LAC POST COVID-19

CHALLENGES AND OPPORTUNITIES

CCB COUNTRY DEPARTMENT CARIBBEAN

VICE PRESIDENCY FOR COUNTRIES

CONTENTS

REGIONAL OVERVIEW

DAVID ROSENBLATT

CONTEXT

The CCB countries are facing historic external shocks in addition to the economic consequences of domestic lockdowns. As the COVID-19 crisis has unfolded, tourism is arguably the most directly affected sector of global activity. The "Big 3" tourism destinations in our group of countries are The Bahamas, Barbados and Jamaica. The direct contribution to GDP ranges from 10 (Jamaica) to 19 percent (The Bahamas), while the total contribution, including an indirect contribution, spans from about 33 (Jamaica) to 48 percent (The Bahamas). Growth prospects in Trinidad and Tobago, Guyana and Suriname are negatively impacted by the decline in oil and natural gas prices. Again, on a global scale, oil is the commodity price that has been most affected by the global decline in economic activity. Mercifully, the price of gold remains buoyant, as often occurs in times of financial turbulence. Gold is the largest merchandise export of Suriname, and it is the largest traditional merchandise export of Guyana, where oil is now taking over the forefront. The oil price decline benefits net oil importers, however, the negative tourism shock is far larger than the favorable oil bill savings.

The CCB countries have closed their international borders and implemented social distancing measures, but the timing and extent of those measures have varied across countries. With hotels closed and oil and gas producers suffering from lost income, lockdown measures and curfews are causing further declines in economic activity across these countries. Businesses are closed, tens of thousands of workers are newly unemployed, and liquidity buffers for households and firms are running thin. Several countries have well developed unemployment schemes, and all countries have deployed various programs to alleviate the ongoing social and economic stress, as noted in the individual country sections below.[1]

The CCB countries also have differentiated capacity levels in the health sectors and varying degrees of financial buffers to sustain the COVID-19 crisis response efforts. On the Global Health Security Index, all six countries lag the LAC regional average, and the index level for each country is less than half the level of the United States. Public debt ranges from around 50 to 115 percent of GDP across countries, with some countries on a declining trend and others on an increasing trend, even before the crisis The domestic banking system can provide financing to government and businesses when external markets are closed; however, that capacity varies, depending upon the size of domestic markets, and their degree of liquidity and/or capitalization. The scope varies substantially across these six countries, but banking systems are generally well capitalized.

In terms of the foreign currency required to purchase essential basic imports, tourism losses and declines in commodity prices will have a negative impact overall. In terms of buffers, the level of international reserves varies from just under 10 percent to around 35 percent of GDP. There are other potential shortfalls in foreign exchange earnings. For example, remittances to Jamaica are on the order of 15 percent of GDP, and the level of remittances is probably underreported in other countries.[2] The World Bank recently projected a decline of remittances on the order of 20 percent, globally. Finally, there could also be capital flight, if domestic and foreign investors lose faith in either the value of their investments or the soundness of the overall macroeconomic framework in a country.

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[1] For more details on the transmission channels and policy response across these countries, see the recent Caribbean Quarterly Bulletin: https://publications.iadb.org/en/caribbean-quarterly-bulletin-volume-9-issue-1-april-2020.
[2] See Box 1 of the Caribbean Quarterly Bulletin.

TRANSITION

As is the case in countries around the world, the transition out of social distancing measures depends on multiple factors, including: the date of the initial outbreak, the scope of social distancing measures, access to testing and local health system capacity. For example, the degree of testing varies from only 0.72 per 1,000 people in Suriname to about 15 per 1,000 people in Barbados.[3] Barbados has already appeared to have flattened the case and death curves, and the government has already issued a phased plan for removing the lockdown and curfew (see country chapter). Trinidad and Tobago, The Bahamas and Guyana have created high-level commissions, including notable figures from the private sector, government and academia. Suriname has only detected 11 cases, and there was only one new case detected recently—the first since early April. There are plans for loosening social distancing measures sufficiently by the end of May to allow for an orderly general election. Jamaica is still in the stage of ramping up testing, but the curve has recently begun to flatter. Guyana has a growing number of cases, and a low level of testing. To give an example of how these factors interact, Barbados has done almost 10 times more testing per 1,000 people than Guyana, but they have discovered only about 2 times as many cases as Guyana (per 1,000 population). With a combination of testing, treatment, quarantines and curfews, Barbados appears to have "flattened the curve."

The pace and success of the transition obviously will depend on external developments, given that these are very small, open economies. First, these countries depend upon imports for testing, protective equipment, and eventually, a vaccine--if and when that is developed. Secondly, the ability to sustain the social distancing measures and finance social support programs for families and firms will depend upon the potential for recovery of key sectors: tourism in three countries, and commodities in the other three. Both sectors' performance will depend on the evolution of the global economy, as well as structural security protocols for tourism that could facilitate a recovery in international travel. Thirdly, other countries' efforts to control the virus will also affect prospects for international tourism, and the ability of those countries to remove social distancing programs that could then, in turn, support oil and gas prices. In brief, the transition towards recovery itself will depend on external events.

Pressures on the macro framework could complicate the transition. Jamaica has a floating exchange rate regime, supported by an explicit inflation targeting monetary policy framework. If devaluation is limited, this could support balance of payments adjustment, without fueling excessive inflation, and it also can improve competitiveness for the future recovery. The other countries in our group have either *de jure* or *de facto* fixed exchange rates. The fiscal policy framework varies across these six countries. Some countries have relatively stronger fiscal medium-term fiscal frameworks. This can help ease market concerns when deficits inevitably expand, give the fiscal cost of measures to combat the social and economic cost of the crisis. External finance from multilaterals can close financing gaps and relieve short-term liquidity concerns.

Social pressures and electoral processes could complicate the transition. Five of the six countries[4] are experiencing a sharp economic contraction and increases in unemployment. Depending upon the testing and health sector capacity mentioned above, the transition measures will have to be gradual, and there could be setbacks. There is a high degree of uncertainty on both the scientific and on the economic fronts. Social tensions may mount. Problems like increased domestic violence and child abuse are a concern, as well as already high and rising suicide rates, by international standards. Female employment conditions in service sectors—so-called "care" sectors--could suffer disproportionately. Food insecurity is another threat, either driven by supply chain disruptions or a lack of foreign currency. Finally, four of the six countries—Guyana, Jamaica, Suriname and Trinidad and Tobago—are facing elections over the next 6 to 10 months. (Guyana's election already occurred, but the result is pending a final re-count.) There will be electoral

[3] Data from IDB monitoring as of May 21th, 2020.
[4] Guyana's oil production boom will still result in positive growth, despite the decline in oil prices.

transitions in the middle of the "COVID-19 transition," and this can generate uncertainty about the policy path from transition to recovery.

RECOVERY

For these small, open economies, the path for recovery also depends on external developments. The recovery of the tourism sector will depend upon international cooperation on travel rules and sanitary protocols, and it will depend upon economic conditions in source countries—particularly, the United States and Europe. Clearly, commodity prices will evolve according to international market developments. Even the gold price could drop somewhat if international financial markets return to long-term stability, and gold's safe-haven allure fades. Oil and natural gas prices could strengthen if workers return to their normal commute patterns, but perhaps that will not happen. The possible reconfiguration of global supply chains could open, or close, opportunities for foreign direct investment in business process outsourcing and other global services. In brief, there are multiple external factors that pose opportunities and risks for a recovery in Caribbean economies.

The recovery will also depend upon the success of the crisis response and domestic transition policies. The recovery will be built on the efforts of households, businesses and governments. Emerging from the transition stage, if many households and/or firms are bankrupt and if people are still getting sick, then the recovery is likely to be prolonged and slow.

One domestic factor that will need to be addressed is to recover fiscal sustainability, following a buildup in public debt. Deficit spending in response to the crisis will result in an increase in debt. Three key areas will be essential for management of that debt:

Improve expenditure efficiency and effectiveness. Detailed public expenditure reviews and sector analysis will be key for getting the most out of ever more limited fiscal space. Recommendations from the IDB are outlined in the blog:" Fiscal Policy in the Time of the Coronavirus: Constraints and Policy Options for Latin American and Caribbean Countries."[5]

Improve debt management. More debt implies a greater need to minimize debt costs and smooth the payment profile. Institutional reforms to improve debt planning, analysis, investor communication, etc., can help in that regard.

Attend to other longstanding institutional challenges in fiscal policy. Some countries are more advanced than others, but depending upon the country, areas for improvement include: medium-term expenditure frameworks (MTEF), fiscal rules, heritage funds (for natural resource exporters), stabilization funds, and incorporating disaster risk concerns into the fiscal framework.

The recovery may benefit from lessons learned from the crisis, particularly in terms of new dimensions of resilience. Business continuity is an obvious lesson, for both the public and private sector. This puts a premium on some traditional areas, and new areas, for policy reform and investment. These actions can also broaden the opportunities for new sectors of investment.

Internet connectivity for all. This may require some public investment and regulatory redesign/rethinking. Infrastructure for both cable and wireless communication can be improved. Social tariffs of some form may be necessary to improve access for poorer households and smaller firms.

Digital government and reducing red tape. This is a long-standing issue, and some governments have progressed more than others. Social distancing has been a wake-up call. Technology facilitates, but the processes and procedures themselves have to be simplified and that requires legal and institutional reforms. Small Caribbean countries can copy Estonia and hit the frontier.

[5] https://blogs.iadb.org/ideas-matter/en/fiscal-policy-in-the-time-of-coronavirus-constraints-and-policy-options-for-latin-american-and-caribbean-countries/. The blog also draws on more detailed analysis from last year's IDB flagship report from the IDB: Better Spending for Better Lives.

Data. This is related to the digital government theme, but a separate set of actions and reforms are needed to finally make better use of existing administrative data, link to survey data, connect to digital records, digital IDs, etc.

Private sector resilience. From a management perspective, the government can work with business leaders to think through how they can temporarily convert human and physical capital into new activities when an existential crisis arrives.

"Going regional," on food and some other supply chains. Given the small size of Caribbean economies, going regional on basic essential items, like foodstuffs and medical supplies and equipment, could open new economic opportunities and enhance economic resilience. There is scope for some of the countries to become important regional sources of food. Regional procurement, storage and even technological development of medical supplies and equipment would also enhance resilience.

Addressing longstanding challenges can also help enhance the recovery. Many traditional challenges remain relevant, and these have been analyzed in the IDB's Country Development Challenges documents. The details are country-specific, but several broad themes are:

Getting the most out of traditional lead sectors. The ideas would be to build domestic supply chains to get value-added linkages from tourism in some countries, natural resources in others. An obvious area would be agriculture for foodstuffs for the hospitality and restaurant sectors. Eco-tourism has large potential in places like Guyana and Suriname, drawing on the natural resource of tropical forests. Guyana and Suriname could also expand sustainable forestry and agricultural exports.

Quality education for everyone. This area is still lagging and inhibiting global service possibilities in CCB countries. It also limits the capacity for innovation. Differences in quality between schools and between social classes also inhibit the ability to develop technology clusters.

Climate change. Hurricanes will only get worse. Sea level rise is a major threat for all six CCB countries. Eventually, economies will have no choice but to diversify away from hydrocarbons.

CONCLUSION

Governments across the globe have been improvising, experimenting and struggling to implement their responses to the novel coronavirus crisis. The six countries discussed here are no exception. Moving forward to the transition and recovery phases, these countries will still be impacted strongly by the evolution of the global transition and recovery. There will continue to be uncertainty about the characteristics of the virus itself, including the strength and duration of the immunity enjoyed by recovered patients. Beefing up the capacity for testing, contract tracing and treatment is still needed, even as curves may be (at least temporarily) flattening in most of these countries. This regional overview and the more detailed country-specific briefs attempt to offer some areas of focus for moving forward into the transition and recovery phases.

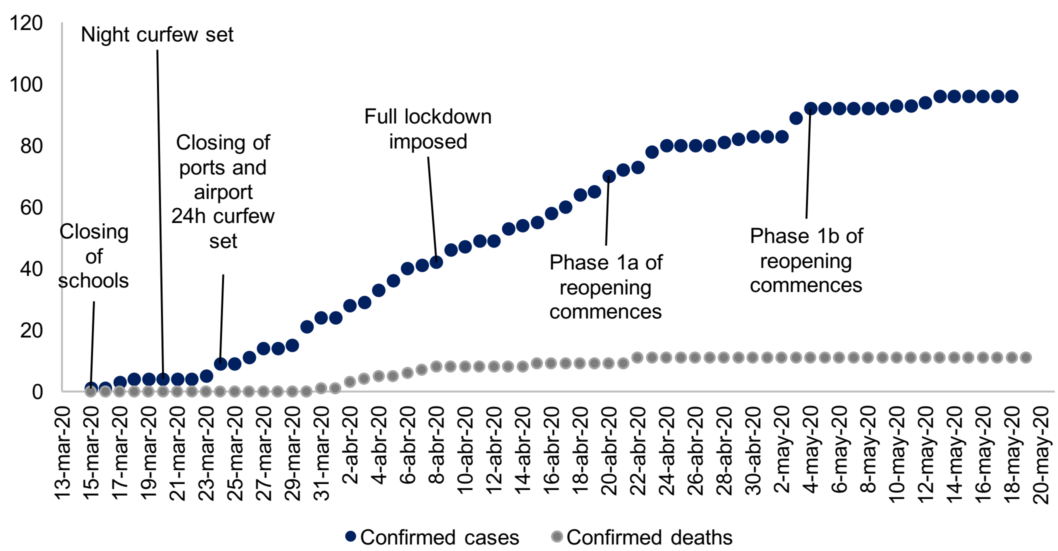
THE BAHAMAS

LAURA GILES-ALVAREZ

CONTEXT

The Bahamas registered its first case of COVID-19 in mid-March 2020 and has since been experiencing a continued increase in the number of confirmed cases to 96 (as of May 19, 2020). New Providence, Grand Bahama, Bimini and Cat Cay have all registered cases. The number of total deaths is 11 persons as of May 19th , 2020; the highest number of deaths per confirmed case amongst C-6 countries.[6] The country's geography likely contributes to these figures, as it can hinder the swift transportation of patients to hospitals.

FIGURE 1. NUMBER OF CASES AND DEATHS AND KEY POLICY RESPONSES



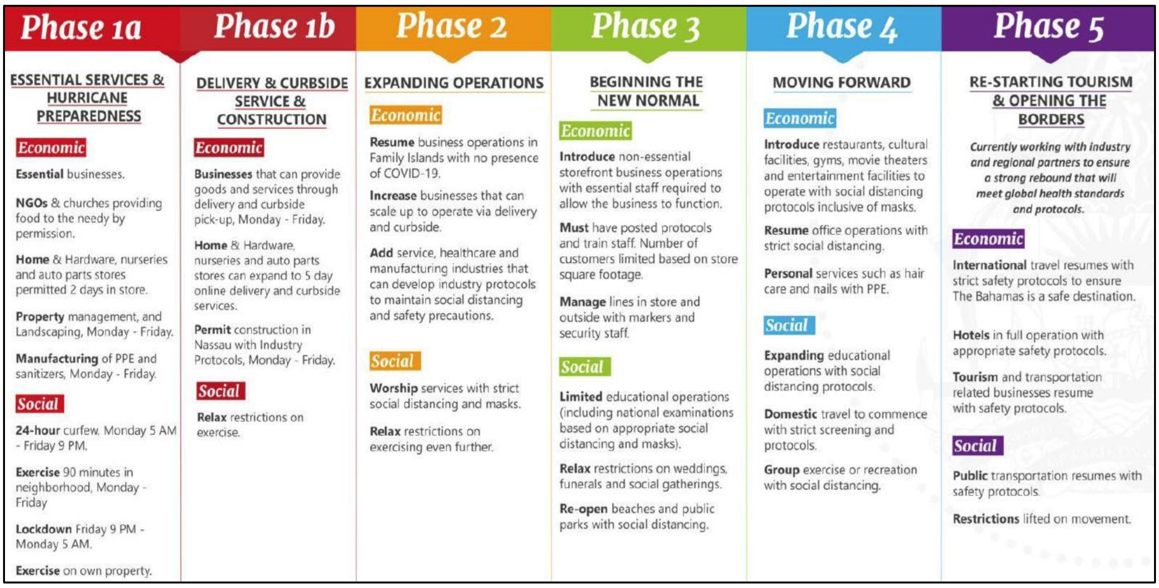
Source: Government of The Bahamas and https://ourworldindata.org/coronavirus-data

The authorities have been implementing social distancing measures to slow the spread of COVID-19 and reduce the pressure on the health system. A broad range of health and safety, social, fiscal and financial support measures have been rolled out to mitigate the economic impacts of the pandemic (Table 1). On April 20, 2020, the Prime Minister announced the reopening of the economy through a multi-phased approach (Figure 2). The pace of de-escalation of measures will depend on the adherence to restrictions, the number and dispersion of cases, the capacity of the health system to respond, and the identification of vulnerabilities in congregate facilities (i.e. prisons). Phase 1a commenced on April 20th, 2020, with the reopening of non-essential services in New Providence and the permission for reconstruction activities in the Family Islands to continue. Phase 1b was declared on May 4th, 2020, allowing delivery and curb-side and pick-up services on weekdays. Construction is now permitted in Grand Bahama and New Providence and other essential services (such as nurseries or auto part stores) can expand to 5-day delivery. Ragged Island, Rum Cay, Mayaguana, Inagua, Crooked Island, Acklins and Long Cay

[6] C-6 countries are the Inter-American Development Bank Caribbean Department's countries: The Bahamas, Barbados, Guyana, Jamaica, Trinidad and Tobago and Suriname. The Bahamas' ratio of deaths to confirmed cases was 0.12, compared to 0.11 in Guyana, or 0.9 in Barbados (information gathered on May 8, 2020). However, these figures must be taken with care, as they are based on the confirmed number of cases, which varies based on reach country's rate of testing and the reporting standards.

have also been allowed to resume normal commercial activity. Some components of Phase 2 were approved on May 18, 2020; including the resumption of more commercial activity, increase in hours for construction activities and reduction of social containment measures. An economic recovery council has also been appointed and has started rounds of consultation.

FIGURE 2. PHASES OF THE REOPENING STRATEGY



Source: Government of The Bahamas

RECOVERY

MACROECONOMIC CONTEXT

The Bahamas is undergoing the second major shock to its economy in 12 months. Hurricane Dorian, which hit the Bahamas in September 2019, resulted in an estimated US$3.4 billion (27 percent of GDP) in damages and losses.[7] The second shock to hit the Bahamas has been COVID-19. The country is experiencing a sudden stop in tourism arrivals, combined with lower domestic economic activity due to the curfew and the lockdown. The International Monetary Fund (IMF) has revised its real GDP growth forecast for 2020 from -0.6 percent to -8.3 percent. However, the contraction could be more severe depending on the pace of reopening and restart of tourism activity. The government's fiscal stance is also worsening. The fiscal balance is expected to fall from -1.7 percent of GDP in 2019 to -8.4 percent of GDP 2020, and the primary fiscal balance is expected to reduce from 0.9 percent of GDP in 2019 to -5.4 percent of GDP in 2020. COVID-19 has reduced the country's fiscal buffers, which is a concern given the fast-approaching hurricane season 2020.

Inflation and the unemployment rate are projected to increase in 2020. The IMF projects a rise in the inflation rate from 1.3 percent in 2019 to 2.4 percent in 2020.[8] Lower oil prices will exert downward pressure on inflation, whilst potential disruptions in the supply of goods and services could support higher inflation. Rapidly rising unemployment rates are one of the most dramatic consequences of COVID-19 in The Bahamas. Although the official figures have not been released,

[7] Estimates were published by ECLAC (2019).
[8] Based on the average consumer price index for the period.

the Prime Minister announced on May 10, 2020 that more than 25,000 persons have lost their job or their source of income since the beginning of the crisis.

Lower tourism receipts will have negative externalities on the external sector. The current account balance is expected to fall from 0.6 percent of GDP in 2019 to -12.7 percent in 2020. In contrast, lower international oil prices and fewer imports for the tourism sector are mitigating this reduction.[9] In addition, foreign direct investment (FDI) is expected to diminish by 4 percentage points, compared to the 2019 level, but this will vary based on the evolution of the pandemic in source markets such as the USA. Lower travel receipts and FDI will also put pressures on the level of international reserves, which stood at $1,994.9 million in March 2020. The Central Bank of the Bahamas has announced measures to temporarily suspend the repatriation of dividends, access to foreign exchange or currency purchases and financing of Bahamas Depository Receipts. The National Insurance Board (NIB) has also been requested to repatriate its external assets, excluding any exposures to Bahamas and Caribbean domestic issuers. To date the, banking sector presents enough buffers to absorb losses from the pandemic. However, the Central Bank has given commercial banks latitude to extend credit support above the ordinary prudential levels, relative to the debt service burden or down payment requirements.

PRODUCTIVE SECTOR

Prior to COVID-19, private sector development was constrained by a weak business climate. The Bahamas ranked 119th out of 190 countries in the 2020 Doing Business Report (scoring 59.9 out of 100). Registering property (ranking 181st out of 190 countries), trading across borders (ranking 161st of 190 countries) and getting credit (ranking 152nd of 190 countries) were the sub-indicators with the weakest performance. Lengthy and expensive processes to register property, high costs to import and export and the lack of a credit bureau or creditor registry contribute to these results. Contrastingly, the Bahamas performed well with regards to paying taxes, ranking 50th out of 190 countries in the relevant sub-indicator.

Following Acevedo, M.C, et al (2020), the Bahamas presents negative development gaps for private sector development in the areas of SMEs and financial inclusion, institutions, and climate change and environment.[10] The first two sectors reflect the weak business climate, specifically low levels of credit lines for SMEs, low scoring on the doing business indicators as well as on the sub-indicators of regulatory quality for private sector development and rule of law in the World Governance Indicators. The gap in the climate change and environment sector reflects the country's vulnerability to climate change and natural disasters, as measured by the Environmental Performance Index and highlights the importance of continued measures to prepare for the next hurricane season.

SOCIAL SECTOR

The Bahamas is classified in the "very high" human development category, which reflects a broad social security system. The Bahamas scored 0.805 on the 2018 multidimensional Human Development Index (HDI), ranking of 60th out of 189 countries. This result reflects a broad social protection system, which offers universal access health and education services (free at the point of service), contributory and non-contributory pension benefits and a broad range of social assistance programs which are spread out across various ministries. The authorities have been

9 The current account balance, which has averaged -11.3 percent in the past decade.

10 Acevedo, M., Borensztein, E. & Lennon, J. (2019) "Development Gaps: Methodological Innovations and Inclusion of Private Sector Indicators", Development through the private sector series N17, IDB Invest, April 2019. https://www.idbinvest.org/en/download/7579

The Development Gaps measures the difference between a country's economic or social indicator and the expected value of the indicator given the country's level of wealth. Gaps range from -100 to 100.

making use of these social services to channel support for COVID-19, as can be seen by the rising coverage of preexisting and new social programs in Figure 3.

FIGURE 3. COVERAGE OF PREEXISTING AND NEW SOCIAL PROGRAMS JANUARY-APRIL 2020

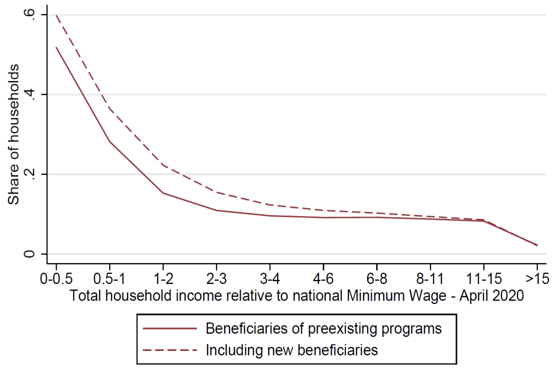
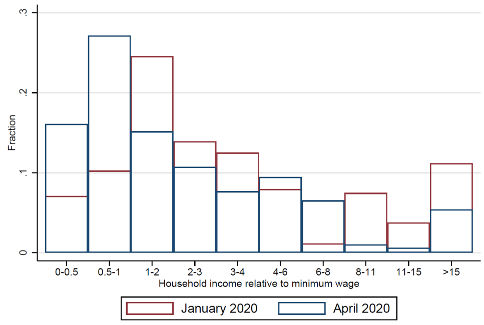


FIGURE 4. DISTRIBUTION OF HOUSEHOLDS BY INCOME JANUARY-APRIL 2020



Source: Bottan, N; Hoffmann, B; and Vera-Cossio, D. 2020. The unequal burden of Coronavirus pandemic: evidence from Latin American and the Caribbean. Working paper (forthcoming)

Despite the reduction of poverty in recent years, COVID-19 is resulting in a large shock to household incomes.[11] The most recent figures date back to 2014, which highlights the need for more updated data sources. Extreme poverty fell to 1.1 percent in 2014 (compared to 1.4 percent registered in 2011 and 2 percent recorded in 2012). Poverty levels also decreased, from 5.3 percent of the population in 2011 to 4.4 percent in 2014 and vulnerability declined more modestly, during the same period. Between 2011 and 2014, the bottom quintile of the population in the Bahamas was thus either in poverty or at risk of falling into poverty. On the upper end of the income distribution, approximately 16 percent of the population were consistently living on more than US$62 dollars per day over the period of study. As seen in Figure 4, the negative impact of COVID-19 on household incomes is resulting in a shift of the income distribution towards the left of the spectrum, with households who were no longer poor returning right back into poverty.

POLICY RESPONSE

The authorities have launched a wide range of health and safety, social, fiscal, financial and monetary measures. These are summarized in Column 1 of the table below. Based on the issues discussed in this brief, Column 2 presents recommended measures for the medium-term and long-term.

[11] Extreme poverty is defined as those earning below US$1.9 a day. Poverty is defined as those earning below US$5 a day and vulnerability is defined as those earning between US$5 and US$12.4 a day.

TABLE 1. POLICY RESPONSES TO COVID-19

Sector	Announced measures	Recommended measures
Health & safety	• Additional spending on the health sector; • Reduced population mobility with a 24h curfew and a lockdown, as well as the closing of public spaces; • Closure of domestic and international borders; • Disinfecting of public spaces and transport.	• Adapt plans for disaster response given health and safety requirements; • Prioritize the development of health and safety standards for the tourism industry; • Coordinate with other countries through regional initiatives in the health sector; • Contribute to regional efforts to maintain supply chains.
Social	• Food assistance programs; • Expansion of unemployment benefits; • Reconnection of electricity, water and sewerage services for all persons; • Launch and acceleration of training opportunities and the virtual learning program.	• Support supply chains within the country and reinforce social service provision in the Family Islands; • Prioritize training programs for active workers; • Study the potential for shock-responsive social protection systems for emergencies. • Support the generation and publication of socioeconomic indicators;
Fiscal	• Accelerated approval of capital investment projects; • Restriction of non-essential government expenses; • Tax deferral and employment retention program; • Additional transfers to Family Islands.	• Prioritize expenditure efficiency and effectiveness, particularly with the use of public expenditure reviews and other monitoring tools; • Attend to longstanding institutional challenges in fiscal policy, ensuring the revision of fiscal targets and the continued support of public financial management reforms.
Financial support to businesses	• Repayment deferral of credit facilities; • Short-term loan programs; • Payroll support.	• Support initiatives that increase digitization of services and reduce red tape. • Promote new schemes and instruments for SME's access to finance.
Monetary	• Temporary suspension of dividend approvals and outward remittances by foreign-owned supervised financial institutions. • Suspension of access to foreign exchange for investment currency purchases and financing of Bahamas depository receipts; • Request NIB to repatriate its external assets, excluding any exposures to Bahamas and Caribbean domestic issuers.	

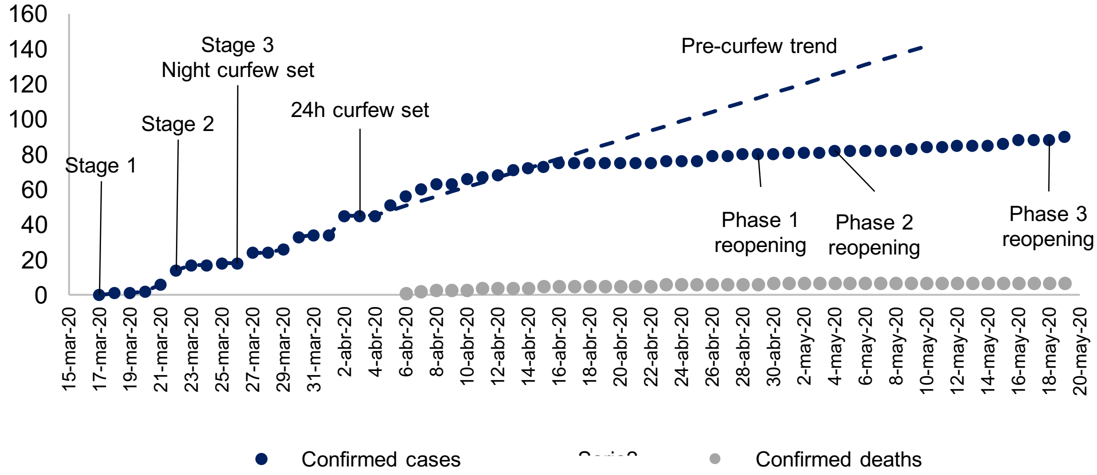
BARBADOS

LAURA GILES-ALVAREZ

CONTEXT

Barbados seems to be effectively flattening the curve. Since registering the first cases of COVID-19 in the second half of March 2020, the country has put in place strict measures to reduce the spread, including the imposition of a 24h curfew on April 3, 2020, and the cancellation of international flights and cruise vessels. As of May 19, 2020, the total cases reached 90 and total number of deaths was 7.[12]

FIGURE 1: NUMBER OF CASES AND DEATHS AND SELECTED POLICY RESPONSES



Source: Government of Barbados and https://ourworldindata.org/coronavirus-data

The authorities have taken a phased approach to the response. Measures were set across three phases, following WHO recommendations, and in response to the rise of reported cases in the country. A summary of the response measures can be found in Figure 1 and Table 1. On April 30th, 2020, the Prime Minister announced a plan to reopen the economy. An economic council has been assigned for this task and the authorities are prioritizing a consensual approach to the design of policies, including representatives of the private sector and the union in the decision-making process. Protocols to protect those most vulnerable to the disease are being designed and will be implemented during the reopening of the economy. Phase 1 commenced on April 30, 2020. Phase 2 started on May 4th, 2020, with the reestablishment of a larger range of services, the scale back of curfew hours to 8pm-5am and the reopening of beaches from 6am-9am. Phase 3 commenced on May 18th, 2020, which increases the number of services that can open and reduces the restriction on mobility.

[12] These figures must be interpreted with care, as they can vary based on each country's rate of testing and the reporting standards.

RECOVERY

MACROECONOMIC CONTEXT

Barbados is currently in the second year of a four-year Extended Fund Facility program with the International Monetary Fund (IMF), signed in October 2018. In April 2020, the IMF announced an additional US$90 million (on top of the US$290 million approved for the program) to meet rising financing needs during COVID-19, which will be disbursed in June 2020.

The economy contracted 3 percent in the first quarter of 2020. This majorly reflects a sudden stop in tourism arrivals and a slowdown of key sectors of the economy, such as wholesale and retail or financial services, due to the shutdown. Although the IMF initially predicted a real GDP contraction of 7.6 percent for 2020, more recent estimates suggest the contraction could be more severe, reaching double-digits. Lower travel credits are also impacting the current account balance, which contracted to -0.7 percent of GDP in the first quarter of 2020. The current account deficit in 2020 is expected to double compared to 2019 and reach 7.8 percent by the end of 2020. This will negatively impact gross international reserves, which reached $1,575 million in March 2020, (19.4 weeks of imports). To date, the financial sector remains solvent. Following the domestic debt restructuring in 2018, the financial sectors showed signs of recovery, with higher profitability indicators in 2019. However, domestic financial institutions will be negatively impacted by credit moratoriums and probable rises in non-performing loans, as households face increasing financial constraints.

The government reached the primary fiscal surplus target 6 percent of GDP in FY2019/20, but this target will be lower in FY2020/21. Due to COVID-19, the authorities have renegotiated the primary fiscal balance target for FY2020/21 from 6 percent to 1 percent of GDP. The debt-to-GDP ratio also declined to 118 percent of GDP at the end of March 2020, relative to 125.5 percent recorded at the close of March 2019. This is the result of the completion of the debt restructuring, as well as the continued payment of arrears and amortization. The debt-to-GDP ratio will likely rise slightly by the end of 2020, due to additional borrowing from international financial institutions to face the pandemic.

One of the most dramatic economic consequences of COVID-19 in Barbados is the rise of unemployment. Since the halt of tourism arrivals in March 2020, the National Insurance Scheme (NIS) processed 29,076 unemployment claims and has paid out over $11 million in unemployment benefits in four weeks. Unemployment claims are likely to remain high until the tourism sector resumes its activity. Inflation has also continued an upward trend, which commenced in the second half of 2019 with the rise of food and transport prices. Inflation reached 5.2 percent at the end of March 2020, compared to 2.5 percent registered for the same period in 2019. Going forward, low oil prices and falling average household incomes will have a subduing effect on inflation. This will be counteracted by possible increases in food prices (particularly if supply chains are affected by the pandemic).

PRODUCTIVE SECTOR

Barbados' private sector already faced constraints prior to COVID-19. Two of Barbados' key structural constraints to private sector development are a weak business climate and barriers to access finance.[13] Barbados' competitiveness, like that of many small island states, is constrained by its market size. It reduces competition, lowering aggregate productivity and contributing to a weak business environment. Barbados ranks 128th out of 190 countries (with a score of 57.9) on the World Bank's Doing Business report for 2020. It scores higher than the C-6[14] and OECS

[13] https://publications.iadb.org/en/barbados-time-change-country-development-challenges
[14] C-6 countries are the Inter-American Development Bank's Caribbean Department member states, The Bahamas, Barbados, Jamaica, Guyana, Suriname and Trinidad and Tobago.

countries on sub-indicators relating to resolving insolvency, registering property, and paying taxes. However, private sector operations continue to face challenges with respect to getting credit (ranking of 152nd), protecting minority investors (136th), enforcing contracts (170th) and dealing with construction permits (153rd). Firms, particularly small and medium enterprises (SMEs), also report barriers to accessing finance. These reflect high collateral requirements, administrative and documentation-related hurdles, and shortcomings in the institutional and regulatory framework.[15]

COVID-19 is having severe negative impacts on firms. Despite credit moratoriums and support programs for SMEs, a substantial share of firms in Barbados will be severely impacted by the lockdowns and halt on tourism services. Although the authorities had commenced key policy reforms to support a stronger business climate (such as the adoption of the Town and Country Planning Act or the establishment of the Sandbox regime), in practical terms there is little incentive for innovation and risk in the country. Given that tourism sector performance will likely remain subdued in 2020, it is thus important for diversification efforts to continue. The establishment of Ross University and the discussions on the continued development of the medical services industry are initiatives that the government could prioritize going forward. Labor intensive industries could also be prioritized to mitigate job losses.

SOCIAL SECTOR

Despite high social indicators, poverty will likely increase as a result of COVID-19. Barbados ranks 56th out of 189 countries in the Human Development Index (with a score of 0.813), above other countries in the region such as Jamaica (96th) or The Bahamas (60th). Yet despite a reduction in inequality prior to COVID-19, poverty had increased in recent years. The Gini coefficient reduced from 0.43 recorded in 2010 to 0.32 in 2016.[16] Between 2010 and 2016, overall household poverty increased, from 15.1 percent in 2010 to 17.2 percent in 2016. Whereas extreme poverty decreased from 6.8 percent to 3.4 percent during the same period. Poverty is also gendered. Overall poverty for females in 2016 stood at 21 percent, compared with 14 percent for males. As seen in Figure 2, COVID-19, results of a recently conducted survey by the Inter-American Development Bank show a shift the average household income towards the left tail of the income distribution.

FIGURE 2. DISTRIBUTION OF HOUSEHOLDS BY INCOME JANUARY-APRIL 2020

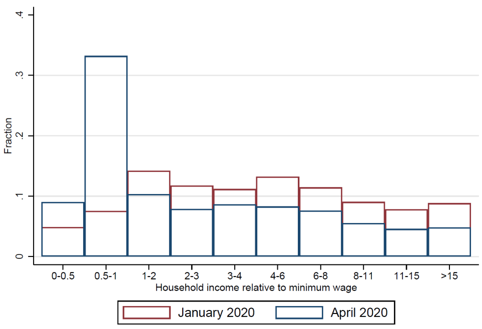
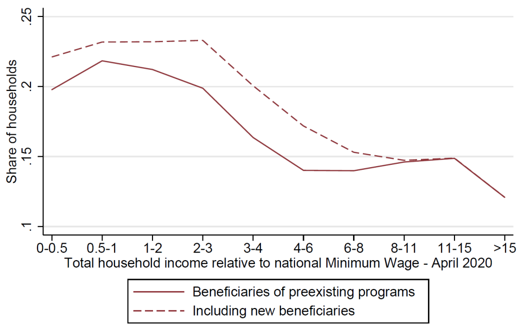


FIGURE 3. COVERAGE OF PREEXISTING AND NEW SOCIAL PROGRAMS JANUARY-APRIL 2020



Source: Bottan, N; Hoffmann, B; and Vera-Cossio, D. (2020). he unequal burden of Coronavirus pandemic: evidence from Latin American and the Caribbean. Working paper (forthcoming)

Barbados has broad and generous system of social services, including universal access to health and education services which are free at the point of service. Total budget expenditure on social programs reached approximately 34 percent of total government spending, prior to COVID-19. This is broken down into: i) social insurance; ii) social safety net programs and iii) public health

[15] For further discussion on these issues, please refer to https://publications.iadb.org/en/financial-access-and-inclusion-diagnostic-barbados
[16] The Gini coefficient ranges from 0 (complete equality) to 1 (complete inequality).

and education services. Although the coverage is widespread, the organization of social assistance projects is complex and largely uncoordinated, characterized by many small-scale programs that make limited use of technologies for the selection and monitoring of beneficiaries. The authorities have strongly relied on these programs to mitigate the impact of COVID-19 on livelihoods. As seen in Figure 3, the coverage of existing and new programs has increased between January and April 2020, particularly for lower income households. However, the social protection system was not designed to be adaptive and scale up so drastically in times of crisis. This is likely creating strains on the social system, which will prevail in the next few years.

POLICY RESPONSE

Since announcing the first set of response measures on March 20, 2020, the authorities have rolled out a set of response measures. These are presented in Column 1 in Table 1. Suggested measures related to the challenges presented in this brief can be found in Column 2.

TABLE 1. POLICY RESPONSES TO COVID-19

Sector	Announced measures	Recommended measures
Health and safety	• Additional spending on health; • Mobility restrictions due to curfew and closing of public spaces; • Increased domestic food production.	• Prioritize the development of health and safety standards for the tourism industry; • Participate in reginal initiatives in the health sector; • Contribute to regional efforts to maintain supply chains.
Social	• Increased transfers and support to vulnerable households; • Widen access to unemployment benefits; • Reconnect water and light services to all persons; • Provide housing for vulnerable persons.	• Promote coordination of and streamline social programs; • Encourage a greater use of technologies in social programs; • Ensure the continuous publication of data on socioeconomic indicators and social programs; • Study the potential development of shock-responsive social protection systems for emergencies.
Fiscal	• Increased fiscal envelope by renegotiating EFF targets; • Continuation of key capital spending; • Pursue an oil hedging strategy; • Tax refunds; • Provide financing to the NIS.	• Continue monitoring spending and designing fiscal efficiency and effectiveness measures. • Prioritize the development of metrics on efficiency of spending.
Business sector and financial support	• Moratorium on credit repayments for individuals and businesses; • Financial support to affected sectors such as tourism and the arts; • Employment retention and tax loan programs; • Removal of banking fees for sectors of the population; • Establishment of a Doing Business Committee to design private sector support measures.	• Implement measures that reduce red tape; • Foster a greater use of technologies for the private sector; • Reinforce the regulatory and institutional frameworks for the financial sector; • Support the availability of information regarding credit and related counterparty risks; • Develop a coordinated approach for institutional and policy reform to promote financial inclusion.
Monetary	• Reduction in the Central Bank's discount rate for overnight lending; • Reduction in the securities ratio for banks; • Elimination of the securities ratio for non-bank deposit-taking licensees; • Collateralization of loans for six months.	

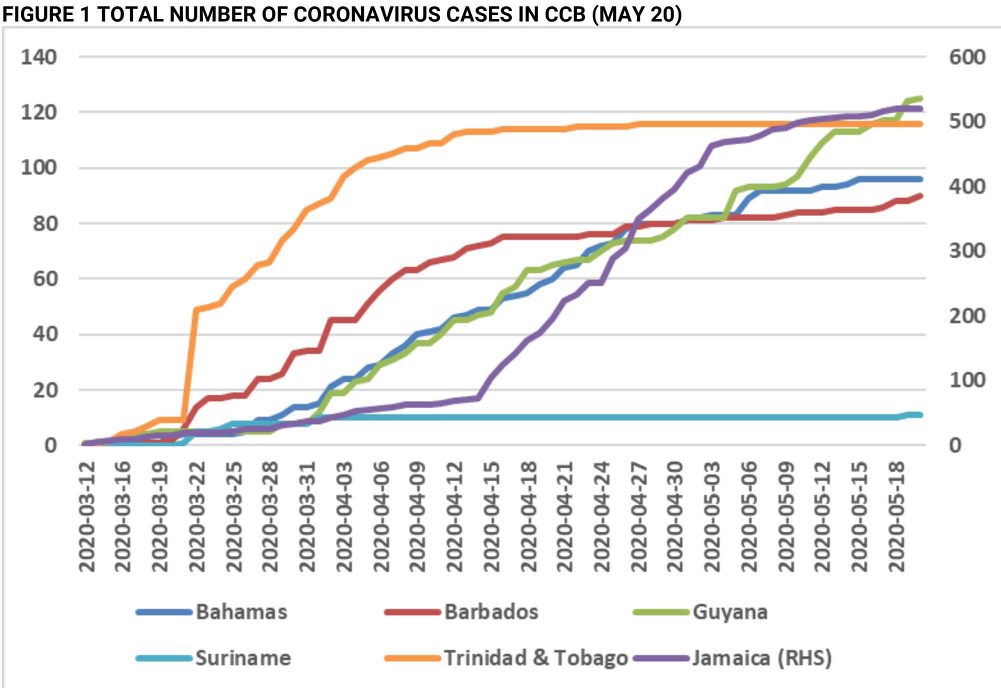
GUYANA

VICTOR GAUTO AND ELTON BOLLERS

CONTEXT

Evolution of the outbreak: After spreading through Asia, Europe, the United States, and South America, the first case of coronavirus was identified in Guyana on March 11. As of May 20th, the total number of cases has grown to 125 cases, including 10 deaths. There is a total of 69 active cases, all in institutional isolation, and 6 contacts of active cases in institutional quarantine. Also, there are currently 3 people that are hospitalized. In May, Guyana surpassed Barbados with 90 cases, The Bahamas with 96 cases, and Trinidad & Tobago with 116 cases but remains behind Jamaica with 520 cases (Figure 1). Though testing in Guyana has increased to 1,269, this represents 1.6 tests per 1000 people, compared to 2.9tests in Jamaica, 1.9 in Trinidad & Tobago, 4.6 in Bahamas, and 15 in Barbados.

FIGURE 1 TOTAL NUMBER OF CORONAVIRUS CASES IN CCB (MAY 20)



Source: ourworldindata.org

Economic impact: The main economic transmission mechanism of the crises is expected through its impact international commodity prices, namely oil and gold, as well as the potentially contracting effects of the social distancing measures. Guyana, which began producing oil in December 2019, was originally estimated to export approximately US$ 2.4 billion worth of oil in 2020. With the current context of low oil prices, that estimate has now declined to US$ 1.3 billion, which has significant implications for GDP growth and government revenues (IMF – WEO, April 2020). Employment in the services sector, which comprises approximately 54% of GDP, is also expected to be affected due to limitations in movement and weakened consumer confidence (Bank of Guyana, 2018).

Overview of policy response: In Guyana, the health situation and context of low oil prices has been compounded by unresolved regional and presidential elections that were held on March 2 and are currently undergoing a recount of the election ballots. Despite this challenging political environment, the government responded to the crises by adopting the following measures: (1) the suspension of all school activities until further notice; (2) closure of the two international airports

(3) creating the National Coronavirus Disease Task to coordinate the government's action plan (4) granting of special powers to the Ministry of Health to prevent and control the spread of the disease, and (5) on April 3, the government announced a month-long restriction on public gatherings and movement, which includes only essential service businesses remaining open and an evening curfew. Additionally, the Civil Defense Commission (CDC) has provided relief by providing a month's worth of food supplies across 25 communities in the country, reaching 1,759 households and over 700 people with disabilities. More recently, the Ministry of Business announced the availability of relief grants administered through the Small Business Bureau.

Unwinding moving restriction: There are currently no publicly discussed plans to unwind restrictions. While the current number of identified coronavirus cases and hospitalizations is relatively low, the government was working with an estimate of approximately 20,000 coronavirus cases in the near-term, with 5% expected to need hospitalization. This contributed to enhancing the government's efforts to strengthen the health system by supporting the development of hospital infrastructure to absorb potentially more coronavirus patients. The initially month-long limitation on movement was extended to two months and is set to expire on June 3rd.

RECOVERY

MACROECONOMIC CONTEXT

Despite uncertainties related to the coronavirus, oil prices, and the outcome of the presidential elections, Guyana's outlook remains positive due to the sheer volume of expected oil production. Guyana has benefited from significant macroeconomic stability, with stable GDP growth, low inflation rates, and steady growth before the onset of oil production in 2020. GDP grew by 3.6% on average in 2017-2019 expanding to 4.7% in 2019. The fiscal deficit and public debt levels were also moderate, averaging 4.2% and 53.5% of GDP in the same period. Before the international crises, oil production was expected to contribute to a GDP growth rate of 85.6% in 2020, as well as government revenue and expenditure growth rates of 25.9% and 12.5%, respectively, with the fiscal deficit falling to 0.6% of GDP (IMF Art. IV, 2019).

FIGURE 3 SELECTED INDICATORS

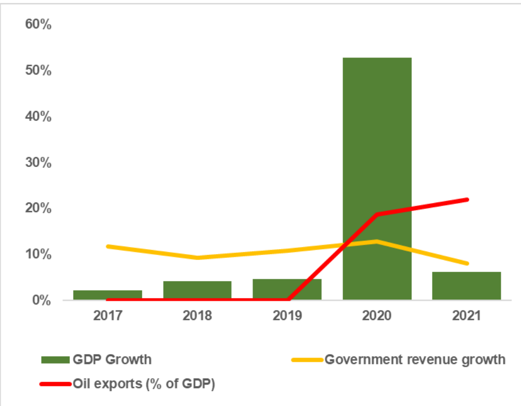
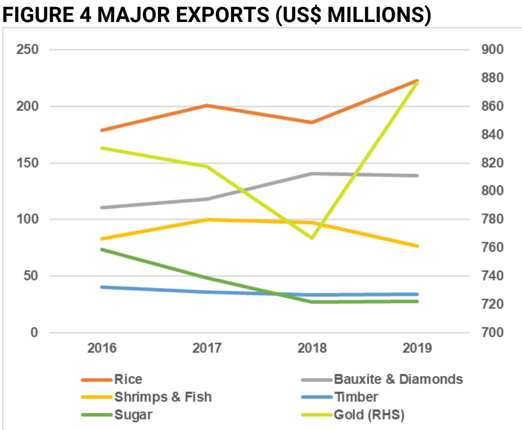


FIGURE 4 MAJOR EXPORTS (US$ MILLIONS)



Source: IMF – WEO, April 2020, Bank of Guyana, 2020; Guyana Bureau of Statistics.

The updated GDP growth estimates are lower but remain significantly positive. The IMF now estimates the economy will grow by 52.8% in 2020 and 6.3% in 2021, which suggests that lower oil prices have deep implications for growth considering oil production levels are not expected to decline and that the non-oil economy is also expected to endure important adverse effects. All other economies in Latin America and the Caribbean are expected to contract in 2020. Oil exports are expected to represent approximately 20% of GDP in 2020 and 2021, which would contribute to

doubling Guyana's total exports (Figure 3). Government revenues are estimated to increase by 12.8%. However, government expenditures are expected to slightly decline in 2020 due to falling capital expenditures, potentially related to the political situation, leading to an overall fiscal balance of -0.3%. Government expenditures are expected to recover in 2021, growing by almost 15%, contributing to a greater fiscal deficit of 1.7%.
The main macroeconomic policy reforms that have been introduced in the near term include the creation of the Natural Resource Fund in January 2019, which is designed to hold all oil-related government revenues. The NRF is held in the Federal Reserve Bank of New York and has already received income from oil sales and royalties, currently holding a balance of approximately US$ 60 million. The overall macroeconomic framework could be even further improved by expanding the fiscal framework to include a medium-term expenditure framework and a fiscal rule. A medium-term expenditure framework would promote fiscal discipline and efficiency, while a fiscal rule, which imposes a constraint on spending in the annual budget process, would contribute to preventing debt-financed spending which could erode the savings in the NRF. Moreover, the government plans to continue strengthening the oil and gas legal and regulatory framework by making plans to update related legislation and strengthen contract management.

PRODUCTIVE SECTOR

The business climate, as measured by the World Bank's Doing Business Indicator, remains a challenge. Guyana ranks 134 out of 190 countries and has an overall score of 55.5.[17] This signals that, to harness the benefits of the oil revenues for the whole economy, several challenges need to be addressed to support private sector development. The main areas that the private sector identifies as constraints to doing business include electricity, telecommunications, tax rates, inadequately educated workforce, and corruption, crime, and political environment, among others (IDB, 2014). The challenges in telecommunications and digital technologies are underscored by the fact that in only 37% of the population used the internet in 2017 compared to the Latin-American and Caribbean (LAC) average of 62 (WDI, 2019). This has clear implications for productivity, competitiveness, and now online learning.

Human capital formation in Guyana lags regional averages and represents a challenge in the face an economy increasingly demanding highly skilled workers. According the United Nations Human Development Indicators, Guyana had a Human Development Index (HDI) of 0.67 in 2018, which was lower than the LAC average of 0.76.[18] If businesses that are growing and investing in Guyana cannot fill their labor demand needs in the country, they will seek to import them from abroad. This does not only represent a challenge for Guyana, but also an opportunity for local workers to gain participation in Guyana's labor market, where the labor force participation rate is 57% compared to the LAC average of 64%. It is also an opportunity to develop a labor immigration policy, including considerations for knowledge transfer. Technical and vocational institutions will play a key role over the medium-term to reconcile private sector labor demand with current educational offerings.

The current international context highlights the significance of economic diversification and supporting Guyana's traditional productive sector while promoting regional integration. Guyana has not yet developed a dependency on oil revenues and is relying on the traditional productive sectors of mining and agriculture to support macroeconomic stability. Figure 4 above shows Guyana's main exports over the past three years, with gold leading exports with average annual export earnings of approximately US$ 820 million and rice and fish export earnings of approximately US$ 290 million on average. The sum of these exports is approximately 90% of expected oil exports in 2020. The mining sector is currently benefiting from lower fuel and higher gold prices. Introducing policies to support mining and agriculture and creating more value-added productive linkages would contribute to greater private sector activity and buffer the economy

[17] The ease of doing business score measures the gap between an economy's performance and best practice and serves as the basis for the ease of doing business rankings.
[18] The Human Development Index varies between 0 and 1 and is a summary measure made up of life expectancy at birth, an average of expected and average years of schooling, and gross national income per capita.

against external shocks. Considering current supply-chain disruptions originating in China, this is also an opportunity to grow regionally and support food security in the Caribbean.

SOCIAL SECTOR

Although poverty rates have declined, they remain relatively high and geographically uneven. A recent measure estimated the poverty rate in Guyana to be 41.2% in 2017, based on a poverty line of US$ 5.50 a day using data from the Guyana Labor Force Survey. Although this poverty rate exceeded regional averages of 26.54% (Beuermann and Schwartz, 2018), it was potentially lower than the previous measure of 2006, which estimated the poverty rate at 36.1% based on a poverty line of about US$ 1.90 a day. The poverty data also captures disparities within Guyana. Since 89% of the population lives along the coast (2012 Census) and the remaining 11% of the population resides in the rural interior, rural interior areas recorded a poverty rate of 55% in 2017 (Beuermann and Rei, 2018). As economic activity declines from limited movement and social distancing, these disparities may be exacerbated in the near term.

Women may be increasingly vulnerable in a slowing economy. In 2018, the unemployment rate in Guyana was estimated at 12% (10% male vs. 16% female). Youth unemployment was estimated at 23% (WDI, 2019). Similarly, while women may have similar or higher levels of education than men (71% of women over 25 have at least some secondary education compared to 55% of men; UN Human Development Indicators, 2018), women have lower labor participation rate, estimated at 41% in 2018. This is relatively low compared to 52% in LAC and male labor participation in Guyana of 74% (WDI, 2019). The post coronavirus recovery phase could benefit from policies supporting greater participation of women in the labor market.

Finally, the government has several social programs which could be used as a basis or expanded to support the recovery efforts. The main cash transfer programs are the Old Age Pension (OAP) and the Public Assistance Program. According to IDB reports, OAP is a non-contributory universal pension currently benefitting approximately 56,000 people with a benefit of US$ 98 per month. The Public Assistance Programs has an approximate benefit of US$ 43 per month and has 11,000 beneficiaries. Expanding these programs or creating special ones to accompany the pandemic would go a long way to providing relief to vulnerable groups and speed the road to recovery.

JAMAICA

JASON CHRISTIE AND HENRY MOONEY

CONTEXT

Evolution of the outbreak. As of May 6th , 2020, 473 cases of COVID-19 had been confirmed in Jamaica. Despite concerted efforts by the government to stem transmission of the virus from abroad, as well as domestic measures to slow transmission within the country, it is widely expected that more cases will be identified as the virus continues to spread, and as testing capacity increases. As of May 6th, 2020, the Government of Jamaica (GOJ) reported 9 deaths attributable to the outbreak, out of the 473 identified cases—a rate of mortality of about 2 percent. It also reported that about 6000 tests had been administered.

Economic impact. For Jamaica specifically, our analysis suggests that the crisis will have profound implications for economic performance in 2020 and beyond. Prior to the crisis, real GDP growth for FY2020/21 was projected to be about 1.1%, set against the backdrop of expected strong domestic conditions and buoyant external demand for tourism and commodities (e.g., bauxite). The nature of the unfolding COVID-19 crisis is such that it is likely to affect a few key sectors of Jamaica's economy. First among these is the tourism sector, which accounts for a very large share of both total economic output and employment (34% and 31%, respectively)—Jamaica ranks 16th globally in terms of countries' economic dependence on the sector. Of the 4.3 million tourist arrivals in 2017, about 43% were from cruise ships—the sector most directly and profoundly impacted by the crisis. In addition, a large proportion of tourism arrivals to Jamaica originate from the United States, Canada, the United Kingdom, and other European countries—all of which have been hard hit by the crisis, forcing them to invoke unprecedented travel restrictions. In this context, the implications for Jamaica's most significant economic sector are without historical precedent. Given the weight of the sector, our simulations suggest that a prolonged crisis could reduce output relative to pre-crisis expectations by an appreciable magnitude.

Overview of policy response. The government has taken an active stance in responding to the crisis. This stance can be broken down into three general categories: (i) efforts at the border; (ii) measures to stem transmission domestically; and (iii) policies to mitigate the impact of the shock (both in terms of health services and economic stimulus for affected sectors).

- *Border measures:* On March 16, 2020, the government advised that all travelers from countries where there is local transmission of COVID-19 would be required to self-quarantine for up to 14 days. On March 21, the government took a more proactive step by closing Jamaica's air and seaports to incoming passenger traffic, though outgoing passengers and cargo would continue to be allowed. Special arrangements are being made for compassionate and repatriation flights, particularly for foreigners who found themselves in the country after restrictions were imposed.

- *Domestic measures:* The government has mandated that any person displaying symptoms of the virus will be immediately isolated in facilities at a public hospital. Only essential services have been permitted to remain open, and all other residents have been urged to stay indoors apart from necessary movements. Other measures include the deployment of additional isolation facilities for moderate cases and enhanced public security measures. Curfews and more restrictive measures have been implemented in parts of the country where outbreaks have been more acute.

- *Economic policy measures:* The Bank of Jamaica and the GOJ have undertaken several economic measures to dampen the impact of the crisis on key sectors. These measures continue to evolve in light of developments, and so far, have included a broad spectrum of fiscal, financial, and other measures aimed at supporting the key sectors most directly

affected. Key actions announced thus far include (i) broad-based tax cuts and related subsidies; (ii) financing and grant facilities to support the most affected sectors (both businesses and persons); and (ii) the suspension of import taxes for critical medical and other supplies. The government has also requested balance of payments support linked to the crisis from the International Monetary Fund via its Rapid Financing Instrument, in the amount of about US$520 million, which has been approved by the IMF's Board. With respect to monetary policy, the central bank—the Bank of Jamaica (BOJ)—has announced that it will reduce the reserve requirement for both domestic and foreign currency reserves, while maintaining its policy rate at the pre-crisis level of 0.5 percent. The BOJ has also focused on measures aimed at supporting domestic financial institutions, including the relaxation of rules regarding both the volume of liquidity that can be provided by the central bank (e.g., via the discount window and short-term repo facilities) and the types of assets that can be used as collateral for related transactions. Both the central government and the central bank have stated that they will continue to adapt their policy response to evolving conditions, making it likely that more stimulus and support measures will be undertaken before the crisis dissipates.

Unwinding Restrictions. At present, the GOJ continues to pursue a policy of containment. As noted above, the number of cases continues to rise, as testing capacity has not yet reached the level required to develop a full picture of the level of transmission within the population. In this context, while authorities have noted that they are working towards a reopening strategy that would be consistent with World Health Organization guidelines, they have yet to reach the point where this would be actionable.
In terms of cases, as of May 6th, 2020, the GOJ reported 9 deaths attributable to the outbreak, out of the 473 identified cases—a rate of mortality of about 2 percent. It also reported that about 6000 tests had been administered, with more to be deployed as the supply of tests and required personnel become available.

In terms of key measures undertaken by the government, authorities declared a state of emergency, as well as a number of measures and restrictions aimed at curtailing spread of the disease. First, the government imposed what it defined as a Disaster Risk Management Order, outlining measures restricting business operations and consequences for noncompliance. Subsequently, schools were ordered closed, as well as churches, parks and some close contact nonessential businesses. Other nonessential businesses have broadly ceased operations.

A nationwide curfew followed to further curtail social gathering, while the government also imposed mandatory stay at home orders for persons over 70. The government also ordered all external borders closed to incoming passengers. Upon discovery of a localized outbreak at a business process outsourcing facility in the Parish of St. Catherine, an immediate closure of the parish was ordered, restricting travel to and from the area, as well as the mandatory use of masks in public spaces throughout the country.

RECOVERY

MACROECONOMIC CONTEXT

Just prior to the COVID-19 outbreak, Jamaica had successfully graduated from IMF support in November 2019, with a stellar record of achievement over 6 years of intense fiscal consolidation and reform. At the time, authorities and the exiting IMF team concurred that progress under two successive Fund-supported programs in place since 2013 has exceeded all expectations (and most quantitative performance objectives), and that Jamaica was ready to move forward without a successor IMF arrangement. Notable achievements since 2013 include a reduction of the public debt-to-GDP ratio from 146 percent to 94 percent (at end-FY2018/19); the shift from a managed to a floating exchange rate regime; implementation of a functioning inflation targeting framework in 2017; and, a strong improvement of external buffers.

In this context, Jamaica enters this new period of unprecedented economic challenges with considerably more options and resilience than might have been the case several years ago. Importantly, debt reduction and fiscal restraint were accompanied by durable fiscal institutional reforms, aimed at ensuring that policies remain prudent, even in the wake of crises. Related reforms include the development and implementation of a fiscal responsibility framework in 2014, with quantitative targets for budgetary outcomes and debt reduction—including escape clauses that can be used in the event of economic crises—, as well as broader improvements in processes, capacity, and legislation. Looking forward, authorities have also initiated further institutional reforms aimed at enhancing prudence, including work towards an independent fiscal council, as well as reforms of the central bank that will increase its independence and insulate it from possible pressure to finance the government in future.

The GOJ is currently in the process of updating its medium-term fiscal plans, which will be made public via a supplementary budget announcement (not yet tabled). This revised fiscal program should detail additional measures aimed at confronting the crisis and provide clarity regarding the financial consequences of the shock for revenues, expenditures, and financing expectations. Regardless, the government's long track record of primary fiscal surpluses (averaging over 7 percentage points of GDP since 2014) have provided Jamaica with considerable fiscal space to deploy towards health and support measures.

On the monetary policy front, policy flexibility is somewhat constrained by both the new inflation targeting regime, and policy conditions that prevailed prior to the crisis. While the Bank of Jamaica (BOJ) has undertaken a number of prudent policies in terms of providing additional liquidity to the banking sector, its scope for activating its main policy instrument is limited by the fact that the policy rate stood at 0.5 percent prior to the crisis. The BOJ has, however, chosen to reduce both domestic and foreign currency reserve requirements for deposit taking institutions to help support market liquidity, and may still decide to reduce policy rates, and/or undertake other balance sheet measures, including asset purchases.

As noted, the GOJ has undertaken a broad spectrum of prudent policies thus far. As authorities continue to contemplate additional measures, they should remain focused on targeted and temporary interventions aimed at addressing specific dislocations brought about by the crisis. These should remain consistent with the existing institutional framework and be guided by the need to both preserve productive economic assets and ensure that macroeconomic and fiscal sustainability is maintained. In particular, the flexible exchange rate regime set in the context of an inflation targeting monetary policy framework should be allowed to operate freely, with the central bank only intervening to address any dislocations in the market, rather than in an attempt to influence the exchange rate itself. This will be crucial to safeguard reserves and confidence in the institutional framework, and to allow the exchange rate to operate as a stabilizer in the face of external shocks.

Similarly, the government should take full advantage of the flexibility already embedded in the fiscal responsibility framework to respond to the crisis. As noted, prudently designed temporary measures can go a long way towards preventing the virus from taking an unwarranted toll on the population, supporting the health sector, and replacing incomes of those who are most vulnerable and directly affected by the crisis. Doing so will ensure that the stock of productive human and economic capital remains intact to support a rapid resumption of growth. Similarly, temporary and targeted measures will also help to ensure that the government can resume its efforts to reduce the debt to GDP ratio to below 60 percent over the medium term, as stipulated under the fiscal responsibility framework.

PRODUCTIVE SECTOR

Jamaica's private sector has benefited tremendously from recent progress towards macroeconomic and fiscal sustainability. Prior to 2013, the economy had been characterized by high debt levels, slow growth, high and volatile rates of inflation, and other policy-driven distortions that adversely affected investment conditions and the business climate. Government reforms of both economic policies and institutions from 2013 through the end of the IMF-supported program in late 2019 were also accompanied by efforts to streamline administrative and other legislative burdens facing businesses. Many of these initiatives were supported by the IDB and other development partners.

In this context, investor and business confidence in Jamaica had risen to unprecedented highs prior to the crisis. Similarly, reduced public borrowing needs from debt consolidation led to a 'crowding in' of private investment, as domestic financial institutions that had historically directed most of their lending capacity to the public sector began to seek new credit and investment opportunities. Growing optimism and confidence had supported private sector activity.

While the implications of the current crisis for the private sector are difficult to determine, the economy's significant dependence on tourism implies that the shock will be both widespread and profound. Looking forward, the current crisis highlights vulnerabilities associated with dependence on sectors volatile sectors such as tourism, and the need for economic diversification. In this context, key objectives should include the following:

- *Safeguarding macroeconomic stability and fiscal sustainability*. The most significant priority going forward must be to safeguard improvements in macroeconomic management and fiscal sustainability achieved in recent years.
- *Improving the business climate.* The GOJ's focus on improving conditions for businesses, including by streamlining administrative requirements and facilitating investment, should continue to be high on the reform agenda. Improvements thus far have helped with Jamaica's scores on the World Bank's Doing Business indicators, and related measures. They also helped usher in the highest recorded levels of investor and business confidence prior to the crisis, as well as record levels of investment in the local stock market (Jamaica's local market was the best performing in the world in 2019).
- *Enhancing infrastructure.* One unfortunate consequence of the current crisis is that the GOJ will be forced to deemphasize its public infrastructure and investment objectives. The fiscal and debt reduction priorities of the past several years had forced authorities to postpone related objectives. Looking forward, a prudent and prioritized augmentation of public investment will be crucial to support private sector development, including to improve domestic and trade-related infrastructure, as well as facilitate agricultural and manufacturing sectors.
- *Public sector reform.* Along similar lines, faster progress with public sector rationalization and reform will facilitate a reduction of the wage bill, providing resources for public and social investments, as well as for debt reduction. Furthermore, reforms of processes and technology adoption will improve service provision by the public sector, and facilitate investment and business operations (e.g., tax compliance, payments, registration, etc.). Many of these initiatives are supported by cooperation and lending projects led by the IDB.

SOCIAL SECTOR

Evolution of income distribution. The population living in poverty decreased from 18.7% in 2000, to a recorded low of about 9.9% just prior to the global financial crisis in 2007. Poverty then increased rapidly following the onset of the crisis and related shocks to Jamaica's economy to about 21.2% by 2015, before beginning to moderate as reform efforts took root and economic conditions improved, reaching about 19.3% in 2017 (latest available data). Recent research also

finds that children account for almost one-half of those living below the poverty line in Jamaica. Data for other income categories (e.g., middle- and high-income groups) were not available. The prevalence of poverty in rural areas is higher than for urban regions, standing at 20.1% and 17.1% in 2017, respectively. This disparity between rural and urban poverty has been contracting over time, which may be attributable to migration from rural to urban areas, as evidence by increasing population densities in major cities. The informal sector, when last estimated, was thought to represent approximately 42 percent the economy (IDB, 2006).[19]

Indices of income and gender inequality. The GINI index—where a coefficient of zero implies perfect equality, and 1 implies perfect inequality—has decreased slightly from about 0.39 in 2010, to about 0.37 in 2017 (latest available data). Similarly, there has also been a modest improvement in the Gender Inequality Index (GII) between 2010 and 2017—where a coefficient of zero implies perfect equality, and 1 implies perfect inequality—from 0.46 in 2010 to about 0.41 in 2018. In this context, measures of employment point to gender-based inequities, with female unemployment standing at about 18.2% in 2016, compared to male unemployment of 9.2% the same year. In terms of educational disparities, male and female secondary school enrollment rates differed modestly, standing at about 69.2% and 76.9%, respectively, in 2015. Male and female tertiary school enrollment rates differed more starkly, standing at 20.1% and 34.6%, respectively, in 2015. Health disparities across genders are also apparent, with mortality rates for children under 5 years of 17.6% and 13.7% for males and females, respectively, in 2015.

Policies and programs linked to inequality. Improvements in economic stability and performance in Jamaica since 2013—e.g., stronger growth, lower inflation and interest rates, and record low levels of overall and youth rates of unemployment—are certain to have contributed to improved outcomes with respect to poverty and inequality. This period has also coincided with increases in government social expenditures, as fiscal consolidation and lower debt service payments released resources for other priority outlays. For example, government spending on social security and welfare increased from about JM$1 billion in 2004, to JM$16 billion in 2018.

Challenges and focus for the post-crisis environment. The most important challenge facing the government in terms of improving socio-economic outcomes in the wake of the crisis is to maintain macroeconomic stability and sustainability. In that context, taking an active stance in combating the economic shock, with a focus on replacing incomes for the most vulnerable populations affected by the crisis, as well as ensuring that productive economic assets (human and corporate) are insulated such that they are able to resume operation after the crisis will be important. Similarly, ensuring this is done without unduly compromising long-term fiscal sustainability will also be crucial. With respect to more specific social policies, further progress towards the development of a comprehensive system of social safety nets would also be desirable. For example, unemployment insurance does not exist, and the system of pensions is not well coordinated between public and private providers, where participation rates remain low. In this context, development of such systems would help to improve living conditions for the most vulnerable, and as in other countries provide incentives for persons to abandon informal work and opt instead for formal employment. While this would involve the payment of taxes or registration of businesses, it would also make available social benefits, thus providing positive incentives to all Jamaicans to formally participate.

[19] IDB, 2006, Informal Economy in Jamaica, Economic and Sector Study Series: RE3-06-010

SURINAME

JEETENDRA KHADAN

CONTEXT

Evolution of the outbreak. Suriname confirmed its first imported COVID-19 case on March 13, 2020. As of May 18, the authorities confirmed a total of 11 cases, including 1 COVID-19 related death and 9 recovered, 576 persons in quarantine and 1 active case. Overall, the country recorded the lowest number of confirmed cases among CCB countries. The rate of COVID-19 tests performed is also relatively lower than other Caribbean countries. As of May 1, Suriname reported a rate of 689 tests (per million population) which is higher than Guyana's (660 per million population), but lower than the rate for Barbados (6,977 per million population), Jamaica (1,348 per million population), and Trinidad and Tobago (1,203 per million population). The eastern border with French Guiana (Marowijne, Lawa and Tapanahony rivers) is of great concern for further spread of the virus in Suriname and its being monitored by both Surinamese and French authorities.

Economic impact. The main transmission channels of the ongoing shock for Suriname will be through commodity prices (gold and oil), with second round impacts on domestic economic activity through social distancing measures and travel restrictions. The ongoing shock would push Suriname's economy into a recession in 2020, with large fiscal and external imbalances expected over the short-term. Also, social distancing measures have led to temporary job losses. Poverty hikes and increase in income inequality is expected. Businesses operations in vulnerable sectors such as construction, hotels and restaurants, retail and transportation are being significantly affected, and there is the potential for long-term scarring effects on small and medium enterprises.

Overview of policy response. Suriname has implemented several measures to curb the spread of COVID-19 including; (i) restrictions on social gatherings, (ii) temporary curfew, (iii) closure of all schools and universities, (iv) no in-restaurant dining (take-away services are allowed), and (v) controlled access to markets and supermarkets. Ongoing socioeconomic policies are focused on ensuring that the distribution of basic supplies, crucial government services and utilities continue during the COVID-19 pandemic. In that regard, the government established a National Response Plan to combat COVID-19 which includes the creation of a National COVID-19 Management Team. The authorities established a SRD400 million Emergency Fund to finance social support measures including housing related expenses. A separate SRD300 million Production Fund was established to support small and medium-sized enterprises. The Emergency Funds will manage both national and international resources obtained for tackling the pandemic. Social support measures for vulnerable groups (senior citizens, persons with disabilities, small and micro enterprises, persons living in the interior, bus drivers, boatmen, artists, and so on) have been announced for a period of six months. Packages (food and basic items) have already been provided to vulnerable groups—as of May 4 over 2300 food packages were reported to have been delivered to villages in the interior of Suriname. Also, the Central Bank of Suriname (CBvS) has temporarily lowered the local currency cash reserve requirement from 35 percent to 27.5 percent. This measure will enable commercial banks to provide new short-term loans to private sector companies and to individuals affected by the COVID-19 pandemic at a special interest of 7.5 percent per year, which is significantly lower than the current market interest rate (the estimated average lending rate was 14.5 percent in March 2020). The CBvS will also allow commercial banks to grant 3 to 6 months deferral of payments to companies and individuals who are affected by the COVID-19 pandemic.[20]

Unwinding moving restrictions. The government of Suriname has started the process of unwinding COVID-19 restrictions. On May 9, the government announced the following actions will be taken from May 10 while maintaining all hygiene measures: (i) an extension of the lockdown from 6 pm to 6 am on the eastern border of the country until May 17; (ii) the partial lockdown in the rest of Suriname will be adjusted from 8pm to 6am to 11pm to 5 am; (iii) social gathering is

[20] See https://www.starnieuws.com/index.php/welcome/index/nieuwsitem/58702

extended to a maximum of 50 people subject to compliance with order and hygiene measures; (iv) homes for senior citizens and orphanages will be allowed to receive limited family visits from May 17 subject to strict health regulations; (v) public transportation remains closed until further notice; (vi) the National COVID-19 Management Team will hold discussions with the business sector and other organizations (food and beverage industry, sports centers, religious organizations, entertainment venues and the transport sector) from May 11 to outline the conditions that they must meet in order to restart their operations; (vii) the Ministry of Education, Science and Culture is working on a plan to restart at least the exam classes, at all levels, from 1 June; and (viii) the government is preparing a plan with the support of international organizations to ensure that appropriate measures are implemented to facilitate an orderly general election on May 25.

RECOVERY

MACROECONOMIC CONTEXT

The economy, pre COVID-19, was characterized by weak fiscal buffers, large external imbalances, low growth, low international reserves and banking sector vulnerabilities.

Suriname is experiencing its second major shock within a six year period. The country's economy went into a deep recession in 2015 following a sharp decline in the price of its main export commodities (gold and oil) and cessation of alumina production. This contributed to a 9 percent contraction in real GDP from 2014 to 2016, accompanied by relatively large fiscal and external imbalances, high double-digit inflation and a rapid buildup of debt. The improvement in commodity prices and especially gold production helped return growth to positive territory, averaging 1.9 in 2017-2019. However, fiscal and debt positions continued to deteriorate after 2015 with fiscal deficits averaging 8 percent of GDP for the period 2015 to 2019, and central government debt reaching 78 percent of GDP in 2019. There are also banking sector vulnerabilities with low profitability (0.7 percent return on assets) and high non-performing loans (12.5 percent of gross loans).[21]

Macroeconomic conditions are expected to worsen in the short-run. The IMF is projecting a 5 percent contraction in real GDP for Suriname in 2020. The precarious external position of the country is characterized by persistent current account deficits (estimated at 10.7 percent of GDP in 2019 and it is projected to increase to 12 percent of GDP in 2020), low international reserves, high foreign currency denominated debt (about two-thirds of total debt), and a *de facto* peg to the U.S. dollar with a high and increasing parallel market rate (current parallel market premium is estimated at 134 percent). As of March 2020, the inflation rate increased to 17.6 percent (year-on-year) and it is expected to reach 49 percent in 2020. The fiscal deficit is projected at 6.9 percent of GDP, but the deficit could reach double digits as the authorities roll out recently announced fiscal measures. In light of larger deficits, lower growth and a potential exchage rate adjustment, the central government debt is expected to increase in 2020. Already, Suriname's sovereign credit rating was downgraded with a negative outlook by Standard and Poors (CCC+), Moodys (B3) and Fitch (CCC) in the first half of 2020.

Post COVID-19, restoring fiscal and broader macroeconomic stability should be the centerpiece of a broader multisectoral policy agenda. Policies to strengthen public finance institutions in the short term would be critical to put the fiscal and debt ratios on a sustainable path. Fiscal reforms should focus on measures to strengthen debt management, medium term fiscal planning, tax and customs administration, public investment management, public procurement practices, management of commodity-related revenues, with a view to achieving macroeconomic stability. Moreover, undertaking interrelated structural reforms to improve private sector competitiveness, provide social protection, stimulate growth and investment would be crucial to support broad-based economic recovery and social development post COVID-19.

[21] See International Monetary Fund (IMF), 2019. Article IV Consultation with Suriname. Washington, DC: International Monetary Fund.

PRODUCTIVE SECTOR

Suriname's private sector is small and heavily concentrated in services. Statistics from the 2019 World Bank Enterprise Survey show that together, the retail (33.5 percent), construction (14.6) and food (10.7) sectors account for almost 60 percent of private sector firms. Firms identified access to finance, electricity and an inadequately educated workforce as the main challenges to their operations (World Bank Enterprise Survey, 2019). Moreover, firms and entrepreneurs are affected by an unfavorable business environment. This is reflected in Suriname's relatively low position, 165th of out 190 countries—on the 2019 Ease of Doing Business survey and underperforms relative to the Latin America and Caribbean (LAC) average in 7 of the 10 areas covered by the Ease of Doing Business index.

COVID-19 has revealed the need for the country to urgently invest in upgrading its telecommunications and technology infrastructure. While urban coastal areas have better access to telecommunications infrastructure and information and communication technology (ICT) services, remote and sparsely populated zones of the interior lag behind. To support private sector competitiveness post-COVID, policies should: (i) support the deployment of advanced broadband networks to facilitate ICT coverage and rural connectivity; (ii) boost technology uptake and strengthen the digitalization of key productive sectors; (iii) improve electricity access and reliability and (iv) improve the regulatory framework to capture current industry trends and enhance competition. In the financial sector, efforts should be made to improve financial services and reduce gaps in banking and financial inclusion. Also, support should be given to financial intermediaries to expand their small and medium enterprise portfolios through suitable funding as well as adequate incentives and guarantee schemes to mitigate some of the risk faced by commercial banks. Finally, improving access and reliability of basic infrastructure services such as transportation, telecommunications and trade and integration logistics (particularly with the Latin America and Caribbean region) can help the country exploit opportunities in tourism and agroindustry sectors.

SOCIAL SECTOR

Poverty and inequality remain high. The overall poverty rate for Suriname was estimated at 26.2 percent in 2017, based on the 2017 Survey of Living Conditions (SLC). However, poverty in the interior region of Suriname is much higher at 47.9 percent, with almost one in every two households being classified as poor. Extreme poverty was estimated at 5 percent, and the population vulnerable to poverty group was estimated at 36.6 percent.[22] Also, inequality in the distribution of per capita income (Gini coefficient) was estimated 0.48.

COVID-19 is impacting most sectors of the economy, particularly those in the "face to face" industries. As a result, employees in those industries are likely to experience temporary job losses which can push them into poverty. For Suriname, statistics from the SLC show that 17.6 and 26.3 percent of persons working in services and sales workers and elementary occupations are classified as poor, respectively—these two sectors account for almost one-third of employed persons. Moreover, another 19 percent of workers in the services and sales workers and elementary occupations are classified as being vulnerable to poverty, respectively.23

COVID-19 is adversely impacting the education sector and labour market. With schools and universities closed, some teaching is continuing through television, print media and the internet. However, there are disparities between urban and rural areas as it relates to access and reliability of basic utilities such as electricity, water and internet to effectively facilitate learning (see IDB, 2017

[22] The poverty thresholds used are calculated using consumption data from the SSLC. For the overall poverty threshold, an adult needs SRD733.10, SRD590.23, and SRD533.27 a month to purchase essential food and non-food items in the Paramaribo district, other coastal areas, and the interior region, respectively. Similarly, for the extreme poverty threshold, an adult needs SRD265.29, SRD250.48, and SRD206.69 a month to purchase enough food to meet the World Health Organization's caloric requirement in the Paramaribo district, other coastal areas, and the interior region, respectively.
[23] See Khadan (2020) for further deals: https://publications.iadb.org/en/COVID-19-socioeconomic-implications-on-suriname

for a discussion on inequalities in basic utilities for Suriname). As more young people work in service-oriented sectors, the ongoing shock would worsen an already high youth unemployment rate, which was estimated at 16.1 percent in 2017, higher than the national unemployment rate of 7.1 percent. The ongoing shock could also increase gender inequalities in the labour market (on average, 44 percent of employees in vulnerable sectors are women). Currently, female labour force participation is relatively low: 47.7 percent compared to 72.6 percent for males.[24] Moreover, in Suriname, 32 percent of ever-partnered women reported to have experienced physical and/or sexual abuse (IDB, 2020).[25] In line with global trends during the COVID-19 pandemic, intermate partner violence is an issue to monitor and provide support.

As discussed above, COVID-19 has amplified some existing vulnerabilities in the social sector. In the short term, the country would need to strengthen its social safety net to effectively protect the most vulnerable populations as well as those in the informal sector.[26] Further, investments should focus on reducing inequalities as it relates to access and reliability of basic utilities such as health services, electricity, water and internet. Such investments could help to open new learning and business opportunities for vulnerable groups, particularly those that have lost their jobs/businesses post COVID-19 and those reside in rural areas. Policies to reform secondary education and the Technical and Vocational Education and Training (TVET) curriculum so that graduates have the necessary skills to better connect to labor market demands and the economy's needs would be crucial going forward.

[24] https://www.ilo.org/ilostatcp/CPDesktop/?list=true&lang=en&country=GBR
[25] IDB, 2020. Country Development Challenges for Suriname. Internal Report. Washington DC: IDB.
[26] Although data on the informal sector is sparse, the informal sector is estimated to be between 32.6 to 45.8 percent of GDP (Peters, 2017). https://publications.iadb.org/publications/english/document/Estimating-the-Size-of-the-Informal-Economy-in-Caribbean-States.pdf

TRINIDAD AND TOBAGO

LODEWIJK SMETS

CONTEXT

As of May 19th, 116 cases of COVID-19 and 8 COVID-related deaths have been confirmed in Trinidad and Tobago. With only 1 active case, no new cases since April 26th and negative results from random testing in high-risk geographic areas, indications are that the spread of the virus has fallen substantially. These positive developments are the result of early-adopted containment measures, e.g., flight restrictions, closing of non-essential businesses, stay-at-home orders, and a satisfactory adherence to the rules put in place. For instance, traffic congestion data suggests that the population in Trinidad and Tobago is strictly respecting the stay-at-home orders.

The containment measures have substantially impacted several economic sectors including tourism, construction, most of manufacturing and human-contact industries like restaurants, bars and entertainment. The COVID-19 crisis also sharply reduced global demand for fossil fuels, plummeting oil and gas prices to historic lows. This has caused major energy companies to revise their global portfolios and reduce spending, which may have negative spending and investment implications for Trinidad and Tobago. Taken together, the IMF expects the economy to decline with 4.5 percent in 2020, much lower than the earlier prediction of + 1.5 percent in October 2019. Furthermore, the economic fallout of the COVID-19 crisis will most likely increase in poverty and inequality, with vulnerable households falling into poverty.

To address the economic impacts of the COVID-19 crisis, the government put in place several fiscal measures, including accelerated VAT and income tax refunds, a loan facility for credit unions, temporary deferral of loan and mortgage payments, distribution of food cards, a salary relief grant for the unemployed, rental assistance and a grant for affected hoteliers in Tobago. The overall size of the economic package, however, is much lower than the fiscal measures put in place by OECD economies.

Finally, the combination of low oil and gas prices, a contracting economy and government support measures will lead to a large fiscal deficit. According the Ministry of Finance, the overall deficit for the current fiscal year is estimated at TTD 15.5 billion, corresponding to 11 percent of GDP.

Unwinding moving restrictions. On May 9, the government announced a phased plan to roll back the COVID-1i9 containment measures. In a first phase – that started on May 10, food establishments can reopen without dine-in service, however. Furthermore, restricted outdoor activities are allowed as well as gatherings of up to five persons. Social distancing rules and the wearing of face masks must be maintained. In the subsequent phases other sectors of the economy will be reopened – e.g., manufacturing, construction, public transport, while the reopening of the Trinidad and Tobago borders is addressed in the final phase (phase 6). The transition from one phase to the next is guided by the epidemiological evolution of the virus.

RECOVERY

On April 16, the government announced the formation of a recovery committee tasked with the development of a road map for short- and medium-term recovery. The committee consists of 22 high-level members and 16 sub-committees that look at a variety of issues, ranging from food security to the energy sector and government finances.

For the short-term recovery, emphasis is put on how to reopen the economy while stemming any further widening of income inequality. Given increased fiscal pressures, also public finances and government effectiveness are examined. Furthermore, the committee is tasked to investigate how

to increase private investment. For the medium-term, economic diversification and industrial policy are considered important, while public sector governance and institutions, values, norms and behaviors are deemed crucial factors for increasing economic resilience.

The recovery committee is expected to produce a first document on May 8, while a final report is due on June the 2nd. This note elaborates on three important topics – macro-fiscal, private sector and social developments, which form an integral part of Trinidad and Tobago's road to recovery.

MACROECONOMIC CONTEXT

Declining oil and gas prices and technical disruptions in domestic energy production led to a severe economic recession in 2016, from which the country only slowly recovered. The commodity shock also led to large fiscal imbalances and compelled the authorities to engage in fiscal consolidation. Both revenue and expenditure measures were taken, a mix of both structural (e.g., raising corporate taxes) and discretionary actions (asset sales). Fiscal consolidation led to reduced deficits in FY2018 and FY2019, with a positive primary balance for FY2019 (0.7 percent of GDP). Total public debt rose from 58.3 percent of GDP in FY2016 to 63.3 percent in FY2019. As mentioned above, with the COVID-19 crisis the deficit for FY2020 is likely to exceed 10 percent of GDP – significantly larger than the budgeted deficit of 3.1 percent – with total public debt rising above 70 percent by the end of the fiscal year.

Going forward, there is a clear need for fiscal consolidation, especially if energy prices stay lower for longer. Structural reforms in revenue, expenditure and macro-fiscal management are highly recommended. Policy actions include the development of a robust medium-term fiscal framework, a revision of the management rules of the country's sovereign wealth fund, strengthened tax administration, a revised taxation system, a technical framework for public-private partnerships, streamlined expenditures including in public investment and the management of public bodies and state-owned enterprises. The recent approval of the Trinidad and Tobago Revenue Authority Bill by the Senate provides a signal that the country is taking important steps to ensure long-term fiscal sustainability.

Furthermore, in order to improve overall policymaking and government effectiveness, the country needs to improve its statistical system, increase technical capacity for evidence-based policymaking and find ways to enhance the functioning of its public administration. Finally, Trinidad and Tobago may consider decentralizing public resources and decision-making to the local level. When doing so, it will be important to strengthen the capacity to monitor, manage and evaluate the use of public funds, including local, timely audits.

PRODUCTIVE SECTOR

Trinidad and Tobago is a hydrocarbon-dependent economy whose economic performance is driven by the (volatile) energy sector. If energy prices stay lower for longer, however, the country's traditional energy sector may shrink substantially, even in the short term. Already several downstream petrochemical companies – Methanex, MHTL, Nutrien – have (temporarily) closed production plants as a result of the COVID-19 crisis. There is, therefore, a clear need to diversify the economy away from oil and gas and improve the performance of the non-energy sector.[27]

The non-energy private sector, however, faces several competitiveness challenges, including high levels of crime and violence, confrontational employer-employee relations, lack of access to financing for SME's, a constrained foreign exchange market, skills mismatches, failing infrastructure and institutional constraints including severe inefficiencies in resolving commercial

[27] In 2014, the non-energy sector share of GDP was estimated at 62 percent. The services sector (including restaurants) accounts for 34 percent of non-energy GDP, followed by finance, insurance, and real estate (18 percent), general government (13 percent), construction and quarrying (9.4 percent), and transportation, communication, and storage (8.8 percent)

disputes and lengthy procedures in trading across borders. To improve competitiveness, SME's need better access to financing, transport, water and education infrastructure need upgrading, targeted awareness campaigns, social norms programs and other preventative measures are needed to reduce crime and violence and improve employer-employee relations. Furthermore, institutional and legislative reforms are needed to enhance the ease of doing business, including in investment promotion. To stimulate economic diversification, it is recommended to develop industrial policies to stimulate specific sectors, with manufacturing, agriculture, tourism and the creative industries as potential candidates.

SOCIAL SECTOR

Since the early 2000s, Trinidad and Tobago built a generous welfare state with the purpose of distributing its natural-resource wealth among the citizenry. In 2019, no less than 150 social programs and initiatives were ongoing, ranging from food support for vulnerable households to therapeutic services for persons with disabilities. Over the period 2015-2019, 35 percent – on average – of the central government budget was allocated to the social sector.

Despite this, poverty and inequality remain a problem in Trinidad and Tobago. In 2014, the latest year for which representative data are available, an estimated 11 percent of the population were considered poor. Furthermore, in 2014 36 percent of the population were considered vulnerable, i.e., non-poor but at risk of falling into poverty. Even though recent data on poverty are lacking, the COVID-19 crisis will very likely lead to an increase in poverty. On average, the growth elasticity of poverty is estimated at 3 percent, so poverty levels could well rise by 10 percent or more. As the poor are disproportionally hit by the COVID-19 crisis, inequality is also likely on the rise.

Effective social programs are therefore needed to protect the most vulnerable populations from the consequences of the COVID-19 crisis. Following concerns about the efficiency of the existing system, it is recommended to critically review the social sector and implement evidence-based solutions, which could include broad unemployment insurance, conditional cash transfer programs, effective training and reskilling mechanisms, or even unconditional income support. Furthermore, large gaps exist in education outcomes between students from the upper income quintiles and students from the lower income quintiles. There is therefore a need to reduce inequalities in education.

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