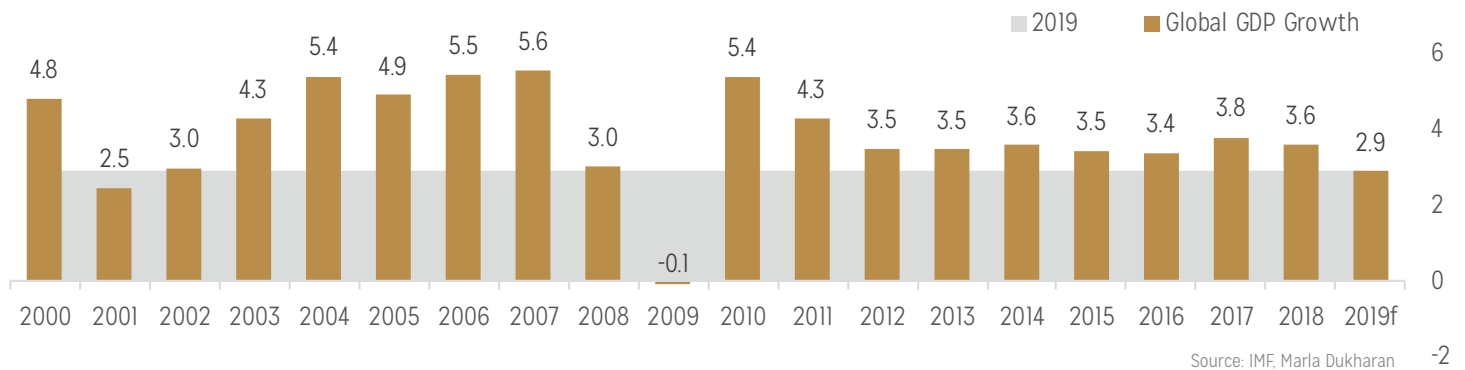


MARCH 30, 2020

Global GDP Growth and Forecast: IMF



The IMF is projecting a global economic contraction - i.e. NEGATIVE GDP growth - for 2020, which could be worse than the contraction seen during the Global Financial Crisis (GFC) in 2009, as depicted in the chart. Global growth below 3% is considered to be a global recession by the IMF, and their growth estimate for 2019 was reduced to 2.9% in early March. So before COVID-19 even hit, the global economy was already in a recession. Let that sink in.

Now, the chart also shows that 2019 was the third consecutive year of progressively slower growth, and the slowest since the GFC in 2009, which ushered in a decade of stagnation. It is arguable that **the global economy had never fully recovered from the GFC**. After all that was thrown at it – Unconventional Monetary Policy, Quantitative Easing (massive printing), negative interest rates, etc. – global growth never fully returned to pre-crisis levels, as you can see from the chart.

The limping global economy itself, nervous financial markets, and COVID-19 combined, have perhaps created the conditions for another deep and protracted period of global economic underperformance. The IMF expects the global economy to recover next year. Indeed, if you look at the chart, there was a rebound in 2010, but what happened afterwards is perhaps more important. Some say this recovery will be V shaped, some say U shaped, but I think there is a risk that this can be more L shaped (as the 2010 - 2019 growth rates depict), whether independently, or seen as a continuation of the Great Recession. In other words, while it is possible to see stronger growth next year, to what extent will it continue to climb? Or are we likely to see the lingering effects of the GFC, plus the drag of this crisis' aftermath continue to put downward pressure on economic activity for many years to come? I believe the probability of the latter is growing higher every day.

GDP Growth Outlook								
Annual Growth Percent (%)	2018		2019		2020f		2021f	
Economy	Fitch	Moody's	Fitch	Moody's	Fitch	Moody's	Fitch	Moody's
US	2.9	2.9	2.3	2.3	1.0	-2.0	1.9	2.3
Eurozone	1.9	1.9	1.2	1.2	-0.4	-2.2	1.8	2.0
China	6.7	6.6	6.1	6.1	3.7	3.3	7.2	6.0
Japan	0.3	0.3	0.7	0.7	-1.4	-2.4	1.5	1.4
UK	1.3	1.4	1.4	1.2	0.3	-2.6	1.9	2.4
Developed	2.1	2.2	1.7	1.7	0.3	-2.0	1.9	2.2
Emerging	5.1	5.0	4.4	4.2	3.1	1.9	5.6	4.7
World	3.2	3.2	2.7	2.6	1.3	-0.5	3.3	3.2

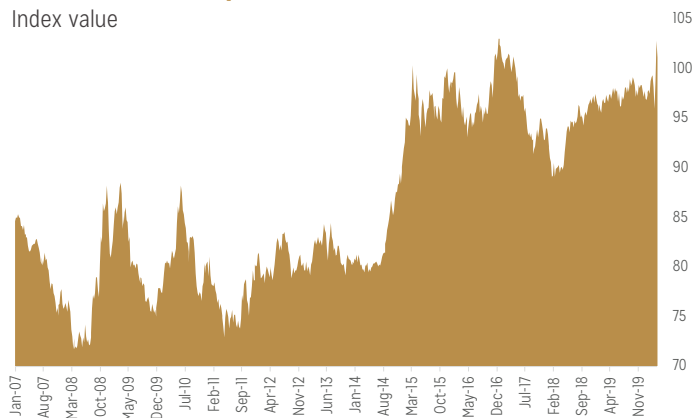
Source: Fitch Ratings (March 19, 2020), Moody's Investor Services (March 25, 2020, 2018 figures March 6, 2020)

CARIBBEAN IMPLICATIONS

The socio-economic effects of COVID-19's sudden-stop represent the most significant shock we have experienced in about 100 years, with global implications that we can't yet imagine. In the last two weeks, global financial markets have gyrated unbelievably, international travel and shipping have all but collapsed, supply chains have buckled, and the global safe-haven - the US Dollar - has strengthened to the highest level in three years. Note that all the currencies pegged to the USD would have strengthened against other major currencies in similar fashion - meaning that their external competitiveness would have deteriorated.

US Dollar Index Spot (DXY)

Index value



Source: Bloomberg, Marla Dukharan

This sudden-stop will affect both fiscal and external accounts, and the countries best positioned to mitigate these impacts are those that have built buffers, giving them the space to implement counter-cyclical policy through fiscal and monetary stimulus. In the Caribbean, the Cayman Islands stands alone in this regard, as most of the others will end up at least partially financing their COVID-19 response with debt. This is not necessarily an unjustified approach given the circumstances, once the intervention is targeted specifically where it is most needed and therefore most likely to be effective right now.

The current crisis created multiple challenges simultaneously: a health crisis, sudden-stop of economic activity, volatile financial markets, weak investor confidence, capital flight, exchange rate volatility, tighter financial conditions, price shocks, lower remittance inflows, and reduced availability of traded goods.

The effect that this crisis will have on each country depends on prior conditions and economic structure and degree of diversification, with the collapse in commodity prices and tourism activity dramatically damaging the prognosis overall. The effects of this crisis will be magnified for the oil exporters - T&T, Suriname and Guyana - not just because of the oil price collapse, but more importantly, due to their chronic resource curse effects, which tend to amplify the negative socio-economic effects of any crisis. Indeed, we have already witnessed some deterioration in social stability in these countries in recent weeks.

FISCAL OUTLOOK AND RISKS

The Caribbean is one of the most heavily indebted regions in the world, which puts us in a vulnerable position to start with. Tax revenues will decrease across the board (hotel and lodging taxes, arrivals tax, departure tax, airport tax, consumption tax, sales tax, VAT, income tax, corporation tax, etc.) while demands on governments are rising as containment actions and the necessary social protection measures will put further strains on fiscal accounts. Countries should in first instance draw down their credit lines with multilateral lenders, before they turn to commercial sources.

As 2020 is an election year in Anguilla, Belize, Dominican Republic, Guyana, Suriname, Trinidad & Tobago, St Vincent & the Grenadines, and Turks and Caicos Islands, there is a heightened risk of short-sighted and / or politically motivated decisions regarding the nature, targeting, and timing of expenditure. Barbados, Grenada and Jamaica in particular, even with their high debt loads and limited fiscal space, have been able to build international reserves and sufficient buffers to deal with the near-term impacts of the external shock. All three countries have clear medium-term fiscal deficit and debt reduction targets, and have made significant progress with respect to fiscal responsibility.

Trinidad & Tobago and Suriname had budgeted for obscene fiscal deficits even before this crisis, and will most likely pile on more debt than planned, and draw down on their international reserves and sovereign wealth funds.

- Trinidad & Tobago energy revenues represented 30% of total central government revenues in FY2018/2019.
- Suriname's mining revenues (oil, bauxite and gold) amounted to 30% of Central Government revenues for Jan-Oct 2019.

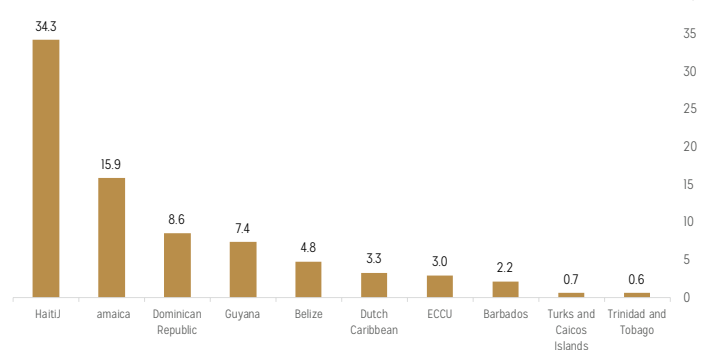
As credit spreads continue to widen with investors reallocating funds toward more secure assets, high-yield and emerging-market bonds are particularly vulnerable, which translates into higher borrowing costs for regional Governments, and credit rating downgrades add to this pressure. Also important to note for the region is the impact fiscal accounts have on external accounts, with government spending largely inflating imports.

REMITTANCES

The Caribbean region receives roughly USD15.8 billion in remittances each year, 84% of which goes to the Dominican Republic, Haiti and Jamaica alone. These inflows provide an important buffer to economic shocks, smooth private consumption, provide FDI for micro and small enterprises, and reduce income inequality and volatility.

Remittances to GDP: Caribbean

Estimated Remittance Value as Percent of GDP (%)



Source: The World Bank, Knomad, IMF, various Central Banks Marla Dukharan

Data from the [World Bank](#) shows that the majority of remittances come from the US, UK and Canada. As with any global economic crisis, remittances are likely to suffer, thereby amplifying the economic pressures on the most vulnerable in the Caribbean.

Remittance Concentration by Source

Percent of total remittances (%)			
Country	Canada	United Kingdom	United States
Antigua and Barbuda	5%	0%	43%
Aruba	5%	0%	38%
Barbados	18%	20%	57%
Belize	4%	0%	88%
Bermuda	19%	0%	72%
Dominica	5%	7%	53%
Dominican Republic	1%	0%	74%
Grenada	18%	14%	53%
Guyana	21%	4%	64%
Haiti	6%	0%	61%
Jamaica	12%	13%	71%
Sint Maarten (Dutch part)	1%	0%	5%
St. Kitts and Nevis	10%	0%	49%
St. Lucia	9%	15%	44%
St. Vincent & the Grenadines	19%	10%	47%
Suriname	0%	0%	4%
Trinidad and Tobago	20%	6%	67%

Source: World Bank Bilateral Remittance Data

This year, unemployment is expected to rise to levels at least as high as those seen in the GFC, which saw a peak at 8.4% for Canada, 7.6% for the UK and 9.3% for the US in 2009. **Goldman Sachs** expects the US economy to contract by 3.8% this year, and unemployment to peak at 9%. This suggests therefore, that the declines in remittances are likely to resemble what was experienced in 2009.

CEMLA estimates that family remittances account for 12-14% of the income of senders, with lower income earners on the upper bound, remitting a larger proportion of their earnings, therefore exerting an accentuated impact on the most vulnerable.

TRAVEL AND TOURISM OUTLOOK

Restrictions, if not outright bans on flights and cruises, and the resulting cancellation of business and vacation travel and large events, severely damage prospects for the tourism sector in the region this year, and possibly beyond. Tourism arrivals are highly elastic to the economic landscape in the source markets. Using data from 2000 - 2015, the **IMF** found that a 1.0% increase in (tourism-weighted) unemployment in source countries leads to a 1.8% decrease in arrivals.

Concentration in terms of source markets and tourism products will play out as a major vulnerability. Countries who specialize in high-end / luxury tourism such as Anguilla and the British Virgin Islands, and to some extent Barbados, the Turks and Caicos Islands and the Cayman Islands, could see less dramatic declines during this crisis as luxury travelers escape to these destinations via private jets and yachts.

Furthermore, the decline in demand is increasing financial pressures on airlines, which **Fitch** signals is likely to result in restructuring, bankruptcies, consolidations, etc. and could lead to decreased airlift to the region (seats/frequencies) or increased costs of airlift. Of the major airlines, American Airlines, Spirit Airlines and WestJet are among those most at risk for negative credit action from **Fitch**. Delta, United, British Airways, LATAM Airlines Group and Avianca have moderate risk for negative ratings action. Jetblue and Southwest Airlines have low risk. Intra-regional carriers and small airlines will also face

financial distress, though continued intra regional cargo transport and lower fuel costs will provide some relief.

The **IMF** also found that the number of flights has a major influence on the number of tourist arrivals - a 1.0% increase in the number of flights to a destination instantly increases tourist arrivals by 0.3%, and the cumulatively by 1% after 10 months. Conversely, assuming the relationship holds in the reverse scenario, a 1% fall in the number of flights should instantly cause a drop in tourist arrivals by 0.3%, with the cumulative fall of around 1% after 10 months. This is assuming that flights is the only variation, but when compounded by other factors such as COVID-19, one would expect the immediate and longer term decline in tourist arrivals to be much more severe.

Cruise travel globally is expected to be interrupted for the remainder of 2020. The outbreak of COVID-19 on the Diamond Princess that reported 712 cases onboard and 7 deaths is likely to weigh on demand going forward, and force cruise lines to rethink business models to become more hygienic and sustainable.

The drop in arrivals will drive a commensurate drop in tourism spending. Based on available data, we have considered three scenarios of tourist arrival declines beginning in March 2020 and continuing through the end of the year. These scenarios reflect the worst possible outcome, our base case of what we consider to be the most likely outcome on average, and the best case scenario. It is important to note that all scenarios herein reflect our opinion, based on our assumptions, assessments, and currently available data to date, and are likely to change as the situation continues to unfold. The actual outcome will vary by country and we believe it will land somewhere along this spectrum of scenarios.

We assume no cruise arrivals to the Caribbean for the remainder of 2020 under all scenarios.

- Worst case: assumes 100% drop in stopover arrivals - i.e. ZERO stopover arrivals for the remainder of the year.
- Base case: 80% decline in stopover arrivals for the rest of the year.
- Best case: 60% decline in stopover arrivals for the remainder of the year.

As you would see from the table, our base case scenario sees a roughly 64-74% year over year decline in stopover tourist arrivals this year. Worst case, most countries will see an 80-84% year over year drop in stopover arrivals this year. Again, this does not include the assumption that there will be zero cruise passenger arrivals for the remainder of 2020.

Tourism Impacts of COVID-19: Stay-over Arrivals Scenarios								
COUNTRY	Stay-over Arrivals 2020 Total Year Arrivals Percent Change vs 2019			Tourism Revenues 2019 USD millions	Tourism Revenues in USD millions Senarios for Total Tourism Revenues 2020			Tourism Revenue Statistic
	BEST CASE	BASE CASE	WORST CASE		BEST CASE	BASE CASE	WORST CASE	
Anguilla	-49%	-65%	-81%	162	83	57	31	Total Visitor Expenditure
Antigua and Barbuda	-48%	-64%	-79%	744	389	271	153	Total Visitor Expenditure
Aruba	-50%	-67%	-83%	1,730	866	578	290	Net Tourism Receipts (BoP)
Bahamas	-50%	-66%	-83%	3,244	1,627	1,088	548	Net Travel Receipts (BoP)
Barbados	-48%	-64%	-80%	1,305	677	468	259	Travel Receipts/Inflows only (BoP)
Belize	-48%	-64%	-80%	515	268	185	103	Travel Receipts/Inflows only (BoP)
Bermuda	-56%	-74%	-93%	419	186	109	31	Total Visitor Expenditure
Cayman Islands	-50%	-66%	-83%	951	478	321	163	Total Visitor Expenditure
Curaçao	-49%	-65%	-82%	269	137	93	50	Net Travel Exports (BoP)
Dominica	-51%	-67%	-84%	74	36	24	12	Total Visitor Expenditure
Dominican Republic	-49%	-65%	-81%	7,468	3,824	2,609	1,394	Total Visitor Expenditure
ECCU	-49%	-65%	-82%	2,494	1,273	866	459	Total Visitor Expenditure
Grenada	-49%	-65%	-82%	181	92	63	33	Total Visitor Expenditure
Jamaica	-50%	-67%	-84%	3,750	1,866	1,239	611	Total Visitor Expenditure
Montserrat	-53%	-71%	-88%	12	5	3	1	Total Visitor Expenditure
St Kitts and Nevis	-48%	-64%	-80%	222	116	80	45	Total Visitor Expenditure
St Lucia	-50%	-66%	-83%	986	496	333	169	Total Visitor Expenditure
Sint Maarten - Dutch side	-50%	-67%	-83%	545	273	183	92	Net Travel Exports (BoP)
St Vincent and the Grenadines	-49%	-66%	-82%	114	58	39	20	Total Visitor Expenditure
REGIONAL AVERAGE	-50%	-66%	-83%					

Source: Data from various Tourism Departments, Statistics Offices, Central Banks, Government Ministries, Marla Dukharan

The tourism sector's performance will affect the wider economy and GDP, based on direct plus indirect effects, especially via the labour force / unemployment. The **IDB** published an assessment on the shock to the tourism sector for some of its member countries, estimating that tourism accounts 34-48% of total GDP for The Bahamas, Barbados, and Jamaica, with similar impacts on employment as seen on the table to the right. The table on the next page shows the World Travel & Tourism Council's estimate of the tourism sector's direct plus indirect contribution to GDP and jobs.

Tourism Dependence (IDB)				
COUNTRY	Contribution to GDP (2019)		Contribution to Employment (2019)	
	DIRECT %	TOTAL %	DIRECT %	TOTAL %
The Bahamas	19.2	48.3	26.5	56.2
Barbados	13.1	41.2	13.7	41.3
Guyana	2.7	7.0	2.9	7.4
Jamaica	10.5	33.7	9.4	30.5
Suriname	1.3	2.8	1.2	2.7
T&T	2.8	7.8	3.7	9.9

Source: InterAmerican Development Bank (March 16, 2020), Marla Dukharan

Economic Impact of Tourism (WTTC)				
COUNTRY	Total Contribution to GDP		Total Contribution to Employment	
	2019 PERCENT %	2019 USD MILLIONS	2019 SHARE %	2019 JOBS
Anguilla	48.3	180	51.1	3,802
Antigua and Barbuda	44.7	1,477	44.7	16,654
Aruba	98.0	2,834	97.9	46,709
Bahamas	40.3	5,273	48.1	102,505
Barbados	36.2	1,693	36.4	47,829
Belize	44.7	879	38.9	63,410
Bermuda	18.2	1,177	21.7	7,286
British Virgin Islands	73.1	722	53.6	5,482
Cayman Islands	30.1	1,300	31.9	11,455
Cuba	10.6	11,183	9.9	501,676
Dominica	38.0	200	34.7	12,202
Dominican Republic	17.0	14,673	15.7	738,689
Grenada	55.8	708	51.6	27,179
Guadeloupe	6.2	640	7.0	8,823
Haiti	8.3	813	7.2	330,010
Jamaica	34.7	5,467	31.5	388,767
Martinique	9.6	1,095	10.0	12,652
Puerto Rico	6.9	7,163	5.9	58,118
St Kitts and Nevis	62.6	670	60.2	15,324
St Lucia	43.0	1,153	43.0	34,297
St Vincent and the Grenadines	46.2	385	42.7	18,901
Suriname	3.7	154	3.5	7,329
Trinidad and Tobago	7.8	2,361	9.9	62,067
US Virgin Islands	59.0	2,483	52.0	22,133

Source: World Travel & Tourism Council 2019, Marla Dukharan

OUTLOOK FOR COMMODITY-DEPENDENT COUNTRIES

A fall in oil prices was inevitable this year based on the fact that the global economy was already in recession last year. The COVID-19 sudden-stop has reduced global oil demand by an estimated 10%, and the market is currently oversupplied. Compounding this, a power struggle between Saudi Arabia and Russia saw the former pumping 2.6 million barrels more per day, flooding the market and prompting the largest drop in oil prices in almost three decades. Both countries say they can endure the pain for an extended period, and are not currently showing signs of changing their position. Dynamic demand and supply, and geopolitical conditions therefore suggest that prices will remain low.

Outlook for Oil and Gas Prices				
	2020	2021	2022	2023
WTI (USD/bbl)				
Fitch Base Case	38.0	45.0	50.0	52.0
Fitch Stress Case	33.0	37.0	45.0	47.0
Moody's Base Case	40-45	50-55	n.a.	n.a.
NY MEX Forecast	33.3	36.2	39.0	40.8
Henry Hub (USD/MMBtu)				
Fitch Base Case	1.9	2.1	2.3	2.5
Fitch Stress Case	1.7	1.7	2.0	2.3
Moody's Base Case	2.00	2.25	n.a.	n.a.
NY MEX Forecast	2.1	2.4	2.4	2.4

Source: Fitch Ratings (March 19, 2020), Moody's Investor Services (March 26, 2020), Bloomberg (March 26, 2020), Marla Dukharan

For natural gas, the high dependence on oil-linked contracts will exert downward pressure on prices. We understand that in Trinidad and Tobago oil-linked contracts are uncommon, but contracts tend to be linked to international reference prices (Henry Hub-US, National Balancing Point-UK, TTF-The Netherlands and Japan Korea Market) which are closely correlated to oil prices anyway.

Roughly 70-75% of the LNG market is still under long-term contracts, according to **S&P**, while the short-term LNG market has seen demand fall in response to COVID-19 from traditional growth markets like China. Demand was already weaker in the context of a warmer winter in Southeast Asia.

Slower global growth and COVID-19 recently led **OPEC** to cut their forecast for oil demand, further complicating scenarios for commodity-producers. Many oil exporting countries and corporates have break-even prices well above current market prices, making production unprofitable.

The production response to the price drop will depend partly on where production is located. Land production will likely be adjusted more easily than offshore. High-cost fields are expected to see production cut, and where production cannot be easily reduced, capital expenditure and investments in new infrastructure will be cut. Exxon is **expected to cut** about 20% in capital expenditure. While not directly speaking on plans for Guyana, break-even rates are currently above oil prices. Hess **revealed** a break-even rate in Guyana of USD35 in late February, and Exxon is estimated to have a lifting cost of around USD30. If production in the short-term is not drastically cut, capital expenditure and investments in new infrastructure likely will be cut.

As mentioned previously, the countries that are best positioned to weather this crisis are those that have the fiscal space and external buffers to implement counter-cyclical policy. Guyana, Trinidad & Tobago and Suriname have neither. The economic impacts of the drop in oil prices for commodity-producers may outlast those from COVID-19 according to **Fitch** Ratings. From a Balance of Payments standpoint exposure is very high :

- Suriname's commodity export earnings as a share of FX income is roughly 85% (**Fitch**)
- For T&T, oil, gas, and petrochemicals account for over 70% of exports of goods and services (**IMF**)
- For Guyana, commodity exports account for roughly 85% of total exports (**IMF**)

IMPACTS ON SOVEREIGN CREDIT RATINGS

RATINGS AGENCIES CONSIDER (**FITCH**):

- Fiscal balances relative to GDP
- Government debt stocks relative to GDP
- Interest payments as a share of government revenue
- Shares of government debt denominated in foreign currency

POLICY/RESPONSE RECOMMENDATIONS

The IMF has outlined a series of **fiscal, monetary and financial stability** policy recommendations to proactively face this crisis, protect populations during the outbreak, and lessen the negative long-term economic consequences particularly for the most vulnerable.

- Health spending must occur regardless of fiscal space.
- Low-income countries urgently need grants or zero-interest loans to finance the health spending they might not otherwise be able to afford.
- Spend to prevent, detect, control, treat, and contain the virus, and to provide basic services to people that have to be quarantined and to the businesses affected.
- Give wage subsidies to people and firms to help curb contagion. Subsidies for example to firms and individuals taking leave to stay home to care for children during school closings, sick leave to people affected or self-quarantined.
- Expand and extend transfers—both cash and in-kind, especially for vulnerable groups. Accelerate payment of unemployment insurance benefits, expand social safety nets, increasing job seekers' allowances for young adults.
- Provide tax relief for people and businesses who can't afford to pay. Income and VAT extensions to businesses, temporary suspension of social security contributions for firms, etc.

- Governments must create a business continuity plan to continue providing services to citizens, taxpayers, and importers in case of widespread contagion, relying as much as possible on electronic means.
- Communicate to the public how emergency action and changes to original budgets are compatible with stability and sustainability.
- Central banks can act quickly to help ease the tightening of financial conditions by injecting liquidity and cutting interest rates, thus preventing a possible credit crunch.

Likewise the **World Travel & Tourism Council** is urging governments to take the following actions to safeguard the industry and support a quicker recovery.

- Protecting the Livelihoods of Workers: Financial help must be granted to protect the incomes of the millions of workers in severe difficulty.
- Fiscal Support: Government must extend vital, unlimited interest-free loans to global Travel & Tourism companies as well as the millions of small and medium-sized businesses as a stimulus to prevent them from collapse. Governments dues and financial demands on the Travel & Tourism sector need to be waived with immediate effect for at least the next 12 months.
- Injecting Liquidity & Cash: Cash flow assistance to support players big and small of the Travel & Tourism sector is critical as well as to offer targeted support to severely affected industries within the sector.

RISKS TO MONITOR

- The potential for significant spread of the virus in the region, in the US and wider spread throughout Latin America and Africa.
- The capacity of the healthcare systems to manage the burden of COVID-19 impacts.
- Whether or not the virus moderates with warmer weather.
- Whether there will be a second and third wave of infection.
- The amount of time it takes consumers to resume normal economic activity once the virus is contained.

- The fiscal response mechanisms implemented in each country to support immediate health needs, contain the virus, support businesses and individuals and protect the most vulnerable sectors.
- Debt accumulation by both the public and private sectors.
- The effectiveness of Central Banks in limiting stress to financial markets.
- International reserves, commodity export receipts, capital flows, exchange rate pressures.
- Investor sentiment, particularly in the face of a strong USD.
- Development of social safety nets to protect the most vulnerable.
- Migration, particularly for those countries bordering Venezuela: Existing humanitarian crisis, extremely limited access to running water, frequent power cuts, collapsed health system, national quarantine, hyperinflation and the paralyzation of economic activity. The inability to purchase food could drive people to flee.

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