Republic Economic NEWSLETTER

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A Quarter Like No Other

OVERVIEW

Like most countries, Trinidad & Tobago was forced to take unprecedented steps to combat the spread of COVID-19. With most of these steps initiated in late March or early April, the second quarter, for many, is the period most representative of the impact of the pandemic. Based on the extraordinary developments in the energy sector as well as segments of the non-energy sector, Republic Bank estimates that economic activity contracted by at least 15 percent in the second quarter compared to the first. Forecasts, which are projections of future developments and trends, are invariably built from a base, a measured, known characteristic at a point in time. The further removed the forecast period is from its base, the less meaningful and credible it is. This country's most recent unemployment figure is 4.6 percent for the third quarter of 2018. At this point, the Bank is unable to provide a credible estimate for the unemployment rate in the second quarter. However, based on developments during the quarter, the unemployment rate would have increased significantly. The domestic stock market did not appear to be unduly impacted however, as the Composite Price Index contracted by a marginal 0.5 percent to 1,310.6 over the quarter.

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATOR	2019	2019.2	2020.2 p/e
Real GDP (% change)	0.0e	-2.1e	-15.0
Retail Prices (% change)	1.0	-0.22	N a
Unemployment Rate (%)	N a	N a	N a
Fiscal Surplus/Deficit ($M)	-4,095.8	-2,968.20	-5,284.5
Bank Deposits (% change)	5.8	0.1	2.32
Private Sector Bank Credit (% change)	4.5	0.74	-1.16
Net Foreign Reserves (US$M)	9,619.3	9,760.3	10,360.2
Exchange Rate (TT$/US$)	6.73 / 6.78	6.73 / 6.78	6.72/ 6.77
Stock Market Composite Price Index	1,468.40	1,394.10	1,310.60
Oil Price (WTI) (US$ per barrel)	56.99	59.88	27.96
Gas Price (Henry Hub) (US$ per mmbtu)	2.57	2.56	1.71

Source: Central Bank of Trinidad and Tobago, TTSE, EIA
p - Provisional data
e - Republic Bank Limited estimate
N a – Not available

ENERGY SECTOR

The significant falloff in oil demand that began in the first quarter, and the discord that it fostered within the OPEC-Russia partnership, led to one occurrence of a negative oil price in April. Although prices recovered slightly, WTI crude oil prices averaged US$27.96 per barrel in the second quarter. Not only was this a 38.3 percent decline from the first quarter, but even without adjusting for inflation, this price was significantly lower than any other second quarter price going back to before the onset of the Global Financial Crisis (Figure 1). Similarly, the average Henry Hub spot price for natural gas of US$1.71 per million British thermal units (mmBtu) was much lower than any other price for the same period over the last 14 years. Having been deemed an essential service, the energy sector was not subject to any lockdown measures. Nonetheless, domestic production declines continued. Oil production, at 55,926 barrels per day, was 2.5 percent lower than the first quarter and 5.7 percent lower than the second quarter of 2019. Gas output declined by 7.1 percent from the previous quarter and 5.9 percent year-on-year to 3,272 million standard cubic feet per day (mmscf/d).

The significant reduction in manufacturing activity across the world negatively impacted the demand for and price of petrochemicals, with direct fallout for the domestic downstream energy sector. The second quarter saw the idling of three methanol plants; the Titan Methanol plant in April, the Trinidad and Tobago Methanol Company II plant in May and the Caribbean Methanol Company (M2) plant in June. Consequently, methanol production fell by 29.4 percent from the first quarter to 345,255.6 metric tonnes. Liquified natural gas production (LNG) declined by 9.4 percent in the second quarter, while ammonia output increased by 9 percent. Rig days dropped by 49 percent from the first to the second quarter, and by some 76 percent compared to a year ago. The same metrics for depth drilled were -62.2 percent and -69.1 percent respectively, indicating that exploration activity is being significantly scaled back.

NON-ENERGY SECTOR

Following this country's first recorded COVID-19 case on March 12th, the government began implementing public health measures to control the spread of the virus. March 26th, saw the implementation of a Stay-at-Home order which required schools and all non-essential businesses and government offices to remain closed. This remained in force until May 10th, when a phased re-opening of the economy began.

The manufacturing sector had been operating significantly below capacity for some time now. Capacity utilisation in the sector fell to 61.2 percent during the first quarter of 2020, slightly lower than the 62.8 percent for the corresponding 2019 period. Undoubtedly, activity would have fallen significantly in the second quarter not just because of curtailed operations, but also the closure of borders and reduced

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demand from regional states, with restrictions of their own. According to the Central Bank's July 2020 Economic Bulletin, the construction sector was already slowing in the first quarter, as work on some major projects such as the Curepe Interchange, the Valsayn Pedestrian Walkover and the Mamoral Road Bridge neared completion. Based on cement sales, construction sector activity plummeted in the April to June period. The 89,304 tonnes sold was not just 26.8 percent lower than the quarter one figure, or 35.3 percent lower than the second quarter of 2019, but also significantly lower than any second quarter total over the last 14 years, up to and including the Global Financial Crisis (Figure 2). With most stores (with the exception of groceries and pharmacies) closed for weeks during the quarter, wholesale and retail trade cratered. New vehicle sales provides a telling gauge of the state of the distribution sector. New vehicle sales fell by 73 percent compared to the first quarter and by 77 percent from the same 2019 period. The 716 vehicles sold for the second quarter was also much lower than any figure since 2007.

FISCAL POLICY

In an attempt to mitigate the negative impacts of the pandemic and the restrictive measures on businesses and individuals, government implemented a host of extra-ordinary initiatives. These include accelerated payment of outstanding VAT refunds and overdue payables to suppliers and contractors, accelerated payment of overdue income tax refunds and a $1,500-a-month grant for three months for retrenched workers. The combination of reduced revenue and significantly increased expenditure, swelled government's overall deficit for the second quarter (calendar year) to $5,284.4 million, by far the largest second quarter deficit in at least 14 years (Figure 3). This pushed the deficit for the first nine months of the fiscal year (October 2019 – June 2020) to $10.7 billion, more than twice the $4.8 billion deficit for the corresponding period of the previous fiscal year. The overall deficit for the 2019/2020 fiscal year is expected to reach $14.5 billion, equivalent to 8.8 percent of GDP. Not surprisingly, at the end of June 2020, net public sector debt outstanding increased to $119.3 billion (71 percent of GDP) from $112.3 billion (66.8 percent of GDP) in March 2020.

MONETARY POLICY

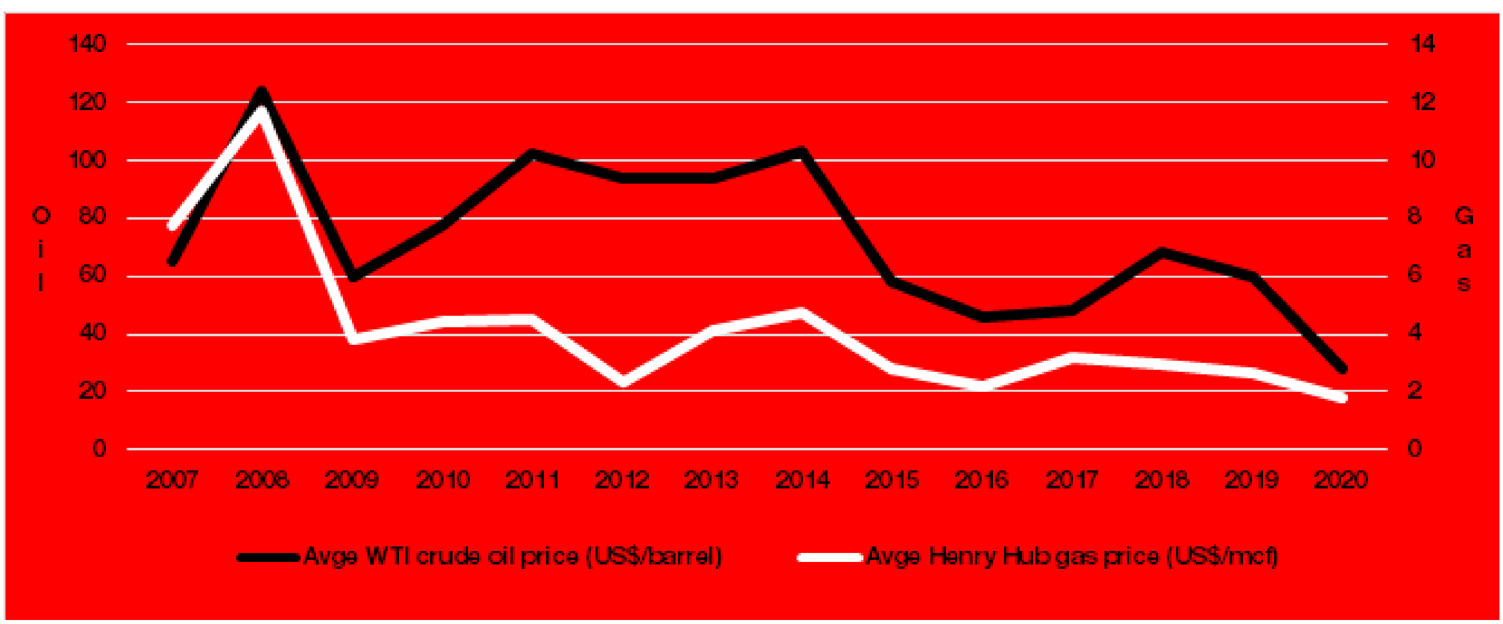
The policy changes made by the Central Bank in March boosted liquidity throughout the quarter. According to the Central Bank's May Monetary Policy Report, after increasing immediately to $5,147.8 million on March 18th, excess liquidity averaged $5,720.9 million from March 18th, to the 31st. Average excess liquidity for April climbed to $5,736.8 million before jumping to $8,336.5 million in May. On June 26th, the CBTT advised that is was maintaining the 'Repo' rate at 3.50 percent. In an unusual state of affairs, no inflation data was available for the second quarter. It would be reasonable to speculate however, that the inflation rate was very low or even negative, with initial high demand for things such as groceries and pharmaceutical items being eventually offset by reduced demand for almost everything else.

Private sector credit fell by 1.2 percent in the second quarter and the June total of $59,991.2 million was just 1.3 percent higher than the balance a year ago. Consumer credit followed a similar trend with a 2.3 percent decline in the quarter and a modest 1.7 percent increase over the June 2019 position. Deposits however, increased by 2.3 percent in the quarter.

FOREIGN RESERVES

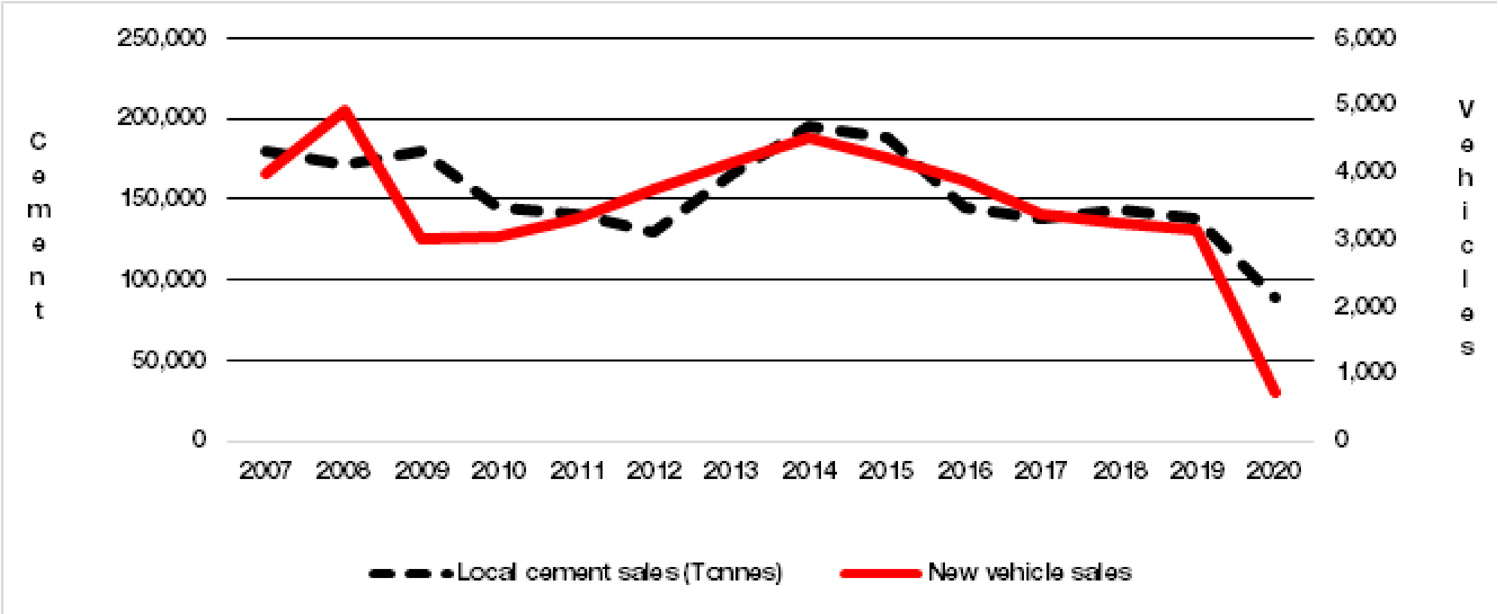
During the first eight months of 2020, the domestic foreign exchange market was not as tight as in previous periods; a consequence of the plunge in economic activity in the second quarter. Total foreign exchange purchases by authorised dealers from January to August, fell by 18.2 percent, largely due to a significant drop in conversions by energy companies. Foreign exchange sales to the public by authorised dealers declined to an even greater extent (23.0 percent). The moderation in forex demand is highlighted by the fact that the amount of foreign exchange that the CBTT sold to support the market (US$890 million) is 14.8 percent lower than the amount sold over the same period in 2019. This country's foreign reserves, typified by net foreign position, increased from US$9,666.9 million at the end of March, to US$10,360.2 million at the end of June, due largely to injections of funds from international loans and the Heritage and Stabilisation Fund (HSF).

Figure 1: Second quarter, average oil and gas prices



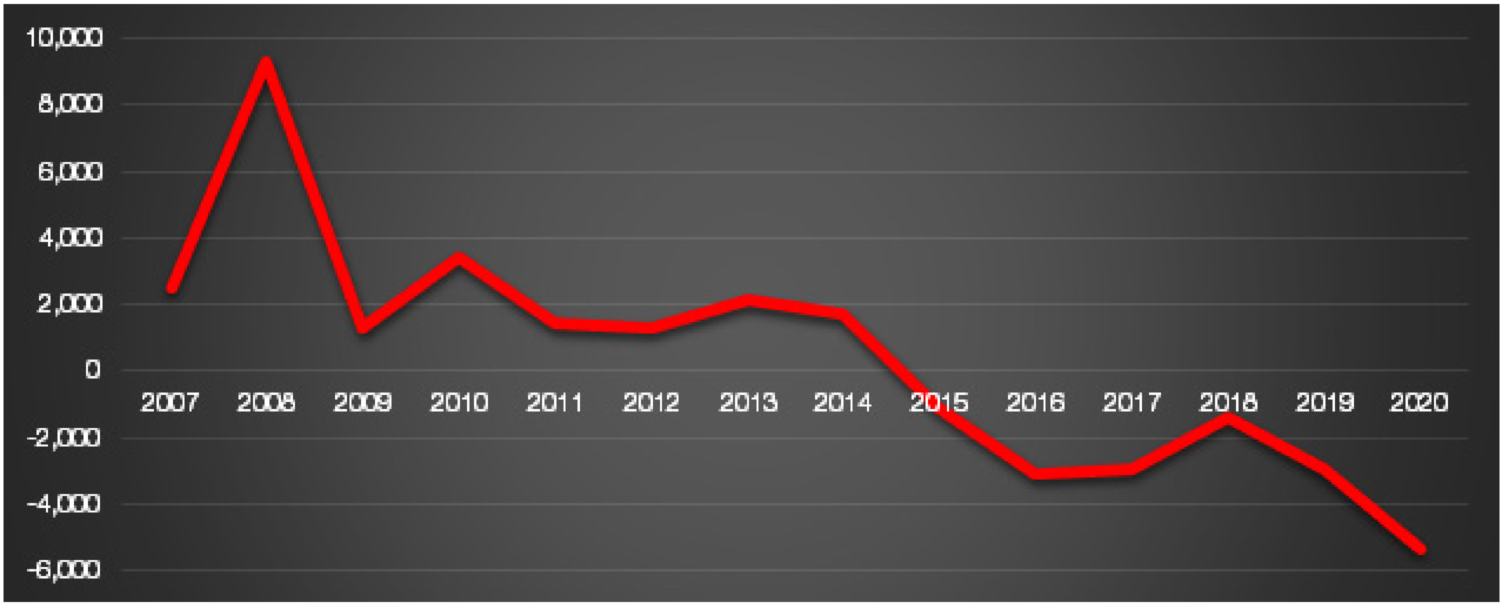
Source: Energy Information Administration (EIA)

Figure 2: Second quarter cement and new vehicle sales



Source: Central Bank of Trinidad and Tobago (CBTT)

Figure 3: Second quarter fiscal balances (TT$ Mn)



Source: Central Bank of Trinidad and Tobago (CBTT)

OUTLOOK

As the text and figures have shown, the second quarter was unique in terms of the extent to which things have deteriorated. Unfortunately, the next six months are unlikely to be much better as the delayed, but inevitable consequences of the deterioration manifest themselves, along with their attendant ripple effects. The re-imposition of restrictions on some activities in August to curb community spread of the virus, will curb economic activity even further and solidify what is almost certain to be a double-digit economic contraction in 2020. Even with the presentation of the 2020/2021 Budget on October 5th, it is unlikely that any new revenue-boosting measures will be up and running before the second quarter of 2021. With intractable, high expenditure and weaker revenue inflows going forward, T&T's debt to GDP ratio is likely to steadily increase. As things presently stand, data on the current unemployment situation will not be available until probably mid-2022. However, based on news reports, it seems that retrenchments and plans of retrenchment by both large and smaller businesses have intensified in recent months, with some entities going out of business altogether. In this scenario inflation will remain low and the decline in credit demand could continue.

The Economist
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COVID-19:
A call for Creative and Resolute Management

Overview

In the second quarter of 2020, the Caribbean faced several extraordinary challenges, linked to the COVID-19 pandemic. The quarter was characterised by the height of the global virus-related restrictions, which brought the international tourism industry to a stand-still and caused commodity prices, with the exception of gold, to plummet. Against this setting, the region was confronted by a sharp falloff in economic activity, major increases in unemployment, a rapid deterioration in fiscal accounts and the loss of vital foreign exchange, to name a few of the challenges. Caribbean governments were forced to take action to mitigate the impact of the virus, which almost inevitably required the roll-out of economic recovery and stimulus packages, even in the face of severe fiscal challenges in many cases. Several of these nations needed to turn to multi-lateral agencies such as the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB) for financial and policy support. For some countries, these problems were further complicated by general elections.

Anguilla

In the second quarter of 2020, the tourism sector faced a significant intensification of the challenges brought on by the COVID-19 virus. There were zero stay-over arrivals in April and May, and only 22 in June. For the period January to June 2020, stay-over arrivals plunged by 58.4 percent, with contractions in all major markets. The total number of visitors from the US, Canada and Europe fell by 59.3 percent, 48.3 percent and 52.7 percent, respectively. Given the importance of the sector to Anguilla's economy, this resulted in a major decline in overall economic activity. According to the World Travel and Tourism Council, in 2019, the tourism sector accounted for 37.1 percent of Anguilla's GDP and provided 51.3 percent of total employment. In April 2020, the then government delivered the 2020/2021 National Budget, which catered for a 13.1 percent rise in revenue to $241.5 million and a 21.6 percent increase in expenditure to $253.5 million. The developments since the budget presentation are expected to result in a substantial fall in revenue and greater public spending than initially envisaged. The main opposition party, the Anguilla Progressive Movement (APM), led by Dr. Ellis Webster, defeated the Anguilla United Front (AUF), headed by Mr. Victor Banks in the general election held on June 29th, 2020.

Barbados

Barbados continues to meet its targets under the Barbados Economic Recovery and Transformation programme (BERT), which is supported by the IMF's Extended Fund Facility. In August 2020, the IMF indicated that the country made good progress, not only with the agreed targets, but also in implementing economic reforms, notwithstanding severe pandemic-related challenges. Chief among these challenges has been the standstill of the tourism sector, which in turn has contributed to contractions in other key sectors. Overall, economic activity is estimated to have contracted by 27 percent during the second quarter of 2020, with most sectors registering a fall in activity. With stay-over arrivals down 54 percent and total cruise visitors sliding 34 percent, activity in the tourism sector shrank by 50 percent during the first six months of 2020. Contractions were also recorded in wholesale and retail, construction, distribution, finance and other services and transport. In this environment, unemployment insurance claims increased by over 33,000 between March and June 2020. Reflective of the weak economic activity, credit by deposit-taking institutions to the non-financial private sector fell by 1.5 percent during the first half of 2020, after contracting by 0.7 percent during the same period in 2019. As a result of the weakened economic conditions, government's fiscal surplus fell to 0.5 percent of GDP in the second quarter of 2020, from 1.8 percent a year earlier. Public debt rose marginally to 124.7 percent of GDP from 124.5 percent in second quarter 2019. On the positive side, Barbados' foreign currency reserves increased to 6.8 months of import cover (MIC), after reaching 3.8 MIC at the end of June 2019. The increase was driven by loans received from multi-lateral agencies (IDB and IMF).

British Virgin Islands

The emergence of the COVID-19 pandemic has suspended the tourism sector's recovery following widespread hurricane damage in 2017. This is especially concerning because tourism accounts for almost 60 percent of GDP and the virus has struck at a time when the country's second largest sector, the financial services industry is facing the strong headwinds associated with enhanced global compliance standards. To mitigate the economic impact of the pandemic, the government rolled out a stimulus package totalling US$62.5 million in late May 2020. This is equivalent to 5 percent of the country's GDP. Of the total, US$10 million was earmarked for an unemployment fund, while US$7.5 million was directed to the national health insurance programme. Allocations to fund ongoing post-hurricane reconstruction efforts and business grants were also included. However, this was unlikely to be enough to prevent a substantial contraction in economic activity during the second quarter of 2020, especially given the timing of the stimulus programme. While residents have been allowed to return to the British Virgin Islands since June, the territory's borders remain closed to visitors. At the time of writing, the authorities were yet to announce when the tourism sector will be re-opened.

Cayman Islands

With rising virus infection rates around the world, plans to re-open the Cayman Islands borders at the beginning of September 2020 were pushed back by at least one month. While there are no restrictions for people leaving the jurisdiction, returning residents will be quarantined in a government facility for 14 days and must produce a negative polymerase chain reaction (PCR) test before they are allowed to leave. Like much of the world, the COVID-19 restrictions are taking a significant toll on tourism and the wider economy. Consequently, government rolled out a number of initiatives to mitigate the impact of the virus, including grant financing for small and micro businesses and increased funding for social programmes. Despite these measures, government still expects real GDP to contract by 7.3 percent in 2020. In addition to these challenges, there was a fall in new company registrations between January and June. During the period, new company registrations fell to 5,567 from 6,883 and 8,870 in the first half of 2019 and 2018, respectively. However, it's not all bleak. Activity in the construction sector was poised to increase as the country emerged from the height of the virus-related lockdown in July. During the month, new project applications to the Planning Department increased to 126, after averaging 52 in the second quarter and 98 between January and March 2020. This represents the largest single month figure for 2020 thus far and the related uptick in construction activity will undoubtedly be welcomed. In terms of government finances, although the emergence of the pandemic resulted in an appreciable deterioration in the public purse, the country recorded a fiscal surplus of $79 million. This outturn is $45 million less than the budgeted figure.

Cuba

Even before the calamitous events surrounding the pandemic, Cuba was facing severe challenges. The country has been the subject of increased US sanctions, which have curtailed activity in the tourism sector and the wider economy. Cuba has also seen a significant reduction in support from key ally and principal oil supplier, Venezuela, itself the target of US sanctions. With the emergence of the virus, stay-over tourist arrivals plummeted by 57 percent during the first five months of 2020, with substantial declines in all major markets. These intense challenges prompted the government to introduce additional limited economic reforms including, making the US dollar legal tender for purchases and the abandonment of the list of approved private sector business activities. Despite the removal of the restrictive list, government still has significant control over what activities are performed, since the requirement for citizens to apply for licences to work in the private sector remains in place. The aim of these reforms is to stimulate economic activity and thereby mitigate the effects of the ongoing economic crisis. Given diminished assistance from crisis-gripped Venezuela, it has become increasingly important for Cuba to establish diplomatic and trade relations, with other nations. In this regard, the announcement in early August of a memorandum of understanding with the Basque Country (an autonomous region in northern Spain) to deepen relations is indeed encouraging. The agreement is aimed at expanding collaboration in several areas including, agriculture, renewable energy, technology and innovation.

Dominica

Following on a weak performance in the first quarter of 2020, in which stay over tourist arrivals contracted by 22.6 percent, economic activity declined substantially in the second quarter, under the weight of the measures introduced to restrict the spread of the virus. These measures included closing the country's borders and the imposition of a curfew. Consistent with the common global policy response to limit COVID-19's impact on the economy and society's most vulnerable, government announced several measures in May 2020, including grants to farmers, income support for families and tax concessions to businesses. Since Dominica was already faced with a very difficult fiscal situation before the emergence of the virus, the country successfully applied for IMF support to combat the pandemic. The IMF provided US$14 million in funding under the Rapid Credit Facility. At the end of July 2020, the government delivered the 2020/2021 National Budget, which caters for total expenditure of $967.8 million and an overall deficit of $123.9 million or 7.9 percent of GDP. The country began to re-open its borders on a phased basis on July 15th, allowing nationals to return in the first phase. In the second phase, which started on August 7th, the country was re-opened to visitors. However, all inbound passengers are required to provide proof of a negative COVID-19 test, taken no more than 72 hours before arrival.

Grenada

Given the global impact of the pandemic, Grenada unsurprisingly experienced a substantial drop in economic activity during the second quarter of 2020. Especially painful, was the loss of the impetus and foreign exchange earnings normally provided by the tourism sector during the period. Between January and June 2020, stay-over tourist arrivals decreased by 54.8 percent, while the number of cruise visitors fell by 27.1 percent. Tourism is the main driver of the economy and according to the IMF, accounts for over 80 percent of Grenada's export earnings. In light of the flaccid economic conditions, public revenue is expected to fall 40 percent below budgeted figures in 2020. With revenue stifled, government's response to the virus, as necessary as it was, consumed a portion of the country's fiscal buffers. In addition to increased spending on healthcare, the authorities decided to provide payroll support to businesses, expanded unemployment benefits and other social programmes and also offered tax concessions. Overall, the IMF estimates that government's COVID-19 related measures (announced on March 20th) will cost the equivalent of 2 percent of GDP if they remained in place for three months. As a consequence of its fiscal challenges, the country's request for US$22.4 million in financial support from the IMF under the Rapid Credit Facility mechanism was approved in April. In early July, government announced a phased re-opening of the country's borders that was scheduled to begin on July 15th.

Guyana

The political uncertainty that has blighted Guyana for much of 2020 was reduced significantly on August 2nd, when the new president, Mr. Mohammed Irfaan Ali was sworn in, five months after the March 2nd general election. As a result of the weeks of litigation and tensions that followed the polls and COVID-19 restrictions, the non-oil sector contracted by 4.9 percent in the second quarter. On the other hand, the petroleum sector expanded by 45.6 percent. Guyana's oil reserves received yet another boost in July, when ExxonMobil's revealed that it had discovered two more high-quality oil reservoirs during a drilling exercise to appraise a previous offshore discovery. The country had been operating without a budget in 2020, as the successful 2018 vote of no confidence against the A Partnership for National Unity / Alliance for Change coalition government at the time, resulted in a political quagmire in which the defeated government remained unofficially in control until the elections were finally able to be held in March 2020. Accordingly, the new government was forced to put together a $329.5 billion budget in short order, to cushion the impact of COVID-19. Meanwhile, the Bank of Guyana (BOG) took the decision to allow banks to extend the moratorium on customer loan payments to December 2020. The BOG also reduced the liquidity requirements for commercial banks. In the commercial banking sector, loans and advances to businesses were 12 percent higher in June 2020 than they were during the same period a year earlier. However, lending to consumers was 1.2 percent lower. This mixed appetite for credit occurred in an environment where the prime lending rate fell from 10.46 percent in June 2019 to 8.88 percent in June 2020.

Sint Maarten

The dislocations suffered by the tourism sector during the second quarter of 2020 likely resulted in a major contraction in economic activity during the period. In fact, for the entire year, real GDP is projected to contract by 24.5 percent. While there has been some job loss, government policy measures, such as payroll support to businesses have thus far, prevented mass unemployment. The need to alleviate the economic and social impact of the virus has placed substantial pressure on public finance, to the point where the government has indicated that it expects to encounter a severe shortage of liquidity by the end of October 2020, without an injection of funds. To this end, the Finance Minister, Ardwell Irion indicated that government was in negotiations with the Dutch government, with the hope of securing a second tranche of liquidity support. With recovery efforts underway in the wake of 2017 hurricane damage, the construction sector could provide some stimulus to the economy, although this will be relatively small compared the enormous losses in tourism, a sector which accounts for 45 percent of St. Maarten's GDP. In July, the country began the phased re-opening of its borders and started allowing the return of Canadian and European tourists, while it officially opened to visitors from the US on August 1st. The tourism sector is set to receive a boost in November, when US airline JetBlue plans to add flights to St. Maarten out of Newark Liberty International Airport in New Jersey.

St. Kitts and Nevis

Available data suggests that the country started to feel the economic effects of the virus in the first quarter of 2020. During the period, stay-over arrivals contracted by 19.4 percent and cruise arrivals plunged by 42.1 percent. In late March, the country began to introduce lockdown measures to control the spread of the virus. The government has since announced plans to re-open the country's borders by October and has implemented a training programme for 5,000 hospitality industry workers. The aim of the programme is to prepare tourism workers to operate under strict health and safety protocols upon the resumption of tourism. In addition to completing the training, all hotels and tourism-related businesses must satisfy established standards to receive a "Travel Approved" certification and seal, without which, businesses will not be allowed to operate. It is estimated that the pandemic resulted in a fall in revenue of $188 million during the first six months of 2020, compared to the same period in 2019. Nevertheless, the government was able roll out a $120 million stimulus package to address the dislocations caused by COVID-19 without having to borrow. This is largely due to the fiscal buffers the country built up after recording fiscal surpluses for several years and receipts from the Citizenship by Investment (CBI) programme. To stimulate the economy and encourage more investment under the CBI programme, discounted rates are being offered until December 31st, 2020. The incumbent Team Unity led by Prime Minister Dr Timothy Harris won the June 5th general elections in a landslide victory.

St. Lucia

On July 12th, government announced an economic recovery and resilience plan, designed to address the economic and social challenges created by the COVID-19 pandemic. In total, the plan is expected to cost $579.33 million. In addition to being broadly similar to the policies adopted throughout the globe, spending on these initiatives, together with the slide in public revenue, will further intensify the country's already challenging fiscal realities. Nevertheless, considering the collapse of the tourism sector and the impact of the lockdown protocols on other sectors, this outlay was desperately needed. During the first seven months of 2020, the country experienced a 64.4 percent dive in stay-over arrivals, along with a 35 percent fall in cruise visitors and consequently, a massive fall in foreign exchange earnings. This placed untold pressure on businesses and households, necessitating a substantial intervention on the part of the government, with the support of multi-lateral agencies. In April, the IMF approved US$29.2 million in Rapid Credit Facility funding to St. Lucia, to aid the island's response to the virus. To help ease the burden on households and businesses, in late March, the Eastern Caribbean Central Bank and commercial banks in the currency group, drafted a plan to offer a moratorium on loan payments to customers for an initial period of six months and to be reviewed thereafter. Late fees and charges will also be waived during the period. Financial institutions supervised by the Financial Services Authority, such as credit unions have also agreed to participate in the moratorium.

St. Vincent and the Grenadines

After enduring a truly horrid period during the first six months of the year, the domestic tourism sector received a long-term boost in July 2020, when it was announced that an operator was found for the Buccament Bay Resort. The resort has been closed since December 2016, after severe financial challenges and was also the subject of several legal proceedings. Government's long search for an investor for the resort, eventually led to an agreement with Sandals Resort International to take control of the property. Sandals has indicated that the property will operate under the Sandals Beaches Resort brand and is expected to have between 330 and 350 suites and employ 1000 persons, of which 700 are expected to be Vincentians. However, the resort's expected launch date has not been disclosed. Sandals is expected to pay US$17.5 million for the property. In terms of the performance of the wider economy, between April and June the COVID-19 related restrictions prompted a drastic fall in activity. Given the deleterious effect of the pandemic on economic activity and employment, government implemented a recovery and stimulus package in April, costing $77 million dollars or 3.5 percent of the country's GDP. In reviewing the performance of the package in June, government revealed that 395 businesses were partially or completely shut since March, leading the rate of unemployment to increase by more than 10 percentage points through to May 2020. To help fund its response to the pandemic, government successfully applied to the IMF for US$16 million under the Rapid Credit Facility. The timely disbursement of the IMF funds also put the country in a position to benefit from financing from the Caribbean Development Bank and the World Bank.

Suriname

Because it shares a maritime border with Guyana (the most exciting jurisdiction for oil exploration at the moment) many expected that Suriname would soon be reporting sensational discoveries of its own. With three offshore discoveries between January and July 2020, the country may be well on its way. In January, US based Apache Corporation in partnership with France's Total SE, announced a find at the Maka Central well in Block 58, which is at Suriname's maritime border with Guyana and is actually connected to the latter's reserve-rich Stabroek block. This is estimated to contain 300 million barrels of oil, 150 million barrels of condensate and 1.4 trillion cubic feet of gas. In April, the company heralded another significant discovery at the Sapakara West-1 well in the same block. Then, in July, Apache declared what it described as a giant find at its Kwaskwasi-1 well, also in Block 58. In view of these developments exploration activity in Suriname is set to pick up in the near-term, with other companies seeking to expand or establish their presence in the jurisdiction. The substantial fall in global oil prices during the height of the global lockdowns between late March and May, negatively affected Suriname's economic activity and foreign exchange earnings. However, this was partially offset by the rise in international gold prices by 8.1 percent in the second quarter to US$1,711.13 per troy ounce, after an increase of 6.9 percent in the previous quarter. Nevertheless, this was not enough to prevent a fall in the country's foreign currency reserves and the further tightening of the foreign exchange market. While the official rate of exchange held steady at US1$ to SRD$7.52 during the first seven months of the year, the value of the domestic currency was much lower on the parallel market and trended down in the second quarter. As a result of this, inflation spiralled to 35.2 percent in June from 17.6 percent in March 2020. After his Progressive Reform Party defeated the ruling Desi Bouterse-led National Democratic Party at the general election in May, Mr. Chan Santokhi was elected president by the 51-member National Assembly on July 13th.

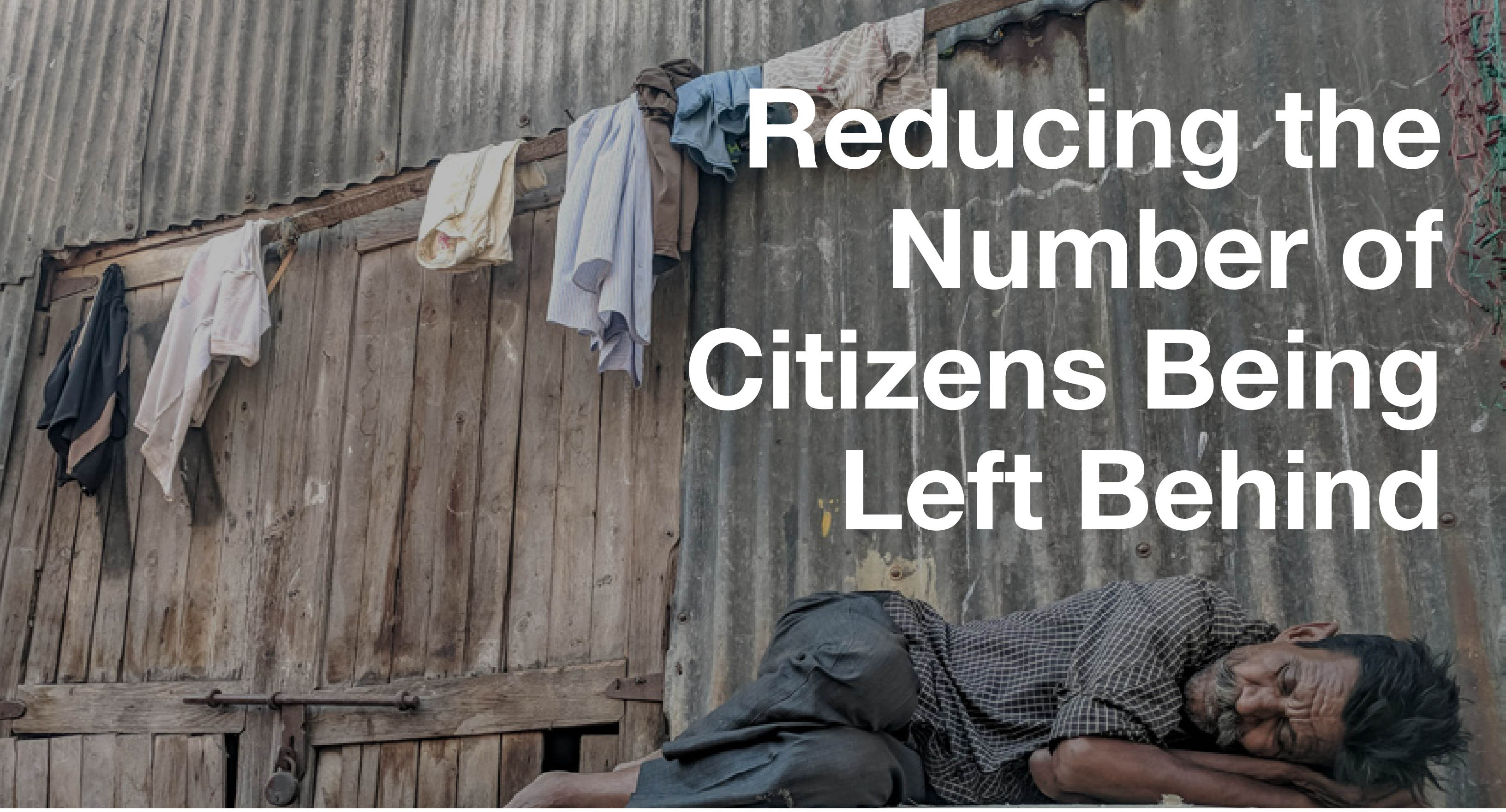
The Region

An IDB report indicated that as much as 100,000 workers in The Bahamas could lose their jobs, should the economy record three consecutive quarters of economic decline in 2020. This figure is based on the projected loss of as much as 17.7 percent of the jobs in the formal sector, combined with the likely displacements in the informal sector. The shrinkage of real GDP for three successive quarters in 2020 is by no means beyond the realm of possibilities. Anecdotal evidence suggests that there was a major contraction in economic activity during the second quarter, while the imposition of temporary pandemic-related lockdown measures in the third quarter, eliminated any prospect of significant improvement between June and September.

Jamaica's economy suffered an 18 percent contraction in the second quarter of 2020, after a 2.3 percent slide in the previous quarter. This fall was reflective of the impact of the measures adopted to contain the COVID-19 pandemic, with the hotels and restaurants industry registering an 87.5 percent collapse. With the tourism sector smarting, the country's foreign currency inflows have been significantly reduced. This has resulted in the domestic currency trading at historic lows and has caused a substantial deterioration in Jamaica's current account deficit. In September 2020, Fitch Ratings agency downgraded the country's outlook to stable from positive, but maintained its rating at "B+". The agency cited the expected contraction in the country's foreign currency earnings from tourism, remittances and alumina exports as the major reason for the action.

Outlook

Although some countries have begun to gradually relax COVID-19 restrictions, no major acceleration in economic activity is expected in the second half of 2020. The massive job loss suffered in major tourism source markets and fears related to the continued spread of the virus will suppress international travel and tourism demand. As a result, there is not likely to be a significant ease in the challenges facing the region's tourism-dependent nations during the period. As it relates to commodity producers, only Guyana is expected to record meaningful growth in the second half of the year, as weak global demand is projected to keep commodity prices low (except gold) for the remainder of 2020. Overall, the Caribbean is expected to record another deep contraction in economic activity in the second half of 2020, with marked deteriorations in unemployment, fiscal accounts and external positions. In this environment, many of the measures employed by regional states to cushion the effects of the pandemic may need to be extended, at least until the end of the year. However, given the region's pre-existing fiscal challenges, policy makers will need external assistance and must be both creative and resolute in their management of the situation.



Reducing the Number of Citizens Being Left Behind

Although incidences of poverty and inequality are greater in developing countries, they are undoubtedly global challenges and their eradication quite rightly, features among the United Nations' (UN) 2030 sustainable development goals. As the world seeks to navigate these unprecedented times, a major concern is that the COVID-19 pandemic may substantially exacerbate inequality and poverty, both at the global and country levels. In addition to eroding much of the recent gains made in these two areas, it is also feared that the lingering effects of the virus could constrain progress for years to come. According to the World Bank, 10 percent of the world's population (734 million people) lived in extreme poverty in 2015, compared to 36 percent (1.9 billion people) in 1990. This measure of poverty is based on individuals who live on less than US$1.90 per day. The virus is projected to erase much of the progress made over the last five years, with 40-60 million people expected to fall into extreme poverty in 2020. In terms of how wealth is distributed between the rich and poor, the IMF expects the income gap between the rich and poor to widen further in the wake of COVID-19. This outlook is supported by the agency's research on the effects of five epidemics, namely SARS (2003), H1N1 (2009), MERS (2012), Ebola (2014) and Zika (2016), which revealed that income inequality increased steadily in the affected regions during the five years after the event.

While this is troubling, it is by no means surprising. After all, the overwhelming majority of low-income earners survive on jobs that are low paying, require little skill and which are normally the first casualties of an economic downturn or crisis. Accordingly, there tends to be a significant level of discontent among these individuals during challenging economic times and no shortage of individuals willing to take advantage of the sentiment. In recent years, we have seen populist ideologies gaining increasing acceptance globally and the politicians that espouse them, taking the reins of power, sometimes by large electoral margins. This has occurred even in countries once believed to be least likely to embrace such principles. The subdued economic conditions that characterised much of the global economy at that time provided fertile ground for the phenomenon to blossom. As job opportunities began to diminish and governments' fiscal resources became increasingly strained, large corporations, globalisation and capitalism drew more frequent and more intense condemnation. The immigration policy of many countries also came under increased scrutiny, as xenophobia rose to worrying levels, and countries managed their borders more tightly. With current global conditions multiple times more difficult, one wonders, what will be the impact on the global geopolitical landscape.

Encouragingly, crisis is always accompanied by opportunity. On this occasion, we have the opportunity to embrace the spirit of the UN's 2030 development goals, which simply put, is that in modern society, no one should be left behind. The rest of this note discusses a few ways to enhance initiatives designed to reduce poverty and narrow the wealth gap.

Broadly speaking, the root cause of inequality and poverty is a lack of opportunity or at least, significantly less of it, due to social class, race, gender, disability and geographical location, to name a few. This includes opportunities to learn, practice, work and even play. Most times, the lack of opportunity is quite clear, such as when a qualified person is unable to secure employment. Other times, it is not always easy to recognise, especially by those who do not face the related challenges. For instance, two children could attend the same class in the same school, but one could be at a severe disadvantage because she/he comes from a poverty-stricken home. This child may not have access to all the learning material, their parents may not be able to consistently satisfy the nutritional needs of the household or basic amenities, such as electricity and running water may be beyond the family's resources. In the context of the current COVID-19 construct, many students throughout the world are now required to participate in class remotely. However, with little or no access to computer equipment and reliable internet service, millions of students, including many here in the Caribbean are at a disadvantage. While it's impractical to expect a truly level playing field, and though history is replete with examples of people who overcame tremendous challenges to lead hugely successful lives, it is in everyone's best interest to create more breaks for those at the margins of society. The simple reason for this is that poverty and inequality limit economic development and erode confidence in institutions. The smaller the proportion of individuals living in poverty, the larger will be the consumption stimulus and thus, the rate of economic growth. Further, when there is distrust of institutions and procedures, people tend to engage in activities that may be injurious to society and ultimately themselves. Unfortunately, too many of us believe that it is solely the government's role to create opportunity for the disadvantaged, when in fact it requires a societal effort and should really be a guiding principle.

The government has to be at the forefront in the battle against inequality and poverty, ensuring that its programmes are adequately supported in terms of fiscal resources, legislation and public awareness. For the greatest efficacy and to conserve resources, such programmes should be appropriately targeted and reviewed regularly. For example, schemes such as free universal tertiary education and fuel subsidies benefit both the rich and poor. A more refined approach will direct scarce resources only to those in need and as such, reduce the state's fiscal burdens. Care must also be taken to ensure that such initiatives amount to more than just transfers and subsidies. Given the vast needs of the individuals in this group, government would invariably have to engage in such spending, but this should be paired with expenditure on training initiatives to equip the vulnerable with the skills to acquire sustainable jobs or open their own businesses; the age-old "teach a man to fish" principle. If government forms partnerships with the private sector and non-government organisations, it will be able to enhance the reach of its programmes and contain costs.

The need for a societal effort dictates that the private sector must also play a role in attending to the needs of the vulnerable. Thankfully, over the years, many firms have generously accepted this function. In recent times though, the way the role is viewed has undergone substantial change. Businesses today are increasingly required to be mindful of the impact of their operations on society. More specifically, they are called to be good corporate citizens. As they pursue their objectives, there is growing pressure on firms to act in ways that protect the environment, build the economy and enhance the lives of people in the communities in which they operate. For this reason, many companies have adopted the corporate social responsibility (CSR) philosophy, under which such entities hold themselves socially accountable and are also responsible to stakeholders and the public. The range of activities under CSR programmes can be quite broad, but philanthropy and volunteerism are by far the most popular. In today's world, established firms are sometimes called to be business mentors to start-ups and potential entrepreneurs. This activity is especially important for the enlargement of commercial activity in developing countries. CSR programmes play an important role in the fight against poverty and inequality and are beneficial to the company, the recipient and society. Businesses that are socially aware and active, generally benefit from a boost in image and employee engagement, as workers normally feel a great sense of pride knowing that their company is having a positive impact on society. Sadly, not all businesses with the necessary wherewithal have embraced the CSR ethos. Public policy initiatives such as government incentives may be required to drastically reduce the number of firms without community outreach programmes. Given the intractability of poverty and inequality, it is important for more of the global business community to join in the efforts to address these ills over the medium to long-term. Having said that, it was indeed encouraging to see a reasonably strong level of philanthropic activity globally during the height of the global lockdown, despite the deleterious effect of the pandemic on business profits.

Social programmes need to be protected and synergised. As mentioned before, social initiatives should be properly targeted to ensure that the persons benefitting are indeed the ones in need. It is also essential to have a clear strategy to advance as many people as possible out of these schemes, by equipping them to be productive members of society. In this regard, there must be a reasonably strong training element. There will, of course be some cases where social support is necessary throughout a person's life, but for those individuals with the requisite capacity, the aim is for the reliance on support initiatives to be temporary. If this is done, it will significantly boost the benefit of such initiatives to society, since they will be able to look after more people over the long-term and help to improve productivity. Sometimes, to safeguard the viability of the programmes, administrators will have to use tough love. The regular receipt of grants may be a disincentive for some individuals who are otherwise capable, to take the necessary actions to lead successful, financially independent lives. For this reason, it is important to speak truth to fear, slothfulness, inappetence etc.; to constantly monitor progress and ensure that programmes do not move away from their moorings. For instance, it is counter-productive to allow individuals to make careers of what were initially intended to be schemes which provide training and temporary employment.

We are obligated to look after and seek to reduce the number of our brothers and sisters who, for varying reasons, are being left behind economically. To be successful, this requires an all-hands-on-deck mindset and approach, where every institution and every member of society recognises that there is a part to be played by everyone. However, in its leadership role, government is required to create the environment for widespread participation and must take steps to enhance the sustainability and synergy of the collective effort.