because banks increased provisions for non-performing loans.

Even though The Bahamas is still undergoing a second surge of cases, the epidemiological curve is starting to flatten. After the curve showed signs of flattening in May/June 2020, the reopening of the economy and the restarting of tourism in June and July contributed to a surge of cases starting in mid-July. There are now over 7,000 recorded cases on 14 islands. Since August, restrictions have been imposed and eased on an island-by-island basis, based on the number of confirmed cases. In November, Deputy Prime Minister and Minister of Finance Peter Turnquest resigned. On 6 December, Prime Minister Hubert Minnis announced he will continue serving as Minister of Finance, after stepping in as interim Minister of Finance in November. Minister Desmond Bannister will serve as Deputy Prime Minister and Senator Kwasi Thompson will serve as Minister of State for Finance.

Economic Institutions for a Resilient Caribbean

The analysis in this section draws on a forthcoming IDB publication entitled *Economic Institutions for a Resilient Caribbean.*

Institutions that Support Sustainable Fiscal Policies

The Bahamas has been implementing various reforms to its public financial management structures and processes. Several key pieces of legislation in this regard have been passed in recent months, including the Public Financial Management Bill, Public Debt Management Bill, Procurement Bill, and Statistics Bill. All four pieces of legislation are expected to be approved by the end of FY2020/2021. The Public Procurement Bill was passed by Parliament in the summer of 2020. The draft Public Debt Management Bill and the draft Public Financial Management Bill are currently undergoing public consultations. Public consultation on the draft Statistics Bill finished in September 2020 and the bill is being tabled in Parliament.

The Integrated Financial Management Information System is also being upgraded. In 2018, the government passed the Fiscal Responsibility Act (FRA), which established an independent oversight fiscal council and set the basis for a numerical fiscal rule. The FRA undoubtedly represents a major step in strengthening the fiscal framework in The Bahamas, but it is still early to assess the effectiveness of the reform. The recurring extension of target deadlines due to yearly external shocks (Hurricane Dorian and COVID-19) has also been undesirable. In terms of transparency, The Bahamas has taken positive steps in recent years by publishing regular fiscal execution reports and investing in communications strategies. However, there are still gaps in the availability of data. Procurement can also be opaque, with insufficient information available to the general public on procurement processes and awarded contracts. As is the case with other countries in the Caribbean,[8] state-owned enterprises (SOEs) account for a significant portion of the budget, and reporting on their activities and financial statements could be reinforced. Increasing requirements for reporting by SOEs and increasing the monitoring of these enterprises would thus be advisable.

Finally, although the efforts to enhance the legislative and structural foundations of the public financial management system in The Bahamas are commendable, the country would benefit from (i) establishing a

[8] The Caribbean region refers to the six member countries of the Inter-American Development Bank's Caribbean Country Department: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

well-designed and operational Integrated Financial Management and Accounting System to help quantify any budget adjustments needed to meet the fiscal rules and targets; (ii) developing a medium-term fiscal framework (i.e., longer than two years) and associated debt sustainability analysis that includes contingent liabilities; and (iii) facilitating the work of the legislature in its oversight role. The government of The Bahamas could also introduce into the FRA an adjustment to minimize the cyclicality of fiscal policy and thereby foster greater macroeconomic stability.

Revisions to revenue policy and administration, as well as to the organizational structure of the Department of Inland Revenue (DIR),[9] would support higher revenue collection. Revenue collection has historically been low in The Bahamas compared to regional peers, with government revenue averaging 15 percent of GDP in the past decade compared to the regional average of 24 percent of GDP.[10] As a consequence, the authorities have been taking steps to revise the country's tax policy and administration. The value-added tax was introduced in 2015, and in FY2018/2019 it collected more than a third of total revenue for the country. Tax administration could be enhanced through greater documentation, as most of the core processes are not documented or standardized, posing a risk for business continuity. The Bahamas should also consider establishing a special organizational unit devoted to preparing economic studies that can analyze tax collection trends, monitor the hidden economy, examine revenue yields from audits, understand taxpayer behavior, and provide input to government budgeting processes. The government has also been working on enhancing the organization of the DIR in order to strengthen its performance. The DIR is part of the Ministry of Finance, which gives it less flexibility than semi-autonomous revenue agencies in other countries of the region. This can limit the scope of organizational reforms.

The Bahamas has a broad social security system that includes social contributory and non-contributory pensions as well as pensions for civil servants. Coverage of the pension system is commendable, as 95 percent of the eligible population receives a social insurance pension. Additionally, around one-fourth of the total population within the statutory pensionable age of retirement receives a civil servant pension. Nearly 72 percent of the labor force contributes to the social insurance programs, and the contribution rates of 9.8 percent (with 3.9 percent coming from employees and 5.9 percent from employers) are a few percentage points below the Caribbean average. Overall, The Bahamas has a relatively low public pension expenditure of 3.21 percent of GDP, but it has the highest administrative expenses as a share of contribution income (17.6 percent), which suggests there is an opportunity to improve the operational and administrative efficiency of these programs. Going forward, projected higher costs could pose a significant burden on the state, so these costs need to be closely monitored. Policymakers should also review the design of the multi-pillar systems of these programs on a regular basis and assess what parametric and non-parametric changes in the pension schemes are required to achieve adequate benefits, expanded coverage, and financial sustainability of the system.

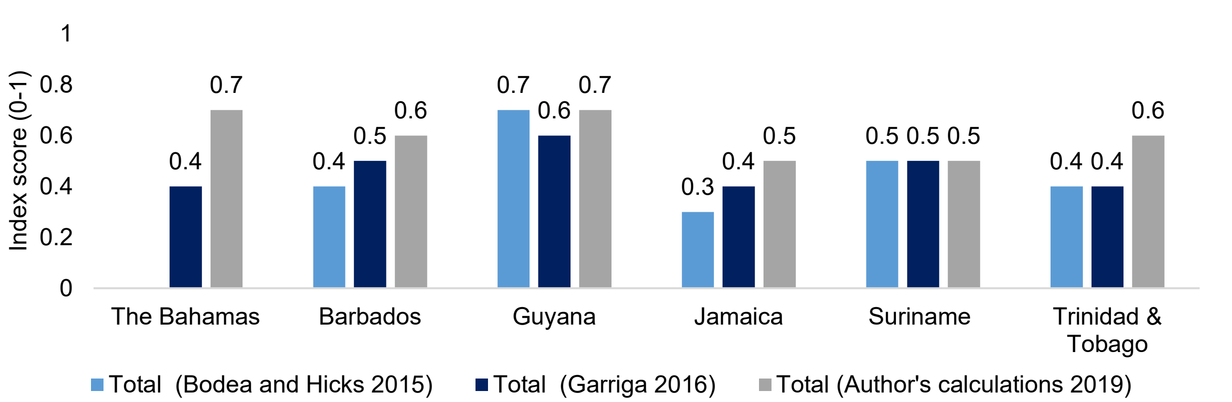
[9] The DIR is an amalgamation of a number of The Bahamas' primary tax and revenue agencies, namely those for business licenses, first homeowner exemptions, real property taxes, and value-added taxes.
[10] These figures run from FY2009 to FY2019.

Institutions that Support Effective Monetary Policy and Sound Financial Systems

Monetary policy transparency and central bank legislation have room for improvement. The Bahamas scores 0.7 on the Central Bank Independence Index and 0.4 on the Garriga (2016) index.[11] The country's scoring on Central Bank Independence Index score (calculated by the authors) is higher than other countries in the region such as Barbados, Trinidad and Tobago, and Suriname, but its score on the Garriga (2016) index is among the lower scores for countries in the region (Figure 3). Although The Bahamas recently adopted new legislation to enhance central bank independence, this does not reflect a major shift in the country's Central Bank Independence Index scoring, primarily due to the fact that this legislation does not introduce new limitations on restrictions to lending to the government. To enhance the independence of the Central Bank of The Bahamas, it would be advisable to include restrictions on the number of government entities that can borrow from it and to prohibit the central bank from buying government debt in the primary market.

Regarding monetary policy transparency, The Bahamas fares better than its Caribbean peers. The central bank publishes monthly, quarterly, and annual reports on its website, including information on the real sector, balance of payments, national accounts, and the financial sector. In addition, it issues quarterly economic briefings that provide details about the Monetary Policy Committee's assessments. Although the central bank's political transparency score is high, some further steps regarding other dimensions of transparency should be considered, such as reinforcing forecasts (which are currently formulated only in general terms) and promoting greater disclosure on discussions about policy steps taken.

Figure 3. Central Bank Independence in the Caribbean, 2012 versus 2019



The Bahamas has one of the largest financial sectors among Caribbean countries. The country has a combination of onshore and offshore banking sectors. The financial system is dominated by commercial banks, of which 75 percent are foreign-owned. Although The Bahamas' banking sector is exposed to greater levels of external competition owing to its status as an offshore financial services sector, its banks

[11] The largest difference between both indicators pertains to indicators relating to policy formulation.

are less profitable than global and regional averages, with sector returns on equity of 3.6 percent.[12] Moreover, while the country has saving rates in line with the regional average, access by firms to basic lending services can be a challenge. Financial sector development is further hindered by several factors. First, enforcing contracts takes about 345 days, which has implications for the cost of these processes, and registering property is mostly a paper-based process. Second, regulatory and judicial systems could stand to provide both creditors and debtors with greater confidence in terms of property rights and contract enforcement, as well as case management and court automatization (though existing alternative dispute resolution frameworks can mitigate this last point). Finally, the lack of credit institutions poses information asymmetries that can often result in higher collateral requirements and hinder financial access and inclusion. Measures such as the development of a centralized credit registry and bureau, digitization of services, and other mechanisms for the gathering and sharing of information on risk would support improved counterparty credit risk assessment and management.

Basel III is currently being implemented in The Bahamas and the country has made progress on adopting both countercyclical and conservation capital buffers. The Bahamas has high capital ratios by regional standards that are primarily driven by two factors. First the Basel rules are built with large, publicly listed banks in mind, and those banks already have plenty of access to new capital as needed. The Bahamas lacks these sources of financing and therefore banks need enough capital to take a large hit to profits and still be able to comply. Second, several of the internationally owned banks find that leaving capital in The Bahamas generates tax-exempt or at least tax-deferred income. This generates an incentive to build up larger capital positions than might be prudentially necessary. To reduce this incentive, Bahamian authorities have encouraged some banks to return more capital to their parent financial institution, on the grounds that an under-levered balance sheet depresses their apparent Bahamian returns on equity. Banks could also use loan-to-value and debt-service-to-income-based mortgage lending standards to support countercyclical measures and increase the resilience of borrowers.

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[12] The offshore banking sector in The Bahamas accounts for 0.6 percent of total employment and generates 4.5 percent of total government revenues.

II. Barbados

Laura Giles Álvarez and Ariel McCaskie

Economic Context

Barbados has faced severe macroeconomic and fiscal challenges in recent years. Since the 2008 global financial crisis, Barbados has experienced stagnating growth and recurring fiscal deficits (Figure 1). This fueled rapid growth of the debt stock, which peaked at 158.3 percent of GDP in FY2017/2018 (Figure 2). International reserves fell to the equivalent of less than six weeks of imports by end-2017 and Barbados experienced repeated sovereign rating downgrades.[13] Since 2018, the government of Barbados has been implementing a four-year Extended Fund Facility (EFF) with the International Monetary Fund (IMF), rooted in the home-grown Barbados Economic Recovery and Transformation (BERT) Program. Under the reform program, the government completed a debt exchange (effectively reducing the debt-to-GDP ratio to 126.3 percent of GDP in FY2019/2020), the primary fiscal balance reached over 6 percent of GDP in FY2019/2020, and international reserves surpassed four months of import cover. The program also includes a set of structural reform measures, including reforms to the state-owned enterprise system, the tax system, and public administration.

The economy is projected to contract by 15.3 percent in 2020. Reduced tourism arrivals and constrained economic activity due to social mobility restrictions put in place to combat COVID-19 have fueled this contraction.[14] The authorities launched a 12-month welcome stamp in July 2020 that is attracting longer-term visitors to the island and is supporting some level of tourism activity. As of November 2020, almost 1,500 applications had been approved. Unemployment has also soared in 2020. Between March and September, an unprecedented 32,000 claims were paid by the National Insurance Scheme (Central Bank of Barbados 2020). Inflation is projected to fall from 4.1 percent in 2019 to 2.5 percent in 2020, reflecting lower consumer demand.

The effect of COVID-19 on the fiscal outturn has required a revision of the targets under the EFF/BERT Programs. The EFF was originally approved for US$290 million and has been increased twice in response to COVID-19. The current program envelope is US$464 million. The first extension was approved in June 2020 and the second in December 2020, following a positive fourth review. As a consequence of the drop in revenues and increased expenditures due to COVID-19, the EFF/BERT's fiscal targets have also been revised. Primary fiscal balance targets of 6 percent of GDP in FY2020/2021 and FY2021/2022 have been reduced to -1 percent and 2 percent of GDP, respectively. This revision will have

[13] Barbados' credit rating declined in several steps from investment-grade (Standard and Poor's BBB+) on the eve of the global financial crisis, to selective default on 6 June 2018.
[14] The government of Barbados reacted swiftly upon recording the first cases of COVID-19 in March 2020 and to date has managed to avoid community spread since the second quarter of 2020. As of 9 December 2020, the island had registered 290 confirmed cases, 19 of which were active, and seven deaths.

to be offset with higher primary surpluses in the next few years to ensure the achievement of the long-term debt anchor of 60 percent of GDP. Five out of six structural benchmarks for 2020 have also been delayed as a result of the pandemic. The fiscal gap is being financed mostly through external borrowing. The debt-to-GDP ratio is projected to increase to 146 percent of GDP in 2020, compared to 126.3 percent of GDP at the close of 2019. In 2019, 27.2 percent of this debt was external, while in 2020 external debt reached 34 percent of total debt.

Figure 1. General Government Fiscal Deficits, Average over 2000–2018

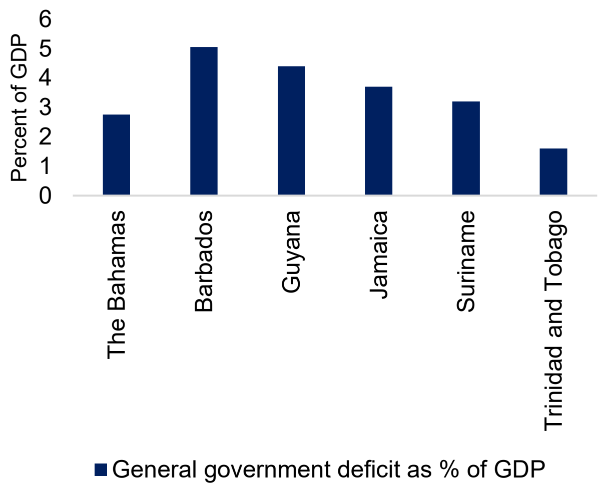
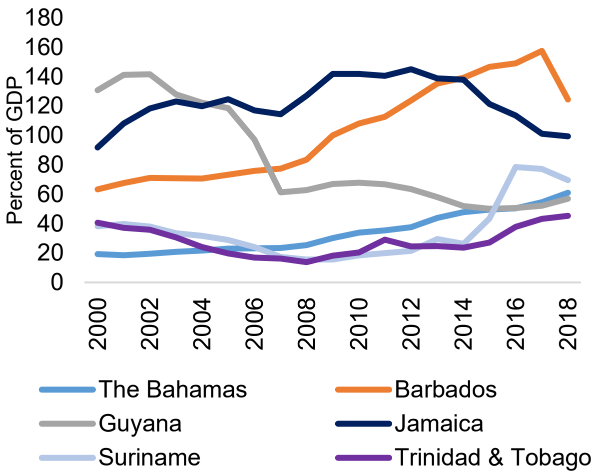


Figure 2. General Government Debt, 2000–2018



Source: International Monetary Fund, October 2020 *World Economic Outlook.*

The external sector is being hindered by COVID-19. The current account deficit has widened from 3.1 percent of GDP in 2019 to 8.3 percent of GDP in 2020. This has been buttressed by a 39.5 percent contraction in exports and counteracted by an 18.2 percent fall in imports, as international oil prices and demand from the tourism sector remain subdued. International reserves remain adequate, surpassing US$1 billion in 2020, mostly supported by borrowing from international financial institutions.

The effect of the pandemic on the financial sector remains uncertain. Moratoriums on credit repayments have been put in place since the onset on the crisis. Overall, in 2020, the demand for credit has slowed and outstanding loans have fallen below 2019 levels. Net lending to utilities, tourism, real estate, and distribution sectors has increased since the economy reopened, but household debt has declined. Provisions for non-performing loans have increased, which is being reflected in worsening profitability indicators.

Economic Institutions for a Resilient Caribbean

The analysis in this section draws on a forthcoming IDB publication entitled *Economic Institutions for a Resilient Caribbean.*

Institutions that Support Sustainable Fiscal Policies

Although the quality of public financial management processes and systems is weak in the Caribbean,[15] Barbados is taking active steps to reinforce them. Adopting high-quality public financial management policies and institutions lowers the probability of debt distress and reaps growth dividends. To this end, Barbados has passed several key pieces of legislation in recent years. One such example is the Financial Management Act (FMA), approved in January 2019, which establishes a range of measures to strengthen fiscal transparency and accountability. Under the EFF/BERT Programs there has also been a greater push for structural reforms for enhanced public financial management structures and processes. For example, Parliament is expected to approve a numerical fiscal rule anchored in a debt target. The government's intention to introduce a numerical budget rule remains appropriate, since the consolidation effort will need to be sustained over many years to reduce debt to manageable levels. The authorities might also consider adopting an independent fiscal council to monitor implementation of the rule, as is being done in other countries in the region such as The Bahamas and Jamaica. The EFF/BERT Programs have also established a mid-year budget review to be prepared for discussion on a regular basis, and the government is set to improve the efficiency and quality of procurement processes. A comprehensive review of state-owned enterprises is also being carried out. However, given that these reforms are ongoing, an assessment of their effectiveness is not yet available. In addition, there is room to promote greater reporting and transparency. Barbados publishes yearly budget estimates and quarterly economic bulletins, but disaggregated data and communication strategies to further disseminate this information could be promoted. Statutory bodies in particular could benefit from further support to meet reporting and accountability standards. Finally, although Barbados recently established a debt management committee, promoting a less fragmented legal framework and organizational structure would improve debt management practices.

Several reforms have taken place in the last few years regarding tax policy, tax administration, and the organizational structure of the Barbados Revenue Authority.[16] The government carried out several revisions to its tax policy under the BERT/EFF Programs, revising the structure of revenue sources (income and corporate tax), introducing new fees and levies, and eliminating some types of taxes (such as the road

[15] The Caribbean region refers to the six member countries of the Inter-American Development Bank's Caribbean Country Department: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

[16] The Barbados Revenue Authority is a statutory corporation that falls under the Ministry of Finance, Economic Affairs and Investment. It was established on 1 April 2014 and is responsible for effective and efficient tax administration in a fair, open, and transparent manner that fosters a high degree of voluntary compliance.

tax).[17] However, the country still suffers from extensive foregone revenues as a result of tax exemptions. The tax administration system has also undergone reforms in recent years. In many Caribbean countries, keeping a solid tax database is a challenge. To this end, the Barbados Revenue Authority is working on getting information from third parties and asking them to submit their statements on a monthly basis to facilitate reconciliations. A Tax Administration Management Information System (TAMIS) was also introduced in 2018 to support more efficient administration processes.[18] Considerable emphasis has been placed on increasing on-time filings for corporate income taxes and value-added taxes, and a large taxpayer unit was recently established. The Barbados Revenue Authority has also been undergoing a series of organizational and administrative reforms to adopt a more strategic management approach. The agency integrated direct and indirect tax operations and is trying to reinforce key roles such as auditing and investigation. Highly specialized functions within the revenue authority would benefit from further reinforcement and the agency would be well advised to set a clearer framework for long-term objectives. In addition, the Barbados Revenue Authority has no dedicated unit that collects and analyzes data on tax revenue collection and economic conditions, limiting its analytical capacity. The agency could thus benefit from investing in an analytical unit and further applying a risk-based approach to evaluate organizational and compliance risk.

Pension expenses in Barbados are the highest in the Caribbean region. Barbados has a broad social security system that includes both contributory and non-contributory pensions, as well as a public service pension scheme. A rapidly aging population supports a high dependency ratio (24.3 percent compared to 28.9 percent in member countries of the Organisation of Eastern Caribbean States) and drives up pension costs. Among Caribbean countries, Barbados has the highest ratio of contributors as a share of the workforce (78.99 percent), with more women contributors than men. Barbados also has the highest pension expenses among Caribbean countries, with a point estimate of 8.9 percent of GDP and a range from 7.5 to 13.2 percent of GDP. The disbursement of pension expenses for civil servants as a share of total pension expenses is also the largest in the Caribbean at 33.2 percent. In 2019, Barbados had the highest level of public pension spending among Caribbean countries, reaching 7.7 percent of GDP, followed by Trinidad and Tobago (5.59 percent), Guyana (5.28 percent), and Suriname (4.05 percent). Rising costs going forward could be a challenge, particularly given the impact of the debt restructuring and the pressure of COVID-19 on the National Insurance Scheme. Policymakers should also periodically review the design of multi-pillar systems and assess what parametric and non-parametric changes in the pension schemes are required to achieve adequate benefits, expanded coverage, and financial sustainability of the systems.

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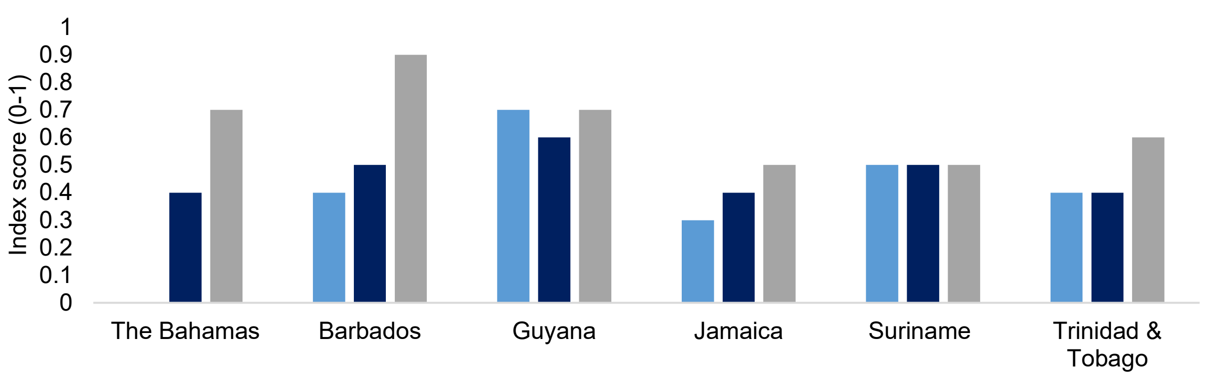
[17] "Road Tax Abolished; Fuel Tax from July 1," Barbados Government Information Service, 29 June 2018 (https://gisbarbados.gov.bb/blog/road-tax-abolished-fuel-tax-from-july-1/#:~:text=For%20Private%20vehicles%2C%20the%20prescribed,in%20accordance%20with%20the%20law).

[18] The TAMIS, which replaced the E-Tax and Excise Tax Administration System, is an Oracle web-based inventory control and reporting system used by the U.S. Internal Revenue Service to control and track Taxpayer Advocate Service cases and provide management information.

Institutions that Support Effective Monetary Policy and Sound Financial Systems

Key legislation to promote greater central bank transparency is under way in Barbados. In December 2020, the government presented a new Central Bank Act in Parliament. The law includes provisions for the hiring and dismissal of the governor, limits central bank financing of the government, and strengthens the central bank's mandate, autonomy, and decision-making. This has been reflected in higher scores for Barbados on the Central Bank Independence Index, with the country's score of 0.6 now well above regional averages and in line with Organisation for Economic Co-operation and Development standards. The Central Bank of Barbados scores 0.5 on the Garriga (2016) index and 0.4 on the Bodea and Hicks (2015) index (Figure 3). Barbados' score on this index is 0.9. This is well above other Caribbean countries such as Guyana (0.6 and 0.7), Jamaica (0.4 and 0.3), and Trinidad (0.4 and 0.4) on the Garriga (2016) and Bodea and Hicks (2015) indices, respectively.[19] Regarding monetary policy as a whole, although policy steps are clearly communicated, transparency about discussions regarding these decisions could be enhanced during press conferences and in the central bank's publications.[20]

Figure 3. Central Bank Independence in the Caribbean, 2012 versus



Note: The current index scores for Barbados do not reflect the new Central Bank Act, which is currently being discussed in Parliament.

Recurring deep banking crises have led financial sector regulators to include macroprudential policies in their regulatory toolkit. Commercial banks are the dominant financial institutions in Barbados. There are currently six commercial banks, all of which are foreign-owned. Capital regulation could be improved through at least partial implementation of Basil III recommendations. This would revise capital requirements set by the financial authority. Barbados currently implements Basil II. The supervisory authorities have the power to require banks to reduce or suspend dividends to shareholders, and they have

[19] This new scoring reflects the new Central Bank Act, which is currently being discussed in Parliament.
[20] Barbados has a peg to the U.S. dollar, and maintaining that peg is the main objective of the central bank.

the power to declare insolvency with approval from the courts. In terms of market discipline, despite the importance of an accurate audit, Barbados does not grant the power to supervisors to take legal actions against external auditors, and the specific requirements or extent of the nature of audits are not spelled out. The country could also reinforce transparency, as banks currently do not have to disclose off-balance-sheet items or their governance and risk management framework to the public. In addition, bank directors are not legally liable if disclosed information is erroneous or misleading. Given the macroprudential approach in the region, the implementation of all or some elements of Basel III is highly recommended.[21] Greater support for supervisory authorities with a clear, verifiable, and quantifiable guide for the diversification of assets in bank portfolios is also advised. Finally, promoting rules that support greater market discipline is recommended, particularly with regard to audits and transparency.

Barriers to financial access and inclusion remain in Barbados. Despite the country enjoying high income levels and performing well on many socioeconomic indicators, barriers to finance for individuals and firms persist. Barbados performs well on indicators related to financial access for individuals, including the level of deposits in commercial banks, which stands at 98.5 percent of GDP compared to the Caribbean average of 57.9 percent. The ratio of commercial bank loans to GDP is also higher in Barbados (64.6 percent) than the average for all Caribbean countries (40.6 percent). However, some impediments remain with respect to the ability of individuals to access financial services, including increasingly stringent know-your-client and documentation requirements. Firms and banks in Barbados also report that the strict know-your-client and regulatory burdens, including those related to anti-money laundering/combating the financing of terrorism, hinder domestic financial transactions and credit provision. Fostering greater use of new and innovative financial technologies and revising relevant regulatory requirements to enhance access could help address some of these challenges. In this context, the authorities should consider policies and initiatives aimed at further exploring and addressing barriers to financial access and inclusion. For example, fostering greater use of technologies, such as digital payment services, could support lower fee structures and costs for users, following examples of other countries around the world (Beecher, Bissessar, and Julien 2018). This would require supportive regulations and the revision of relevant legislation and regulatory processes, as well as greater coordination and improvements of supervisory agents.

[21] Basel III was finalized in December 2017 and constitutes the most comprehensive set of international standards for financial regulation to deal with the inadequacies of previous regulatory frameworks that became evident during the global financial crisis. It encompasses recommendations for capital and liquidity requirements (Pillar 1), supervisory frameworks (Pillar 2), and enhancement of market discipline (Pillar 3).

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III. Guyana

Elton Bollers

Overview

Guyana's macroeconomic environment continues to remain stable, characterized by positive growth, low inflation, and a stable exchange rate. Real economic activity picked up in both 2018 and 2019, with important growth in the economy's largest sector, services. The growth outlook in the medium term remains positive based on continued improving perspectives for oil production, despite low oil prices and the coronavirus pandemic. During the five-year period between 2015 and 2019, GDP grew at an average annual rate of 3.6 percent, surpassing the average of 2 percent for Latin America and the Caribbean and placing Guyana 5th out of 26 countries.[22] GDP growth reached 5.4 percent in 2019, higher than the 4.4 percent in 2018.[23] The International Monetary Fund (IMF) has estimated real GDP growth for 2020 at 26.2 percent. Overall price levels show significant stability, with the annual inflation rate averaging 1.8 percent over the last three years. The inflation rate in 2019 was 2.1 percent. The IMF projects the inflation rate to fall to 1.3 percent in 2020 before picking up to 2.9 percent in 2021.

The pandemic has had varied outcomes on different sectors of the non-oil economy. The largest productive sector of the economy, agriculture (17.6 percent of GDP), suffered a contraction of 4.1 percent in the first half of 2020. However, rice production is expected to expand by around 3 percent in 2020, which would contribute to mitigating the contraction in agriculture. The mining industry, Guyana's second largest sector with 14.9 percent of GDP, expanded by 343.7 percent in the first semester after oil production began in December 2019. Gold production, representing almost 10 percent of GDP, grew by 2.1 percent in the first half of the year, bolstered by historically high prices of gold. The services sector, potentially the sector most exposed to social distancing policies, declined by 3.8 percent the first half of the year, with wholesale and retail trade falling by 14.7 percent, transportation and storage by 25 percent, and accommodations and food services by 32.9 percent. The construction sector, which had been growing at relatively high rates prior to the pandemic, fell by 5.6 percent.[24] Authorities estimate that non-oil GDP contracted by 4.9 percent in the first half of 2020, and it is projected to fall between 1.4 and 4.3 percent in the full year.

The quality of economic institutions influences the pace of development, the distribution of the benefits of growth, and economic efficiency. Guyana has recently become an oil producer and is now estimated to have at least 8 billion barrels in petroleum reserves. Since 2015, ExxonMobil has made 18 oil discoveries, the most recent of which was in September 2020. Given Guyana's population of approximately 780,000, this suggests the level of reserves equates to 10,250 barrels per person, making Guyana one of richest countries in petroleum reserves per capita in the world. Despite these relatively large reserves, Guyana faces many hurdles and challenges in preparing itself to prudently manage this coming natural

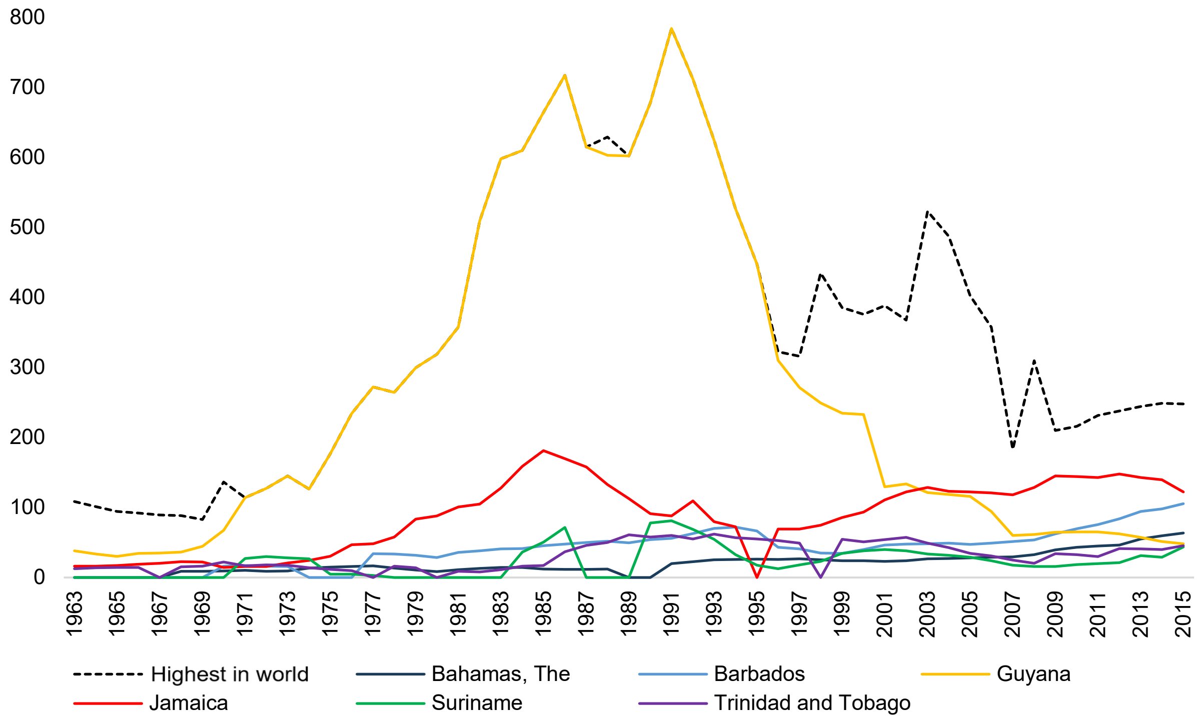
[22] The regional average excludes Venezuela.
[23] GDP was rebased in 2019 to 2012 prices, an update with respect to the previous reference of 2006.
[24] Ministry of Finance Budget Speech 2020.

resource windfall and derive the greatest benefits for its people. This Bulletin considers the structure of economic institutions in Guyana and is based in part on a forthcoming IDB publication entitled *Economic Institutions for a Resilient Caribbean.*

Fiscal Institutions

Guyana has been managing its debt quite prudently over the last two decades. The Ministry of Finance is the key institution responsible for the formulation and implementation of fiscal policy and management of public debt. The ministry's general fiscal policy objectives are the maintenance of output stability and debt sustainability. From 1970 through the mid-1990s, Guyana was the most indebted country in the world as measured by the ratio of nominal public debt to GDP (Figure 1). Guyana has since seen tremendous and sustained reductions in public debt levels, driven by, inter alia, debt relief initiatives such as the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative, as well as by policy reforms. Debt relief under the Enhanced HIPC initiative was estimated at US$387 million based on end-2002 data and parameters (IMF 2003).

Figure 1. Public Debt Levels (percent of GDP)



Source: Mooney, Prats, and Rosenblatt (forthcoming).
Note: 'Highest in world' represents the highest public debt level out of 197 countries for which data were available starting in 1963.

Debt management will become more important now that Guyana has become an oil-producing nation. Government authorities will have the alternative to use some of the new-found oil revenues to close budget financing gaps and avoid debt accumulation and/or retire expensive outstanding public debt. Budget financing needs to be monitored, however, as it can erode savings and return the nation to a position of high indebtedness.

Natural Resource Fund

In 2019, Guyana established a sovereign wealth fund to manage its oil proceeds. The fund's objectives are to avoid volatile public spending; protect economic competitiveness; transfer natural resource wealth fairly across generations; and use this wealth to finance national development priorities. The fund will receive revenues and returns on its investments. Withdrawals will be made by way of proposals from the Ministry of Finance that must be approved by the National Assembly. The law establishes the Minister of Finance as the person responsible for overall management of the fund. The ministry will delegate its operational management to the Bank of Guyana.

Guyana began receiving oil revenues in 2020 and to date has made three sales of 1 million barrels each. Each of the sales was made at the Brent reference price at around the time of the sale, such that the first sale was made at US$55 per barrel, before oil prices plummeted in April. The second sale was made at US$35 per barrel, and the third sale benefitted from recovering prices and was made at approximately US$46 per barrel. Additionally, as of 30 November 2020 Guyana received three royalty payments totaling US$8.5 million, contributing to a total balance of almost US$150 million (G$31.06 billion Guyanese dollars) held in the Natural Resource Fund (NRF) in the Federal Reserve of New York.

Withdrawal Rule

The NRF's withdrawal rule is divided into two periods. In the first period, the maximum transfer to the budget is based on a complex set of formulas that involve the calculation of benchmark oil prices, levels of oil production, non-oil revenues, and the NRF's balance. The objective of the formula is to transfer a relatively larger share of oil revenues to the budget when oil production is relatively low, and reduce the share of oil revenues transferred to the budget when oil production levels are higher. The second period takes place in the medium to long term, when 3 percent of the balance of the NRF exceeds a specific formula-based threshold, after which the transfer to the budget is limited to 3 percent of the balance of the NRF. This rule has not taken effect and the resources have not yet been considered for the budget given that NRF institutions such as the Macroeconomic Committee, Investment Committee, and Public Oversight and Accountability Committee are still not fully in place.

Monetary Institution

Guyana has a fairly independent central bank. The Bank of Guyana is responsible for promoting monetary, credit, and exchange rate policies to foster monetary and financial stability. According to national legislation,[25] the central bank supervises commercial banks, non-bank financial institutions, money transfer

[25] The Bank of Guyana's scope of work is governed by legislation that includes the following: Bank of Guyana Act 1998, Financial Institutions Act 1995, Dealers in Foreign Currency (Licensing) Act 1989, Money Transfer Agencies (Licensing) Act 2009, Anti-Money Laundering and Countering the Financing of Terrorism Act 2009, and the Insurance (Supplementary Provisions) Act 2009.

agencies, currency exchange companies, pension plans, insurance companies, brokers, and agents. The Bank of Guyana's website provides a considerable amount of information, including statistics, but details about the process used in making monetary policy decisions are not provided. Monetary policy transparency in Guyana could be enhanced.

Recommendations

It will be important for the government to strengthen its fiscal framework as well as other institutions in oil and gas governance and public financial management to improve the quality and efficiency of future public expenditure. Emphasis should be placed on building human capacity, developing a comprehensive long-term fiscal sustainability framework, engaging in more economic analyses and forecasting, developing risk management capabilities, and spending oil and gas proceeds prudently and effectively so that they have measurable positive impact on the welfare of the broadest segments of the population.

The NRF's withdrawal rule has little practical effect on the country's fiscal position in the absence of a fiscal rule, **since the government could increase spending during the budget process and thus incur debt-financed fiscal deficits, thereby offsetting the potential saving in the NRF.** A fiscal rule would restrict the possibility of eroding savings in the NRF and strengthen the NRF's ability to realize its objectives.

It is recommended that the Bank of Guyana implement an active communication strategy. It might consider publishing reports about its broad money growth targets as well as reports explaining its monetary policy decisions in more detail as well as the rationale behind them, strengthening its procedural and policy transparency. It might also consider strengthening its research capabilities by producing analytical work to support or validate the positions taken or to evaluate likely impacts of external developments.

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IV. Jamaica

Henry Mooney

Overview

Jamaica has made tremendous progress with economic stabilization and reforms in recent years. Following years of wrenching fiscal, economic, and institutional reform, Jamaica successfully emerged from two successive International Monetary Fund (IMF) adjustment programs (spanning 2013–2019) with near-universal praise for its efforts and progress. With guidance and both financial and technical support from international partners, including the Inter-American Development Bank, Jamaica's notable achievements since 2013 include:

- **The shift to an inflation-targeting framework and floating exchange rate that helped reverse the country's history of high and volatile rates of interest and inflation.** Since Jamaica implemented the new monetary framework, inflation has fallen to the low single digits. The central bank, the Bank of Jamaica, successfully lowered policy rates to return inflation to within its target band of 4 to 6 percent (annualized), after a period when inflation had fallen below the target. The Bank of Jamaica has been able to build up its international reserves, which now exceed levels deemed appropriate for the purpose of risk mitigation,[26] while avoiding any unwarranted or sustained interventions in the foreign exchange market, in line with the requirements of a floating regime and its new inflation-targeting mandate.

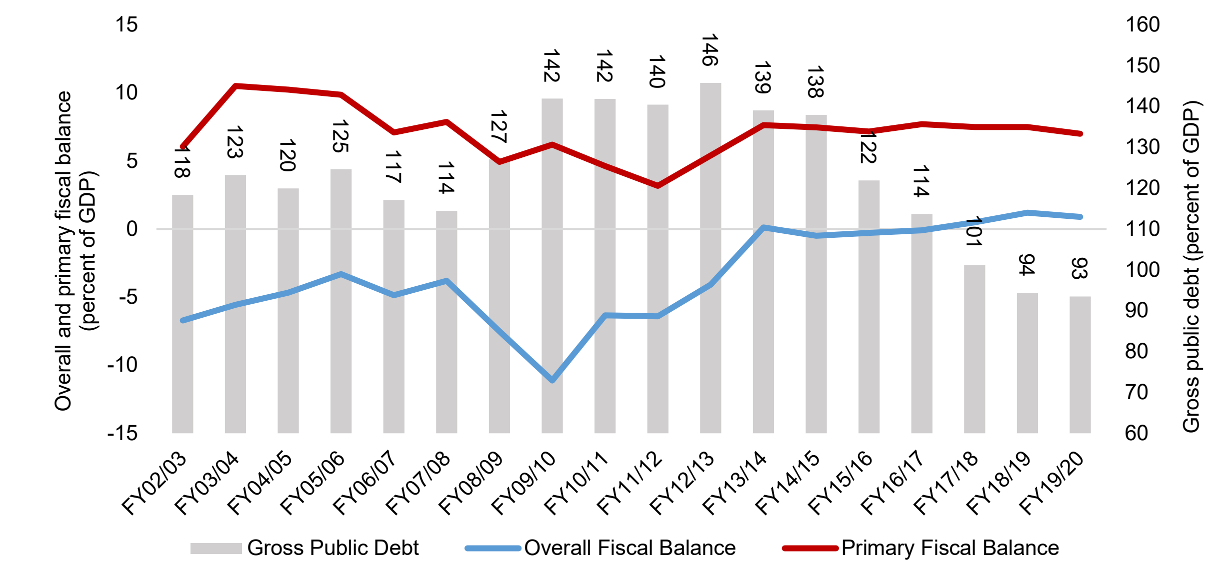
- **Reform of public financial management institutions and policies that has set the stage for macroeconomic stability and debt sustainability.** Jamaica maintained large primary surpluses averaging over 7 percentage points of GDP from 2013 through 2019 (Figure 1). Along with voluntary concessional restructuring of public domestic debt and the use of proceeds from privatization and public asset divestments, this has contributed to reducing the public debt burden by approximately 40 percentage points of GDP. Fiscal prudence has been bolstered by a number of important institutional reforms, including implementation of a fiscal responsibility framework with quantitative time-bound targets for medium-term public debt reduction, tax and revenue administration reforms, and public sector rationalization. The government of Jamaica is also working towards implementation of an independent fiscal council, with the aim of further improving the transparency and prudence of fiscal policy implementation.

- **A new monetary policy framework, which, along with fiscal consolidation and lower government financing needs, have lowered domestic private interest rates.** After years of government over-borrowing and the crowding out of private sector borrowing by the government (Mooney 2018), as well as policy rates influenced by conflicting policy objectives, both fiscal and monetary policy reforms have

[26] The IMF considers that the Bank of Jamaica, since shifting from the previous managed regime to the current floating regime, now has reserves that exceed 100 percent of its estimated reserve adequacy threshold.

helped to reduce market-determined interest rates to record lows. This has supported banking sector stability, the provision of credit to private enterprises, and increased credit market liquidity.

Figure 1. Jamaica: Fiscal Balances and Public Debt



Sources: International Monetary Fund; and Ministry of Finance and Public Service.

Importance of Continued Reforms

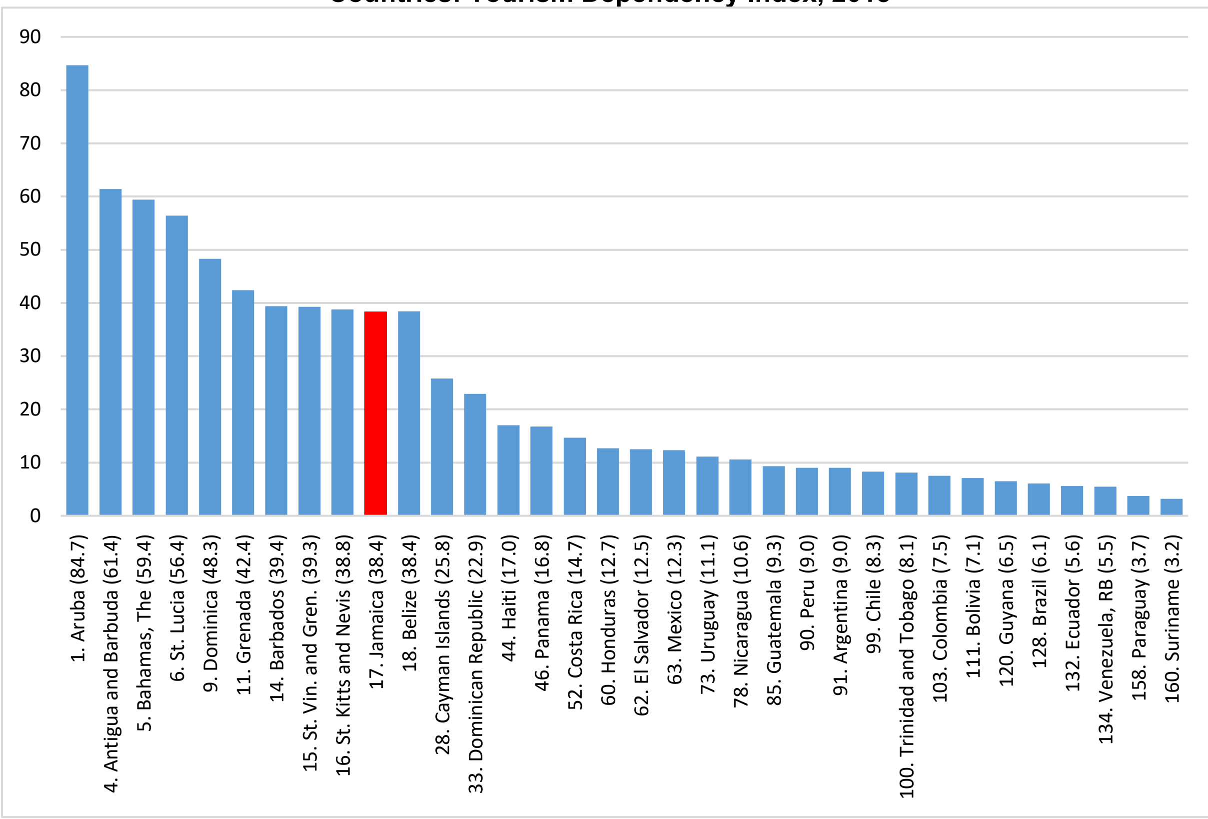
Successful institutional reforms and sound policies put Jamaica in an unprecedentedly strong position to face the current crisis. Though the pandemic will precipitate the largest shock to growth on record for Jamaica and many other countries in the region in 2020, institutional reforms have put Jamaica in the best economic and financial position in its history to respond to such a crisis. While it is true that Jamaica has had lower public-debt-to-GDP ratios in the past, the country entered the crisis with substantial cash buffers equal to about 4 percentage points of GDP, a large reprogrammable primary fiscal surplus, and record low rates of unemployment. Similarly, cutting-edge policy frameworks grounded in flexibility—including both the flexible exchange rate regime and fiscal responsibility framework—helped the country's policies and the economy itself adjust to the external shock in a countercyclical manner. This is a testament to how far Jamaica's institutions have come in a relatively short time.

Despite this strong progress, Jamaica still faces challenges with respect to the structure and performance of the economy, highlighting the need for continued reform. Jamaica's economic output is heavily skewed towards the services sector, which accounts for about 72 percent of total GDP.[27] The

[27] Industry and agriculture account for the remaining 21 percent and 7 percent of output, respectively (from 2017 to the latest data available).

services sector includes activities such as financial and insurance services, telecommunications, the business process outsourcing sector, and tourism. Of these, the tourism sector is most significant. In this context, Jamaica ranked 17th out of 166 countries globally on a composite index (the Tourism Dependency Index) that reflects economic reliance on the sector (Figure 2). Scores on the index are based on the contribution of tourism to exports, output, and employment.[28] Jamaica's heavy reliance on tourism for economic activity and foreign exchange revenue highlights the country's extreme susceptibility to external shocks, as highlighted by the current crisis.

Figure 2. Jamaica's Dependence on Tourism Compared to Other Latin American and Caribbean Countries: Tourism Dependency Index, 2018



Source: Author's calculations based on data from the World Bank Development Indicators and the World Travel and Tourism Council databases (Mooney and Zegarra 2020).
Note: The Tourism Dependency Index (TDI) is calculated using five-year averages (2014–2018) for the total contribution of tourism to total export receipts, GDP, and employment for each country. The range is from zero to 100, with 100 representing total dependence on the sector. The figure reports TDI scores for 34 countries in Latin America and the Caribbean for which data were available. The digit preceding the country name represents its rank out of 166 countries around the world for which data were available.

[28] Tourism accounted for an average of about 55 percent of Jamaica's total exports from 2014 to 2018, as well as an average of about 32 percent of GDP and 29 percent of total employment over the same period.

Structural and external vulnerabilities underscore the importance of institutional reform and capacity-building—factors most directly in the government's control. While changes in economic structure and patterns of external demand are difficult and might take many years to undertake, the above-mentioned vulnerabilities as well as other external and structural deficiencies underscore the importance of building on recent successes with institutional and policy reform. These are areas that are most directly within the control of the government, where recent efforts have shown tremendous promise, and that can support faster growth and greater resilience in the near term.

The Institutional Reform Agenda: Key Pillars

The reform agenda includes priorities spanning every sector and dimension of policy, including health, education, infrastructure, and institutions of economic policy. Improvements in economic management will help free up resources for investment in social services and infrastructure. Similarly, prudent macroeconomic management supports stability and provides incentives for both domestic and foreign private sector investment, economic diversification, increased employment, and productivity growth. In this context, important reform priorities for the near term include:

- **Strengthening tax administration to increase the efficiency of tax collection and reduce evasion.** Efforts to strengthen tax administration should focus on measures to address compliance gaps concerning registration, filing, payment, and accuracy in order to ultimately increase efficiency in tax collection and reduce tax evasion. Specific areas of support could include: (i) calculating the tax gap for direct and direct taxes; (ii) determining tax challenges in the Jamaican digital economy; (iii) estimating tax compliance costs; and (iv) understanding the determinants of the informal economy. Additional efforts are also needed to reduce the accumulation of tax arrears.

- **Increasing the efficiency of public expenditure.** While some progress has been made regarding the size of the wage bill, program expenditure has risen significantly in recent years. Hence, the introduction of measures to evaluate and improve the targeting of social programs is an important area for policy focus to increase spending efficiency. The development of a Public Expenditure Review would also help in identifying the main spending categories where further efficiency measures should be implemented.

- **Improving public investment management capabilities of line ministries and government agencies to aid economic recovery and accelerate long-term growth.** The establishment of the Public Investment Management Secretariat has been an important step, and strengthening of this secretariat within the Ministry of Finance and the Public Sector will be essential to furthering this process. A specific area of improvement is the design and development of an investment map platform. The investment map helps to enhance efficiency by tracking the use of resources through a geo-referencing platform. In general, public investment efficiency will be particularly relevant in the post-pandemic period, as public investment can have a significant multiplier effect for the economy.

These and many other important reforms of public financial management institutions and practices, financial sector regulation and supervision, legislation, and the public sector more broadly are detailed in the forthcoming IDB publication, *Economic Institutions for a Resilient Caribbean.*

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V. Suriname

Jeetendra Khadan

Overview

Suriname has not recovered from the 2015 recession, which was caused by a sharp decline in the price of its chief export commodities (gold and oil) and the cessation of alumina production. After cancelling a two-year Stand-By Arrangement with the International Monetary Fund (IMF) in 2017, the country did not undertake much-needed reforms to strengthen its macro-fiscal framework. As a result, Suriname is facing the ongoing COVID-19 pandemic with inadequate fiscal buffers, large twin deficits (fiscal and current account), low growth, double-digit inflation, banking sector vulnerabilities, high debt levels, and low international reserves. In November 2020, Standard and Poor's downgraded Suriname's long-term foreign currency sovereign credit rating to SD from CCC after the government missed a coupon payment on its 2026 bond. The IMF has estimated that real GDP will contract by 13.1 percent in 2020 and grow on average by 1.2 percent over the period 2021–2025.

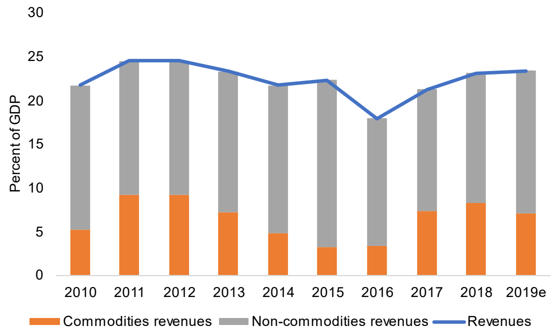
Although Suriname is facing a precarious economic situation in the short term, recent oil discoveries could help to support an economic recovery over the medium term. However, returning to a sustainable path through an inclusive recovery requires many policy reforms. Strengthening institutions to restore macroeconomic stability and support an inclusive socioeconomic recovery are the immediate priorities for Suriname. While there are many challenges across the country's macroeconomic framework, this country section focuses on the fiscal sector.

Fiscal and Debt Performance

Suriname's fiscal revenues are highly dependent on commodities, and expenditures are largely concentrated in non-discretionary items. For the period 2010–2019,[29] central government revenues averaged 22.4 percent of GDP, with commodities contributing on average 28.7 percent of total government revenues (Figure 1). Central government expenditures over the same period averaged 30.1 percent of GDP, with subsidies and wages and salaries accounting for roughly 60 percent of total government spending (Figure 2). Total expenditure as a share of GDP increased from 24.6 percent in 2010 to 44.6 percent in 2019. Subsidies are the main contributor to the increase in expenditure: subsidies rose from 4.5 percent of GDP in 2010 to 15.3 percent of GDP in 2019. There was a significant increase in interest payments from 0.9 percent of GDP in 2010 to 3.3 percent of GDP in 2019. The country's fiscal stance was also highly procyclical, as real growth in central government expenditures outpaced that of revenues during the boom in commodity prices in the first half of the decade. The subsequent precipitous downfall in revenues in 2016 forced a substantial reduction in real spending that aggravated the 2015–2016 recession.

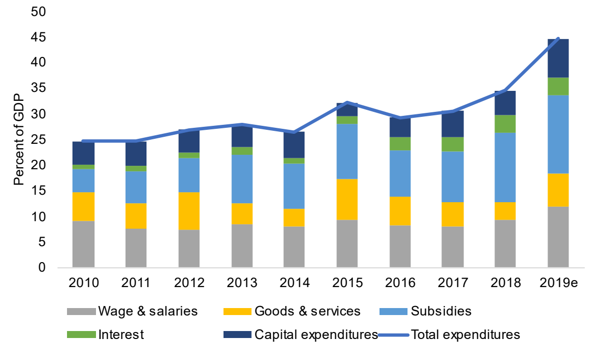
[29] Data for 2019 are estimates.

Figure 1. Suriname: Central Government Revenues



Source: Ministry of Finance.

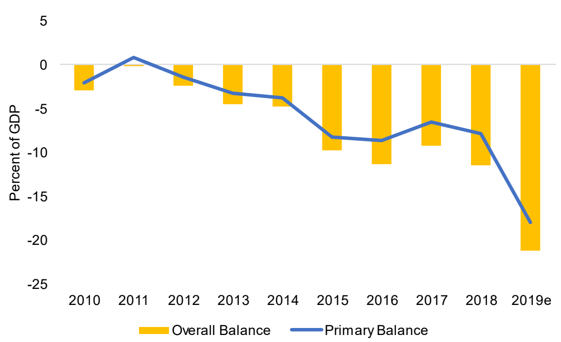
Figure 2. Suriname: Central Government Expenditures



Source: Ministry of Finance.

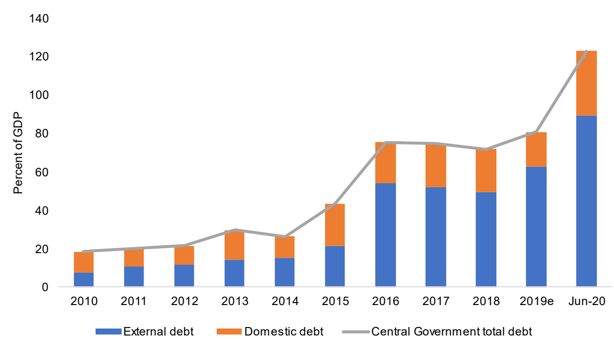
The country's fiscal balances and debt positions are on an unsustainable path. Suriname's fiscal imbalances significantly increased after the 2015 commodity crisis. The overall deficit increased from an average of 2.9 percent of GDP in the period 2010–2014 to an average of 12.6 percent of GDP over 2015–2019 (Figure 3). Similarly, the primary deficit increased from an average of 1.9 percent of GDP in the period 2010–2014 to an average of 9.8 percent of GDP over 2015–2019. The IMF's October 2020 *World Economic Outlook* projected an overall deficit of 13.9 percent of GDP for 2020. In the context of persistent fiscal deficits, exchange rate adjustments and a depressed economy, the debt-to-GDP ratio significantly increased, from 18.5 percent of GDP in 2010 to 123 percent of GDP in June 2020 (Figure 4). The IMF projects that the debt ratio will further increase to 145 percent of GDP by the end of 2020, mostly due to a 90 percent devaluation in the exchange rate in September 2020 and an estimated 13.1 percent decline in real GDP in the wake of COVID-19.

Figure 3. Suriname: Fiscal Deficits



Source: Ministry of Finance.

Figure 4. Suriname: Central Government Debt



Source: Ministry of Finance.

Fiscal Framework and Policies[30]

Suriname's public finances suffer from a range of long-standing policy and institutional weaknesses. Suriname lacks key institutional mechanisms that are important to support fiscal and broader macroeconomic stability. These shortcomings are related to deficiencies in revenue policy and administration, inefficient spending policies, an inadequate institutional framework, and a lack of savings and stabilization mechanisms. Strengthening those aspects of the fiscal framework have been shown to be associated with better fiscal performance, especially for commodity-dependent countries (IMF 2012).

The revenue system contains many tax exemptions and deficiencies in administration that undermine the country's revenue-generating capacity. The ratio of non-resource taxes to GDP (at 12-13 percent) is relatively low in light of the country's level of per capita income. This reflects both flaws in the tax system design (notably, the absence of a value-added tax) and pervasive shortcomings in tax administration and enforcement. Indeed, the country's tax system is characterized by a combination of high tax rates and a complex structure of statutory tax expenditures, incentives, and waivers (IDB 2017). Also, the efficiency of tax administration is constrained by limited taxpayer education and service functions, low tax compliance, and an inadequate information technology system (IDB 2017). In fact, tax compliance with respect to direct taxes is low, estimated to be in the range of 40 percent of potential revenue (IDB 2017).

Expenditure policy underspends on investment and overspends on subsidies. Expenditure policy has concentrated to a large extent on opaquely or inappropriately targeted transfers and subsidies. Public wages and subsidies (especially for electricity) absorb a large share of spending. Available studies also point to substantial scope for improving the effectiveness and efficiency of spending on education and health (Khadan 2018). The large share of transfers and subsidies are reflected in the relatively large state enterprise sector and electricity subsidies. There are approximately 120 state-owned enterprises (SOEs), roughly 50 percent of them consisting of foundations that provide public services that are not self-sufficient and therefore receive government subsidies. Some of these entities also suffer from structural and institutional weaknesses and are largely dependent on allocations from the annual budget. There is limited data and monitoring of these entities, which vary in size and are spread across various ministries and sectors. As such, the overall fiscal implication of the sector is uncertain. In terms of electricity subsidies, the country's electricity tariffs are fixed and have historically been set at levels that do not allow for full recovery of the cost of electricity service. The Electricity Sector Plan 2019–2023 estimated electricity subsidies at 4.8 percent of GDP in 2016.

Fiscal institutions are not adequate to safeguard fiscal sustainability. The current fiscal framework does not pose the constraints on the conduct of fiscal policies that would be needed to safeguard fiscal sustainability and prevent procyclicality. There was a statutory limit of 60 percent of GDP for central government debt, but in 2017 it was suspended as a result of an escape clause that allowed deficits of 6.5 percent of GDP in 2017 and 5 percent in 2018–2021. In November 2019, the government returned to the debt ceiling, but increased it to 95 percent of GDP. The country also lacks a credible medium-term fiscal

[30] This section and the next draw on the forthcoming IDB publication, *Economic Institutions for a Resilient Caribbean*.

framework (MTFF) and a fiscal anchor to support managing fiscal risks to deliver long-term sustainability. In terms of a MTFF, while the annual budget document includes a rolling four-year-forward MTFF, there is limited disaggregation and little discussion of the underlying macroeconomic and policy assumptions or analysis of risks. The budget also lacks independent external scrutiny. Sovereign wealth funds are considered to be an essential element of the fiscal framework for commodity-dependent countries. They mitigate risks associated with volatility in revenue flows, smooth consumption, increase savings, and reduce the effect of revenue volatility on a country's fiscal accounts. However, although Suriname's Parliament approved legislation to establish a Savings and Stability Fund in 2017, it has yet to be implemented. The appropriate use of the Savings and Stability Fund and fiscal rules could help to better guide consumption-saving choices, especially in the context of expected oil revenues in the medium term.

Polices to improve Suriname's Public Finances

The outlook for public finances in Suriname remains a matter of serious concern. Central government debt is already very high, especially when taking into account that it does not include the debt of SOEs,[31] for which no consolidated figures are available; that roughly 72 percent of the debt is denominated in foreign currency, implying high vulnerability to exchange rate shocks; that the debt is very expensive (the 2023 and 2026 bond series' were issued at interest rates of 9.875 and 9.25 percent, respectively); and that the revenues to service the debt are subject to much-higher-than-average volatility, even in the Caribbean region context. Furthermore, as discussed above, fiscal risks have been mounting over time due to a combination of long-standing policy and institutional challenges in revenue administration, tax policies, tax expenditures; overspending on subsidies and transfers to SOEs; a weak fiscal framework (in terms of debt management and the lack of a credible fiscal anchor, credible MTFF, fiscal rules, or a sovereign wealth fund); inadequate institutions responsible for public investment, procurement, and financial management; and weaknesses in internal and external audit functions.

For the above reasons, it is clear that Suriname needs to develop and implement a comprehensive fiscal strengthening program. The objective should be to adopt a target path for debt reduction, envisaging its early stabilization and then its (preferably linear) return to the 60 percent limit stipulated by the Debt Act within a realistic but clearly specified time horizon. While countries heavily dependent on resource revenues would typically be advised to target a non-resource primary deficit or expenditure to help decouple public finances from the vagaries of resource revenues, the overriding policy priority in Suriname is to bring down the debt from its high level. The possible procyclicality entailed by targeting the debt is the inevitable consequence of previous fiscal policies that left public finances in a precarious position. Once the debt is brought down to safe levels and the non-resource fiscal position has strengthened, Suriname could consider switching to a non-resource primary balance target with a debt anchor. Reducing the relatively high levels of subsidies, improving revenue administration and tax policy (particularly by implementing a value-added tax), and reducing tax expenditures are some obvious policy options that could help strengthen the country's public finances. Suriname could also benefit from the creation of a small

[31] For example, the state oil company has been borrowing heavily in recent years. As of December 2019, the company's total outstanding debt amounted to almost 28 percent of GDP.

independent fiscal council comprised of public finance experts chosen on the basis of well-recognized technical competence and experience, and charged with reviewing and commenting on fiscal projections. The authorities should intensify their ongoing efforts to improve public financial management systems in order to allow for timely compilation and dissemination of comprehensive data on public finances, including those of SOEs, which are an important source of fiscal risks for the government budget.

The authorities have embarked on developing a comprehensive economic plan. The new administration that took office in July 2020 has recognized the imperative for reform and adjustment and is working with key stakeholders to develop a comprehensive reform program to restore macroeconomic stability. The authorities have already requested the IMF's financial support for their economic plan aimed at tackling the country's macroeconomic vulnerabilities and putting Suriname back on a path of strong, sustained, and equitable growth (IMF 2020). At the same time, the authorities have received the requisite consents from creditors to defer until 31 March 2021 the debt service payments that were originally due during October-December 2020 on 2023 and 2026 notes. It is critical that the authorities continue on this path to restoring macroeconomic stability and promoting an inclusive economic recovery for Suriname.

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VI. Trinidad and Tobago

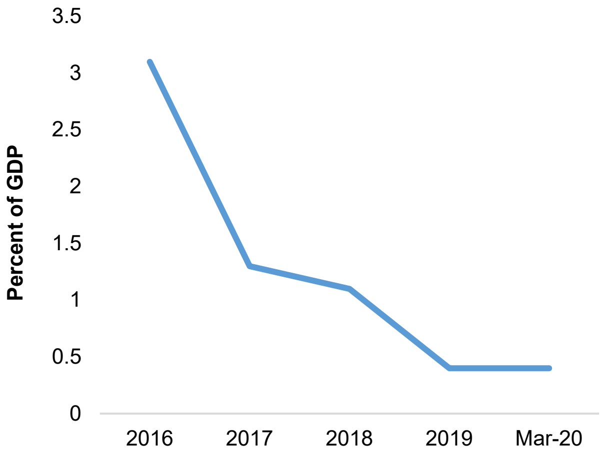
Nazera Abdul-Haqq

The State of the Macroeconomy

Trinidad and Tobago's macroeconomic performance has not fully recovered from the 2015 global commodity shock. Owing to the collapse of global oil and gas prices that year and disruptions to domestic energy production in the following year, Trinidad and Tobago suffered a severe recession that saw real output decline by as much as -5.6 percent in 2016. Two years later, real output continued to fall, albeit at a slower pace, with a rate of decline in real output of -.1 percent. By 2019, negative growth in the energy sector (-4.5 percent) dampened any hope of further improvement in real economic activity, as real output declined by -1.2 percent that year. Inflation remained low and continued its stable trend in 2019, which reflected lower levels of aggregate demand (Figure 1). In addition, the government's action to consolidate public finances was successful in reducing the fiscal deficit from -9 percent of GDP in FY2017 to -2.5 percent in FY2019 (Figure 2). However, public debt rose from 62 percent of GDP in FY2017 to 65.5 percent in FY2019 (Figure 3). The current account balance was also negatively affected, despite improvements in 2017 and 2018 (Figure 4). With lower energy export earnings, the stock of foreign reserves consistently decreased, dropping by 15 percent between 2015 and 2019. As of the end of October 2020, gross official reserves stood at US$7.2 billion, with 8.6 months of import cover.

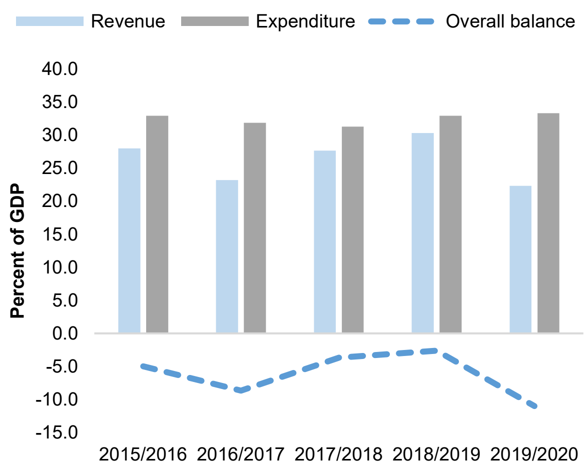
The COVID-19 pandemic accentuated Trinidad and Tobago's macroeconomic challenges. The pandemic and the associated shock to commodity prices have had a significant negative impact on the real economy. Official data reported by the Central Bank of Trinidad and Tobago show that 363 persons lost their jobs during January-June 2020, with 64 percent of those dismissals in the manufacturing sector. Also, based on the findings of an IDB-Cornell University survey, 56 percent of households indicated that they closed their businesses due to requirements by the authorities or to a lack of demand, while 46 percent of households reported at least one job loss. Low-income households were also disproportionately affected. In addition, the International Monetary Fund (IMF) has revised its 2020 projection of real GDP for Trinidad and Tobago downward to -5.6 percent from -4.5 percent. The government ramped up its spending to provide COVID-19 support for those who are vulnerable, amid lower energy export revenues. As a consequence, the fiscal deficit increased to double digits, equivalent to 11 percent of GDP in FY2020, with the government's fiscal support measures estimated at roughly 3 percent of GDP. Net public sector debt stood at 80.7 percent of GDP at the end of FY2020, up from 62 percent at the end of FY2019, and central government debt amounted to 58.7 percent of GDP at the end of FY2020.

Figure 1: Trinidad and Tobago: Headline Inflation



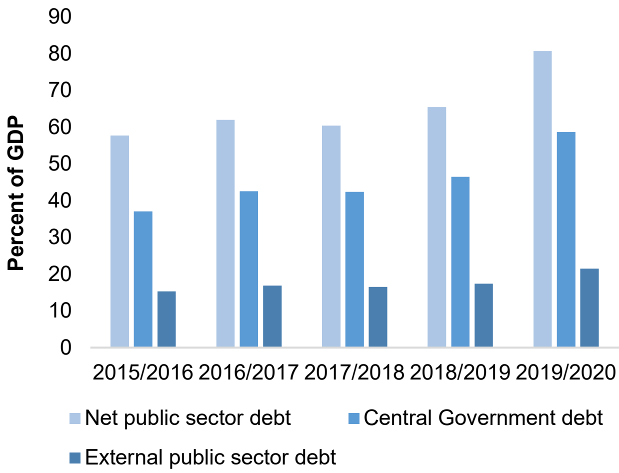
Source: Central Bank of Trinidad and Tobago.

Figure 2. Trinidad and Tobago: Fiscal Performance



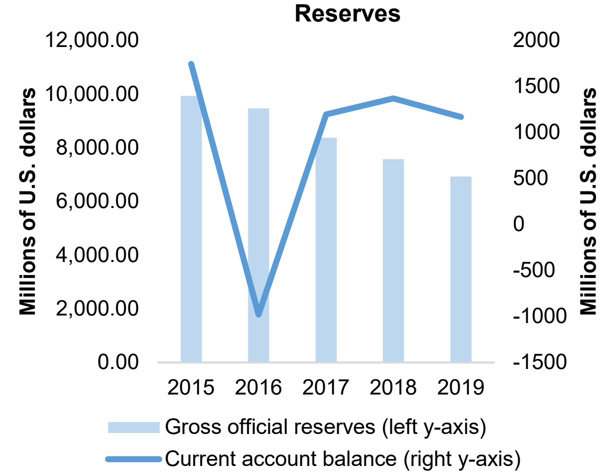
Source: Central Bank of Trinidad and Tobago.

Figure 3. Trinidad and Tobago: Public Debt



Source: Ministry of Finance.

Figure 4: Trinidad and Tobago: External Sector Performance and Foreign Reserves



Source: Central Bank of Trinidad and Tobago.

The sections that following explore how Trinidad and Tobago's fiscal, financial, and monetary institutional frameworks have contributed to the macroeconomic outcomes discussed above. The analysis is based on a forthcoming IDB publication entitled *Economic Institutions for a Resilient Caribbean.*

From Silos to Systems: An Institutional Approach to Building Resilience

Fiscal Institutions

Gaps in revenue administration undermine the Trinidad and Tobago's revenue-generating capacity. Inefficiencies in the revenue collection system and ineffective audit and verification procedures are among the main deficiencies in revenue administration systems. The situation of arrears highlights the potential to improve enforcement and collection capacity. For example, as much as 2 percent of GDP in arrears was collected via the 2019 Tax Amnesty. Also, concerns about the integrity of tax information and declarations linger because of challenges in auditing and verification processes. Notably, the Internal Audit Unit of the Board of Inland Revenue is understaffed and has a shortage of expertise. This was confirmed by the 2017 Tax Administration Diagnostic Assessment Tool (TADAT) evaluation, which showed that a total of only seven staff members receive training each year, and no staff have professional audit qualifications (Muyangwa et al. 2017). Importantly, legal obstacles do not allow for the automation of processes, which could enhance auditing. Further, legislative provisions also prevent the Auditor General from accessing and auditing the accounts of the Board of Inland Revenue. However, the government's plan to establish the Trinidad and Tobago Revenue Authority has the potential to improve the efficiency of revenue management and enhance the audit and assurance environment in Trinidad and Tobago.

Potential deficiencies in debt management may be at odds with debt reduction targets. A key insight from *Economic Institutions for a Resilient Caribbean* is that the cost of servicing public debt and unanticipated factors that affect debt (e.g., the crystallization of contingent liabilities or other debt-creating flows) are important drivers of debt accumulation in Trinidad and Tobago.[32] Consider that contingent liabilities have increased at a rate of 5.8 percent over the last five fiscal years and represented 22 percent of GDP in FY2020 (Ministry of Finance 2020). This insight signals potential shortfalls in the management of risks in the public debt portfolio and hint at the need to ensure that debt management is consistent with the macroeconomic framework, including debt sustainability and macro-financial stability.

Financial and Monetary Institutions

There is room to improve bank regulation and supervision in Trinidad and Tobago. The country has made significant progress in implementing macroprudential policies,[33] and in moving to fully adopt the capital requirements under the Basel II/III capital framework. Recent indicators from the Central Bank of Trinidad and Tobago also confirm that banks remain profitable and liquid. However, as the country's banks expand their regional footprint, they face challenges in terms of consolidated supervision, the interconnectedness of monitoring, and the management of contagion risks. The increased adoption of digital services in the aftermath of COVID-19 also elevates risks and heightens the need for increased supervision. Encouragingly, earlier this year, the central bank intensified its monitoring of the commercial banking sector for cybersecurity risks and, during Phase I of implementation of its Basel II/III project plan, introduced comprehensive changes for added protection. The central bank also planned to introduce a

[32] Public debt is measured by the overall interest rate on debt denominated in public domestic currency and foreign currency.
[33] For every country and year, a macroprudential index (MPI) is created, which is the sum of the scores on 12 financial-institution based and borrower-based policies. In 2017, Trinidad and Tobago's macroprudential index (i.e., MPI score of 5 out of 12) exceeded the MPI of the Organization for Economic Co-operation and Development countries and, together with The Bahamas, exceeded the average MPI score of Latin American countries.

revised stress testing framework for the banking sector by December 2020 and implement a top-down stress testing framework for the insurance sector in FY2020/2021. Coordination was also strengthened with other supervisory agencies such as the Caribbean Association of Insurance Regulators, the Financial Intelligence Unit, and the Trinidad and Tobago Securities Exchange Commission.

There is a need for greater central bank independence and flexibility in monetary policy. The independence of monetary authorities is necessary to ensure that primary monetary objectives, such as price stability, can be achieved without interference. The Central Bank of Trinidad and Tobago has a fair amount of legal independence but scores .4 on the Central Bank Independence Index (Bodea and Hicks 2015; Garriga 2016), which ranges between zero (lowest level of central bank independence) and one (highest level). Furthermore, insufficient exchange rate variability may affect the country's ability to adjust to external shocks and restore competitiveness, and may jeopardize its foreign reserves.

Policy Recommendations

Any attempts to tighten the nuts and bolts of Trinidad and Tobago's fiscal institutions without pursuing legal and regulatory reform may prove to be a challenge. In terms of revenue administration, updated laws and regulations are essential first steps to support the implementation of the Revenue Authority and to allow for the digitization of tax administration processes. Updating laws is also an important first step to clear bottlenecks by possibly permitting third parties to conduct administrative activities and to simplify the tax system. In terms of debt management, there may be a role for building institutional capacity to better understand portfolio risk management and to ensure consistency with macroeconomic targets.

On the financial and monetary side, Trinidad and Tobago appears to need greater flexibility in monetary policy. There is also a role for legislative changes to the Income Tax Act to give the Auditor General access to the accounts of the Board of Inland Revenue.

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IDB Country Department Caribbean