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Regional Overview: The Fragile Path to Recovery

Henry Mooney and David Rosenblatt

Introduction
For more than a year, the Caribbean economics team at the Inter-American Development Bank (IDB) has focused on the potential implications of the COVID-19 pandemic for lives and livelihoods across the region.\(^1\) The pandemic is still with us, but there is hope that the cycles of lockdowns and containment measures will eventually come to an end as vaccination programs progress, even if unevenly, across the region. However, the availability of vaccine supply remains a concern, and the pandemic continues to pose a constraint for the recovery of key sectors such as tourism and local services sectors.

This edition of the Quarterly Bulletin focuses on the following areas:

- **Forecasts of Key Macroeconomic Indicators.** An analysis of the most recent *World Economic Outlook*\(^2\) forecasts by the International Monetary Fund (IMF) suggests that it may take a number of years for countries in the Caribbean to return to pre-pandemic levels of GDP per capita, including the countries of the Organisation of Eastern Caribbean States (OECS) for which data were available. Countries in the region certainly cannot be expected to recover to pre-crisis levels until at least 2022, with the notable exception of Guyana, which is experiencing an oil boom. The analysis also considers the projected evolution of other macro variables. Of particular significance is increasing debt-to-GDP ratios driven by the sharp recession in 2020, although several countries (most notably Jamaica) are projected to resume or begin aggressive debt consolidation efforts over the medium term. Much will of course depend on how external and domestic demand conditions develop over the near term.

- **Financial Sector Risks.** This Regional Overview provides an overall summary of financial sector risks, while each country section looks at individual country risks. While stability indicators remain for the most part relatively solid, forbearance and related measures undertaken across the region—such as creditors working with clients to prevent delinquencies and defaults—may be masking underlying vulnerabilities. Such measures, as well as other efforts by central banks and governments, have certainly helped to dampen what might otherwise have been a more significant shock to financial systems and economies more broadly.

In general, regional economies are embarking on a fragile path to recovery. Continued progress with vaccination programs, credible medium-term fiscal programs, and continued attention to financial vulnerabilities will be needed to push that path to recovery forward. Along the way, policies and investments to support the long-term growth agenda, as discussed in other editions of this bulletin, will remain on the agenda as well.

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\(^1\) The Caribbean Quarterly Bulletin focuses on six countries that constitute the Caribbean Department of the IDB: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago. The Regional Overview also includes analysis of the six sovereign states of the Organisation of Eastern Caribbean States: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

\(^2\) For the analysis, we used the April edition forecasts from the online database. The recent July edition of the World Economic Outlook has new forecasts only for large economies and regional/global aggregates.
COVID-19 and the Caribbean in Comparative Perspective

The Caribbean continues to suffer from periodic outbreaks of COVID-19, requiring cycles of containment measures. Unfortunately, several countries have experienced a rise in cases in recent weeks. That said, the region has experienced lower per capita infections and deaths relative to other parts of Latin America and the Caribbean. For example, looking at the average death rate across countries for each IDB Country Department (Figure 1, panel a), there are persistently much lower death rates in the Caribbean than in the Andean and Southern Cone regions, and somewhat lower rates than in the Mexico and Central American region.

Ultimately, the periodic outbreaks will only end when vaccination rates cover a substantial majority of the population. Fortunately, the main vaccines on the market appear to be functioning well against the new emerging and more contagious variants. Even though vaccinated people in rare cases are still getting infected, their rate of hospitalization or death has been extremely low. The larger risk is that these variants will spread among the unvaccinated population.

On the vaccination front, vaccination rates are increasing, but supplies remain a serious concern. Recent announcements of additional bilateral donations to the Caribbean provide hope. Southern Cone countries have advanced much more rapidly than the rest of Latin America and the Caribbean (Figure 1, panel b). There are even Southern Cone countries that have higher vaccination rates than the United States. The country sections of this Bulletin provide more specific information on the vaccination situation in individual Caribbean countries.
Figure 1. COVID-19 Death Rates and Vaccination Rates

a. Cumulative Deaths Per Million Population, Regional Averages by IDB Country Department as of 8/11/2021

b. Percent of Population Receiving At Least One Vaccination, Regional Averages by IDB Country Department as of 8/10/2021

Note: CID: Mexico, Central America (including Belize), Dominican Republic, and Haiti; CCB: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; CAN: Bolivia, Colombia, Ecuador, Peru, and Venezuela; CSC: Argentina, Brazil, Chile, Paraguay, and Uruguay.
Shock and Prospects for Growth
For more than a year, the Caribbean economics team at the IDB has focused on the potential implications of the COVID-19 pandemic for lives and livelihoods across the region. At the outset of the shock in March 2020, we published impact simulations designed to help guide both policy development and contingency planning in the face of unprecedented uncertainty and the likelihood of an extraordinary shock. While tremendous uncertainty remains regarding near-term prospects, consistent cross-country data and forecasts are now available for several crucial macroeconomic and fiscal variables that have affected and will continue to affect Caribbean economies and their prospects for growth and development. This Bulletin focuses on the latest IMF *World Economic Outlook* projections for key economic variables and dynamics with implications for governments and their scope for future progress.

Outsized Shock to Caribbean Countries
The pandemic has spawned a year like no other in terms of its implications for economic outcomes across the Caribbean. Unprecedented shocks to key sectors such as tourism and resource exports have resulted in some of the largest shocks to growth ever recorded across the region. This has forced governments to think seriously about economic structures, diversification, and vulnerabilities linked to specific sectors. In this context, the depth of this shock has mapped closely to the significance of key export sectors—particularly tourism dependence—for the six Caribbean countries reported on here, as well as for member countries of the OECS. As highlighted in Figure 2, many Caribbean countries are among the world’s most dependent on the tourism sector, which has been the global sector most affected by COVID-19.
Impact on Growth and Incomes

Against this backdrop, for 9 of the 12 Caribbean countries reviewed, 2020 brought a double-digit shock to real GDP—in many cases, the largest since consistent data became available in 1975. The magnitude of these shocks maps quite closely with a measure of tourism dependency—the Tourism Dependency Index—with nine of these countries ranking in the top 20 globally out of 166 countries in terms of their relative dependency on tourism for growth, employment, and balance of payments financing (Figures 2 and 3).
Figure 3. The COVID-19 Pandemic’s Unprecedented Shock to Real Output

a. Tourism Dependency Index and Components (latest available data)

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<td>Guyana</td>
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<td>158</td>
<td>Suriname</td>
<td>3.46</td>
<td>3.70</td>
<td>3.25</td>
<td>3.43</td>
</tr>
</tbody>
</table>

Note: The digit preceding the country name is the ranking out of 166 countries for which the index was calculated.

b. Change in Real GDP (year-over-year) in 2020 and Tourism Dependence Index (%)

Sources: Mooney and Zegarra (2020); IMF (2021); World Bank, World Development Indicators database; and authors’ calculations.
At this point, the implications of COVID-19 for economic performance in 2020 are relatively well understood. But one important question remains: How long will it take for countries to return to pre-crisis levels of economic activity? As discussed in detail in the previous Quarterly Bulletin—*Imagining a Post-COVID Tourism Recovery*—for the Caribbean in particular the pace of recovery will depend largely on progress in terms of vaccine distribution, border and travel normalization, and a recovery of demand in the advanced economies that consume both goods and services exports from the region. This is also critical for natural-resource-dependent economies. As commodity prices have recovered, local service sectors have continued to suffer from periodic coronavirus outbreaks, and even mineral extraction has suffered from these outbreaks.

**How Rapidly Can Economies Be Expected to Recover?**

With respect to the tourism sector specifically, normalization will also depend crucially on the availability of vaccines for the local population—particularly people working in the tourism sector (e.g., hotels, restaurants, transportation, etc.). Similarly, the availability of tests required in some cases for visitors to return to their home countries will also be crucial to ensure that once borders reopen, tourism offerings will remain desirable compared to other possible destinations across the world. Given these and many other complex factors affecting the recovery, considerable uncertainty remains.

Against this backdrop, a recent survey of experts by the United Nations World Tourism Organization (UNWTO 2021) found that only 1 percent of industry experts believed that global tourism flows would recover to 2019 levels by the end of 2021. Among this same group of experts, 15 percent thought it likely that flows would return to normal by end-2022, and about an even split—43 percent and 41 percent, respectively—believed tourism would only return to normal by 2023 or 2024 or later (Figure 4).

![Figure 4. Expectations for International Tourism to Return to Pre-Pandemic Levels](source: IDB Caribbean Quarterly Bulletin (May 2021) based on data from UNWTO (2021).)
Given the fluidity of the situation and the many variables at play, there has perhaps never before been more uncertainty with respect to growth and economic projections for the near term. But what is certain is that—barring some other unforeseen calamity—prospects are improving for a recovery in advanced economies and in countries that depend on their expenditures and demand. Vaccine production and distribution is accelerating in the advanced world. Developing countries too are seeing more doses become available, though, as discussed above, the numbers are still far from sufficient. Similarly, Borders are beginning to open, consumption is accelerating, and people are beginning to consider both business and leisure travel across borders. In this context, the latest global growth projections from the IMF’s April 2021 World Economic Outlook suggest that despite the massive shock in 2020, most Caribbean countries should see a return to pre-pandemic levels of economic output sometime between 2022 and 2024. For most economies in the region, this is in line with tourism sector recovery estimates outlined in Figure 4.

One important measure of recovery and normalization is the horizon over which per capita incomes are expected to recover (Figure 5). While other measures are important, including levels of aggregate real and nominal GDP, few measures are better able to capture the impact of the shock on citizens. Based on the latest available data and projections, only Guyana saw positive real per capita GDP growth in 2020—an extraordinary 43 percent—relative to 2019, owing to the start of production at its considerable oil discoveries. All other Caribbean and OECS countries for which data are available saw declines. Of these, only two other countries are expected to return to pre-crisis per capita income levels by 2022—Jamaica and St. Vincent and the Grenadines. Most of the rest of the region’s economies will only fully recover in either 2023 or 2024. St. Kitts and Nevis and Suriname are set to experience even longer delays. In the case of Suriname, current projections envision a recovery horizon that could last well into the decade, though faster progress with macroeconomic reforms could help accelerate this transition.

3 There are numerous websites to track vaccination progress around the world, including Our World in Data and newspapers like the Washington Post and New York Times.

4 Note that in the case of Suriname, which is not a highly tourism-dependent economy, other macroeconomic and financial challenges imply a slower recovery than for other countries in the region.
Figure 5. How Long Before Per Capita Income Returns to Pre-crisis Levels?
Evolution of GDP Per Capita in Constant Domestic Currency (2019 = 100)
a. Five Caribbean Countries

Sources: IMF (2021); and authors' calculations.
Note: Guyana is excluded due to its status as a high-growth economy rather than a recessionary economy. OECS: Organisation of Eastern Caribbean States
Implications for Public Finances and Fiscal Space

For small islands and developing economies, the two most widely discussed economic variables are generally GDP growth and public debt ratios. While other variables such as poverty, employment, productivity, and many social indicators are arguably more important, few indicators more directly reflect both objectives and constraints facing policymakers. The two variables are, of course, directly linked to one another. In this context, the pandemic has affected the ratio of public debt to GDP from both above and below. As discussed above, the denominator—nominal GDP—for most Caribbean countries has been shocked to an extent never before contemplated, including double-digit contractions in many cases.

Importantly, for most countries the shock to growth has implied lower revenues (e.g., from taxes) and higher expenditures (e.g., stimulus measures, health and security expenditures, vaccine procurement, etc.), driving higher government financing requirements. This has translated into an increase in the numerator of the public debt ratio. As outlined in Figure 6, only two of the Caribbean countries for which data were available (Dominica and Suriname) saw improvements in overall fiscal balances (i.e., the difference between expenditures and revenues) in 2020 relative to 2019, despite both suffering shocks to revenues. The other 10 Caribbean countries reviewed saw fiscal balances deteriorate. In the case of Barbados and Trinidad and Tobago, this deterioration was in excess of 8 percentage points of GDP. Looking forward, the IMF’s April 2021 World Economic Outlook projections suggest that for most of the economies for which balances deteriorated in 2020, it could take years for a return to pre-crisis levels. For Barbados, Grenada, Guyana, Suriname, and Trinidad and Tobago, fiscal balances are projected to remain worse than prior to COVID-19 through 2026, the last projection year. Jamaica is expected to return to pre-crisis levels by 2022, while Antigua and Barbuda, St. Kitts and Nevis, and St. Lucia may recover in terms of fiscal balances by 2023. It should be noted that in the case of Suriname, successful implementation of the country’s proposed economic recovery program, along with proposed IMF support, could result in much more favourable fiscal outcomes.
Figure 6. Impact of COVID-19 on Public Finances and Fiscal Space
(public revenue less public expenditure as a percent of GDP)

a. Six Caribbean Countries

b. OECS Member Countries

Sources: IMF (2021); and authors’ calculations.
Note: OECS: Organisation of Eastern Caribbean States.
Implications for Public Debt

Against this backdrop, as highlighted in Figure 7, all countries in the Caribbean saw debt-to-GDP ratios increase from end-2019 through end-2020. In line with significant shocks to output, most countries in the region saw double-digit (or near double-digit) increases. For Suriname, this increase amounted to about 73 percentage points of GDP. The ratio also increased by over 20 percentage points of GDP for St. Lucia, Barbados, and Antigua and Barbuda. Dominica and Guyana saw the smallest increases among the Caribbean economies reviewed, with increases of about 6 and 4 percentage points, respectively.

![Figure 7. COVID-19’s Outsized Shock to Public Debt in the Caribbean: Change from 2019 to 2020 and Projected Change for 2020 to 2026 in Public-Debt-to-GDP Ratios (percentage points)](image)

Looking forward, another key question is what the pandemic’s lasting impact will be on public balance sheets. As with other variables, uncertainty remains with regard to how both the numerator and denominators of public-debt-to GDP ratios will evolve. But the IMF’s April 2021 World Economic Outlook projections suggest that there will be long-lasting implications for many countries. For example, only 4 of the 12 Caribbean economies considered for which projections are available are currently projected to see debt levels fall below their end-2019 levels by end-2026 (Figure 7). Of these, Jamaica is expected to see the largest consolidation—of over 30 percentage points of GDP—while others like Barbados, Dominica, and Grenada are also projected to achieve appreciable improvements. For several Caribbean economies, prospects for consolidation remain uncertain, while current estimates envision double-digit increases in public debt ratios through 2026 for several economies, including The Bahamas, St. Lucia, Suriname, St.

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5 This significant consolidation is guided by the government of Jamaica’s fiscal responsibility framework, which has established a medium-term public-debt-to-GDP target of 60 percent.
Vincent and the Grenadines, and Trinidad and Tobago. As noted above, if Suriname’s incipient economic recovery program is successful, then its debt-to-GDP ratio would follow a more favourable path in the coming years than that projected above.

**Shock to External Balances and Prospects for Recovery**

Another crucial indicator of the implications of this crisis for economies in the region is the shock to external balances. As also discussed in reports such as Mooney and Zegarra (2020), for small and open economies that rely on external demand and financing, the shuttering of key sectors such as tourism, as well as rapid movements in the demand for commodities exports and related price changes, has had severe implications. Four of the 12 economies surveyed saw improvements in current account balances from 2019 to 2020 (Figure 8). With the exception of Guyana, which started oil production during the period, such improvements would have been hard to anticipate early on. For example, in Jamaica, despite the large shock to tourism services exports, the current account actually improved owing to an increase in remittances. For many other Caribbean nations, however, the shock to external balances was significant. The current account deficit deteriorated by over 20 percentage points of GDP in The Bahamas and St. Lucia, for example. Looking forward, a return to pre-crisis current account balances is not projected until 2026 for Antigua and Barbuda, until 2024 for St. Vincent and the Grenadines, and until 2022 for Grenada. For The Bahamas, Barbados, Dominica, St. Kitts and Nevis, and St. Lucia a return to pre-crisis current account balances is not currently projected to occur during 2021–2026.

![Figure 8. Current Account Balances (percent of GDP)](image)

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6 The Trinidad and Tobago Ministry of Finance’s own medium-term forecasts envision a decline in the “adjusted general government debt to GDP” ratio from 88.4 percent in FY2020/2021 to 81.6 percent by FY2023/2024.

7 Remittances to Jamaica increased by about 6 percentage points of GDP in 2020, more than offsetting the deterioration in the trade balance, and driving an improvement in the current account balance.
Potential Fragility in Financial Sectors?

The shock to most sectors of Caribbean economies has been considerable, which has invariably translated into stresses affecting financial systems and markets. On an aggregate level, growth in credit to the private sector either declined or turned negative during the pandemic, while deposit growth remained fairly robust (Figure 9).
For the most part, financial systems were well capitalized entering the crisis (Table 1), but nonperforming loans are a double-digit share of total loans in several countries. Forbearance, moral suasion, and financial support measures might have prevented nonperforming loans from increasing more during the pandemic. Profitability, in terms of the return on assets and the return on equity, declined in most cases, and even turned negative in The Bahamas.
## Table 1. Financial Soundness Indicators %

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<th>2021</th>
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<td><strong>THE BAHAMAS</strong></td>
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<tr>
<td>NPLs/Gross loans</td>
<td>9.1</td>
<td>7.9</td>
<td>8.7</td>
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<tr>
<td>CAR</td>
<td>28.1</td>
<td>28.4</td>
<td>-</td>
</tr>
<tr>
<td>ROA</td>
<td>2.4</td>
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<td>-</td>
</tr>
<tr>
<td>ROE</td>
<td>10.7</td>
<td>-0.3</td>
<td>-</td>
</tr>
<tr>
<td><strong>NOTES:</strong></td>
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<tr>
<td>March of each year for NPLs and deposit growth</td>
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<tr>
<td>NPL definition: (3 months and over) / Total Loans (gross)</td>
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<tr>
<td>Credit and deposit growth, year-over-year March to March for 2021</td>
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<tr>
<td>Deposit growth is for domestic banks</td>
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| **BARBADOS** |      |      |      |
| NPLs/Gross loans | 7.7  | 6.9  | 7.9  |
| CAR | 16   | 14.6 | 15.9 |
| ROA | 13   | 1.8  | 0.5  |
| ROE | -    | -    | -    |
| **NOTES:** |      |      |      |
| ROA is for 12 months |
| Credit and deposit growth year-over-year March to March for all years |
| ROA, NPLs and CAR are all for March of each year |

| **GUYANA** |      |      |      |
| NPLs/Gross loans | 11.1 | 10.8 | 10.1 |
| CAR | 28.0 | 29.1 | 27.6 |
| ROA | 2.63 | 1.78 | 0.43 |
| ROE | 17.81 | 12.44 | 3.17 |
| **NOTES:** |      |      |      |
| CAR and ROA are for March in 2021 column |
| Credit and deposit growth for 2021 are April 2021 relative to December 2020 |
| 2021 data are as of March |

| **JAMAICA** |      |      |      |
| NPLs/Gross loans | 2.4  | 2.4  | 2.9  |
| CAR | 14.7 | 14.2 | 14.3 |
| ROA | 0.6  | 0.3  | 0.4  |
| ROE | -    | -    | -    |
| **NOTES:** |      |      |      |
| March of each year |
| Pre-tax profit margin and ROA based on calendar quarter |
| NPL definition: (3 months and over) / Total Loans (gross) |
| ROA is for the calendar quarter |

| **SURINAME** |      |      |      |
| NPLs/Gross loans | 10.6 | 14.6 | 14.1 |
| CAR | 11.4 | 11.8 | 12.5 |
| ROA | 1    | 2.0  | 0.3  |
| ROE | 16.7 | 35   | 4.9  |
| **NOTES:** |      |      |      |
| Credit growth is only local currency credit growth |
| Deposit growth in 2020 reflects the revaluation of foreign currency deposits into domestic currency following the maxi-devaluation |
| NPLs, CAR, ROA and ROE ratios are for April 2021 in the 2021 column |

| **TRINIDAD AND TOBAGO** |      |      |      |
| NPLs/Gross loans | 3.1  | 3.4  | 3.4  |
| CAR | 23.6 | 19.6 | 18.8 |
| ROA | 3.6  | 1.8  | 2.0  |
| ROE | 24.3 | 12.4 | 13.8 |
| **DOMINICA** |      |      |      |
| NPLs/Gross loans | 12.2 | 15   | 14.6 |
| CAR | -    | -    | -    |
| ROA | 2.9  | 0.9  | 1.8  |
| ROE | 60.4 | 24.0 | 41.7 |
| **GRENADA** |      |      |      |
| NPLs/Gross loans | 2.2  | 2.2  | 2.3  |
| CAR | 11.9 | 15.1 | 15.7 |
| ROA | 1.4  | 0.4  | 0.3  |
| ROE | 12.8 | 4.8  | 3.6  |
| **ANTIGUA AND BARBUDA** |      |      |      |
| NPLs/Gross loans | 5.3  | 6.3  | 6.5  |
| CAR | 39.4 | 34.6 | 35.0 |
| ROA | 1.4  | 0.4  | 0.2  |
| ROE | 22.5 | 4.7  | 2.3  |
| **ST. KITTS AND NEVIS** |      |      |      |
| NPLs/Gross loans | 24.0 | 23.5 | 23.9 |
| CAR | 20.2 | 24.5 | 26.6 |
| ROA | 0.8  | 2.6  | 3.5  |
| ROE | 25.3 | 24.2 | 30.6 |
| **ST. LUCIA** |      |      |      |
| NPLs/Gross loans | 8.2  | 11.3 | -    |
| CAR | 15.9 | 14.9 | -    |
| ROA | 1.5  | 0.8  | -    |
| ROE | 25.3 | 10.8 | -    |

**Sources:** For IDB member countries, collated from national central bank data by the IDB Caribbean country economics team; for OECS countries, the International Monetary Fund’s Financial Stability Indicators database.
Governments, central banks, and regulators across the region have undertaken a wide variety of measures aimed at mitigating related stresses and their implications for bank liquidity and solvency. While the jury is still out regarding the pandemic’s implications for financial systems and sectors, what is clear is that many policies and actions aimed at supporting financial stability have helped to prevent more significant implications for corporates and households.

As will be discussed in the country sections, central banks have used both conventional levers of policy—for example, policy rate reductions and lower reserve requirements—and more targeted actions to support deposit-taking institutions and other credit providers, including to the benefit of their borrowers. Such actions have included the provision of liquidity and balance sheet support—such as new term and repo facilities and broadening the definition of acceptable collateral for central bank credit—as well as directives aimed at protecting capital buffers, including across-the-board restrictions on dividend distributions. One seemingly effective action undertaken across several countries has been the use of “moral suasion” to encourage banks to provide a wide variety of accommodations to borrowers facing cash flow difficulties that might otherwise have compromised their debt servicing capacity. Such measures have included concessional rescheduling of debt obligations, repayment moratoria or deferrals, and other adjustments that have succeeded in preventing a wave of delinquencies and defaults that could have had severe consequences for financial stability, with obvious implications for all other sectors of Caribbean economies.

In the aftermath of the crisis, there will be many lessons to distil from countries’ experiences, particularly with respect to innovative policies that helped to prevent deeper shocks.

**Summary and Conclusions**

It has been over a year since the COVID-19 pandemic shattered economies around the world. The Caribbean has been one of the most affected regions economically. This Regional Overview has focused on the latest projections from the IMF’s *World Economic Outlook* for medium-term macroeconomic recovery, along with the database of financial sector stress indicators assembled by the authors. Unfortunately, the possibility of a prolonged global health crisis is the overarching remaining risk for the recovery, and the only way to confidently eradicate this risk is through vaccinations in both advanced economies that are sources of global demand, and in Caribbean and other emerging and developing economies. This is particularly true when services sectors are central to any economic rebound. As the larger economies recover, there is hope for a more rapid recovery of tourism than expected by many industry experts. For commodity exporters, the global economic recovery is fuelling a rise in commodity prices, though these same price increases are creating a burden on commodity importers.

During the recovery and beyond, editions of the Caribbean Quarterly Bulletin have focused and will continue to focus on inclusive and growth-enhancing reforms and investments that are key to the region’s recovery.
References


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COUNTRY SUMMARIES

The Bahamas
Cloe Ortiz de Mendivil and Gralyn Frazier

Overview of COVID-19

The Bahamas is in the height of its fourth wave of COVID-19 as cases are rising to record highs. A total of 15,794 cases have been recorded while deaths have amounted to 307. The current wave started in mid-July and have transitioned into early August, with August 5th recording 228 cases; the highest number of cases per day since the start of the pandemic. Hospitalizations have followed a similar trend with 129 currently in hospital, 15 of which are in ICU. This level of hospitalization has caused the government to seek international assistance in boosting capacity.

Lockdown measures have been put in place on an island-by-island basis, as specific family islands saw a significant rise in COVID-19 cases during the fourth wave. New Providence and Grand Bahama had a 9 p.m. to 5 a.m. curfew implemented while Abaco and Exuma had a 10 p.m. to 5 p.m. curfew implemented. North and South Eleuthera’s curfew will remain at 10 p.m. to 5 p.m. Other measures include new travel restrictions for both international and inter-island travel. As of August 6, fully vaccinated people are required to provide a negative COVID-19 test when entering the country as well as traveling throughout the islands. Similarly, children between the ages of 2-11 must also provide a negative COVID-19 test when entering the country as well as traveling throughout the islands. Additionally, the government has requested to parliament an extension of the emergency orders to November 13, which is currently under debate.

The Bahamas has received a total of 129,296 AstraZeneca vaccines and has applied 108,506 doses. Of the vaccines received, 20,000 came from the Indian government, three tranches of 33,600 each from COVAX, 3,496 from Montserrat & Anguilla, and 5,000 doses have been borrowed from Antigua and Barbuda. In addition, the United States (US) is delivering nearly 837,000 doses of the Pfizer vaccine to Caribbean nations. The Bahamas is expected to receive 397,000 doses, with 128,700 coming on August 12. Considering the vaccines already received and the ones expected, the country would be able to vaccinate 68% of the population. Vaccination efforts are ongoing and currently individuals over 18 years old are eligible. With the addition of the Pfizer vaccine, children 12 to 17 years old will also be eligible. As of August 7, 47,580 people are fully vaccinated, (12% of the population) while 62,863 individuals have received only one dose (16% of the population).

Economic Update

Despite some green shoots, The Bahamas’ economy is still struggling. The COVID-19 pandemic has represented a major shock, with real GDP falling 14.5 percent in 2020. Both the tourism and construction sectors were severely affected by travel restrictions and by lockdowns and social distancing measures. However, the rollout of the vaccine in The Bahamas as well as in important source markets such as the United States has allowed for more flexible restrictive measures. Starting on May 1, fully vaccinated visitors

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8 As of August 9, 2021. Equivalent to 4,055 cases and 79 deaths per 100,000 population.
9 Testing requirements for fully vaccinated travelers had been lifted on May 1, 2021 (for both international and inter-island travel).
10 As of August 7, 2021.
11 The U.S. donation will cover 51% of The Bahamas’ population.
were no longer required to submit a PCR test result or to quarantine for both entry and inter-island travel, with only submission of a travel health visa application mandatory.

In the first quarter of 2021, the total number of tourists who visited the country was 115,874, representing a significant increase with respect to the 54,728 recorded in the previous quarter, but still well below the 1.7 million figure during the first quarter of 2020 (Figure 1).12 Airlines have resumed operations or added additional routes to meet increasing demand. British Airways has reopened the flight to London, connecting The Bahamas to Europe, while Copa Airlines resumed the connection with Panama, opening the door to Latin America. American Airlines and Frontier Airlines have also reopened routes to certain U.S. cities. An additional positive sign is the increase in travel health visa applications, which went from an average of 2,000 per day in March to 5,000 in May.13 Executives from the Atlantis and BahaMar resorts have expressed optimism, as the resorts are currently experiencing 75 percent occupancy, with the Atlantis resort expecting 90 percent occupancy during Independence week (both US and The Bahamas celebrate independence in the same week). Cruises have also returned to The Bahamas, with 14 cruise ships having been expected to call in New Providence during the first and second week of July, carrying a total of 13,000 passengers. Of the 14 ships, two are homeporting in the country as of this year, Royal Caribbean's Adventures of the Seas and Crystal Serenity.

Real GDP in the last quarter of 2020 fell less than in previous quarters. Compared to the same quarter of 2019, real GDP in the fourth quarter declined by 14.8 percent, while in the second and third quarters it decreased by 30 percent and 16.5 percent, respectively (Figure 2). The tourism sector recorded the largest contraction, falling by 76.4 percent. Its direct contribution to total GDP shrank to a mere 2.1 percent. Construction, which had fallen by over 60 percent in the second quarter, decreased by 12.4 percent and accounted for 5.2 percent of total GDP. Real estate was the largest contributor to total GDP in the fourth quarter of 2020, with 16.8 percent, declining a moderate 2.6 percent.14 The increase in tourist arrivals in the first quarter of 2021 will have a positive impact not only on the tourism sector, but also on related sectors such as transport and retail trade.

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12 According to the The Bahamas Ministry of Tourism.
The budget for fiscal year 2021/2022 entered into effect on July 1 and contemplates a fiscal deficit of $951.8 million, equivalent to 7.7 percent of GDP. This represents a lower deficit than that approved for FY2020/2021, which amounted to $1,327.1 million and 11.6 percent of GDP. The primary balance for FY2021/2022 is expected to be -3.6 percent of GDP. As a consequence of the COVID-19 shock, there is increased pressure on the healthcare system as well as demand for government support from both individuals and businesses continues. To strengthen the healthcare system and vaccination process, the budget contemplates an expense of $100 million, including $89 million for the expansion of two hospitals and $1 million for a telemedicine initiative. To support job creation and promote small business development, value-added tax (VAT) credits and duty and VAT concessions will be implemented. Overall, revenues are expected to increase by 14 percent and expenditures by 4 percent compared to the previous fiscal year. The main component of anticipated higher revenues is tax revenue, in particular the VAT, followed by excise tax and taxes on international trade and transactions.15

The current account deficit in the first quarter of 2021 stood at $638.4 million, far from the $94.8 surplus recorded in the same quarter of 2020. Net exports amounted to negative $470.0 million. Although net exports of goods are negative and of a higher magnitude than in previous quarters, services have recorded a positive balance for the first time since the first quarter of 2020, driven by an increase in travel. External reserves amounted to $2,250.7 million at end-March 2021, which is $131.5 million less than end-December 2020. However, the reserves still provide 54.2 weeks of imports coverage.16

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Financial System

The Central Bank of The Bahamas undertook measures to support the fixed parity of the Bahamian dollar to the U.S. dollar during the COVID-19 pandemic. In March 2020, approvals to commercial banks for remittance of dividend payments abroad were suspended. In May 2020, access to foreign exchange by residents for portfolio purchases in the Investment Currency Market and The Bahamas Depository Receipts Programme was also suspended. Additionally, the National Insurance Board was asked to repatriate most of its external assets, valued at around $60 million. Given that tourism halted during the pandemic, the inflow of U.S. dollars was severely affected. These measures, coupled with loans from international organizations and issuances of bonds in international markets, helped maintain adequate international reserve levels, which is crucial to support the fixed exchange regime.

Loans and advances increased 1.4 percent in the first quarter of 2021 with respect to the previous quarter, when they had fallen 4.1 percent. Credit to the private sector, which accounts for two-thirds of total credit, has remained fairly stable during the pandemic (Figure 3). On the other hand, net credit to the government recorded a 4.1 percent drop during the last quarter of 2020 and a 5.3 percent increase in the first quarter of 2021, showing higher variability. Credit to the rest of the public sector had been on a decreasing path prior to the pandemic, a trend that was magnified during the last two quarters of 2020, with decreases of 12.1 percent and 16.8 percent, respectively. The loan-to-deposit ratio has remained stable at around 0.87. The credit-to-GDP ratio increased from 0.65 to 0.76 from 2019 to 2020, mainly due to a drop in GDP.

Commercial banks have maintained adequate levels of liquidity and capital during the pandemic. The ratio of liquid assets to total domestic assets at year-end 2020 reached 32.4 percent. Although in the first quarter of 2021 the ratio declined to 31.8 percent, it was still above the 30.1 percent recorded in 2019. Liquidity ratios rose during the pandemic given higher economic uncertainty and a possible impact on loan repayment, exceeding the statutory minimum of liquid assets by 165 percent at end-March 2021. Regarding capital adequacy, the ratio of regulatory capital to risk-weighted assets increased from 28.1 percent in 2019 to 28.4 percent in 2020, which is well above the target and trigger ratios of 17 percent and 14 percent, respectively.

The proportion of arrears and nonperforming loans (NPLs) to total credit has increased during the pandemic. Although loan moratoria were put in place to provide relief to individuals negatively impacted by the COVID-19 shock, as the pandemic extends over time the ratio of arrears and NPLs keeps growing, reaching 5.5 percent and 8.7 percent of total loans to the private sector, respectively, in the first quarter of 2021 (Figure 4). It is worth noting that efforts undertaken prior to the pandemic were fruitful in lowering arrears and NPLs, so ratios are currently not significantly above those observed in 2018. Higher unemployment and an overall worsening of economic conditions in 2020 led domestic commercial banks to increase provisions. The ratio of provisions to arrears and NPLs in the first quarter of 2021 stood at 72 percent, compared to 62.3 percent in the same period of 2020.

18 This measure is currently in place and will be reassessed during the second half of the year.
Banks’ profitability has deteriorated, mainly due to higher provisioning expenses. In the fourth quarter of 2020, commercial banks recorded a net loss ratio of 2.21 percent, compared to a net income of 0.91 percent the previous quarter, which is far from the 2.26 percent figure recorded a year ago.¹⁹ The interest margin decreased from 5.1 percent in the last quarter of 2019 to 4.66 percent in the same period of 2020. Commissions and foreign exchange income also fell, from 0.52 to 0.42 percent, while operating costs grew from 3.63 to 5.84 percent.

The interest rate spread has narrowed. Comparing the first quarter of 2020 with the same period of 2021, the weighted average of deposit rates increased from 0.41 to 0.55 percent, reflecting higher rates for fixed deposits of longer terms. At the same time, the weighted average loan rate decreased from 10.82 to 10.18 percent, mainly driven by lower rates for commercial mortgages and consumer loans.

Overall, the financial system remains stable. After the financial crisis that started in 2007, commercial banks became more resilient and better prepared to weather economic shocks. As a result, the pandemic has not caused a major debilitation of the financial sector. Although certain indicators of credit quality and bank profitability are deteriorating, and it is expected that they will continue to do so when the loan moratorium is lifted, the banking system remains well capitalized and with sufficient liquidity. Nevertheless, the situation needs to be closely monitored.

¹⁹ The latest data point corresponds to the fourth quarter of 2020.
Barbados
Ariel McCaskie and Cloe Ortiz de Mendivil

COVID-19 and Border Measures Update

Barbados has experienced a gradual flattening of the epidemiological curve, however cases spiked in July. As of August 10, the authorities confirmed a total of 4,496 cases and 48 deaths.\(^\text{20}\) Despite the recent increase in cases, the seven-day moving average of daily confirmed COVID-19 cases is among the lowest in Latin America and the Caribbean.\(^\text{21}\) The country entered phase two of the National Vaccination Program on April 19.\(^\text{22}\) The program has fully vaccinated 82,088 individuals (30.3 percent of the total population) while 18,610 individuals have received only their first dose (6.9 percent of the total population) to date. Barbados has received 167,200 Oxford-AstraZeneca vaccines. India donated 100,000 doses, and 67,200 came from the COVAX facility and were received in two batches on April 6 and May 11.\(^\text{23}\) On June 29, 30,000 doses of the Sinopharm COVID-19 vaccine arrived from China. Despite the country’s good progress, basic public health measures remain the basis for the pandemic response, including contact tracing, the use of masks, hand hygiene, social distancing, and quarantine. Testing continues to be a priority for the island with total test results at 233,008 since the first recorded case on March 17, 2020. Barbados has been under a partial curfew since re-opening in March 2021, and although restrictions were eased over the second quarter, a spike in new cases resulted in curfew restrictions to be reinstated from July 13 to August 22.

The government of Barbados has been proactive and consistent in updating the country’s border and monitoring measures. Air travellers must present a valid negative COVID-19 PCR test taken within three days prior to arrival. A second test is taken on arrival. On May 8, new travel protocols took effect providing specific guidelines for vaccinated travellers and approved vaccines for entry. The protocols included the official launch of a new monitoring app called “BIMSafe” designed to simplify and expedite the travel experience to Barbados. The app provides capabilities for monitoring temperature and symptoms during the seven days after a traveller’s arrival.\(^\text{24}\) Barbados welcomed the first cruise ship in more than a year, the Celebrity Millennium on June 7. All passengers and crew were fully vaccinated, but two positive cases were identified upon retesting. On June 26, the authorities announced the rollout of a new electronic vaccination certificate to replace the current paper system.

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\(^\text{20}\) Equivalent to 1,659 cases and 18 deaths per 100,000 inhabitants.
\(^\text{21}\) As of August 10, the seven-day moving average of confirmed cases in Barbados was 3.14 per 100,000 inhabitants, the sixth lowest in Latin America and the Caribbean: Haiti (0.10), Nicaragua (0.87), El Salvador (1.86), Dominican Republic (2.74) and Venezuela (3.13).
\(^\text{22}\) Phase one began on February 10, targeting essential personnel and vulnerable citizens, after the arrival of the first batch of the Oxford-AstraZeneca vaccine on February 9.
\(^\text{23}\) Barbados is expected to receive a total of 100,800 doses of the vaccine from the COVAX facility. A third batch of 33,600 doses is expected by the end of 2021.
\(^\text{24}\) BIMSafe is accompanied by a water-resistant and tamper-resistant monitoring bracelet that must be worn during the quarantine period within the designated quarantine location. Fully vaccinated individuals are required to take a COVID-19 test upon arrival and quarantine at an approved location until results are received. Non-vaccinated travelers are required to quarantine for a period of at least five days and then take a COVID-19 test and wait until the result is received.
Economic Overview

The economy is projected to grow in the range of 1 to 3 percent in 2021 despite the economic uncertainty caused by the ongoing COVID-19 crisis. The growth forecast is a result of improvements in the hotel sector supported by the Barbados Employment and Sustainable Transformation (BEST) Programme and progress with vaccinations in key source markets, namely the United States, United Kingdom, and Canada, as well as in Barbados. Real GDP fell 18.0 percent in 2020 and 9.0 percent in the first semester of 2021. However, the economy grew by an estimated 5.5 percent year-on-year during the second quarter of 2021, driven by increased output in the manufacturing sector. In 2020, tourism output plunged by an estimated 70 percent, whereas in the first half of 2021 it dropped 90 percent. From January 1 to July 11, 2021, 21,074 visitors came to the island, down by about 86.9 percent relative to the same period in 2020. Tourism is the main economic activity in Barbados, accounting prior to the COVID-19 shock for almost 40 percent of economic activity, 37.2 percent of total employment and 64.8 percent of total exports.

The COVID-19 response by the government of Barbados led to BBD$166 million in expenses in FY2020/21 in the following areas: i) health sector (BBD$83.6 million), ii) welfare support (BBD$44.7 million), iii) economic support (BBD$26.1 million), iv) education (BBD$11.4 million), and v) other expenses (BBD$0.2 million). The Welcome Stamp Program contributed BBD$8 million in fees as of end-July 2021.

Although the debt-to-GDP ratio rose to 156.8 percent in FY2020/21 compared to 124.8 percent in FY2019/20, the primary balance target for FY2020/21 of -1 percent of GDP was achieved. At the end of June 2021, public debt stock was equivalent to 150.3 percent of GDP (BBD$13 billion). The increase in the debt ratio is mainly driven by the contraction in GDP, which was responsible for 78 percent of the increase in the pre-COVID debt ratio. The completion of the debt exchange in December 2019 was a key milestone in the reform program and contributed to lowering the debt-to-GDP ratio to 124.8 percent of GDP in FY2019/20 from a peak of 158.3 percent in FY2017/18 prior to the country’s debt restructuring. The pandemic conditions have resulted in the government meeting rising financing needs with a combination of external borrowing (from international financial institutions) and the issuance of a 2021 domestic bond, known as the Barbados Optional Savings Scheme (BOSS) scheme. As previously mentioned, the primary balance target for FY2020/21 of -1 percent was achieved compared to a surplus of 6 percent at the beginning of the fiscal year (Figure 1). The weaker fiscal stance, together with higher debt service payments, increased government borrowing requirements in FY2020/21. The FY2021/22 budget estimates a primary deficit of 0.3 percent of GDP. With the diminished level of economic activity and an expected fall in corporate taxes, revenue increases will not be sufficient to recover to FY2019/20 levels.

27 Barbados has a fixed exchange rate of $1USD = $2BBD.
29 On June 30, 2020, the government of Barbados announced the introduction of the 12-month Barbados Welcome Stamp. This new remote work program established a visa to allow people to work remotely in Barbados for a maximum for 12 months for a fee of US$2,000 per individual or US$3,000 per family.
31 BOSS is a four-year bond that offers an interest rate of 5 percent per annum. The main objective of BOSS is to create BBD$100 million in fiscal space for capital spending. By the end of 2020, BBD$28 million had been issued.
The current account deficit widened from 3.1 percent of GDP in 2019 to 7.3 percent of GDP in 2020. This deterioration was partly offset by lower international oil prices and a reduction in import demand due to subdued tourism performance.\textsuperscript{32} The current account deficit is projected to reach 12.3 percent in 2021, but this will depend on how fast tourism shows signs of improvement and on the evolution of international oil prices. The trade balance has worsened mainly as a result of a drop in exports of services derived from the halt of tourist arrivals during the pandemic. Compared to 2019, exports of goods and services in 2020 fell 39.5 percent, while imports of goods and services fell 18.2 percent. The price of petroleum products increased on six occasions within the first eight months of 2021, from BBD$3.31 per liter on January 3 to BBD$3.99 per liter on August 1, resulting in Barbados having the 10th highest retail price of gasoline in the world.\textsuperscript{33} Over the 12-month period ending May 2021, inflation stood at 1.5 percent.

Gross international reserves stood at US$1.375 billion (43.6 weeks of import cover) in the first half of 2021. Barbados requires a minimum level of reserves to maintain its exchange rate peg and, being a small island state, it is vulnerable to external shocks. Borrowing from international financial institutions has increased throughout the pandemic, reaching US$615 million in policy-based lending in 2020. Barbados was previously not eligible for borrowing from the World Bank given that it was graduated based on its level of development. However, the World Bank launched exceptional financing to respond to the COVID-19 pandemic, allowing the government of Barbados to apply for support in response to the crisis and to promote the postcrisis economic recovery. On June 24, the World Bank approved a US$100 million policy-
based loan. In 2020, Barbados received US$262 million in foreign direct investment, an increase of 22 percent from 2019.

Barbados passed the fifth review under the International Monetary Fund’s extended arrangement under the Extended Fund Facility (EFF). A virtual mission was held between May 3-7 to discuss the implementation of Barbados’ Economic Recovery and Transformation (BERT) plan. For FY2021/22, the primary balance was revised down to zero from a surplus of 2 percent of GDP at the time of the fourth EFF review. All quantitative performance criteria for end-March 2021 were met with the exception of central government transfers and grants to public institutions. This is the first missed performance criteria under the EFF. Barbados has made good progress on its structural reform agenda, including passage of a new central bank law in December 2020 aimed at securing continued prudent macroeconomic policy. One end-March structural benchmark was missed—for the large taxpayer unit to achieve on-time filing rates of 90 percent for all core taxes—while the other four were successfully met. Two structural benchmarks under the IMF/EFF have been delayed. The revised public pension law, originally set for end-June 2021, has been reset for end-December 2021, and the tabling of the fiscal rule legislation is proposed to be modified and reset based on recent IMF recommendations. The authorities remain committed to the structural reform agenda, and prospects for continued performance remain strong under the program.

Weather Shocks

Economic activity weakened due to the impact of the La Soufrière volcanic eruption in St. Vincent and the Grenadines on April 9. Barbados experienced the most severe effects of the volcano compared to neighbouring islands of St. Lucia, Grenada, and Antigua. The Barbados Meteorological Services issued a severe volcanic ash and small-craft warning on April 10 as prevailing winds pushed the volcanic plume towards Barbados. The record ash fall impacted air traffic and business activity on the island. Barbados, a regional hub for air traffic, was forced to close the national airport for the week of April 10-16 as a result of poor visibility and ongoing ash fall. Residents, visitors, and marine users experienced reduced air quality and limited movement, posing potential long-term effects to public health and livelihoods. Throughout the period from April 10-13, the humanitarian crisis resulted in the closure of all commercial activity. On April 12, the government of Barbados quickly mobilized a national clean-up initiative that involved 1,500 additional workers as part of the country’s clean-up operations. To support St. Vincent and the Grenadines, the government deployed members of its Defence Force to deliver UNICEF relief supplies and assistance.

36 The four-year extended arrangement under the EFF was approved on October 1, 2018.
37 The other four structural benchmarks were (i) publication of a calendar of statistical publications (Barbados Statistical Service), (ii) preparation of a dashboard analyzing the government’s 19 priority state-owned enterprises for financial performance oversight (Management and Accounting Unit), (iii) creation of an information technology division in the Barbados Customs & Excise Department, and (iv) getting Parliament to enact amended institutional, personal, and financial autonomy for the central bank.
38 The objective of the law is to enhance the sustainability of the public sector pension scheme.
40 La Soufrière volcano last erupted in 1979, but that was a much smaller event and did not severely impact Barbados.
and also agreed to accept evacuees. On July 6, the government approved BBD$34 million as supplementary spending to the 2021–2022 Estimates of Expenditure for the clean-up of the ash fall.

On July 2, Hurricane Elsa hit Barbados, the first hurricane to hit the island in 65 years. The Category 1 hurricane caused island-wide destruction resulting in power and water outages and displaced households. The water and power companies acted swiftly, reaching 33 percent and 65 percent restoration, respectively, by the end of the following day. The telecommunications infrastructure remained mostly intact, but approximately 30 percent of the sites went offline. The disaster risk management authorities received 1,178 reports of damage within the first 48 hours, including 743 damaged roofs, 89 damaged houses, and 62 collapsed houses. The airport was closed for operations between July 2 and 4 and schools were closed between July 2 and 6. On July 3, the National Housing Corporation and the Rural and Urban Development Commission announced the initiation of a program to ensure damaged houses are rebuilt. There were no reports of loss of life or major injuries.

Financial Systems

The Central Bank of Barbados (CBB) has implemented policy support measures to mitigate the impact of the COVID-19 pandemic. In March 2020, the CBB reduced its discount rate for overnight lending from 7 to 2 percent, reduced the securities ratio for banks from 17.5 to 5 percent, and eliminated the 1.5 percent securities ratio for non-bank deposit-taking licensees. During the first semester of 2021, credit to the non-financial private sector by deposit-taking institutions declined by 1.1 percent. The contraction was majorly driven by a reduction in loan balances of individuals which offset loan growth to utilities and other sectors. Given the pandemic shock, the CBB provided for the collateralization of loans for up to six months to provide liquidity support for licensees, if required. The commercial banking sector extended a six-month moratorium on loan repayments for new and existing loans for individuals and businesses affected by the pandemic. Further repayment extensions are still being considered on an individual basis given the prolonged nature of the shock. Given the impact of moratoria on banks, the CBB is allowing commercial banks longer periods to rebuild capital and comply with regulatory requirements (subject to restrictions on dividend payments). The CBB continues to monitor the situation to identify early signs of stress on the system and remains ready to intervene if required. The value of loans under moratoria in March 2021 fell below 10 percent compared to May 2020 and represent less than 4 percent of the outstanding credit to the non-financial private sector.

Commercial banks remain adequately capitalized and liquid despite low profitability and higher credit risk. As of June 2021, the system-wide capital adequacy ratio was 16.3 percent (well above the prudential standard of 8 percent), the ratio of liquid assets to total assets was 29.2 percent and excess cash reserves reached 25.6 percent. Non-performing loans (NPLs) as a percentage of total loans to the private sector represented 8.0 percent and the ratio of provisions to NPLs was 59.3 percent (Table 1). Financial institutions have been able to meet clients’ demands for foreign exchange without resorting to the CBB. Domestic-currency deposits grew 1.7 percent in the first six months of 2021 compared to year-end 2020, reflecting individual’s higher deposit balances. Domestic currency deposits grew to 136.5 percent of GDP in 2020 compared to 109.8 percent of GDP in 2019, as the government’s lower domestic indebtedness and the cash low relief form deferred payments compensated for the employment income loss. Foreign currency balances grew by 2.9 percent, reflecting growth in balances of the personal and non-financial business sector. A 2 percent foreign exchange fee introduced in 2017 remains in place and has helped to maintain liquidity in the foreign exchange market.
Table 1. Financial Stability Indicators, 2017 to March 2021, percent

<table>
<thead>
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<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>June 2021</th>
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<td>Capital adequacy ratio</td>
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<td>13.5</td>
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<td>Loan-to-deposit ratio</td>
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<td>Liquid-assets-to-total-assets ratio</td>
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<tr>
<td>Nonperforming loan ratio</td>
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<td>7.2</td>
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<tr>
<td>Provisions to nonperforming Loans</td>
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<td>67.3</td>
<td>59.4</td>
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<tr>
<td>Return on average assets (12-month)</td>
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<td>-0.2</td>
<td>0.6</td>
<td>0.8</td>
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</tr>
</tbody>
</table>

Source: Central Bank of Barbados.

The pandemic shock has led to a sharp increase in unemployment, which has put pressure on the finances of the National Insurance Scheme (NIS). The NIS provided estimated support of 2 percent of GDP in unemployment and severance payments in FY2020/2021. Liquidity support was extended to the NIS via the repurchase of government bonds and under a structural benchmark for end-June 2021. The aim of the structural benchmark is to develop plans to recapitalize the CBB and address medium- and long-term challenges for the NIS stemming from the debt restructuring and the COVID-19 pandemic.

Barbados was removed from the European Union's list of non-cooperative jurisdictions for tax purposes in February 2021 but remains on the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring. Barbados has been on the FATF’s "grey list" since February 2020 and under increased monitoring to address strategic anti-money laundering/combating the financing of terrorism (AML/CFT) deficiencies. To address these strategic deficiencies in its regime, the government must take the following steps:

(1) Implement risk-based AML/CFT supervision for financial and non-financial institutions
(2) Make beneficial ownership information available and accurate
(3) Enhance financial intelligence and enforcement against money launderers and confiscate their illegal proceeds.
These steps will allow Barbados to exit the FATF’s grey list as it seeks to combat terrorist financing and money laundering. The introduction of corporate tax reforms, and the commitment to strengthen the AML/CFT framework, will significantly improve the environment for doing business in Barbados.

The authorities are in the process of developing a case against the introduction of a global minimum corporate tax rate that would almost triple its current rate. Barbados’ current corporate tax rate is 5.5 percent, and the country is at risk of losing its status as a low-tax jurisdiction.

The financial system remains stable, although continued monitoring is necessary. The pandemic has put pressure on most countries around the globe, with tourism-dependent economies taking a major hit. In the case of Barbados, additional weather events such as the eruption of La Soufrière in St. Vincent and the Grenadines and, more recently, Hurricane Elsa, are further delaying recovery. On the other hand, since the financial crisis that started at the end of 2007, the country’s banking systems have been stronger and better prepared to face adverse economic conditions. Despite high levels of liquidity and stability, however, timely surveillance is important to prevent a crisis in the event that the negative effects of the pandemic continue stretching over time.

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42 The successful overhaul of the international business tax regime to comply with international taxation standards has yielded a corporate income tax revenue windfall that has helped partially offset lost revenues.
Guyana
Victor Gauto and Elton Bollers

Overview of COVID-19

New COVID-19 cases increased significantly towards the end of the first half of 2021 in Guyana, a trend similar to that observed in other Caribbean countries as well as the region at large. The average number of daily new cases per month increased from 42 in January to 118 in May and declined to 80 in July. Similarly, the total number of deaths per month increased from 12 in January to 93 in May, declining to 72 in July. In relative terms, the seven-day rolling average of new cases per day peaked on May 28, with 180 cases per million population before declining to 50 on August 10, below the peaks of Trinidad and Tobago, Suriname, and The Bahamas. Currently, only Barbados has fewer daily new cases than Guyana (Figure 1). As of early July, Guyana had procured approximately 566,000 vaccine doses, of which 11 percent were from the COVAX facility. Authorities have announced plans to procure 688,000 additional doses, which would cover the country’s entire adult population of approximately 600,000.

The government updated Covid-19 measures on July 29th, effective for the month of August. One of the main new measures is that anyone entering a government building must show proof of vaccination or seek services by appointment only. Similarly, all operators of transportation services, both domestic and international, must also be able to show proof of vaccination to conduct their business activities. This measure has affected both private and public sector workers, such that the Ministry of Health announced on August 12 that health and public transportation workers would be given a two-week extension to comply with the vaccination requirement. Regarding international travel, effective August 8, all incoming adult travelers must show proof of vaccination of at least one dose along with a negative PCR test.
Economic Update

Guyana’s GDP grew 43.5 percent in 2020 and is projected to grow by 20.9 percent in 2021. The main driver of GDP in the medium term is oil exports, which the International Monetary Fund (IMF) estimates will represent 38.2 percent of GDP in 2020–2021. Although the non-oil economy contracted by 7.3 percent in 2020, the agriculture sector expanded by 4.1 percent, led by 4.8 percent growth in the rice sector and 6.6 percent in a variety of crops making up almost 11 percent of GDP. The services sector, which makes up a quarter of the economy, contracted by 9.4 percent. The new oil economy has rebalanced as follows: oil and gas represented 36 percent of GDP in 2020, followed by services at 25 percent (down from 40 percent), agriculture at 18 percent (down from 25 percent), and gold production at 7 percent (down from 11 percent). GDP growth of the non-oil sector was originally projected to expand by 6.1 percent, but that could now be subject to revision considering the current context of heavy flooding in Guyana since the end of May.

Tax relief policies combined with recovery spending are expected to add pressure to fiscal balances. Revenues represented 22 percent of GDP in 2020 and are expected to average 15 percent of GDP over 2021–2026, according to estimates by the IMF in its April 2021 World Economic Outlook. Revenue growth is expected to reach 16 percent in 2021, compared to the 6.2 percent decline in the previous year. On the other hand, expenditures represented 29 percent of GDP in 2020 and are expected to average almost 20 percent of GDP in 2021–2026. Total expenditures were estimated to have increased by 14 percent in 2020 and are projected to continue increasing by 12 percent in 2021. The projections would mean maintaining a fiscal deficit through the reference period. While the fiscal deficit averaged 2.6 percent of GDP over 2015–2019, the dynamic of falling revenues and growing expenditures contributed to a fiscal deficit of 7.4 percent of GDP in 2020. The fiscal deficit is projected to improve to 5.8 percent of GDP in 2021 and average 4.2 percent of GDP over 2021–2026. In level terms, the fiscal deficit is estimated to have been approximately US$424.3 in 2020 and is projected to average US$432 over 2021–2026 (Figure 2). Similarly, the fiscal balance contributed to increased public debt as a share of GDP, which rose to 44 percent in 2020 but is expected to remain stable and average 39 percent of GDP over 2021–2026 (Figure 3).

Sources: International Monetary Fund, April 2021 World Economic Outlook; and authors’ estimates.

Over 2010–2019, exports represented approximately 36.1 percent of GDP. However, this trend is projected to significantly change with the start of oil exports. Exports are expected to continuously increase to 71
percent of GDP in 2023 before declining to 59 percent of GDP in 2026. Oil exports are driving this growth, which is estimated to increase from US$1 billion in 2020 to US$5.5 billion in 2024, pushing total exports up to US$8 billion (Figure 4). These increased exports are supporting a higher current account balance, which increased from -34 percent of GDP in 2019 to -13.5 percent in 2020. High levels of foreign direct investment inflows of 33 percent and 32 percent of GDP in 2019 and 2020, respectively, were driven by commercial activities of foreign oil operators and contributed to financing the current account deficits. In fact, net FDI inflows increased from an average of US$122 million per year in 2015-2017 to US$1,580 million in 2018-2020. Positive export inflows are offset by negative labour/investment income outflows, reflecting the export earning of the oil consortium reaching 43 percent of GDP in 2023 and almost perfectly mirroring oil export earnings (Figure 5), according to the IMF’s April 2021 World Economic Outlook. On net, capital inflows exceeded current account outflows by US$60 million and contributed to strengthening international reserves from US$576 million in 2019 to US$680 million in 2020, approximately 12 percent of GDP (Bank of Guyana, 2020).

Domestic credit increased by 13.6 percent in 2020, lower than the 17 percent in 2019, and slowed slightly further in March 2021 to 10.5 percent (Figure 6). The main driver of this growth was the expansion of net credit positions of central government lending (possibly from the central bank), which increased by 47 percent in 2020 compared to 24 percent in 2019. This trend continued through March 2021 with credit growing by 43 percent. Private sector credit expanded by 2.5 percent in December 2020 after growing by 8.6 percent in 2019. Growth peaked in April 2020 with a year-over-year growth rate of 11.2 percent before declining again in February 2021 to 1.8 percent, then slightly recovering in March to 2.4 percent. Notably, credit to businesses has outgrown other categories and recorded a high of 20 percent in April 2020 prior to a steep decline down to 0.9 percent in December 2020 and then a slight recovery to 1.4 percent in March 2021. The ratio of nonperforming loans to total loans in the banking sector was 10.12 percent in March 2021. Businesses make up most of the commercial lending portfolio at 50 percent of total loans, followed by mortgages at 35 percent and households at 15 percent (Figure 7). During this time, the level of deposits has also continued to expand, though at lower rates, from 16.8 percent in December 2019 to 8 percent in December 2020, reaching approximately US$1.8 billion (Figure 6).
In terms of COVID-19 relief measures, the main policy tools introduced by the Bank of Guyana relied on extending debt payment schedules and reduced interest rates for certain loans. The relief period was introduced in 2020 and extended through June 2021. These measures allowed beneficiaries to not have their loans classified as nonperforming. To support liquidity, the central bank reduced a series of policy rates such as the reserve requirements, liquid asset requirements for demand deposits, and savings and time deposits, freeing up resources for loans. Commercial banks agreed to provide short-term loans at concessional rates between 5-6 percent, lower than the prime lending rate of 10.3 percent. Commercial banks agreed to offer general concessional reductions of interest rates of 1 percent and up to 2 percent on consumer loans below G$10 million (US$48,000). The total loan portfolio of deposit-taking institutions was approximately US$1.5 billion in December 2020. Of that total, approximately US$69 million benefitted from relief measures, accounting for 4.6 percent of total loans. The Bank of Guyana is monitoring that figure to balance financial flexibility and financial stability, according to its 2020 Annual Report.

Floods and Further Budget Support

Declaration of Natural Disaster: Heavy rains starting at the end of May have contributed to flooding in river communities throughout Guyana. The government estimates approximately 52,000 households have been affected, and around 200 people were relocated to temporary shelters. The floods have affected all regions in Guyana spanning the coast from west to east as well as the south, where river levels rose. A regional team of experts arrived in Guyana to assess the extent of the damage. Floods have affected rice production, cash crops, livestock, transportation, and mining. On June 9, the government announced that the flooding was categorized as a Level 2 Disaster in some regions, signalling that while the national capacity to respond was not overwhelmed, some international support was required. Other regions were classified as a Level 3 Disaster, overwhelming the national capacity to respond. On June 10, the floods were declared a natural disaster. A supplementary budget of approximately US$102 million was approved in June, with US$48 million of that amount earmarked for flood relief efforts. (The budget deficit in 2021 was originally estimated at about US$430 million.) The last major flood in Guyana was in January 2005, when GDP fell by almost 2 percent and the extent of the damage was valued at approximately 60 percent of GDP.
Jamaica
Henry Mooney and Jason Christie

COVID-19 Cases and Vaccine Availability

As of end-July 2021, about 55,000 cases of COVID-19 had been confirmed in Jamaica, along with approximately 1,200 deaths definitively attributed to the virus. At end-July 2021, about 370,000 doses of the COVID-19 vaccine had been administered, with approximately 132,000 persons reported as fully vaccinated—representing about 4.5 percent of the population. The government has so far secured vaccines COVAX facility, and is working towards securing enough to vaccinate the entire adult population.

Macroeconomic Context

Jamaica accomplished much in terms of economic stabilization and reform in the years leading up to the COVID-19 crisis. Importantly, the Government of Jamaica (GOJ) successfully graduated from six consecutive years of support under IMF programs in November 2019, the last of which was treated as precautionary by the authorities (i.e., never drawn). This program was completed with a strong record of achievement in terms of quantitative performance criteria and structural measures. First among them was a reduction of the public debt-to-GDP ratio from over 146 percent in 2013 (third highest in the world at the time), to below 94 percent at end-2019. Note, however, that the debt-to-GDP ratio increased to about 106 percent by end-2020, owing to the pandemic-driven crisis (Table 1). Other notable achievements under the two IMF programs include a shift from a managed to a floating exchange rate regime; the introduction of an inflation targeting framework; the establishment of a Fiscal Responsibility Law (FRL) in 2014, with embedded rules and debt reduction objectives that have been exceeded in almost every year since its entry into force; the rationalization and divestment of a number of public agencies and enterprises; and passage of a number of important legislative and institutional reforms.

In this context, the post-IMF program environment is expected to set the stage for an acceleration of growth once the implications of the current crisis subside. Growth performance had begun to improve towards the end of the most recent IMF program, owing largely to strong external demand for tourism and other exports (e.g., bauxite), as well as improving domestic financial and business conditions. Jamaica recorded real GDP growth of 1.6 percent in 2018. Real GDP growth for FY2019/2020 was initially expected (as of end-2019) to come in at 0.8 percent owing to the closure of a large alumina production facility for refurbishment, though the broader economy was performing well. Growth was expected to accelerate following the reopening of the alumina production facility, given its increased capacity. The economy was then projected to reach its full potential of about 2 percent per year over the near term.

Impact of COVID-19

The COVID-19 crisis has directly affected Jamaica’s main economic engine—tourism. Jamaica is one of the most tourism-dependent economies in the world—ranking 11th out of 166 countries globally on
the Tourism Dependency Index (TDI).\(^\text{46}\) The shock to growth has been substantial, particularly given that nearly half of export receipts, and a third of both total output and employment are linked to the tourism sector (see Figure 3 in the Regional Overview section above). In this context, despite successfully graduating from long-term IMF support in November 2019, the GOJ requested emergency assistance from the IMF under the Rapid Financing Instrument (RFI) in March of 2020. This assistance—equal to about US$520 million—has not been allocated to fiscal financing requirements, but has instead been used to reinforce external buffers of the central bank. RFI financing can, however, be shifted to budgetary financing if the government makes such a request.

The latest available data indicate that real GDP contracted by 10 percent in 2020, with a rebound expected beginning in 2021. Real GDP growth was about -10.2 percent for 2020. The latest available estimates from the IMF (April 2021) envision a rebound to positive real growth of about 1.5 percent in 2021, then to between about 3 percent and 6 percent over the next three years, assuming that tourism flows begin to normalize in 2021 through 2024 (Table 1), which is in line with industry expert expectations (see Figure 4 in the Regional Overview).

<table>
<thead>
<tr>
<th>Table 1. Selected Economic Indicators</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td>Real GDP growth</td>
</tr>
<tr>
<td>2018</td>
</tr>
<tr>
<td>1.6%</td>
</tr>
<tr>
<td>Inflation (eop)</td>
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<tr>
<td>2.4%</td>
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<tr>
<td>Primary fiscal surplus/GDP</td>
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<tr>
<td>7.5%</td>
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<tr>
<td>Expenditures/GDP</td>
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<tr>
<td>29.5%</td>
</tr>
<tr>
<td>Revenues/GDP</td>
</tr>
<tr>
<td>30.6%</td>
</tr>
<tr>
<td>Debt-to-GDP</td>
</tr>
<tr>
<td>94.4%</td>
</tr>
<tr>
<td>Current account balance/GDP</td>
</tr>
<tr>
<td>-1.6%</td>
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Prior to the COVID-19 outbreak, authorities were on pace to achieve the fiscal responsibility law’s (FRL) public debt target of <60 percent of GDP by 2026. After an increase in the public debt to GDP ratio from 94 percent at end-2019 to 106 percent at end-2020, the economy’s expected return to growth should support a resumption of debt reduction, in line with the government’s medium-term debt reduction objectives (Table 1). The crisis has forced the government to use the flexibility afforded by the Law to delay planned achievement of the target from 2026 to 2028. Should conditions deteriorate beyond current expectations, the target date for the FRL’s debt objective can be further amended.

Exchange Rate and Financial Sector Performance

The COVID-19 shock has driven increased exchange rate volatility and modest depreciation, but stronger remittances and other factors have helped to dampen implications. The value of the

\(^{46}\) The Tourism Dependency Index (TDI) is calculated using 5-year averages (2015-2019) for the total contribution of tourism to total export receipts, GDP, and employment for each country. The TDI is calculated annually based on the latest available data for 166 countries (currently) for which comparable data are available.
Jamaican dollar (J$) has declined versus the US dollar (US$) since the onset of the COVID-19 shock—i.e., reaching as high as 141 US$/J$ in February 2020 vs. about 155 US$/J$ as of mid-July 2021. Pressure on the exchange rate driven largely by the loss of export revenue (particularly linked to the tourism sector) since the COVID crisis began has been offset by strong remittance flows from the Jamaican diaspora abroad, and other factors. In particular, despite the typically large share of tourism receipts in total exports (about 57 percent of the total in 2019), this shock was more than offset by the large reduction in net imports and the increase in remittances. Exports fell by about -14 percent in 2020 (Table 2), while imports fell by about -10 percent. Imports contracted because of a combination of the income shock (lower domestic consumption of goods and services), lower commodity prices, and the typically high import content of tourism (e.g., imported food, fuels, services, capital goods, etc.). Remittances also increased considerably, from about 15 percent of GDP in 2019, to about 21 percent of GDP in 2020. These two factors resulted in an improvement of the current account deficit from about -2 percent GDP in 2019, to about -1 percent of GDP in 2020, which helped to dampen pressure on the exchange rate.

<table>
<thead>
<tr>
<th>Table 2. Trade, Remittances, and the Current Account</th>
</tr>
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<tbody>
<tr>
<td>percent of GDP</td>
</tr>
<tr>
<td>Import</td>
</tr>
<tr>
<td>Export</td>
</tr>
<tr>
<td>Remittances</td>
</tr>
<tr>
<td>Current Account Balance</td>
</tr>
</tbody>
</table>

Sources: IMF WEO (April 2021) and staff calculations.

Given this context, the Government of Jamaica and Bank of Jamaica have also undertaken proactive and targeted measures aimed at reinforcing market confidence and financial stability. Confidence in the Bank of Jamaica’s commitment to its new inflation targeting mandate within a floating exchange rate regime has been supported by strong performance with respect to the accumulation of external buffers. Gross international reserves increased by about $500 million during 2020 (Figure 1), following the disbursement of the IMF RFI financing (mentioned above), and in line with the BOJ’s cautious approach to intervention in the market.

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47 At July 21, 2021.
Against this backdrop, exchange rate and financial sector stability have been supported by a variety of targeted measures undertaken by the BOJ since the outset of the crisis—key initiatives are detailed in Box 1, below.
Box 1. Summary of Key BOJ Policy Measures During COVID

The BOJ undertook a number of targeted measures aimed at safeguarding financial stability, bolstering both hard currency and local dollar liquidity, and supporting confidence in the economy. These included the following measures aimed at:

A. Ensuring the sufficiency of foreign exchange:

- A reduction in the foreign currency cash reserve requirement for deposit-taking institutions to 13 percent (from 15 percent), effective 15 May 2020. This policy adjustment injected approximately US$70 million into the financial system.

- The provision of US$167 million via the Bank’s Foreign Exchange Swap arrangement, which was introduced in January 2020. This amount was repaid in full by the end of the year.

- US dollar repurchase operations to financial institutions totaling US$137 million, beginning in May 2020. At end-2020, US$119 million of this amount had been repaid to the BOJ.

- The direct sale of US$344 million to other approved public sector entities.

- Sales of US$292 million to authorized dealers and cambios via flash auctions through the Bank of Jamaica’s Foreign Exchange Intervention Trading Tool (B-FXITT).

- The Bank also temporarily increased the limit on the foreign currency net open positions of authorized dealers by 5 percentage points. This effectively raised the limit on the positions of these institutions (either long or short) to 25 percent of regulatory capital, thereby enabling authorized dealers to provide more foreign currency to clients.

B. Bolstering local currency liquidity:

- Removal of the limit on the amounts that DTIs can borrow overnight via the overnight repurchase facility, without being charged a penalty rate.

- A reduction in the domestic cash reserve requirement to 5 percent (from 7 percent), effective 15 May 2020. This action injected approximately J$14 billion into the financial system.

- A bond repurchase facility to purchase Government of Jamaica (GOJ) fixed and variable rate instruments and redeem outstanding BOJ instruments early. This operation injected J$51 billion into the system.

- Establishment of an intermediation facility at the request of financial industry groups. Under this arrangement, the Bank acted as an intermediary between eligible financial institutions to facilitate borrowing and lending between the parties, while simultaneously allowing them to avoid exposure to counterparty risk that is inherent in peer to peer lending.

- The provision of liquidity support for the credit unions on designated dates from July 2020 to December 2020. (Only one credit union accessed J$45 million via this facility.)

- The BOJ widened the definition of collateral that could be used by DTIs to secure credit (up to six months) via its Occasional Term Repurchase Operation mechanism. All of the J$11 billion issued via this facility has been repaid.
As a result of these and other policy measures, indicators of financial sector stability suggest that banks remain well capitalized and profitable, despite the economic shock. For example, the capital adequacy ratio for the banking system in aggregate at end-March 2021 stood at 14.3 percent, which is well above the prudential requirement of 10 percent for reporting institutions (Table 3). The ratio of non-performing loans (NPLs) to total loans stood at 2.9 percent at end-March 2021, compared with 2.4 percent at the same date in both 2020 and 2019. Provisions for loan losses relative to NPLs stood at 105 percent at end-March 2021, compared to 109 percent one year earlier. Against this backdrop, bank profitability has actually improved modestly since the crisis began, with both pre-tax profit margins and the return on assets improving slightly over the previous year.

<table>
<thead>
<tr>
<th>Table 3. Financial Indicators for Deposit-taking Institutions (percent)</th>
</tr>
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<tbody>
<tr>
<td><strong>March 2021</strong></td>
</tr>
<tr>
<td><strong>Average Domestic Currency Cash Reserves</strong></td>
</tr>
<tr>
<td><strong>Average Domestic Currency Liquid Assets</strong></td>
</tr>
<tr>
<td><strong>Non-Performing Loans (3 months and over) / Total loans (gross)</strong></td>
</tr>
<tr>
<td><strong>Capital Adequacy Ratio</strong></td>
</tr>
<tr>
<td><strong>Pre-tax Profit Margin (for the Calendar Quarter)</strong></td>
</tr>
<tr>
<td><strong>Return on Assets (for the Calendar Quarter)</strong></td>
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</tbody>
</table>


The most recent Monetary Policy Report (May 2021) from the Bank of Jamaica (BOJ) notes that the financial sector remains sound, and that conditions are improving. In particular, the BOJ reports that deposit-taking institutions remain adequately capitalized, and in compliance with prudential and liquidity standards. The BOJ considered loan quality to remain more than adequate, and well provisioned. While a total of approximately J$210 billion in payment accommodations (e.g., repayment suspensions and other measures) had been provided since the beginning of the COVID crisis, at end-February 2021, the outstanding stock of loans subject to some kind of accommodation (e.g., moratoria) had fallen to about J$65 billion, reflecting a significant decline. In this context, and given the improving economic environment, the BOJ decided in April 2021 to allow for a resumption of the distribution of dividends to large shareholders.

Despite the shock, credit to the private sector from deposit-taking institutions (DTIs) continued to increase during 2020, albeit at the slowest pace since 2015. Notwithstanding the impact of the pandemic, loan growth for deposit takers remained resilient, with the stock of private sector loans and advances increasing by about 8 percent in 2020, compared to growth of about 14 percent in 2019 (Figure 2). This was, however, the slowest annual pace of private credit growth from DTIs since 2015, when private credit grew by only 6 percent. The rate of deposit growth did, however, increase considerably in 2020—by 17 percent, relative to 9 percent the previous year.

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48 The BOJ reports that loan growth for deposit takers increased by about 9 percent in the year through end-March 2021, compared to growth of 15.8 per cent a year earlier.
### Figure 2. Deposit-taking Institutions: Evolution of Savings and Credit

#### 2.a. Savings and Credit
(percent change over previous year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Credit to Private Sector</th>
<th>Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>6.0%</td>
<td>11.3%</td>
</tr>
<tr>
<td>2016</td>
<td>14.6%</td>
<td>16.0%</td>
</tr>
<tr>
<td>2017</td>
<td>26.0%</td>
<td>40.0%</td>
</tr>
<tr>
<td>2018</td>
<td>17.9%</td>
<td>8.2%</td>
</tr>
<tr>
<td>2019</td>
<td>14.2%</td>
<td>9.1%</td>
</tr>
<tr>
<td>2020</td>
<td>8.1%</td>
<td>17.0%</td>
</tr>
</tbody>
</table>

#### 2.b. Selected DTI Balance Sheet Components
(millions of Jamaican dollars)

Source: Authors' calculations based on data from the Bank of Jamaica.

Notes: Deposit-taking institutions only, so other sources of domestic credit are not reflected. BOJ: Bank of Jamaica.
As noted above, bank asset quality does not seem to have deteriorated significantly in aggregate during the crisis, though its composition has changed somewhat. The ratio of non-performing loans to total loans remains low by both historical standards, and relative to other countries in the region. As mentioned above, this indicator of resilience in terms of asset quality has been supported by active measures on the part of local lenders to work with clients to ensure that transitory stresses did not translate to a wave of debt servicing problems or defaults. Banks also undertook measures aimed at reducing risks over the year, including by modestly increasing the proportion of liquid assets to total assets (Figure 3). On the liability side, customer deposits grew, as did Tier 1 regulatory capital. Looking forward, it is expected that loan growth will accelerate in 2021 and beyond as external demand recovers, and confidence in the domestic economy improves.

![Figure 3. Deposit Taking Institution Balance Sheet Composition (% of total)](chart)

Summary and Prospects

The global crisis brought on by the COVID-19 pandemic continues to adversely affect Jamaica, and uncertainty with regard to the timeline for a full recovery is likely to persist for some time. As noted above, the shock to economic output in Jamaica and other tourism-dependent economies is larger than any in recent memory. This has translated to hardship for many citizens and households, as incomes declined, and as unemployment and underemployment increased. While the implications of the shock for some key economic aggregates have been more subdued than some might have expected—e.g., the impact on international reserves, and with respect to the balance of payments—, a deeper shock has been avoided because of proactive policy measures, as well as exogenous factors like countercyclical remittance flows and lower commodity prices. Against this backdrop, the pace and depth of recovery will depend in large part on factors outside of governments’ control, suggesting that policymakers will need to remain cautious and vigilant to evolving risks linked to the crisis, and related implications for external demand.

Against this backdrop, Caribbean countries like Jamaica were able to undertake a combination of proactive and well-targeted fiscal, monetary, and financial measures aimed at dampening the shock. In the case of Jamaica, BOJ policy rates remained unchanged through 2020, including as they were already near the lower bound at 0.5 percent prior to the shock. However, the central bank and government were able to undertake a number of important measures aimed at reinforcing external buffers (e.g., by soliciting support from the IMF), easing credit conditions for local financial institutions and market participants (e.g., reduced reserve requirements, accepting new forms of collateral for lending to banks), and via measures aimed at protecting bank balance sheets (e.g., suspensions of dividends). One noteworthy and effective measure supported by the BOJ and other authorities in the region were efforts to encourage local credit providers to work with borrowers to make reasonable accommodations aimed at preventing a wave of delinquencies and defaults.

Related measures took many forms, including concessional rescheduling, rate and maturity adjustments, and payment standstills or modifications. At its peak, these and other forbearance measures amounted to over J$210 billion, but by end-February 2021, the outstanding stock of loans subject to some kind of accommodation (e.g., moratoria) had fallen to about J$65 billion, reflecting a significant decline. In this context, policymakers and private financial sector participants deserve considerable recognition for their proactive and innovative efforts, which certainly helped to avoid a more severe shock to financial stability, and by implication, to longer-term growth prospects.
Overview of COVID-19

COVID-19 cases and deaths in Suriname continued to rise in the second quarter of 2021. The country recorded its first COVID-19 case on March 13, 2020. The number of active COVID-19 cases peaked at 4,336 in June 2021. As of August 10, 2021, the authorities confirmed a total of 26,103 cases or almost 4.4 percent of the population, with 3,068 active cases, 669 COVID-19-related deaths (0.11 percent of the population) and 22,366 recovered cases.

The authorities have relaxed social distancing measures and restrictions in response to the increase in COVID-19 cases. The most recent restrictions announced on July 24 include a reduction in curfew hours, restrictions on gatherings continue (both private and public spaces); several recreational services (resorts, casinos, and gambling and entertainment venues) have been reopened subject to protocols, borders open to passenger traffic but subject to protocols; secondary educational institutions are now open for examinations; and mandatory wearing of a mouth and nose covering continue.\(^\text{49}\)

Suriname has accelerated vaccination efforts. The authorities had administered 265,159 doses of vaccines as of July 10, 2021. Roughly 12.8 percent of the population is fully vaccinated, and another 32.9 percent have received at least one dose. The authorities are aiming to vaccinate 50 percent of the population by August 2021. Vaccinations have been sourced via the COVAX facility and donations from Barbados, China, India, and The Netherlands. As of June 30, Suriname had received a total of 453,800 doses of vaccines, including 1,000 from Barbados, 100,000 from China, 52,800 from the COVAX facility, 50,000 from India, and 250,000 from The Netherlands. It is reported that The Netherlands will provide up 700,000 doses of vaccines to Suriname in the coming months.

Macroeconomic Update

Suriname is experiencing a severe macroeconomic crisis. Real GDP significantly contracted in 2020 and fiscal deficits and debt have reached unsustainable levels. Inflation remains in the high double digits, and there are banking sector vulnerabilities and low international reserves. The country has been accumulating external and domestic arrears because it has not been unable to pay its debt obligations. After assuming office in July 2020, the new administration developed a recovery plan that aims to stabilize the economy, restore debt sustainability, rebuild international reserves, and create a strong foundation for inclusive growth and prosperity. To support the recovery plan, the authorities reached a Staff Level Agreement with the International Monetary Fund (IMF) in May 2021 for a three-year program (US$690 million) under the Extended Fund Facility (EFF).

\(^\text{49}\) For more details, see 

https://m.starnieuws.com/index.php/welcome/index/nieuwsitem/65683
The most recent data show that the Central Bank of Suriname’s monthly economic activity index contracted by 12.6 percent (year-over-year) in 2020. According to the central bank, the decline in economic activity was largely due to measures implemented to curb COVID-19 infections and to a decline in gold production. The main contributors to the contraction in economic activity were declines in wholesale and retail trade (3.2 percentage points), manufacturing (2.5 percentage points), construction (2.2 percentage points), and agriculture, hunting and forestry (1.6 percentage points). The decline in economic activity in the wholesale and retail trade sector was mainly due to a fall in the sale of food and non-alcoholic beverages and in heavy equipment by 15.1 percent and 29 percent, respectively. The decline in manufacturing was largely due to a 10.6 percent decline in gold production as a result of lower-grade ore extraction and a temporary shutdown of operations at gold mines in June and July 2020 after the COVID-19 virus affected employees. For the construction sector, the decline in economic activity was related to a 29.7 percent decline in the imports of construction materials. Respective declines of 81 percent and 51.2 percent in banana and log production were the main drivers of the decline in the agriculture, hunting and forestry sector. The IMF estimated that real GDP declined by 13.5 percent in 2020. Real GDP is expected to contract by 3 percent in 2021 before returning to positive territory in 2022 (Figure 1).

Inflation remained in the high double digits into 2021, increasing to 61 percent at the end of 2020 (year-over-year) before falling to 44 percent in April 2021 (year-over-year). There were noticeable increases in sub-components related to transportation, communication, recreation, culture and education, and alcoholic beverages and tobacco (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, an official devaluation of the exchange rate by 90 percent on September 22, 2020, and significant monetary financing.
Unemployment increased in 2020 and is expected to remain high in the coming years. The IMF’s April 2021 World Economic Outlook estimated an increase in unemployment for Suriname from 8.9 percent in 2019 to 11 percent in 2021. As COVID-19 and macroeconomic challenges continue to weigh negatively on the economy, unemployment is projected to average 10 percent over the medium term.

Suriname’s current account returned to a surplus in 2020, but international reserves remain low. At the end of 2019, the current account recorded a deficit of 10.6 percent of GDP. However, in 2020 the current account returned to positive territory with a surplus of 10.2 percent of GDP. The surplus reflected larger merchandise exports of 87.2 percent of GDP compared to 50.4 percent of GDP in 2019. The increase was attributed to an increase in exports of gold, rice, and wood and wood products. On the other hand, merchandise imports increased by 10 percent of GDP, from 37.8 percent of GDP in 2019 to 47.7 percent of GDP in 2020. The services and primary income accounts reported deficits of 17.1 and 17.3 percent of GDP, respectively. The surplus for the secondary income account increased from 2.1 percent of GDP in 2019 to 4.6 percent of GDP in 2020. Nevertheless, usable international reserves at the end of September 2020 were US$106 million (equivalent to roughly 0.9 months of imports of goods and services).

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 July 2021.

Suriname’s debt levels and fiscal imbalances have increased to unsustainable levels. According to the IMF’s April 2021 World Economic Outlook, the central government’s debt-to-GDP ratio increased to 165.8 percent of GDP at the end of 2020, with almost 74 percent of it denominated in foreign currency. The fiscal deficit for 2020 was estimated at 16.9 percent of GDP, with a primary deficit of 12.2 percent of GDP. Preliminary data show a small primary surplus of SRD144 million (or 0.3 percent of estimated 2021 GDP) in the first quarter of fiscal year 2021.

A new budget and the country’s recovery plan were approved by the National Assembly in June 2021. On June 25, 2021, the assembly approved an amended budget for fiscal year 2021 and the country’s recovery plan. The approval of both documents by the National Assembly not only partially fulfils the IMF’s requirements for an EFF program but will also be critical in guiding the country’s recovery efforts over the next few years.

Debt restructuring negotiations are ongoing. In September 2020, the authorities approached official and commercial creditors to initiate debt restructuring discussions. Bondholders consented to postpone payment deadlines starting from October 26, 2020, and expiring at the latest on July 30, 2021, hence providing the government with breathing space to reach an agreement with the IMF and engage in orderly debt restructuring discussions with creditors. After reaching the Staff Level Agreement with the IMF, the authorities proposed a nominal haircut on the country’s Eurobonds and debts with bilateral partners of 70 percent and 30 percent, respectively. Suriname also proposed an extension of the maturities as part of a debt restructuring exercise. The bondholders responded unfavourably to Suriname’s offer and indicated their intention to reinstate payment obligations that had been deferred in March 2021. Negotiations are ongoing. The government is also in discussions with the Paris Club to chart the way forward regarding the handling of claims within its remit.

Monetary and Financial Sector

During the COVID-19 pandemic, the Central Bank of Suriname (CBvS) adopted a new monetary policy framework, adjusted reserve requirements, and adopted a floating exchange rate regime. In early 2019 the CBvS began taking steps towards building a reserve money targeting regime framework and managing systemic liquidity. The CBvS introduced certificates of deposit (and gold-indexed certificates), one- and five-day lending facilities, and a short-term (multi-day) interest-bearing deposit facility. On June 7, 2021, the CBvS transitioned to the new monetary policy framework. Monetary financing of the budget, which occurred in previous years, is no longer permitted. The reserve money targeting system aims to lower inflation over the medium term.

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50 The haircut for the Eurobonds and commercial creditors applies to the outstanding amount, accrued interest, and arrears. For official creditors, the authorities are proposing a 30 percent average nominal haircut on the outstanding amount and arrears.
51 See https://www.imf.org/en/Countries/SUR
The CBvS also devalued the country’s exchange rate by almost 90 percent (from SRD7.52/US$1 to SRD14.2/US$1) on September 22, 2020. The devaluation came after two years of an acute shortage of U.S. dollars in the domestic economy, which contributed to a precipitous increase in the parallel exchange rate with a parallel market premium ranging from 80 percent to as high as 126 percent within a multiple exchange rate system. Despite the large devaluation, the parallel market premium continued to rise. As a result, the CBvS introduced horizontal bands allowing the exchange rate to fluctuate between a floor of SRD14.2 and SRD16.5. In May, the authorities again increased the upper band to SRD21 in an effort to unify the foreign exchange market rates. A floating exchange rate system adopted on June 7, 2021 had eliminated the parallel market premium as of June 27.

Credit to the private sector, in local currency, improved during the pandemic. In response to the pandemic, the CBvS temporarily lowered the local currency cash reserve requirement from 35 to 27.5 percent in May 2020 to stimulate lending to the private sector. The average deposit interest rate in SRD decreased from 8.4 percent in April 2020 to 6.6 percent in April 2021. The average lending rate remained relatively steady at 15 percent over the same period. There were marginal changes in lending and deposit rates in U.S. dollars and euros. Recent data from the CBvS show that while credit to the private sector in local currency increased by 35 percent in April 2021 (year-over-year), credit in U.S. dollars and euros declined by 10 percent and 21.4 percent, respectively, over the same period.

Even before the pandemic, Suriname’s banking system faced significant challenges that could be exacerbated in the short term. The capital adequacy ratio for the banking system stood at 11.7 percent (just above the 10 percent minimum requirement) as of June 2020. The ratio of nonperforming loans (NPLs) to gross loans increased from 8.4 percent in 2015 to 13.5 percent in June 2020, and provisions to total NPLs declined from 61.6 percent in 2018 to 56.3 percent in July 2019 (latest data). Profitability of primary banks fell, with the return on assets declining from 1 percent in 2019 to 0.3 percent for the first half of 2020. The IMF noted that as the impact of the economic contraction crystallizes, and stimulus provided in the context of the pandemic is withdrawn, NPLs are likely to continue to rise in the coming months. Liquid assets to total assets amounted to 49.1 percent of total assets and 95.5 percent of short-term liabilities in June 2020. Additionally, both credit and deposit dollarization ratios increased in 2020 and remained high in the first four months of 2021. Foreign currency credit to the private sector as a percent of total credit to the private sector increased to 45.6 percent in April 2021 from 37.2 percent in April 2020, and foreign currency deposits as a percent of total deposits increased to 67.7 percent in April 2021 from 55.9 percent in April 2020.

The authorities are expected to strengthen the regulatory and governance framework for the financial sector. In 2021, the government completed a National Risk Assessment (NRA) on money laundering and terrorist financing. The NRA identified key money laundering/terrorist financing risks in Suriname. As part of the proposed EFF program the country is expected to strengthen its anti-money laundering and combating the financing of terrorism (AML/CFT) framework in line with the findings of the NRA. The proposed reforms are expected to focus on the Credit Institutions Resolution Act, operationalizing the Financial Stability Committee, operationalizing a Bank Resolution Unit within the CBvS, developing a roadmap for financial sector restructuring and governance reform of banks, reviewing asset quality of banks, and adopting the revised Banking and Credit Supervision Act.
Conclusion

The medium-term policy outlook for Suriname will likely depend on an intense reform program to restore macroeconomic sustainability. Suriname is experiencing a full-blown macroeconomic crisis. To counter significant macroeconomic imbalances, the government has embarked on a home-grown recovery plan that aims to stabilize the economy and promote inclusive growth. It is expected that the country’s recovery plan will receive the support of international financial institutions, complementing the IMF EFF program. The authorities in Suriname have already embarked on several measures such as restructuring the debt and adopting a flexible exchange rate regime. Going forward, it is important for Suriname to continue on a progressive path to achieve macroeconomic sustainability and inclusive growth.
Overview of COVID-19

COVID-19 cases slowed towards the end of the second quarter and continued its downward trend in early August 2021. Despite border and social distancing restrictions, the number of active cases rapidly increased from 309 active cases on April 1 to 2,355 cases on May 1. In May, Trinidad and Tobago registered a positivity rate (nearly 40 percent) and a daily death rate (3.98 per capita on May 11) that exceeded that of France, India, Germany, and the United States. By June 5, the number of active COVID-19 cases peaked at 10,064, but there has since been a slow plateauing of cases, with slight increases being observed across the country. As of August 10, there were 5891 active cases. The downward trend is being attributed to recent restrictions implemented by the government (Figure 1).

Figure 1. Numbers of COVID-19 Cases and Deaths in Trinidad and Tobago

The government eased restrictions, after implementing tighter COVID-19 protocols to curb the spread in cases. The government implemented a State of Emergency and curfew on May 16 and restricted all non-essential activity. However, in response to the decrease in cases, protocols were eased to allow for the reopening of the national borders, the relaxing of curfew hours, the resumption of food services, outdoor

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52 See Our World in Data (https://ourworldindata.org).
exercise, construction, and retail sector activity, as well as for the planned reopening of schools in September. The State of Emergency will be imposed until August 30.

Vaccination is progressing at a slower pace. As of August 2021, 17 percent of the population had been fully vaccinated, and another 30 percent had received one dose. However, the Ministry of Health reported a drastic reduction in the number of persons getting vaccinated towards the end of July. As a result, actions are being implemented to improve access to vaccinations at mass vaccination sites and within communities. By August 11, Trinidad and Tobago had received a total of 1.3 million vaccines from various sources, including the COVAX facility and China, as well as through donations from several Caribbean countries, India, and Canada. The country is expected to receive an additional 305,370 doses of vaccines from the United States, which comprise part of a shipment of nearly 837,000 Pfizer vaccines to six Caricom countries.

Economic Update

Economic growth prospects remain weak. The International Monetary Fund’s (IMF) April 2020 World Economic Outlook reported that real GDP contracted by 7.8 percent in 2020. Economic growth is likely to remain subdued in the short term given falling energy output and COVID-19 restrictions. Recent statistics from the Ministry of Energy show that production of crude oil, natural gas, and liquified natural gas decreased by 2.9 percent, 26 percent, and 44 percent, respectively (year-over-year) in April 2021. The downstream sector also recorded lower production (13.2 percent) during the corresponding period. Further, the State of Emergency and tightened restrictions in the second quarter of 2021 will continue to weigh negatively on the non-energy sector, including the manufacturing and accommodation and food service sectors that were deemed non-essential. Several energy sector developments planned for the medium term, if successfully completed, could positively impact economic growth. These include three bid rounds within the next 12 months for appraisal drilling in BHP’s Calypso Field in 2021; plans to prioritize the gas supply imbalances between the upstream, Atlantic, and downstream sector; the first gas from BP’s Cassia C in 2022; and the coming on stream in 2025 of the Manatee Field, which the country expects will produce a surplus of gas.

Fiscal challenges in Trinidad and Tobago persist. At the mid-year budget review, the government revised the budgeted fiscal deficit for 2021 from 5.6 percent of GDP to 11 percent of GDP. The government expects a shortfall in revenue of approximately TT$5 billion (or 3.4 percent of GDP), due largely to lower energy revenues, particularly from the natural gas sector. Expenditure has been revised from TT$49.6 billion (33.8 percent of GDP) to TT$52.5 billion (35.8 percent of GDP). For the remainder of the fiscal year ending September 2021, TT$2.9 billion (1.9 percent of GDP) has been allocated to fund recurrent expenditure in the health sector and other government agencies. In response to the May 2021 lockdown measures, the government increased spending on social support measures that amounted to approximately TT$300 million (0.2 percent of GDP). The fiscal package includes income/salary relief grants, food hampers, support for artists, and grants for small and micro businesses. In addition, the government is negotiating a 170-million-euro loan from China, of which 15 percent would be for vaccines and trade with China and 85 percent for budget support. The passing of the Gambling (Gaming and Betting) Control Bill 2021 and Finance Bill

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53 Since 2013, the shortage of natural gas has constrained production in the downstream sector. Trinidad and Tobago’s gas shortage is estimated at 4.2 billion cubic feet per day vis-à-vis a current production rate of 3 billion cubic feet.
55 Within the first seven months of fiscal year 2021, the shortfall in revenues amounted to TT$2.5 billion (US$368 million), or 1.7 percent of GDP.
2021 (expected in July) are expected to have positive revenue implications for the country. The Finance Bill 2021 will provide for the liberalization of the retail fuel industry and introduce a new formula for the pricing of motor fuels.

**Financial Sector**

During the pandemic, the Central Bank of Trinidad and Tobago (CBTT) implemented a number of supportive measures. The policy actions commenced with the lowering of the repo rate from 5 to 3.5 percent in March 2020. This resulted in a fall in the average prime lending rates of commercial banks from 9.25 to 7.89 percent by the end of April 2020, and further to 7.57 percent by May 2020. The average prime lending rate had stayed at 7.57 percent as of August 2021. Also in May 2020, the reserve requirement for commercial banks was reduced from 17 to 14 percent and resulted in increased excess liquidity. Average excess liquidity peaked at TT$14.2 billion in October 2020 and decreased thereafter by 26.9 percent, from TT$10.8 billion in January 2021 to TT$7.6 billion in June 2021 (Figure 2). Also, to assist citizens and businesses having difficulty meeting loan payments, the CBTT re-introduced a five-month moratorium. The duration of the moratorium is from May 1, 2021, to September 30, 2021.

![Figure 2. Commercial Banks: Excess Reserves (TT$ Mn)](source: Central Bank of Trinidad and Tobago)

Commercial bank credit to the private and public sectors was sluggish despite supportive financial sector measures. Notwithstanding lower lending rates and increased liquidity, gross commercial bank credit contracted marginally by 1 percent in 2020. The negative trend is reflected in slower business and consumer lending, which decreased by .2 percent and 2.7 percent, respectively (year-over-year) in May 2021. However, loans to the real estate sector increased by 5 percent over the same period. The weak credit uptake is attributed to continued uncertainty among individuals and businesses as to whether to

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56 The first moratorium was introduced in March 2020 for a three-month period.
57 Public sector lending from commercial banks also decreased by 3.4 percent.
increase debt commitments, while on the supply side banks continue to be cautious about extending loans in order to guard against default.\textsuperscript{58}

COVID-19 and the economic weakness could pose challenges to the financial sector and the quality of banks’ portfolios. By the end of March 2021, the banking sector’s capital adequacy ratio of 16.4 percent exceeded the minimum statutory requirements, despite a decrease from its December 2020 level of 17.10 percent. However, in March 2021, the banking sector’s return on equity increased by .9 percentage points to 15.3 percent (year-over-year), and its return on assets remained unchanged at 1.8 percent. However, the IMF’s recent Financial System Stability Assessment stress tests show that under negative COVID-19 economic scenarios, banks could breach capital requirements and face liquidity pressures. Rising household debt, sovereign credit exposures, natural disasters, and contagion risks between investment funds and banks were identified as vulnerabilities that may lead to financial imbalances. Nonperforming loans averaged 3.4 percent of total loans from December 2020 up to May 2021 (Figure 4). In March 2020, commercial banks and non-banks deferred 257,923 loans totalling TT$16.5 billion (20.5 percent of total loans), equivalent to US$ 2.4 billion or 11 percent of GDP. By June 2020, the number of deferred loans by commercial banks and non-banks narrowed to 247,911 at approximately TT$21 billion (26.4 percent of total loans) equivalent to US$3 billion or 14 percent of GDP. Reports indicate that commercial banks in Trinidad and Tobago are complying with the May 2021 re-introduced moratorium.\textsuperscript{59}

\textbf{Figure 3. Commercial Banks’ Deposit and Loan Growth, %}

\textit{Source: Central Bank of Trinidad and Tobago.}

\textsuperscript{58} See the Central Bank of Trinidad & Tobago, Monetary and Policy Announcement, March 26, 2021, available at \url{https://bit.ly/3dnljbb}

\textsuperscript{59} Banks are deferring payments on credit facilities, waiving fees, and facilitating the government’s SME Stimulus Package. See “Banks working with customers to bring relief,” \textit{Daily Express}, June 22, 2021, available at \url{https://bit.ly/3zYRRQJ}
Conclusion

The short-term outlook for Trinidad and Tobago remains challenging. Low energy output and prices and the consequences of the ongoing pandemic will continue to weigh negatively on the country’s economic performance in the coming months. The authorities’ plan to accelerate COVID-19 vaccinations in the second half of 2021 would be key to reopening the economy. The pandemic has significantly worsened economic and social conditions. Policies over the medium term should focus on persevering with macro-fiscal sustainability and promoting inclusive economic growth.
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