MARLA DUKHARAN
CARIBBEAN ECONOMIST

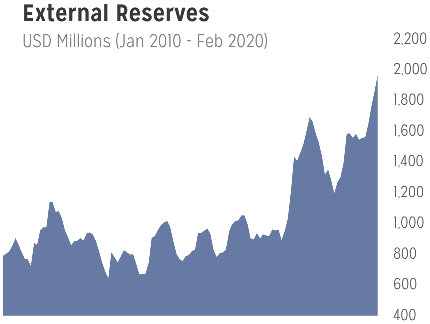
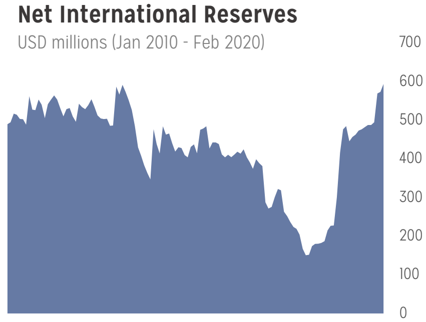
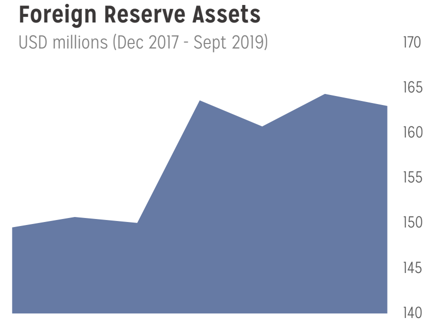
CARIBBEAN MONTHLY ECONOMIC REPORT

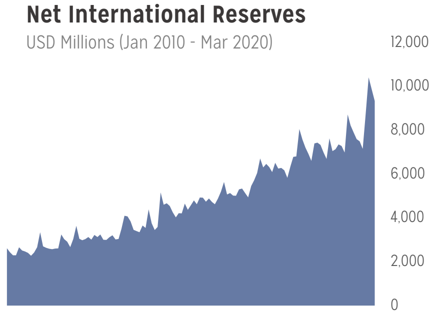
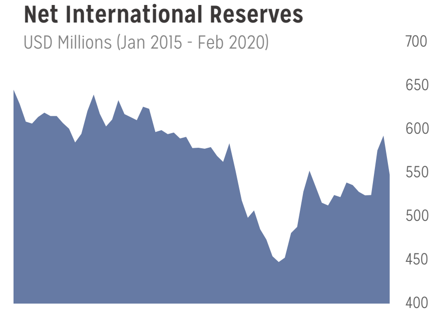
THE SHAPE-SHIFTING COVID-19 CATASTROPHE AND ECONOMIC ATROPHY – WHAT TO DO?

What a time to be alive! Just when you dare to believe that you have some idea of what's going on, enough to even write about it, the bottom of your smug-little-45-year-young-world drops out, and the situation becomes increasingly fluid, rendering ideas about possible solutions today, irrelevant and even ridiculous tomorrow. And because of such extreme Major Lazer/Method Studios-type shape-shifting, the policy responses being formulated now based on our best guesstimations of what could be, are almost entirely experimental. For a genuinely benevolent policymaker, what could possibly be more exciting, but at the same time, more terrifying? Mistakes will be made, and there will be unintended and unanticipated consequences of current policy (in)action. But "The future doesn't belong to the fainthearted; it belongs to the brave" (Ronald Reagan), so we must forgive upfront our truly brave and genuine Leaders for their inevitable mistakes now. But for those extra special politicians who've reliably made 'mistakes' all along, expect nothing better from them now. Forgive them not their consistent transgressions, now or at the polling booth. They know who they are.

> We must forgive upfront our truly brave and genuine Leaders for their inevitable mistakes now

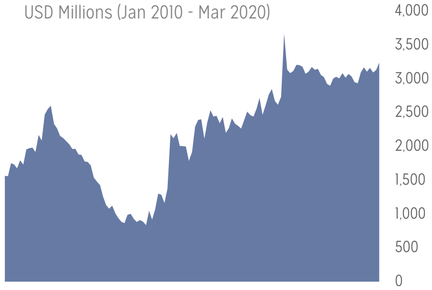
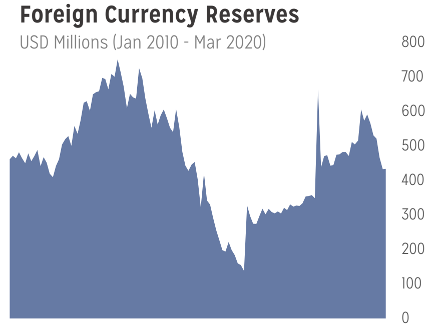
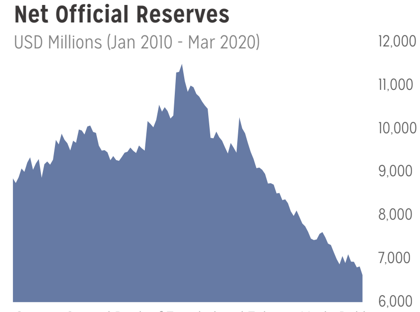
This crisis represents an inflection point pregnant with opportunity for the kind of deep and lasting transformation humanity needs. But a plague of hangry people, suffocating Governments, and sudden-stop-syndromed private sector, collectively create economic atrophy likely to spiral towards chronic and accelerated socio-economic deterioration in the Caribbean. The overdependence on tourism / financial services / oil and gas across the region, makes diversification critical to our survival, but this takes time. In the meantime, managing the risk of overexposure to any one sector requires provisioning for the inevitable rainy day. But what can we do to survive now? Soft currencies and high import dependence mean that we can't just print away our problems. But what if we borrowed big and secured about a year of runway for public and private sector payroll, or a Universal Basic Income? This may mean borrowing say 25-40% of GDP via a 15-20 year local currency sinkable bond, issued in small denominations to encourage as wide as possible participation, especially from small investors, which reduces the risk that this instrument will be restructured in a default/restructure scenario. This approach could ease the pressure on foreign exchange reserves and the exchange rate, versus printing. The commercial banks are best placed to lend the appropriate portion of these funds to businesses which were operating well before the sudden-stop, in order to maintain their payroll. The sinking fund will be credited with the businesses' repayment for these loans. This kind of spending is important, but as the IMF's MD said, "Spend, but keep your receipts."

	BAHAMAS	BARBADOS	CAYMAN ISLANDS
UPDATE	Prior to COVID-19, the economy was expected by the IMF to contract by 0.6%, based largely on the pace of execution of reconstruction work post-Dorian. Fiscal balances are expected to come under strain as borrowing for reconstruction and social welfare outlays rise to deal with the health crisis. Foreign reserves strengthened in Feb 2020 to USD1.96 billion, up 51% y/y to roughly 7.8 months of import cover, mainly as a result of reinsurance inflows. The IDB expects as much as USD900 million in reserves could be lost this year, making The Bahamas susceptible to a balance of payments crisis in the medium-term. We believe that the ~75% dependence on cruise arrivals and almost total dependence on US tourists could mean a collapse of foreign exchange inflows this year. We do not expect any cruise tourism for the remainder of 2020. Cruises accounted for USD405 million in tourism revenues in 2018 and 9,000 jobs. Stay-over tourism arrivals were down y/y in January, and the Dec-April high season has ended.	Before COVID-19, the Central Bank projected growth of 1.25-1.75% for 2020. International reserves continued to recover in February 2020, reaching USD593 million and increasing 22% y/y, providing roughly 19 weeks import cover. This increase has largely resulted from multilateral inflows and was not organic in nature. FDI weakened already from 4.4% of GDP in 2018 to 3.5% in 2019 and is expected to further weaken this year. Since Barbados is already in an IMF program, external funding is already available and agreed which reduces the risks to the balance of payments compared to others in the region. The Central Bank has reduced its overnight rate and announced a number of measures to support liquidity in the banking sector. The tourism high season which runs from November to March had finished at the onset of COVID-19. With tourism accounting for 17.5% of economic activity, temporary hotel closures and the massive reduction in commercial airlift will create significant spillovers to the wider economy.	Before COVID-19, growth was expected to averagem2.2% in 2020-2021 based on continued strength in construction and tourism activity, but less so in the financial services sector. The Cayman Islands is the best positioned in the region to withstand this shock, based on the Government's strong balance sheet. Moody's estimates deb/GDP will only reach 7.6% in 2020 despite COVID-19. External balances are strong and the economy is heavily dollarized. A study commissioned by the Chamber of Commerce estimates that the economy could contract by 15% in 2020 if the lockdown ends in May, and by as much as 22% if the lockdown remains in place until July. This would cost the economy between 10-14 thousand jobs with 1,418 job losses already since mid-March. Repatriation of migrant workers will continue to reduce the population level, and some of the loss will be permanent. Moody's estimates 29,108 total non-Caymanian population, 84% in the labor force: 12% in tourism, 13% in construction and 12% as domestic workers.
TOURISM	Stay-over: 2019: +6.7% y/y / 2020: 125,309 (Jan) -3.5% Cruise pax: 2019: +11.3% y/y / 2020: 555,280 (Jan) +11.4%	Stay-over: 2019: 522,545 (Sep) +4.2% y/y Cruise pax: 2019: 443,133 (Sep) -1.3% y/y	Stay-over: 2019: +8.6% y/y / 2020: 93,558 (Feb) +8.5% Cruise pax: 2019: -4.7% / 2020: 448,435 (Feb) -4.3%
GROWTH	1.8% (2019 prelim. est.)	-0.1% (2019 prelim. est.)	2.8% (2019 prelim. est.)
RESERVES	**External Reserves** USD Millions (Jan 2010 - Feb 2020)  Source: Central Bank of The Bahamas, Marla Dukharan	**Net International Reserves** USD millions (Jan 2010 - Feb 2020)  Source: Central Bank of Barbados, Marla Dukharan	**Foreign Reserve Assets** USD millions (Dec 2017 - Sept 2019)  Source: CIMA, Marla Dukharan
OUTLOOK	IMF expects contraction of -8.3% this year, which is subject to further downward revision.	IMF forecasts a -7.6% contraction this year, which is subject to further downward revision.	The government estimates the contraction this year could be around -15%.

	CUBA	DOMINICAN REPUBLIC	GUYANA
UPDATE	Before COVID-19, growth was not expected to exceed 1% this year. Lower oil prices mean that the resale of oil from Venezuela (173,000 bpd in Feb 2020) will drop, adding further pressures on external accounts. Venezuelan crude also covers 47% of fuel consumption, and the decline in shipments will mean more power outages and fuel shortages. The sudden-stop has caused a surge in power consumption from households, with the residential sector consuming 10% more than planned in March. Foreign currency inflows will also be hit by further declines in tourism and remittances, and lower FDI. Tourist arrivals were down 16.5% y/y for Jan-Feb, with a 64.5% y/y drop in visitors from the US compounding lower arrivals from Europe. In 2019, hotel occupancy dropped to 36.9% and tourism revenues fell 0.3% y/y to USD2.18 billion. Total arrivals for 2019 fell to the lowest level since 2016 at 4.25 million. Medical service exports is the only sector that will maintain activity, having brought in USD6.4 billion in foreign currency revenues in 2018.	Prior to COVID-19, growth was expected by the IMF to average 5.0% through 2024. Net international reserves jumped 27% y/y to USD9.3 billion or 4.9 months of imports in March 2020. We expect the contraction in the economy to be more severe than the 1.5% projected by the IMF, given the high and rising unemployment in remittance source markets and the loss of tourism revenues. Remittances rose 9% y/y for Jan-Feb 2020, after surpassing USD7 billion in 2019. Tourism was already contracting before COVID-19, with arrivals down 1.9% y/y for 2019 and dropping 7% y/y for Jan-Feb 2020. The inflation targeting regime has created low and stable prices, and provides greater certainty around monetary policy. The Central Bank lowered the policy rate in mid-March to 3.50% and announced a series of measures to support liquidity and channel resources through the banking sector to households and businesses. The election has been moved to July, though no change has been announced for the date of change of administration.	Before COVID-19, Guyana was projected to be the fastest growing economy on Earth this year at 86%, and average 14% from 2021-2024. Non-oil GDP was only projected to grow 4.8% y/y in 2020 by the IMF before COVID-19. Exxon and Hess have said that offshore development in Guyana remains part of their long-term plans, but with current prices below their USD35/bbl breakeven cost, this could change. Exxon said they may delay their third development which was slated to begin production in 2023, by 6-12 months. Since prices were not locked in earlier, Guyana will have to sell its four remaining lifts in 2020 at current market prices. Govt had projected up to USD300 million in oil revenue for 2020, but now they expect around USD115 million. Oil exports are expected to decline in value by 40-60% in 2020. Furthermore, COVID-19 is expected to stifle the approvals processes for drilling, and political uncertainty increases risks. International reserves strengthened 2.5% y/y in Feb 2020 to USD548 million.
TOURISM	Stay-over: 2019: -9.3% y/y / 2020: 792,668(Feb) -16.5% y/y Cruise pax: 2018: 877,500 +43% y/y (*341,005 from USA)	Stay-over: 2019: -1.9% y/y / 2020: 1,122,410(Feb) -6.7% y/y Cruise pax: 2019: +12% y/y / 2020: 133,833 (Jan) -13% y/y	Stay-over: 2019: 282,221 (Nov) +9.5% y/y Cruise pax: n/a
GROWTH	0.5% (2019 prelim. est.)	5.1% (2019 prelim. est.)	4.4% (2019 prelim. est.)
RESERVES	n/a	**Net International Reserves** USD Millions (Jan 2010 - Mar 2020)  Source: Central Bank of the Dominican Republic, Marla Dukharan	**Net International Reserves** USD Millions (Jan 2015 - Feb 2020)  Source: Bank of Guyana, Marla Dukharan
OUTLOOK	No official estimates are out, but we expect a contraction in the -10-15% range this year.	The IMF expects contraction of -1.5% in 2020 while the Hotel and Restaurant Association forecasts a contraction of up to -4.7%.	The IMF is expecting growth at 53% this year – still the fastest in the world. But with political uncertainty ongoing, and the collapse of oil prices, we expect growth to be much lower.

<table>
<tr><th></th><th>JAMAICA</th><th>SURINAME</th><th>TRINIDAD & TOBAGO</th></tr>
<tr><td>UPDATE</td><td>Prior to COVID-19, the IMF expected growth at 1.0% in 2020, averaging 2.0% for 2021-2024. International reserves strengthened 5% y/y to USD3.25 billion in March 2020, providing 23 weeks goods and services import cover. The flexible exchange rate allows Jamaica to maintain external competitiveness even as the US dollar strengthens. External balances will deteriorate this year with the tourism sector shut down and lower remittances expected, as unemployment in source markets surges ~ 96% of remittances come from the US, UK and Canada. Fitch estimates remittances will decline 10% y/y in 2020. USD3.75 billion in annual tourism revenues are at risk. Bauxite and alumina prices are expected to decline as demand from China remains weak. The mining sector was already expected to contract as Alpart operations were to be reduced until June 2021 for upgrades. Because the economy is well diversified, we expect the recovery to be less difficult than that of most other countries.</td><td>Prior to COVID-19, the IMF expected the economy to expand annually by 2-2½% from 2020-24. Fiscal and external deterioration has accelerated and a balance of payments (BoP) crisis is very likely. External debt expanded by 10% y/y in December 2019 to USD3.9 billion. At USD434 million, foreign currency reserves provide 2.3 months of import cover. The current account deficit on the BoP tripled in 2019 to USD411 million – the highest since 2015. In 2019, Suriname lost USD317 million in net errors and omissions (E&O) on the BoP - USD that are unaccounted for. Over the last 12 years, Suriname has accumulated USD2.8 billion in net E&O. At SRD7.52 : USD1, the exchange rate has not moved since Dec 2017, with strict foreign exchange controls in place. The fiscal deficit was estimated by Fitch to have reached 10% of GDP in 2019, and is being financed by printing, with the money supply expanding 78% y/y in Feb 2020, taking the ratio of the monetary base to foreign currency reserves to 21.63 – versus an exchange rate of 7.52.</td><td>Prior to COVID-19, the IMF estimated growth at 0.01% for 2019, after about a decade of about zero growth on average. IMF expected growth to average 1.8% through 2023, prior to COVID-19. The fall in energy exports, which accounted for about 80% of total exports in 2018, will contribute to a current account deficit on the Balance of Payments, causing FX reserves to fall at a faster pace and worsening the country's already precarious external position. International reserves are at the lowest level in nearly 13 years, ending March 2020 at USD6.625 billion, down by 10% y/y. The TTD is overvalued and has not depreciated since mid-2017 and in fact appreciated y/y slightly in Jan 2020. Collapsing oil prices puts TTD11 billion in budgeted energy revenue at risk. The fiscal deficit is expected to reach 15% of GDP. T&T's credit rating was downgraded in March by S&P to BBB- with a stable outlook - one degree above junk - and is already classified as such by Moody's.</td></tr>
<tr><td>TOURISM</td><td>Stay-over:
2019: +8.4% y/y / 2020: 227,200(Jan) +5% y/y

Cruise pax:
2019: -16% y/y / 2020: 209,163 (Jan) -16% y/y</td><td>n/a</td><td>Stay-over:
2019: 197,700 (Jun) +1.5% y/y

Cruise pax:
2019: 66,460 (May) -30.7% y/y</td></tr>
<tr><td>GROWTH</td><td>1.0% (2019 prelim. est.)</td><td>2.3% (2019 prelim. est.)</td><td>0.0% (2019 prelim. est.)</td></tr>
<tr><td>RESERVES</td><td>Net International Reserves
USD Millions (Jan 2010 - Mar 2020)

Source: Bank of Jamaica, Marla Dukharan</td><td>Foreign Currency Reserves
USD Millions (Jan 2010 - Mar 2020)

Source: Centrale Bank van Suriname, Marla Dukharan</td><td>Net Official Reserves
USD Millions (Jan 2010 - Mar 2020)

Source: Central Bank of Trinidad and Tobago, Marla Dukharan</td></tr>
<tr><td>OUTLOOK</td><td>The IMF is forecasting an economic contraction at -4.6% in 2020, while S&P expects a sharper contraction of -13% this year.</td><td>We expect a balance of payments crisis in the near future. The IMF is projecting a -4.9% contraction this year, but we believe a double digit contraction is more likely.</td><td>The IMF is projecting an economic contraction of -4.5% this year, but we expect it to be about twice as deep. We also expect a balance of payments crisis and an IMF program by 2021.</td></tr>
</table>