COUNTRY ECONOMIC REVIEW 2020

ANGUILLA

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

In 2020, the economy suffered its largest contraction on record as it shrank by 27.4% due to the impacts of the COVID-19. While the early closure of international borders limited the spread of the virus, tourism was hard hit, reversing the sector's recovery since Hurricane Irma in 2017.

The social consequences were equally severe. Wide-spread business closures and job losses resulted in increased unemployment and loss of income for many. Policy responses to cushion this dislocation included temporary duty exemptions on food and hygiene products, as well as tax payment deferrals. Financial institutions offered support through temporary repayment moratoria and waivers on late fees and charges.

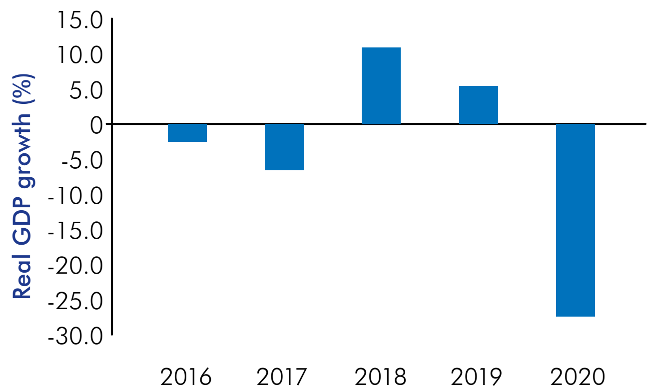
The Government secured budgetary support from its development partners to compensate for lower fiscal revenues on account of COVID-19. These grants assisted with the funding of expanded expenditures for COVID-19 healthcare management and social protection for the most vulnerable people while allowing for the maintenance of fiscal stability.

KEY DEVELOPMENTS IN 2020

Anguilla's economic recovery from Hurricane Irma in 2017 was derailed by its latest external shock – the COVID-19 pandemic. Following two consecutive years of strong growth in the aftermath of Hurricane Irma, the economy is estimated to have suffered its largest contraction on record (-27.4%) in 2020 (see Chart 1). Real gross domestic product (GDP) fell to below its 2004 level.

This contraction is largely attributed to the impact of COVID-19 on the main economic sector, tourism. The global onset of COVID-19 and surging cases in source markets triggered international travel restrictions and the closure of country borders which contributed to the underperformance of the tourism sector in Anguilla. Stayover arrival numbers collapsed by 75%, from approximately 71,000 in 2019, to 15,700. Hotel and restaurant activity, the proxy used for the tourism sector, contracted by almost 75%.

Chart 1: Real gross domestic product growth



Sources: *Caribbean Development Bank (CDB), Eastern Caribbean Central Bank (ECCB).*

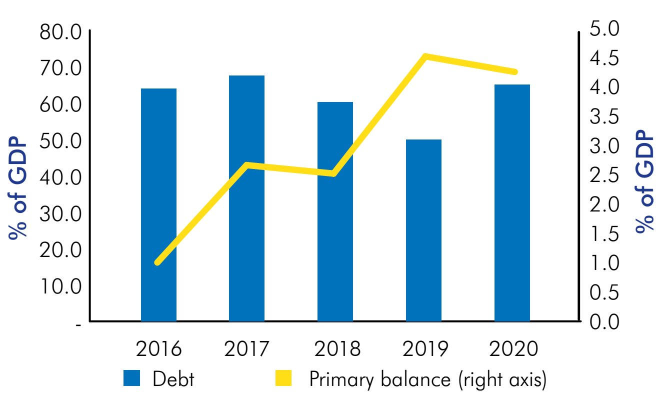
Anguilla was able to limit the spread of COVID-19 to 14 cases and avoid community transmission of the disease. The country's low-risk tier allowed the country to reopen its border to visitors at the end of the year through the creation of a vacation bubble initiative. This allows visitors, including long-term visitors who wish to work remotely, to quarantine at designated resorts that offer access to a variety of amenities and activities within a restricted area until cleared by health officials.

The knock-on effects of tourism's decline have been significant, leading to job layoffs and increased unemployment. Other sectors linked to tourism were substantially affected, either indirectly via a weakened labour market or directly via dampened consumer demand. Wholesale and retail trade (-41%) and transport, storage, and communication (-29.4%) recorded the largest individual declines outside of hotels and restaurants.

Consumer prices trended down. On average, the Consumer Price Index declined by 0.5% in 2020, influenced heavily by a reduction in global oil prices. This fall was reflected by lower prices for: clothing and footwear (-2.2%); housing, water, electricity, gas, and other fuels (-2.5%); furnishing, household equipment and routine household maintenance (-1.5%); health (-0.6%); and transport (-1.3%). The single largest increase in consumer prices was observed for restaurant and hotels (5.3%) reflecting the higher cost of restaurant meals.

The fiscal position remained stable despite a steep decline in revenues. Fiscal operations resulted in an overall surplus of 1.8% of GDP compared with 2.8% of GDP in 2019. The primary surplus (including grants) was 4.3% of GDP, down from 4.6% in 2019 (see Chart 2).

Chart 2: Fiscal and debt performance



Sources: *Government of Anguilla, CDB.*

Fiscal savings were facilitated by compensatory grants received from the United Kingdom (UK) Government, which helped offset a steep decline in revenues. The UK Government guaranteed grant resources to Anguilla of up to a maximum of EC$100 million (mn) in 2020. Further, expenditure restraint was built into public supplementary budget that lowered expenditures to 2019 levels through a deferral of non-priority expenditures. Major expenditure reductions were observed in travel and subsistence (58%) and utilities (47%). These measures provided expenditure savings of approximately EC$29 mn, 4.0% of GDP, for direct COVID-19 response actions.

In 2020, total fiscal revenues fell by 19.4% to EC$202.2 mn. However, fiscal resources were bolstered by grants of EC$41.5 mn from the UK. Taking grants into consideration, the public total revenue and grants declined by 3% (EC$243.7 mn). Most tax and non-tax revenue categories declined. The hardest hit were duties (-42.2%), taxes on income (-17.2%), and taxes on domestic goods and services (-17.1%). Conversely, taxes on international trade and transactions increased by 26.6% to EC$34 mn, owing mostly to the excise tax and the interim goods tax, which were introduced in 2018 as part of reforms to simplify and broaden the tax base. The Government expects to fully implement a goods and services tax in 2022. Reform efforts are also geared at strengthening tax administration to help improve fiscal sustainability and rebuild fiscal buffers.

UK grants assisted with meeting pressing expenditure commitments. Total expenditure was EC$230.7 mn, a 3.8% increase over 2019. Reccurrent expenditures, which increased by 4.8% or EC$10.2 mn, represented 96% of total expenditure. Major public capital works are being financed by the UK under its Anguilla Programme that allocates capital grants for reconstruction after Hurricane Irma.

Social services expenditures more than doubled to EC$15.2 mn. COVID-19-related allocations were made to the Unemployment

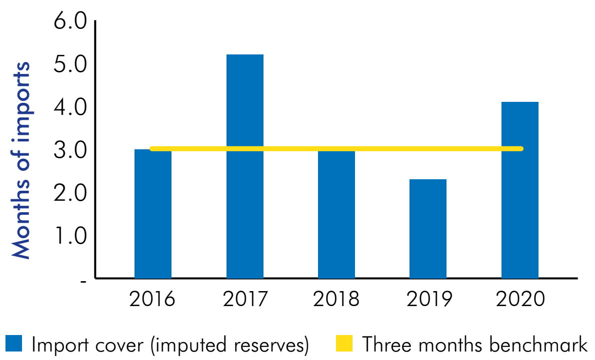
Assistance Scheme that provided EC$800 per month from April for eligible citizens who could not benefit from the existing Anguilla Social Security Scheme. Rentals increased by 56% to EC$11.1 mn reflecting the rental of quarantine and isolation facilities to accommodate physical distancing requirements. Funds were also utilised to hire additional staff to assist with the monitoring of quarantined persons. Subventions were provided to statutory bodies that suffered significant revenue losses directly attributed to the pandemic, including the Health Authority, the Water Corporation, and the Air and Sea Ports Authority. The Anguilla Development Board received resources to support small businesses. During the year, the Government strengthened its oversight of state-owned enterprises.

Fiscal savings were supplemented by liquidity buffers. However, the Government fully exhausted its sinking fund in October and increased its use of short-term borrowing to assist with cash management during the year. The only external loan financing received was EC$3.3 mn from an existing CDB project loan for construction of the Anguilla Community College. Although the public debt stock declined (due to scheduled amortisation payments exceeding disbursements), the public debt ratio jumped to 65.0% of GDP, from 49.9% in 2019, because of the contraction in GDP. The Government remained in breach of its borrowing limits and liquid assets targets.

The challenges in the domestic economy have weakened the financial system and amplified vulnerabilities and risks. Due to the negative impact of the COVID-19 shock on capital adequacy levels, the regulatory capital to risk-weighted assets ratio for the banking system declined to 9.6% from 10.5% at year end 2019, although the levels remained just above the regulatory benchmark of 8%. Non-performing loans (NPLs) remained elevated, well above the 5% prudential benchmark, but stable at around 25% throughout the year. Thus, one in every four loans was categorised as NPLs. Legacy NPLs in the banking system have carried over from previous years, undermining the banks' ability to record profits and absorb shocks. The banking system's largest exposures are to households and tourism, both vulnerable to loan defaults. To help ease borrower distress brought on by the pandemic, the banks extended loan repayment moratoria and waived fees and commissions. Already exhibiting weak profitability, banks faced further setbacks to earnings. The return on average assets of the banking system declined from 0.9% to 0.4%.

Reserves rose above the recommended benchmark of three months of imports (see Chart 3). This increase to 4.1 months reflected a significant decline (40.5%) in total merchandise imports as of September 2020. The balance of trade deficit, as a result, narrowed from EC$479.6 mn in 2019 to EC$291.9 mn. Exports remained negligible.

Chart 3: Imputed gross foreign reserves



***Sources:** ECCB, CDB staff estimates.*

Anguilla was added to the European Union (EU) list of non-cooperative jurisdictions for tax purposes. In September, Anguilla was downgraded from partially compliant to non-compliant with the international standard of transparency and exchange of information, with EU citing a need for Anguilla to improve financial transparency in its financial services sector. Notably, Anguilla continues to make progress to address recommendations to strengthen transparency and deter illicit transactions and has committed to the implementation of Registers of Beneficiary Ownership by 2023.

OUTLOOK

GDP growth of 6% is projected for 2021, with a positive outlook for the medium term. A gradual recovery is expected in tourist arrivals as the roll-out of COVID-19 vaccines ramp up in source markets and in Anguilla. The country's vaccination efforts have advanced significantly, and most eligible persons should receive their vaccinations well ahead of the opening of the 2021-22 winter tourist season. In addition, the sale and renovation of CuisinArt Resort and Golf Course, the resurfacing of the Clayton J Lloyd International Airport runway, as well as the continuation of reconstruction projects associated with the Anguilla Programme, will help to bolster growth in 2021. Public finances should remain stable, with revenues buoyed by economic recovery and additional budget support.

Anguilla's low-risk travel designation could provide opportunities for an accelerated pace of recovery in 2021. However, there are downside risks. More stringent health requirements and supply delays and apprehension surrounding the vaccine may present challenges. This could be further complicated by the identification of new COVID-19 strains, which could precipitate a resurgence in global infections and lead to further lockdowns. Anguilla also faces the risk of natural disasters.

DATA

The table below summarises the key economic indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. The 2020 data are CDB estimates.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	-2.5	-6.6	10.9	5.4	-27.4
Average inflation (%)	-0.5	1.5	0.2	0.8	-0.5
Unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Primary balance after grants (% of GDP)	1.0	2.7	2.6	4.6	4.3
Public sector debt (% of GDP)	63.9	67.6	60.3	49.9	65.0

Sources: *Government of Anguilla, ECCB, CDB.*

Notes: e – estimate (as at April 15, 2021); n.a. – not available.

ANTIGUA AND BARBUDA
COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

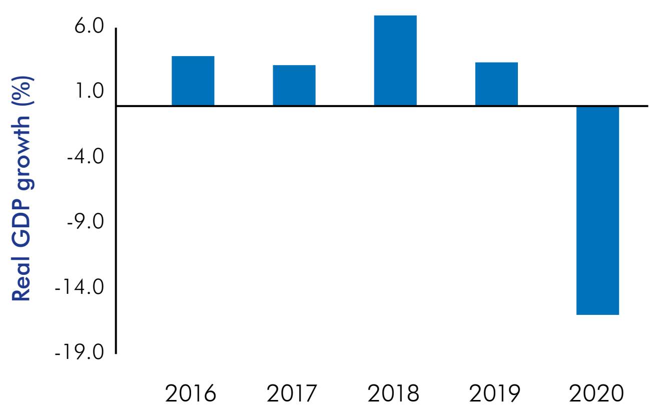
COVID-19 had a significant impact on Antigua and Barbuda's tourism-dependent economy in 2020. The outbreak in March prompted the implementation of a series of emergency public health measures to stem the spread of the virus that restricted the number of confirmed cases to 157 persons during the year. However, these measures severely affected economic output, employment, and public finances.

The economic recovery trajectory is uncertain. The country experienced a surge in cases during the first quarter of 2021. Even as mass vaccination programmes are being rolled out, external demand is likely to remain dampened by a similar surge in European nations that could delay plans to restart travel.

KEY DEVELOPMENTS IN 2020

The COVID-19 pandemic had a significant adverse macroeconomic impact in 2020. The health crisis severely affected economic activity with unprecedented output losses. Real gross domestic product (GDP) is estimated to have fallen by 16% due to the implementation of public health measures (including a temporary shutdown of the country's borders to international travel, the mandatory closure of non-essential business, and limitations on gatherings) to contain the spread of the virus that triggered a reduction in domestic and external demand (see Chart 1). Although the economy reopened to travel in the second half of the year, recovery was stifled by a second wave of COVID-19 infections.

Chart 1: Real gross domestic product growth



Sources: *Government of Antigua and Barbuda, Eastern Caribbean Central Bank (ECCB).*

A steep fall in activity in the hotels and restaurants sector was matched with similar performances in most other economic sectors. Tourism accounts for approximately 48% of GDP (2019) and contributed approximately 62% of export earnings. The decline in the hotels and restaurants sector of 55% coincided with a 65% fall in cruise passenger arrivals and a 58% decline in stay-over arrivals. Linked to this decline, transportation (25%), construction (21%), and wholesale and retail (14%) all experienced significant fall-offs.

Consumer price index average inflation remained subdued. Inflation was 1.1%, mainly due to an increase in prices in several of the more heavily weighted sub-indices: food and non-alcoholic beverages; furnishing and household equipment; transport; and miscellaneous goods and services.

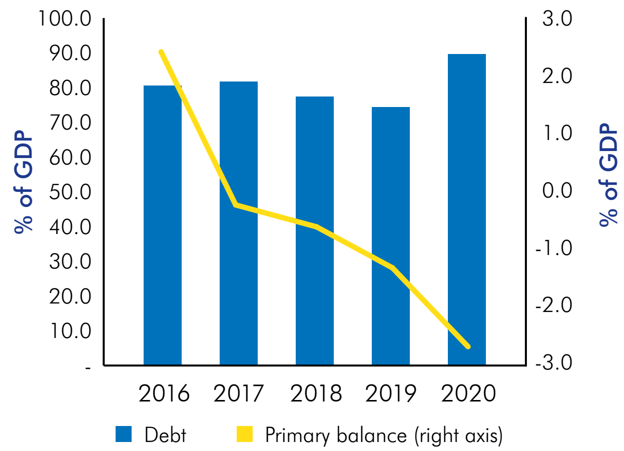
Unemployment is estimated to have sharply increased. Antigua and Barbuda Social Security Board estimates a 20.7% decline in active employment, consistent with the steep fall in economic activity[1]. The largest changes in the labour market during the first six months of 2020, were observed in the hospitality industry (-47.9%) and among self-employed persons (-42%).

The Government responded swiftly to the pandemic in the areas of public health, social protection, and job retention. The measures included building a new medical facility, an expansion of social safety net programmes to meet the basic needs of the unemployed and persons living below the poverty line, with emphasis on vulnerable women and children, and investment incentives for home renovation and construction.

The pandemic had an immediate deleterious impact on public finances. Budgetary operations weakened with a widening of the primary deficit to 2.7% of GDP (see Chart 2). Tax receipts, which account for 79% of total revenue, contracted by 9% to EC$610.1 million (mn). Taxes on domestic goods and services (14.0%); property (37%); and international trade (7%) all declined. However, taxes on income and profits grew due to a buoyant 2019 economic performance on which the taxes are applied. A 22%-decline in non-tax revenue to EC$135.8 mn was associated with lower Citizenship-by-Investment Programme receipts. Recurrent expenditure contracted by 7% to EC$882.0 mn, reflected in reduced outlays on domestic goods and services (23%), transfers and subsidies (10%), and personal emoluments (3%). However, capital expenditure grew by 19% to EC$103.0 mn, driven by the Government's road rehabilitation and housing investment projects.

1 The last official unemployment rate was 13.7% in December 2015.

Chart 2: Fiscal and debt performance



Source: *Government of Antigua and Barbuda, International Monetary Fund (IMF).*

As a result of the widened deficit, public debt increased. The debt-to-GDP ratio was estimated at 89.6%[2] in 2020, compared with 74.4% in 2019. Over the past five years, debt servicing (interest and amortisation) has accounted for an average of 53% of revenue collected on an annual basis, with interest payments alone accounting for approximately 12%.

Financial sector indicators have mostly weakened, but the sector remained stable. There was a reduction in commercial banks' profitability, asset quality, and liquidity as COVID-19 took a toll on banking systems. To provide borrower relief and help contain default rates given the heightened risk environment related to the financial fallout of the pandemic (linked to job losses, pay cuts and disruptions in business revenue), banks offered temporary payment moratoria[3], as well as waivers on late fees and commissions to customers. As a result, the increase in the ratio of gross non-performing loans to total loans was contained to 6.3%, from 5.3% in 2019. However, the relief programmes eroded earnings. Return on assets fell to 0.42% relative to 1.44% at the end of December 2019. The banking system's liquid assets to total assets also declined from 46.4% to 36.9%.

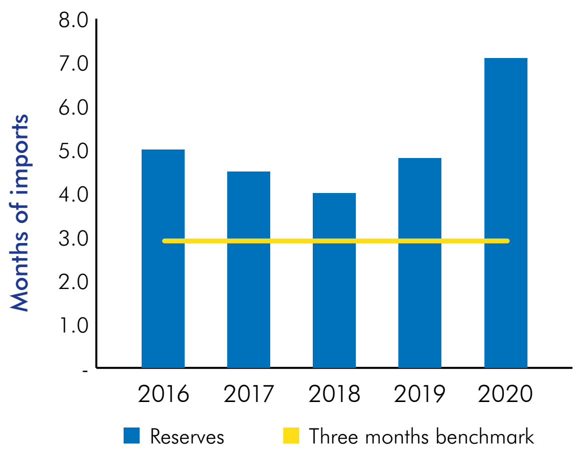
2 The public debt used to calculate this ratio excludes expenditure arrears and may underestimate the public total liabilities.

3 A provision allowing borrowers to temporarily defer all debt service obligations after the commencement of the crisis.

The demand for credit expanded despite the slump in economic activity. As at October, credit data showed an increase in domestic credit of 7.4% to EC$2.6 billion (bn) for the first 10 months of the year, led by a 10.5% rise in credit to the private sector to provide liquidity. Net lending to Government fell marginally by 1.2% to EC$380 mn.

Foreign reserves exceeded the three months of imports global benchmark. Imputed reserves[4] were estimated at 7.1 months of import cover in September 2020, compared with 4.8 months in December 2019 (see Chart 3).

Chart 3: Imputed foreign reserves



Sources: *ECCB.*

Preliminary data through to the third quarter of 2020 indicate an overall deterioration in external operations. Total visitor expenditure, a key indicator of service trade, fell by 67% (EC$1.4 bn) over the nine-month period, consistent with the significant fall-off in tourist arrivals. By contrast, the merchandise trade deficit narrowed by 47% (EC$841.9 mn) but was not sufficient to offset the steep reduction in the services trade. COVID-19 restrictions contributed to lower imports of food, fuels, manufactured goods, machinery, and transport equipment. Meanwhile, a reduction in public and private sector inflows adversely affected the capital account.

OUTLOOK

The COVID-19 pandemic showed little sign of abating going into 2021. The rebound in global economic activity is expected to be hampered by the ongoing second wave of COVID-19 in the main source markets. However, the vaccine roll-out provides some positive prospects.

The Caribbean Development Bank (CDB) projects a contraction in real GDP by 2% in 2021. This is attributed to the suspension of flights from Canada to the Caribbean until the end of April 2021, and the continued lockdown in the United Kingdom. CDB assumes a slow recovery in tourism activity from the middle of 2021, once vaccine roll-outs are accelerated in the advanced economies. With pent-up travel demand in source countries, tourism flows should return to normalcy towards the end of 2023. However, the risks to the economic outlook are tilted to the downside, with global economic recovery contingent on the containment of the virus, maintenance of stimulus measures, and equitable access to COVID-19 vaccines by all countries; coupled with the ever-present risk of exposure to natural hazard events.

The negative real GDP outlook is expected to place a significant strain on fiscal and debt sustainability. Notwithstanding the Government's effort to improve revenue collection, the planned higher expenditure is expected to lead to a worsening of the fiscal balance, as well as a knock-on effect on public debt.

4 ECCB does not allocate foreign reserves to any particular member country in the Eastern Caribbean Currency Union but reserves are pooled at the aggregate level.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	3.8	3.1	7.0	3.4	-16.0
Average inflation (%)	-0.5	2.4	1.2	1.5	1.1
Unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Primary balance (% of GDP)	2.4	-0.1	-0.6	-1.2	-2.7
Public sector debt (% of GDP)	80.5	81.6	77.4	74.4	89.6

Sources: *Government of Antigua and Barbuda, ECCB, IMF.*

Notes: e – estimate (as at April 15, 2021); n.a. – not available.

BAHAMAS

COUNTRY ECONOMIC REVIEW 2020

Bahamian dollar (B$); United States dollar (US$). **US$1 = B$1.00**

OVERVIEW

The global health pandemic, caused by COVID-19, severely compromised economic and social conditions the Bahamas in 2020, and set back the recovery from Hurricane Dorian. Real gross domestic product (GDP) is estimated to have fallen sharply by 16.2% and unemployment levels worsened due mainly to closures of tourism-related plants and operations, mandated to halt the spread of the virus.

The shutdowns affected the Government's operations, causing a deterioration in fiscal outcomes and a rise in debt levels. External conditions weakened, while the financial sector remained relatively stable, aided by capital buffers and temporary relief measures.

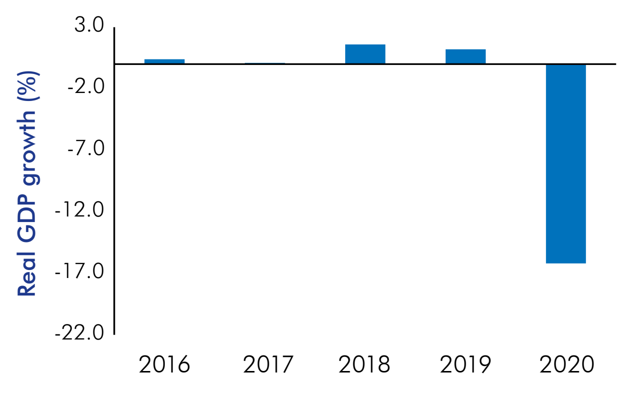
The economy is expected to begin recovering in 2021. Growth is projected to rebound to 2.2% in 2021, with positive knock-on effects on external, fiscal and monetary conditions. However, risks are tilted heavily to the downside.

KEY DEVELOPMENTS IN 2020

The Bahamas was still recovering from its 2019 devastation from Hurricane Dorian when the country was affected by the COVID-19 pandemic, a shock of unprecedented scale. Alongside the public health crisis and human toll of 170 deaths, the outbreak caused a significant economic collapse that severely impacted the wellbeing of its population. Strict social distancing actions taken to prevent spread, and mitigate risks to health and safety, also had significant spill-over effects. Major increases in unemployment, lower foreign exchange earnings, and fiscal accounts deterioration were some of the setbacks experienced.

The economy is estimated to have sharply declined by 16.2% (see Chart 1). The contraction was led by complete cessations of activity in the leading tourism sector at different times of the year, with little recovery between. Total visitor arrivals for the year fell by 75.2% to 1.8 million (mn), relative to 7.2 mn recorded in 2019. A breakdown of arrivals by categories shows similar reductions across the board, both stopover and cruise arrivals were down by 75.9%, and 75.6%, respectively. Foreign investment-funded projects and, to a lesser extent, rebuilding works underpinned positive contributions from the construction sector, tempering the extent of the overall economic decline.

Chart 1: Real gross domestic product growth



Source: Central Bank of the Bahamas (CBB), Department of Statistics.

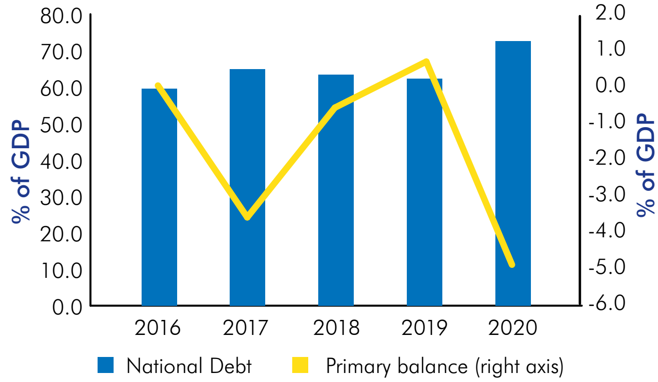
Average consumer prices, as measured by the Retail Price Index (RPI), remained relatively unchanged, with only a 0.4% uptick in the index. The marginal increase in the RPI was led by average higher prices in two of the four major categories: miscellaneous goods and services; and food and non-alcoholic beverages. Further increase in prices were mitigated by declines in the average prices for housing and water, gas, electricity, and other fuels attributable, in part, to pass-through effects from the reduction in global oil prices and transport.

Although official data on unemployment are not yet available, the impacts of the shutdowns point to large-scale employment effects. The Government provided B$90 mn in direct cash assistance and income replacement to nearly 38,000 unemployed persons under the National Insurance Board-administered unemployment benefit scheme. Preliminary estimates for the rate of unemployment suggest a rise to approximately 25.6%, up from 10.7% recorded in 2019.

The fiscal outturn signalled a considerable deterioration in performance and a rise in direct charges to the Government. The primary balance indicated a reversal to a deficit position of 4.9% of GDP from a small surplus of 0.8% in 2019, while the overall deficit grew to 6.8% of GDP (see Chart 2). These developments highlight the continued impact of Hurricane Dorian, the spending required to support disaster recovery, plus the costs associated with mitigating the health and social effects of the pandemic. This occurred in an environment of a sharp reduction in revenues due to the collapse in economic activity.

Collectively, the fall-out from the two large exogenous shocks have put a significant strain on public finances, requiring external financing support. The Government turned to multilateral agencies, including the Caribbean Development Bank (CDB), for financial and policy support. The additional borrowing, combined with the sharp reduction in GDP, contributed to an increase in the debt-to-GDP ratio. Direct charges to Government increased to 69.4%, while public debt rose to 72.6% by the end of the year.

Chart 2: Fiscal and debt performance



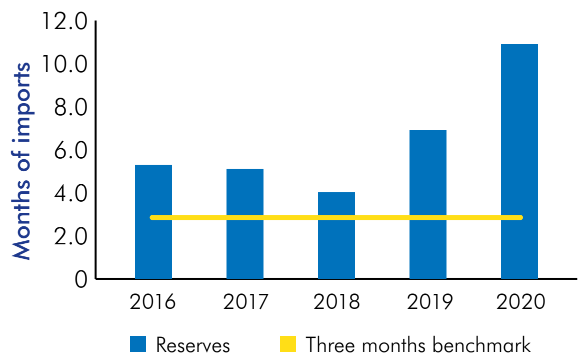
Sources: *CBB and the Government of the Bahamas.*

The financial system remained stable, liquid, and well capitalised though credit quality deteriorated. At end-December, excess liquid assets – a broad measure of liquidity – grew by 4.1% relative to 2019, to B$2,230.5 mn. The ratio of capital to risk-weighted assets was 30.9%, well above the regulatory minimum of 17.0%.

As at December, total domestic credit was B$8.6 mn, 3.8% lower than at the same period of 2019. This outturn reflected a 2.1% reduction in the dominant private sector credit, and a 3.5% decline in public net borrowing. Credit quality declined during the year and by December the non-performing loans ratio had ticked up by 50 basis points to 8.5%. Commercial banks and credit unions offered temporary loan repayment deferrals for borrowers who were negatively impacted by COVID-19. Increased provisions for bad debts, considering the ongoing impact of the pandemic, contributed to a reduction in overall bank profitability. The weighted average rate of interest on loans and overdraft was reduced to 9.69% by December 2020, from 10.44% a year ago.

External operations also highlighted the impact of COVID-19. Provisional data for 2020 indicate a steep reversal in the current account to a deficit of B$2,428 mn from a surplus of B$525.6 mn for 2019, reflecting a significant reduction in export earnings. The services account turned into a deficit on account of the almost total decimation of travel receipts. In contrast, the capital and financial account surplus increased sharply to B$2,417.3 mn from B$230.8 mn a year earlier, largely reflecting a marked rise in public sector debt-related inflows, which buoyed external reserves. At the end of December, the stock of external reserves was equivalent to an estimated 10.9 months of merchandise imports cover (inclusive of oil purchases), compared with 6.9 months at the same time the prior year (see Chart 3).

Chart 3: Gross foreign reserves



Source: *CBB.*

OUTLOOK

Economic conditions are expected to improve over the medium term, although risks are tilted to the downside. Persistent impacts of COVID-19 on tourism in 2021 would temper the recovery, although reconstruction activity should provide some growth impetus. Consequently, real GDP is projected to rise by 4.6% in 2021. However, slower economic gains in the main trading partners, particularly for tourism and natural hazard events, could derail this outlook.

An improved economic environment would translate to higher fiscal revenue intake. However, lingering expenditures for reconstruction, and spending associated with COVID-19, could dampen improvement in fiscal balances. Therefore, public financing needs are forecasted to remain elevated in the near term. Achieving the operational targets of the Fiscal Responsibility Act, including reducing the debt-to-GDP ratio to 50% by fiscal year 2030/2031, will require enhanced fiscal effort.

Export earnings associated with a gradual increase in foreign arrivals could see an improvement in the current account position. Capital inflows, mainly through the public sector, should continue to support the reserve position.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. The 2020 data are CDB estimates.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	0.4	0.1	1.6	1.2	-16.2
Average inflation (%)	0.7	1.2	0.3	0.3	0.4
Unemployment (%)	11.6	10.1	10.4	10.7	25.6*
Primary balance (% of GDP)	0.1	-3.6	-0.7	0.8	-4.9
Public debt (% of GDP)	59.6	64.9	63.4	62.3	72.6

Sources: *Government of the Bahamas, International Monetary Fund (IMF), CDB.*

Notes: e – estimate (as at April 15, 2021)
**IMF 2020 Article IV Consultations Staff Report*

BARBADOS

COUNTRY ECONOMIC REVIEW 2020

Barbados dollar (BB$); United States dollar (US$). **US$1 = BB$2.00**

OVERVIEW

In 2020, the COVID-19 pandemic was a major shock to economic activity and slowed progress in economic reform and transformation. The first confirmed case of the virus was reported in mid-March, and the number of cases subsequently increased to 383 persons based on 69,718 administered tests at December 31, 2020. There were seven fatalities attributed to the virus. The pandemic contributed to a sharp contraction in real gross domestic product (GDP) and a spike in unemployment, almost eroding the gains from the recent domestic and external debt restructuring. Despite the challenges, Barbados continued the implementation of its economic reforms aimed at restoring fiscal and debt sustainability and protecting the foreign reserves. A recovery in economic activity is expected in 2021, although uncertainty remains about the strength of this upturn.

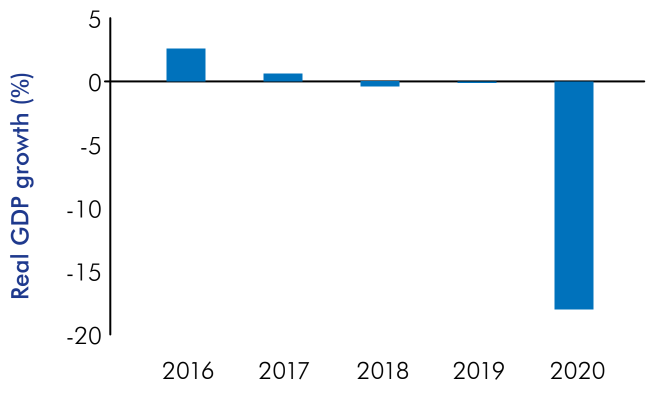
KEY DEVELOPMENTS IN 2020

Real GDP contracted deeply in 2020. The Central Bank of Barbados (CBB) reported a contraction of 18.0% compared with a marginal decline of 0.1% in 2019 (see Chart 1). This contraction reflected a steep fall-off in tourism activity, as long-stay arrivals fell by 71% for the nine months ending September 2020.

Tourism activity slowed significantly due to the reduction in global travel caused by the COVID-19 pandemic. Flights from key source markets had reduced considerably by mid-March causing an abrupt halt in tourism, and strict restrictions imposed on internal movement from April to June to prevent the spread of the outbreak, dampened economic activity. Visitor arrivals for the months April to September were insignificant but improved modestly in the third quarter when airlift slowly increased following the reopening of borders in June. Tourist arrivals data for the final quarter (October to December) are still preliminary, but the pick-up in tourism activity since the limited resumption of commercial tourism flights in July remained low, as the fear of contagion continued to weigh heavily on travel and tourism activity. Domestic staycations were encouraged to minimise the loss of international visitors, however, its impact was minimal and the COVID-19 crisis resulted in marked increases in job losses and unemployment in the sector and in related industries.

The strict containment measures, taken by the country while assisting in curbing the spread of COVID-19, had damaging effects on the economy. The shock to tourism and weak economic activity led to adverse shocks throughout the economy. In particular, distribution (-9.4%), finance (-8.6%), and transport services (-6.5%) were especially hard hit, as consumer demand weakened and the opportunities to spend and transact business were restricted by social distancing requirements and reduced business hours. This was partly offset by higher levels of output in agriculture (1.8%).

Chart 1: Real gross domestic product growth



Sources: *CBB, Barbados Statistical Service (BSS), Caribbean Development Bank (CDB).*

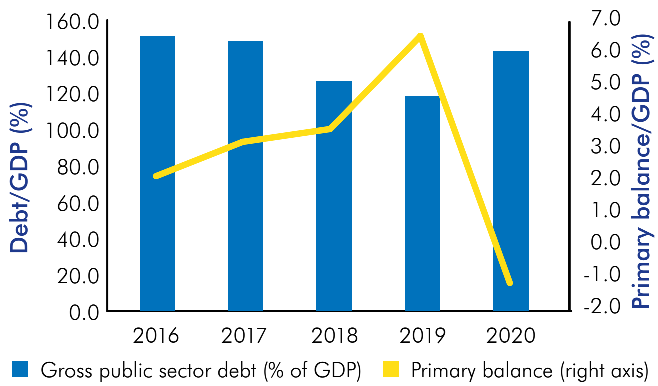
Inflation remained moderate and stable at 3.5% compared with 4.1% in 2019. The inflation rate was largely attributed to higher food prices. This was partly offset by lower international oil prices, which reduced fuel and electricity costs.

The shock to the tourism sector led to a sharp rise in unemployment and higher unemployment benefit payments. It is estimated that the tourism sector contributes approximately 25% of national employment. However, since the pandemic the travel industry has been crippled, resulting in the closure of hotels and related businesses, which led to increased unemployment and benefit claims. During the months March to October 2020, the National Insurance Scheme paid BB$123.2 million (mn) to 32,003 unemployment benefit claimants. This represents almost three times the unemployment benefits paid (BB$49.3 mn) for January to December 2019. The Government introduced the Barbados Employment and Sustainable Transformation Programme to assist with the re-engagement of workers in the tourism sector.

Public primary balance turned negative as the pandemic adversely affected revenue collections and placed upward pressure on public health and social protection spending (see Chart 2). Tax revenue for the nine-month fiscal period April to December declined by BB$218 mn, compared with the same period in 2019. Revenue from most major tax categories fell, except corporate taxes, which increased by BB$249 mn. This was mainly due to the impact of higher tax rates on companies that receive their income from foreign exchange earning activities, and from higher profitability in the previous year. On the expenditure side, healthcare, welfare and capital expenditure related to COVID-19 increased. Recurrent expenditure, including external interest payments, rose by BB$75.6 mn to BB$1,800.4 mn for the nine-month period. Transfers to the Welfare Department rose and the Household Survival Programme received a BB$6 mn disbursement. Capital spending on water and transportation also received a boost of BB$22 mn.

The Government and the International Monetary Fund (IMF) negotiated a downward revision in the primary balance target under its economic reform programme. The primary balance target for fiscal year 2020/2021 is expected to be -1.0% of GDP, a revision of the previous surplus target of 6.0% of GDP. The fiscal gap is being financed mainly by international financial institutions (IFIs). The debt-to-GDP ratio is expected to increase to 144%, compared with 120% in 2019, driven mainly by a sharp rise in external borrowing.

Chart 2: Fiscal and debt performance



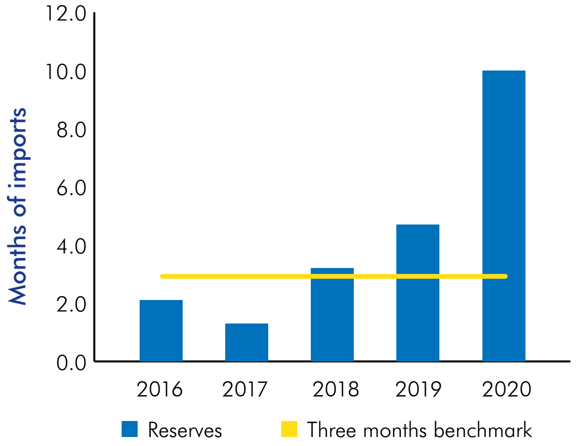
***Sources:** Ministry of Finance, Economic Affairs and Investment, CBB, and IMF.*

The financial sector faces elevated risks due to the sharp economic downturn. To partly mitigate these risks, financial institutions implemented moratoria on loan payments during April to December. However, non-performing loans (NPLs) increased modestly to 7.2% compared with 6.6% in December 2019, and profitability declined due to weak credit demand and higher provision for NPLs. As at December, the capital adequacy ratio and the liquid assets to total assets ratio rose to 15.8% and 25.1%, respectively.

Reserves remain strong and were boosted with the support of IFIs (see Chart 3). Gross international reserves grew by BB$1,182 mn to BB$2,662 mn (10 months of import coverage) in 2020, well above the international benchmark of three months. This accumulation was aided, in part, by financing from the IMF and the Inter-American

Development Bank. The funding from IFIs recognised the Government's commitment to the targets of the Barbados Economic Reform and Transformation Programme (BERT).

Chart 3: Gross foreign reserves



Source: *CBB.*

Standard and Poor's maintained the Barbados credit rating at B-/B with a stable outlook. In November 2020, the international credit rating agency attributed its decision largely to the success of BERT as a key factor in allowing the country to weather the impact of the pandemic.

OUTLOOK

CDB expects real GDP growth of 1.9% in 2021, although downside risks remain elevated. The recovery will depend on quickly stabilising the recent surge in COVID-19 cases during January 2021, the easing of pandemic mitigation measures, the availability and steady roll-out of a COVID-19 vaccine, and the accelerated return of tourist arrivals. By the end of January, Barbados had registered well over 1,000 new cases of COVID-19, and by February 3, 2021, went into lockdown having declared community transmission of the disease.

Downside risks to the forecast remain. COVID-19 challenges in major source markets, such as the United Kingdom and the United States of America, and tighter contagion controls, may adversely affect tourist arrivals. Also, the management of the pandemic has placed strain on the fiscal accounts, which must be carefully managed given the fiscal and debt targets under BERT, and offset by higher primary surpluses in coming years to ensure achievement of the long-term debt target of 60% of GDP. This suggests that efforts to drive growth will also depend partly on the private sector and their confidence about a timely recovery. As financial institutions gradually remove their moratoria on loan payments, the developments in the sector must continue to be monitored closely. The Government will need to accelerate its structural reforms, including improving the business climate and fostering economic diversification. Strengthening resilience to natural disasters and climate change will also be key to long-term economic growth.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. The 2020 data are estimates and are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	2.6	0.6	-0.4	-0.1	-18.0
Average inflation (%)	1.5	4.5	3.7	4.1	3.5
Unemployment (%)	9.7	10.0	10.1	10.1	n.a.
Primary balance (% of GDP)	2.2	3.2	3.5	6.1	-1.0
Public sector debt (% of GDP)	151.2	148.4	126.3	120.0	144.0

Sources: *CBB, BSS,CDB.*

Note: e – estimate (as at March 31, 2021); n.a. – not available.

BELIZE

COUNTRY ECONOMIC REVIEW 2020

Belize dollar (BZ$); United States dollar (US$). **US$1 = BZ$2.00**

OVERVIEW

The COVID-19 pandemic severely impacted the economy in 2020. Tourism activity collapsed in March under the weight of stringent travel restrictions and containment measures designed to curb the spread of the virus. Agriculture was already suffering from a drought in 2019. Public revenues fell dramatically, leading to an increasing deficit and debt rising above 100% of gross domestic product (GDP). Job losses, increased unemployment, and the tragic loss of lives were some of the devastating human and social costs of the pandemic.

Unlocking growth remains a challenge. Prospects for 2021 remain uncertain, depending significantly on the speed and effectiveness of vaccination against COVID-19 in Belize and its trading partners. The new Government has very limited fiscal space to fund development, and will need to prioritise effectively, with possible help from development partners.

KEY DEVELOPMENTS IN 2020

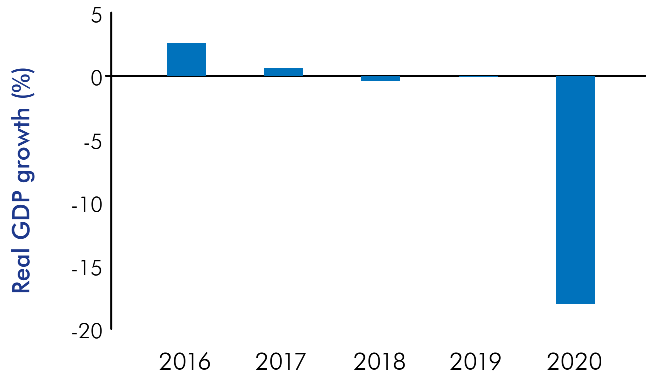
The pandemic has had a devastating toll on Belize. Prior to August, Belize had successfully contained the outbreak and flattened its infection curve, registering fewer than 50 cases. A surge in the pandemic during August to December confirmed just under 11,000 cases by year end and claimed 248 lives.

The economy is estimated to have contracted by 14.1% in 2020 (see Chart 1). The main reason was the COVID-19 pandemic, which affected all of Belize's major trading partners and strongly restricted economic activity within the country.

The pandemic decimated the tourism industry. In March, the Philip Goldson International Airport was closed, and cruise ship calls were halted. Hotel bookings collapsed. The airport reopened in early October, but a reluctance to travel due to continued uncertainty and concerns around contagion, and strict health protocols, meant that passenger numbers remained low. Overnight arrivals fell by 71.2% to 133,583. Cruise ship arrivals were down by 70.7% to 308,003.

The pandemic also affected other industries. Manufacturing fell most significantly due to a fall in alcoholic and soft drinks consumption because of the collapse in tourist numbers. Crude oil extraction continued to decline, and there was also a contraction in construction activity.

Chart 1: Real gross domestic product growth



Sources: *CBB, Barbados Statistical Service (BSS), Caribbean Development Bank (CDB).*

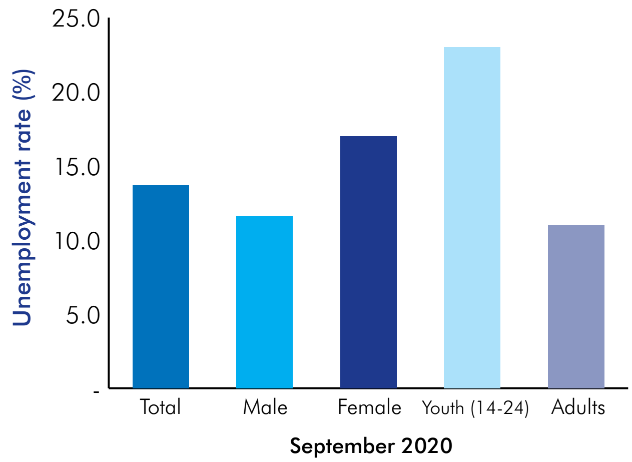
Agricultural output showed a marginal improvement (0.5%), as the sector continued to suffer from the severe drought in 2019. There was a knock-on effect from the decline in tourism, although the greater impact was on food imports. Sugar cane and citrus yields were low early in the year, although both recovered slightly in the third quarter as weather conditions improved. There was also an increase in banana production. Marine production was lower than in 2019, with both shrimp and conch levels down.

Inflation remained muted in 2020, slowing to 0.1% from 0.2% in 2019. Linked to the pandemic's effect on tourism activity, there were falls in the prices of alcoholic beverages and tobacco, transport, and restaurants and accommodation services. There was a slight increase in food price inflation.

Unemployment is high. A redefined Labour Force Survey (LFS) showed that 13.7% of the labour force (23,175 persons) was unemployed in September 2020[1] (see Chart 2). Revisions to definitions have resulted in the reclassification and removal of certain forms of work, and subgroups from the employed labour force, including some subsistence farmers, unpaid trainees, interns, and volunteer work. In addition, persons "not looking for work" are no longer classified amongst the unemployed. As such, the 2020 estimates are not comparable to prior years. Under the old methodology, the unemployment estimate would have been 29.6%, up from 10.4% the previous September. The September 2020 female rate (17.0%) was higher than the male rate (11.6%).

The pandemic had far-reaching impacts on the labour force. In the period March to August, there were 38,909 persons without work (unemployed and out of the labour force) because of COVID-19. One in three of these worked in the tourism sector, and about 65% were males. Of those still employed, one in four suffered a reduction in wages. The largest proportion, or 28.2% of those, were between 25 to 34 years old. Notably, about two thirds of these persons who lost their job due to COVID-19 were not looking for work and were therefore not classified as unemployed.

Chart 2: Unemployment



Source: *SIB.*

Public policy focused on measures to alleviate the fallout. Temporary unemployment relief was provided through cash transfers to 87,000 workers and self-employed persons adversely affected. Food assistance was also provided, supplementing the existing Food Pantry Programme. Nearly 40,000 households qualified. The existing Conditional Cash Transfer (CCT) programme was also enhanced, and a new temporary CCT was implemented to reach poor and vulnerable households countrywide.

Belize's already weak fiscal position was severely affected by the pandemic. The public primary balance in fiscal year 2019/2020[2] was -1.4%, below the 2% target required following the commercial debt restructuring in March[3]. Worse was to follow as the pandemic undermined fiscal

1 Revisions were made to key definitions, relating to the employed, labour underutilisation, and the classification of different forms of work, in accordance with international standards adopted in 2013.

2 April to March.

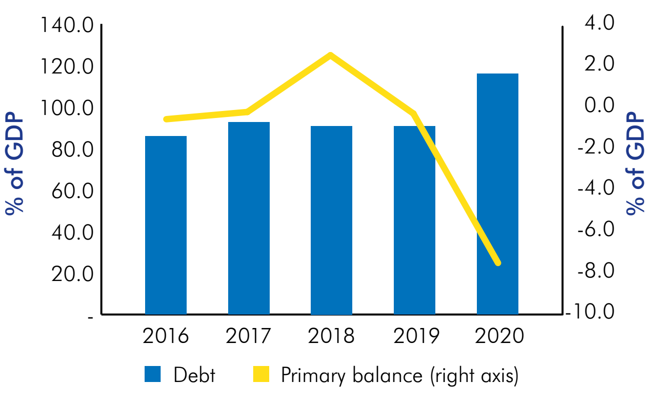
3 Under the restructuring of the US$526 mn bond, interest payable fell and principal repayments were pushed back to 2030-2034.

outcomes during the remainder of 2020, resulting in a primary balance of -7.7%.

The collapse in economic activity caused a sharp fall in government revenues. Current revenue in the calendar year was 20% lower than 2019. Against this backdrop, the Government faced expenditure pressures to support the health sector to deal with the pandemic, and to provide income support for those who lost their jobs. Some repurposing of expenditure was possible. Spending on goods and services fell by 15.6%, and the Government secured agreement to capitalise interest payments that were due on the commercial superbond. Despite agreement to postpone payments of bonuses to public servants, spending on wages and salaries was 1.4% higher. With capital expenditure also increasing, the overall deficit was BZ$356 million (mn), nearly three times its equivalent in 2019. Funding support was provided by development partners, including CDB, and through borrowings from the Central Bank of Belize (CBB).

Public debt rose well above 100%. The ratio of public debt to GDP rose rapidly to 115.9% (see Chart 3). Domestic debt rose to BZ$1.3 billion (bn), from BZ$1.1 bn at the end of 2019, as the Government increased its borrowing from CBB. External debt was BZ$2.7 bn, 9.3% more than at the end of 2019. This included the capitalised interest on the commercial bond, plus the first US dollar bond issued by CBB (US$30 mn).

Chart 3: Fiscal and debt performance



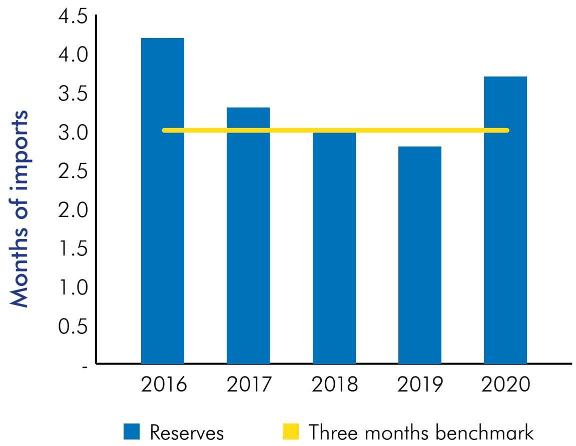
Source: CBB.

At the start of the pandemic, CBB eased monetary policy, relaxed supervisory guidelines, and commercial banks were encouraged to institute relief measures to assist distressed borrowers. Measures included reducing statutory cash reserve requirements, extending the period to classify loans as non-performing, and reducing risk weights for loans in the tourism sector. As a result, lending to the private sector expanded by 3.1%, less than the 5.6% increase one year previous, mainly to support the tourism and banana sectors. Provisions for expected credit losses were applied mainly against personal (BZ$13.4 mn), construction (BZ$2.3 mn), and real estate (BZ$0.8 mn). COVID-19 loan forbearances totalled BZ$723.6 mn, representing 31.8% of domestic banks' aggregate loan portfolio.

Scotiabank exited the market. In November, CBB approved the sale of Scotiabank's operations in Belize to the Caribbean Investment Holdings Limited, owners of Belize Bank Limited (BBL). This consolidation made BBL the largest operator in the market, with approximately 50% of assets.

The trade deficit narrowed as imports declined. The merchandise trade deficit between January and October narrowed because the fall in exports (BZ$38. 5 mn) was outweighed by a decline in imports (BZ$387.3 mn), some of which were due to import controls to protect the level of foreign reserves. There was a collapse in visitor expenditure, partly offset by an embargo on profit repatriation. Remittances from overseas increased, as did external COVID-related aid from abroad. A rise in net financial inflows stemmed from additional government borrowings to address the pandemic. Consequently, gross international reserves rose to 3.7 months of merchandise imports (see Chart 4).

Chart 4: Gross foreign reserves



Source: *CBB.*

OUTLOOK

CDB projects a small increase of 1.9% for 2021, but the forecast is subject to uncertainty. The development and approval of new vaccines against COVID-19 has raised hopes for a return to near normality, but logistical issues need to be overcome to ensure a sufficiently wide roll-out of about 70% of the population to attain herd immunity. In the more developed countries, this might not happen until the second half of the year. Roll-out has begun in the United States of America, Belize's major source market for tourism. However, roll-out will not be completed in time for the traditionally busiest months of the tourist season, January to April. Health protocols are likely to remain in place and there could be new ones, such as the requirement of proof of vaccination to travel.

Fiscal adjustment measures will be necessary but could hinder a strong growth recovery in the short-to-medium term. The new Government has appointed an Economic Recovery Advisory Team (ERAT), comprising leaders from the key productive sectors, the public service, and the unions. The ERAT is tasked with making recommendations to increase growth and employment. These recommendations will be against a background of unsustainable debt, which needs to be brought down through fiscal consolidation and a gradual increase in the primary surplus. Without fiscal adjustment, the primary deficit would remain elevated, and funding options would be very limited. Reforms to the business environment and to address structural impediments would help to strengthen growth.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available as at March 5, 2021. Some are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	0.0	1.8	2.9	1.8	-14.1
Average inflation (%)	0.7	1.2	0.3	0.2	0.1
Unemployment (%)	9.6	9.4	9.4	9.0	13.7
Primary balance (% of GDP)	-0.6	0.3	2.4	-0.1	-7.7
Public sector debt (% of GDP)	85.9	92.7	90.8	90.6	115.9

Sources: *International Monetary Fund, SIB, CBB, CDB.*

Note: e – estimate (as at March 31, 2021)
Unemployment data: For 2016, 2017 and 2019 – average of April and September LFS. For 2018 April LFS only. For 2020, September LFS only, with a new methodology employed.

CAYMAN ISLANDS

COUNTRY ECONOMIC REVIEW 2020

Cayman Islands dollar (CI$); United States dollar (US$). **US$1 = CI$0.83**

OVERVIEW

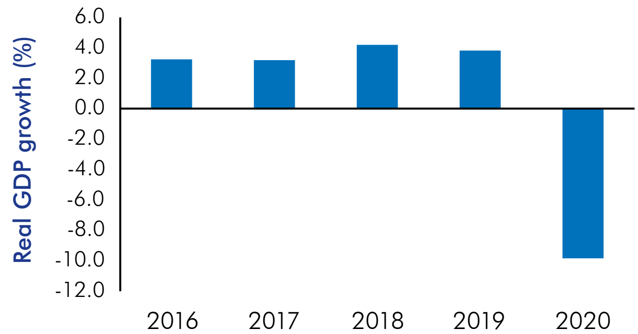
In 2020 the Cayman Islands economy contracted by more than 7%. From March, the Government kept borders closed for travellers[1] and imposed restrictions on non-essential activities to contain the spread of COVID-19. Consequently, most sectors of the economy experienced double-digit declines.

2020 represented a rupture for government finances as the overall fiscal balance swung to a deficit for the first time since 2012. All major revenue categories recorded significant decreases and current expenditure increased amid rising health-related and social spending.

KEY DEVELOPMENTS IN 2020

The economy contracted in 2020 following robust growth in the previous year. The Caribbean Development Bank (CDB) estimates that the contraction amounted to 7.3%, after 3.8% growth in 2019 (see Chart 1). The contraction was driven by a COVID-19-related drop in tourism as the number of stayover arrivals decreased by 72.1% to 140,400, mainly due to prolonged border closure. For the same reason, cruise ship passenger arrivals declined by 70.8%, and total visitor expenditure fell by 71.8%. A lockdown from mid-March to May limited the epidemiological fallout from the crisis and allowed for reopening the domestic economy. Cayman closed 2020 with only 338 confirmed cases of COVID-19 and two related deaths. Reduced tourism activity and restrictions on the mobility of the local population were major contributors to the contraction in the value added of hotels and restaurants, estimated to have declined by 35.9%, and to the lower activity in the transport and storage, and the real estate sectors. Wholesale and retail trade, the financial services sector and professional, scientific, and technical activities proved resilient as they declined by 3% or less.

Chart 1: Real gross domestic product growth



Sources: *Economics and Statistics Office (ESO), CDB staff estimates.*

The unemployment rate increased to 5.2% from 3.5% in 2019 due to the health-related closure of the economy. The Government supported laid-off workers – mostly from the tourism industry – with a monthly CI$1,000 stipend; provided assistance to meet health insurance payments; and introduced a programme to retrain displaced workers while supporting more than 5,000 people through the Needs Assessment Unit.

Consumer prices increased by 1% following a 5.9% increase in 2019. Prices in the recreational and in the hotels and restaurants sectors eased among weak demand, and transport prices also fell due to

[1] Entry to the islands is still restricted to Caymanians, residents, workers, students, and a limited number of property owners.

lower oil prices. Stronger demand due to people working from home led to inflationary pressures and price increases in the communications sector while price increases for food and non-alcoholic beverages also reflected imported inflation.

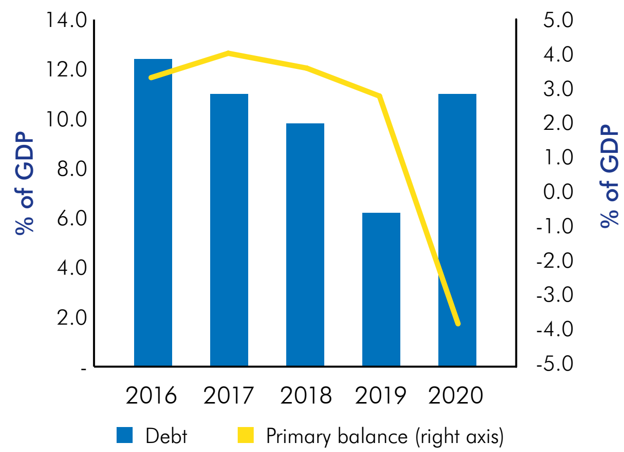
The overall fiscal position materially deteriorated in 2020 (see Chart 2). Preliminary full-year fiscal data for the Government suggest that the decline in tourism and in the broader economy led mainly to a spike in expenditure due to social programmes although revenue also declined. The Government estimates a current deficit of CI$40 million (mn), which would bring the overall deficit to CI$141 mn (3.4% of gross domestic product [GDP]).

Total revenue declined by an estimated 8.4%. The strongest contraction was recorded in non-tax revenue, mainly sales of goods and services, which dropped 14%. Taxes on domestic goods and services – including financial services and other licenses – declined by 9%, and taxes on international trade decreased by 5%. The Government waived taxes and business license fees and help for farmers, seamen, veterans, artists, and persons with disabilities.

The Government's adoption of broad-based support measures to alleviate the impact of COVID-19 pushed up expenditures. In addition to providing income support for displaced workers, a CI$10 mn grant programme and a CI$5-mn low-interest loan programme were put in place for micro and small-sized businesses, and a CI$200-mn, partial credit guarantee loan scheme for medium and large-sized enterprises. These measures to stimulate the economy were reflected by a 22.6% increase in total expenditure, with transfers expanding by 75% and subsidies by 15%.

Cayman failed to fully comply with its Fiscal Framework for Responsibility (FFR). The cash reserve dropped below the minimum requirement of 90 days as the Government drew down on these funds to close its deficit. The Government also failed to achieve a fiscal current account surplus[2]. The public debt-to-GDP ratio is estimated to have risen to 9.9% in 2020 from 6.2% in 2019.

Chart 2: Fiscal and debt performance



***Sources:** Ministry of Finance, ESO, CDB staff estimates.*

Financial sector activity was stable, but the COVID-19 payment moratoria is expected to have weighed on banks' key performance indicators. By September 2020, the number of banks and trust companies had declined, but the number of mutual funds and insurance companies had gone up. As of September 2020, total domestic credit rose by 8.2%, driven by very strong growth in public sector borrowing and in lending to businesses and households. Loans to real estate agents, rental and leasing companies, and to households for domestic properties were the main drivers of credit growth. The country was removed from the European Union's list of non-cooperative jurisdictions in tax matters after it adopted new reforms to improve its tax policy framework.

Due to a high degree of dollarisation, the Cayman Island Monetary Authority (CIMA) holds negligible amounts of international reserves. Between June 2019 and June 2020

2 Further indicators included in the FFR: annual debt service should be no more than 10% of the Government's revenue; net worth should be positive; net debt should be no more than 80% of Government's revenue; and financial risks should be managed prudently, which includes insurance cover and hurricane preparedness strategy.

CIMA's net foreign assets (NFAs) increased by 25.7% to CI$171.4 mn while commercial banks' NFAs grew by 1.2% to CI$5,484.9 mn. Total NFAs rose to CI$5,653.3 mn, or 127.9% of GDP.

The external current account balance worsened due to disruptions to travel and transport. This is despite the visible trade balance with the United States of America (USA), the largest trading partner, improving on account of smaller imports. Travel receipts are estimated to have declined by CI$556 mn while the trade balance improved by CI$272 mn between January and September 2020, with lower imports outweighing a decline in exports. CDB estimates that the current account deficit has widened to 22.2% of GDP from 9.8% in 2019.

OUTLOOK

CDB projects economic recovery of 4.5% in 2021. Tourism activity is expected to rebound given better prospects to combat the pandemic in 2021, and support from the authorities' three-year strategic tourism recovery plan that targets the return to pre-pandemic levels of 500,000 stayover arrivals by 2023. However, past global shocks to tourism suggest that a return to 2019 levels of arrivals might take much longer. The speed of recovery in tourism is also contingent on the strength of the economic rebound in the main source markets, especially the USA, which accounts for more than 80% of visitors. At the end of 2020, the Government introduced the Global Citizens Programme to attract rich individuals for a two-year stay and partially make up for low tourist numbers, as a full border opening initially planned for March 2021 has been pushed back.

Fiscal policy is expected to remain expansive in 2021 to mitigate the ongoing shock. The Government is expected to keep transfers and subsidies at elevated levels. The monthly stipend for laid-off tourism workers was increased to CI$1,500 for the period January through June. This will boost the domestic economy. Capital investment is likely to remain within historical ranges (1.4% of GDP between 2015 and 2019) as fiscal policy is constrained by FFR. The primary balance should return to a small surplus by 2023, and the deb-to-GDP ratio is expected to start to decline. The Government has secured a US$400-mn, 18-month, precautionary line of credit from a consortium of local banks in September 2020. This, along with public cash reserve holding of CI$449 mn, should support expenditures in 2021 and help cushion a possible protracted impact of the pandemic.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. 2020 data are estimates.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	3.2	3.2	4.2	3.8	-7.3
Average inflation (%)	-0.7	2.0	3.3	5.9	1.0
Unemployment (%)	4.2	4.9	2.8	3.5	5.2
Primary balance (% of GDP)	3.2	4.1	3.6	2.7	-3.0
Public Sector debt (% of GDP)	12.4	11.0	9.8	6.2	9.9

Sources: *ESO, CDB staff estimates.*

Note: e – estimate (as at March 31, 2021).

DOMINICA

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

The economy contracted in 2020 because of the impacts of the COVID-19 pandemic, which led to border closure and restrictions on activity between March and June to contain the spread of the virus. While this successfully contained the spread of COVID-19 to 88 cases at year end with no related deaths, tourism was significantly affected. Construction activity, much of which was related to rebuilding after Hurricane Maria in 2017, slowed.

The public fiscal situation was already weakening prior to the pandemic due to the prior impact of a major hurricane. The need to increase expenditure to support health and social sector needs, combined with a dramatic fall in tax revenue from reduced economic activity, required an increase in public debt.

KEY DEVELOPMENTS IN 2020

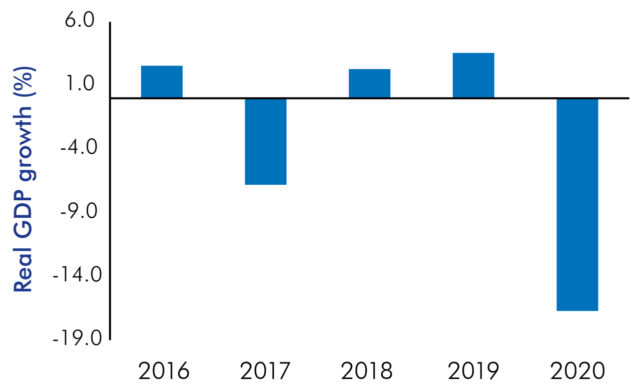
The economy contracted by 16.7% due to the COVID-19 pandemic (see Chart 1). The closure of the country's borders and the imposition of a lockdown for non-essential workers during mid-March to June, brought with it a sudden stop to commercial flights, cruise ships calls, and the closure of hotels, with 2,082 employees being laid off[1]. Tourism, which in 2019 accounted for 36.9% of gross domestic product (GDP) and 56.4% of exports, came to an abrupt halt in March. In May, the Government effected a phased reopening strategy, with a limited recovery in economic activity. Tourist arrivals for the year were 76% lower than in 2019, and activity in the Hotels and Restaurants sector fell by 61.1%.

1 Source: Dominica Hotel and Tourism Association.

Construction had been expected to grow on the back of continued reconstruction following Hurricane Maria in 2017. However, construction activity fell by 56.6%, limited by COVID-19 disruptions and restrictions on movement. Other sectors linked to tourism were similarly affected, such as wholesale and retail trade, which declined by 22.4%, and transport, storage and communications, which contracted by 31.7%.

Average consumer prices fell in 2020. Inflation, as measured by the consumer price Index, was -0.29%, down from 1.5% a year before. This reflected lower average prices for food, beverages, and household furnishings, supply and maintenance. There were increases in the prices of clothing and transport.

Chart 1: Real gross domestic product growth



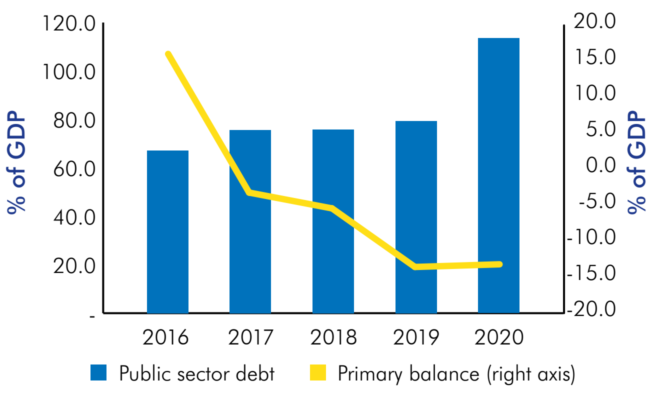
***Source:** Eastern Caribbean Central Bank (ECCB.*

The slowdown in economic activity severely impacted government revenues, resulting in a recurrent deficit. The recurrent deficit for calendar year 2020 was EC$69.1 million (mn), following a surplus of EC$28.3 mn one year earlier. This was mainly attributable to a

EC$157-mn (24%) decline in recurrent revenues to EC$492 mn. Much of this decline came from falling tax revenue (by EC$115 mn) and from lower (by EC$26 mn) Citizenship-by-Investment receipts. An EC$62-mn fall in current expenditure did not compensate. Additional expenditure was necessary to provide for expanded healthcare, and for economic and social support for those affected by the pandemic. Capital expenditure fell by EC$141 mn (47%) to EC$162 mn, allowing for a narrowing in the primary deficit from 13.6% to 11.9% of GDP, (see Chart 2). Nevertheless, budget support was required from development partners, including the Caribbean Development Bank (CDB).

Public sector debt rose in 2020. Total disbursed outstanding debt stood at EC$1,440 mn at the end of the year. This equated to an estimated 113.5% of GDP, up from 79.4% in 2019 (see Chart 2). There were increases in both domestic and external debt to fund the pandemic response, as well as some capital projects.

Chart 2: Fiscal and debt performance

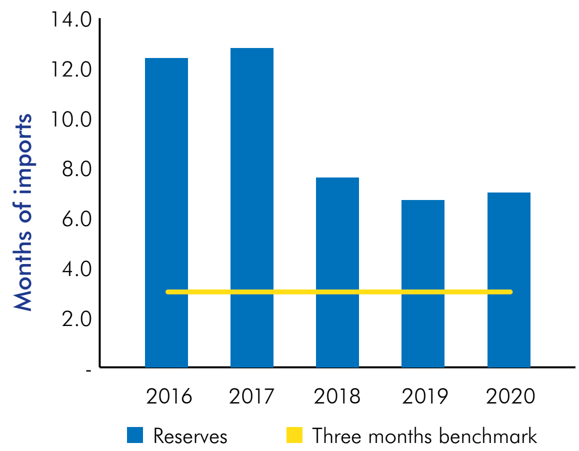


Source: *ECCB.*

At the inception of the pandemic, ECCB relaxed supervisory guidelines. Commercial banks were encouraged to assist with measures to alleviate the burden on borrowers. ECCB measures included moratoria on loan payments, plus a waiver of late fees and charges, and a reduced discount rate. As a result, the private sector credit declined very slightly (0.3%) to EC$725 mn.

The trade deficit narrowed in 2020. In the first nine months of 2020 the merchandise trade deficit fell by 34% to EC$393 mn. This was mainly due to an EC$205-mn (33%) decline in imports as the economy contracted. However, the services balance suffered as visitor expenditure fell by 65% over the same period, consistent with the drop in tourist arrivals. Imputed reserves were EC$463.8 mn, equivalent to seven months of 2019 imports (see Chart 3).

Chart 3: Gross imputed foreign reserves



Source: *ECCB.*

OUTLOOK

CDB projects growth of 0.3% for 2021, but significant uncertainty remains. The development and approval of new vaccines has raised hopes for a return to near normality, but logistical issues need to be overcome to ensure a sufficiently wide roll-out. About 70% of a country's population needs to be vaccinated to ensure that the entire population is protected. In the more developed countries, this might not happen until the second half of the year. Roll-out has begun in Canada, the United Kingdom, and the United States of America, which are Dominica's major source markets for tourism. Some health protocols are likely to remain and there could be new ones, such as the requirement of proof of vaccination, to travel. This could disproportionately affect tourism-dependent countries, such as Dominica. Recovery in the agricultural sector will depend on favourable weather conditions.

The emergence of COVID-19 has required significant readjustment in the short to medium-term, and these effects can be compounded by annual hurricanes and other hazards given the country's vulnerabilities. The Government intends to maintain its efforts to build resilience and is continuing to implement its Climate Resilience and Recovery Plan. With limited fiscal space, the Government will require external support.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. The 2020 data are CDB estimates.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	2.6	-6.8	2.3	3.6	-16.7
Average inflation (%)	0.1	0.3	1.0	1.5	-0.3
Unemployment (%)	12.1	n.a.	n.a.	n.a.	n.a.
Primary balance (% of GDP)	15.6	-3.4	-5.9	-13.9	-13.7
Public sector debt (% of GDP)	67.1	75.6	75.2	78.4	113.5

Sources: *Ministry of Finance, ECCB.*

Note: e – estimate (as at April 15, 2021); n.a. – not available.

GRENADA

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

The COVID-19 pandemic threatens the economic expansion and changed the outlook for Grenada. Economic output collapsed by 11.2% in 2020 after seven consecutive years of growth. Measures taken to restrict the spread of COVID-19 contributed to this decline. Unemployment rose but average inflation remained subdued.

Fiscal balances turned negative and debt levels increased as revenues dropped, and public expenditures rose to help mitigate the economic and social fallout of the pandemic. The banking sector remained well capitalised even as the crisis placed banking systems under stress. The external current account deficit deteriorated, as export income shrank and imports fell. The medium-term outlook is cautiously optimistic amidst heightened downside risks.

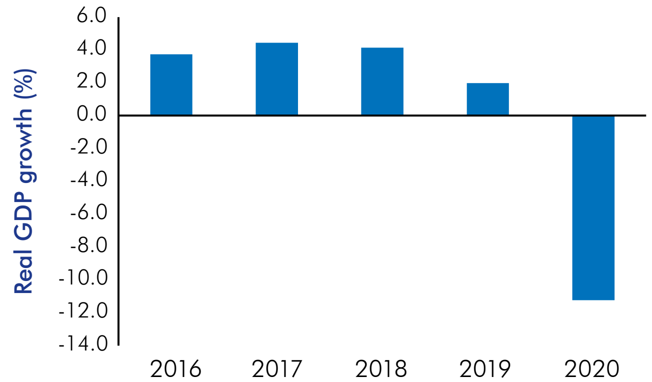
KEY DEVELOPMENTS IN 2020

Gross domestic product (GDP) contracted by 11.2% in 2020 due to the impacts of the Covid-19 pandemic (see Chart 1). Contractions were recorded in all major sectors, including tourism, manufacturing, transportation, construction, agriculture, and wholesale and retail. Steps taken by the Government in March to contain the outbreak helped restrict the infection rate to 157 cases and ease the strain on the health systems. However, island-wide lockdown, border closures, and curfews resulted in dwindling economic activity and a severe economic fallout.

Tourism (which accounts for about 40.5% of GDP) came to a halt in March. Value added in the hotel and tourism sector is estimated to have contracted by 66.4% in 2020. Border closures resulted in a precipitous drop in stay-over and cruise arrivals by 73.1% and 51.9%, respectively. This dampened activities in hotels, restaurants and other tourist-related facilities, some of which temporarily closed. Despite the reopening of borders in October, stay-over arrivals remained below pre-pandemic levels as the fear of contagion among the global populace continued to weigh heavily on tourism activity.

The construction sector contracted due, in part, to the lockdown and strict social distancing measures. Value added in the construction sector is estimated to have shrunk by 13.5% in 2020, reversing an annual average growth of 5.3% over the last 10 years. This is notwithstanding continuing work on key private sector projects such as the Levera Resort, the Grenada Resort in Mt. Hartman, and public sector works.

Chart 1: Real gross domestic product growth



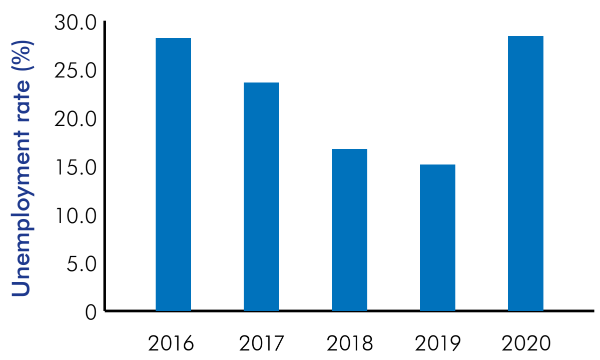
Sources: *Government of Grenada, Eastern Caribbean Central Bank (ECCB); Caribbean Development Bank (CDB) estimates.*

Private education (about 20% of GDP) declined following the closure of St. George's University (SGU) in March. The students' departure further compressed consumer demand and put added pressure on businesses servicing the SGU market, including wholesale and retail, transportation, real estate rental, and other services, some of which were already being impacted by restricted operating hours and lower demand.

COVID-19 also affected production in manufacturing and agriculture. Manufacturing production was halted while output in agriculture was impacted by lower demand, logistical challenges due to curfews and border closures, as well as price fluctuations. Value added in manufacturing and agriculture declined by 20.0% and 11.2%, respectively. Production of bakery products, animal feed, beverages and tobacco, and chemicals and paints contracted in 2020. Meanwhile lower output from major crops, including bananas, mace, and cocoa, were recorded but production of nutmeg was higher in 2020.

Inflation remained subdued while unemployment rose sharply. Based on the Consumer Price Index, average inflation was -0.7%, reflecting decreases in international oil prices that contributed to lower prices for transportation, housing, utilities, and gas and fuels. Unemployment rose sharply to 28.4% in June (see Chart 2). Approximately 14,000 jobs were estimated to have been lost during the first half of 2020 because of COVID-19 containment policies on business activity and labour markets.

Chart 2: Unemployment



***Sources:** Government of Grenada: *as of fourth quarter of 2019; **as of second quarter of 2020.*

A total of 3,303 persons (1,805 women and 1,498 men) received unemployment benefits through a temporary unemployment programme initiated by the Government through the National Insurance Scheme. The Government also facilitated the creation of temporary jobs.

Fiscal deficits were recorded in 2020. A primary deficit (after grants) of 2.5% of GDP was registered, the first deficit since 2015, as well as an overall deficit (after grants) of 4.4% of GDP (see Chart 3). This turnaround comes after a strengthening that had generated surpluses, expanded fiscal space, and lowered public debt in the years prior to the pandemic.

The weakened fiscal position reflects lower revenue collections and higher expenditures. Total revenue and grants fell to EC$792.7 million (mn) from EC$871.4 mn in 2019. Concurrently, total expenditures rose by 29.8% due to higher COVID-19-related spending, specifically for upgrading and expanding health services, and extending social assistance to cushion the economic blow to the vulnerable and adversely affected sectors. Transfers rose by 13.6% as part of the Government's temporary COVID-19 stimulus package[1].

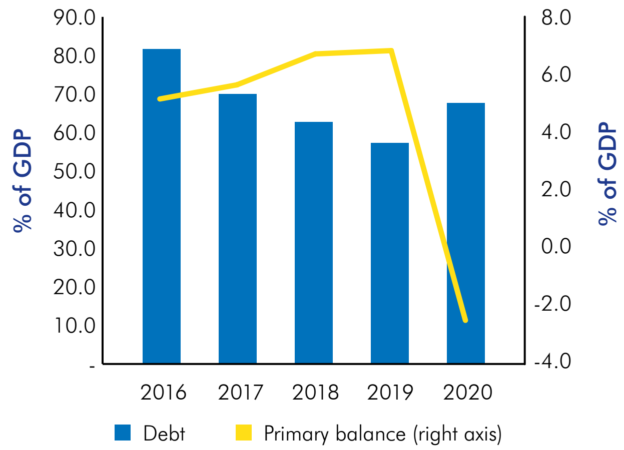
The downward trend in public debt was reversed in 2020. Public debt rose sharply to 67.6% of GDP, from 57.7% of GDP in 2019. Debt service payments fell by 2.9% (to EC$272.6 mn) attributed, in part, to the temporary suspension of debt service payments to three bilateral creditors participating under the COVID-19 Debt Service Suspension Initiative (DSSI)[2], initiated by the World Bank and the International Monetary Fund (IMF) to help countries concentrate their resources on the

1 The COVID-19 economic stimulus package included income and payroll support; contributions to the Grenada Development Bank for hotel and small business support; an electricity subsidy; agriculture support; and health-related spending.

2 DSSI resulted in a suspension of a total of $10.8 mn in interest and principal repayments for the period May to December 2020.

pandemic. Separately, CDB[3] provided debt servicing support. Interest payments dropped by 7.8% to an estimated EC$55.9 mn. The Government also turned to multilateral agencies for financial and policy support.

Chart 3: Fiscal and debt performance



Source: *Government of Grenada.*

There was an uptick in private sector credit while financial soundness indicators in the banking sector held strong. Net domestic assets of the banking system fell by 9.5% at the end of December 2020. Total loans and advances grew by 3.7% to $1,774.7 mn at the end of 2020. With the large shock to incomes from the halt to the economy, banks played a key role in helping to absorb the shock by supplying much needed cash flows. Domestic credit fell by 2.1% at the end of the year, reflecting lower private sector credit (3.0%) and the general pace of economic activity in 2020. Market pressures and the impact of COVID-19 continued to force lending rates down, narrowing the spread between lending and deposit rates.

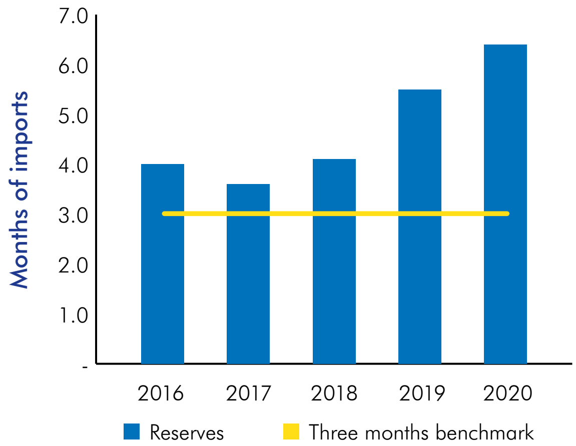
Liquidity and capital positions remained above regulatory benchmarks, with adequate buffers in the banking system. The liquid assets to total assets ratio increased to 46.8%, while the capital adequacy ratio rose to 15.1% from 11.8% in 2019. The level of non-performing loans (NPLs) inched up to 2.24% from 2.20% one year earlier, remaining under the 5% benchmark, and lower than that of the rest of the Eastern Caribbean Currency Union. However, the performance of NPLs has been influenced, in part, by prudential measures aimed at providing borrower relief and easing the impact of the crisis in the short term. The ECCB and the Bankers' Association initiated a loan repayment moratoria for distressed borrowers for a six-month period that commenced in March. The subsequent extension of this period to September 2021, illustrates the extent of the economic dislocation being experienced.

Within a challenging business environment, banks faced setbacks to earnings. There have been adverse impacts to several revenue-generating flows in the banking system, along with increases in the level of provisions for credit losses (an expense) to cater for potential debt default. Hardship relief programmes and waivers on fees and commissions would have eroded earnings, accounting, in part, for the decline in the return on average assets and equity, which fell from 1.38% and 22% in 2019 to 0.4% and 4.8%, respectively.

The external current account deteriorated, but international reserves remain above the prudential benchmark (see Chart 4). For 2020, preliminary trade data reflected a smaller trade deficit. Total imports and exports fell by 18.4% and 29.8%, respectively, over the 12-month period. COVID-19 restrictions contributed to lower imports of food and live animals, mineral fuels and related materials, and machinery and transport equipment. Lower exports of agricultural and manufactured products contributed to the decline in export receipts. This was compounded by the drop in travel receipts. International imputed reserves remained adequate at approximately 6.4 months at the end 2020.

3 CDB approved US$15.7 mn in concessional resources to help the country meet its Ordinary Capital Resource payments over the period April 2020-March 2021.

Chart 4: Imputed foreign reserves



Sources: *IMF, Government of Grenada.*

OUTLOOK

The medium-term outlook for the country is cautiously optimistic. For 2021, growth of 2.8% is projected, predicated on an improved COVID-19 situation and the roll-out of public vaccination. Construction is expected to drive economic recovery as public sector infrastructure gains momentum. Tourism activity is expected to remain tepid, with downside impacts on related services and activities which cater primarily to this sector. A gradual return to pre-COVID-19 levels is expected in the tourism sector but is also dependent on airlift and international travel requirements. With the expected reopening of SGU in August 2021 for on-site learning, the students return should bolster activity.

A fiscal deficit is anticipated in 2021 and debt levels will remain elevated over the short-to-medium term. Decisive fiscal measures will be necessary to return to a primary surplus target of 3.5% of GDP by 2022, as required by Grenada's Fiscal Responsibility Act (FRA). The Escape Clause in FRA permits the suspension of prior targets for a maximum of one year in the event of a crisis. With economic recovery, public debt should converge with the 60% benchmark well ahead of the revised target date of 2035.

Downside risks are elevated in 2021. Public access to vaccination to further control the spread of the virus will determine the extent and speed with which Grenada can return to normalcy. The risk of extreme weather events and a slow global economic recovery also pose significant threats to the outlook.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. The 2020 data are estimates and subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	3.7	4.4	4.1	2.0	-11.2
Average inflation (%)	1.7	1.7	0.8	1.0	-0.7
Unemployment (%)	28.2	23.6	16.7	15.1	28.4*
Primary balance (% of GDP)	5.4	5.7	6.6	6.7	-2.5
Public sector debt (% of GDP)	81.6	70.0	62.7	57.7	67.6

Sources: *IMF, Government of Grenada, CDB.*

*Note: e – estimate (as at April 15, 2021); *for second quarter 2020.*

GUYANA

COUNTRY ECONOMIC REVIEW 2020

Guyana dollar (GY$); United States dollar (US$).

OVERVIEW

Guyana's economic growth significantly accelerated to 43.5% in 2020. This was mainly due to the first commercial production of oil, although production was dampened by the impact of COVID-19 on oil prices. Guyana registered just over 6,300 cases of the highly infectious virus, and 164 deaths in 2020. Social distancing measures to slow COVID-19 transmission also affected the non-oil economy, with mixed performance from the traditional main sectors. The fiscal deficit widened as the Government took measures to support individuals and businesses affected by the pandemic. Debt was relatively stable, although the Government's overdraft with the Bank of Guyana (BOG) increased.

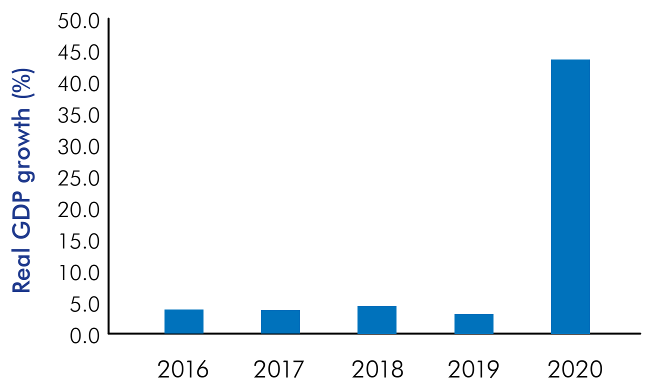
Prospects for non-oil recovery in 2021 are uncertain. Much will depend on the speed and effectiveness of vaccination against COVID-19 in Guyana and its trading partners. Oil production will increase, although the long-term prospects for the industry could be impacted by the effect of changing demand for energy as a consequence of changing work practices including remote working, and by increasing concerns about fossil fuels' impact on climate change.

KEY DEVELOPMENTS IN 2020

Oil production was the main contributor to economic growth in 2020. Despite the fall in oil price resulting from a price war between the Russian Federation and Saudi Arabia, and the collapse in global oil demand as the COVID-19 pandemic set in, the first full year of commercial oil production spurred strong economic growth of an estimated 43.5% (see Chart 1). The volume of production was not affected by the global economic conditions, although mechanical issues limited average daily production to 74,000 barrels per day (bpd) over the year, compared with a projected 102,000 bpd. In addition, some investments were put on hold.

The non-oil economy was adversely affected by COVID-19. After the first confirmed case of the virus in March, stringent containment measures were introduced aimed at controlling the spread of the pandemic. These included border closures and stay-at-home orders, which created a challenging business environment and adversely affected activity especially in construction, wholesale and retail trade, accommodation and food services, transport and storage, and financial and insurance activities. The agriculture sector recorded higher output of rice, poultry, meat and eggs but lower output of sugar and marine products. Gold, bauxite and diamond production fell. There were mixed performances in the manufacturing sector, with increased production of liquid pharmaceuticals, rum, and paints, and the falling output of stockfeed, alcoholic and non-alcoholic beverages.

Chart 1: Real gross domestic product growth



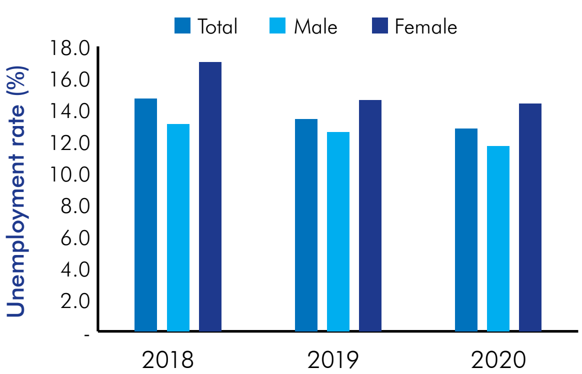
Sources: *Government of Guyana.*

Inflation fell as the pandemic dampened the oil boom. Price rises averaged 0.8% in the 12 months to December, compared with 2.1% for 2019. This was mainy due to a fall in oil prices in March.

Unemployment was much higher for women than for men. The latest available unemployment data pre-dates the start of the pandemic. Overall, unemployment was 12.8% in the first quarter of 2020, less than 13.4% in the same quarter of 2019 (see Chart 2). Female unemployment (14.4%) was higher than male unemployment (11.7%). For young people (aged 15-24), female unemployment was 36.4% and male unemployment was 25.4%. There were also gender disparities in earnings.

There are few indicators to illustrate the effect of the pandemic on employment. A survey by the Inter-American Development Bank (IDB)[1] reported that 71.6% of the households surveyed noted an income loss in April 2020, and 41.2% of households declared at least one job loss. Households reporting earnings below the minimum wage were more severely impacted. 44.8% of women lost their job, compared to 36.6% of men.

Chart 2: Unemployment



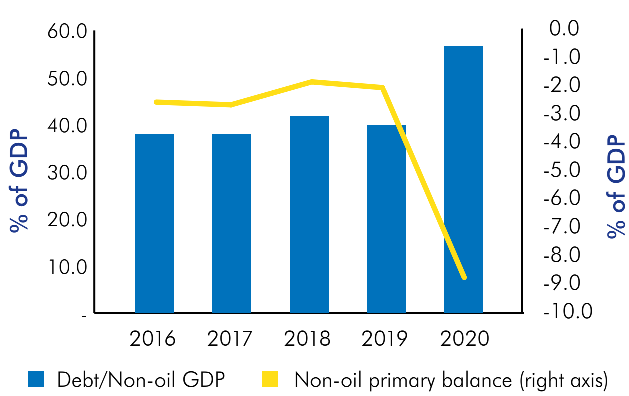
Source: *Guyana Bureau of Statistics (GBS).*

Public fiscal deficit widened. The primary deficit deteriorated to 8.6% of gross domestic product (GDP), from 2.0% in 2019 (Chart 3). Additional expenditure was necessary to address the pandemic, but this support was initially limited because of a protracted impasse over the results of the general elections held in March 2020. The new administration introduced a series of measures to cushion the impacts on businesses and households, including the removal of value added tax on electricity and water, medical supplies, and building and construction materials. In addition, GY$5 billion (bn) was allocated for cash transfers to support welfare. Total current expenditure increased by 15%, mainly due to increases in personal emoluments (4.8%); goods and services (25.2%); and transfer payments (19.7%). Total interest charges declined by 8.8%.

The pandemic contributed to a 5.5% decrease in current revenues. There were falls in receipts from value added and excise taxes, and from taxes on trade. However, income tax receipts increased. Capital expenditure increased by 14.9%, while capital revenue, grants and debt relief combined fell by 36.5%. The overall deficit was GY$90.5 billion (bn), compared with GY$29.9 bn for the same period in 2019.

The deficit was financed by an increase in public debt (see Chart 3). Domestic debt, including the overdraft with BOG, increased by 75% to GY$264.5 bn in 2020. As a consequence, domestic debt service payments were higher than in 2019. Meanwhile, external debt fell to US$1,320 mn, as disbursements from bilateral and multilateral creditors declined. External debt service payments fell by 4.0%, mainly due to the amortisation of debt to Trinidad and Tobago in May 2019.

Chart 3: Fiscal and debt performance



Sources: *BOG*

1 IDB August 2020, COVID-19 The Caribbean Crisis, Results from an Online Socioeconomic Survey

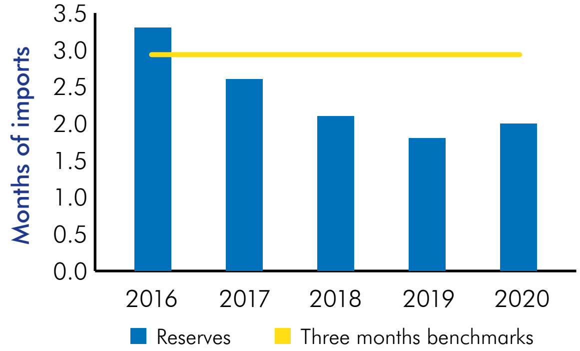
At the inception of the pandemic, BOG relaxed supervisory guidelines, and commercial banks were encouraged to introduce measures to support economic activity and alleviate the burden on borrowers. As the situation deteriorated, new measures included extending the moratoria on payments; relaxing the rules on loan renegotiation; and lowering liquidity requirements. Banks provided short-term working capital support and foregoed interest accrued on loans with outstanding balances.

Notwithstanding the easing in policy, the growth in private sector credit (2.2%) was less than for the same period in 2019 (8.6%). Loans were up for some sectors, except the personal, construction and engineering, and distribution sectors. There was also an increase in real estate mortgage loans.

At the end of September, the ratio of non-performing loans (NPLs) to total loans was 10.6%, just 0.1 percentage points lower than a year earlier. The absolute number of NPLs increased by 3.7%, mainly due to the deterioration in portfolios of three of the eight licensed depository financial institutions. NPLs were concentrated in the services and manufacturing sub-sectors. Bank capitalisation continued to be satisfactory, with the capital adequacy ratio increasing from 29.6% to 30.9% in the year to September.

The balance of payments improved to a surplus. The current account deficit shrank by more than three quarters to US$659.5 mn, on account of an increase in exports (mainly crude oil, gold and rice), and a decline in imports (largely reductions in intermediate, capital and consumption goods, related to lower fuel prices and lower economic activity following the enforced lockdown). The capital account surplus fell despite an increase in foreign direct investment, mainly because of the repatriation of profits by Esso Exploration and Production Guyana Limited. There was also some debt forgiveness. Foreign reserves stood at US$681 mn at the end of September, equivalent to two months of import cover (see Chart 4).

Chart 4: Gross foreign reserves



***Sources:** BOG*

OUTLOOK

The Government is projecting growth of 20.9% in 2021. This assumes that oil output will increase by 46.7%, with production expected to be 109,000 bpd. Plans to increase output by expanding operations to other oilfields remain in place. The Government also expects that the non-oil economy will grow by 7.3%, based on higher output from agriculture, gold and bauxite extraction, manufacturing and construction.

However, this outlook remains clouded by COVID-19 uncertainty. COVID-19 could continue to affect the oil sector through price, especially if there is a reduction in demand as work practices change. Other sectors could be affected by ongoing social distancing requirements. The development and approval of new vaccines has raised hopes for a return to near normality, but logistical issues need to be overcome to ensure a sufficiently wide rollout. About 70% of a country's population needs to be vaccinated to ensure that the entire population is protected. In the more developed countries, this might not happen until the second half of the year.

The pandemic has put government finances under increasing pressure. The Natural Resource Fund (NRF), a sovereign wealth fund set up in 2019 to manage the revenues from Guyana's newfound oil resources, has not grown as quickly as expected, due to low oil prices in 2020. Therefore, the Government will need to judiciously control its non-oil fiscal position, by prioritising its investments carefully, managing expenditure, and improving revenue collection.

A fiscal responsibility framework that constrains the annual non-oil deficit, and complements the NRF can be considered to enhance effective management of the oil wealth. Under the NRF Act, long-term fiscal transfers are determined by the expected financial return on the accumulated assets of the NRF. This envisages a transfer of around half of current oil revenue to the budget in the medium term. A complementary fiscal framework that constrains the annual non-oil deficit to not exceed the expected transfer from the NRF (i.e., a zero-overall fiscal balance), would ensure that a part of the oil revenue is saved as a buffer against shocks and for future generations. As an anchor for fiscal policy, this framework would help manage public expenditure, and prevent debt buildup at the same time as the NRF accumulates.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from a number of sources and are the latest available at time of publication. Some are subject to revision.

Selected Indicators

	2016	2017	2018	2019	2020[e]
Real GDP growth (%)	3.8	3.7	4.4	3.1	43.5
Average inflation (%)	0.8	1.9	1.3	2.1	0.8
Unemployment (%)	n.a.	12.1	14.1	13.4	12.8[§]
Primary balance (% of non-oil GDP)	-2.5	-2.6	-1.8	-2.0	-8.6
Public sector debt (% of non-oil GDP)	38.1	38.1	41.8	39.9	56.7

Sources: *BOG, GBS, Ministry of Finance, CDB.*

Notes: e – estimate (as at March 31, 2021); n.a. – not available.
[§]First quarter.

HAITI

COUNTRY ECONOMIC REVIEW 2020

Gourde (G); United States dollar (US$).

OVERVIEW

Haiti's gross domestic product (GDP) growth was derailed by the adverse effects of the COVID-19 pandemic and social unrest. The pandemic exacerbated an already weak and unstable economy. In 2020, the economy contracted by about 4.0%, complemented by a widened fiscal deficit and deteriorating external current account balance. Public debt rose as the authorities accessed concessional financing to bridge the financing gap.

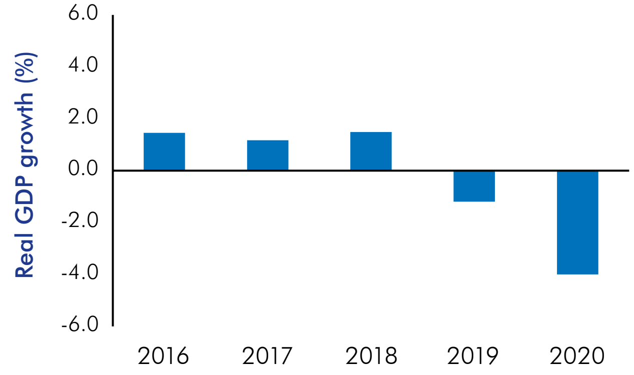
KEY DEVELOPMENTS IN 2020

The economy declined by 4.0% in fiscal year (FY) 2020[1]. This was attributed to a combination of social unrest early in the year and the adverse effects of the COVID-19 pandemic. Against a backdrop of widespread protests and protracted civil unrest, Haiti was impacted by the global pandemic, confirming its first case of COVID-19 in March. The country recorded just over 10,000 cases for the year, with 236 related deaths.

Stringent measures, which included border closures and a lockdown that involved closing schools and factories, were introduced in March to contain the spread of the virus. These measures restricted movement, lowered the demand for goods and services, introduced production disruptions while simultaneously disrupting the supply chain with major trading partners – China, Dominican Republic, and United States of America (USA).

1 FY runs from October to September.

Chart 1: Real GDP growth



Sources: *International Monetary Fund (IMF), Institute of Statistics and Informatics (IHSI).*

The secondary and tertiary sectors, particularly textiles and tourism, suffered from weak external demand induced by the pandemic. Reduced tourism receipts and textile supply chain disruptions with China and the Dominican Republic resulted in a decline in exports. Value added in the agriculture sector, which normally accounts for approximately a quarter of GDP, initially declined but was buoyed by increased rainfall in the fourth quarter of FY 2020 (July-September). On the demand side, private consumption is estimated to have fallen sharply as remittances declined due to the global economic downturn affecting more than a quarter of all Haitian households.

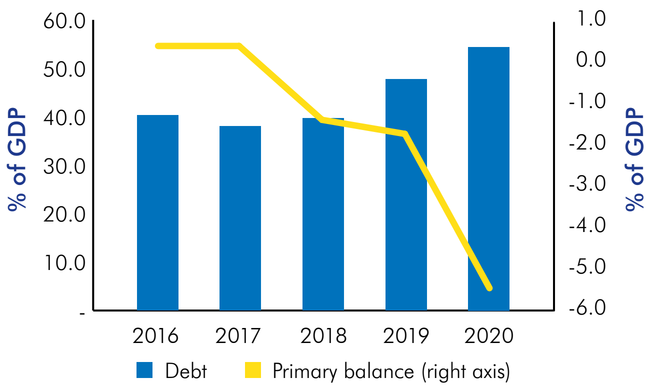
Average inflation remained high at 22.4% in 2020, up from 17.3% in 2019. A weak exchange rate, monetary financing of the fiscal deficit and a drop in food supply were the main contributing factors.

The fiscal deficit deteriorated in 2020. The primary deficit widened to 5.6% of GDP, because of higher public spending to support the Government's COVID-19 response. Expenditure increased by G63.7

billion (bn) to G169.4 bn (19.7% of GDP) from G105.7 bn (14.4% of GDP) in the previous year on account of increased expenditures in health, social programmes, and security. Tax revenue also increased to 13.8% of GDP in 2020 from 12.1% in the previous period.

Public sector debt continued its upward trend. The debt ratio increased from 47.7% of GDP in 2019 to 54.4% of GDP (see Chart 2). Within the context of the COVID-19 crisis, Haiti benefited from increased access to concessionary finance and debt forgiveness to bridge the financing gap. The IMF approved a US$111.6 million (mn) disbursement under a Rapid Credit Facility in April 2020 to ease the impact of COVID-19 on the population, and the Government was able to mobilise additional resources from other international financial institutions.

Chart 2: Fiscal and debt performance



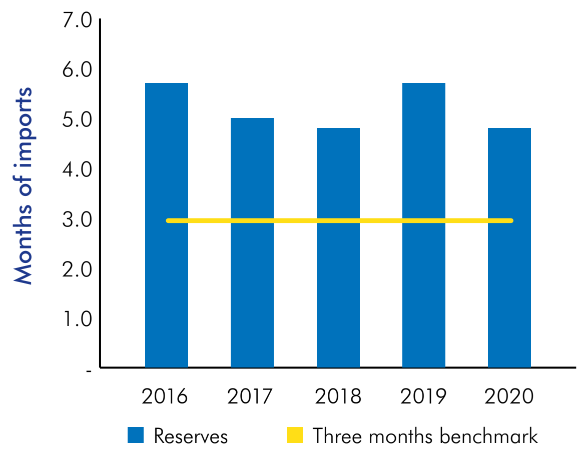
Source: *IMF.*

The Bank of the Republic of Haiti (BRH) adopted an accommodative monetary policy stance to mitigate the economic fallout from the pandemic. In March, BRH introduced liquidity measures to support the financial system. These included reduced refinance rates, lower reserve requirements on domestic currency deposits, eased loan repayment obligations for three months, and suspended fees in the interbank payment system. At its September 2020 meeting, BRH maintained its benchmark rate of 10%, having cut it from 15% in March.

The Gourde appreciated significantly in 2020. Following a steady depreciation against the United States dollar in recent years due to high inflation, the Gourde rapidly appreciated from a low of G116.8/US$ in August 2020 to G72.55/US$ at the end of December. The appreciation was largely attributed to a tightening of regulations on the foreign exchange market, and BRH interventions in the currency market.

Gross international reserves stood at US$1.9 bn or about 4.8 months of imports (see Chart 3). The current account deficit widened marginally to 2.5% of GDP in 2020 relative to 1.5% of GDP in 2019. This was driven by a drop in remittances (18.3%) and merchandise exports (15.2%). The decline in imports (14.8%) was not enough to contain the deterioration of external balances.

Chart 3: Gross foreign reserves



Sources: *IMF, World Bank.*

OUTLOOK

A modest recovery is forecast for 2021. GDP is expected to rebound by 1.2% on account of the Government's expansionary fiscal stance, a pickup in private consumption associated with higher remittance inflows as Haiti's top remittances-sending countries (Canada, France, and USA) come out of recession, and a rebound in exports, particularly in the garment and apparel sector.

However, risks to the economic outlook are stacked to the downside. A slower than expected global recovery will have a negative impact on the fragile economy. Increasing insecurity and persistent social unrest will dampen business and consumer confidence. The upcoming 2021 general elections and associated political uncertainly could also derail the economic recovery. Notwithstanding the moderate debt levels, the authorities will, in the medium term, need to sustain efforts on the fiscal front, including fiscal consolidation, given the country's fragility to economic and natural shocks.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	1.5	1.2	1.5	-1.2	-4.0
Average inflation (%)	13.4	14.7	12.9	17.3	22.4
Unemployment (%)	n.a	na	n.a	n.a	n.a
Primary balance (% of GDP)	0.3	0.3	-1.4	-1.8	-5.6
Public sector debt (% of GDP)	40.3	38.0	39.7	47.7	54.4

Sources: *IMF, IHSI, Economist Intelligence Unit, BRH.*

Note: e – estimate (as at March 31, 2021); n.a. – not available.

JAMAICA

COUNTRY ECONOMIC REVIEW 2020

Jamaican dollar (J$); United States dollar (US$). **US$1 = J$142.4**

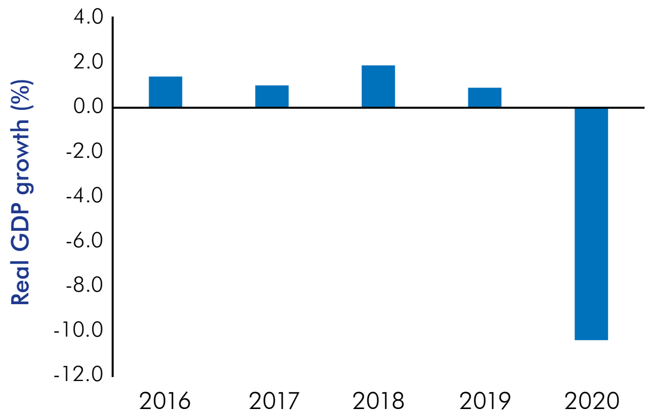
OVERVIEW

The economy was buffeted by the COVID-19 pandemic after much progress in economic stabilisation and reforms in recent years. The first confirmed case of the virus was reported on March 10, 2020. The number of confirmed cases have since increased to 12,915 persons based on 138,968 administered tests as at December 31, with 302 related deaths. The pandemic led to a sharp contraction in economic activity and rising unemployment. It disrupted fiscal operations and placed upward pressure on the public debt. Despite the adverse outcomes, prudent fiscal policy in the past and careful management of the pandemic led to an affirming of the country's credit rating of B+, although the outlook remains negative, given the uncertainty, related to the pandemic. Economic activity is expected to return to positive, albeit moderate growth in 2021.

KEY DEVELOPMENTS IN 2020

Economic activity contracted deeply. The Caribbean Development Bank (CDB) estimates a contraction of 10.2% in real gross domestic product (GDP) compared with low growth of 0.9% in 2019 (see Chart 1). The decline reflected a steep fall-off in tourism activity, as tourist arrivals fell by 66.9% (as at November). The social mobility restrictions due to COVID-19 led to adverse negative shocks to tourism and throughout the economy. In particular, manufacturing, transportation and other services were especially hard hit with double-digit declines in the second and third quarters. These declines were partly offset by higher levels of output in agriculture, forestry and fishing (2.5%) and construction activity (7.0%) in the third quarter. Value added for mining and quarrying is estimated to have grown in the fourth quarter, relative to the corresponding quarter of 2019 when the Alpart alumina refinery was closed. There were increases in both alumina and crude bauxite production.

Chart 1: Real GDP growth

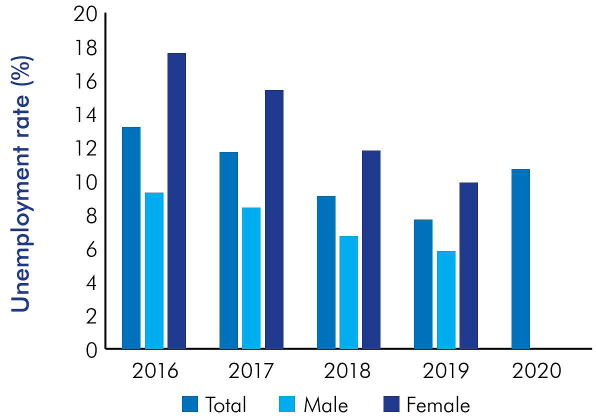


Sources: *Statistical Institute of Jamaica (STATIN), CDB.*

Inflation for the 12 months to December was recorded at 5.2%, within the target range of 4% to 6%. This outturn largely reflected higher food prices as a result of adverse weather conditions that reduced agricultural supply.

The unemployment rate increased to 10.7% in October (see Chart 2). This was 3.5 percentage points higher than the rate of 7.2% for the same period in 2019. Females were impacted slightly more by the rise in unemployment to 13.0% compared with 8.6% for males. The unemployment rate for youth aged 14-24 years rose to 27.8%, compared with 21.1% in October 2019. These trends may be due to the likelihood that women and youth are highly represented in the industries most disrupted by the pandemic (hotels and restaurants and personal services) and have borne a disproportionate share of the job losses.

Chart 2: Unemployment



Source: *STATIN.*

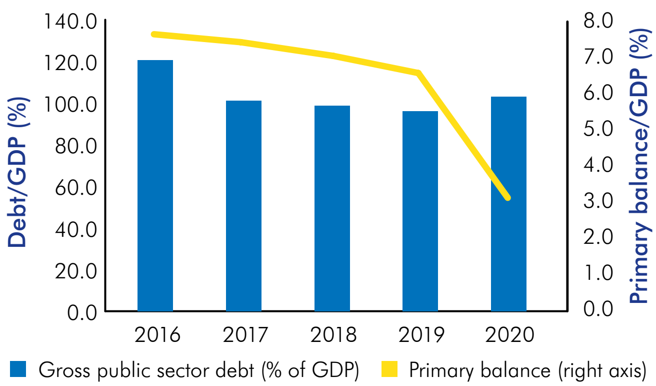
The pandemic led to a deficit fiscal outturn (see Chart 3). Fiscal operations, as estimated in the supplementary budget, is projected to yield a fiscal deficit of 3.5% for fiscal year (FY) 2020/2021; the first fiscal deficit in the past four years and a primary surplus of 3.1% of GDP. The primary surplus fell below the target of 5.4% (which was suspended) and the average balance of 7.2% over the previous six years.

Lower tax revenues and higher government fiscal stimulus spending contributed to the weakened fiscal outturn. Revenue and grants for the FY are estimated to be J$81 billion (bn) below the approved 2020/2021 budget, according to the Ministry of Finance and Public Service (MOF). Most of this decline can be attributed to lower border-related taxes, which comprise approximately 40% of tax revenue. Stimulus spending is expected to be approximately J$34 bn in FY 2020/2021. The key components of the fiscal stimulus included direct payments to households, tax relief and deferrals, social transfers, and business lending programmes.

The timeline to achieve the Government's debt target was deferred. The revised primary balance meant that the debt target of 60% of GDP by FY 2025/26 is unlikely to be attained, and therefore a two-year extension of the target timeline to FY 2027/28 was approved by Parliament. The impact of the pandemic also resulted in the revision of the fiscal rules. Public debt, which declined to 96.1% of GDP in FY 2019/2020 (its lowest level in two decades), is expected to rise to approximately 103% of GDP in FY 2020/2021.

Public spending was financed through diverse sources. The Government redirected resources from delayed capital projects and less urgent programmes, drew down on cash buffers built up over previous years, and accessed official lending, including the Rapid Financing Instrument of the International Monetary Fund.

Chart 3: Fiscal and debt performance



Source: *MOF.*

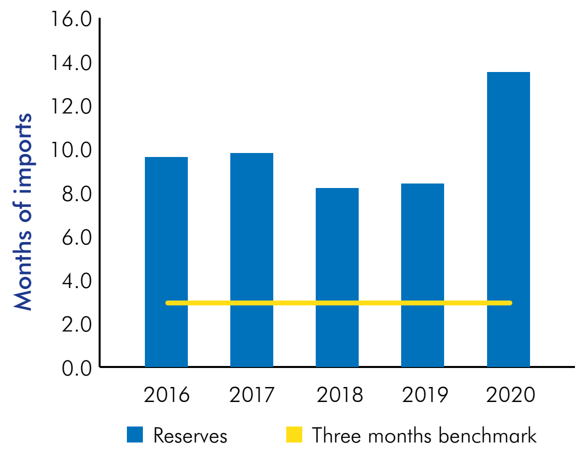
In December, Standard and Poor's (S&P) affirmed the Government's credit rating at B+, with a negative outlook. The S&P ratings considered the economic and financial realities faced by the country arising from the COVID-19 pandemic, and the actions undertaken by the Government to minimise the effects.

Accommodative monetary policy and preserving financial sector stability were prioritised to support a timely economic recovery. The Bank of Jamaica (BOJ) held its policy interest rate at 0.5% in December, and provided sizeable liquidity support in Jamaica and United States dollars (equivalent to 11% of GDP) to deposit-taking institutions (DTIs) and securities dealers. BOJ also allowed the exchange rate to adjust in response to the shock (annual average depreciation of 10.5%) but monitored and intervened, when necessary, to smooth undue foreign exchange volatility. BOJ's assessments of DTIs' balance sheets indicate they are adequately capitalised with prudent liquidity standards. The ratio of non-performing loans to total loans increased to 2.8% as at December, the highest share of non-performing facilities since end-2016 but well below the benchmark of 10%. DTIs' provisioning remained sufficient to withstand credit losses.

The current account deficit will increase but remains at a sustainable level. BOJ estimates that the current account deficit will amount to between 2% and 4% of GDP. This is supported by stronger than expected remittance inflows (which increased by 17.7% year on year as at September), lower imports, and lower levels of private capital outflows.

Foreign reserves remain above the international benchmark of three months of imports (see Chart 4). Net international reserves were US$3.1 bn as at December, an estimated 13.5 months of import coverage. The strong reserve position has been steadily growing due to sustained policy action over the past seven years and official lending.

Chart 4: Net international reserves



Source: *BOJ.*

OUTLOOK

Economic activity is expected to grow in 2021. While there remains uncertainty regarding the strength of the recovery, CDB projects economic growth of 3.0%. The improved economic prospects is premised on a gradual rise in tourist arrivals and the availability and steady roll-out of the COVID-19 vaccine. Although some capital projects have been delayed amid the pandemic, financial support to the tourism sector (part of the stimulus spending) has buoyed investor confidence. As a result, CDB expects that private investment will rebound in 2021.

Downside risks are high. Risks to the forecast include continued lockdowns in major tourism source markets, such as the United Kingdom and the United States of America, and delayed deployment of the COVID-19 vaccine. On the upside, a quicker than expected rebound in tourist arrivals and continued prudent economic management could spur investment activity and foster accelerated growth in the economy.

Public policy in the medium term will need to focus on a return to fiscal austerity, once COVID-19 disappears. As the Government remains committed to achieving its debt-to-GDP target of 60% in FY 2027/28, this will involve significantly rationalising expenditure to increase fiscal space, but may also slow the pace of the recovery.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	1.4	1.0	1.9	0.9	-10.4*
Average inflation (%)	2.3	4.4	3.7	3.9	5.2
Unemployment (%)	13.2	11.7	9.1	7.7	10.7**
Primary balance (% of GDP)	7.6	7.4	7.0	6.5	3.1
Public sector debt (% of GDP)	120.7	101.0	98.7	96.1	103.0

Sources: *STATIN, Planning Institute of Jamaica, CDB.*

*Note: *CDB estimate as at 31 March 2021. **For October 2020.*

MONTSERRAT
COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

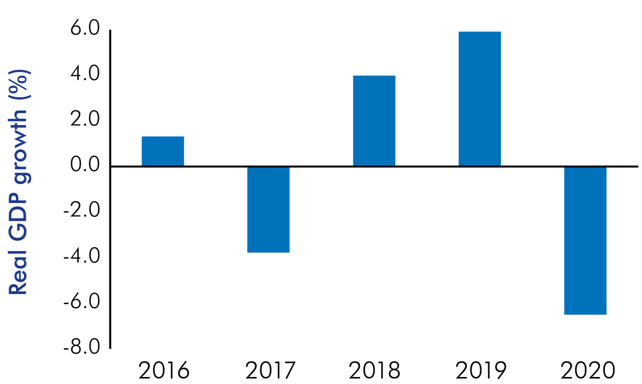
The economy contracted in 2020. The COVID-19 pandemic was the main reason for the negative impact on economic conditions. Real gross domestic product (GDP) declined. Fiscal conditions improved while the debt-to-GDP ratio remained very low. In the financial sector, credit quality was relatively unchanged, and commercial bank lending to the private sector grew. On the external side, the trade deficit narrowed.

Conditions are projected to improve in the short run. Risks to the outlook are however tilted heavily to the downside, particularly considering the ongoing COVID-19 challenges.

KEY DEVELOPMENTS IN 2020

Preliminary data shows that GDP fell by 6.5% (see Chart 1). The decline was led by contractions in most sectors. Transport, storage and communication registered a steep decline of 28.3% while value added for financial intermediation, wholesale and retail, and real estate-related activities showed declines of 5.4%, 3.0%, and 0.4%, respectively. The heavily weighted public administration, which accounts for about a third of the country's GDP, increased by 2.2% moderating the overall reduction in output growth.

Chart 1: Real gross domestic product growth

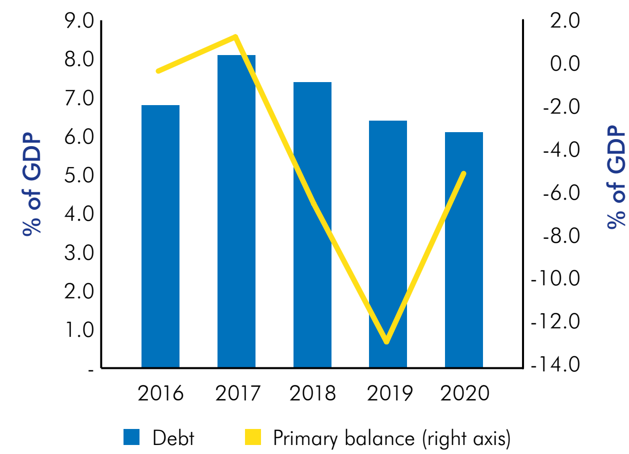


Source: *Eastern Caribbean Central Bank (ECCB).*

Preliminary data for 2020 show a narrowing of fiscal deficits (after grants). The overall deficit is estimated to have more than halved to 5.1% of GDP, compared with 12.7% in 2019. Negligible interest payments meant that the primary deficit was almost identical to the overall deficit (see Chart 2). A 37.3%-increase in grants to $106.9 million (mn) from the United Kingdom (UK) Government was the main reason for the improvement in fiscal balances. The additional resources were made available to Montserrat to assist with addressing the COVID-19 challenges. Financing of the deficit was accommodated by a drawdown of public reserves.

Total expenditure grew by 9.9% to EC$167.9 mn mainly on account of an increase in capital spending. Capital expenditure almost doubled year on year to EC$27.1 mn, supported by a higher level of capital grant receipts. Current expenditure ticked up by 2% to EC$140.0 mn, led mainly by additional outlays on good and services, consistent with the Government's effort to fight the COVID-19 pandemic. Meanwhile, total revenue and grants rose by 22.8% to EC$159.2 mn. Of that increase, current revenue contributed a mere 1%, rising to EC$52.2 mn.

Chart 2: Fiscal and debt performance



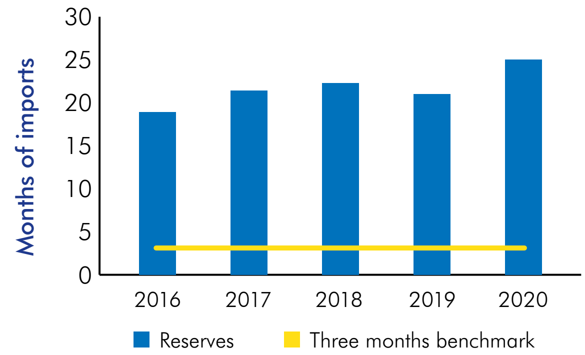
Source: *ECCB, Caribbean Development Bank (CDB) staff calculations.*

Public sector debt declined. As a share of GDP, debt inched down to 6.1% from 6.4% in 2019, as the Government and public corporations continued to pay down their obligations without incurring additional borrowings.

The financial sector remained relatively stable. At end-December, bank liquidity, measured by the ratio of liquid assets to total assets, was 78.2%, seven percentage points higher than the outturn in 2019. Meanwhile, the ratio of non-performing loans to total loans, at 5.0%, remained below the regulatory benchmark. Commercial banks' lending to the private sector rose marginally by 0.6%, led by borrowing mainly by households for investments in property.

The trade deficit narrowed while visitor expenditure declined. The trade deficit fell slightly to EC$68.6 mn, compared with EC$72.8 mn in 2019. Meanwhile, consistent with a marked reduction in visitor arrivals, there was a steep decline of 48.6% year on year in visitor expenditure at year end. Imputed international reserves remained below the recommended three months of import cover.

Chart 3: Imputed foreign reserves



**Data as at March 2021.*
Source: *ECCB.*

OUTLOOK

Growth prospects are positive, but risks are tilted heavily to the downside. The economy is projected to grow by 4.5% in 2021, driven by recovery in all key sectors. However, the continued presence of COVID-19 could derail or delay the recovery. Related to the prospect of better economic conditions, fiscal conditions could improve. However, this outcome is, in part, contingent on the level of grant receipts from the UK. Given its heavy reliance on grant financing, any meaningful reduction in these flows would constrain the Montserrat Government's operations.

DATA

The table below summarises the key economic indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	1.3	-3.8	4.0	5.9	-6.5
Average inflation (%)	-0.3	1.2	1.5	0.6	-2.5
Unemployment (%)	n.a	n.a	n.a	n.a	n.a.
Primary balance (% of GDP)	-0.4	1.2	-6.5	-12.7	-5.1
Public sector debt (% of GDP)	6.8	8.1	7.4	6.4	6.1

Sources: *ECCB, CDB.*

Note: e – estimate (as at April 15, 2021); n.a. – not available.

SAINT LUCIA

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

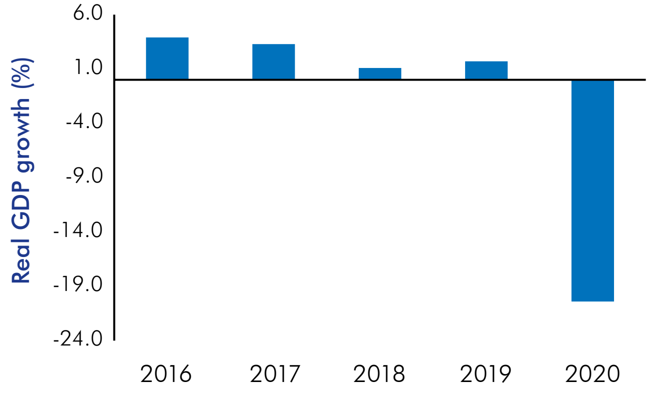
Economic conditions in Saint Lucia were severely compromised in 2020 due to the impact of the global COVID-19 pandemic. Real gross domestic product (GDP) is estimated to have plummeted by 20.4%, on account of a major contraction in tourism, the main driver of economic activity. Consequently, fiscal conditions deteriorated markedly, and public debt increased. In the financial sector, commercial bank credit to the private sector grew while external conditions worsened.

The economic outlook is cautiously optimistic. Growth is projected to rebound to 3.4% in 2021. However, risks to the outlook are tilted heavily to the downside largely due to the ongoing impacts of COVID-19 and the country's high vulnerability to natural hazards.

KEY DEVELOPMENTS IN 2020

Public health measures to mitigate the spread of COVID-19 severely constricted economic activity. As a result, preliminary estimates of real GDP indicate that the economy shrank by 20.4% (see Chart 1). Tourism, the leading economic sector, was particularly hard hit. Stay-over tourist arrivals recorded a 65% reduction year on year while cruise passenger arrivals fell by 62%. Other related ancillary sectors were similarly affected. The wholesale and retail, and transport and storage sectors declined by an estimated 11% and 36.9%, respectively. Construction activity was lower by 9.9%, and manufacturing contracted by approximately 10%. Agriculture, livestock and forestry output also recorded a 10% decline relative to the previous year's outturn.

Chart 1: Real gross domestic product growth



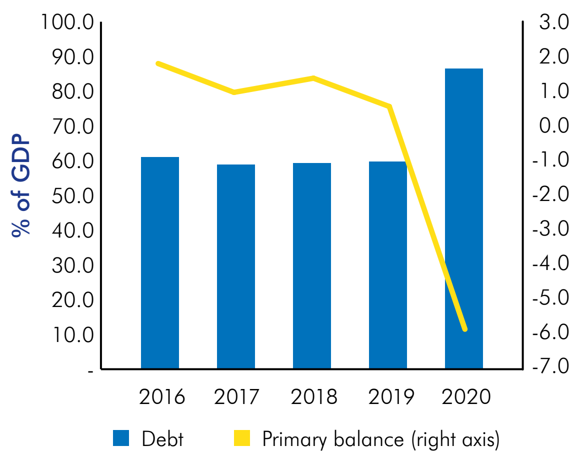
Sources: *Central Statistics Office (CSO), Eastern Caribbean Central Bank (ECCB).*

Consumer price index data show that prices fell relative to the corresponding period of 2019. Prices were 1.8% lower mainly due to a fall in prices in three of the four most heavily weighted sub-indices: housing, water, electricity, gas and other fuels; transport; and communication. A slight uptick in the cost for food and non-alcoholic beverages tempered the overall deflation. The labour market was significantly impacted by the prevailing economic conditions, occasioned by the pandemic reversing gains made in previous years. The unemployment rate climbed to 21.7% in 2020 from 16.8% in 2019.

The deterioration in economic conditions challenged the Government's operations. Preliminary data for the year indicate a weakening in fiscal performance. The overall deficit widened significantly to 9.6% of GDP while the primary balance switched to a deficit of 5.9% of GDP (see Chart 2). A combination of a steep decline in revenues, which fell by an estimated 19.7% ($226.5 mn), and a 4% ($58.3 mn) rise in total spending, accounted for the adverse fiscal outturn. The fall in current revenue reflects double-digit reductions in most major tax types. Inflows of budgetary support from multilateral lending agencies, and the repurposing of bilateral loans, supported the Government in its COVID-19 fight. As such, considerably higher levels of spending on goods and services (21.3%), and for capital outlays (13.4%), were recorded. Spending on goods and services were mainly targeted at managing the spread of COVID-19. Meanwhile, the rise in capital expenditure reflected efforts (as part of its Economic Recovery and Resilience Plan) to fast-track shovel-ready projects to stimulate economic activity and employment.

In line with a worsened fiscal outturn, public sector debt recorded a considerable rise. Public sector debt, as a percentage of GDP, climbed to 86.5% in 2020, compared with 59.7% a year earlier. Government increased its borrowing to finance the larger than expected financing requirement.

Chart 2: Fiscal and debt performance

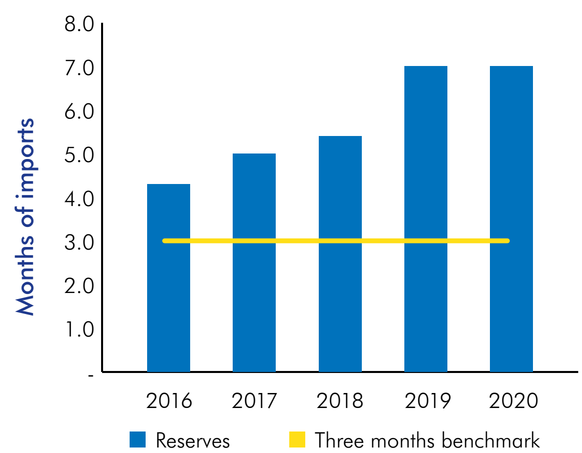


***Sources:** Ministry of Finance, and Caribbean Development Bank (CDB) Staff Calculations.*

The slump in economic activity adversely impacted the banking sector, although the sector remained relatively stable. End of year data show that the capital adequacy ratio was marginally lower at 14.9% but remained above the regulatory benchmark. Similarly, liquidity, measured by the ratio of liquid assets to total assets, ticked down to 37.8% compared with 40.7%. Despite an arrangement between the ECCB and the Bankers' Association, which provided loan repayment moratoria for customers for most of 2020, the ratio of non-performing loans to gross loans rose to 11.3% from 8.2% at the end of 2019. Meanwhile, domestic credit showed a significant increase of 13.2%, led by net lending to the Government, which rose by 17.7%. Credit to the private sector was also higher, by 2.7%. The prime lending rate remained at 9.0%, and the spread between the weighted average lending and deposit rate narrowed by 61 basis points to 5.5%.

The external position deteriorated, reflecting the impact of COVID-19. Consistent with the decline in tourist arrivals, total visitor expenditure dropped precipitously by 68% year on year. By contrast, the merchandise trade deficit narrowed by 11.5% relative to the previous year but was not sufficient to offset the steep reduction in the services trade. This outcome resulted from lower exports and imports by 12.9% and 22%, respectively. At end-December, imputed international reserves provided import cover for goods trade well above the three-month benchmark (see Chart 3).

Chart 3: Imputed gross foreign reserves



**Data as at March 2021.*
***Sources:** ECCB.*

OUTLOOK

The economy is projected to grow by 3.4% in 2021. This outlook is contingent primarily on a robust public sector investment programme, driving construction activities, with the attendant positive spill-over effects on other sectors. Other contributions could come from a modest recovery in tourist arrivals, particularly during the fourth quarter of the year, depending on progress in vaccination for the virus in source markets and locally. An improved economic environment would augur well for the public revenue collection to offset planned higher capital spending and improve fiscal and debt balances. Notwithstanding, ongoing liquidity challenges presented by short-term maturing debt could constrain fiscal operations in 2021. The persistence of COVID-19 could significantly derail economic recovery prospects. Coupled with the ever-present risk of exposure to natural hazard events, these present considerable downside risks.

DATA

The table below summarises the key economic (and social) indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Data for 2020 are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	3.9	3.3	1.1	1.7	-20.4
Average inflation (%)	-3.1	0.1	1.9	1.9	-1.8
Unemployment (%)	21.3	20.2	21.5	16.8	21.7
Primary balance (% of GDP)	1.8	0.9	1.3	0.7	-5.9
Public sector debt (% of GDP)	61.0	58.9	59.4	59.7	86.5

Sources: *SCSO, ECCB, CDB.*

Note: e – estimate (as at April 15, 2021); n.a. – not available.

ST. KITTS AND NEVIS

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

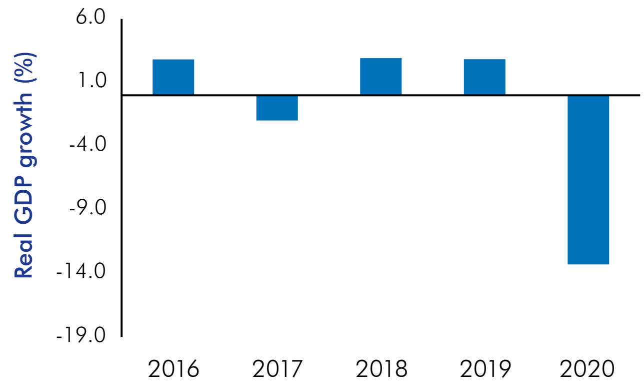
In 2020, the economy contracted by 13%. The country kept its borders closed to tourism from the end of March to October to contain the spread of COVID-19. Because of this decision, and of actions to restrict non-essential activity and maintain physical distancing, confirmed cases of COVID-19 were limited to 32 and there were no related deaths, but most sectors of the economy experienced double-digit decline.

The year 2020 represented a rupture for the fiscal sector as the overall balance swung to a deficit for the first time since 2010. All major revenue categories recorded double-digit decreases while current expenditure increased amid pandemic-related spending.

KEY DEVELOPMENTS IN 2020

The economy contracted in 2020 following moderate growth in the previous year. The Caribbean Development Bank (CDB) estimates a contraction of 13.0%, after 2.1% growth in 2019 (see Chart 1). The contraction was driven by a COVID-19-induced drop in tourism as the number of stay-over arrivals decreased by an estimated 72.1% to less than 37,000, mainly due to a prolonged border closure. For the same reason, cruise ship passenger arrivals fell by 74.6% and total visitor expenditure declined by 74.6%. The halt to tourism activity and restrictions on the mobility of the local population to counter the spread of COVID-19 were both major contributors to the contraction in the value added of hotels, which decreased by 74.5%, to the lower activity in the wholesale and retail trade, and in the transport, storage and communications sectors. Construction activity fell by 16.0%, even though the Government fast-tracked public investments to help stabilise employment levels in the sector.

Chart 1: Real gross domestic product growth



Sources: *Eastern Caribbean Central Bank (ECCB), CDB staff estimates.*

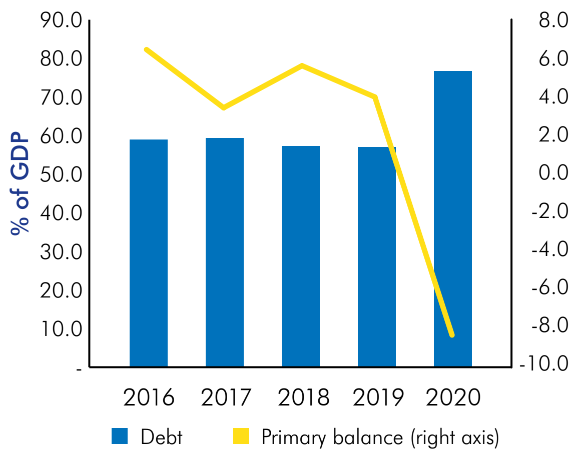
Consumer prices dropped, on average, by 1.1% following a 0.5% fall in 2019. The drop in prices was especially pronounced during the lockdown in the first half of the year. Prices for transport decreased by 7.2% due to lower oil prices; and prices for housing, utilities gas and fuels by 0.3%. Prices for food and non-alcoholic beverages increased a meagre 0.2% while prices for communication rose by 3.8% due to higher pandemic-related demand.

The overall fiscal position deteriorated in 2020 (see Chart 2). CDB estimates that the public overall fiscal deficit widened to 6.7% of gross domestic product (GDP). Citizenship-by-Investment (CBI) revenue of EC$269 million (mn) mitigated the pandemic's dramatic effect on public finances.

Tax revenue declined by 18.5% due mainly to the economic decline, but the Government managed to keep current expenditure growth flat despite the introduction of broad-based social support measures to alleviate the impact of COVID-19. Total expenditure fell by 9.5% as capital expenditure dropped 30.5%.

The public sector debt-to-GDP ratio is estimated to have increased to 67.7% from 57.4% in 2019, as approximately half of the public primary deficit was financed by drawing down on cash reserves. In the absence of fiscal consolidation measures, fiscal sustainability continues to rely crucially on CBI revenue as the underlying fiscal position, excluding CBI, displayed deficits averaging 7.7% of GDP between 2015 and 2019, and close to 18% in 2020. CBI revenue accounted for 29% of total public revenue in the 2016-2020 period.

Chart 2: Fiscal and debt performance

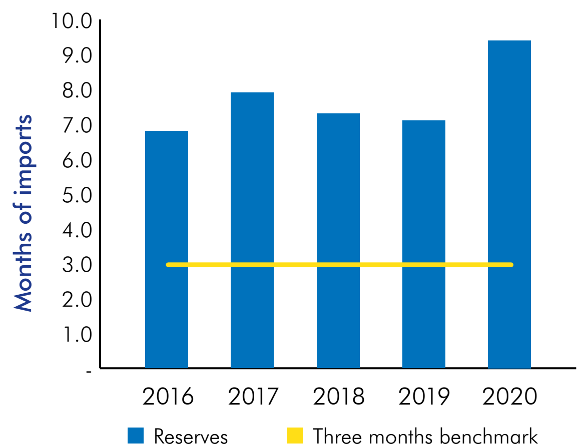


***Sources:** ECCB, CDB staff estimates.*

The financial sector's abundant capital and liquidity levels continue to be overshadowed by serious challenges to credit quality. As at June 2020, the liquid assets ratio stood at a very high 59.1%, and capital adequacy increased to 19.0% of risk-weighted assets (from 17.8% in 2019). Non-performing loans (NPLs) as a share of total loans rose to a worryingly high 25.0% (from 24.0%). NPLs net of provisions as a share of banks' capital declined marginally but remained above 50%, seriously constraining the banking sectors capacity to advance loans to households and businesses. Loans to domestic non-financial corporations fell by 3.0% and loans to households declined by 0.6% between January and July.

Gross international reserves are expected to have declined in 2020. International reserves stood at EC$1,036.3 mn in 2019, corresponding to 7.4 months of imports (see Chart 3), but the border closure in 2020 led to an EC$440-mn drop in visitor expenditure. The current account deficit is expected to widen from 2.1% of GDP in 2019 amid a widening services balance deficit while the goods balance deficit is expected to have narrowed as the trade deficit with the United States of America (USA) declined by around EC$135 mn[1].

Chart 3: Gross foreign reserves



***Sources:** ECCB, CDB staff estimates.*

OUTLOOK

CDB projects a solid economic recovery of 4.4% in 2021. Tourism activity is expected to rebound from low levels given better prospects to combat the global pandemic in 2021, but a meaningful recovery over the medium-term might be slow. The speed of recovery of tourism is also contingent on the strength of the economic rebound in the main tourism source markets, which in turn depends on the success of mainly Canada, the United Kingdom and the USA in dealing with the pandemic locally.

Hotels and restaurants, the distributive trades and transport, storage and communications are all expected to gain from a recovery of tourism and a stabilisation in domestic activity. The return of several

1 The country's goods balance deficit versus the rest of the world stood at EC$743 mn in 2019.

hundred students of the offshore medical schools to the country at the end of summer 2020, will benefit the domestic economy. The construction sector is also likely to gain from a modest recovery in tourism activity as several tourism-related developments are expected to see an increase in activity in 2021.

The Government is expected to keep capital expenditure at elevated levels over the medium term to stimulate employment and economic growth. In 2020, the Government appointed more than 3,000 workers of the Skills Training Empowerment Programme as permanent government auxiliary workers. Further to this, ECCB and the Government extended the pandemic-related debt service moratorium for households and businesses well into 2021 to help stimulate the economy.

Revenue from the CBI programme significantly supports the Government in the response to the pandemic, in its capital investment and social programmes. However, CBI revenue, which is subject to external conditions, constitutes significant downside risks for economic, fiscal, and social developments. Fiscal sustainability, given the relative volatility in CBI revenue, could be better safeguarded by broadening the revenue base; especially by lowering the fiscal leakage from tax exemptions on international trade[2].

Structural reforms remain vital for improving the growth outlook. A better business environment will help achieve this. St. Kitts and Nevis ranks 139th out of 190 countries in the 2020 World Bank Doing Business index. Notwithstanding the passing of legislation for introducing a dedicated land registry in 2017, registering a property remains burdensome. Paying taxes and getting electricity are further main hurdles after opening a business.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. 2020 data are estimates.

Selected indicators

	2016	2017	2018	2019	2020^{e}
Real GDP growth (%)	2.8	-2.0	2.9	2.8	-13.3
Average inflation (%)	-0.5	0.5	-0.9	-0.5	-0.6
Unemployment (%)[3]	2.0	n.a.	n.a.	n.a.	n.a.
Primary balance (% of GDP)	6.3	3.4	5.7	4.1	-8.4
Public sector debt (% of GDP)	59.0	59.3	57.3	57.0	76.7

Sources: *ECCB, Statistics Department, CDB staff estimates.*

Note: e – estimate (as at April 15, 2021); n.a. – not available.

2 Revenue loss from total tax exemptions in 2016 was estimated at 6.4% by the International Monetary Fund (IMF). IMF St. Kitts and Nevis – 2017 Article IV Consultation Staff Report www.imf.org.

3 No unemployment rate was published since 2016.

ST. VINCENT AND THE GRENADINES

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

The COVID-19 pandemic has had negative impacts on St. Vincent and the Grenadines although the overall economic decline was relatively moderate at 2.7%. The country recorded its first case of the virus on March 13, 2020. By the end of the year, the number of confirmed cases had climbed to 115 persons but with no related deaths. The pandemic took a heavy toll on the tourism sector, which declined steeply by 55%. The relatively low weight of hotels and restaurants (under 3%) in the gross domestic product (GDP), limited its contributing impact to the overall reduction in GDP. At the same time, the lack of tight restrictions on economic activities, such as lockdowns, meant that businesses continued to operate during the year. Lower revenues and higher public spending associated with crisis response measures, weakened the fiscal and debt positions.

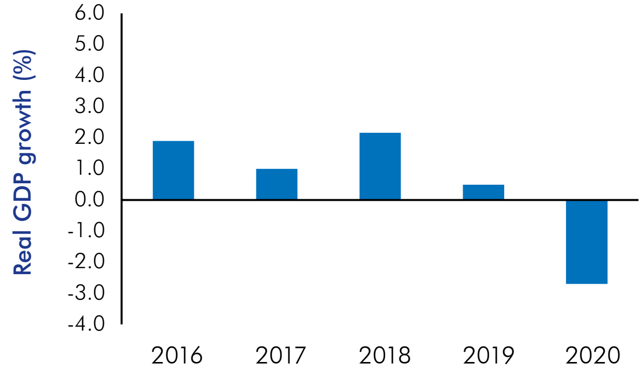
KEY DEVELOPMENTS IN 2020

Economic growth contracted in 2020. Provisional estimates point to a decline in real GDP by 2.7%, compared with marginal growth of 0.5% in 2019 (see Chart 1). This outturn was underpinned by declines in several sectors. Hotels and restaurants value added declined steeply by 55%. Stay-over visitor arrivals fell by 69.3% to 26,153, with arrivals from the United States of America falling by 69% and the United Kingdom by 59.1%. Similarly, cruise ship passengers declined by 60.2% to 101,579. Although the country's borders remained open, global travel restrictions, related to the pandemic, halted travel and tourism-related activity and cruise companies suspended operations, with adverse spill-over effects across the economy and particularly on local consumption demand. Value added in the heavily weighted transport, storage and communications, and wholesale and retail trade contracted by 6.9% and 1.3%, respectively. Meanwhile, manufacturing fell by 9.5%, underscored by reductions in the output of building materials, beverages, and feeds. Construction decreased by 1.7%, as significant private and public sector projects were delayed, including the Port Modernisation Project.

The agriculture, livestock and forestry sector was adversely impacted by lower banana and crop production. Value added in the sector fell by 12.6%. Banana output was reduced as major regional export markets contracted. At the same time, output of other crops decreased following drought conditions witnessed during the first half of 2020.

Fishing grew by 19.1%, marking the fourth consecutive year of growth propelled by increasing demand and improved processing and marketing. The fishing industry, notwithstanding its low contribution to GDP, has expanded into a key economic activity in terms of employment generation, contribution to food supply and foreign exchange earnings especially through intraregional trade. Financial intermediation and public administration were among the other sectors that expanded.

Chart 1: Real gross domestic product growth



***Sources:** Eastern Caribbean Central Bank (ECCB), Caribbean Development Bank (CDB) Staff estimates.*

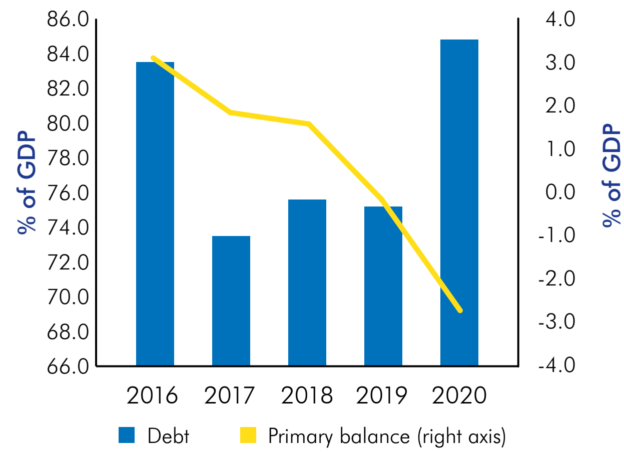
Consumer prices (period average) declined by 0.6%, compared with an increase of 0.9% in 2019. This turnout is reflective of a decrease in the highest weighted index of housing, utilities, gas and fuels, as well as a fall-off in transport. In contrast, price increases were recorded for other key sub-indices hotels and restaurants; health; and food and non-alcoholic beverages.

As a means of mitigating the effects of the pandemic, the Government introduced a recovery and stimulus package. The package was costed at approximately EC$77 million (mn) or 3.6% of GDP. Fiscal measures included: (a) increased health spending; (b) waived value added tax and duties on health and hygiene products; (c) direct support for the hardest-hit sectors, including tourism, transport, and agriculture; (d) expanded social safety net programmes; and (e) deferred payment of personal income taxes and various license fees.

Significant public resources were spent to bolster healthcare and social protection amid COVID-19, weakening public finances. Higher pandemic-related expenditure led to the more than doubled increase in the overall deficit to 5.1% of GDP, compared with 2.4% of GDP at the end of 2019. Current expenditure rose by 5.9% to EC$638 mn due to higher spending on compensation of employees (6.5%) on account of salary increases for public sector workers and new hiring, as well as goods and services (13%). In addition, transfer payments grew by 5% of which social assistance benefits rose by 43.5%. Moreover, there was also an uptick in capital spending (50.3%) consistent with ongoing work on major capital projects. Current revenue rose marginally by 0.8% to EC$605.3 mn.

The debt-to-GDP ratio increased to 84.8%, from 75.2% in 2019 (see Chart 2). This turnout is underpinned by additional borrowings undertaken to finance-related COVID-19 response support, as well as key infrastructure development. To meet the higher financing needs, the Government received support from its multilateral development partners, including CDB.

Chart 2: Fiscal and debt performance



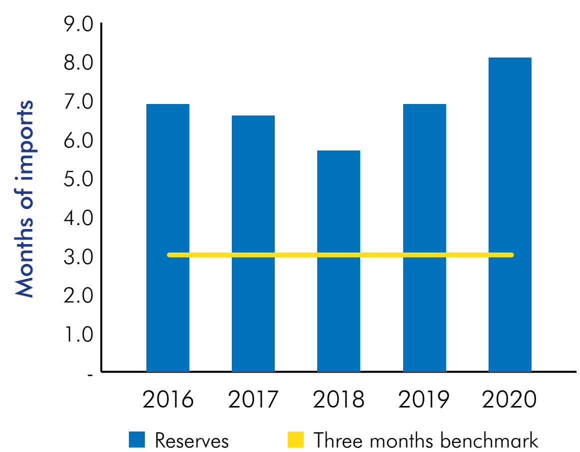
***Source:** Government of St. Vincent and the Grenadines.*

Despite the challenges of the pandemic, the financial sector continues to be highly liquid and have adequate capital buffers. The banking system remained liquid in 2020 as the ratio of liquid assets to total assets increased by 2.6 percentage points to 44%. Moreover, financial institutions remained well capitalised, with a capital adequacy ratio of 16.1%, which is above the regulatory minimum requirement of 8%. The ratio of non-performing loans (NPLs) to gross loans remained above the 5% prudential limit, reaching 7.4% at the end of 2020. The upward movement in the NPL ratio was in spite of the introduction of loan repayment moratoria launched in March 2020, and subsequently extended to 2021. A waiver of late fees and charges were also offered.

Amid the challenging business environment due to the pandemic, banks faced reduced profitability. The banking system witnessed negative impacts to several revenue flows coupled with increased credit loss expenses to cater for potential loan losses. Hardship relief programmes and waivers on fees and commissions would have eroded earnings accounting, in part, for the fall-off in return on average assets, which fell from 1.1% in 2019 to 0.1%.

The imputed share of the Central Bank's reserves remained above the benchmark of three months of imports (see Chart 3). The merchandise trade deficit declined by 16.2% to reach EC$671.8 mn at end-December due to lower import payments.

Chart 3: Imputed gross foreign reserves



Source: *ECCB.*

OUTLOOK

The economy faces uncertain economic growth prospects. On April 9, 2021, the La Soufrière volcano on mainland St. Vincent erupted explosively, after exhibiting elevated seismic activity since the last quarter of 2020. It is estimated that approximately 20,000 persons needed to be evacuated from the high-risk (red-zone) areas in the northern third of the island. While the impacts are still unfolding this eruption has resulted in severe damage to infrastructure, forestry, and agriculture, resulting in further loss of livelihoods. At the same time, COVID-19 continues to have adverse impacts following a significant uptick in infections during the first quarter of 2021 to reach 1,750 cases, with 10 related deaths. The evacuation and concentration of persons in shelters and displacements because of the ongoing eruptions, add new risks for COVID-19. The heightened uncertainty due to developments, related to the evolving volcano eruption situation, the COVID-19 pandemic and the risk of extreme weather-related events could further dampen economic performance, weaken public finances, and undermine the country's sustainable development objectives.

DATA

The table below summarises the key economic indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision and the 2020 data are preliminary estimates.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	1.9	1.0	2.2	0.5	-2.7
Average inflation (%)	-0.1	2.2	2.3	0.9	-0.6
Primary balance (% of GDP)	3.2	1.9	1.5	0.1	-2.8
Public sector debt (% of GDP)	83.5	73.5	75.6	75.2	84.8

Sources: *Government of St. Vincent and the Grenadines, ECCB, International Monetary Fund, CDB.*

Note: e – estimate (as at April 15, 2021)

SURINAME

COUNTRY ECONOMIC REVIEW 2020

Suriname dollar (SR$); United States dollar (US$).

OVERVIEW

The economy contracted by more than 12% in 2020. Declines in the mining, manufacturing, transport, and distributive trades sectors underpinned the sharp economic contraction. 2020 was characterised by increasing fiscal woes and declining foreign exchange reserves as the Government failed to service some of its commercial debt, triggering downgrades of its credit rating to selected default by the major rating agencies. Weak macroeconomic conditions were aggravated by the impacts of the global health pandemic, that took hold in 2020, and which also affected growth. Economic recovery, though uncertain, hinges on needed policy and structural reforms to, *inter alia*, narrow imbalances, restore stability and strengthen the country's economic competitiveness to support stronger private sector-led, inclusive and sustainable growth. Steps to better control and end the ongoing health crisis are also paramount.

KEY DEVELOPMENTS IN 2020

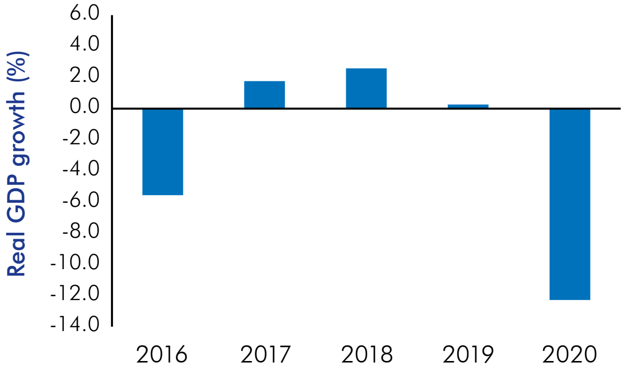
The economy contracted, following meagre growth in 2019. The Caribbean Development Bank (CDB) estimates that the contraction amounted to 12.3% in 2020, after 0.3% growth in 2019 (see Chart 1).

Suriname was among the Caribbean countries heavily impacted by the global COVID-19 pandemic. Suriname confirmed its first imported COVID-19 case in March. At year end, there were a total of over 6,200 confirmed cases (1.1% of the population), with 122 related deaths. The first wave lasted three months and peaked in August putting the health care system under pressure and leading to a more protracted lockdown than in many other Caribbean countries. The authorities implemented social distancing measures and restrictions, including curfews, shutdowns, and limited opening of non-essential business operations, to curb the spread of the outbreak. A second and shorter wave erupted in December. The impact of the lockdown on the economy was compounded by businesses' lack of access to foreign exchange and by institutional uncertainties amid the transition to a new administration following the holding of general elections in May.

The largest single contributor to economic activity and to foreign exchange earnings – the gold industry – is expected to have declined by approximately 10% in 2020, notwithstanding record-high international gold prices[1]. Mining and gold production were negatively impacted by halts in activity due to health, social and security-related issues, while production costs increased by approximately 15%. The lockdown also led to estimated declines of 27.7% in distributive trades, 23.8% in construction, and 15% in transport activities. Measures to contain and mitigate the pandemic caused a 10% expansion in health and social work and a 15% rise in the activity of the public administration.

1 The average 2020 gold prices stood at US$1,772 per troy ounce, 27.2% higher than in 2019 and the highest ever on record.

Chart 1: Real gross domestic product growth

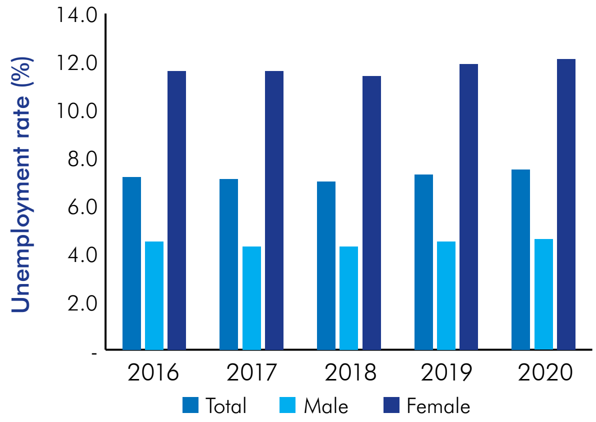


***Sources:** General Bureau of Statistics (GBS), CDB staff estimates.*

Average consumer prices rose by 34.9%, following a 4.4% increase in 2019. The strong rise in prices was mainly due to depreciation of the Suriname dollar versus the United States dollar in the parallel market, largely confirmed by a devaluation of the official exchange rate from SR$7.52 to SR$14.29 versus US$1 in September[2]. The depreciation was fuelled by the acute shortage of foreign exchange in the domestic economy. Given the very high import content of the local economy (imports of goods and services averaged 80.5% of gross domestic product (GDP) between 2015 and 2019), the exchange rate adjustment and disruptions to the flow of goods led to a spike in inflation.

Unemployment rose in 2020. The International Labour Organisation (ILO) estimates a rise in the unemployment rate to 7.5% from 7.3% in 2019 (see Chart 2). The female unemployment rate was estimated at 12.1%, much higher than the male rate at 4.6%. The International Monetary Fund (IMF) estimates a much higher unemployment rate of 11.2%, up from 9.0% in 2019. Social support measures to mitigate the impact of the COVID-19 crisis were implemented only towards the end of the second quarter and included mainly income top-up for pandemic-related job losses and food parcels for vulnerable groups. Other social safety nets included higher nominal pay-out levels for general child benefit, general old age support, financial assistance for persons with disabilities, and general social welfare although the purchasing power of these increases were mostly erased by the effects of a weaker currency.

Chart 2: Unemployment



***Source:** ILO.*

The public fiscal position worsened dramatically after years of persistent and high deficits. CDB estimates a public overall fiscal deficit of 26.4% of GDP (see Chart 3). Total revenue is estimated to have decreased by 18.7% as tax revenue fell by 24.9%. Taxes on income and profits dropped by 31.8%, taxes on international trade by 21.1%, and taxes on domestic goods and services by 13.1%. Non-tax revenue declined slightly by 1.4%, supported by almost stable royalties from resource activities. Mining revenue was 0.1% higher, while non-mining revenue dropped by 26.9%. Current expenditure rose by 31.6%, driven mainly by higher personnel cost and by increases in transfers and subsidies amid COVID-19. The rise in total expenditure contrasted with a 72.4% drop in capital investment.

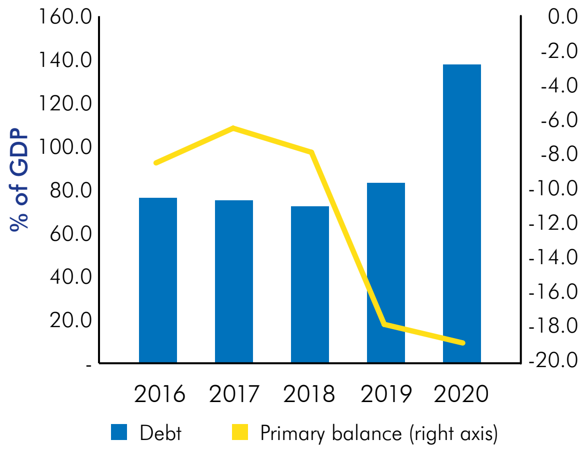
The Government's debt-to-GDP ratio jumped to 137.7% in 2020 from 83.1% in 2019. The devaluation of the exchange rate contributed 44.8 percentage points (pp) to the increase and the primary deficit added 19.0 pp while nominal GDP growth subtracted 14.2 pp from the debt ratio[3]. Failure to service debt obligations led to downgrades of the sovereign credit rating, undermining investor confidence. Investors agreed to restructure two major

2 As of March 2021, a multiple exchange rate arrangement was introduced.

3 Nominal GDP expanded by 20.6% as inflation increased by 34.9% on average.

foreign currency bond issues, and negotiations began for a financial aid package with the IMF and other international financial institutions (IFIs)[4].

Chart 3: Fiscal and debt performance

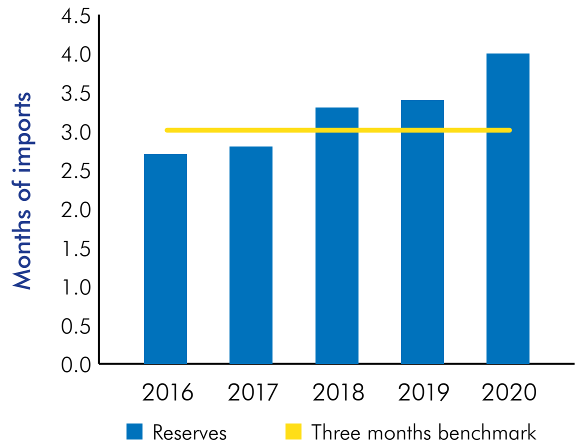


Sources: *Ministry of Finance (MOF), CDB staff estimates.*

The financial sector is characterised by low but steadily rising capital levels. As per June, capital adequacy increased to 11.7% of risk-weighted assets (from 11.0% in June 2019 and 9.1% in June 2018) and the liquid assets ratio improved to 49.1% from 43.5% a year before. Non-performing loans (NPLs) as a share of total loans were up to 13.5% from 11.3%, and NPLs net of provisions as a share of banks' capital climbed to 46.2% from 36.8%. The Central Bank of Suriname (CBS) and the Suriname Bankers Association agreed on a six-month debt moratorium for customers facing financial difficulties.

Gross international reserves declined in 2020 but import coverage increased. Import coverage increased even as reserves fell due to a 31.8% drop in imports (see Chart 4). Official reserve assets stood at US$584.7 million (mn) in December (down from US$647.5 mn in 2019), but unencumbered reserves (which exclude banks' required reserves) were estimated at only US$100 mn, or one month of imports, implying a strong drain of foreign currency.

Chart 4: Gross foreign reserves



Sources: *CBS, CDB staff estimates.*

OUTLOOK

CDB projects a weak economic recovery of 1.0% in 2021. High gold prices[5] are expected to facilitate a recovery in the mining and manufacturing sectors. The broader economy will be held back by scarcity of foreign exchange, crowding out of private investment amid a large fiscal deficit, and a weak business and institutional environment. Developments regarding COVID-19 add a further layer of uncertainty to the complex environment and constitute a downside risk to the growth forecast.

The economic recovery in 2021 could be stronger if the Government can negotiate a policy and financing agreement with the IFIs to support a broad-based adjustment programme. IFI financing and oversight of the Government's adjustment programme will be key towards restoring fiscal and macroeconomic stability, expanding fiscal space and facilitating a transition to higher economic growth and social development in the country.

4 Successful consent solicitation to international investors, December 10, 2020, finance.gov.sr.

5 As per February 3, 2021, the price of US$1,835 per troy ounce lies 32.2% above the five-year average price between 2016-2020 of US$1,388.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. 2020 data are estimates.

Selected indicators

	2016	2017	2018	2019	2020[e]
Real GDP growth (%)	-5.6	1.8	2.6	0.3	-12.3
Average inflation (%)	55.5	22.0	6.9	4.4	34.9
Unemployment (%)	9.7	7.6	9.0	9.0	11.2
Primary balance (% of GDP)	-8.6	-6.5	-7.9	-17.9	-19.0
Public sector debt (% of GDP)	76.3	75.1	72.4	83.1	137.7

Sources: *MOF, GBS, IMF, CDB staff estimates.*

Note: e – estimate (as at March 31, 2021) Unemployment data: GBS until 2017, IMF estimates from 2018.

TRINIDAD AND TOBAGO

COUNTRY ECONOMIC REVIEW 2020

Trinidad and Tobago dollar (TT$); United States dollar (US$).

OVERVIEW

Economic activity was constrained by mandatory measures, imposed to contain the COVID-19 pandemic. Strict public health containment policies subdued demand in domestic and international markets, severely lowered levels of activity in most sectors, and caused a dramatic drop in global energy prices and disruptions in the local labour market. Despite policy responses by the Government and the Central Bank (CBTT) to support the economy, the number of persons retrenched increased sharply as the COVID-19 containment measures remained in place through the end of the year as the outbreak continued to unfold.

Public sector debt soared as the fiscal deficit widened associated with the Government's COVID-19 policy response. Private sector credit slowed, with a steep decline in business lending, notwithstanding a 150-basis point reduction in the repo rate in March 2020. Meanwhile, the external position worsened, but gross international reserves improve due, in part, to drawdowns from the petroleum revenue funded sovereign wealth fund, the Heritage Stabilisation Fund (HSF).

KEY DEVELOPMENTS IN 2020

Gross domestic product (GDP) is estimated to have contracted by 5.6% in 2020 (see Chart 1). Preliminary data from CBTT Index of Real Economic Activity showed an immediate decline in economic output for the first half of the year, with a significantly deep contraction (-13.7%) in the second quarter during the height of the lockdown. Lockdowns and mandated physical distancing measures are expected to have further constrained economic activity in the second half of 2020.

In March 2020, the Government closed its borders and imposed a country-wide lockdown and curfews after the first case of the virus was confirmed. The unfolding pandemic led to an initial supply shock as companies were closed and non-essential activity ceased, subject to lockdowns. Increasing uncertainty and declines in household incomes caused a drop in consumption demand that placed further pressure on business activity. During this period, the country took steps to facilitate changes in work organisation and a shift to remote working, where possible. Although there was a loosening of containment measures and a phased reopening in May, tight restrictions were reintroduced, and border closures maintained until the end of the year. At year end, just over 7,000 cases were confirmed, with 127 related deaths.

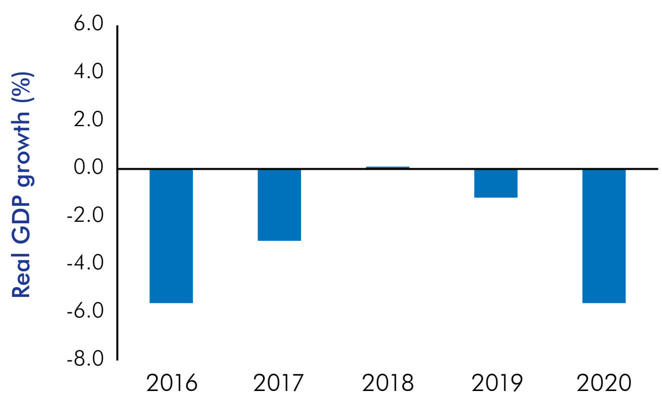
As an energy-dependent economy, the country was also heavily impacted by lower international oil prices. During the lockdown, curtailment in mobility and most economic activities, including construction and manufacturing, dropped global energy demand. Lower global energy demand due to the impact of COVID-19 contributed to sharp declines in price and output in the sector. The oil sector was impacted by several domestic plant closures[1] due to dampened activity on the commodity markets. Natural gas production fell by 14.5% between January and November. Output of other energy products contracted, including liquified natural gas (16.2%), ammonia (8.1%), and methanol

1 The decline in methanol production is attributed to the closures of three facilities, including CMC, TTMC II, and Titan.

(24.5%), during this period. Crude oil production fell (4.2%), as prices slumped to US$39.3/barrel.

Lower domestic demand, business closures and reduced operating hours negatively impacted the non-energy sector. Motor vehicle registrations and local cement sales point to declines in key sectors, including wholesale and retail trade, construction, manufacturing, and transportation. Cement sales fell by 9.3% during the first nine months of the year while motor vehicle registrations dropped by 25.0% up to October. The pace of economic contraction was tempered by advances in the financial and insurance sector and the real estate sector.

Chart 1: Real gross domestic product growth



Sources: *Central Statistical Office (CSO), International Monetary Fund estimates.*

Headline inflation remained low and stable, averaging 0.6% in 2020 (year on year), reflective of low, aggregate demand and weak price growth. However, food inflation accelerated from 0.4% in January to 4.5% at the end of the year, reflecting pandemic-induced supply challenges. All food sub-indices registered strong increases, notably bread, meat; fish; butter, margarine and edible oils; fruits; and other food products. Core inflation averaged 0.1% despite a sharp increase in the cost of healthcare. The health sub-index moved up to 4.8% in December from 1.9% in January, as prices for prescription medication and over-the-counter pharmaceuticals increased. Weak price movements in other sub-indices tapered the increase in core inflation. Reductions in alcoholic beverages and tobacco, furnishings, household equipment, and routine maintenance reflect contractions in economic activity and the impact of COVID-19 induced containment measures.

Labour market conditions worsened with entire sectors of the economy on hold to contain the spread of the virus. Although 2020 official unemployment data is not yet available, it is anticipated that unemployment rose in the face of nationwide stay-at-home orders, and as several companies, especially in the oil and gas sector, folded. The number of persons retrenched surged from 469 over the period May to September 2019, to 1,820 persons over the same period of 2020.

The Government's stimulus package (10.5% of GDP) supported various social and humanitarian measures. Salary relief grants were provided through the national insurance to approximately 46,628 persons who became unemployed or were on reduced incomes for an initial period of three months and was offered again at year end. Income support was provided to beneficiaries (42,451) of the Public Assistance and Disability Assistance Grant, and rental assistance was provided where one family member was retrenched (3,770).

Fiscal balances deteriorated in fiscal year (FY)[2] 2019/2020. Lower revenues and higher COVID-19-related expenditures contributed to an overall deficit of 11.2% of GDP, compared with 2.6% in FY 2018/19. The primary balance worsened from a surplus of 0.5% of GDP for FY 2018/19 to a deficit of 7.9% (see Chart 3). Total revenue decreased by 27.1% in the FY, with lower yields from both energy and non-energy sectors. Revenue from the energy sector dropped by 50.5% due in part to lower commodity prices[3] during the FY. Non-energy revenue fell by

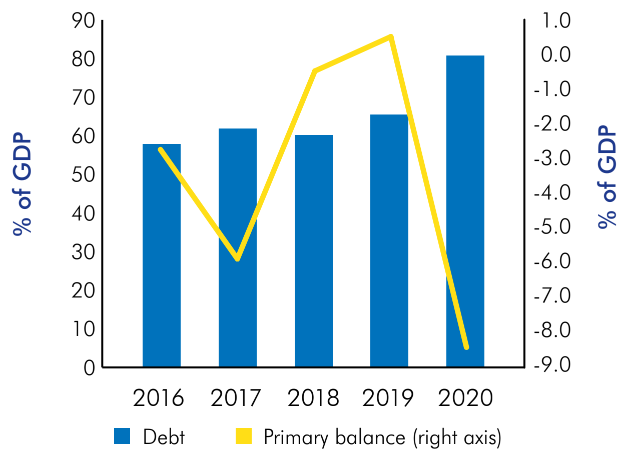
2 FY runs from October to September.

3 West Texas Intermediate crude oil prices averaged US$39.3 per barrel in FY 2020, compared with US$57.0 per barrel in FY 2019 while the Henry Hub natural gas prices averaged US$2.0 per

14.7% to TT$25.5 billion (bn) due to lower receipts from taxes on income and profits and international trade.

Total expenditure inched up marginally to TT$50.8 bn, notwithstanding higher outlays on COVID-19 relief and support measures, and capital expenditure. Transfers and subsidies moved from 16.7% of GDP in FY 2018/19 to 18.2% of GDP due to increased allocations for Senior Citizens Grant, Disability Grant, Social Assistance, Food Price Support Programme, Rental Assistance, and Salary Relief Grant. Capital expenditure increased by 7.5% to TT$4.1 bn. A reduction in expenditures on wages and salaries (1.7%), goods and services (15.0%) and interest payments (1.1%) helped to offset the increase in transfers and subsidies and capital expenditures.

Chart 2: Fiscal and debt performance



Sources: *CBTT, Caribbean Development Bank (CDB) staff calculations.*

Net public sector debt[4] rose to 82.1% of GDP in September, up from 65.5% one year earlier. Domestic debt continues to be the primary source of financing (TT$13.1 bn) compared with external debt (TT$4.7 bn) during the FY. External financing included a US$500 mn bond on the international market; US$400 mn from the Banco de Desarrollo de América Latina; and US$127.0 mn from the Inter-American Development Bank. The deficit was also financed by US$980 mn in withdrawals from HSF. At December 2020, the balance in HSF was US$5,888.1 mn.

Monetary policy eased in response to the pandemic. CBTT reduced its policy rate by 150 basis points to 3.5% and lowered the reserve requirement ratio by 3% to 14.0% in March to boost available liquidity and allow for a reduction in interest rate spreads by reducing the cost of funds.

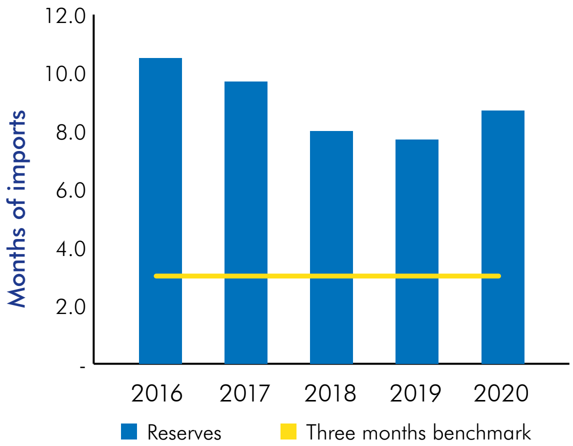
The financial system remained liquid and well capitalised but private sector credit growth remained sluggish. As at December (year on year), private sector credit fell by 0.6% compared with 4.5% growth one year prior. This is attributed to a decline in consumer and business lending in line with the pace of economic activity. However, real estate credit (3.6%), debt consolidation (1.6), and refinancing (6.3) remained the strongest consumer lending categories, following the payment moratoria, offered by financial institutions. The ratio of gross non-performing loans to total loans rose to 3.2% at the end of 2020, from 2.9% one year earlier. The capital adequacy ratio remained robust at 17.0% at the end 2020, albeit lower than 21.2% at the end of 2019.

Official net international reserves (NIR) rose. For the first time in five years, the NIR increased by 0.3% to US$6.9 bn (equivalent to 8.5 months of import cover) at the end of December 2020 (see Chart 4). This increase is due to drawdowns from HSF and external borrowings to mitigate COVID-19. In the third quarter of 2020, the external account recorded an overall deficit of $6.9 mn (0.1% of GDP). The external account performance also reflects a deficit on the current account due mainly to the impacts of COVID-19 on the energy market. Declines in energy exports (34.8% year on year) outstripped the reduction in imports.

metric million British thermal units (mmbtu) in FY 2020 compared with US$2.6 per mmbtu in FY 2019.

4 Excludes all debt held for monetary policy purposes (treasury bills, treasury notes, treasury bonds, and liquidity bonds).

Chart 3: Net official reserves



Sources: *CBTT.*

OUTLOOK

The economic outlook for 2021 is cautiously optimistic but with significant downside risks. Growth of 0.1% is projected, however, there is high uncertainty on the future path of the outbreak and the full extent of the ripple effects on the economy. In February 2021, borders remained closed. COVID-19 containment measures are expected to remain in place until vaccination is under way. Until then, the measures will continue to dampen demand and deepen the effects of the crisis. The energy sector will be impacted by the sluggish recovery in demand, as well as the full impact of the 2020 plant closures. The return of tourism will hinge on global roll out of vaccinations and the recovery in international travel. Lower domestic and regional demand will continue to impact manufacturing and related sectors.

The fiscal and debt positions will likely continue to deteriorate in 2021. Financing needs in 2021 are expected to be met by further drawdowns from HSF and additional borrowing.

Downside risks to the outlook remain elevated in an environment of high uncertainty. A slower global recovery, and domestic factors related to competitiveness, and crime and security will weigh on investments and the outlook.

DATA

The table below summarises the key economic (and social) indicators underpinning this country brief. These data are taken from a number of sources and are the latest available at time of publication. Some are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020^{e}
Real GDP growth (%)	-5.6	-3.0	0.1	-1.2	-5.6
Average inflation (%)	3.1	1.9	0.9	1.0	0.6
Unemployment (%)	3.6	4.4	3.5	4.0*	n.a.
Primary balance (% of GDP) FY	-2.8	-6.0	-0.6	0.6	-7.9
Public sector debt (% of GDP)	58.2	62.0	60.4	65.5	82.7

Sources: *CSO, CBTT, CDB.*

*Note: e – estimate (as at March 31, 2021) *For March 2019 (latest data available).*

TURKS AND CAICOS ISLANDS

COUNTRY ECONOMIC REVIEW 2020

United States dollar (US$)

OVERVIEW

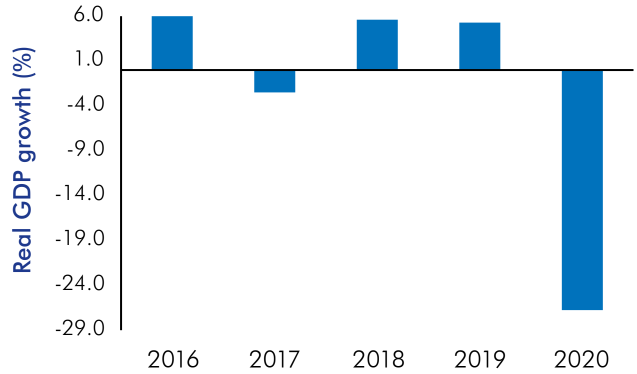
The economy contracted in 2020, due to the adverse effects of the COVID-19 pandemic. The fiscal operations of the Government deteriorated although debt remained negligible. The trade deficit narrowed on account of slowing import demand for consumption goods. The banking sector remained robust. A modest economic recovery of 2.0% is forecasted for 2021 in anticipation of the COVID-19 vaccines roll-out in the advanced economies and, particularly, in the country's tourism source markets.

KEY DEVELOPMENTS IN 2020

The economy contracted in 2020. Real gross domestic product (GDP) is estimated to have fallen by 26.8%, underpinned by a sharp decline in tourism (53%) and in related sectors, such as transport and communication (16.8%); wholesale and retail trade (5%); real estate (1.4%); and financial intermediation (3.5%). The precipitous fall in economic activity was attributed to the adverse effects of a full lockdown and border closure during the period March 27 to July 22, and the closing of major resorts. These measures were instituted to help contain and control the spread of the virus, which was first confirmed in the country on March 25, 2020. An acceleration in COVID-19 cases in the United States of America (USA), the largest source market, during the second half of 2020 triggered a surge in imported cases in the Turks and Caicos Islands. This slowed the recovery in stay-over arrivals and resulted in a protracted economic fallout. During 2020, the country recorded 893 cases, with 6 COVID-related deaths.

Consumer price index average inflation rose to 2.3%. Prices were higher in several of the more heavily weighted sub-indices: food and non-alcoholic beverages, furnishing, household equipment, and transport.

Chart 1: Real gross domestic product growth



Source: *Ministry of Finance (MOF).*

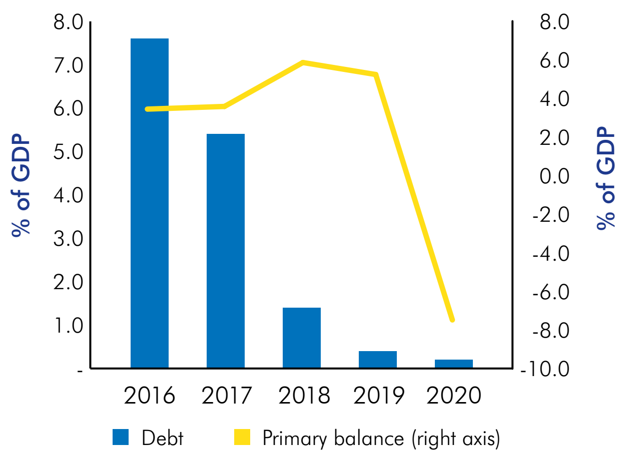
Fiscal operations deteriorated in the first six months of the fiscal year[1] (FY) 2020/2021. There was a considerable reduction in revenue collected and an increase in spending, largely for healthcare and social welfare, related to the pandemic, including support for those who had lost their jobs. In March, the Government announced a stimulus economic package of more than $45 million (mn) to, *inter alia*, provide income and cash flow support for workers and businesses in the affected hospitality sector, support to vulnerable households, and provide liquidity relief through tax exemptions, concessions, and waivers.

A fiscal deficit is estimated for FY 2020/21. Tax revenue declined by $81.8 mn (52%) to $76.7 mn

1 FY runs from April to March.

while current expenditure increased by $5.5 mn (5%) to $121.0 mn when compared with the same period last year. A fiscal deficit of 7.4% of GDP ($70.0 mn) is estimated for FY 2020/21 to be financed through a drawdown of government savings, which were $155.0 mn at the end of September. Public debt continued to decline, standing at $1.9 mn (0.2% of GDP) at the end of September. However, an increase in Government's borrowings is anticipated by the end of FY 2020/21, as the Government recently established an $80.0 mn credit line to support short-term liquidity.

Chart 2: Fiscal and debt performance



Source: *MOF.*

The merchandise trade deficit narrowed. During the third quarter, the deficit was reduced to $75.4 mn, a 35% reduction from the same period in the previous year. This was due, in part, to a marginal increase in exports coupled with a $40.1 mn decrease in the value of imports. The demand for imported goods was relatively low because of minimal tourist-related consumption, as most hotels remained closed.

Financial sector performance was mixed in 2020. Total deposits fell by 3% in the year to September, largely reflecting the Government's $54.6-mn reduction in savings to support the economic stimulus and bridge the shortfall in revenue collection. Private sector credit, the largest share of domestic credit, declined by 2% to $851.7 mn, reflecting a fall in loans and advances to businesses (distributive trades, construction, transportation, and public utilities) and households (durable goods and other personal loans). Conversely, credit to the agriculture, tourism and entertainment sectors expanded. Lending to the public sector fell, reducing the banking sector's exposure to government debt. However, the banking sector remained robust as at the end of September. The banking system's ratio of gross non-performing loans to total loans fell to 4.7%, the lowest in recent history; and banks remained well capitalised with a capital adequacy ratio of 29%.

OUTLOOK

CDB projects a modest recovery of 2.0% real GDP growth in 2021. This projection is subject to a high degree of uncertainty due to the rapidly evolving pandemic, which makes it difficult to predict the depth and length of shock. A major downside risk to the forecast is the resurgence of COVID-19 cases in Europe, the United Kingdom, and the USA, three of the major trading partners. Uncertainty related to the roll-out of vaccines, and the slow easing of travel restrictions are expected to delay the recovery of tourist arrivals.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and, are the latest available at time of publication. Some are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	7.3	-2.5	5.6	5.3	-26.8
Average inflation (%)	2.0	2.1	2.1	2.1	2.3
Unemployment (%)	11.0	7.0	6.0	7.0	n.a
Primary balance (% of GDP)	3.6	3.7	6.1	5.3	-7.4
Public sector debt (% of GDP)	7.6	5.4	1.4	0.4	0.2

Source: *MOF.*

Note: e – estimate (as at March 31, 2021).

VIRGIN ISLANDS

COUNTRY ECONOMIC REVIEW 2020

United States dollar (US$).

OVERVIEW

The economy in the Virgin Islands contracted in 2020, after seven consecutive years of growth. With border closures and strict lockdown measures taken to contain the spread of COVID-19, activity in most sectors were negatively impacted contributing to a rise in unemployment. Fiscal balances deteriorated and debt levels ticked up, but public finances remained compliant with key borrowing and fiscal ratios under the Virgin Island's Protocols for Effective Financial Management (PEFM)[1]. The banking sector remained well capitalised. The external current account deficit widened, imports dropped, and export income fell. The medium-term outlook is positive but remains uncertain with several downside risks.

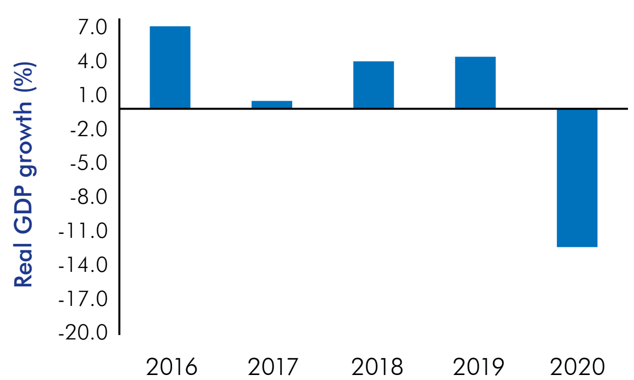
KEY DEVELOPMENTS IN 2020

Real gross domestic product (GDP) fell by an estimated 12.2% in 2020. This comes after years of consecutive years of growth (see Chart 1). The collapse in the tourism sector and a fall-off in the financial services sector were the main contributors to the decline in output.

Key sectors were impacted by COVID-19-related closures and restrictions. Country borders were closed for nine months from March when the first confirmed COVID-19 case was detected, resulting in the shutdown of several tourism establishments. Restrictions were gradually eased between June and mid-August, as the infection remained contained to under 10 cases for much of this period but were reimposed in September amid a surge in new cases. By December, confirmed cases had risen to 86. Stay-over and cruise arrivals contracted by 72.7% and 61.8%, respectively. Activity was also suppressed in the construction sector, which had already slowed in 2019. Other sectors, such as transportation, wholesale and retail, and real estate, are also expected to have been impacted by COVID-19-related closures and restrictions.

The financial sector continued to underperform. In 2020, new company incorporations declined by 14.5%. The total number of active companies (343,747) was 11.3% lower than the number recorded in 2019. The decline in the financial sector was attributed to a combination of factors, including impacts of continuing tightening of the regulatory framework, de-risking practices by banks, and the economic slowdown in key source markets.

Chart 1: Real gross domestic product growth



Sources: *Ministry of Finance (MOF), Caribbean Development Bank (CDB) projections.*

Average inflation is estimated at 0.7% for 2020. Lower demand arising from the lockdowns contributed to lower inflation. Survey data collected by the

1 The key ratios include borrowing ratios of net debt, debt servicing, and liquid assets.

Department of Labour between May and September indicate that 13.0% were unemployed.

Fiscal balances worsened in 2020 as revenues shrank. A primary deficit of 6.7% of GDP was estimated, compared with a deficit of 0.6% in 2019. The overall deficit also widened to 7.2% of GDP from 1.2%. Total revenue fell by 5.8%, with notable declines from Financial Services Commission (FSC) revenue, taxes on international trade, and taxes on income and profits. FSC revenue dropped by 15.0%, due, in part, to the continued impact of the economic substance legislation. Declines in the other revenue streams were also associated with the effects of the pandemic and the various containment measures taken.

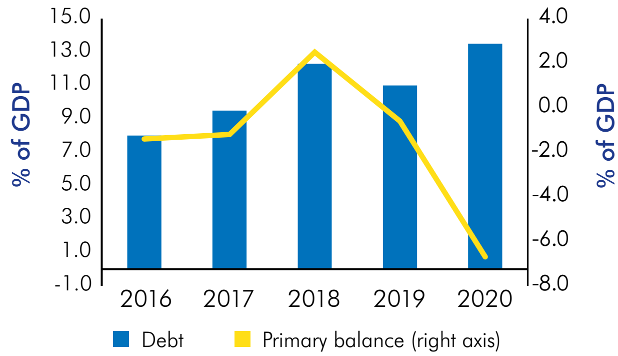
At the same time, total expenditure rose by 11.6%, reflecting higher spending on account of COVID-19. In particular, the economic stimulus package of US$63.4 million (mn) [6.0% of GDP], provided unemployment benefits support, business grants, and continued reconstruction spending. The Social Security Board provided a grant of US$40.1 mn to the Government in support of its stimulus package.

Fiscal buffers helped to cushion the fiscal fall-out. The Government's Reserve Fund, held to help the Government respond to external shocks, provided $7.2 mn to finance the budget. As at December, the Reserve Fund was estimated at US$65.3 mn.

Public debt[2] moved up in 2020. Debt rose to 13.5% of GDP to an estimated $149.1 mn, from US$143.6 mn in 2019 (see Chart 2). In 2020, CDB held the highest share of the public debt (56.7%). The commencement of principal repayments in July on the outstanding debt to CDB increased debt service payments to US$15.9 mn, 5.8% of recurrent revenue.

2 Public debt does not include parastatals' risk-weighted debt.

Chart 2: Fiscal and debt performance



Source: *MOF.*

Financial sector performance remained strong, but signs of weakening were evident. Total assets of the banking sector stood at US$2.3 billion (bn) at the end of the third quarter of 2020, down by 2.9%, compared with the same period in 2019. Deposits grew by 1.4% to US$2.0 bn. At the end of the third quarter of 2020, loans and advances declined by 4.5% to US$1.3 bn, and investments also fell. Net interest income and net income for the banking sector contracted by 17.2% and 54.7%, respectively, in the third quarter of 2020 when compared with the same period in 2019. The ratio of non-performing loans to total loans rose to 8.7% at the end of September 2020, from 7.9% at the end of the third quarter in 2019.

OUTLOOK

The outlook for the Virgin Islands is tentatively positive. Economic growth of 0.4% is projected for 2021. Borders reopened to visitors on December 1. The recovery will be led primarily by tourism, although neither tourism nor ancillary services are expected to return to pre-COVID levels in the short term. The rate of vaccination will also determine the pace of recovery and the extent to which business activity continues. Construction activity will continue, albeit at a slower pace, as post-hurricane private construction wanes. The financial services sector remains in a strong position but is vulnerable to the enactment of economic substance legislation and the imminent publicly accessible register of beneficial ownership. The legislation aims is to increase corporate transparency and deter corruption and money laundering. However, there are concerns that corporations will move to other jurisdictions that do not have a public beneficial ownership register, and the cost of implementation may be prohibitive.

The medium-term fiscal and debt strategies will have to be carefully managed. Fiscal deficits are anticipated to continue over the next two years with an increase in debt levels. The Government is expected to implement several measures, which will address the requirements under PEFM.

Downside risks are elevated. A prolonged pandemic will further undermine economic activity and the ability of the Government to respond. Other key areas of concern are centred around developments in the offshore financial sector and the imposition of any additional regulatory burdens, as well as the knock-on effects of Brexit. The Virgin Islands remain vulnerable to extreme weather events.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. The 2020 data are CDB estimates and subject to change.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	7.3	0.7	4.2	4.6	-12.2
Average inflation (%)	1.1	1.2	2.1	1.4	0.7
Unemployment (%)	2.8	2.8	n.a.	n.a.	n.a.
Primary balance (% of GDP)	-1.4	-1.2	2.5	-0.6	-6.7
Public sector debt (% of GDP)	8.0	9.5	12.3	11.0	13.5

***Sources:** MOF, Economist Intelligence Unit.*

Note: e – estimate (as at March 31, 2021); n.a. – not available.Selected indicators

Disclaimer

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