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COUNTRY DEPARTMENT

CARIBBEAN

THE IMPACT OF COVID-19 ON THE ECONOMIES OF THE REGION

The Bahamas

Barbados

Trinidad and Tobago

Guyana

Suriname

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VICE PRESIDENCY FOR COUNTRIES

Contents

Introduction

David Rosenblatt and Francesca Castellani

This document analyzes the impact of the COVID-19 pandemic in the Caribbean countries: Barbados, Guyana, Jamaica, Suriname, The Bahamas and Trinidad and Tobago.

The magnitude of the impact will depend on the duration of the pandemic, its spread, and the countries' prevention and response measures to contain the shock. It will also hinge on the structure of their economies and their exposure and vulnerability to global transmission channels, such as, commercial ties, integration into global value chains, role of the tourism sector, dependence on raw materials, financial integration, among others.

The main priority is to contain the spread of the virus to minimize its direct impact. Experts from the World Health Organization and the experiences of China and other countries in Asia and Europe highlight the importance of "flattening the curve" and containing contagion, to avoid a collapse of the health system and minimize the impact on both lives and economic activity.

Even in a favorable scenario where the region manages to control the spread of the virus and the outbreaks remain localized, the economic impact of the pandemic is likely to be significant. First, prevention and containment measures will have a direct impact on public finances, productivity, and economic activity. Second, the effect of the global shock might be greater than that of the international financial crisis.

The impact on growth will be contingent on the evolution of the pandemic outside and within the borders of each country, the vulnerability of each country and its response capacity, including that of its health system. Fiscal space and access to financing will be decisive for the response, as well as ensuring and providing liquidity to the banking sector and the rest of the economy.

The main channels of transmission of the global shock to the region, the potential impact on growth and the measures adopted by governments are discussed below.

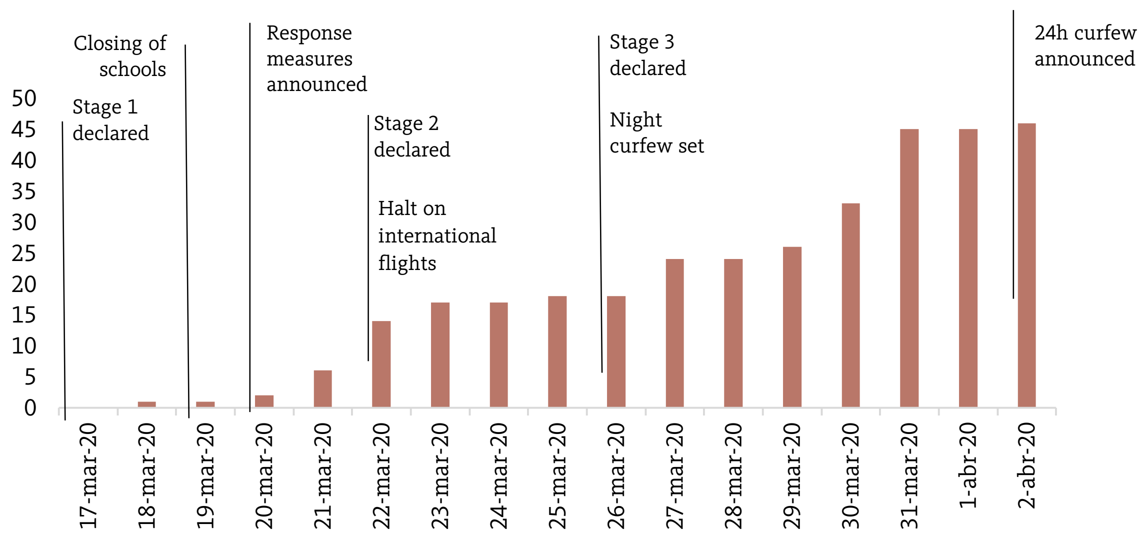
Barbados

Laura Giles Álvarez

The coronavirus outbreak and government actions to stop the spread [1]

The number of COVID 19 cases has been rising. During the second half of March, Barbados has seen a rapid increase in cases, reaching 46 as of April 2, 2020. The majority of the recorded cases have either been imported or have resulted from the tracing efforts which have been conducted.

Figure 1: Response timeline and confirmed COVID 19 cases (number of persons)



Source: Author and European CDC https://ourworldindata.org/coronavirus-source-data

Note: Confirmed cases are lower than total cases due to limited testing

The Government's response strategy has been divided into 3 stages, following guidelines from the World Health Organization. Stage 3 was activated on March 26, 2020, when a public health emergency was declared and a curfew between 8pm and 6am has been implemented for the period March 28 to April 14, which was expanded to a 24h curfew as of April 3, 2020. Only essential services and special categories of businesses are to open during this period. All other businesses have been closed. Additional measures being taken include the deployment of additional isolation facilities for moderate cases and the recommendation that ill workers get 5-7 days without requiring a sick leave form. In addition to these measures, on March 22, 2020, the Government announced a halt on most international flights until May 2020, leaving the country with minimum international transport services which are now mostly focused on cargo.

[1] All data in this document is updated to April 2, 2020.

Economic growth prospects: then and now

The externalities of COVID 19 will have strong negative effects on economic growth in Barbados. Being a small island state, Barbados is highly vulnerable to external shocks, particularly to its main tourism source markets, Canada, UK and the USA. Pre COVID 19 forecasts estimated real GDP growth of 0.6 percent in 2020. However, the authorities now expect the economy to face a severe contraction. Lower growth prospects also pose a serious risk to the continued achievement of the structural benchmarks under the External Fund Facility (EFF) program with the IMF.

The main shock transmission channel is the tourism sector. Tourism is the main driver for growth and source of foreign exchange, accounting for 17.5 percent of GDP (2019) and directly employing over 12 percent of the labor force. Although the high season spans between November and March (peaking in December as seen in Figure 2), tourism remains an important source of economic activity until September. Wholesale and retail sectors, which accounted for almost 10 percent of GDP in 2019, could also be adversely impacted by lower demand resulting from the decline in tourism arrivals and the curfew.

Figure 2. Tourism arrivals, value (2000-2019)

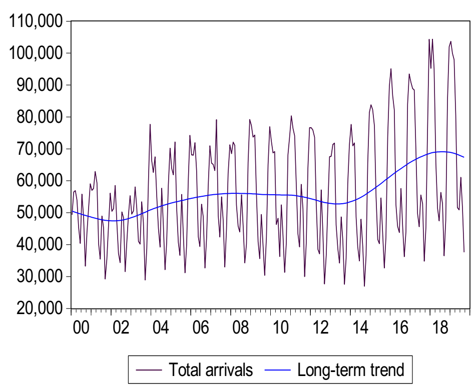
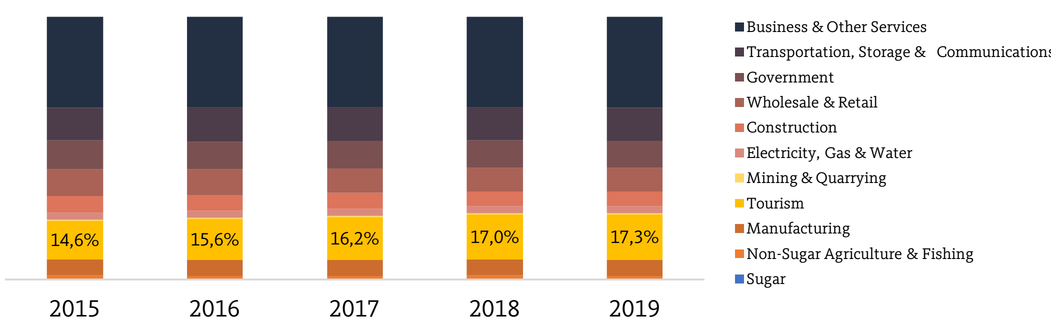


Figure 3. Composition of real GDP (percent)



Sources: Central Bank of Barbados http://www.centralbank.org.bb/research-publications/statistics

Note: Tourism arrivals in 2019 only include January-September

Investment levels and international oil prices will also have effects on the economy in the next few months. Investment levels can fall if countries like the UK, the USA or Canada face strong downturns in their economies. FDI reduced from 4.4 percent of GDP recorded in 2018 to 3.5 percent of GDP in 2019. Lower tourism receipts and FDI will also have a negative effect on the level of international reserves, which stood at 19 weeks of the import cover in March 2020. Although low international oil prices will provide relief to the level of international reserves (as Barbados is a net importer of oil), the positive economic impact will be marginal given the overall reduction in economic activity.

Government policy response

On March 20, 2020, the Prime Minister announced a broad package of support measures.

These are divided into social and financial measures:

Social measures: The Government approved additional funding for medical supplies and purchase of drug supplies. The Government has also identified a basket of goods that will be monitored to ensure adequate supply levels and prevent hoarding and price increases. The Barbados Water Authority has been requested to reconnect the water supply for households who had it cut off, the 'Homes for All' project has been prioritized and agricultural food production is being increased. US$10 million have been assigned for social assistance. There will be an increase in the rates and fees paid by the Welfare Department and the household survival program will be prioritized. A social fund, called the 'Adopt a Family' fund has also been established and is targeting donations from corporate and private citizens. There will also be care packages distributed to 3,000 vulnerable families. A one-stop-shop has been set to ease the process of filing for unemployment benefits and, if required, the authorities announced their intention to recapitalize the unemployment fund.

Financial measures: Commercial banks will offer a 6-month payment moratorium on loans and mortgage payments for persons and businesses directly impacted by COVID 19, as well as the development of further options to provide small businesses with financing. The small hotel investment fund is also being recapitalized with US$10 million and a US$0.5 million fund to support arts and sports development is being set aside.

The authorities have requested additional financing support from international financial institutions. This includes the possibility of extending the EFF envelope by US$100 million, to US$390 million, and the disbursement of a US$80 million policy-based loan by the Inter-American Development Bank. The targets and structural benchmarks under the program for FY2020/21 with the IMF are being renegotiated.

Guyana

Victor Gauto

The coronavirus outbreak and government response to stop the spread

After spreading through Asia, Europe, the US and South America, the Coronavirus COVID-19 arrived in Guyana on March 11. According to the World Health Organization (WHO), at the time there were 80,955 confirmed cases in China, 10,149 cases in Italy, and 696 cases in the United States (March 11, Situation Report, WHO). There were relatively few cases in the Latin American and the Caribbean (LAC) region totaling 138, including one case in Jamaica. As of April 2, Guyana has identified 19 cases, 5 – including 4 deaths, while the coronavirus pandemic has continued to spread in the rest of the world.

In Guyana, the health situation has been compounded by unresolved regional and presidential elections that were held on March 2nd, which have entered a legal dispute regarding the election's outcome. Despite this challenging political environment, the main policies adopted by the government to stop the spread include: (i) the suspension of all school activities beginning on March 16th, initially for two weeks and later extended to three weeks, which leads into a two-week Easter vacation; (ii) the closure of the two international airports, initially for a two-week and currently extended to May 1; (iii) special powers granted to the Ministry of Health to prevent and control the disease's spread, which include designating special facilities to isolate and treat the ill and restrict at-risk people's movement; and (iv) effective April 3, the government will close public gathering in places such as restaurants, bars and others, between 6pm and 6am There are currently eleven confirmed cases under mandatory isolation and thirty-one other at-risk people under institutional quarantine. The Ministry of Health performed a total of 75 tests.

Economic growth prospects: then and now

Economically, the Coronavirus pandemic is coupled with the oil production conflict between Saudi Arabia and Russia which has recently led to extraordinarily low oil prices. Guyana began producing oil in December 2019 and variations in oil prices along with the Coronavirus pandemic are expected to have deep implications for the revenue outlook and GDP growth estimates for 2020. The IMF originally estimated that Guyana's oil production would contribute to achieving oil exports worth US$ 2.4 billion, oil-related government revenue of approximately US$ 230 million, and a GDP growth rate of 86% on an assumed price of oil of US$ 64/barrel (IMF Art. IV, 2019). The government of Guyana made a sale of 1 million barrels of oil in mid-February as part of its profit-sharing agreement with ExxonMobil, earning US$ 55 million. The government is expected to make four more sales in 2020, potentially at much lower prices.

Under oil price scenarios varying between US$ 20/barrel and US$ 35/barrel, the estimated value of oil exports (US$ 2.4b billion) could decline by 40% - 60%, leading to terms-of-trade effects affecting the GDP growth estimate. Guyana's expected oil-related revenues (US$ 230 million) could decline by 15%-40%, which would be the main impact on Guyana from the oil price fall-out. On the other hand, some of these negative impacts could be offset by improvements in the price of gold, Guyana's largest traditional export, representing 56% of merchandise exports in 2018 (Bank of Guyana, 2018). Similarly, the oil import bill would also significantly decrease, representing approximately a fifth of expected oil exports in 2020 (IMF-WEO, 10/2019). Furthermore, key sectors of Guyana's economy are susceptible to isolation and social distancing policies which the government has advised. For example, Guyana's wholesale and retail and transportation sectors make up approximately 11% and 13% of the economy, which are exposed to these risks. The fall in the price of oil, along with the uncertainties related to the Coronavirus could contribute to a reduction of the GDP .

Government Policy Response

Guyana faces several constraints to address the impending health crises. First and foremost, the ongoing political dispute over the election results hinders the design and implementation of an adequate fiscal policy response. With Parliament currently dissolved, no legislation can be passed, a situation which is aggravated by the legal dispute over the elections. This affects any potential fiscal stimulus supporting the health sector or social policy providing relief to the vulnerable. Once a government is in place, the recently created Natural Resource Fund (NRF) could also provide support through the budget. The NRF has strict withdrawal rules in place, but accounts for the possibility of emergency financing in the event of a major natural disaster.

Despite these challenges, the government announced making funds available to the Ministry of Health, potentially to strengthen its preparedness in terms of testing, facilities, intensive care capacity, and respirators. Other policies that may be important to consider include expanding cash transfer programs, especially if social distancing policies are strengthened and household incomes fall, which could contribute to reducing the risk of social unrest. Similar support for SMEs could be considered. The Bank of Guyana indicates that its capacity to respond through reserve requirements or policy rates is minimal or none because of the financial sector's generally high level of liquidity and little need to borrow (Bank of Guyana, 2018). The main policy response from the Bank of Guyana has been to ask financial institutions to provide flexibility in the form of lower interest rates, deferring loan payments, as well as promoting measures to reduce in-person transactions. Several banks have adopted these measures including reduced opening hours and deferring loan repayments for a period of up to six months on a case-by-case basis. Supporting liquidity in deteriorating market conditions will be key.

The main recommendation for Guyana has been proposed by the World Health Organization, namely for Guyana to urgently introduce more stringent measures limiting people's movement in urban areas, which up to now has been relatively unaltered.

Jamaica

Henry Mooney

COVID-19 and Government Actions to Prevent Transmission

As of April 2, 2020, forty-four cases of COVID-19 had been confirmed in Jamaica. Despite concerted efforts on the part of the Government of Jamaica (GOJ) aimed at stemming the transmission of the virus from abroad, as well as domestic measures aimed at slowing transmission domestically, it is widely expected that more cases will be identified over the coming days and months.

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

Border Measures: On March 16, 2020, the Government of Jamaica advised that all travelers from countries where there is local transmission of the COVID-19 would be required to self-quarantine for up to 14 days. On March 21, the GOJ took a more active stance, by closing Jamaica's air and seaports to incoming passenger traffic, though outgoing passengers and cargo would continue to be allowed.

Domestic Measures: The GOJ has mandated that any person displaying symptoms of the virus will be immediately isolated in facilities at a public hospital. On March 28, 2020, the GOJ issued a public health emergency, and imposed a curfew between 8 p.m. and 6 a.m. through at least April 14. Only essential services have been permitted to remain open, and all other residents have been urged to stay indoors with the exception of necessary movements. Other measures include the deployment of additional isolation facilities for moderate cases, and enhanced public security measures.

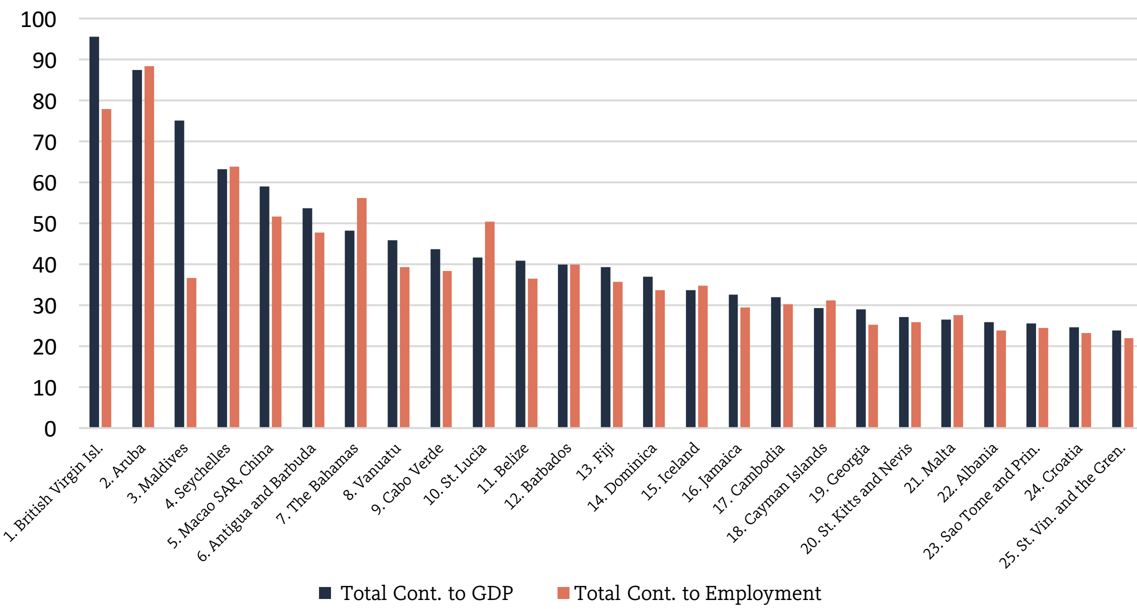
Growth Prospects

While still early days, the COVID-19 shock will have significant implications for Jamaica's economic performance in 2020 and beyond. Prior to the crisis, real GDP growth for FY2020/21 was projected to be about 1.1%, set against the backdrop of expected strong domestic conditions and buoyant external demand for tourism and commodities (e.g., bauxite). The nature of the unfolding COVID-19 crisis is such that it is likely to affect a number of key sectors of Jamaica's economy. First among these is the tourism sector, which accounts for a very large share of both total economic output and employment (34% and 31%, respectively)—Jamaica ranks 16th globally in terms of countries' economic dependence on the sector (Figure 1). Tourism receipts also account for about 53% of total exports, or the equivalent of about 20% of GDP. Of the 4.3 million tourist arrivals in 2017, about 43% were from cruise ships—the sector most directly and profoundly impacted by the crisis. In addition, a large proportion of tourism arrivals to Jamaica originate from the United States, Canada, the United Kingdom, and other European countries—all of which have been hard hit by the crisis, forcing them to invoke unprecedented travel restrictions. In this context, this crisis and implications for Jamaica's most significant economic sector are without historical precedent. Given the weight of the sector, simulations suggest that a prolonged crisis could reduce output relative to pre-crisis expectations by an appreciable magnitude.[2]

Figure 1: Tourism Dependence

	Contribution to GDP*		Share of Employment*		Tourism Receipts*		Tourism Arrivals**		
	Direct	Total	Direct	Total	Share of Exports		Total Arrivals	Air	Cruise
	(%)		(% total employment)		(% of total)	(% of GDP)	(#)	(% arrivals)	(% arrivals)
Jamaica	10.5	33.7	9.4	30.5	53.4	19.7	4,330,239	57.4	42.6

Total Contribution of Tourism to GDP and Employment (% of total, average 2015 to 2019)



Source: Authors' calculations based on data from: The Bahamas: Tourism Today Report; Barbados: Department of Statistics; and Jamaica: Tourist Board; World Bank / World Travel and Tourism Council; and, CCB central banks.

Notes: * Data for 2018/19. ** Includes foreign nationals and non-residents. *** Data for 2017. **** Only 2018 season.

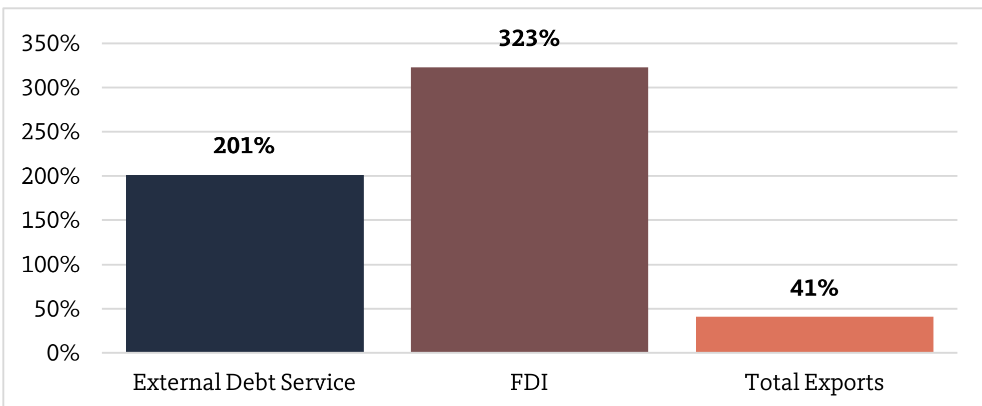
Other shock transmission channels will also affect Jamaica's economy. Beyond tourism, Jamaica's economy is likely to be adversely affected by shocks to trade and financial flows, as well as the costs associated with mitigation efforts at home (e.g., forced closures of businesses). Revenue implications of shuttered businesses and sectors, as well as costs associated with mitigation efforts, will also have adverse implications for budgetary outcomes, forcing the government to run higher deficits than originally expected. This may also require higher levels of domestic and external financing, with potential implications for the medium-term public debt reduction target set out under the fiscal responsibility law (i.e., of a public deb tot GDP ratio of less than 60% by 2026).

[2] For a broader discussion of potential implications of the crisis for the region, see: https://blogs.iadb.org/caribbean-devtrends/en/covid-19-tourism-based-shock-scenarios-for-caribbean-countries/

Other potential implications of the crisis relate to external financing, the availability of foreign exchange, and the balance of payments. Successful debt reduction and macroeconomic stabilization efforts in recent years have helped reduce Jamaica's external imbalances, with the current account deficit falling from about -10% of GDP as recently as 2012, to about -3% in 2019. While this has helped support exchange rate stability and allowed the central bank to build strong reserves buffers, Jamaica remains highly dependent on private capital transfers from abroad in the form of migrant remittances. These remittances accounted for about 16% of GDP in 2018, which is the equivalent of three times the volume of foreign direct investment (FDI) from abroad; twice the magnitude of external debt service requirements; and, equal to about 41% of the value of total exports (Figure 2). Migrant remittances also serve as an important source of income for the most vulnerable populations. In this context, there is a significant risk that the shock to employment in advanced economies that are the main sources of Jamaica's remittances—i.e., the United States, Canada, and United Kingdom—could adversely affect these flows, which could weaken the balance of payments position, put downward pressure on the exchange rate, and have serious implications for poorer and more vulnerable citizens that depend on these funds as a key source of income.

Figure 2. Importance of Remittances

(2018, %)



Source: Authors' calculations based on data from World Bank Development Indicators databases, IMF WEO, and government sources.
Notes: Physical transfers (e.g., cash mailed or carried from abroad) may also represent an important source of remittances.

Economic Policy Actions in Response to the Crisis

The Bank of Jamaica and the Government of Jamaica have undertaken a number of economic measures aimed at dampening the impact of the crisis on key sectors. These measures continue to evolve in light of developments, and so far have included a broad spectrum of fiscal, financial, and other measures aimed at supporting key sectors most directly affected by the crisis. Key actions announced thus far include: (i) broad-based tax cuts and related subsidies; (ii) financing and grant facilities aimed at supporting the most affected sectors (both businesses and persons); and, (iii) the suspension of import taxes for critical medical and other supplies. With respect to monetary policy, the central bank has chosen to maintain its policy rate at the pre-crisis level of 0.5%, and to focus instead on measures aimed at supporting domestic financial institutions, including the relaxation of rules regarding both the volume of liquidity that can be provided by the central bank (e.g., via the discount window and short-term repo facilities), as well as the types of assets that can be used as collateral for related transactions. Both the central government and the central bank have stated that they will continue to adapt their policy response to evolving conditions, making it likely that more stimulus and support measures will be undertaken before the crisis dissipates.

Suriname

Jeetendra Khadan

The coronavirus outbreak and government actions to stop the spread

Suriname confirmed its first imported COVID-19 case on March 13, 2020. As of March 26, the authorities confirmed a total of 8 cases with 320 persons in quarantine. Up until now, all cases are classified as imported.

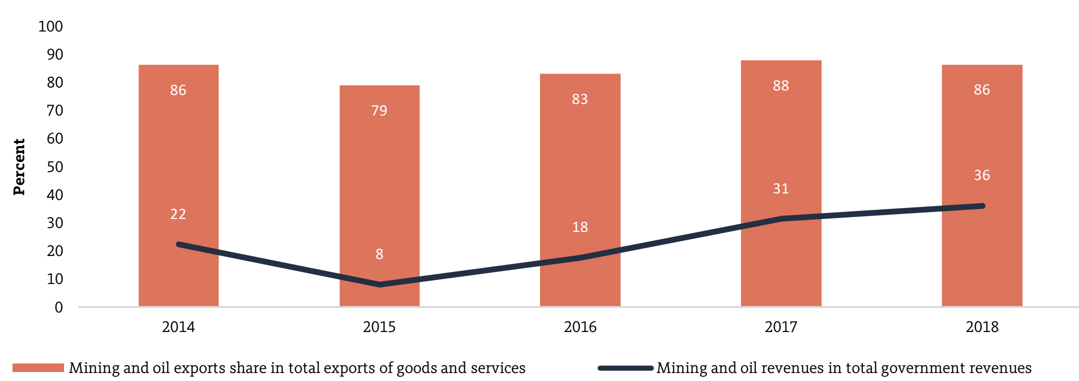
The authorities acted swiftly to contain further importation of the virus and prevent community spread. The measures implemented by the government thus far include the indefinite closure of all borders - land, sea and air -, and measures to facilitate the return of foreigners to their country of origin and retrieve its nationals in foreign countries. The authorities also limited social gatherings, closed all schools and universities, and restricted in-restaurant and bar dining services (take-away services are allowed). Communication of COVID-19 developments to the public occurs via a daily press conference as well as through a dedicated website and press briefings.

Economic growth prospects: then and now

Economic growth is expected to decline in 2020. As discussed in our December report, we expected that the country's economic growth would continue to improve over the medium term with real GDP growth estimated to reach 2.5 percent in 2020. However, recent developments now cast doubt on that assumption. Lower growth at best or an economic contraction at least similar to the 2015 decline (-5.6 percent) is expected for 2020.

Transmission channels are varied and affects all sectors in the economy, either directly or indirectly. The main transmission channel for Suriname will be commodity prices (gold and oil), given the country's high commodity dependence (see Figure 1). The International Monetary Fund (IMF) baseline assumptions for crude oil and gold prices to support an economic growth rate of 2.5 percent in 2020 were US$57.9 per barrel and US$1531 per troy ounce, respectively. However, due to COVID-19 related demand and supply shocks and tensions between Russia and Saudi Arabia crude oil prices plummeted by 60 percent in March 2020 (compared to IMF baseline assumptions). Gold prices have been fluctuating with a marginal difference around the IMF baseline assumption. The ongoing commodity price shock would have negative effects on growth, and can further weaken the fiscal and external positions.

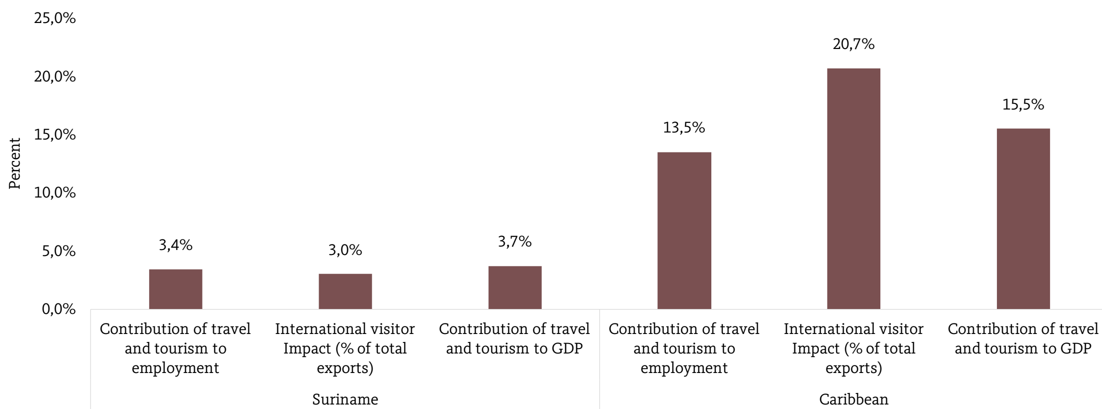
Figure 1. Mining and oil dependence



Source: Author's derivation from the Central Bank of Suriname

Second-round effects would occur through the impact of social distancing measures and internal and international travel restrictions. The necessary restrictions associated with social distancing globally and within Suriname could have large adverse impacts on domestic economic activity, depending on how long they remain in effect. The "human contact" industries such as entertainment, restaurants, bars, retail, transportation and home care services are expected to be affected the most during this period. Moreover, new investments are expected to be postponed and ongoing infrastructure projects could suffer delays in implementation, affecting economic activity in the construction sector. Although the tourism sector in Suriname is relatively small (see Figure 2), there could be large effects on businesses and households that depend on the travel and tourism value chain (for example, hotels, restaurants, transportation and tour operators).

Figure 2. Tourism dependence (2018)



Source: World Travel and Tourism Council

Government policy response

The ongoing shock is having an unprecedented impact in advanced and emerging economies with large spillovers expected for small open economies like Suriname. COVID-19 is causing a trade-off between public health and economic health as many countries are temporarily closing non-essential services and businesses and asking employees to stay at home. In that context, it would require an immense coordinated policy response—fiscal, monetary and social policies—to firstly "flatten the curve" on COVID-19 and then a multisectoral policy response to address the resulting economic challenges. We look at policy options and constraints to Suriname's policy response below.

Fiscal policy. Ongoing policy discussions are focused on ensuring that the distribution of basic supplies, crucial government services and utilities continue during the COVID-19 crisis period. The authorities are also looking at measures to support the business sector. However, fiscal policy response is constrained by challenging macroeconomic conditions and a precarious fiscal position. The ongoing shock is likely to worsen the fiscal accounts through a decline in revenues (mostly oil) and also reduced tax receipts. Nevertheless, a large fiscal effort is needed to mitigate the effects of COVID-19 and support households and businesses. The trade-off here is worsening economic conditions in the short-term to preserve public health. In that regard, it would be important to increase budget allocation to address the COVID-19 crisis by reorienting planned expenditure in the short-run and seeking low cost financing (ongoing) to: (i) provide cash and in-kind transfers, especially for vulnerable groups that are likely to lose their jobs and income during the crisis period, (ii) use and strengthen the effectiveness of the social safety net to respond to the ongoing shock, (iii) pursue sector policies to ensure business survival post COVID-19 especially in the transportation, tourism, and hotels sectors, perhaps in the form tax relief and or working with banks to offer deferred payment options. Post-crisis policies would need to be focused on restoring fiscal stability by strengthening the fiscal framework (see IMF, 2019 for specific measures).

Monetary policy. A monetary policy response to the ongoing crisis is challenged by relatively high non-performing loans estimated at 12 percent of total gross loans as of Q2 2018. Moreover, a de facto peg to the US dollar, with a high and increasing trend in the parallel market rate (current parallel market premium is over 70 percent) and relatively low and falling international reserves also constrains the policy response. Lowering of reserve requirements could be an option to increase liquidity but this (together with the required fiscal effort) can worsen the abovementioned challenges. Nevertheless, if the ongoing crisis deepens one would have to carefully weigh the trade-offs between public health and economic health.

Social policy and support for businesses. The authorities have announced social support measures for vulnerable groups during this period. These include enhanced supervision on price speculation and advising companies not to dismiss employees during the crisis period. Commercial banks have also increased withdrawal limits at automated teller machines (ATM) and the use of online banking is strongly encouraged. Finabank (a privately-owned commercial bank) also announced that its customers would be eligible for deferred payment on their obligations if their business operations are affected by the COVID-19 virus.

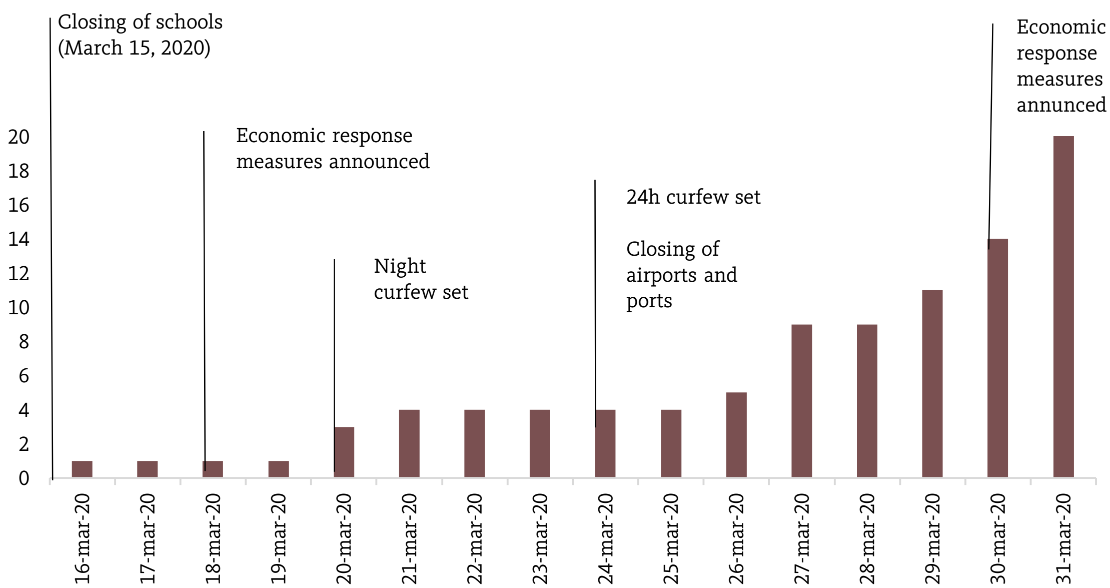
The Bahamas

Laura Giles Álvarez

The coronavirus outbreak and government response to stop the spread [3]

The Bahamas has experienced a rise of confirmed COVID 19 cases, reaching 21 as of April 1, 2020. The first death related to COVID 19 was recorded on April 1st, 2020. There seems to be an increasing number of isolated cases in different islands and various infected persons did not have recent travel histories, which suggests that the number of cases will likely continue rising.

Figure 1: Key measures and number of confirmed COVID 19 cases (number of persons)



Source: Author's updates and European CDC https://ourworldindata.org/coronavirus-source-data

Note: confirmed cases are lower than total cases due to limited testing

The Government of The Bahamas quickly responded to the pandemic, prioritizing social distancing measures to reduce the spread. International travel for passengers has been halted, as all airports and seaports for passengers, seafaring and private boating have been closed. Domestic travel has also been restricted except for the transport of freight. Schools and education institutions have been closed since March 15th, 2020 and a full curfew has been in place since March 24th and will remain in effect until at least April 8th.

[3] All data in this document is dated up to April 1st, 2020.

Economic growth prospects: then and now

The Bahamas' economy, which had already experienced a negative shock due to Hurricane Dorian in the last quarter of 2019, will likely contract substantially in 2020 as a result of COVID 19. The country is vulnerable to external shocks. The Bahamian economy is closely linked to the USA economy through its main economic activities, including tourism and real estate. Prior to COVID 19, the real GDP growth forecast in 2020 had already been revised from 1.7 percent to -0.6 percent due to the effect of Hurricane Dorian. The authorities now expect a more significant contraction in 2020. Although the extent of the contraction still remains unclear, the authorities announced that the total economic impact could range between US$258 million and US$1 billion (or about 2 to 8 percent of annual GDP) through June 2020.

The main shock transmission channel in The Bahamas is the tourism sector. Tourism is a key industry for the economy, directly accounting for 11 percent of GDP in 2018. Tourism receipts reached 77.2 percent of exports and 27.2 percent of GDP in 2018. 82 percent of visitors in 2019 originated from the USA, followed by arrivals from Canada and Europe (which comprised 7 percent of all visitors respectively in 2019), whilst cruise arrivals comprised approximately 75 percent of total arrivals in 2019. Tourism arrivals peak between December and April every year, coinciding with Christmas and spring holidays in the USA, and are lowest between August and October (Figure 2).

Figure 2. Total tourism arrivals,

(value, 2000-2019)

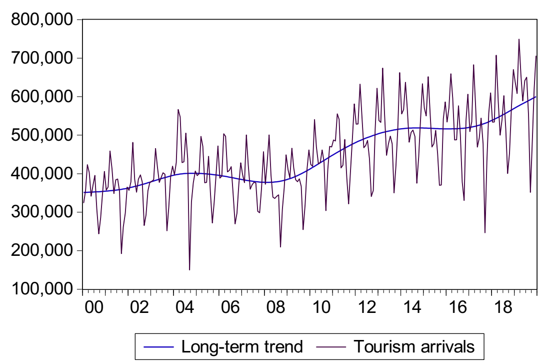


Figure 3. Gross international reserves

Sources: Tourism Today Report (see http://www.tourismtoday.com/services/statistics/foreign-air-sea) and the Central Bank of The Bahamas

Other key sectors for the economy could also be negatively impacted by a global economic slowdown. For example, real estate activities (accounting for 18 percent of GDP in 2018) are driven by luxury properties and vacation rentals which are mostly used by foreigners. The wholesale and retail sector (with a value added of 12 percent of GDP in 2018), could also be negatively impacted by lower tourism arrivals and curfews. Foreign direct investment (FDI) could reduce, as key source markets, such as China and the USA, could face economic downturns of their own following the surge of cases on their territories. Finally, reduced labor mobility and the potential compromise of food security (as approximately 90 percent of food is imported in the Bahamas), could also have indirect negative externalities on growth. Although low international oil prices will provide relief to the international reserve level (as The Bahamas is a net importer of oil), the positive economic impact will be marginal given the overall stall of economic activity.

The international reserve cover will likely decrease in 2020. Reserves increased in 2019 as a result of insurance reinvestment flows, however lower tourism receipts and potentially lower levels of FDI will exert pressure on reserve levels, which are important to maintain the country's exchange rate peg (US1=BSD1). Based on preliminary projections announced by the authorities, external reserves could decline by some $900 million by the end of 2020

Government policy response

The Government of The Bahamas has been rolling out a large set of measures to respond to COVID 19 throughout the past month. These are divided into health and safety, social, fiscal and financial measures.

Health and safety: The Government approved additional financing for the health sector for detection, isolation and treatment of COVID 19 cases. A testing lab has been set in-country and centers have been prepared for isolation. Supermarkets have accommodated two hours for senior citizens to shop before the general public is given access to the stores. The Department of Environmental Health Services has been sanitizing public spaces and individuals' mobility has been completely restricted since the full curfew has been in place.

Social: An additional US$4 million has been allocated to provide food assistance and support for displaced workers directly impacted by COVID 19 through the Ministry of Social Services. US$10 million have been allocated to provide for a temporary unemployment benefit for self-employed persons, administered through the National Insurance Board. Water and Sewerage services and electricity should also be reconnected for all users. In addition, school meal vouchers are being provided for two weeks and the training opportunities in the construction sector are being expanded to support rebuilding efforts.

Fiscal: All non-essential expenses for the Government have been restricted, and events have been cancelled and the Government has accelerated the approval process for domestic and foreign capital investment projects. Companies are granted tax credit and tax deferral to medium and large companies help cover payroll expenses in exchange for retaining workers. US$1.8 million have been allocated to support the Family Islands' COVID 19 related expenditure.

Financial: US$20 million have been allocated in short-term loan support to Bahamian small businesses impacted by COVID 19. Domestic banks and credit unions have provided a three-month deferral against repayments on credit facilities for businesses and households and are assessing the possibility of launching tailored products and services for individuals. The Bahamas Development Bank has also offered a three-month deferral against repayment of credit facilities.

Trinidad and Tobago

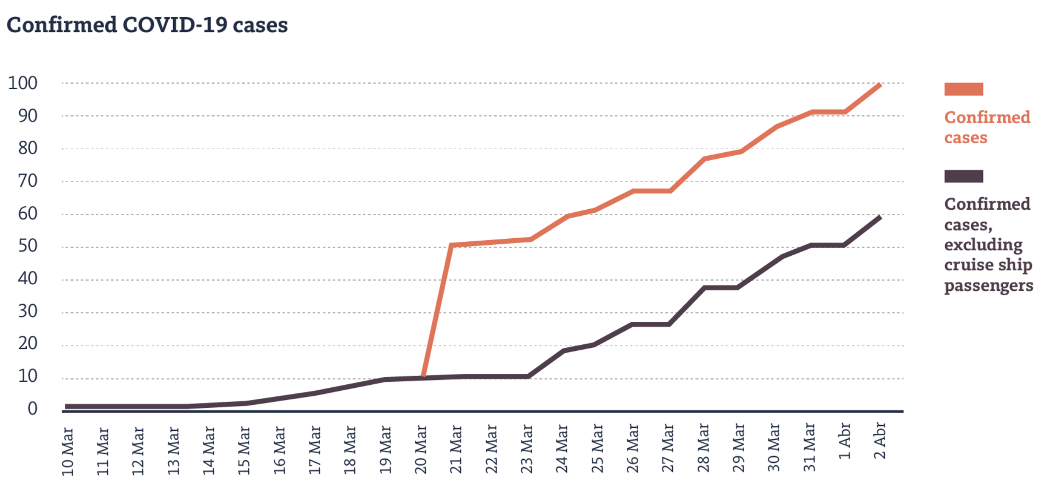
Lode Smets

Coronavirus outbreak and government actions to limit the spread

The COVID-19 crisis arrived relatively late in the Caribbean, but is now clearly affecting the region, including Trinidad and Tobago. Figure 1 shows that the first confirmed case was reported on March 12, a person with a recent travel history. On March 21, the number of confirmed cases jumped from 9 – all persons with recent travel history – to 49. The 40 persons that tested positive all came back from a cruise in the French Caribbean and were quarantined upon their return. Since then, the number of persons with COVID-19 increased to 97 (on April 2), including locally transmitted cases.[4] Unfortunately, 6 deaths related to COVID-19 have been reported as of April

2.

<u>Figure 1:</u>Timeline of confirmed COVID-19 cases in Trinidad and Tobago



To respond to the health crisis, the Government of Trinidad and Tobago gradually increased measures to contain the spread of the virus. At the end of January travelers from China were restricted from entering the country. Later on, South Korea, Singapore, Japan, Italy, Germany, France and Spain were added to that list. As the corona crisis exploded globally, the government decided on March 16 to close its borders to everyone except Trinidad and Tobago nationals and health workers. Schools and universities would also be closed until April 20. Additionally, gatherings above 25 persons were forbidden and religious bodies were asked to limit gatherings. All bars had to close and no in-house dining for restaurants was allowed. On March 21, the authorities announced the closure of all borders to everyone, including nationals, effective midnight on Sunday March 22nd, except for cargo vessels bringing food and pharmaceuticals. Finally, on March 26 the government announced that from the night of March 29 all non-essential activities were to be ceased until April 15. To enforce these measures, the

[4] As 19,852 persons entered the country via the airports since March 9 – mainly coming from the UK, the US and Canada, it is likely that the number of COVID-19 cases will continue to rise for a while, despite the stringent measures taken by the authorities.

police service moved its alert state from yellow to orange, the second highest level. This allows the police service to increase patrols, on a 24/7 basis.

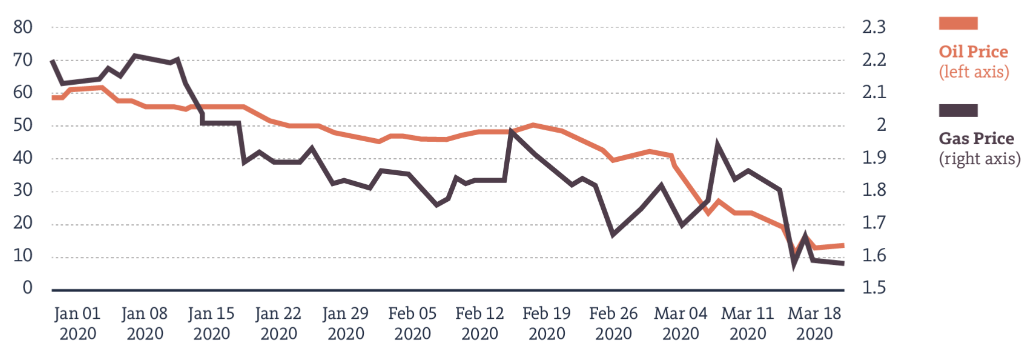
Economic growth prospects and government response

The economic crisis caused by the novel coronavirus is unprecedented and unlike the supply shock caused by the financial crisis of 2008-2009. Now, both supply and demand are affected. Due to the strict health measures, labor supply is significantly decreased, and supply chains are interrupted, severely affecting constraints on the operations of non-essential businesses. As persons become unemployed, demand for certain goods and services will drop, leading to an additional shock. Producer and consumer confidence is expected to fall, leading to delayed investment and precautionary savings.

For Trinidad and Tobago, several sectors are affected. With more than 460,000 tourist arrivals in 2018, the tourism sector will be hit. Several hotels and tourist services have (temporarily) closed down. Next, by limiting activity to essential businesses only, large sections of the economy will be affected, even beyond human contact industries like bars, restaurants or sports games. For instance, the construction sector and most of manufacturing are considered non-essential and will likely need to cease activity until (at least) April 15. Furthermore, business investment is likely to drop. One project to highlight is the La Brea Dry Dock Facility, a 500 million USD investment, to be constructed over the course of a 3-year period. With the ongoing COVID-19 crisis, this large investment may be delayed. Finally, due to reduced demand for fossil fuels, compounded by an oil price war between Russia and Saudi-Arabia, energy prices have dropped significantly, to historic lows (see Figure 2). A reduced value of energy exports is transmitted to lower GDP growth through consumption, investment and employment effects, again lowering growth expectations.

Taken together, it is very likely that the economy will fall into a recession.

<u>Figure 2:</u> oil and gas prices



To address the health and economic impacts of the COVID-19 crisis, the government has taken several measures. On the health side, budgetary resources are directed to the health sector, including hiring additional medical personnel. Hospitals and medical facilities are disinfected daily and specific sites are dedicated to treating infected people. Furthermore, foreign exchange is prioritized for the purchase of basic food items and medical supplies. Several economic measures have been put in place, targeting both businesses and households, including accelerated VAT and income tax refunds, temporary deferral of loan and mortgage payments, distribution of food cards, a salary relief grant for the unemployed, rental assistance and a grant for affected hoteliers in Tobago. On the monetary side, the Central Bank cut the main policy rate with 150 basis points – from 5 percent to 3.5 percent – and lowered the reserve requirements from 17 percent to 14 percent. These monetary policy actions – announced on March 17 – should increase liquidity in the financial system and are expected to stimulate private sector credit.

The measures taken will come at a fiscal cost and additional borrowing. The authorities have already relaxed the rules of the Heritage and Stabilization fund to allow for larger withdrawals, up to USD 1.5 billion. Taking into account a drop in nominal GDP, reduced energy and non-energy sector revenues and the COVID-19 stimulus package, calculations suggest that the overall fiscal deficit for FY2019/20 may be between 8 and 10 percent of GDP. Outlining an economic and fiscal recovery plan for the post-pandemic period will therefore be an important step going forward.

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