

CARIBBEAN  
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2021: 1

Imagining a Post-COVID  
Tourism Recovery

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## Imagining a Post-COVID Tourism Recovery: Regional Overview

Olga Gomez Garcia, Henry Mooney, David Rosenblatt, and Maria Alejandra Zegarra

### A. Introduction

A year ago, as the novel coronavirus spread, borders closed, and social distancing measures were implemented, those of us who work on the Caribbean Quarterly Bulletin began trying to understand the potential economic and social implications for the Caribbean.<sup>1</sup> Commodity-oriented economies began to suffer from the decline in prices, particularly oil and gas. But the most worrisome sector was tourism, and so the focus was on trying to simulate how tourism-based economies would fare. The basic question was: How bad and for how long?

Now, as the unprecedented shock to tourism persists, the Caribbean faces an equally unprecedented degree of uncertainty about the timing and pace of the recovery. The question becomes: How soon and how fast? A second critical question is: What will the tourism sector look like during the recovery and beyond?

On the positive side, the main source countries for tourism arrivals are advancing rapidly in vaccinating their populations. Their economies are also recovering. Personal savings are up for many families whose jobs were not affected by the crisis. Stimulus measures in the United States are putting money in the pockets of middle-class families. Perceptions of travel are improving, and advanced bookings are increasing. In fact, there may be a combination of pent-up demand and a “champagne effect,” as people feel safe to travel again. Potentially, there could be a positive geographic advantage if more adventurous long-haul travelers prefer to travel to countries closer to home. Some Caribbean destinations are quite close to the east coast of the United States. Finally, there could be a shift towards more remote work—even post-COVID-19—with digital nomads choosing attractive Caribbean destinations to live and work online.

On the negative side, there is the risk that vaccination programs could stall in source countries for a variety of reasons. There may be an even stronger geographic bias towards domestic, rather than international, travel, as families catch up with relatives in other parts of their home countries. In general, surveys show that traveler preferences have shifted toward the familiar, predictable, and most trusted. In this pandemic context, it appears that there is no place like home (or near home). If Caribbean vaccination programs lag the source tourism countries’ programs, then travelers may avoid those destinations—at least until the vaccination programs reach a critical threshold of the population, although it is too soon to tell. In short, the COVID-19 pandemic might have impacted the tourism product preferences of people in traditional source countries, and it may be difficult to foresee or adjust to those preferences. One thing for sure in the short run is the increased weight that health and safety have taken on in the minds of tourism consumers.

Given these considerations, in the near term, demand factors will be driving the potential recovery. This Regional Overview focuses on five key drivers of that demand:

- (1) *The evolution of the pandemic and the vaccine rollout.* Clearly this is a key factor affecting the confidence to travel.

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<sup>1</sup> This report is a product of the Caribbean Country Department of the Inter-American Development Bank. The countries covered by this department and in this report are The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.





- (2) *Domestic tourism in key source markets.* Domestic tourism lurks as a possible substitute for international travel.
- (3) *The economic environment in source markets.* Here, economic stimulus, particularly in the United States, might serve to spur the recovery.
- (4) *Business tourism versus leisure tourism.* In the past, business tourism recovered more gradually from shocks. The nature of the pandemic and boom in remote work might imply a longer lasting impact on this segment.
- (5) *Who are your source markets?* The above four factors interact in different ways in tourism source countries. Business intelligence data and monitoring of conditions in those countries take on an even greater importance than before.

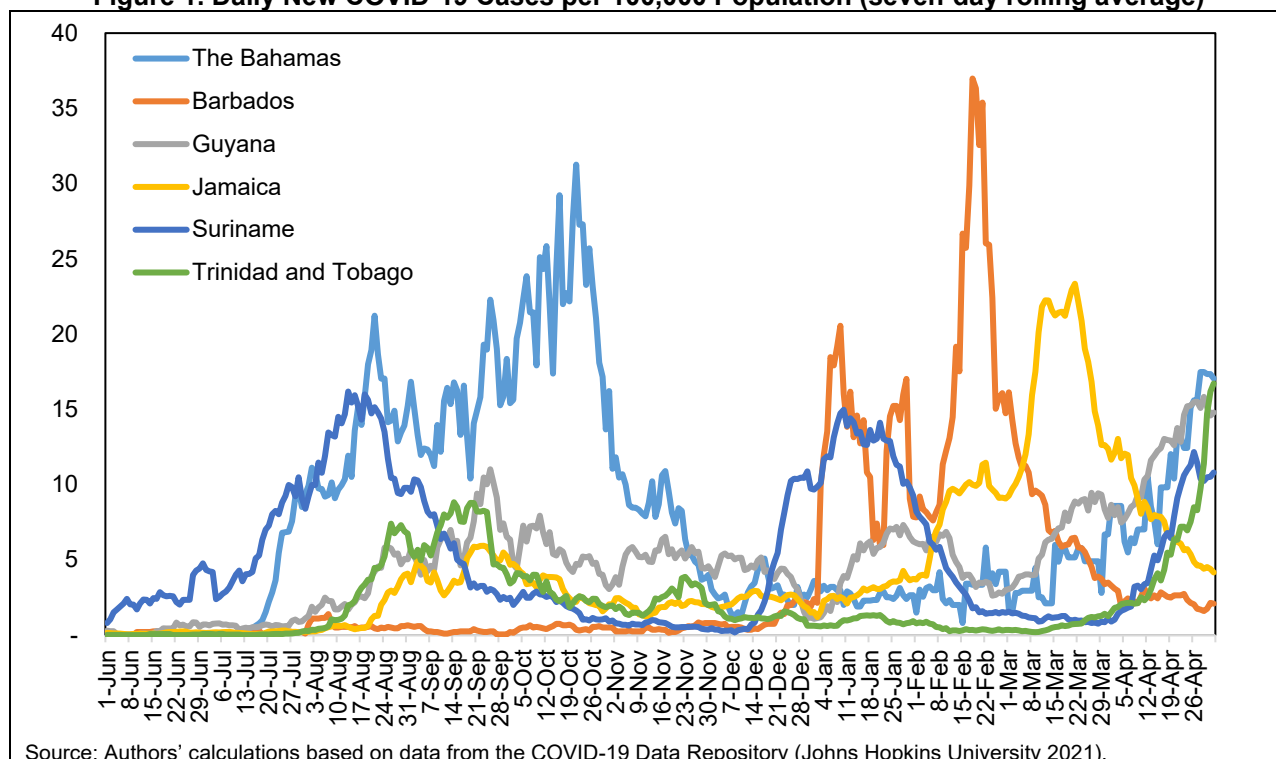
Over the longer term, Caribbean countries can innovate in order to adapt their tourism offerings to changing preferences and potential new dimensions of tourism. Countries can also work to deepen the economic linkages of the sector with the rest of the economy. Promising new product lines include remote work tourism, medical tourism, wellness tourism, cultural tourism, education tourism, retirement tourism, and eco-tourism. Even for the less-tourism-intensive economies (Guyana and Suriname), where outbound tourism is greater than inbound tourism, there is scope for substantial expansion over the medium term. With natural assets as the base for most tourism, environment sustainability will be ever more critical over time.

## **B. Evolution of the COVID-19 Pandemic**

In the first quarter of 2021, while some countries were suffering second, third, or even fourth waves of high COVID-19 infection rates, Barbados suffered its first wave as a result of the pick-up in the tourism sector over the winter season. The government responded by implementing significant lockdown measures and additional health and safety protocols for inbound travelers. In recent weeks, daily infection rates have declined (Figure 1). And while Barbados experienced the most volatile rates for the quarter, vaccination and containment efforts throughout March resulted in a return to single digit daily infection rates per 100,000 population. Jamaica also imposed tight restrictions following a surge in cases in March, and Trinidad and Tobago heightened restrictions in April in response to a surge. New daily case rates were also rising in Suriname and Guyana. At end April, only Jamaica and Barbados had daily case rates in the single digits per 100,000 people (Figure 1).



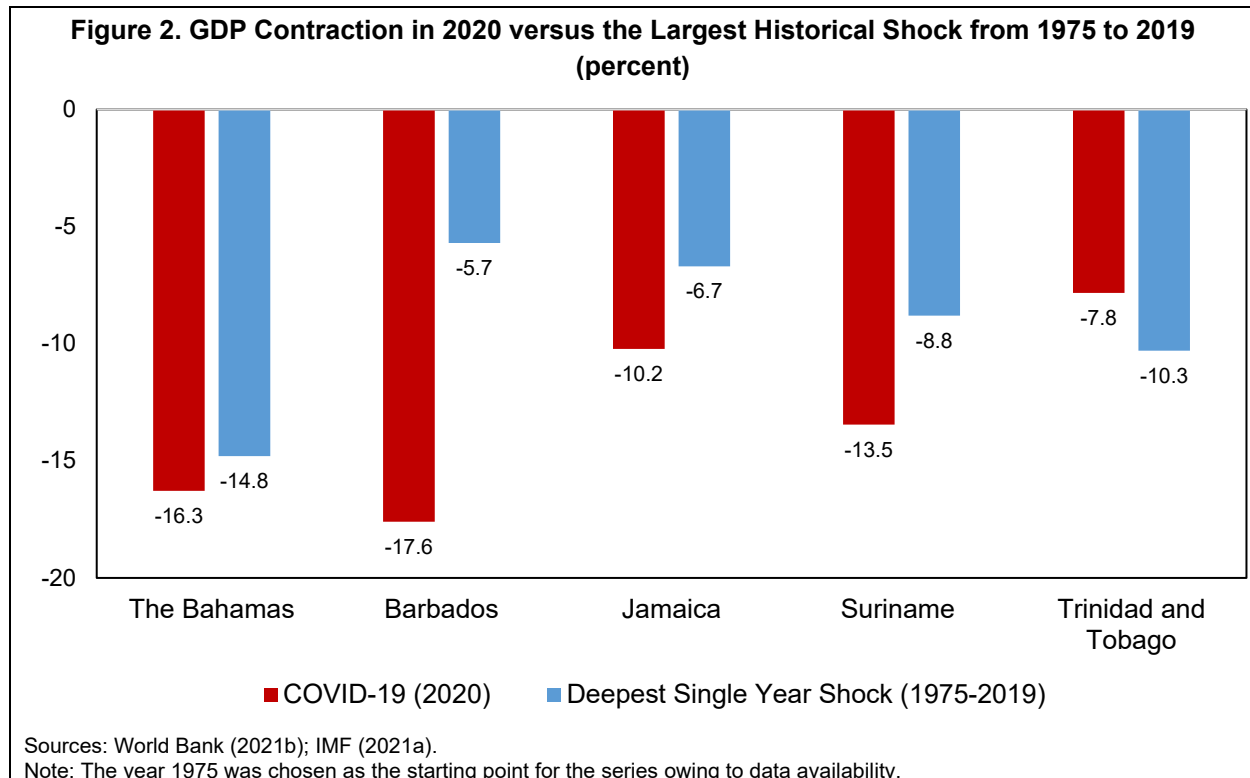
**Figure 1. Daily New COVID-19 Cases per 100,000 Population (seven-day rolling average)**



### C. The Historic Recession in 2020 and Highly Uncertain Prospects for 2021

The COVID-19 pandemic represents a new kind of economic shock for countries in the region that has unique characteristics. While the human toll of the pandemic has been tragically high, its most frightening dimension may be that it has affected key sectors of the region's economies with a speed and persistence that few could have imagined only a year ago. One reflection of this has been the impact on GDP growth for 2020 (Figure 2). As noted in the previous edition of this Quarterly Bulletin, the GDP shock in 2020 represented the largest decline in most countries since 1975.

Guyana is the one exception. The decline in average oil prices during the year did lower the expected value of oil exports and hence the expected GDP growth rate. Still, the economy expanded by 43.5 percent in 2020, while the non-oil economy shrank by 7.3 percent (see the Guyana country section for more details.)



### **Two Types of Economic Shocks: The COVID-19 Pandemic and Natural Disasters**

The COVID-19 pandemic is a global public health event. From an economic perspective, there are both similarities and differences between a pandemic economic shock and the economic impact of a natural disaster. In general, the pandemic has had a more direct effect on the flow of GDP via the reduction of face-to-face service sectors and, most importantly for the Caribbean, the tourism sector. Globally, the loss of human life has also been enormous and tragic, surpassing 3 million people.

Hurricanes and other natural disasters destroy physical and natural capital (e.g., mangroves or forests), and they can take a terrible toll on human capital through injury and the loss of life. For natural disasters, however, the direct impact on the flow of GDP often is smaller than that of the recent pandemic shock. For example, ECLAC and IDB (2020a, 2020b, 2020c) examine the impact on The Bahamas of Hurricanes Dorian, Irma, and Matthew, dividing the costs into three categories: (i) direct physical damage; (ii) revenue and other income losses; and (iii) additional costs (mostly debris removal). In terms of lowering GDP growth, the studies estimate that the effects were 1 percentage point for Dorian, 0.4 of a percentage point for Irma, and 1.1 percentage points for Matthew. Compare that to the strikingly negative GDP growth rates in Figure 2 above. On the other hand, the studies estimate that direct physical damage from the three hurricanes as a share of GDP was 18 percent (Dorian), 0.3 percent (Irma), and 3 percent (Matthew). It can be seen that the direct damage losses to both the public and private sectors can be multiples of the declines in GDP growth in the cases of Hurricanes Dorian (on a very large scale) and Matthew.





That said, there might be potentially large deleterious effects on people and economic balance sheets stemming from both pandemics and natural disasters that are difficult to quantify. Heinen, Khadan and Strobl (2019) document significant effects of hurricanes on inflation across the Caribbean that translate into large declines in monthly welfare. In terms of labor markets, Pecha (2017) shows that the incidence of hurricanes not only pulled people into unemployment but also significantly affected the odds of transitioning from the formal to the informal sector in Jamaica. Regarding human capital accumulation, Beuermann and Pecha (2020) found that hurricanes had long-term effects on the physical development of children of expectant mothers in coastal-rural areas of Jamaica who were pregnant during the storms.

Similarly, studies are under way in many countries on the potential long-term effects of distance learning and psychological stress from social distancing caused by the COVID-19 pandemic. “Long haul” COVID-19 symptoms may also hurt workers’ ability to be productive even after the spread of the disease declines. In addition, there appear to be gender differences in terms of the impact.<sup>2</sup> Finally, other forms of “economic scarring” from the pandemic pose a risk.<sup>3</sup> The sharp economic downturn has forced firms to borrow to meet liquidity needs, and households have fallen behind on rent or mortgage payments. Many of these effects have yet to be quantified, partially due to active measures that have been undertaken by governments, central banks, and financial institutions ranging from direct capital injections for corporates to forbearance on the part of private lenders. These actions have helped stem the tide of bankruptcies and foreclosures that might otherwise have already taken place in the absence of such measures. But this also means that it is difficult to tell just how severe the impact has been for corporate and bank balance sheets thus far. The tourism sector is also susceptible to this form of economic scarring.

On the positive side, firms have been adjusting business processes, and governments have been advancing in digitalization in response to the pandemic. This form of innovation could lead to productivity increases that are sustained into the post-pandemic period.<sup>4</sup>

### ***Key Commodity Prices Strengthen but Remain Volatile***

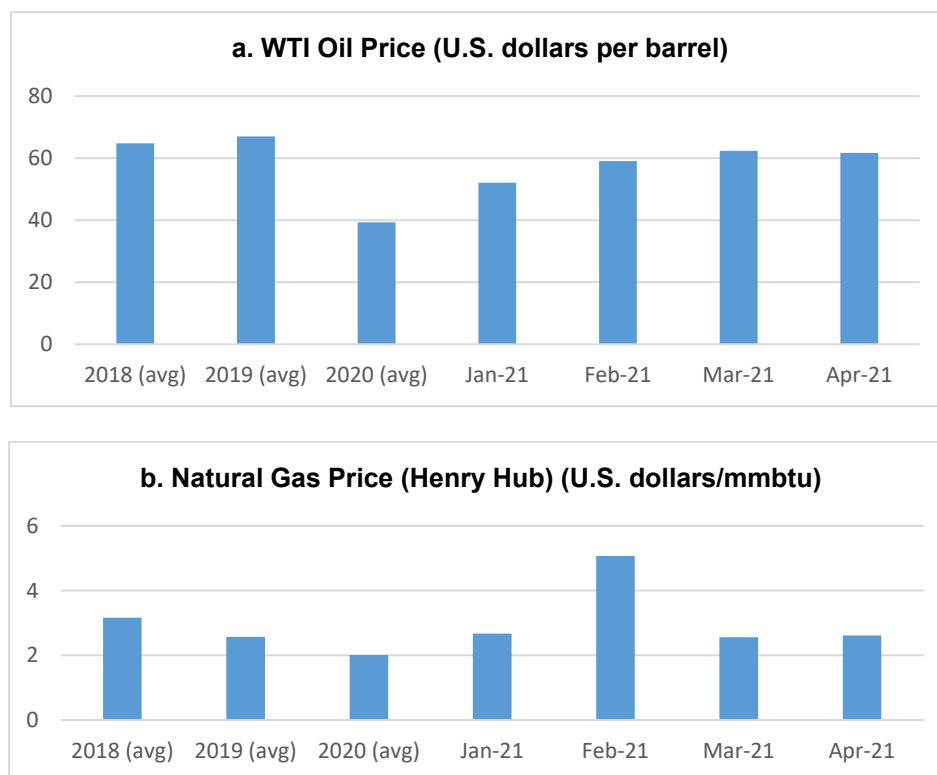
The rise in commodity prices and, in particular, oil and natural gas prices, helps prospects for the commodity-dependent economies (Figure 3). On the other hand, that rise poses risks for the tourism-based economies, especially in terms of the import bill for hydrocarbons, but also potentially through food imports. Both demand and supply factors are uncertain, including the potential supply response from the fracking sector, and upcoming supply negotiations of the OPEC+ group of oil exporters. Price developments should be monitored closely during the year. The price of gold, which is key for Suriname and still important for Guyana, remains strong, but developments in macroeconomic policies in major world economies could have an impact on that price as the global economy evolves. At the end of April, the IMF announced a staff level agreement with government of Suriname for a three-year Extended Fund Facility (EFF). The proposed amount is for approximately US\$ 690 million over three years.

<sup>2</sup> See Giles Alvarez and Khadan (2020) for more details on the gender dimension for the Caribbean.

<sup>3</sup> See the discussion by the International Monetary Fund’s Chief Economist, available at <https://www.imf.org/external/pubs/ft/fandd/2021/03/averting-a-great-divergence-gopinath.htm>; see also IDB (2021).

<sup>4</sup> See, for example, the feature in The Economist magazine: <https://www.economist.com/finance-and-economics/2020/12/08/the-pandemic-could-give-way-to-an-era-of-rapid-productivity-growth>

Figure 3. Oil and Natural Gas Prices



Source: World Bank (2021a).

#### D. The Shock to Tourism Caused by COVID-19 in 2020

As discussed in previous publications (Mooney and Zegarra 2020), COVID-19 represents an extreme outlier in terms of its implications for tourism. According to the United Nations World Tourism Organization (UNWTO), global international tourist arrivals contracted 73.1 percent in 2020 (UNWTO 2021c), compared to only a 4.0 percent decline in 2009 during the global financial crisis and a mere 0.4 percent decline during the 2003 SARS outbreak (Figure 4).<sup>5</sup> Altogether, the tourism sector's contribution to global GDP plummeted to US\$4.7 trillion in 2020 (5.5 percent of the global economy) from nearly US\$9.2 trillion the previous year (10.4 percent of the global economy) (WTTC 2021a). Moreover, according to UNWTO (2021a), the collapse in international travel represents an estimated loss of US\$1.3 trillion in export revenues worldwide—more than 11 times the loss during the 2009 global economic crisis. In terms of employment, the COVID-19 crisis has resulted in a loss of 62 million jobs (WTTC 2021a). Although substantial, the number of jobs lost has been much less than originally projected.<sup>6</sup> According to the World Travel and Tourism Council (WTTC), job

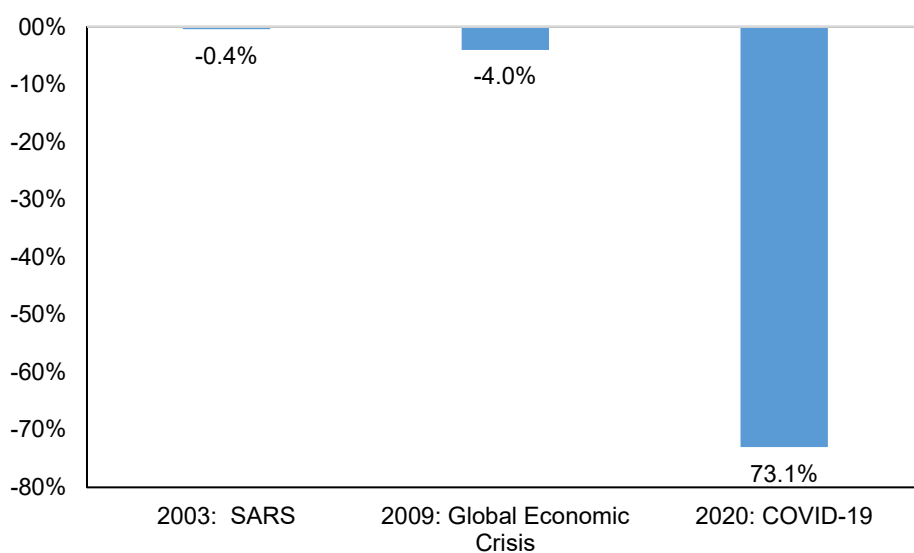
<sup>5</sup> It should be noted that for those developing countries that had SARS infections, there was a strong and statistically significant correlation between infections and the decline in tourism (IMF 2021b).

<sup>6</sup> Several organizations estimated that the crisis put 100 million to 120 million direct tourism jobs at risk, and up to 174 million jobs at risk if both direct and indirect effects are considered (UNWTO 2021a; WTTC 2020a).



retention schemes seem to have saved millions of jobs. Given tightening fiscal space and the slow recovery, the threat to the current 272 million travel and tourism jobs remains a concern. An important proportion of the jobs lost were from small and medium-sized enterprises and involved the most vulnerable population groups.

**Figure 4. Unprecedented Global Decline in International Tourist Arrivals**



Source: UNWTO (2021c).

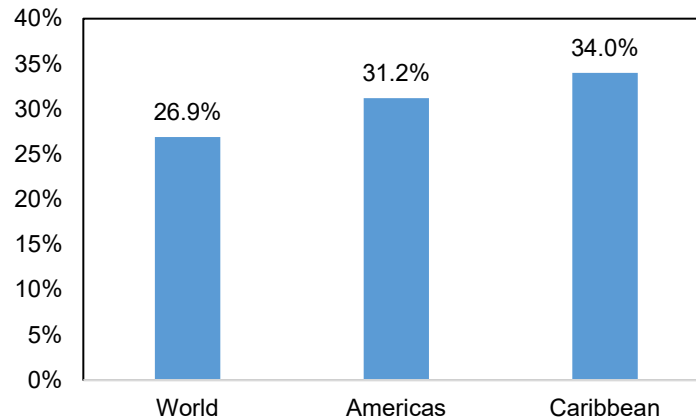
As noted in previous editions of this Quarterly Bulletin, The Bahamas, Barbados, and Jamaica are among the 15 most tourism-dependent economies in the world, according to the updated version of the Tourism Dependency Index (See Annex).

Based on a database developed from various national sources, a breakdown is also now available for international arrivals to the three most tourism-dependent economies—The Bahamas, Barbados, and Jamaica (Figure 6). In this context, the first quarter of 2020 saw air and cruise ship arrivals at between 77 and 85 percent of their 2019 levels, followed by a precipitous contraction to near zero arrivals in the second quarter. By the third quarter, arrivals had improved to between 2 and 14 percent of their 2019 same-quarter levels, depending on the country. Overall, 2020 represented a contraction of international visitor arrivals of 76 percent for The Bahamas, 67 percent for Barbados and 69 percent for Jamaica. This is in line with the estimate by the UNWTO (2021b) of a 66 percent contraction of international tourist arrivals for the broader Caribbean region in aggregate (Figure 5, panel a).



**Figure 5. International Visitors and Tourist Arrivals in 2020 versus 2019 (percent)**

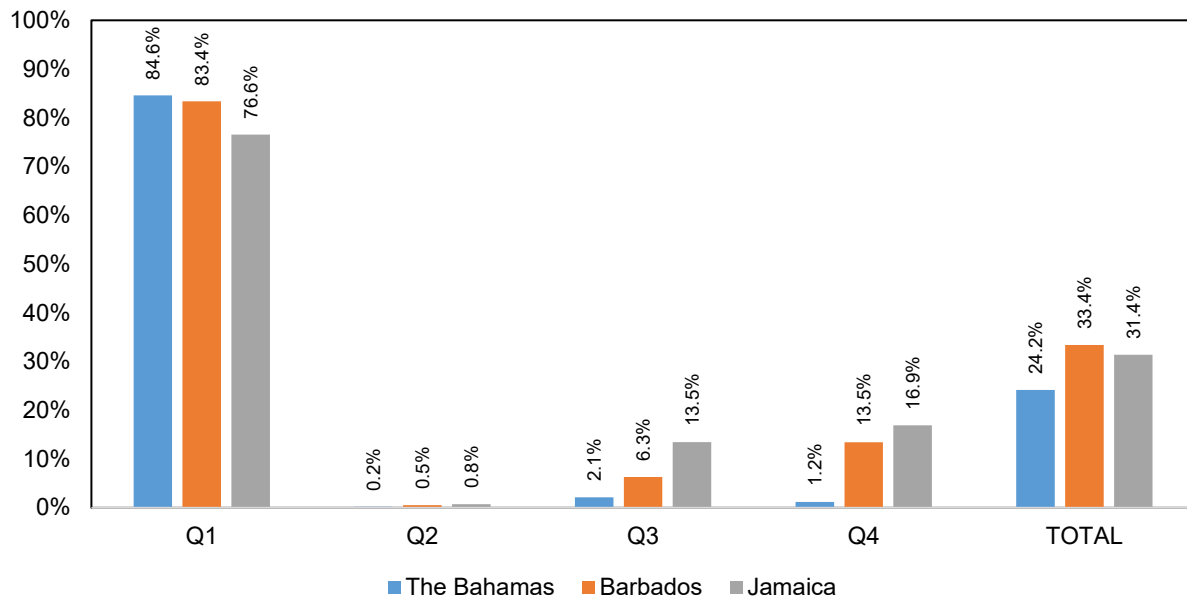
**a. International Tourist Arrivals in 2020 as a Percentage of 2019 Annual Arrivals, by Region**



Source: UNWTO (2021c).

Note: "Caribbean" includes the entire Caribbean region rather than just the six countries covered in this report. WTO definition of international tourism arrivals does not include "excursionists," like cruise ship passengers.

**b. International Visitor Arrivals in 2020 as a Percentage of Quarterly Arrivals in 2019: The Bahamas, Barbados, and Jamaica**



Sources: Authors' calculations based on data from The Bahamas (Tourism Today 2021); Barbados (Central Bank of Barbados 2021); and Jamaica (Jamaica Tourist Board 2021).

Note: These national data sources use their own national classifications. In broad terms, the categories are "stopovers" (persons staying 24 hours or more) or cruise ship arrivals (using the cruise ship for their accommodation). This graph includes both stopover arrivals and cruise ship arrivals in calculating the levels compared to 2019.



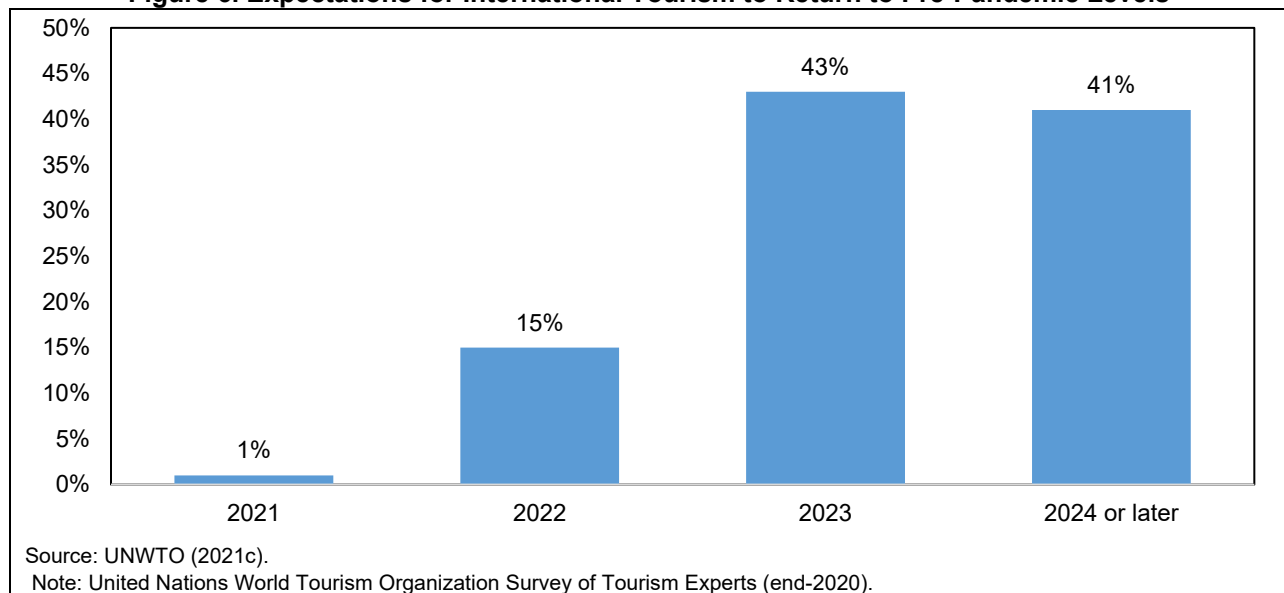


## E. Imagining a Tourism Recovery

Returning to 2019 annual levels of tourism arrivals and expenditures will be gradual. Data are limited, but tourism remained subdued in the first quarter of 2021 in most destinations, and far below the levels of the first quarter of 2020—the last “near normal” quarter. UNWTO (2021c) reports that international tourist arrivals plunged worldwide by 86.7 percent in January 2021 (-75.7 percent in the Caribbean), amid new outbreaks and tighter travel restrictions. This follows a decline of 85 percent in the last quarter of 2020. Given these new data, UNWTO has updated its forecast for 2021, outlining two scenarios. The first considers a bounce-back in July that would result in a 66 percent increase in international arrivals for 2021 compared to 2020 levels, though arrivals would still be 55 percent below levels recorded in 2019. The second scenario considers a potential rebound in September, which would result in a 22 percent increase in arrivals compared to 2020. In that case, 2021 arrivals would be 67 percent below the levels of 2019.<sup>7</sup>

The International Air Transport Association (IATA) is working with a baseline forecast for 2021 of a 50 percent increase in global demand over 2020.<sup>8</sup> This would result in full-2021 global tourism demand at about 51 percent of 2019 levels (IATA 2021a). In terms of reaching 2019 levels, a recent survey of experts by the UNWTO (2021c) found that 41 percent believe that level will be reached only in 2024 or later (Figure 6). The UNWTO is working with three possible scenarios for a recovery to 2019 levels (Table 1).

**Figure 6. Expectations for International Tourism to Return to Pre-Pandemic Levels**



<sup>7</sup> As stated in the UNTWO Barometer, “The scenarios consider a number of factors such as a gradual improvement of the epidemiological situation, a continued roll-out of the COVID-19 vaccine, a significant improvement in traveler confidence and a major lifting of travel restrictions, in particular in Europe and the Americas” (UNWTO 2021c).

<sup>8</sup> The International Air Transit Association reported in January 2021 that forward bookings were down more than 80 percent year-over-year in February/March.





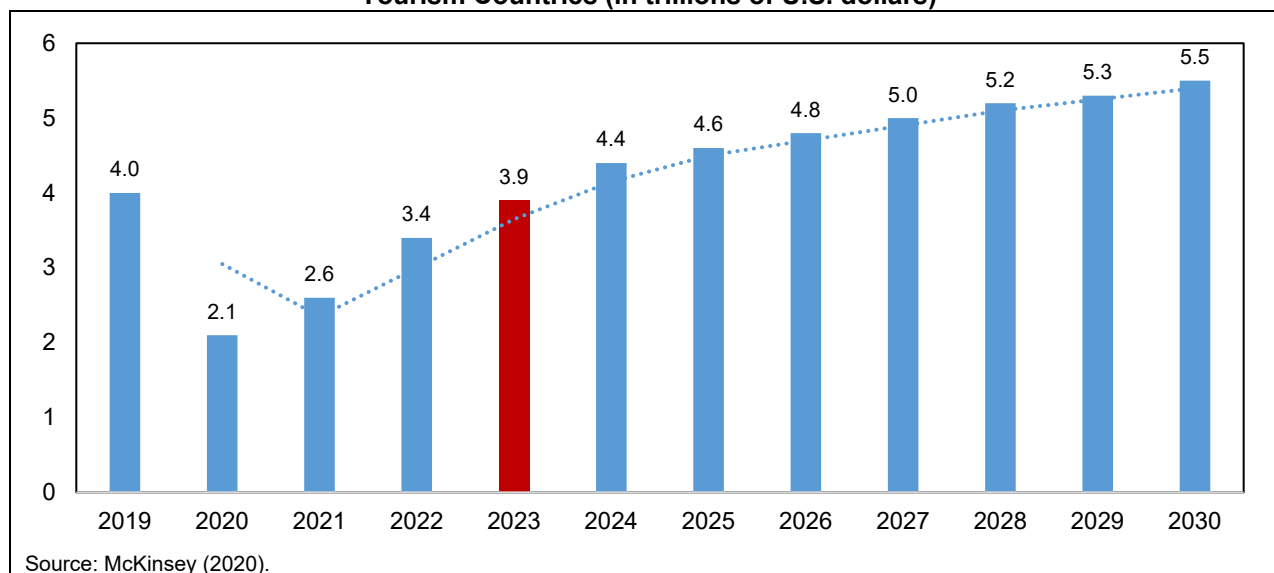
**Table 1. United Nations World Tourism Organization Recovery Scenarios for when International Tourist Arrival will Return to 2019 Levels**

UNWTO Scenarios [Jan - 21]	Date
Scenario 1	Mid - 2022
Scenario 2	Early 2023
Scenario 3	2024

Source: UNWTO (2021c).

Most private sector and international organizations expect a two and a half - to four-year time frame for full recovery to 2019 levels (e.g., UNWTO, International Air Transit Association, International Civil Aviation Organization, Tourism Economics, HVS Hospitality Consulting, STR Data Solutions, Ernst & Young, Deloitte and McKinsey) (Figure 7). That said, there are substantial differences per geographical area, and every expert organization emphasizes the high level of uncertainty and the many factors that could impact the recovery speed. The social psychology of a recovery from a once-in-a-century pandemic is not well understood yet. There could, in fact, be a boom in demand that is not fully reflected in the expert studies.

**Figure 7. Projected Recovery of Annual Domestic and Outbound Tourism Revenue for Top 10 Tourism Countries (in trillions of U.S. dollars)**

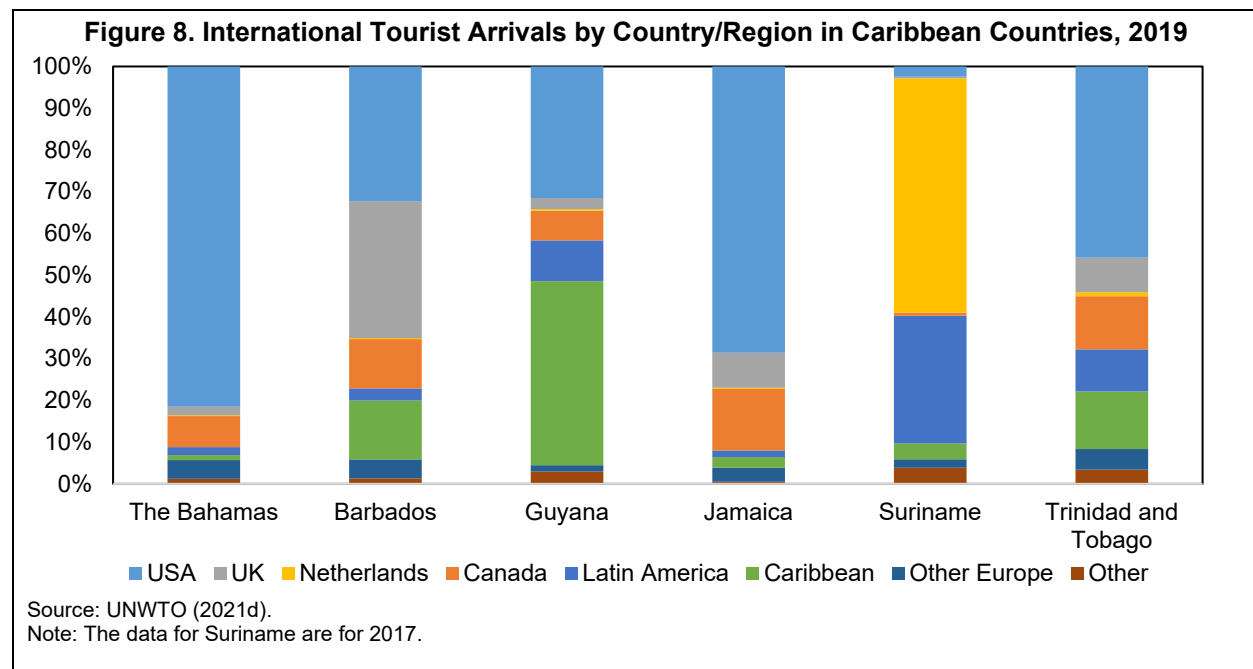


The evolution of demand for tourism services in key source markets obviously is critical to the prospects for a recovery of tourism in the Caribbean.<sup>9</sup> With respect to source markets, for most countries in the region the United States represents the most important source of tourism demand. The United States accounts

<sup>9</sup> As in the trade literature, a standard gravity model can be used for bilateral tourism flows. It shows that geographic proximity, level of income, and cultural similarities are positively associated with stronger tourism flows (IMF 2021b).



for about 82 percent of all visitors to The Bahamas, 69 percent to Jamaica, and 32 percent to Barbados (Figure 8). The United Kingdom is the most important source of tourism demand for Barbados, representing about 33 percent of all visitors, and is also an important source of visitors to Jamaica and Trinidad and Tobago, where it represents about 8 percent of all arrivals, based on the latest available data. Visitors from Canada represent about 15 percent of arrivals to Jamaica, and around 12 percent to both Barbados and Trinidad and Tobago. In the case of Suriname, about 56 percent of visitors are from the Netherlands.



The sections below highlight some of the main drivers of the recovery. Other drivers will be the subject of additional upcoming research.

## Main Drivers of the Recovery

### (1) The Evolution of the Pandemic and the Vaccine Rollout

Among all of the drivers of the recovery, the one that every expert seems to agree on is the evolution of the pandemic and, more precisely, the new COVID-19 variants, the vaccine rollout, and the vaccine's effectiveness on the new variants (UNWTO 2020). Box 1 provides information on progress in vaccinations in both source and destination markets relevant to the Caribbean. Effective and extensive vaccination is the only way to ensure the end of periodic surges in infections and the associated imposition of border restrictions and domestic lockdowns. Achieving "herd immunity" will depend critically on the effective implementation of vaccination programs and the effectiveness of vaccines in controlling new variants (Table 2).



There are multiple open questions that remain: Will vaccination rates continue an upward trend in source markets? Will vaccinations in Caribbean countries keep pace with competing destination markets and will that be a relevant factor for recovery of the tourism sector? Will confidence in traveling automatically be restored for those vaccinated, in particular as it relates to international versus domestic travel? What is the vaccine's effectiveness with new and potential future variants?

**Table 2. Herd Immunity Projections by Country/Region Prior to the Emergence of New COVID-19 Variants**

Country/Region	Healthcare Workers and High-risk Population Immunized By:	Estimates of When Herd Immunity Will Be Achieved Based on Current Supply Deals
United States	February 22, 2021	April 24, 2021
United Kingdom	April 9, 2021	July 10, 2021
Canada	April 1, 2021	June 9, 2021
European Union	May 9, 2021	September 2, 2021
Latin America	June 26, 2021	March 26, 2022

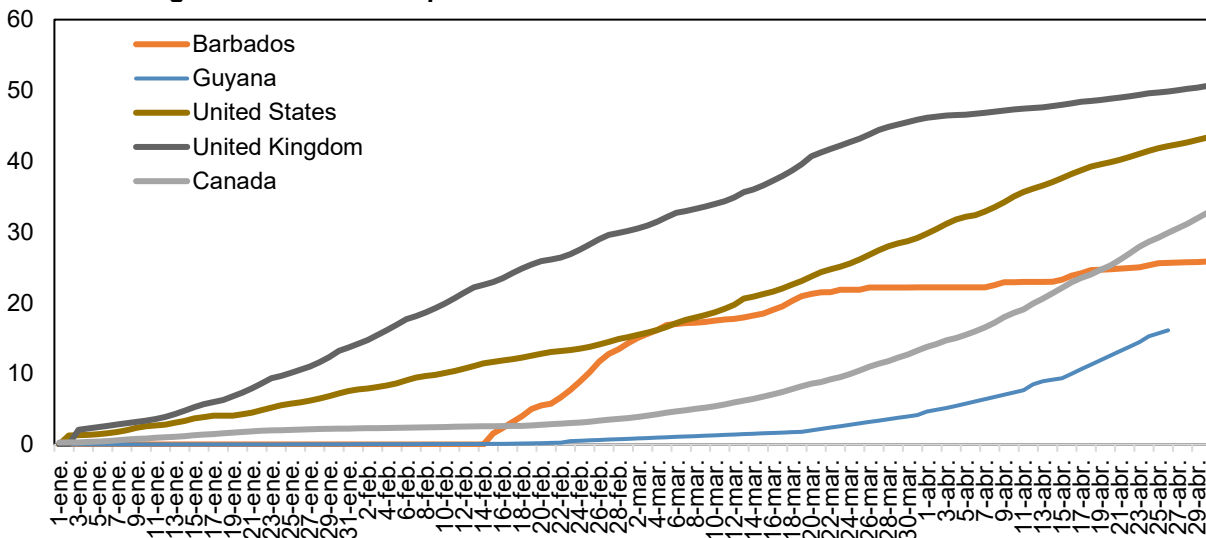
Source: IATA (2021b).

### Box 1. Vaccine Distribution

In terms of tourism source countries, the United States and United Kingdom are well supplied with vaccines, and distribution is proceeding quickly in these countries relative to many other nations across the world (Hegarty 2021) (Box Figure 1). As of end-April 2021, nearly 51 percent of the population in the United Kingdom and about 43 percent in the United States had received at least one vaccine dose. For Canada, the figure was about 33 percent. Looking forward, the United States government has announced that it expects to have vaccinated most willing adults by the end of summer 2021, and in the United Kingdom authorities expect all adults to be offered a first vaccine dose by the end of July 2021. The U.S. Centers for Disease Controls recently announced that fully vaccinated people may travel and that for domestic travel, neither testing nor quarantines are required, according to the guidelines. For international travel, the guidelines state that even fully vaccinated people must get a negative test result before traveling back to the United States (Washington Post, April 2.)



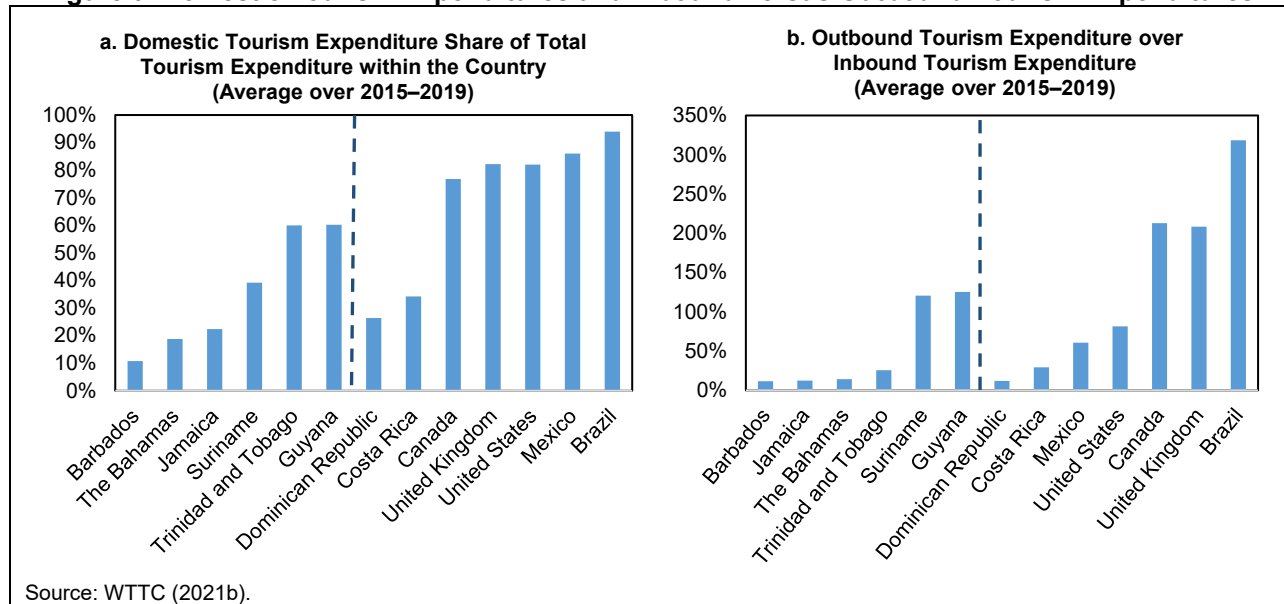
**Box Figure 1. Share of People who received at least one dose of COVID-19 Vaccine**







**Figure 9. Domestic Tourism Expenditures and Inbound versus Outbound Tourism Expenditures**



Indeed, in 2020, domestic tourism was much more resilient than international tourism. According to estimates by the WTTC (2020b), domestic tourism expenditure declined globally by 45 percent. This represents a huge decline, but it is substantially less than the decline in international tourism. Tourism experts have been emphasizing since the beginning of the pandemic that domestic tourism might be the major travel trend shift in coming years, particularly in 2021 and 2022. Domestic tourism and travel close to home will considerably expand in relative terms and will increase its contribution and weight in total tourism demand.<sup>12</sup> Travel sentiment analyses performed since March 2020 have identified domestic tourism and traveling close to home as the preferred alternative for most potential and actual travelers.

Traveler preferences have shifted toward the familiar, predictable, and most trusted—in the pandemic context, it turns out that there is no place like home (or near home) (WTTC 2020c). For example, inbound guest arrivals to North America are forecast to remain 53 percent below pre-crisis levels in 2021, while domestic tourist arrivals are expected to be just 7 percent below 2019 levels. Globally, domestic tourism is expected to reach pre-pandemic 2019 levels by mid-2022 (Hegarty 2021), while international tourism is not expected to recover until the second half of 2024.<sup>13</sup> Even more importantly, by 2024 domestic tourism is expected to be around 25 to 30 percent higher than 2019 levels in some markets. This trend is an opportunity for many countries, but it could indeed have a dampening effect for Caribbean destinations going forward, as domestic tourism looms large in the key source markets for the Caribbean.

<sup>12</sup> See UNWTO (2021c) and IATA and Tourism Economics, Air Passenger Forecasts: Looking beyond the current crisis, February 2021, available at: <https://register.gotowebinar.com/recording/2028852253660704272>.

<sup>13</sup> IATA and Tourism Economics, Air Passenger Forecasts: Looking beyond the current crisis, February 2021, available at: <https://register.gotowebinar.com/recording/2028852253660704272>.





This discussion leads to an important open question: Will Caribbean destinations be “close enough” that, at least for the United States and Canada, the “stay close to home” preference helps rather than hurts the growth of international arrivals in the next few years? Also, how will airline capacity (available seats, frequency, and type of flight) contribute to this perception and potentially condition demand in the next couple of years?

### (3) *The Economic Environment*

Another key variable that will condition the recovery is the economic environment of the main source markets, namely income growth and the income elasticity of overseas travel demand. Stimulus measures in one key market, the United States, are large enough to generate a public debate among economists on whether the economy will overheat.

In this context, studies show that the leisure market will be driven in particular by high earners. Currently, households with an income of US\$100,000 or more represent 24 percent of households in the United States, but they are responsible for 59 percent of total leisure spending on accommodations.<sup>14</sup> In addition, households with an income of less than US\$100,000 have been affected much more substantially by the pandemic than those earning US\$100,000 or more. Therefore, the relative weight of the latter segment is expected to increase even more in the years to come.

Moreover, several studies and travel sentiment analysis show that the preference for domestic tourism or close-proximity international travel will also be affected by the economic environment of the main source markets of the destination. In simple terms, international travel, particularly long-haul travel, is more expensive. Even with regained confidence as the vaccination rate rises, there might be certain demand segments that restrain themselves from traveling internationally if they are still suffering lingering economic effects of the crisis.

On the other hand, there is a substantial Caribbean diaspora that is a traditional source of tourism demand, and there may be pent-up demand to visit the “mother” country. This represents a potential positive for Caribbean tourism moving forward.

This discussion points to multiple positive and negative elements that could influence the pace and strength of a tourism recovery in the Caribbean. The open question remains: Which factors will be more important in the months and years ahead? More specifically, how is the economic crisis and the economic environment going to evolve in the coming months in the main source markets? How will airline, lodging, and cruise prices affect potential inbound tourism demand? How will inbound tourism price and income elasticities evolve in the years to come?

### (4) *Business Tourism Expenditure versus Leisure Tourism Expenditure*

During previous economic downturns, business tourism expenditure was consistently more affected than leisure tourism expenditure, and this crisis is no different (McKinsey 2020). During the 2008–2009 global recession, international business travel from the United States declined by more than 8 percent, compared with a decline of just 2 percent for international leisure travel from the United States. Business tourism GDP

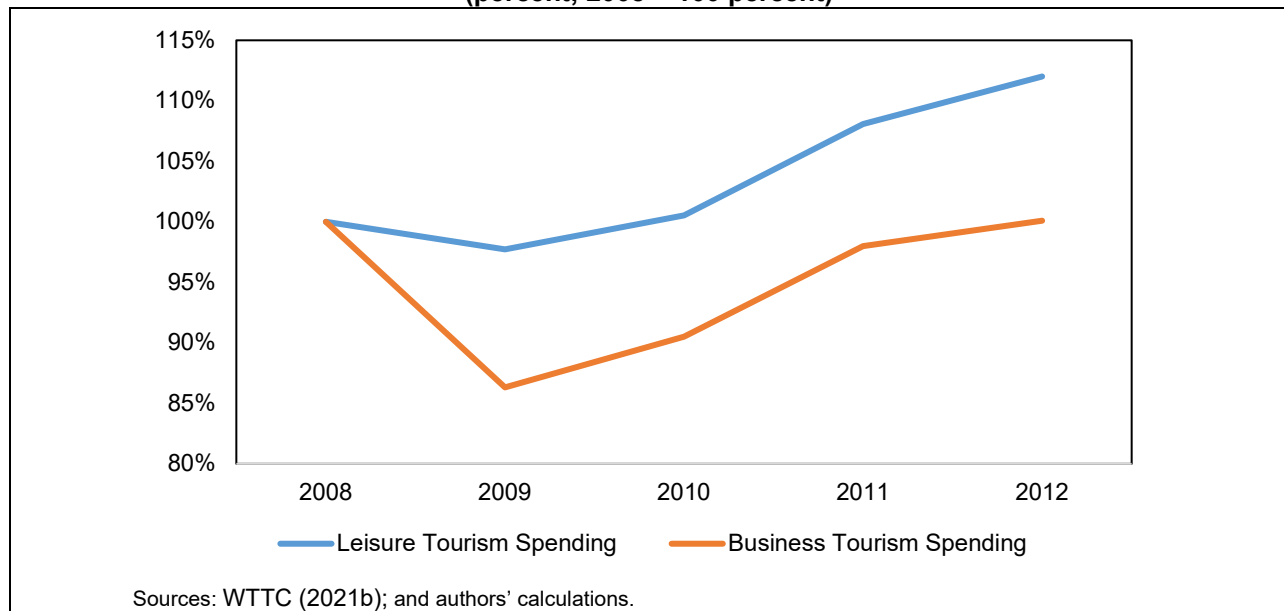
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<sup>14</sup> “Planning for the Recovery,” Presentation by Adam Sacks, President of Tourism Economics, at the American Bus Association Meeting, January 28, 2021. Available at: <https://www.youtube.com/watch?v=4R5DbdYz2tE>.



returned to 2008 levels only by 2012, while leisure tourism GDP had already bounced back by 2010 (Figure 10).

**Figure 10. Leisure versus Business Tourism Recovery Following the Global Financial Crisis**  
(percent; 2008 = 100 percent)



That said, this crisis is different and takes place in conjunction with other driving forces that have accelerated due to the pandemic. First, the order of magnitude of this crisis is not only unparalleled, it is also, most importantly, very different in nature. People have changed their day-to-day routines quite drastically and for prolonged periods of time. Even the most telework-reluctant businesses have been compelled to give telework a chance. Most studies show that telework has worked very well, and that these newly adopted working practices have permitted most companies to considerably reduce their operating costs, including travel cost reductions. In an environment where cost reduction is of a paramount importance, business travel cuts may be maintained, at least in the near future.

Another important difference of this crisis versus previous ones is that tourism crises since 2000 were somewhat contained regionally, whereas COVID-19 has simultaneously affected the entire world (IFC 2020). This global impact enhances the shock and limits the possibility of mitigating the crisis impact by shifting or re-assessing target demand segments and source markets.

Meanwhile, climate change is more evident than ever, and consumers and businesses are becoming more aware of the impact of their activity on climate change and environmental sustainability.<sup>15</sup> In a context in which the pandemic has provided an opportunity to re-evaluate working practices and the management of business relationships, increasing pressure to showcase climate change mitigation and adaptation and other environmentally friendly policies will be an incentive to further limit business travel to that which is

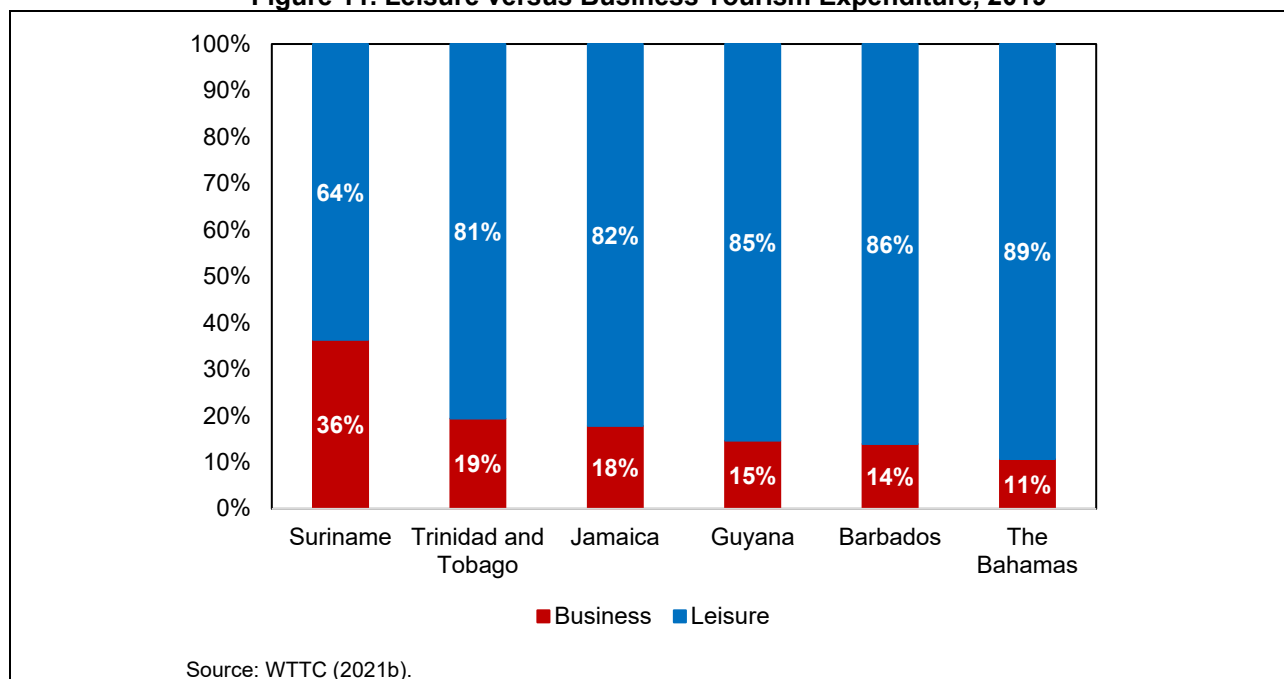
<sup>15</sup> "In a post-pandemic world, what happens to business travel," Economic perspective blog on the Tourism Economics website: <https://www.tourismeconomics.com/about/economist-perspectives-2/in-a-post-pandemic-world-what-happens-to-business-travel/>.



most strictly necessary. Some business leaders have even argued that business relationships can function perfectly well online and that traveling to maintain face-to-face meetings will most likely be cut by half.

Business travel represents a reasonably important share of total tourism expenditure in the Caribbean, though for most countries in the region the business share is below the worldwide average of 22 percent. The range is quite broad, though, from 11 percent in The Bahamas to 36 percent in Suriname (Figure 11). The simple average across all six countries is 19 percent.

**Figure 11. Leisure versus Business Tourism Expenditure, 2019**



It is worth noting that, during the pandemic, a new niche demand segment emerged: the digital nomads. Barbados was the first country in the world to see this new market segment as an opportunity to recover its international tourism demand, and it has implemented its 12-month Welcome Stamp program to facilitate the temporary migration of global workers to telecommute from Barbados.<sup>16</sup> Many other countries around the world have followed suit. In January 2021, Barbados also rolled out a new monitoring app and bracelet called BMSafe for use by all travelers from high- and medium-risk countries.<sup>17</sup>

Nevertheless, other experts consider that face-to-face contact is still relevant for various reasons, and that business travel will eventually bounce back, recovering not only to 2019 levels but also continue to grow

<sup>16</sup> J. Carrington, "Twelve-Month Barbados Welcome Stamp For Visitors," Government Information Service, July 1, 2020, available at <https://gisbarbados.gov.bb/blog/twelve-month-barbados-welcome-stamp-for-visitors/>.

<sup>17</sup> See the Ministry of Health and Wellness BMSafe website at <https://bimsafe.gov.bb/>.



after that. In any case, there is some consensus that international business travel will take longer to rebound than leisure travel (Table 3).

**Table 3. Tourism Economic Recovery Date Forecasts**

Travel segment	Recovery by	Order of magnitude
International business	2024	2024 same levels as 2019
International leisure	2024	In 2024, some growth compared to 2019 levels
Domestic Business	2023	In 2023, some growth compared to 2019 levels
Domestic leisure	2022	In 2022, nearly 10% growth compared to 2019 levels

Source: IATA and Tourism Economics, Air Passenger Forecasts: Looking beyond the current crisis, February 2021, available at: <https://register.gotowebinar.com/recording/2028852253660704272>  
 Note: Percentages are approximate.

Several important open questions remain: What will be the medium-term impact of the COVID-19 remote work experience, combined with climate concerns, on future levels of business travel? How will the global economic downturn affect business travel and for how long? Which business travel segments will be more affected?

#### (5) *Who Are Your Source Markets?*

All of the above drivers converge on the issue of prevailing conditions in key source markets for tourism. The specific variables that are distinct among the different source markets include the vaccine roll-out, economic environment, domestic market size, outbound market size, geographical location, and potential accessibility to the tourism destination.

For example, one key source market for the Caribbean, the United States, might increase its relative weight in global tourism demand in the next two to five years. This stems from the country's current vaccination roll-out pace, its better economic environment in relative terms compared to other countries, and its pre-pandemic outbound market size, which matters for generating economies of scale (e.g., for flight network planning and route maintenance).

Vaccination roll-out stands out as probably the most relevant tourism demand driver in this case. In the January 2021 "Coronavirus Travel Sentiment Index Report" by Destination Analysts, half of the American travelers surveyed said they will continue to avoid travel until vaccines are widely available.

That said, surveys reveal that travel remains on Americans' minds. A survey found that one-third of Americans said they had daydreamed about travel the previous week, and a quarter have talked to friends or family about future travel and have researched travel ideas online (U.S. Travel Association 2021). Moreover, travel sentiment analyses showcase that Americans have positive attitudes towards travelling. Half of American travelers surveyed have expressed that they are excited about travel in the near future and 55 percent say they are in a "ready to travel" state-of-mind.

In addition, the current perception by Americans that travel and leisure activities in general are unsafe is considerably lower than in April 2020: 49 percent of American travelers rate travel and other leisure activities as "somewhat unsafe" or "very unsafe," a considerable improvement from the 70 percent who stated that back in April 2020 (Destination Analysts 2021).





Consumer sentiment surveys also reveal some positive information for Caribbean destinations:

- 60.3 percent of surveyed American travelers said they are “interested” or “very interested” in “enjoying scenic beauty.” Among all the activities listed, this was cited as the most popular one.
- The next two most popular activities are “outdoor warm weather activities” (57.5 percent) and “visits to beach destinations and resorts” (55.2 percent).
- The percentage of Americans interested in “visits to foreign countries” has increased considerably since May 2020. In January 2021, 39.5 percent of Americans surveyed said they were interested” or “very Interested” in doing so, up from 30.4 percent back in May 2020.

On the other hand, the surveys reveal an increasing interest in domestic travel, with 54.5 percent of those surveyed wanting to “visit U.S. national parks” (up from 46.7 percent in May 2020) and 54.3 percent wanting to “take road trips.” In addition, Americans have extensive possibilities to travel domestically. The U.S. domestic tourism market is extremely well-established. Given all the uncertainties—including lagging consumer confidence and the cost to travel to certain international destinations—Americans might end up overwhelmingly choosing local travel in 2021 again.

As noted in the previous section, the United States, United Kingdom, and Canada are the main source markets for the “big three” Caribbean tourism economies: The Bahamas, Jamaica, and Barbados. While this section has presented some data on the dynamics of travel preferences in the United States, similar factors are likely to be relevant in the other key source markets.

Key open questions remain. How will relevant conditions evolve in source markets in the coming months and years? Will most of the demand contained in 2020 boom once confidence is back? Will consumer preferences change permanently (safety, health concerns, proximity to home, open doors, etc.), or will these changes be temporary?

#### *Other Factors*

There are several additional factors that could affect the pace of recovery of the tourism sector. These include the perceived uniqueness of the destination, the type and characteristics of the destination’s hospitality ecosystem, the age range and distribution of the destination main market segments, the main distribution channels of the destination, and the perceived health and safety of the destination.

Among those additional factors, accessibility to the destination is going to be key.

Cruising restrictions and U.S. Centers for Disease Controls guidelines for cruise ships operating or seeking to operate in U.S. waters will severely affect the potential recovery in cruise passenger demand.

Moreover, given the losses that airline companies experienced in 2020 (and that are expected to continue experiencing until at least the end of 2021) (IATA 2021c, 2021d), preserving an adequate level of air connectivity is going to be very challenging as limited international demand continues and new demand patterns emerge (such as a strong preference for direct flights). According to the International Civil Aviation Organization (ICAO), international air capacity fell by -75 percent in January 2021 year-over-year. As per ICAO’s April 1, 2021 COVID-19 impact analysis on civil aviation, the overall number of seats offered by airlines for 2021 is expected to decrease by between 51 and 62 percent compared to 2019 levels (ICAO 2021). In addition, the IATA recently reported that the number of airport pairs in March 2021 was only 50





percent of the connections existing pre-pandemic in March 2019 (IATA 2021b). The frequency of those services was only 48 percent of pre-pandemic levels.

Restoring air connectivity will therefore be critical to ramping up the tourism sector recovery and, particularly, the overall economic recovery of the tourism-dependent Caribbean countries.

## **F. Conclusion**

The COVID-19 pandemic is still with us and vaccinations are of paramount importance to both preserve lives and establish the basis for a recovery in tourism, and therefore a general economic recovery in tourism-dependent countries. The pandemic also limits the scope in the short run for expanding the substantial potential for tourism in commodity-dependent economies. As noted in the introduction, the Caribbean is faced with an unprecedented challenge and degree of uncertainty in trying to chart the path forward. The elements driving this uncertainty are laid out in the questions raised by the discussion of the main drivers of the recovery in the previous section. IDB tourism sector specialists continue to analyze the prospects, and work is under way to develop on a tourism recovery index.

In summary, it is unlikely that a “V-shaped” recovery will occur. The most likely scenario is a recovery timeframe between 2.5 to 4 years to return to pre-COVID-19 levels of tourism arrivals and expenditures. Volatility in the path to recovery is likely as well. In the meantime, affected firms and workers will need continued support.

These circumstances imply a premium for action in particular areas:

- Safety strategies, with bio-protocols and reopening and closing plans, need to be closely monitored and adjusted to changing circumstances. Communication is key, and cross-country coordination can ensure a common approach and establish a common brand for safe Caribbean destinations.
- In this uncertain environment, market intelligence and holistic tourism intelligence systems are more important than ever. These systems should rely not only on traditional statistics, which remain very relevant and the pillar of most tourism information systems, but also on real-time actual travel bookings and tourism expenditure data. Frequent consumer sentiment surveys also can be a useful guide.
- Another truly essential factor is going to be innovation, ranging from innovations in demand analysis to comprehensive safety and security strategies, product distribution, carrying capacity, supply chain efficiencies, and destination management. Innovation and adoption of communication and information technologies at all levels is no longer something optional that can be postponed. It is an immediate necessity. Adjusting the tourism product to new preferences may be necessary for Caribbean destinations to fully participate in an eventual global tourism recovery. Analysis of this dimension will be the subject of future IDB research.
- Preserving certain levels of accessibility to the destination (particularly via air connectivity) and strategically increasing access to accommodate potential demand growth are going to be very relevant going forward. Analyzing the main market segments of each destination and focusing on prioritizing accessibility for the destination’s main target markets, based on thorough market intelligence analyses, could definitely make the difference in terms of recovery.
- The COVID-19 crisis has reminded us of the risk of natural disasters and the role of climate change. Most tourist activity is generated by natural, cultural, and heritage attractions. Their preservation is

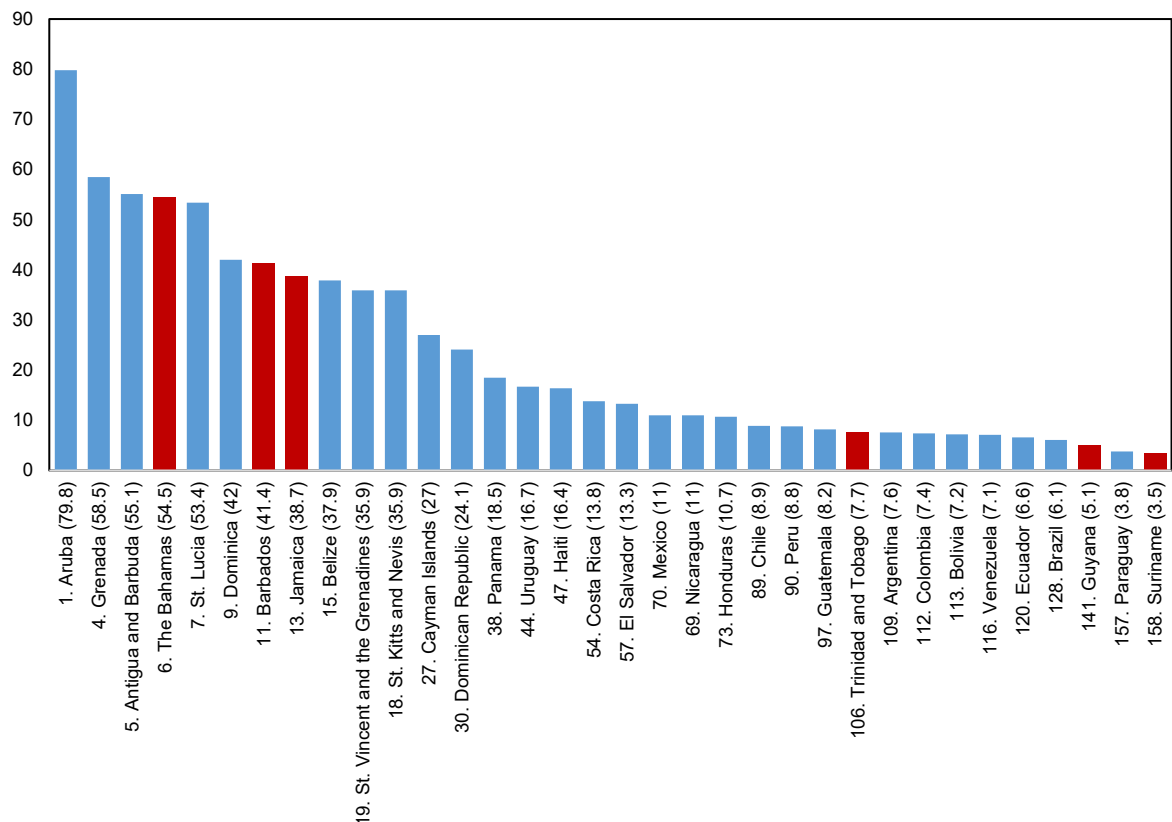


therefore key. Sustainability considerations are decisive for most tourism demand segments. Therefore, in addition to ethical issues, respect for the environment and the preservation and enhancement of natural and cultural tangible and intangible capital should be accepted as an essential element to improve tourism competitiveness.

Over the medium to long term, there are opportunities on the supply side to develop new tourism products and destinations to match evolving global tourism demand. Natural and cultural assets are abundant, and potential growth areas include eco-tourism, cultural tourism, remote work tourism, education tourism, and retirement tourism. The latter could also be complemented by well-being and medical tourism in some countries.

#### Annex: Updated Tourism Dependency Index

**Figure 12. Tourism Dependency Index (2019): Latin America and The Caribbean**  
 (with rank vs. all 166 other countries for which the index was calculated)



Source: Mooney and Zegarra (2020)—updated to latest available data.

Note: The number preceding the country name represents its rank out of 166 countries around the world for which data were available. The index is calculated using five-year averages (2015–2019) 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. That figure is in the parentheses following each country name in the figure. The index includes 35 countries in Latin America and the Caribbean for which data were available.



**Table 4. Indicators of Tourism Dependence for Latin American and Caribbean Countries**

	Tourism Dependency Index, 2019	Average Contribution to Exports, 2015–2019 (percent of exports)	Average Contribution to GDP, 2015–2019 (percent of total GDP)	Average Contribution to Employment, 2015–2019 (percent share of total employment)
Aruba	79.8	88.0	70.9	80.6
Grenada	58.5	87.8	42.8	44.8
Antigua and Barbuda	55.1	42.4	39.4	83.5
The Bahamas	54.5	73.8	40.6	49.0
St. Lucia	53.4	50.7	37.7	71.8
Dominica	42.0	51.0	36.5	38.5
Barbados	41.4	65.3	28.5	30.6
Jamaica	38.7	57.3	28.6	30.2
Belize	37.9	43.7	33.9	36.0
St. Vincent and the Grenadines	35.9	39.8	26.3	41.5
St. Kitts and Nevis	35.9	27.9	25.8	54.0
Cayman Islands	27.0	25.0	24.4	31.5
Dominican Republic	24.1	38.8	16.3	17.2
Panama	18.5	24.5	15.0	16.0
Uruguay	16.7	18.8	15.7	15.5
Haiti	16.4	31.1	9.1	9.2
Costa Rica	13.8	18.9	11.4	11.1
El Salvador	13.3	18.7	10.3	10.9
Mexico	11.0	5.0	15.1	12.9
Nicaragua	11.0	11.8	10.5	10.8
Honduras	10.7	7.4	12.2	12.7
Chile	8.9	4.9	10.1	11.7
Peru	8.8	9.4	9.4	7.7
Guatemala	8.2	11.2	6.4	6.8
Trinidad and Tobago	7.7	5.6	7.7	9.9
Argentina	7.6	6.5	8.9	7.4
Colombia	7.4	12.5	4.6	5.0
Bolivia	7.2	9.3	6.0	6.3
Venezuela	7.1	3.4	8.8	9.2
Ecuador	6.6	10.0	4.9	5.0
Brazil	6.1	2.5	7.8	8.0
Guyana	5.1	4.4	5.3	5.6
Paraguay	3.8	2.8	4.1	4.4
Suriname	3.5	3.7	3.2	3.4

Source: Mooney and Zegarra (2020), updated with latest available data.

Note: The Tourism Dependency Index (TDI) is calculated using five-year averages from 2015 to 2019 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. The table presents the TDI scores for 35 countries in Latin America and the Caribbean for which data were available. The color scale represents the relative contribution of the variable when compared to other countries (red = highest / blue = lowest).



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## COUNTRY SUMMARIES

### I. The Bahamas

Gralyn Frazier

#### Overview of COVID-19

**The Bahamas has flattened the curve of the second COVID-19 wave, according to the director of the country's National HIV/AIDS and Infectious Disease Programme.** When taking different metrics into account, such as daily cases, hospitalizations, and deaths, the numbers have stayed consistent and within the capacity of the country's healthcare system. In February there was an average of 13 cases a day with four total deaths, similar to January, when cases averaged 11 a day and there were five deaths.

**This trend has alleviated pressure on an inadequate healthcare structure that experienced a shortage of beds and healthcare workers during the previous quarter when cases were spiking.** As of end-April 2021, there had been 10,453 total COVID-19 cases and 199 total deaths in the Bahamas. Lockdown measures ceased as of the end of March, but a national 10 pm curfew remains in place, as well as social distancing measures such as limited numbers for gatherings and mandatory use of personal protective equipment when in public places.

**The Bahamas received 20,000 doses of the Oxford-AstraZeneca vaccine, donated by the government of India, in early March.** Another 33,600 doses purchased from the COVAX Facility (and financed by the IDB) arrived at the end of March. The Ministry of Health expects the vaccination process for these doses will be completed by the end of May.

#### Economic Update

**Economic activity in The Bahamas contracted significantly in 2020.** The recent shocks dramatically worsened the downturn of the economy, with the pandemic hindering recovery efforts in the wake of Hurricane Dorian. The storm ravaged two of the most populated islands in the country and was projected to dampen the economy by 0.9 percent in 2020 before the pandemic hit six months later and exacerbated that contraction to 16.3 percent.<sup>18</sup> The measures put in place globally to reduce the spread of the virus crippled the tourism sector, as international travel restrictions drastically reduced the number of arrivals to tourism-dependent economies like The Bahamas, and nationwide lockdowns halted economic activity almost entirely.

**The government deficit rose to \$359 million in the second quarter of FY2020/2021 compared to \$147.4 million the previous year due to a decline in revenue and an increase in expenditure.** The primary contributor to the \$144.6 million (26.4 percent) decrease in total revenue was a sharp decline in tax collection as a consequence of the economic contraction, along with a number of tax relief initiatives by the government, for businesses affected by Hurricane Dorian or COVID-19. Since Hurricane Dorian, the government has provided \$261.8 million in tax relief, including \$10 million in waived business license fees and \$104.7 million in job security initiatives across a number of sectors. Aggregate expenditure, on the

<sup>18</sup> See International Monetary Fund, *World Economic Outlook*, April 2021.





other hand, climbed by \$67 million (9.6 percent). This was largely due to a 12.4 percent rise in current spending stemming from increased disbursements for social benefits, a consequence of displaced households due to Hurricane Dorian and COVID-19. To date the government has spent \$10.2 million on COVID-19-related health measures and provided 72,000 households with food assistance of up to \$24 million. Moreover, interest payments on public debt rose by \$12.7 million and subsidies increased by \$10.5 million, suggesting increased support to both public corporations and private companies. Additionally, \$100.2 million in unemployment benefits for up to 13 weeks were paid out, along with \$124.8 million in government assistance.

**Economic recovery will depend critically on a recovery in the tourism sector.** Below is a summary of key issues affecting the sector and a discussion of the potential for recovery.

## **Tourism Sector**

### ***History***

**Since the inception of the Hotels Encouragement Act in 1949 designed to stimulate the construction of hotels by offering concessions, The Bahamas has seen the number of visitors advance exponentially.** Several new hotels were soon built and within the next five years after passage of the act the number of visitors had increased 345 percent, from 32,000 to 142,689. The following years saw continued exponential growth as the U.S. embargo on Cuba prevented Americans from travelling there, and construction of casinos made The Bahamas an attractive alternative. In 1968, The Bahamas experienced its first one million visitor year.

**The following year a new government through majority rule was elected, and the country gained independence from the United Kingdom a few years later.** This created uncertainty within the tourism investor community and led to several investors abandoning the country, obliging the government to take over the operation of a number of hotels in order to maintain employment levels. Despite this, in the late 1970s new hotel rooms were built and the country's tourism numbers continued to rise to 2 million tourists in 1982. Of that total, 1.1 million were stopovers, 700,000 were cruise visitors, and 200,000 were day visitors. The growth persisted and the country continued to reach milestones, hitting the 3 million arrival mark in 1986. This boost, however, was essentially a direct result of increased cruise visitors, whose numbers doubled within the four years from 700,000 to 1.5 million. The government noted that the surge in cruise traffic did little to boost revenue within the country, as the spending of more than 14 cruise visitors was equivalent to just 1 stopover visitor. This trend continued, and in 1991, arrivals peaked at 3.7 million, with 2.1 million (57 percent) cruise visitors. The U.S. Gulf War had a huge effect on stopover visitors, whose arrivals declined in 1992 to 1.39 million. In contrast, cruise visitors peaked that year at 2.1 million. The global financial crisis was another inflection point when arrivals fell, and it took several years to recover. Figure 1 presents data on arrivals in historical perspective.

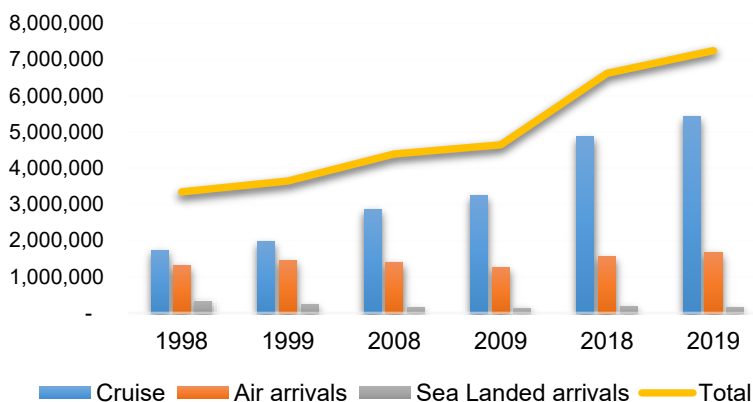
**In more recent years, arrivals had been on a rising trend up until 2019.** Cruise visitors continued to represent three-fourths of arrivals to the country. However, based on data on the average expenditure per





tourist, it now takes 28 cruise visitors to equal the spending of 1 stopover visitor.<sup>19</sup> Homeporting of cruise lines could help significantly in increasing the amount that cruise visitors spend in the country.

**Figure1. The Bahamas: Tourism Arrivals over Two Decades**

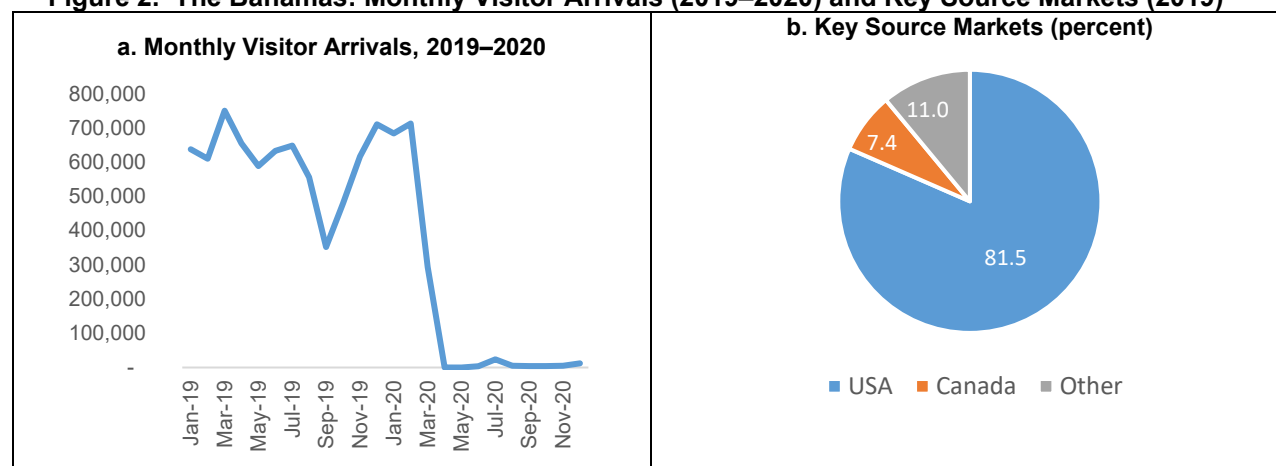


Source: Ministry of Tourism ([https://www.tourismtoday.com/sites/default/files/air\\_sea\\_landed\\_cruise\\_arrivals\\_1998-2019\\_0.pdf](https://www.tourismtoday.com/sites/default/files/air_sea_landed_cruise_arrivals_1998-2019_0.pdf)).

### ***The COVID-19 Crisis and the Potential for Recovery***

The COVID-19 crisis caused a historic drop in tourism, as borders closed, and necessary containment measures were imposed. Arrivals plummeted to near zero (Figure 2, panel a). The first quarter of 2021 was also slow, based on initial numbers. The question becomes: How soon and how fast can the sector recovery?

**Figure 2. The Bahamas: Monthly Visitor Arrivals (2019–2020) and Key Source Markets (2019)**



Source: World Tourism Organization.

<sup>19</sup> See The Bahamas Ministry of Tourism's Tourism Today website at [https://www.tourismtoday.com/sites/default/files/all\\_bahamas\\_demographics\\_1996\\_to\\_2019\\_1\\_0.pdf](https://www.tourismtoday.com/sites/default/files/all_bahamas_demographics_1996_to_2019_1_0.pdf).



**By far and away, the United States is the largest source market for international tourism arrivals in The Bahamas (Figure 2, panel b).** Moving forward, one of the positives is that the United States is accelerating its vaccination program, which should give potential travelers more confidence to travel. Vaccinated people may still exhibit a “home bias” in making their travel plans and choose domestic destinations, but, that said, the geographic proximity of The Bahamas may give it an advantage over other more distant international destinations.

**In addition, even though domestic tourism only averaged 19 percent of total tourism expenditure within the country (2015-2019), the archipelago contains many natural wonders that could serve for an expansion of the domestic segment during a recovery phase.** Many analysts believe that business travel will recover more slowly than leisure travel, but in The Bahamas business travel accounts for only 11 percent of total tourism expenditure, half the global average.<sup>20</sup> Finally, as noted above, homeporting could significantly increase spending by cruise travelers, as many would spend (at least) a night in a hotel before embarking and upon disembarking. This could boost spending on hospitality, food services, and other items per cruise ship passenger, and it could also increase the overall flow of cruise ship passengers. There has been good news recently on this front, as Royal Caribbean announced it would homeport in Nassau starting in June 2021, and Crystal Cruises announced it would start to do so in July.

**There is clearly scope for improving backward linkages with the rest of the economy, including agriculture.** There is also scope for improving the efficiency of tourism services through digitization, and also by lowering the cost of electricity via renewable energy. Finally, The Bahamas offers scope for diversifying the type of tourism offerings, including eco-tourism (both blue and green), health and wellness tourism, remote work, retirement services, and education services.

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<sup>20</sup> See the regional section of this Quarterly Bulletin for more information.



## II. Barbados

Ariel McCaskie

### Overview of COVID-19

Barbados faced its second and highest wave of COVID-19 cases as a result of a case surge during the Christmas period due to relaxed social distancing measures, a super-spreader event, and multiple quarantine breaches among the large influx of tourists arriving in December 2020. In January 2021, the country recorded 1,163 new cases,<sup>21</sup> resulting in a strain on the testing center and delays in the processing of PCR tests. This had negative effects on tourists arriving on the island and made contact tracing more difficult. Starting on January 1, 2021, the authorities reinstated a curfew from 9 pm to 5 am, and on February 3, 2021 the curfew restrictions were tightened to 7 pm to 6 am.<sup>22</sup> The national pause was extended to the end of February and a full lockdown was imposed on the weekend of February 20-21. Barbados entered a phased reopening plan on March 1, 2021, with social distancing protocols and curfew restrictions remaining in place. The second phase of the reopening plan commenced on March 15 and included a relaxing of the curfew from 7 pm to 9 pm. To support the vulnerable population, the government of Barbados started to distribute 60,000 care packages as part of its COVID-19 relief program on February 9, 2021.<sup>23</sup> Additionally, the island recently completed a national survey of over 84,000 households in an effort to gather information from individual families about their vulnerabilities to COVID-19 and dengue fever.

**The authorities have been persistent in their testing and vaccination efforts.** Testing remains a priority for the island, with a total of 143,326 tests conducted since March 17, 2020. Barbados has vaccinated 74,608 persons (approximately 26 percent of the population) as part of the National Vaccination Program for COVID-19 since the arrival of the Oxford-AstraZeneca vaccine from India on February 9, 2021.<sup>24</sup> The country received a total of 100,000 doses of that vaccine and donated 8,000 doses to its CARICOM neighbors. The donation was reciprocated by the government of Guyana on March 11, 2021 when it donated 5,000 doses to Barbados. On March 22, the government of Barbados announced that the final stage of phase one will be focused on the vaccination of teachers to facilitate the reopening of schools on April 20. The first phase of the National Vaccination Program for COVID-19 came to an end on March 26. The government received an additional 33,600 doses of the Oxford-AstraZeneca vaccine on April 6 provided through the COVAX Facility. As of end-April, Barbados had a cumulative total of confirmed 3,855 COVID-19 cases, and 44 deaths.

<sup>21</sup> According to the "COVID-19 Situation Update – 117," reported by the Pan American Health Organization's Office for Barbados and the Eastern Caribbean (February 1, 2021).

<sup>22</sup> The wearing of masks has also been mandatory since February 3, 2021.

<sup>23</sup> Government Information Service, "Announcement on Delivery of Care Packages," available at <https://soundcloud.com/gisbarbados/announcement-on-delivery-of-care-packages>.

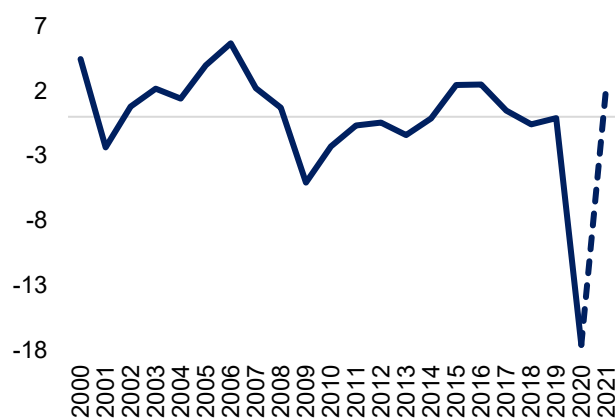
<sup>24</sup> These numbers are valid as at April 5, 2021.



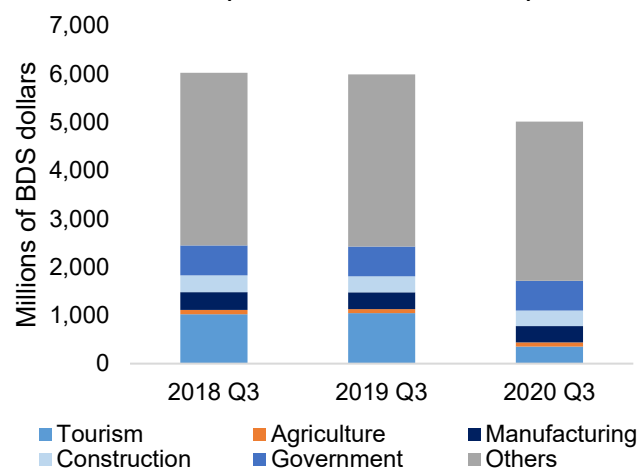
## Economic Update

**COVID-19 has triggered a severe economic contraction and has worsened the country's fiscal outlook.** The economy contracted 27 percent in the second quarter of 2020 and 18 percent in the third quarter, which led to an overall 17.6 percent contraction for 2020 (Figure 1). This is a result of the combined effects of severely diminished activity in the tourism sector, weaker-than-anticipated investment, and reduced consumption arising from lower employment income. Revenues are projected to fall by 8.6 percent and expenditures are forecast to increase by 21 percent in FY2020/2021.<sup>25</sup> As a result of COVID-19, quantitative fiscal targets under the Barbados Economic Recovery and Transformation Plan (BERT)/Extended Fund Facility (EFF) for FY2020/2021 and FY2021/2022 have been revised from a primary surplus of 6 percent of GDP in both years to -1 percent of GDP and 2 percent of GDP, respectively. Overall, the economic outlook for Barbados remains uncertain. The first quarter of 2021 was challenging given the recent surge of COVID-19 cases. The lockdown in February not only reduced economic activity but will also delay the projected recovery. As a result, the government estimated a BDS\$150 million loss in economic activity for the month of February.<sup>26</sup>

**Figure 1. Barbados: Real GDP Growth (percent)**



**Figure 2. Barbados: Breakdown of Real GDP by Sector (millions of BBD dollars)**



Sources: International Monetary Fund, *World Economic Outlook*, October 2020; and the October 2020 Caribbean Quarterly Bulletin.

**Barbados passed the fourth review under the International Monetary Fund's (IMF) EFF in December 2020.** Passing the fourth review triggered a US\$94 million disbursement in December, and to date a total of approximately US\$390 million has been disbursed under the EFF.<sup>27</sup> The second augmentation under

<sup>25</sup> Revenues are forecast to fall from 31.5 percent of GDP in FY2019/2020 to 28.8 percent of GDP in FY2020/2021. Expenditures are expected to increase from 27.6 percent of GDP in FY2019/2020 to 33.4 percent of GDP in FY2020/2021.

<sup>26</sup> At an exchange rate of BDS\$2 = US\$1.

<sup>27</sup> The US\$94 million disbursement includes the US\$69 million augmentation and a US\$25 million disbursement.





the program led to the inclusion of four new structural benchmarks set for March 31, 2021.<sup>28</sup> The second augmentation, of approximately US\$69 million, was approved in December 2020. An IMF team conducted a staff visit at the request of the local authorities from February 2-5, 2021 via video-conferencing to review implementation of BERT/EFF program. The team concluded that despite the COVID-19 shock, implementation of the program remains strong. However, the prolonged pandemic conditions will continue to have a major impact on Barbados.<sup>29</sup> As of February 22, 2021, Barbados was officially removed from the European Union's blacklist of non-cooperative jurisdictions for tax purposes.<sup>30</sup>

**Gross international reserves rose by BDS\$1.2 billion to an unprecedented BDS\$2.7 billion (40 weeks of import cover).** Gross international reserves remained stable throughout 2020 as a result of additional external borrowing and lower tourism sector imports. The IMF augmented the resources under the EFF program, providing both balance of payments support (BDS\$97 million) and budget support (BDS\$368 million). In addition, the IDB and the Development Bank of Latin America (CAF) provided budget support of BDS\$400 million and BDS\$200 million, respectively. At the end of 2020, borrowings from international financial institutions totalled BDS\$968 million.<sup>31</sup> The increased borrowing reversed the trend of declining debt, resulting in a debt-to-GDP ratio of 144 percent in 2020 compared to 120 percent in 2019. The current account deficit widened from 3.8 percent of GDP in 2019 to 8.3 percent of GDP in 2020, primarily as a result of falling tourism service exports. This was partly offset by lower international oil prices and a reduction in imports, as import demand has fallen as tourism sector performance has been subdued.<sup>32</sup> Foreign direct investment also fell from 4.7 percent of GDP in 2019 to 3.8 percent of GDP in 2020.

**The unemployment rate increased threefold in 2020, reaching 30 percent.** This led to a six-fold increase in claims to the National Insurance Scheme (NIS). The NIS paid over BDS\$155 million in unemployment claims, the number of which reached 52,282 by the end of 2020.<sup>33</sup> The NIS required liquidity support from the central government, which was provided by buying back central government debt held by the NIS.

**The average inflation rate continued to edge down, compared to 2019, and is expected to fall to 2.5 percent in 2020 and 1.9 percent in 2021, supported by lower international fuel prices and subdued consumer demand.** Prior to COVID-19 the inflation rate had risen from 3.7 percent in 2018 to 4.1 percent

<sup>28</sup> The benchmarks are: (i) Publication of an economic statistics calendar to ensure consistent public release of key indicators such as prices, output, and unemployment; (ii) Preparation of a dashboard by the management accounting unit that analyzes the financial performance of the government's 19 priority oversight state-owned enterprises as inputs to quarterly progress updates to the Cabinet; (iii) Having the Barbados Customs and Excises Department create and facilitate an Information Technology Division (with six employees); and (iv) Having the Barbados Revenue Authority implement the compliance improvement plan for its Large Taxpayer Unit to improve the on-time filing of tax returns to over 90 percent.

<sup>29</sup> IMF, "IMF Concludes Staff Visit to Barbados," Press Release 21/32, February 5, 2021, available at <https://www.imf.org/en/News/Articles/2021/02/05/pr2132-barbados-imf-staff-concludes-staff-visit>.

<sup>30</sup> Following peer review reports, on October 6, 2020 the European Union Council had reintroduced Barbados to the blacklist of non-cooperative jurisdictions for tax purposes with a "partially-compliant" rating.

<sup>31</sup> Central Bank of Barbados, "Review of Barbados' Economic Performance (January to December 2020)," Press Release, available at <http://www.centralbank.org.bb/Portals/0/Files/Central%20Bank%20of%20Barbados%20Review%20of%20the%20Barbados%20Economy%20in%202020.pdf>.

<sup>32</sup> Oil prices fell by US\$64.8 per barrel in 2018 to US\$57 per barrel in 2019 and to US\$39.7 in 2020.

<sup>33</sup> National Insurance Scheme, "Number of Unemployment Claims Received," available at <https://www.nis.gov.bb/statistics/>.



in 2019. Effective April 1, 2021, the government of Barbados introduced a minimum wage order to increase the National and Sectoral Minimum Wage.<sup>34</sup>

## Sectoral Focus: Tourism

### *History*

**Tourism is the key sector of economic growth in Barbados.** Tourism accounts for almost 40 percent of economic activity and 33.4 percent of total employment, and visitor spending is 72.1 percent of total exports.<sup>35</sup> The tourism industry directly employs 15,000 workers and an estimated 32,000 workers in tourism-related jobs and services. The growth of commercial tourism in Barbados dates from the late 1950s. In 1955, there were only about 15,000 visitors to the island. By 1980, this number had risen to 369,915, far outnumbering the resident population of 248,983.<sup>36</sup> By the 1960s, the tourism sector had replaced the sugar industry as the country's main source of economic activity and foreign exchange earnings.<sup>37</sup> The tourism industry is also an important inter-industry link, as it makes an indirect contribution to economic activity in other industries such as agriculture and construction (Figure 2).<sup>38</sup>

The quality of the island's tourism product has improved over the years from the promotion of "sun, sea and sand" to attracting diverse international investments. Through such standards as the Zagat Survey Guide, the AAA Diamond Ratings, and Green Globe certification, Barbados' tourism product is developed and established as a leading tourism destination. In 2020, Barbados won the international Travvy Award for Best Luxury Destination-International (Gold).

### *Structure of Tourism in Barbados*

**Barbados has substantially developed its tourism product.** Prior to the COVID-19 shock, the country recorded six years of consecutive growth in tourist arrivals. Total arrivals peaked at 693,000 overnight visitors and 859,000 cruise ship passengers in 2019, compared to 680,000 overnight visitors and 676,000 cruise ship passengers in 2018. In 2020, overnight tourist arrivals fell by 71.1 percent and cruise arrivals fell by 63.6 percent. Total visitor spending plummeted due to the decline in tourism activity in 2020. Real tourism expenditure was BDS\$413.2 million in 2020 compared to BDS\$1,416.1 million in 2019. Barbados' tourism arrivals in 2019 were concentrated from three source markets that made up 76.3 percent of its visitor market: the United Kingdom (32.8 percent), United States (31.7 percent), and Canada (11.8 percent). Of the CARICOM countries, Trinidad and Tobago had the highest market share of 4.6 percent in 2019. As seen in Figure 4, which shows arrivals to Barbados by world region over a seven-year period, the Americas and Europe consistently held a 57 percent and 41 percent share of the visitor market, respectively.

<sup>34</sup> A. Skeete, "Minimum Wage (National and Sectoral Minimum Wage) Order, 2021," Government Information Service, February 5, 2021, available at <https://gisbarbados.gov.bb/download/minimum-wage-national-and-sectoral-minimum-wage-order-2021/>.

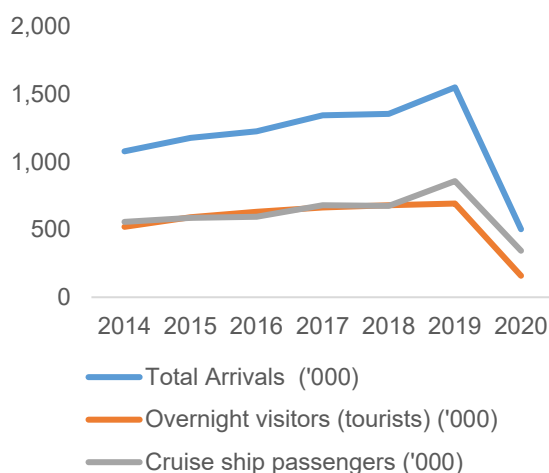
<sup>35</sup> See WTTC Economic Impact Reports, available at <https://wttc.org/Research/Economic-Impact>.

<sup>36</sup> R.B. Potter, "Tourism and Development: In the Case of Barbados, West Indies," *Geography* 68(1).

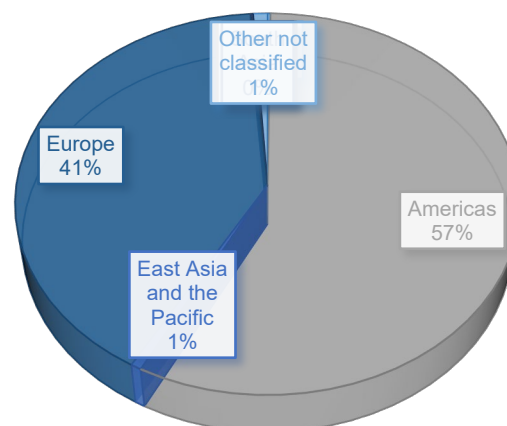
<sup>37</sup> From 1960 to 1970 there was a 4.4-fold increase in long-stay visitors to the island, while from 1970 to 1980 this figure increased an additional 2.36 times.

<sup>38</sup> C.J. Robinson, B. Francis, and M. St. Juste, "Tourism and the Barbadian Economy," available at <https://www.researchgate.net/publication/297909445 TOURISM AND THE BARBADIAN ECONOMY>.

**Figure 3. Barbados: Inbound Tourism, 2014–2020**



**Figure 4. Barbados: Arrivals by Region on Average, 2014–2020**



Source: Author's elaboration based on data from the UNWTO.

**IDB tourism specialists and academics have developed a predictive model of tourism demand and applied it to Barbados.**<sup>39</sup> The model begins with a structural time-series analysis of the historical arrivals to the country up to 2019, then constructs a counterfactual of what the level of arrivals would have been during 2020 and 2021 had there not been the COVID-19 pandemic. The analysis then models how three factors would affect demand due to COVID-19: the epidemiological evolution of the virus in each source and destination country, the effect of reduced incomes in source countries due to the recession, and the effect of individuals' fear of traveling. The latter factor is based on consumer surveys of willingness to travel. The model was effective in tracking what happened to tourism arrivals in Barbados during 2020, but its forecast of a fairly rapid recovery of tourism in 2021 is not currently happening. This is due to the fact that last summer—when the scenario was estimated—the modelers did not anticipate the third wave of infections in late 2020 and early 2021 in both source and destination countries.

**On the supply side, the shock to the cruise industry has been the most severe.** In 2019, Barbados set a new record for cruise passenger arrivals.<sup>40</sup> Barbados Port Inc. (BPI) reported total cruise passenger arrivals of 853,200 from 422 cruise ship calls (the highest on record to date), a 3 percent increase over the 826,267 cruise passenger arrivals from 437 cruise ship calls in 2018. Barbados also recorded significant growth in its homeporting operations, with 227,192 homeporting arrivals registered at the Port of Bridgetown in 2019 (a 15.6 percent increase) compared to 197,185 homeporting passengers recorded in 2018.

<sup>39</sup> J.L. Eugenio Martin, J.M. Cazorla-Artiles, A. Moreda, J.M. Murguía, and A. Risso, "Predictive Model of International Tourist Demand in the Context of COVID-19: An Application in Barbados," Inter-American Development Bank, September 2020, available at <https://publications.iadb.org/es/modelo-predictivo-de-demanda-turistica-internacional-en-el-contexto-del-covid-19-una-aplicacion-en>.

<sup>40</sup> The previous record was 827,486 visitors in 2017, when the island benefitted significantly from the redeployment of ships from other destinations ravaged by hurricanes that year.





Homeporting calls declined slightly from 157 in 2018 to 153 in 2019.<sup>41</sup> To address this, the BPI implemented several initiatives, including (i) enhanced wayfinding and guest experiences through the installation of signage; (ii) renovation and enhancement of taxi dispatch facilities; and (iii) offering of improved guest services such as the quay-to-terminal tram service.<sup>42</sup> Prior to the COVID-19 shock, the Port of Bridgetown's cruise-ship schedule projected 427 cruise ship calls (an estimated 850,000 passengers) to the island. During the onset of the pandemic, Barbados became host to several docked cruise ships as the cruise industry came to a halt. The country hosted the cruise ships by providing berthing and mooring facilities and offering resources such as food, fuel, and water, as well as facilitating flights home for stranded cruise passengers.<sup>43</sup> Cruise passenger arrivals are yet to resume.

### ***COVID-19 Impact on Tourism***

**The tourism sector has been severely affected by COVID-19.** During the first nine months of 2020, tourism output declined by 66 percent compared to 2019, reflecting a severe drop in arrivals and reduced flights since March 2020. Tourism came to a standstill between March and July 2020, and flights have been greatly reduced since then. Most hotels remained closed until the third quarter of 2020. Although commercial flights resumed in mid-July 2020 and the authorities launched the 12-month Welcome Stamp (completing 1,500 applications by the end of November 2020),<sup>44</sup> the tourism sector remained subdued compared to previous years.<sup>45</sup> Travel restrictions in Barbados' main source markets for tourism—the United Kingdom, United States, and Canada—further contributed to the sector's economic performance in 2020. The tourism sector showed improvement in the final quarter of 2020, when there was a modest pick-up in tourist arrivals, flights improved, and more hotels reopened. However, a 90 percent fall in long-stay visitor arrivals over the last three quarters reduced arrivals by 71 percent for 2020. The cruise sector was also depressed, and cruise passenger arrivals declined by 64 percent.<sup>46</sup> That said, tourism performed slightly better than originally forecast, as Barbados attracted a number of longer-stay arrivals through the innovative Welcome Stamp program, and by maintaining low contagion levels until December 2020.

**To support the tourism sector, the government of Barbados passed a BDS\$300 million stimulus package in September 2020.** The Barbados Employment and Sustainable Transformation (BEST) Programme, the country's largest fiscal stimulus package,<sup>47</sup> allows hotels and tourism facilities to obtain

<sup>41</sup> Barbados Port, Inc., "Barbados Sets New Cruise Record," available at <https://www.barbadosport.com/barbados-sets-new-cruise-record>.

<sup>42</sup> As noted in the "National Cruise Development Commission Report, 2019."

<sup>43</sup> Go Barbados, "Barbados Hosts Cruise Ships Stranded by COVID-19," available at: <https://barbados.org/blog/barbados-host-cruise-ships-stranded-by-covid19/#.YDI8YuhKq2w>.

<sup>44</sup> On June 30, 2020, the government of Barbados announced the introduction of the 12-month Barbados Welcome Stamp. This new remote work program establishes a visa to allow people to work remotely in Barbados for a maximum for 12 months. The visa is available to anyone who can meet the visa requirements and whose work is location independent, whether individuals or families.

<sup>45</sup> J. Carrington, "Twelve-Month Barbados Welcome Stamp for Visitors," Government Information Service, July 1, 2020, available at <https://gisbarbados.gov.bb/blog/twelve-month-barbados-welcome-stamp-for-visitors/>.

<sup>46</sup> Central Bank of Barbados, "Review of Barbados' Economic Performance: January to December 2020," Press Release, available at <http://www.centralbank.org.bb/Portals/0/Files/Central%20Bank%20of%20Barbados%20Review%20of%20the%20Barbados%20Economy%20in%202020.pdf>.

<sup>47</sup> As of end-February 2021, 55 hotels had applied for assistance under the BEST Programme, with 40 applications approved. In addition to the employment and training component, the programme offers businesses a BDS\$2 million cap for investment in upgrades of their facilities.





investments by way of a class of shares that mirrors preference shares, with some limited opportunities for grants. The three main features of the BEST Programme are as follows:

- (i) The government will make an investment in tourism firms that will enable these companies to re-engage all of their workers on 80 percent of their normal salary for up to two years, should the need arise. Workers entering the scheme will not lose their existing rights to severance pay if they are laid off again at any point within the next 12 months.
- (ii) A transformation of the tourism sector by committing to greening through water conservation and water harvesting measures where applicable, and the installation of renewable energy capacity to reduce reliance on fossil fuels.
- (iii) A requirement to review all processes, payments, and systems to ensure their suitability in today's world and, where necessary, to undertake their digitization.<sup>48</sup>

### Other Issues and Risks

**Given the hit to tourism and the rise in debt, Barbados needs to consider some significant risks going forward.** The risks relate primarily to developments in the global and domestic health crisis. The second wave of COVID-19 will have to be controlled on the island before economic activity and tourism can continue. A gradual recovery in tourism, however, depends on the lifting of travel restrictions and the willingness of tourists to travel to Barbados. Consequently, it depends on positive developments in the health crisis in the United States, United Kingdom, and Canada, the main source countries for tourism in Barbados.

**The debt-to-GDP ratio increased in 2020 as a result of the pandemic.** The completion of the debt exchange in December 2019 was a milestone in the reform programme and contributed to lowering the debt-to-GDP ratio to 126.3 percent of GDP in FY2019/2020. The government has stated its commitment to an ambitious fiscal consolidation and recovery plan, but its rising financing needs have been met with a combination of external borrowing (from international financial institutions) and the issuance of a 2021 domestic bond (the Barbados Optional Savings Scheme). This is fueling a rising debt-to-GDP ratio that is expected to reach 146 percent of GDP in FY2020/2021. Successful implementation of the BEST Programme will hopefully limit the long-term scarring of the supply of tourism operators and prepare them for an eventual recovery.

<sup>48</sup> A. Skeete, "Barbados Employment and Sustainable Transformation Programme," Government Information Service, October 6, 2020, available at <https://gisbarbados.gov.bb/download/barbados-employment-sustainable-transformation-programme/>.

### III. Guyana

Victor Gauto and Elton Bollers

#### Overview of COVID-19

**As of April 30, 2021, the total number of cases in Guyana had increased to 13,283, including 296 deaths.** The average number of daily new cases decreased from a high of 53 in September 2020 to an average of 37 in October through December and 38 in January through February 2021. However, the average number of daily cases climbed to 54 in March and 101 in April. In relative terms, average transmission rates in Guyana peaked at 11 new cases per 100,000 population in September and reached a high of 16 in April, similar to peaks experienced in Suriname and Trinidad and Tobago, and below those of The Bahamas, Barbados, and Jamaica (Figure 1).

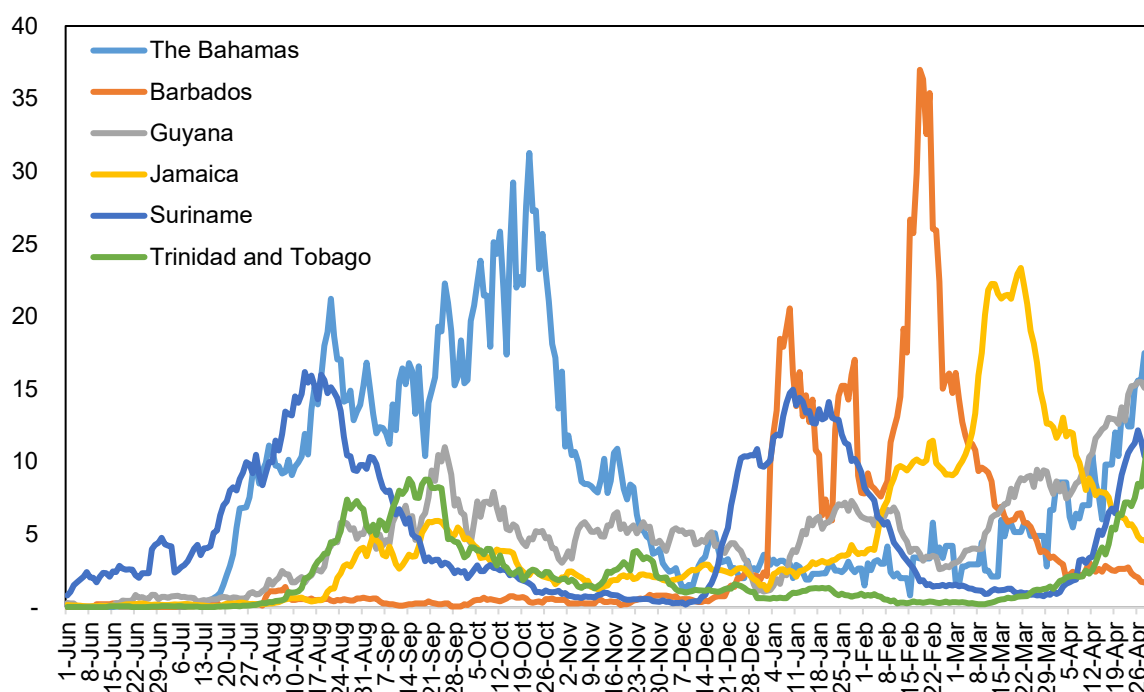
**With respect to policy, the government introduced a series of measures to support the health sector and economic recovery.** In the health sector the government provided increased support for the health sector to aid in the purchase of medical supplies, medicine, and vaccines as well as support to frontline workers. The main tax policy developments include the removal of the 14 percent value-added tax (VAT) on electricity and water, medical supplies, building and construction materials, inputs for the poultry sector, domestic travel, and mobile phones. In addition, both the VAT and import duties were removed for machinery and equipment in sectors such as mining, forestry, agriculture, and manufacturing. Corporate income taxes for private health and education providers were also removed in 2020. These measures were estimated to save approximately US\$96 million (G\$20 billion) to the private sector.<sup>49</sup> Finally, the government announced the allocation of US\$21.6 million (G\$5 billion) to support household welfare with cash transfers of US\$120 (G\$25,000) per household and cash grants for school children.

**Regarding measures on international travel, Guyana opened its international airports to commercial flights on October 12, introducing special requirements to enter the country.** Travelers to Guyana are required to have a negative PCR test result performed within seven days prior to their arrival and must be re-tested at the airport if their test result is more than three days old. Passengers re-tested at the airport are required to remain in quarantine until obtaining a negative test result. Currently, indoor dining and religious meetings are allowed, though at reduced capacity and following sanitary protocols.

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<sup>49</sup> Navendra Seoraj, "\$20 billion in pockets of Guyanese," *Guyana Chronicle*, September 8, 2020 (<https://guyanachronicle.com/2020/09/08/20b-in-pockets-of-guyanese/>).

Figure 1. Daily New Coronavirus Cases per 100,000 Population (seven-day rolling average)



Source: Authors' calculations based on data from the COVID-19 Data Repository (Johns Hopkins University)

**Through April, Guyana has received 265,000 doses through donations, the COVAX Facility led by the World Health Organization, and government purchases.** The vaccination campaign began after Guyana received 3,000 doses of the Oxford-AstraZeneca vaccine as a donation from Barbados (originally from India). Other donations include 20,000 doses of the Sinopharm vaccine from China, and 80,000 doses of the Oxford-AstraZeneca vaccine from India, of which Guyana donated 5,000 back to Barbados. Finally, Guyana received 24,000 doses of the Oxford-AstraZeneca vaccine at the end of March through the COVAX Facility, which is the first installment of the total of 104,000 doses originally planned through this mechanism. By April 19 Guyana received 138,000 doses of the Russian Sputnik V vaccine. This is part of the government's plan to purchase 200,000 doses of this vaccine, all expected to arrive in the near term. On April 16, 2021, the COVID-19 vaccination campaign was opened to everyone over the age of 18. As of the early May, more than 150,000 people had received at least one dose, representing 19.2 percent of the population. Guyana's vaccination rate is below that of Chile (44.8 percent), Uruguay (35.4 percent), and Barbados (26.3 percent), but ahead of all the other more populated countries in Latin America and the Caribbean.

## Economic Update

### GDP Growth

**Despite the impact of the pandemic and political uncertainties from the electoral impasse of 2020, Guyana remains the only country in the region with a positive growth rate.** GDP grew by an

unprecedented 43.5 percent in 2020. The main driver of GDP growth was oil production, which represented 37 percent of GDP and accounted for 51 percent to overall GDP growth. Although the non-oil economy contracted by 7.3 percent, the agriculture sector expanded by 4.1 percent, led by growth rates of 4.8 percent in the rice sector and 6.6 percent in a variety of crops making up almost 11 percent of GDP. Gold production contracted by 7.8 percent, mainly due to production interruptions among large gold producers owing to administrative/technical reasons. This outcome was partially offset by increased production by small and medium-size gold miners, which increased by 8.3 percent, benefitting from the relatively high prices of gold. The services sector, which makes up a quarter of the economy, contracted by 9.4 percent (Ministry of Finance 2021 Budget Speech).

### ***Fiscal Balance***

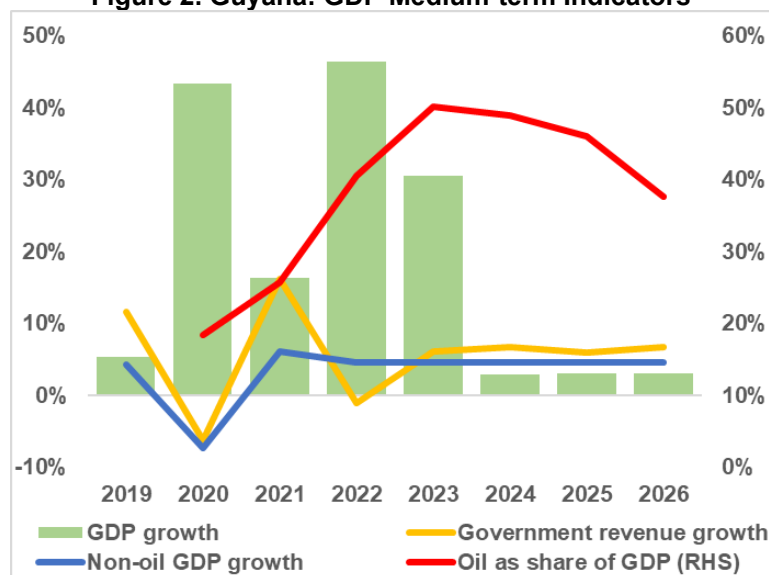
**The central government's overall deficit was approximately US\$434 million or 9.4 percent of non-oil GDP in 2020 (7.4 percent of total GDP), higher than previous deficit levels of about US\$140 million.** In 2020, government revenue (excluding oil proceeds) fell by 5.5 percent as a result of reduced economic activities and a series of tax exemptions in specific sectors. On the other hand, expenditure grew by 15 percent. For 2021, total revenue is expected to increase by 17 percent, from US\$1 billion in 2020 to US\$1.3 billion in 2021. Total expenditure is projected to increase by 13 percent from US\$1.5 billion to US\$1.7 billion. Capital expenditure is expected to increase by 35 percent, from US\$365 million in 2020 to US\$495 million in 2021, increasing from 8 to 10 percent of non-oil GDP in 2021. A deficit level of approximately US\$430 million is expected in 2021, though that level would be a slightly lower share of GDP, at 8.7 percent of non-oil GDP or 5.8 percent of total GDP (Ministry of Finance 2021 Budget Speech; IMF-World Economic Outlook April 2021).

### ***Public Debt***

**Total public debt increased from US\$1.8 billion in 2019 to US\$2.6 billion in 2020, reaching 47.4 percent of GDP.** This significant increase is mainly due to reporting changes, as Central Bank overdrafts are now included in central government statements. This was not previously the case. These overdrafts represented 30 percent of total public debt in 2020 (Ministry of Finance 2021 Budget Speech). Additionally, the government now includes publicly guaranteed debt, which was less than half a percentage point. In terms of new debt policies, the government has recently approved increasing the debt ceiling to US\$5.5 billion by increasing the domestic debt ceiling to US\$2.4 billion (GY\$500 billion) from US\$720 million (GY\$150 billion) and the external debt ceiling to US\$3.1 billion (GY\$650 billion) from US\$1.92 billion (GY\$400 billion).



Figure 2. Guyana: GDP Medium-term Indicators



Sources: International Monetary Fund (IMF), *World Economic Outlook*, April 2021; Ministry of Finance 2021 Budget Speech; and IMF Article IV Consultation, 2019.

**Short- and medium-term perspectives for 2021 and beyond are positive, with GDP estimated to grow by 20.9 percent.** This growth is potentially related to the assumption oil production will increase by 46.7 percent, from 74,300 barrels per day in 2020 to 109,000 in 2021. The non-oil economy is expected to rebound to 6.1 percent in 2021 based on the assumption of a phased re-opening of the economy, with services and construction growing by 5 percent and 9 percent, respectively (Ministry of Finance 2021 Budget Speech). Over the medium term, oil production is expected to continue driving GDP growth, with oil exports growing by an annual average of 48.5 percent over 2020–2023, contributing to average annual GDP and government revenue growth rates of 17.1 and 6.7 percent, respectively, in 2021–2026 (Figure 2). Government expenditures are estimated to grow by an average of 5.3 percent over the same period, contributing to a fall in the fiscal deficit from 7.4 percent in 2020 to 3.4 percent in 2026. For medium-term projections, the IMF assumed an average price of oil of US\$58.52 per barrel in 2021 and US\$54.83 per barrel in 2022, with the price remaining unchanged in real terms thereafter (IMF-World Economic Outlook April 2021). Additionally, they are conservatively based on the output of two oil production wells (IMF Article IV Consultation, 2019).

**The prospect of more oil discoveries continues to improve perspectives for Guyana in the medium-term.** On April 27, ExxonMobil announced their 19<sup>th</sup> oil discovery in Guyana and increased the estimate of recoverable petroleum resources from 8 billion to 9 billion oil-equivalent barrels, an estimate that had not been adjusted since January 2020. Additionally, ExxonMobil updated its development plans of having five oil production projects by 2026 to six projects by 2027, which they see could potentially grow to 10 production projects in the future. The government received US\$267 million for oil sales and royalty payments through 2020 and March 2021. These revenues were saved in the Natural Resource Fund (NRF) and were not part of the 2020 or 2021 budget, as the government has announced plans to modify the NRF

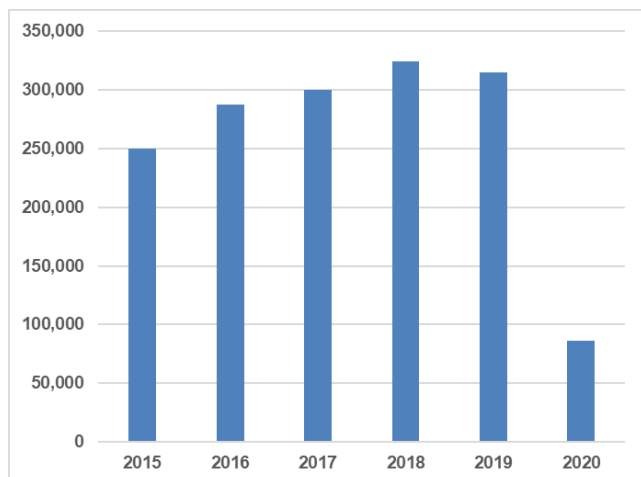


law.<sup>50</sup> With Brent crude oil at more than US\$60 a barrel and the expectation of oil production increasing by 46.7 percent in 2021, government oil revenues could significantly increase this year. The government could receive US\$263 million in oil revenues in 2020 (Ministry of Finance 2021 Budget Speech – Balance of Payments Summary) which would take the balance of the NRF to approximately US\$500 million by the end of 2021.

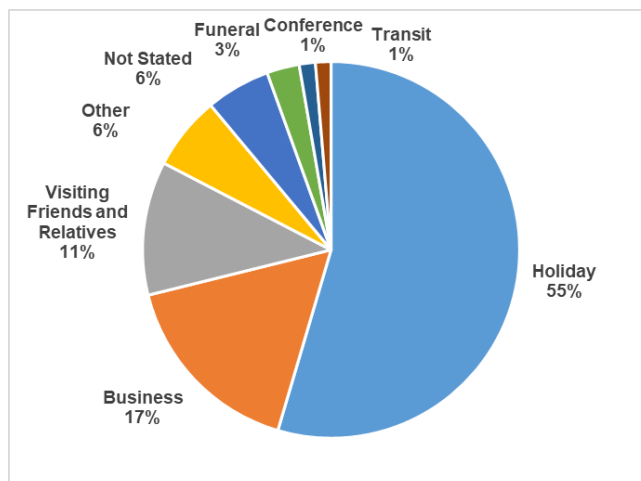
## Tourism

Before the impact of the pandemic, the tourism sector in Guyana focused on eco-tourism packages, including travel to some of the country's natural attractions, such as the Iwokrama Rainforest and the Kaieteur Falls located in central Guyana. Travel to Guyana has significantly increased over the last couple of years, bolstered by the booming oil industry and increasing airline activity. According to the World Travel and Tourism Council (WTTC), the total contribution of tourism to GDP in Guyana in 2019 was 4.4 percent of GDP and accounted for 4.7 percent of total employment. Arrivals to Guyana, which increased by 6 percent on average over 2016-2019, fell by 73 percent in 2020 (Figure 3). The share of visitors coming to Guyana for tourism in 2020 was 55 percent, while 17 percent and 11 percent came for business and visiting friends and relatives, respectively (Figure 4).

**Figure 3. Air Passenger Arrivals to Guyana**



**Figure 4. Guyana: Arrivals by Main Purpose, 2020**



Sources: Ministry of Tourism, Guyana; Cheddi Jagan International Airport; and Ministry of Finance Budget Speech, 2021

Prospects for tourism and visitors to Guyana remain positive as the global economy gradually recovers from the coronavirus. At present, there are approximately 150 hotels in Guyana with a room capacity of 3,400. Six international hotel brands are expected to start construction in 2021, which would provide 2,000 to 3,000 additional rooms in the medium term. To support training and capacity-building in this sector, the government will begin building a Hospitality Tourism Training Institute in 2021 on, with a budget of almost US\$900,000 (Ministry of Finance 2021 Budget Speech).

<sup>50</sup> Kaieteur News, "Govt. Examining New Rule for Spending Oil Money," March 25, 2021, available at <https://www.kaieteurnews.com/2021/03/25/govt-examining-new-rules-for-spending-oil-money/>.



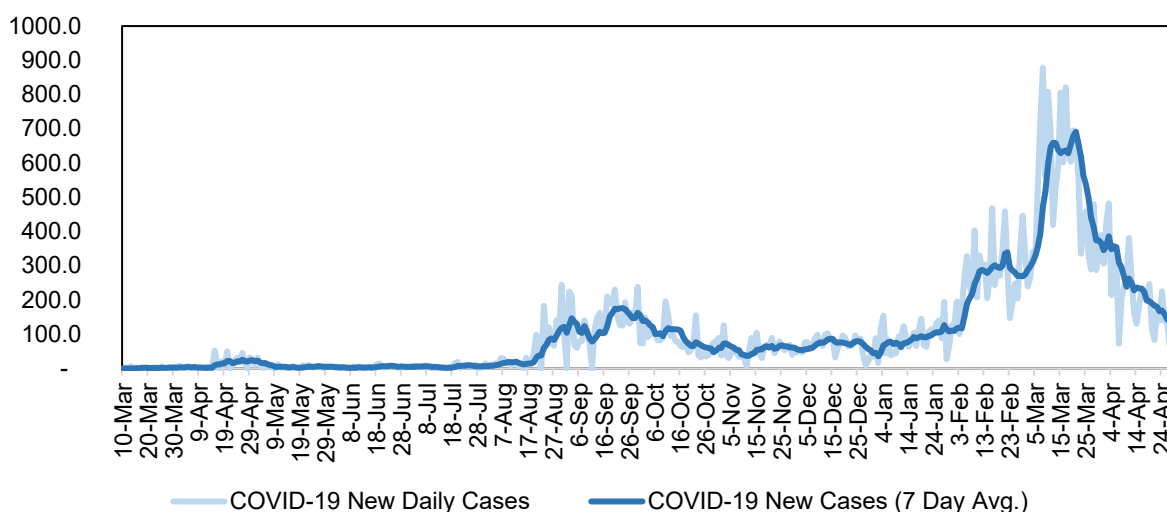
## IV. Jamaica

Jason Christie

### Overview of COVID-19

Jamaica saw a rapid increase in COVID-19 cases in the first quarter of 2021. New cases averaged about 300 per day during the last week of February (Figure 1), compared to a daily average of about 150 cases six months before, and of only 20 cases per day in April 2020. The total number of COVID-19 cases reported as of end-April 2021 was 45,578 (6,035 of which were logged during the previous 30 days), with 778 deaths. This translates to an infection rate of about 560 per 100,000.

Figure 1. COVID-19 New Daily Cases in Jamaica



Source: Authors' calculations based on data from the COVID-19 Data Repository (Johns Hopkins University 2021).

Jamaica received its first shipment of 50,000 doses of the Oxford-AstraZeneca vaccine on March 8, 2021, courtesy of the government of India.<sup>51</sup> Another 14,400 doses arrived on March 15 that were procured under the COVAX Facility, a global risk-sharing mechanism for pooled procurement and equitable distribution of the vaccine.<sup>52</sup> Looking forward, the government of Jamaica plans to procure some 1.8 million vaccine doses from the African Medical Supply Platform. In the early vaccination stages, the government is expected to prioritize frontline workers and vulnerable persons first, including medical professionals and senior citizens.

<sup>51</sup> This estimate is as of March 5, 2021. See A. Morris, "Jamaica Gets First Delivery of COVID-19 Vaccines," Jamaica Information Service, March 8, 2021, available at <https://jis.gov.jm/jamaica-gets-first-delivery-of-covid-19-vaccines>.

<sup>52</sup> Pan American Health Organization, "Jamaica Becomes First Country in the Caribbean to Receive COVID-19 Vaccines through the COVAX Facility," March 15, 2021, available at <https://www.paho.org/en/news/15-3-2021-jamaica-becomes-first-country-caribbean-receive-covid-19-vaccines-through-covax>.



**Despite the uptick in viral transmission, the Jamaican government has been proactive and steadfast with respect to health and safety protocols.** A curfew was first introduced in April 2020, and new measures have been put in place owing to the recent surge in cases. Other domestic restrictions include a limit on the number of individuals allowed to gather in enclosed areas. Border restrictions are also still in place, including the requirement of a negative COVID-19 test prior to arrival, and/or the certification of recovery from the virus. There is also a requirement for travel authorization from the government of Jamaica before boarding an inbound flight. Upon arrival, travelers are required to quarantine in order to monitor the potential development of symptoms.

### **Tourism and the Shock to Jamaica's Economy**

**In 2019, Jamaica welcomed some 4.2 million tourists, with 63.3 percent of them staying overnight, and 36.7 percent recorded as cruise passengers.** This resulted in combined spending of US\$3.64 billion, which represented a 10 percent increase from the previous year. In this context, the impact of the COVID-19 crisis on Jamaica's economy has been significant, driving a historic deceleration of GDP growth and appreciable increases in unemployment. The government of Jamaica estimates that real GDP contracted by about 12 percent for the 2020/2021 fiscal year,<sup>53</sup> owing in large part to the shock to international tourism flows. Newly compiled data show that while arrivals slowed to about 77 percent of the level during the first quarter of 2019, international arrivals (both by air and sea) fell to less than 1 percent of the levels the previous year in the second quarter (Figure 1 and Table 1). A modest recovery over subsequent quarters was only sufficient to bring total arrivals for 2020 to about 31 percent of levels recorded the previous year. Looking forward, new restrictions imposed in early 2021 by key source countries—for example, the United States and Canada—suggest that the timeline for a full recovery is still highly uncertain.

<sup>53</sup> Ministry of Finance & the Public Service, "HMFPS Budget Presentation 2021 - 2022: Preparing Jamaica to Recover Stronger," available at <https://mof.gov.jm/opening-budget-speeches/file/2552-hmfps-budget-presentation-2021-2022-preparing-jamaica-to-recover-stronger.html>.

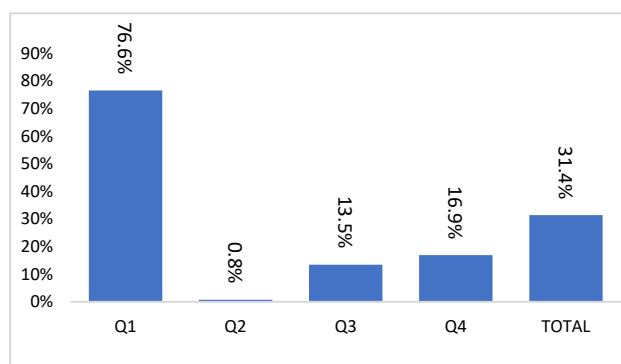




**Table 1. Jamaica: Number of Tourist Arrival in 2019 and 2020**

	<i>Jamaica</i>		
	2019	2020	2021 Arrivals as a Percent of 2019 Arrivals
<b>Total</b>	<b>4,233,266</b>	<b>1,329,675</b>	<b>31.4</b>
Q1	1,336,562	1,023,402	76.6
Q2	956,209	7,188	0.8
Q3	848,787	114,402	13.5
Q4	1,091,708	184,683	16.9

**Figure 2. Jamaica: 2020 Tourist Arrivals as a Percentage of 2019 Tourist Arrivals, by Quarter**



Sources: Author's calculations based on data from the Bank of Jamaica and Jamaica Tourist Board.

**Unemployment increased to double digits in the third quarter of 2020.** Unemployment in Jamaica had reached historic lows in 2019, falling to about 7 percent for the first time on record, owing mainly to strong performances in the extractive and agricultural sectors, as well as the services sectors, including tourism. The rate of unemployment rose to over 12 percent during 2020 due to the crisis, but then fell back to about 10.7 percent at end-September 2020 (latest available data).<sup>54</sup> It is worth noting that official unemployment figures are likely to have underestimated the broader impact of the crisis on Jamaicans, owing to reduced incomes for those who have remained employed (e.g., fewer hours or gratuities in the services sectors), and because of the large proportion of the population that is employed in the informal sector.<sup>55</sup>

<sup>54</sup> See Bank of Jamaica (<http://www.boj.org.jm/>).

<sup>55</sup> Programme for the Promotion of Formalization in Latin America and the Caribbean, "Informal Employment in Jamaica," available at [https://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/documents/publication/wcms\\_245888.pdf](https://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/documents/publication/wcms_245888.pdf).



**Despite the shock, the deterioration of the current account and the exchange rate has been offset by strong remittance flows and the high import content of tourism.** The current account deficit is estimated to only have widened from -1.6 percent of GDP in FY2019/2020, to -1.7 percent of GDP in FY2020/2021,<sup>56</sup> despite the large contribution of tourism to exports. This is in part because of the automatic adjustment of net exports from a reduction of import demand given the significant import content of tourism. It was also partially linked to lower hydrocarbon prices and stronger remittance inflows, which saw an historic increase during the year (Table 2).

**Table 2. Jamaica's Remittances (millions of U.S. dollars)**

	Nov 2019	Nov 2020	Change	Percent Change	Apr-Nov 2019/20	Apr-Nov 2020/21	Change	Percent Change
Total remittance inflow	199.9	237.4	37.5	18.7	1,627.8	2,037.8	410.2	25.2
Remittance companies	163.2	201.5	38.3	23.5	1,358.3	1,754.0	395.8	29.1
Other remittances	36.8	35.9	-0.9	-2.4	269.3	283.8	14.5	5.4
Total remittance outflows	24.2	16.5	-7.7	-32.0	181.2	145.2	-36.0	-19.8
Net remittances	175.7	220.9	45.2	25.7	1,448.4	1,892.6	446.2	30.8

Source: Bank of Jamaica, Remittances Bulletin, November 2020, available at [http://boj.org.jm/uploads/pdf/rem\\_updates/rem\\_updates\\_nov2020.pdf](http://boj.org.jm/uploads/pdf/rem_updates/rem_updates_nov2020.pdf).

**The exchange rate has been oscillating between 140 and 150 Jamaican dollars to the U.S. dollar since the outbreak of the pandemic.** The Bank of Jamaica held to its commitment to a floating exchange rate and has refrained from significant intervention in the foreign exchange market. This has allowed the Bank of Jamaica to maintain strong reserve buffers, which stood at about US\$3.1 billion at end-January 2021. Furthermore, the inflation rate has remained within the inflation target band of 4 to 6 percent, in line with the Bank of Jamaica's mandate.

### The Prudent Government Response

**The COVID-19 fiscal stimulus provided by the government was equal to approximately 2.5 percentage points of GDP.** The government reports that it spent a total of J\$52 billion across three areas:

<sup>56</sup> Ministry of Finance & the Public Service, "HMFPS Budget Presentation 2021 - 2022: Preparing Jamaica to Recover Stronger," available at <https://mof.gov.jm/opening-budget-speeches/file/2552-hmfps-budget-presentation-2021-2022-preparing-jamaica-to-recover-stronger.html>.



the health sector, household support, and firms (Table 3). Health sector expenditures included J\$8.02 billion for drugs and other medical supplies necessary to manage the spread of the virus. Other important measures included a general consumption tax break equal to approximately J\$14 billion, transfers equal to over J\$10 billion to vulnerable citizens, and an additional J\$2.5 billion to supplement the PATH school nutritional program. The government also reduced asset taxes for firms and provided cash transfers to micro and small or medium-sized enterprises (or public entities), which amounted to over J\$10 billion. These and other prudent measures implemented by the government of Jamaica have helped to sustain households and firms through the most severe stages of the COVID-19 crisis.

**Table3. Jamaica: Fiscal Support Provided Due to COVID-19**

Category	JMD (billions)	% of GDP
Health Sector Response	8.02	0.40
Support to Affected Households	30.72	1.54
Support to Affected Firms	12.41	0.62
<b>TOTAL Quantifiable Support</b>	<b>51.15</b>	<b>2.57</b>

Source: information provided by the Government of Jamaica

**The government has recently presented its budget for the coming year, including about J\$830 billion in expenditure.** Topping the list of priorities is securing vaccines, with additional measures geared toward supporting recovery, including bolstering social security to assist those most affected by the pandemic, and continued financing of essential public goods. The government is also focused on reducing public debt,<sup>57</sup> including returning to a consolidation path consistent with the medium-term debt objective of 60 percent of GDP by 2028. In this context, the largest component of the expenditure envelope is public debt service (J\$272 billion),<sup>58</sup> followed by recurrent expenditure (J\$247 billion), compensation of employees (J\$239 billion), capital expenditure (J\$ 54 billion), and loans to public bodies (J\$17 billion).

<sup>57</sup> See the Jamaican government' Medium-Term Debt Management Strategy FY2021/2022.

<sup>58</sup> Government of Jamaica budget figures are rounded to the nearest whole number.

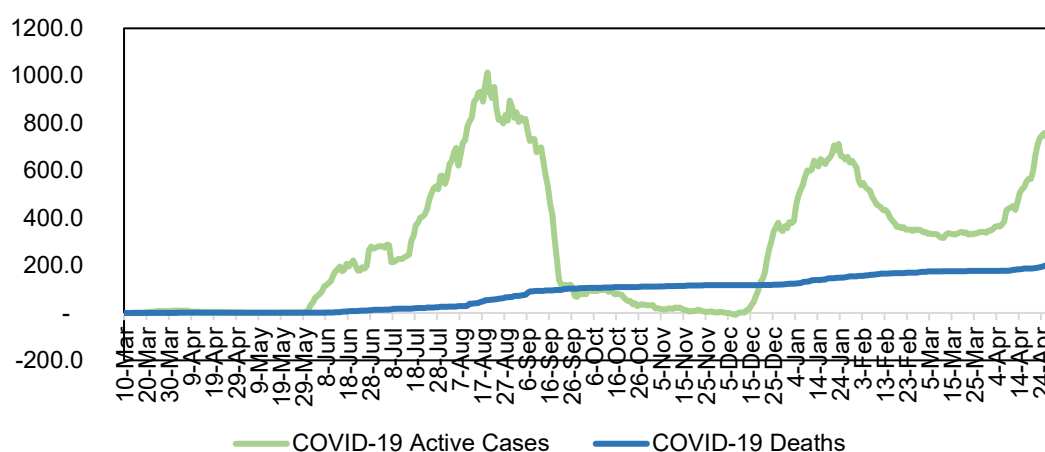
## V. Suriname

Jeetendra Khadan

### Overview of COVID-19

Suriname confirmed a total of 10,363 COVID-19 cases, about 1.5 percent of the population, as of April 30, 2021. The country recorded its first COVID-19 case on March 13, 2020. The number of active COVID-19 cases peaked at 1,014 in August 2020, then declined significantly until mid-December 2020. There was a sharp increase in the number COVID-19 cases from mid-December 2020 into 2021, with a notable increase in COVID-19-related deaths. As of April 30, 2021, the authorities confirmed 204 COVID-19-related deaths (0.03 percent of the population).

Figure 1. Suriname: COVID-19 New Daily Cases and Deaths



Source: Authors' calculations based on data from the COVID-19 Data Repository (Johns Hopkins University 2021).

The authorities have continuously implemented and enforced social distancing measures and restrictions to curb the spread of the virus. The government established a National Public Health Response team and a COVID-19 Crisis Management Team in the first quarter of 2020. The measures implemented during the pandemic included the closure of all borders, school closures, curfew restrictions, a partial lockdown, mobility restrictions, restrictions on non-essential business and social activities, and enforcement of the use of physical distance and other protective measures to prevent COVID-19 transmission. Those measures were reviewed regularly and adjusted during 2020 and into 2021 to curb the spread of the virus while mitigating the economic consequences of restrictions on the population. Some of the most recent restrictions that were reintroduced in February 2021 include: a limited curfew; restrictions on gatherings (both private and public spaces); enhanced surveillance of closed national borders; and the mandatory wearing of a mouth and nose covering.<sup>59</sup>

<sup>59</sup> For further details, see <http://health.gov.sr/actueel/2021/regering-past-lockdown-maatregelen-aan/>.





**Vaccinations are ongoing.** The authorities had vaccinated 39,953 persons (6.72 percent of the population) as of May 1<sup>st</sup>, 2021.<sup>60</sup> Suriname received 84,000 doses of the Oxford-AstraZeneca vaccine, including 1,000 from Barbados, 50,000 from India, and 24,000 through the COVAX Facility during February and March 2021. The authorities are vaccinating those most at risk of becoming infected with the virus such as health workers, older adults, and persons with certain underlying medical conditions.

### Economic Update

**Economic activity contracted significantly in 2020.** The overall monthly economic activity index contracted by 10 percent in the 12-month period up to August 2020. According to the Central Bank of Suriname, the decline in economic activity was largely due to a decline in gold production and measures implemented to curb COVID-19 infections. The main contributors to the contraction in economic activity were manufacturing (decline of 3.5 percentage points), agriculture, hunting and forestry (decline of 2.1 percentage points), construction (decline of 1.4 percentage points), and wholesale and retail trade (decline of 1.4 percentage points). The decline in the manufacturing sector was mainly due to a 16.9 percent fall in gold production. The decline in the agriculture, hunting and forestry sector was largely due to a decline in banana and log production by 67.7 percent and 56.9 percent, respectively. For the construction and wholesale and retail trade sectors, the decline was related to a 21.2 percent drop in imports of construction materials and declines in sales of heavy equipment and food and non-alcoholic beverages by 25 percent and 6.7 percent, respectively.<sup>61</sup> The International Monetary Fund (IMF) estimates that real GDP declined by 13.5 percent in 2020.

**Measures have been taken to support the economy in response to COVID-19.** The authorities established a SRD400 million Emergency Fund in May 2020 to finance social support measures. A separate SRD300 million Production Fund was also established to support small and medium-sized enterprises. The resources in the Emergency Fund were increased by SRD1.5 billion in August 2020. The resources programmed in response to COVID-19 thus far are estimated to total 6 percent of GDP. In June 2020, the Central Bank of Suriname temporarily lowered the local currency cash reserve requirement from 35 to 27.5 percent.

**Inflation accelerated in 2020 from 4.2 percent in January 2020 to 61 percent at the end of the year.** There were noticeable increases in subcomponents related to household furnishings, alcoholic beverages and tobacco, transportation, and recreation, culture and education (Figure 2). The sharp increase in prices was mostly related to a large parallel exchange rate market premium that reached as high as 126 percent during the first three quarters of 2020, followed by an official devaluation of the exchange rate by 90 percent on September 22, 2020.

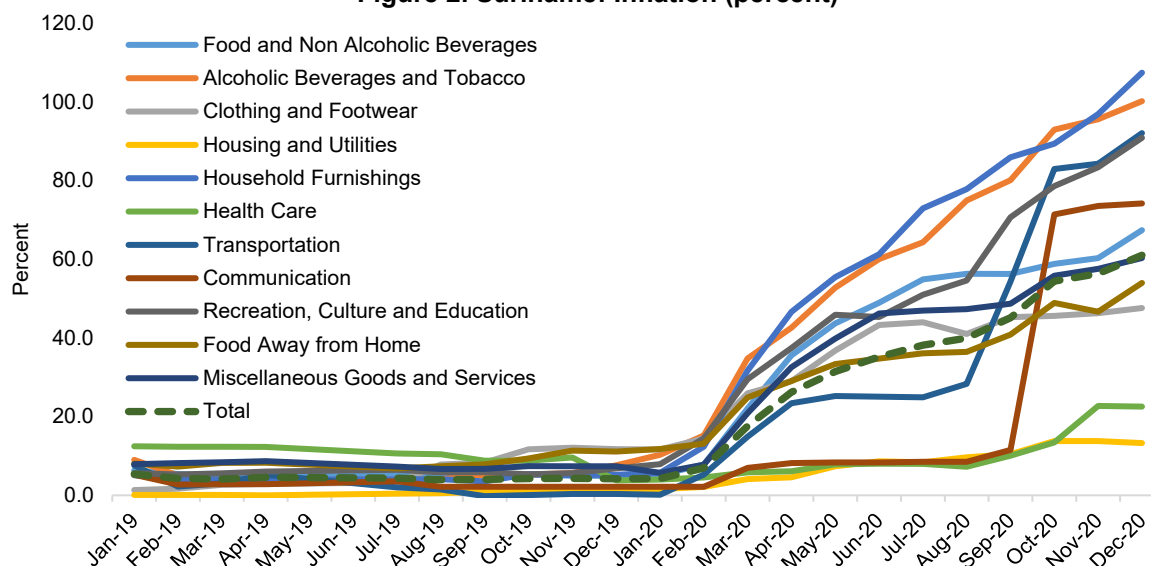
**Unemployment increased in 2020.** The IMF's October 2020 *World Economic Outlook* estimated an increase in the unemployment rate for Suriname from 8.9 percent in 2019 to 11 percent in 2020. Moreover, a nationally representative telephone survey conducted by the IDB in August 2020 showed that more than 20 percent of low- and middle-income households reported had at least one household member who had lost employment since mid-March 2020, compared to 13 percent of high-income households. Labour market statistics from country authorities after 2018 are not available.<sup>62</sup>

<sup>60</sup> For further details, <https://ourworldindata.org/covid-vaccinations>

<sup>61</sup> For further details, <https://www.cbvs.sr/images/content/statistieken/MEA/2020/MEA/bulletinAug2020Eng.pdf>.

<sup>62</sup> For further details, see <https://www.cbvs.sr/images/content/statistieken/Database/Table23.pdf>.

Figure 2. Suriname: Inflation (percent)



Source: General Bureau of Statistics, Suriname.

**The current account balance improved during the first three quarters of 2020 to US\$128 million compared to a deficit of US\$351 million for the same period in 2019.** The surplus reflected a larger merchandise trade surplus, mainly arising from higher mining exports and lower imports. International reserves improved slightly from US\$596.1 million in January 2020 to US\$601.8 million in January 2021.<sup>63</sup>

**Suriname has seen its credit rating downgraded.** Fitch downgraded Suriname's Long-Term Foreign-Currency Issuer Default Rating (IDR) to RD from C in April 2021. Standard and Poor's also downgraded Suriname's long-term foreign currency sovereign credit rating to SD from CCC and the issue-level rating on the 2026 bonds to D from CCC in November 2020. The downgrades came after the government missed a coupon payment of US\$25 million on the 2026 bond on October 26, 2020 and proposed a standstill on the repayment on its two international bonds. After negotiating with bondholders, the government received the requisite consents to defer debt service payments that were originally due during October-December 2020 on the 2023 and 2026 notes until March 31, 2021. The recent credit rating downgrade by Fitch reflects the non-payment of US\$49.8 million of rescheduled external debt service that was due on March 31, 2021. At the end of April, the IMF announced a staff level agreement with government for a three-year Extended Fund Facility (EFF). The proposed amount is for approximately US\$ 690 million over three years.

**Economic growth is expected to return in the short term.** The IMF has forecast a modest economic recovery of 0.68 percent for 2021 and growth averaging 1.5 percent over 2022–2026. A return to growth is based on the expectation of improvements in commodity prices and production. Moreover, the expected rollout of COVID-19 vaccinations in 2021 should allow the authorities to gradually lift travel and social distancing restrictions, which will help improve domestic economic activity. However, there is a high level of uncertainty about these assumptions and projections, especially for commodity prices and the ability of

<sup>63</sup> For further details, see <https://www.cbvs.sr/images/content/statistieken/Database/Table15.pdf>.

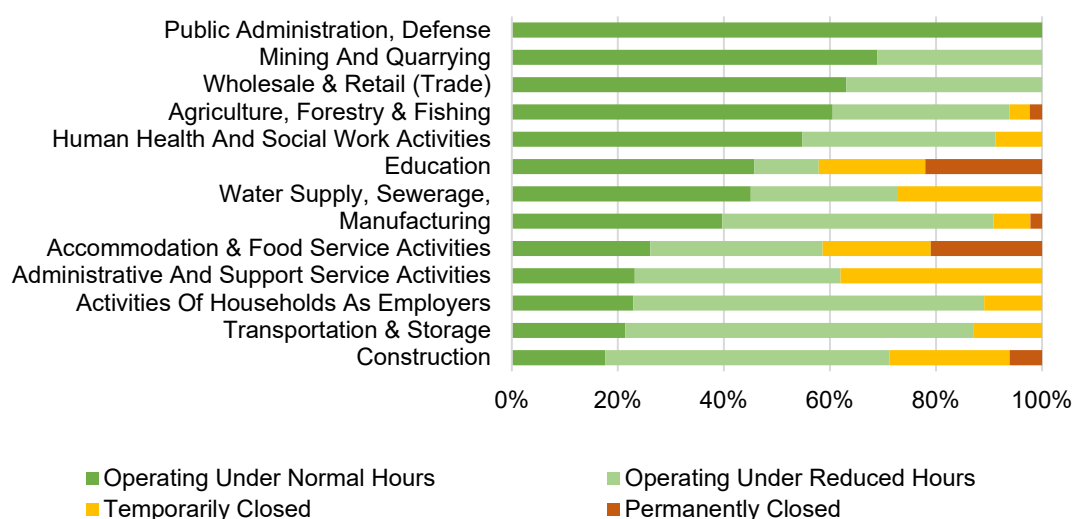
the domestic private sector to realize a strong rebound in 2021, given the impact of the pandemic and pre COVID-19 constraints to economic growth.

### Sectoral Focus

**Suriname's tourism sector is small in relation to the economy and compared to other countries in the region.** In 2019, travel and tourism accounted for 2.6 percent of GDP, 2.8 percent of total employment, and 3.1 percent of total exports. Inbound arrivals are mostly from the Netherlands (52 percent), followed by Guyana (13 percent), Brazil (6 percent), United States (3 percent), China (2 percent), and the rest of the world (24 percent).

**The tourism sector was severely affected by events in 2020.** After recording the first COVID-19 case in March 2020, the government of Suriname closed all borders, airports, and ports for passengers. Although restrictions were lifted for internal air travel during 2020, the authorities continued to maintain restrictions on international commercial flights. These measures have negatively affected economic activity in the travel and tourism industry. Indeed, a survey conducted by the Surinamese Business Association in June 2020 showed that the closure of borders and restrictions imposed on mobility contributed to falls in sales ranging from 95 to 100 percent in the tourism sector. Similarly, a nationally representative telephone survey conducted by the IDB in August 2020 found that about 41 percent of businesses in the accommodation and food services sector, a sector that largely depends on tourism activity, were closed (either temporarily or permanently) and 33 percent of businesses operated under reduced hours (Figure 3).

**Figure 3. Suriname: Impact on Business Hours of Operation by Business Sector**



Source: IDB Telephone Survey, 2020.

**Prospects for a recovery in tourism will depend not only on COVID-19 vaccinations but also on addressing challenges facing the sector.** The consequences of COVID-19 on the country's tourism sector are expected to continue in 2021. COVID-19 vaccinations in both Suriname and key tourism source markets such as the Netherlands will be key to supporting a tourism recovery in the short term. Moreover, Suriname has vast untapped potential to increase the contribution of the tourism sector to the economy.



The country's tourism assets include its biodiversity, natural capital, and multi-ethnic influenced gastronomy, culture, and heritage. There is ample room for the country to strengthen its institutions, legislation, and regulatory system, including tax and non-tax incentives, to attract local and international investors in the tourism sector. It is also important that Suriname's tourism destinations adapt to a digital environment and begin to progressively incorporate technologies in their business and decision-making processes. Policies should also focus on improving access through better airline and transportation connectivity.

### Priorities and Risks

**Suriname is facing a challenging economic outlook in the short term.** The country's economy has not recovered from the 2015 recession, which led to a large contraction in economic growth, large fiscal and external imbalances, and a rapid increase in central government debt. The ongoing COVID-19 pandemic has exacerbated macroeconomic and social conditions, taking a toll on the quality of life. The country's fiscal and debt positions are unsustainable and will require many reforms to revenue and expenditure policies and to the country's economic institutions. In that context, the main priority for the authorities in the short term is to restore fiscal and debt sustainability. The new administration that took office in July 2020 developed a Crisis and Recovery Plan (2021–2022) with the aim of putting Suriname back on a path of strong, sustained, and equitable growth. The plan focuses on six areas: (i) create a climate for sustainable development; (ii) establish fiscal sustainability through fiscal consolidation policies and by improving the country's tax system; (iii) enhance the contribution of the real sector to the economy by promoting economic diversification and improving the business climate; (iv) develop an efficient and effective social safety net to protect the most vulnerable in society; (v) strengthen institutions of government and governance; and (vi) continue to pursue measures to minimize the negative effects of the COVID-19 pandemic on the economy and society.

**The medium-term outlook seems more optimistic given recent discoveries of oil and gas.** The latest discovery in January 2021 is the fourth oil discovery offshore Suriname deemed significant by Apache Corporation and Total and the fifth offshore discovery for Suriname since January 2020. It is expected that oil from all five discoveries of large reservoirs of oil and gas off the coast of Suriname will be delivered by 2027.<sup>64</sup> Further exploration activities are ongoing. Rystad Energy estimates that the recent oil discoveries could be about 1.4 billion barrels of oil equivalent resources, compared to Suriname's proven oil reserves of 87 million barrels as of 2018.<sup>65</sup> However, for those expected oil receipts to have a meaningful impact on the country's development outcomes, the authorities would need to implement many reforms in the short term to enhance economic management and governance of Suriname's natural resource wealth.

<sup>64</sup> Argus, "Offshore Suriname to Debut on Oil Stage in 2025," January 19, 2021, available at <https://bit.ly/3pglTbi>.

<sup>65</sup> OilNOW, "Suriname Oil Discoveries Estimated at 1.4 Billion Barrels – Rystad Energy," September 21, 2020, available at <https://bit.ly/37hhPUU>.



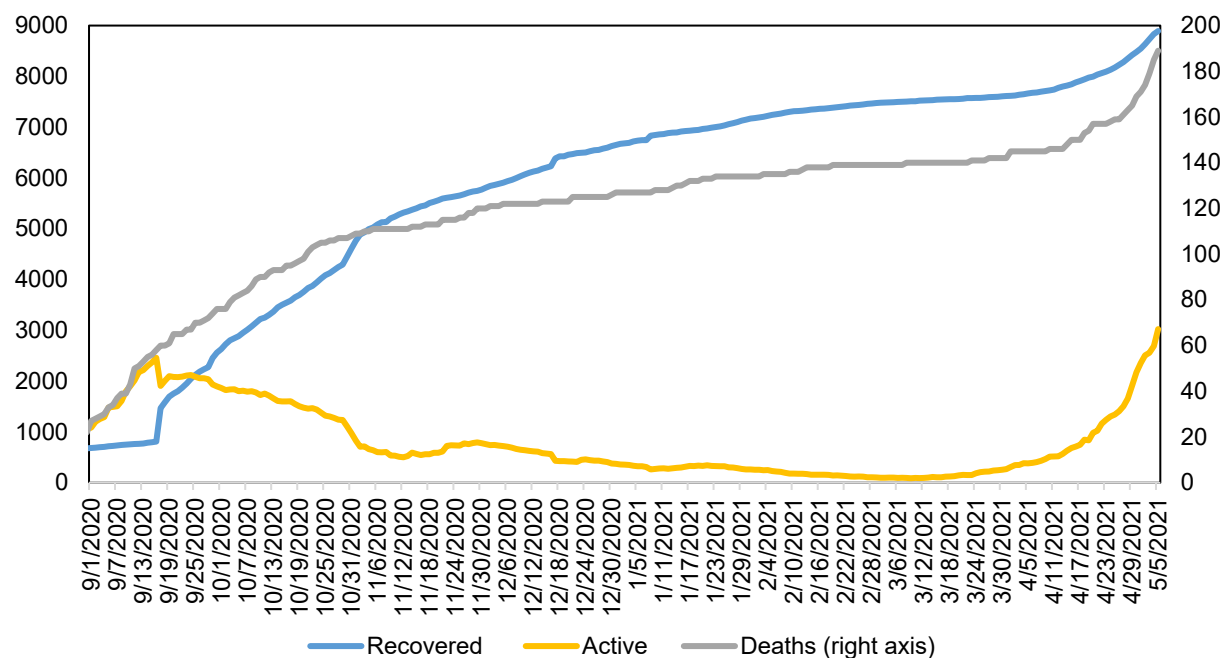
## VI. Trinidad and Tobago

Nazera Abdul-Haqq

### Overview of COVID-19

**Trinidad and Tobago experienced a spike in Covid-19 cases during the first quarter.** The number of active cases increased rapidly from 93 on March 12 to 3,236 active cases on April 6. The country recorded almost 400 new cases on May 5 alone, leading the authorities to project that the parallel healthcare system may reach full capacity by May 11, given the high rate of infection. The rise in cases has been attributed to the population's lack of compliance with Covid-19 regulations. Prior to the spike however, the country made significant progress at containing the virus, and recorded a 96 percent decrease in active cases, between September 24, 2020 and March 12, 2021. Cases of the Brazilian Covid-19 variant have also been detected. (Figure 1).

**Figure 1. Evolution of Covid Cases in Trinidad and Tobago**



Source: Ministry of Health, Trinidad and Tobago

**Domestic COVID-19 restrictions have been tightened and travel restrictions remain stringent.** Due to the continued rise in Covid-19 cases, the government revoked all permissions on non-essential activities that prevailed during the first three months of 2020. By May 6, public gatherings were reduced to five persons, flights to Tobago were limited to three per day and restrictions were implemented to discontinue



all food services, non-essential businesses, and recreational activities. The restrictions are effective until May 23.<sup>66</sup> Additionally, public offices now operate at a reduced capacity and on an essential services basis only. In terms of international travel restrictions, the borders remain closed, and the government has enforced protocols for nationals and permanent residents entering the country that require a State-granted exemption, PCR tests, and State or State-supervised quarantine.

**COVID-19 vaccinations are under way.** As of May 5, Trinidad and Tobago received a total of 75,600 doses of the Oxford/Astra-Zeneca COVID-19 vaccine from the COVAX Facility (33,600 doses), and from donations by the Government of India (40,000 doses) and by the Government of Barbados (2000 doses). Vaccination commenced in early March and 58,224 persons (or 4.1 percent of the population) received vaccinations by May 6. Of the total, 480 persons have been fully vaccinated while 57,744 await second doses. The country looks forward to receiving the second tranche of COVAX vaccines scheduled for May 2021 and 100,000 Sinopharm vaccines donated by China, pending approval from the World Health Organization. Other bilateral discussions to secure vaccinations are currently being held.

### Economic Update

**The economy is expected to recover marginally in the short term.** The International Monetary Fund (IMF) has estimated that real GDP contracted by 7.8 percent in 2020, and it projects a moderate economic recovery of real GDP growth averaging 2.2 percent over 2021–2025. Within the mining and quarrying/energy sector, contractions in real output in 2020 (5.1 percent in the first quarter and 8.9 percent in the second) were driven by a combination of factors, including weak global demand and supply conditions and delayed development work. This year, it is unlikely that there will be any significant increase in energy output given low production and no major plans to increase production levels.<sup>67</sup> With respect to the non-energy sector, COVID-19-related public health regulations were the main cause of the manufacturing sector's weak performance in 2020. The sector declined by 1.5 percent and 5.8 percent in the first and second quarters, respectively. Other non-energy sectors, including the tourism sector, were also negatively affected. However, the Central Bank's recent economic update indicates that domestic activity in the non-energy sector is slowly recovering, fueled by the construction and finance and insurance sectors. As detailed in its Roadmap for Recovery Plan, the government prioritize education, technology, agriculture, and youth as key areas for revitalizing the economy.

**The country's fiscal challenges continued into the new fiscal year.** During the first four months of FY2021, a shortfall of budgeted revenues of 13 percent was recorded (equivalent to 1.2 percent of GDP) due to lower energy tax revenue and non-tax revenue. The government withdrew almost US\$300 million from the Heritage and Stabilization Fund (HSF), which contains an estimated US\$5.7 billion. As of March 2021, the value of the HSF was estimated at 26 percent of GDP, down from 26.5 percent of GDP in June 2020. Owing to Trinidad and Tobago's depressed oil and gas production levels, the country's revenue situation is not expected to trend upward along with higher commodity price projections.<sup>68</sup> In fact, further

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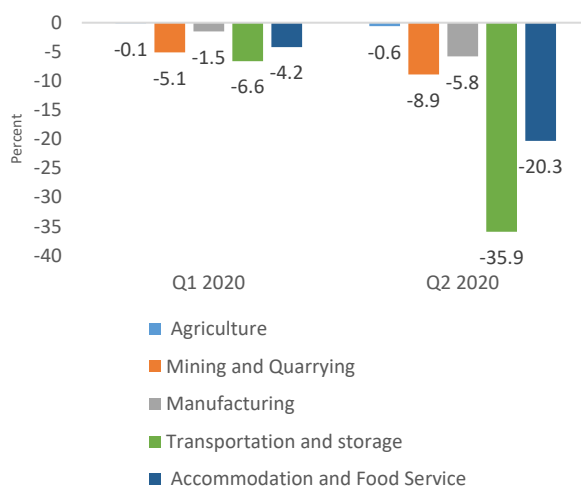
<sup>66</sup> The government is finalizing a TT\$ 40-50 million (equivalent to US\$5.9 to US\$ 7.4 million) support package to assist those impacted by the restrictions.

<sup>67</sup> However, the commencement of Touchstone Exploration's onshore production in 2021 will add 110 million cubic feet of gas to existing gas supplies. This will represent a 3.6 percent increase over daily gas production in 2020. Touchstone will also add 2,000 barrels of oil per day to supplies in 2021.

<sup>68</sup> The IMF forecasts that average crude prices will recover in 2021 to US\$50 per barrel and fall thereafter in 2022 to an average of US\$48.82. This projection assumes that advanced economies experience a better-than-projected global recovery in 2021 (5.5 percent

revenue shortfalls of TT\$5 billion (or 3.4 percent of GDP) are expected for FY2021. Importantly, various acts were amended to implement some of the main revenue (and growth) measures outlined in the 2021 National Budget. Amendments were made to incentivize small and mid-sized enterprise investment activity by reducing the respective corporate tax rate; encourage growth of the creative and technology sectors; improve the cash flows of small onshore operators by increasing the threshold for Supplemental Petroleum Tax payments; and curb foreign exchange leakages by removing electric/hybrid imported cars from the value-added tax zero rating schedule and imposing an import tax. The government is also conducting legislative reviews and working to establish the required business procedures to liberalize the liquid fuels market, remove the fuel subsidy, and implement the property tax regime.

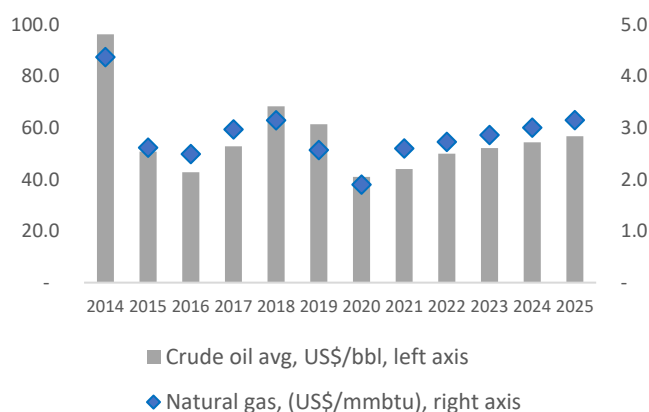
**Figure 2. Trinidad and Tobago: Growth in Real Output of Selected Sectors (percent)**



Source: Ministry of Finance

global growth), due to robust vaccine rollouts and fiscal stimulus programs. The World Bank and the U.S. Energy Information Administration also forecast higher oil (and natural gas) prices for 2021, but with continued price increases from 2021 onward.

Figure 3. Trinidad and Tobago: Projected Commodity Prices



Source: World Bank.

**Inflation has continued at very low levels.** Based on Central Bank data, headline inflation in March 2021 remained low at 0.8 percent, with food inflation decreasing to 2.3 percent (from 5.1 percent in November 2020). However, higher food prices are expected owing to the recent increase in animal feed costs and unseasonal weather patterns.

**The latest indicators in March 2021 showed that private sector credit has not responded strongly to low interest rates and excess liquidity in the banking system.** There is significant liquidity in the system despite a reduction in excess reserves. Excess reserves declined by 47 percent from a daily average of TT\$15 billion (or US\$2.2 billion) in late 2020 to TT\$8 billion (or US\$1.2 billion) in March 2021, due largely to government borrowing operations. In addition, the average prime lending rate of commercial banks decreased to 7.29 percent in December 2020 from 7.5 percent in the second quarter of 2020. However, business and consumer credit from the banking system contracted by 4.7 per cent and 2.1 per cent, respectively (year-over-year) in December 2020.<sup>69</sup> The weak credit uptake is attributed to continued uncertainty among individuals and businesses to increase debt commitments, while on the supply side banks continue to be cautious about extending loans to guard against default.

### The Impact of the Pandemic on the Tourism Sector

**The pandemic has had a dampening effect on economic activity in the tourism sector.** Restrictions placed on the operations of restaurants, hotels, and guest houses and on the country's borders drove the decline in economic activity in the tourism sector in 2020. Real output in the transport and storage subsector declined by 6.6 percent and 35.9 percent during the first and second quarters of 2020, respectively.<sup>70</sup> In 2020, the accommodation and food services sector also contracted by 4.2 percent during the first quarter and further to 20.3 percent during the second.

**It is expected that Tobago's tourism sector will be disproportionately affected, as data suggest that the pandemic has had a greater negative impact on visitor arrivals there.** Tobago relies significantly

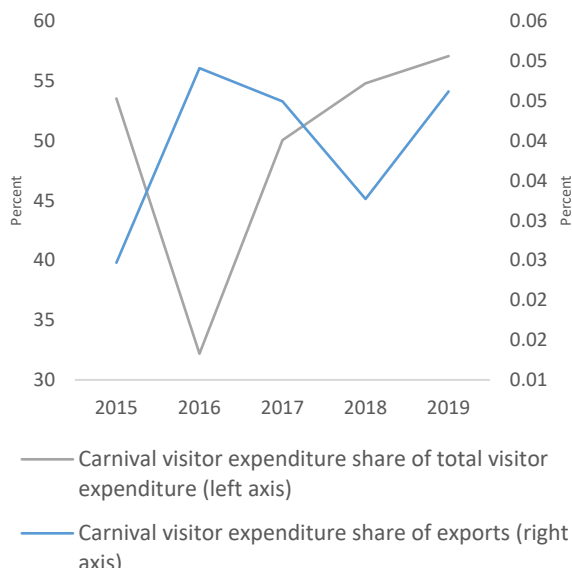
<sup>69</sup> Increased loan activity was recorded for the real estate sector, construction sector, and the food, drink and tobacco manufacturing sector.

<sup>70</sup> The transport and storage sector and the accommodation and food services sector are proxies for tourism activity in Trinidad and Tobago.

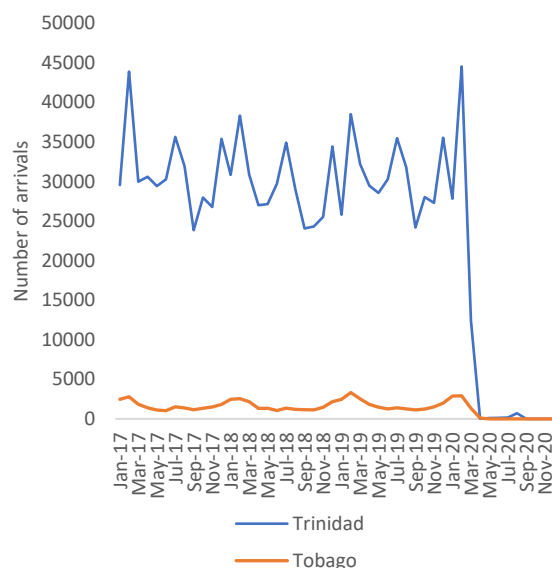


on tourism, which represented 13 percent of the island's GDP in 2019.<sup>71</sup> There were zero arrivals in Tobago from May to December 2020,<sup>72</sup> while Trinidad's last visitor arrivals were recorded in August 2020. Also, despite the continued movement of nationals between the two islands, the quota on the inter-island ferry capacity resulted in fewer passengers, and potentially less tourism revenues for Tobago from Trinidad residents. In 2020 there were 10 percent more trips between the islands, but significantly fewer passengers (-18 percent) and vehicles (-4 percent) aboard compared to 2019. In addition, it is possible that the easing of restrictions on business operations, which began the last quarter of 2020, may not have sufficiently boosted domestic tourism activity, given the other restrictions affected during that period (e.g., on inter-island travel, the serving of alcohol at restaurants, and beach-going hours). At the same time, the cancellation of Trinidad and Tobago's carnival would have affected economic activity, particularly for Trinidad, which is considered the center of carnival activity. Between 2017 to 2019, an average of 6 percent of all visitors who travelled to Trinidad and Tobago (within the first quarter) were carnival visitors, and carnival visitor expenditure accounted for an average of 54 percent of total annual visitor expenditure (Figure 4). Carnival visitors spend predominantly on entertainment, accommodation, shopping, and prepaid packages.

**Figure 4. Trinidad and Tobago: Carnival Visitor Expenditure**




**Figure 5. Visitor Arrivals to Trinidad and Tobago**



Sources: Central Statistical Office of Trinidad and Tobago; Central Bank of Trinidad and Tobago, and Ministry of National Security.

<sup>71</sup> See the 2021 Budget Statement, available at <https://bit.ly/2ZSPik5>.

<sup>72</sup> The phased reopening of the domestic economy began in May 2020.



**The domestic tourism sector is key to driving tourism activity in the short term.** Despite positive global growth projections and increased vaccinations in key source markets, it is unlikely that any significant uptick in tourist activity in 2021 will come from international travelers. The continued closure of national borders and potential lags in achieving herd immunity locally may slow the normalization of inbound travel. However, the ebb and flow of the rate of infections within T&T is a great downside risk to increases in domestic tourism activity. Still, the government's focus in 2021 is on reviving local tourism activity (in Tobago) by expanding inter-island transport capacity; promoting spending in Tobago from Trinidad residents through a Staycation Campaign; passing tourism legislation; and extending a grant facility (up to 2023) to support the upgrading of eligible tourism accommodations in Tobago. In Trinidad, the Ministry of Tourism, Culture and the Arts plans to work on developing a National Tourism Policy and a Strategic Tourism Incentive Plan to continue the upgrading of tourist facilities and a diagnostic assessment of national tourism services.



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