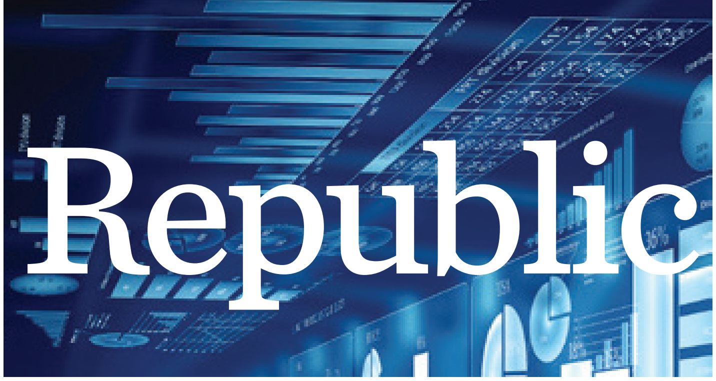

Republic Economic NEWSLETTER
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Fourth Quarter Falter

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATOR	2021	2021.4	2022.4 p/e
Real GDP (% change)	-1.0	0.8	1.0
Retail Prices (% change)	2.01	1.67	3.60
Unemployment Rate (%)	5.4	4.9	4.7
Fiscal Surplus/Deficit ($M)	-10,656.3	653.9	1,997.5
Bank Deposits (% change)	-0.22	1.31	1.88
Private Sector Bank Credit (% change)	2.72	2.69	2.37
Net Foreign Reserves (US$M)	10,859.3	10,859.3	10,998.1
Exchange Rate (TT$/US$)	6.73 / 6.78	6.74 / 6.78	6.72/ 6.78
Stock Market Comp. Price Index	1,496.90	1,496.90	1,332.20
Oil Price (WTI) (US$ per barrel)	68.21	77.27	82.69
Gas Price (Henry Hub) (US$ per mmbtu)	3.91	4.77	5.55

Source: – Central Bank of Trinidad and Tobago, TTSE, EIA
p – Provisional data
e – Republic Bank Limited estimate

OVERVIEW

The end of 2022 was not filled with the shocks and volatility that characterised its beginning. The headwinds didn't disappear, however, they abated somewhat. From the second quarter, global energy and food prices declined slowly but steadily, which curbed global inflationary pressure to some extent. However, with global conditions getting 'less bad' and the fully re-opened domestic economy heading into the traditionally busy Divali and Christmas season, indications are that the overall economic performance in the fourth quarter was not as strong as expected, with some sectors motoring along and others hampered by challenges in acquiring inputs, persistent rainfall and flooding, weak demand and growing concerns about crime. Somewhat surprisingly, the unemployment rate decreased significantly to 4.7 percent in the fourth quarter from 5.4 percent in the third. Both the labour force and the number of people employed declined in the fourth quarter, however the labour force shrank at a faster rate than the number of people employed. Based on these developments, Republic Bank estimates that economic activity grew by 1.0 percent in the fourth quarter compared to the third. The Composite Stock Price Index fell by 0.82 percent to end the year at 1,332.20.

ENERGY SECTOR

There were positive developments in the quarter, with the coming on-stream of gas from Touchstone's Coho platform in early October, as well as from bpTT's Cassia platform at the end of November. Notwithstanding this new production, overall gas output fell in the fourth quarter. The production of 2,576 million standard cubic feet per day (mmscf/d) was 9.5 percent lower than third quarter output of 2,846 mmscf/d, but 1.3 percent higher than the fourth quarter a year ago. Oil production declined by 0.3 percent from the third quarter to 57,685 barrels per day (b/d), which represented a decline of 5.4 percent from one year earlier. Oil prices – West Texas Intermediate (WTI) averaged US$82.69 per barrel in the fourth quarter, an 11.2 percent drop from the third, but still 7 percent higher than the same period in 2021. The average gas price, at US$5.55 per million British thermal units (mmBtu), represented a 30.5 percent quarter on quarter (q-o-q) decline but a 16.4 percent year on year (y-o-y) increase.

Liquified Natural Gas (LNG) production, at an average monthly output of 1,404,055 cubic metres (m3) in the fourth quarter, was 14.6 percent lower than the previous quarter, but still 7.6 percent higher than a year ago. Fourth quarter ammonia production increased by 3.1 percent q-o-q but declined by 7.3 percent y-o-y, while the dynamic was reversed with methanol, with a 3.1 percent decline q-o-q and a 14.1 percent increase y-o-y. Rig days (320) and depth drilled (66,676 ft.) declined by 18.6 percent and 34.6 percent, respectively, from the third quarter, but were both over 40 percent higher than in quarter four of 2021.

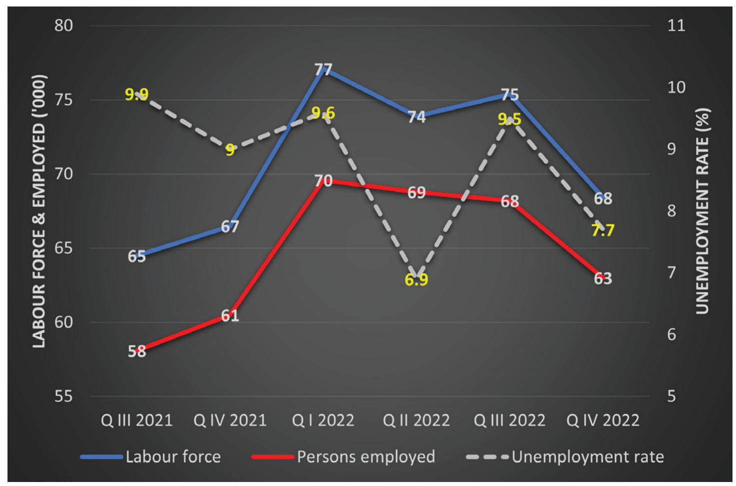
In some positive developments, the 2022 Onshore and Nearshore Bid Round, which closed on January 9, 2023 attracted 16 bids from 8 companies for 8 blocks. On January 24th, the Prime Minister announced that T&T was granted a two-year licence/waiver by US authorities, that allows it to negotiate and do business with Venezuela with respect to the Dragon gas field. The field contains an estimated 4.2 trillion cubic feet (tcf) of natural gas and if the deal is brought to fruition, it is anticipated that T&T will have access to 350 million cubic feet (mmcf) of gas per day. In addition to the long and arduous process of negotiating and executing projects of this nature, this one faces additional hurdles. No progress on this venture can be made without a licence from the US, and the requisite payments to Venezuela cannot be made in cash; a condition that Venezuela's President has already rejected. In the renewable sub-sector, the construction of a 112-megawatt photovoltaic plant is set to begin in 2023, backed by a consortium of investors including, BPTT and Shell PLC.

NON-ENERGY SECTOR

The overall performance of the non-energy sector in the fourth quarter is likely to have been weak, at best, with a mixture of gains and declines. In Central Bank's Economic Bulletin of January 2023, the Index of Production for All Industry excluding Energy grew on an annual basis in the third quarter, but was lower than the preceding quarter, a trend that likely continued into the fourth quarter. In the third quarter, across all sections, retail sales were larger than one year ago. It is likely that this continued for some sections in the fourth quarter.

After a relatively solid performance in the first half of the year, challenges with inputs as well as the rainy season contributed to a decline in the construction sector thereafter. The sector had the highest unemployment rate in the third quarter of 9.5 percent, and activity almost certainly slowed even more in the fourth quarter, with cement sales in this period 13 percent below that of the previous quarter, and some 24 percent lower than in the fourth quarter of 2021. However, almost against the run of play, the sector's unemployment rate in this quarter fell to 7.7 percent as, similar to the overall unemployment rate, the construction sector labour force declined faster than the number of those employed in the sector (Figure 1). New vehicle sales declined, with the 2,490 units sold, 3.8 percent lower than that of the third quarter and 9 percent below the fourth quarter 2021 level. On the flip side, the manufacturing sector's strong performance continued through 2022. Employment in the sector remained buoyant, and there was export growth across a range of sub-sectors that contributed to 2022's non-energy exports surpassing that of 2019.

Figure 1: Construction sector employment



Source: Central Statistical Office (CSO)

FISCAL POLICY

The October-December quarter, the first quarter of the 2022/2023 fiscal year, saw Central Government's fiscal accounts register a surplus of $1,997.5 million, compared to the surplus of $653.9 million achieved one year earlier. During the period, energy revenue doubled to $8.8 billion, partly due to higher commodity prices, while overall non-energy sector revenue declined compared to a year ago. The significant flooding and landslides that occurred last November, triggered an unanticipated increase in public spending to provide relief to affected citizens. The Ministry of Social Development and Family Services committed to provide grants for the purchase of household items (maximum $10,000.00), clothing (maximum $1,000.00) and school supplies (primary $700.00 and secondary $1,000.00 per student) as well as funding to undertake minor house repairs (maximum $20,000.00). Flood relief grant distribution began in December 2022. At the end of December total debt stood at $128.8 billion, down from $129.7 billion in September.

MONETARY POLICY

Domestically, the strong inflationary pressure that was one of the features of 2022, carried through to the fourth quarter. In this period, food prices increased by 5.5 percent compared to the third quarter and by 14.2 percent compared to the fourth quarter of 2021. Overall prices in the fourth quarter increased by 3.6 percent q-o-q and 8.1 percent y-o-y. For 2022, food inflation was 10.4 percent, the highest since the 19.1 percent of 2012. Core inflation, which excludes the more volatile food category, at 4.7 percent, was the highest since the 6.2 percent of 2008. Overall average prices in 2022 were 5.8 percent higher than in 2021, the largest increase since the 9.3 percent inflation rate of 2012.

The Central Bank's Monetary Policy Committee (MPC) faced increasingly trying decision-making scenarios in 2022. In addition to the notable increase in domestic inflation, albeit largely due to external factors, there was mounting external pressure on domestic interest rates as well. While the TT 91-day OMO Treasury Bill rate increased by 18 basis points over 2022, to reach 0.50 percent, frequent and strong increases in the US benchmark interest rate drove major increases in the yields on US short-term instruments. The yield on the US 91-day short-term Treasury Bill increased by 436 basis points over the year to reach 4.42 percent by the end of December 2022. Consequently, the TT-US 91-day differential widened to -392 basis points in December 2022 from 26 basis points in December 2021. Weighing all the factors, on December 30th, the MPC advised that this country's benchmark 'Repo' rate will be maintained at its current level of 3.50 percent.

After a drop in July, liquidity steadily increased through the second half of 2022, with commercial bank average excess reserves reaching $6.77 billion in December. Not surprisingly, interest rates remained unchanged, with the commercial banks' average basic prime lending rate still at 7.57 percent. In the last three months of 2022, private sector credit grew by 2.37 percent q-o-q and 6.68 percent y-o-y. Consumer credit growth was stronger at 4.21 percent q-o-q and 7.36 percent y-o-y. Commercial bank total deposits increased by 1.88 percent in the quarter to $124,196 million.

Over the first three months of 2023, the US increased its benchmark interest rate by 50 basis points (0.50 percent), the UK by 0.75 percent and the European Union by 1.0 percent. On March 31st, the MPC advised that the 'Repo' rate will be kept at its current level of 3.50 percent.

FOREIGN EXCHANGE

As reported in the Economic Bulletin, the domestic market for foreign currency benefitted from increased energy sector receipts in 2022. Purchases of foreign exchange by authorised dealers from the public amounted to US$5,528.8 million in 2022, an increase of 33.3 percent relative to 2021 (Table 2). The increase in purchases was possible because of a 37.7 percent rise in conversions by energy companies. Last year, purchases from the energy sector accounted for 78.9 percent of total foreign currency purchases over US$20,000 in value. Sales of foreign exchange by authorised dealers to the public amounted to US$6,551.2 million in 2022, an increase of 31.8 percent compared to 2021. The net sales, sales to the public minus purchases from the public, increased to US$1,022.4 million in 2022. To support the market, the Central Bank sold US$1,270.6 million to authorised dealers. Based on reported data for transactions over US$20,000, the bulk of foreign exchange sales by authorised dealers to the public is made up of credit cards (31.6 percent), retail and distribution (21.7 percent), energy companies (18.0 percent) and manufacturing firms (7.3 percent). At the end of 2022, net official reserves amounted to US$6,832.4 million, an improvement from the US$6,769 of September, but US$47.2 million lower than at the end of 2021.

Table 2: Foreign exchange market activity (US$ Mn.)

Year	Purchases from Public	Sales to Public	Net Sales	Purchases from CBTT
2017	3,606.9	5,195.3	1,588.4	1,816.0
2018	4,101.4	5,677.4	1,576.0	1,501.0
2019	4,285.6	5,939.8	1,654.2	1,504.0
2020	3,298.2	4,504.1	1,206.0	1,292.2
2021	4,148.9	4,969.4	820.5	1,212.1
2022	5,528.8	6,551.2	1,022.4	1,270.6
2022 – % chge.	33.3	31.8	24.6	4.8

Source: CBTT – Economic Bulletin January 2023

OUTLOOK

Early indications are that the softening of global food and energy prices, evident in the second half of 2022, is likely to continue through the first half of 2023. This, along with improving supply chain performance, augurs well for reduced inflationary pressures over the near term. With inflation in leading economies starting to trend down, the pace and intensity of interest rate increases are expected to slow this year. Domestically, the energy sector should continue to see buoyant commodity prices, albeit much lower than those of 2022. The gas projects that came onstream over the last year, will contribute to some increase in gas production through much of 2023, with the likely knock-on effect of lifting LNG and petrochemical output as well.

The non-energy sector is expected to grow, driven by solid performances in several sub-sectors. Activity and output in the manufacturing sector are anticipated to remain upbeat as it pushes to increase its volume of regional exports. In the absence of some of the encumbrances it faced last year, the construction sector is likely to stage a solid rebound in the first half of 2023, driven by both government and private sector projects. The first full Carnival in three years, undoubtedly provided a major lift to the entertainment and hotels and restaurants subsectors, along with a wide range of service-providers. The entertainment industry and those it supports directly and indirectly, will remain buoyant, as the first unfettered post-Carnival season of concerts and events since 2019, continues to unfold. Further, this country's hosting of the Commonwealth Youth Games this August will provide a rare, additional lift to this and other aspects of the non-energy sector in the coming months. In this scenario, T&T's unemployment rate will likely decline in the first two quarters of this year.

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Challenges Reduce Lustre of Improved Performance

Overview

In the fourth quarter of 2022, the Caribbean continued to benefit from the rebound of global tourism demand, with most destinations registering strong growth in the sector compared to the same period in 2021. This was a continuation of the trend in the previous three quarters and was the result of increased arrivals from all major source markets. Consequently, the full-year hotel occupancy rate increased by 36.7 percent over 2021 levels to 60.7 percent, just 3.7 percent below pre-pandemic figures. Regarding the region's commodity producers, they faced notably lower prices for their exports (especially oil and gas) compared to the previous three quarters, although prices generally remained elevated. In this regard, while the export earnings of these economies were likely substantially above fourth quarter 2021 levels, they may have eased compared to the previous three quarters of 2022. As positive as these developments were, the high food and fuel prices that carried over into the fourth quarter, are estimated to have restricted the growth of aggregate demand and thus partially neutralised the impact of the sectoral growth. These positive performances lose further lustre when one considers the severe economic and other challenges that continue to plague the two nations with the largest populations in the Caribbean, Haiti and Cuba. These issues have created migrant crises, where desperation impels citizens from both countries to seek better lives, mainly in the US, in many cases through illegal entry and via perilous journeys that often result in tragedy.

Anguilla

After strong year-on-year (y-o-y) growth in the first nine months of 2022, tourism activity remained upbeat in the fourth quarter of 2022, although visitor arrivals continue to trail pre-pandemic (2019) levels. The country benefitted from increased demand from all major tourism source markets. For the entire year, government estimates that the hotel and restaurant industry expanded by 72.9 percent. This, together with the 25 percent expansion in the construction sector, were the main drivers behind the overall 10.7 percent growth of real GDP in 2022. In December, government presented its 2023 National Budget, which caters for a deficit of $9 million compared to an actual surplus of $60.96 million in the previous year. In 2022, government recorded recurrent revenue of $336.53 million compared to the budgeted $237.67 million and recurrent expenditure of $248.75 million compared to the $224.58 million approved in the 2022 budget. Public debt ended the year at $410.77 million or 41.5 percent of GDP. The recently constructed Blowing Point ferry terminal, which was officially opened in January, is expected to provide a long-term boost to the island's tourism industry. The terminal will cater to both the regularly scheduled ferry service from Saint Martin and private charter service from Sint Maarten.

Barbados

Economic activity expanded by 9.5 percent in the fourth quarter of 2022, based largely on the impetus provided by the tourism sector and its positive spillover effects on ancillary industries. Given this performance, real GDP for the entire year expanded by 10 percent, compared to a contraction of 0.3 percent in 2021. Growth was broad-based with expansions in both the tradable and non-tradable sectors. Agriculture, manufacturing, finance and other services, construction, distribution and transport, all recorded positive performances. The recovery of the tourism sector continued to build during 2022, recording its best performance in the fourth quarter, with stay-over arrivals in December reaching 78 percent of pre-pandemic levels. However, for the entire year, stay-over arrivals were still only 62 percent of pre-COVID-19 levels but were more than three times the levels of 2021. This performance was fueled by substantial increases in visitors from all major source markets. The recovery of the cruise sub-sector continues to lag that of air arrivals, with total passengers reaching only 250,527 (36.5 percent of 2019 levels) in 2022. Nevertheless, the figure represented significant progress against the 69,999 recorded in 2021. Against this backdrop, unemployment reached its lowest level since the fourth quarter of 2007, falling to 7.1 percent in the third quarter of 2022. There was also measurable improvement in the country's fiscal accounts. Barbados registered a fiscal surplus equal to 0.4 percent of GDP in the first nine months (Apr-Dec) of the 2022/2023 fiscal year, after recording a deficit of 2.1 percent of GDP in the same period a year earlier. Public debt fell to 123.8 percent of GDP at the end of 2022 from 137.9 percent of GDP at the end of the previous year.

Barbados recorded a 29.8 percent increase in imports during the year, which was driven primarily by high commodity prices, particularly for food and fuel. This resulted in a fall in its foreign exchange reserves to US$1,385.5 (7.3 months of import cover) from US$1,529.4 (10.1 months of import cover). In December 2022, the IMF approved a US$113 million 36-month Extended Fund Facility and a US$189 million Resilience and Sustainability Facility for Barbados. The programmes are meant to maintain and strengthen macroeconomic stability, support the structural reform agenda, and increase resilience to climate change.

British Virgin Islands

As a tourism-dependent economy, the continued growth of the sector since the beginning of 2022 is indeed a welcome development. However, being one of the last destinations in the region to remove its COVID-19-related restrictions, the recovery of the country's tourism industry lagged many of its Caribbean peers in 2022. Stay-over arrivals totalled 173,213 in 2022, considerably above the 55,577 recorded in 2021, but still only 57.3 percent of 2019 levels. The total number of cruise passenger arrivals (343,571) was 59.7 percent of pre-pandemic levels but light years ahead of the 236 of a year earlier, when the sub-sector was largely inactive. The tourism sector is expected to receive a further boost from June 2023, when American Airlines launches its direct flights between Miami and the British Virgin Islands (BVI). The daily round trip will carry fewer than 80 persons in either direction, given physical constraints at the country's airport. The BVI has limited air connectivity with major tourism markets owing to its relatively short runway that is unable to accommodate long-haul jets. Turning to public finance, the estimates provided in the 2023 National Budget, presented in December, suggest that the country incurred a fiscal deficit of $59.2 million in 2022. This budget envisages a smaller deficit of $3.6 million, with recurrent revenue projected to rise by 4.6 percent to $373.03 million and expenditure expected to fall by 5 percent to $399.33 million. According to government's projections, the economy expanded by 3.5 percent in 2022.

Cayman Islands

Data from the Cayman Islands Department of Tourism indicate that the country welcomed 284,274 stay-over visitors in 2022, while figures from the Caribbean Tourism Organisation show that there were 180,624 during the first nine months of the year. This suggests that more than 100,000 stay-over tourists visited the country during the fourth quarter alone. While the figure is a far cry from 2019 levels, it still provided appreciable momentum to the economy. The cruise sub-sector, which restarted in 2022, received 743,394 visitors compared to zero in 2021. The 2022 figure was 60 percent below pre-pandemic levels. In a bid to attract new visitors to the destination and facilitate the movement of cargo, Cayman Airways plans to relaunch its twice weekly service from Grand Cayman to Panama City in June 2023. This route was previously launched in 2012 but was eventually dropped in 2015 due to its lack of profitability. The airline expressed confidence in the route's viability this time around. In other developments, the Cayman Utilities Company announced that electricity rates will increase by 5.4 percent in March 2023. The increase was supposed to be implemented on June 1, 2022 but was deferred because of the severe inflationary pressures facing consumers at the time.

Cuba

Stay-over arrivals of 1.6 million fell well short of government's 2.5 million target for 2022, but still provided a reasonable economic boost, considering it was more than four times the levels recorded in 2021. This contributed significantly to the 2 percent expansion in real GDP registered in 2022. However, Cuba's tourism recovery remained among the slowest in the Caribbean, with this figure representing just 37 percent of pre-pandemic levels. The country continues to face severe economic challenges, including an energy crisis, still high inflation rates in the wake of moves to unify its dual currency, and substantial commodity and foreign exchange shortages, among other things. In December 2022, a US judge ordered four international cruise lines to pay more than $436 million to US based Havana Docks. The cruise lines all made stops in the Havana port in the wake of former US President, Barack Obama's decision to ease some sanctions on Cuba in 2016. The Judge's decision was based on a provision in a 1996 law, the Helms-Burton Act, that had remained inactive until that point. The act seeks to discourage investment in Cuba by allowing any American whose assets had been expropriated by the Castro government to sue those who profited from its use. Havana Docks was prohibited from using the port after the 1962 Cuban revolution. This decision could have major implications for the country's tourism sector and wider economy. In some positive news, Delta Airlines is scheduled to resume flights between Miami and Cuba in April 2023, after a two-year hiatus. The twice-daily flights are expected to provide a fillip to the sector and comes after the US government decided to resume full visa and consular services at its embassy in Havana in January 2023.

Dominica

After the Dominica Labour Party (DLP) won 19 of the 21 available parliamentary seats in the December 5th election, its leader, Roosevelt Skerrit was sworn in as Prime Minister for an unprecedented sixth consecutive term. The election was not free of controversy though, being boycotted by the main opposition parties, citing the lack of electoral reform and a clean voter list. At his swearing-in ceremony, he underscored his administration's commitment to help the country recover from the ravages of the COVID-19 pandemic, natural disasters and other challenges. In other developments, Dominica welcomed 60,704 stay-over visitors in 2022 compared to 14,888 in 2021, with very strong growth in all major markets. The cruise ship sub-sector recorded major improvement in 2022 with total arrivals of 170,146, compared to a feeble 1,576 in 2021. Both categories of tourist arrivals were below 2019 levels. The country's quest to develop and harness its geothermal energy resources has made encouraging progress, with government hoping to begin negotiations for the construction of a 10-megawatt power plant in March 2023. The plant is expected to be completed within 18 months of the start of construction.

Grenada

At the reading of the National Budget on December 5th, Prime Minister and Minister of Finance Dickon Mitchell indicated that economic activity expanded by an estimated 6 percent in 2022. The tourism sector played a major role in this performance, with stay-over arrivals more than three times the level recorded in 2021 and 81.7 percent of 2019 levels. In fact, visitor arrivals exceeded pre-pandemic levels in September, October and November. Arrivals via the cruise ship mode also expanded strongly in 2022 but remained 45 percent below pre-pandemic levels. Regarding the budget, it anticipates a surplus of $62.7 million, up from an actual surplus of $4.8 million. Total expenditure is expected to rise to $1.35 billion from the $1.06 billion actual outturn of 2022. Likely with the continued stability of the country's fiscal accounts in mind, in January 2023, government announced its decision to reinstate the $3.50 per gallon petrol tax, with global fuel prices down from the highs of 2022. The tax was suspended in September 2022, when high commodity prices were exerting significant pressure on consumers.

In early 2023, the US government announced its decision to require passport holders under Grenada's Citizenship by Investment programme (CBI) to now live in the country for three years before they can apply for a US E2 Investment Visa. Both countries had a treaty which allowed CBI holders to be granted the visas; an arrangement which proved to be a major draw to Grenada's CBI programme. This action was taken by the US to mitigate potential threats to its national security. Even so, the move could curtail the financial benefit Grenada derives from the programme.

Guyana

After strong growth in the third quarter of 2022, economic activity remained upbeat in the succeeding quarter, led by strong growth in the oil sector, but also with robust performances in several non-oil industries as well. Data contained in the government's 2023 Budget confirmed the strong economic performance in 2022, with the oil and gas sector shooting up by 124.8 percent, on the basis of oil production more than doubling. The acceleration in output was due to the launch of Guyana's second floating, production, storage and offloading (FPSO) vessel, the Liza Unity, early in 2022. Output from the vessel peaked at 233,000 barrels per day (bpd) in December. The sector's performance was also aided by elevated prices. The non-oil sector expanded by a solid 11.5 percent, helping the economy to record real GDP growth of 62.3 percent in 2022. The latest fiscal package envisages a record level of expenditure ($781.9 billion) with increased social interventions and public-sector investment. The Budget projects a deficit, equivalent to 11.8 percent of GDP. In other news, the development of a fifth offshore field in the Stabroek block, the Uaru-Mako project, was revealed in January 2023. The field, which is being developed by a consortium led by ExxonMobil is expected to add at least 1.3 billion barrels of crude to the country's vast reserves and could come onstream in the next three years.

St. Kitts and Nevis

The country's thrust to develop the geothermal energy resources in Nevis received the support of approved Caribbean Development Bank (CDB) financing of US$17 million in December 2022. The aim is to establish a 10-megawatt power plant in Nevis; a capacity that will be beyond the island's electricity needs. If successful, this project will be a major game changer for the twin-island state. In the preliminary findings after its January 2023 Article IV consultations in St. Kitts and Nevis, an IMF mission team indicated that the country's fiscal buffers have supported its ongoing recovery from the effects of COVID-19 dislocations. Although the outlook for the domestic economy remains positive, it is expected to contend with continuing global challenges. In terms of the most recent economic performance, the IMF estimated a 9 percent expansion in real GDP in 2022, fueled in part by growth in the tourism industry. During the year, stay-over arrivals grew strongly over 2021 figures, but were only 64.7 percent of pre-pandemic levels. The 496,859 cruise visitors that were recorded during the period, were only 47.2 percent of pre-pandemic levels. As it relates to the country's fiscal accounts, government reported a deficit of $82.8 million in 2022 and public debt equivalent to 62.8 percent of GDP. The 2023 Budget envisions a fiscal surplus of $27.6 million and a fall in public debt to 58.6 percent of GDP.

St. Lucia

The tourism sector is set to benefit from two recent, encouraging developments. At the end of 2022, Sandals announced the addition of 25 "cutting-edge accommodations" at the Sandals Halcyon Beach Resort and Spa in St. Lucia. This is the first phase of the company's enhancement and expansion programme for its three properties on the island, with Sandals Regency La Toc Golf Resort and Spa and Sandals Grande Saint Lucian Beach Resort and Spa expected to undergo similar activity. The second development relates to the country's air service agreement with Qatar that was signed in January 2023. The agreement is a result of Qatar's thrust to create opportunities for its national air carrier, Qatar Airways, to fly to more destinations, but it also has the potential to add further diversity to St. Lucia's tourism sector. Additionally, British Airways planned to launch direct service between St. Lucia and Guyana in late March 2023. As it pertains to the sector's performance, its recovery is further ahead of many of its Caribbean peers, with stay-over arrivals in the fourth quarter just 9 percent below pre-pandemic levels and 21.5 percent above the same period in 2021. However, for all of 2022, stay-over arrivals were 84.1

percent of 2019 levels. The recovery of the cruise subsector has been notably slower however, measuring less than 44.5 percent of pre-pandemic levels.

St. Vincent and the Grenadines

Government presented its 2023 National Budget on January 9, 2023. It includes a reduction in the highest income and corporate tax rates from 30 percent to 28 percent and a $2,000 increase in the tax allowance to $22,000 for workers. The package also contains planned capital expenditure of $472 million, which is the largest such allocation in the country's history and represents an 18.9 percent increase over 2022 levels. This is meant to fund work on key projects including the Kingstown port and the construction of two state-owned hotels. Government expects to incur a fiscal deficit of $412.2 million in 2023, with total expenditure expected to rise to $1.45 billion.

Construction activity and improved tourist arrivals were the leading drivers of economic activity in the fourth quarter of 2022. In the tourism sector, stay-over arrivals between October and December 2022 were up 42 percent from the same period in 2021 and reached 80 percent of pre-pandemic levels. However, for the period January-December 2022, the number of stay-over visitors was only 69 percent of the figure recorded in 2019. Like most of its regional peers, the country experienced increased arrivals from all major markets. The cruise tourism sub-sector, which was stalled for much of 2021, was only able to recoup 45.3 percent of its pre-pandemic numbers.

Sint Maarten

Latest quarterly estimates suggest that real GDP expanded by an estimated 11.9 percent during the second quarter of 2022. This was led by the resurgence of the tourism sector, which provided appreciable stimulus for ancillary sectors including transport, storage and communication, wholesale and retail, and manufacturing. Although activity in the construction sector was positive, the industry continued to be affected by delays in major projects, which limited its growth. These trends are estimated to have continued in the second half of the year. Sint Maarten is among a few destinations that has experienced, not only a return to pre-pandemic stay-over tourist levels, but significant growth beyond that mark. During the fourth quarter of 2022, stay-over arrivals were 21 percent above 2019 levels and 15.3 percent above the recorded figure in 2021. The US market accounted for 59 percent of the visitors in this category. So strong was the recovery of the sector, that total stay-over arrivals for the first 11 months of the year were 4 percent higher than all of 2019. The experience of the cruise industry has been different however, only registering 51.7 percent of the visitors received in this category in 2019.

Suriname

After agreeing to purchase Canadian-based IAMGOLD Corporation's 95 percent stake in the Rosebel gold mine in October 2022, China based Zijin Mining Group Ltd completed the transaction in February 2023, for US$360 million. The Republic of Suriname owns the remaining 5 percent share of Rosebel, which is among the largest gold mines in South America. During the fourth quarter of 2022, Suriname was confronted by slightly reduced gold prices when compared to the previous quarter, with the average price per troy ounce falling by 0.2 percent to US$1,725.85. The prices were also 3.9 percent below fourth quarter 2021 levels. In terms of the performance of the wider mining and quarrying sector, preliminary estimates suggest a minor decline in activity during 2022. Despite this, the economy is estimated to have expanded by 2.1 percent, with positive performances in wholesale and retail, construction and finance. This was achieved in the face of severe price pressures, with inflation averaging 51 percent in the fourth quarter and 52.4 percent for all of 2022. This was partly due to instability in the domestic currency. Unfortunately, recent government action to restore the country's macro-economic stability met with strong resistance among certain sections of the population. On February 17th, hundreds of protesters stormed Suriname's parliament, broke windows and looted nearby businesses to protest high prices and the reduction of fuel and electricity subsidies, which are measures that form part of the IMF programme currently supporting key reforms.

Region

For anyone that lives in a country founded on democratic principles, it may be difficult to imagine a situation where there are no elected government officials in that country to look after the needs of the people. Yet, that has been the state of affairs in Haiti since January 10, 2023 after the term of the ten remaining democratically elected senators, ended the day before. As alarming as this is, there could hardly be a more fitting depiction of the chaos that now engulfs the country. This development has created further opportunities for gangs, which have for months been growing in influence and violence, to fill power vacuums left by dysfunctional state agencies. So emboldened have the gangs become, that in January, several police officers were assassinated, and their bodies laid side-by-side, at the feet of gang members, in a public display of defiance. The situation in Haiti requires a rapid, multifaceted intervention from several countries and multi-lateral agencies.

In Jamaica, a 35.3 percent expansion in tourism activity was the primary driver of the economy in the third quarter of 2022, contributing to real GDP growth of 5.9 percent. The latest available data indicate that stay-over arrivals increased by 83.6 percent during the first ten months of the year and were only 9 percent below pre-pandemic levels. On the other hand, cruise arrivals were less than half the 2019 recorded figure. The IMF estimates that the economy expanded by 4 percent in 2022. In December, the multi-lateral agency announced a staff-level agreement with the Jamaican government for a Precautionary and Liquidity Line (PLL) and the Resilience and Sustainability Facility (RSF) with combined access to US$ 1.7 billion. The PLL will help to cover the country against downside risks such as those emanating from extreme weather events, while the RSF will support Jamaica's efforts to increase its resilience to the effects of climate change, transition to a zero-carbon economy, and catalyse official and private climate-related financing. In terms of the price pressures facing the country, they remained elevated in the fourth quarter, with inflation averaging 9.9 percent during the period, unchanged from the previous quarter. In its December 2022 monetary policy announcement, the Bank of Jamaica held its benchmark rate at 7 percent.

The November 2022 collapse of cryptocurrency exchange FTX, which was headquartered in The Bahamas, resulted in more than just the loss of the direct economic stimulus the country received from the company's presence in the jurisdiction. As one of the largest exchanges in the world, it resulted in significant financial losses for many individuals across the globe and has the potential to inflict significant reputational harm on The Bahamas and its financial industry. This could prove to be a major setback to the country's ambition to become a major digital assets hub. In more positive news, the Central Bank estimates that the domestic economy expanded by 7-9 percent in 2022, driven mainly by the continued recovery of the tourism sector. There were also notable contributions from foreign investment, which were largely concentrated in tourism development projects and residential real estate. In November, Standard and Poor's rating agency maintained its 'B+' credit rating and 'stable' outlook for the Bahamas, despite reducing its GDP growth outlook for 2023.

Outlook

In the first half of 2023, the Caribbean is expected to benefit from further increases in tourism demand. In this regard, the various destinations are projected to experience continued growth in stay-over arrivals, while the expansion in cruise tourism visitors may accelerate. However, weaker economic conditions in some source markets (particularly in Europe) could result in slower tourist arrival growth beyond that period. For the region's commodity producers, slowing global growth suggests that their major exports are unlikely to experience any major price rallies in the short-term. Overall, the region is expected to register a positive performance during the period, though the expansion is not likely to be as strong as that recorded during the first half of 2022. With global commodity prices trending down, the region could look forward to the gradual ease in inflationary pressures. Even so, Caribbean states are expected to contend with relatively high prices (particularly for food and energy) for some time.

Silicon Valley Bank Collapse and the Implications for the Region

Silicon Valley Bank Run

On March 10, 2023, a California-based bank, Silicon Valley Bank (SVB) suffered from a bank run. This event incited fears that a global recession[1] was lurking on the horizon, given that SVB's collapse represented one of the biggest failures from a US bank since the 2008 Financial Crisis. Fortunately, the US government's Federal Deposit Insurance Corporation (FDIC) took control of SVB but this was not enough to quell the panic among depositors throughout the country. Two days later (March 12, 2023), another US bank, Signature Bank was shut down by the FDIC following a similar run on its deposits by its customers. Another US bank, First Republic Bank, was on the brink of a similar downfall, but on March 16, 2023, the US Treasury Secretary, Janet Yellen, and Jamie Dimon, CEO of JPMorgan Chase (which is the largest US bank), drew up plans to help stem the drain on the American banking sector's liquidity. However, this financial sector contagion was not restricted to the US, as on March 15, 2023, Swiss bank, Credit Suisse, saw its shares tumble by approximately 30 percent. As a result, Union de Banques Suisses (UBS) agreed to buy its rival bank, Credit Suisse, on March 19, 2023, to help reduce the anxiety that was rippling throughout the global financial market at that juncture.

BANK RUN

Refers to when a large group of depositors withdraw their money from a bank or banks at the same time. This event is usually driven by fears that the bank or banks may become insolvent. It should be noted that if more depositors continue to withdraw their money, the bank(s) may opt to default and utilise the rest of its cash to pay off its debts.

What caused SVB to Collapse?

There are many theories about the cause of SVB's demise. However, it seems that the main culprit is the US Federal Reserve's (FED) tough monetary stance over the last 12 months. In 2022, global inflation was high and food prices were a big part of that. The rise in food prices was exacerbated by Russia's invasion of Ukraine (which is a major contributor to the global food supply). In an attempt to curb high inflation, the US FED gradually raised its interest rates by a total of 475 basis points (bps) during the period of March 17, 2022 to March 22, 2023.

The following is a simplified explanation as to why rising interest rates mainly contributed to SVB's collapse:

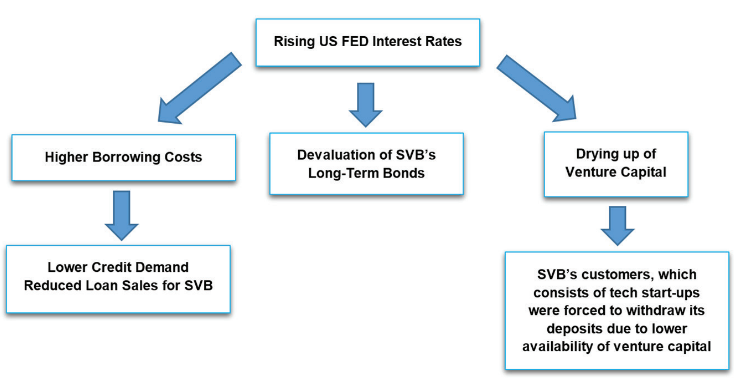
The cost of borrowing increased

The US FED rate is the overnight interest rate charged to the banks on unsecured loans. Therefore, once the US FED increases its interest rates, US banks will have little choice but to pass on this increased cost of borrowing onto their customers via higher interest rates for loans, credit cards and mortgages. This will, of course, translate into lower credit demand as some citizens and businesses may not want to pay the higher loan installments, which can ultimately result in a decline in loan sales and thus, lower profits for banks.

Devaluation of SVB's long-term bond portfolio

Increased borrowing cost was not the only negative spillover effect of higher interest rates, as it also led to a devaluation of the bank's long-term bonds (Refer to Chart 1). The reason for this is that there is an inverse relationship between interest rates and bond prices. Given that bonds have fixed interest rates, once interest rates go up, other investments become more attractive in comparison to bonds.

Chart 1: Negative Spillover Effects of US FED's Rising Interest Rates



Rising interest rates caused venture capital to dry up

When interest rates are low, safer assets, like US Treasury bills, generally become more attractive, as they are guaranteed by the government. Therefore, in a low-interest rate environment, investors will be willing to take on more risk with the aim of generating greater returns. However, the opposite will happen in this current high-interest rate environment. Investors will actually avoid risk-seeking and likewise, venture capitalists will be less inclined to fund start-ups.

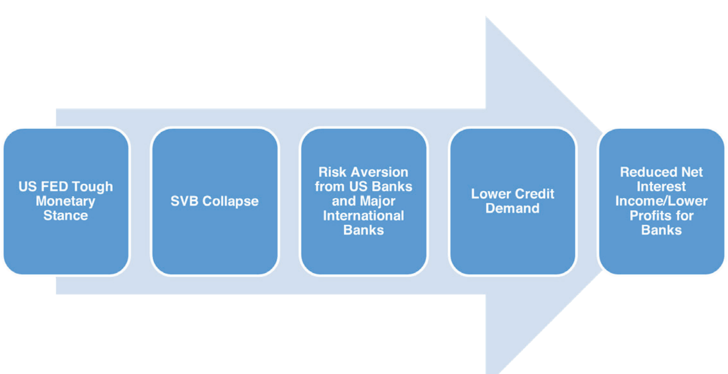
Given that SVB's client base consisted mainly of startups and tech-centric companies, once venture capital became less available, these companies became more desperate for cash and thus, had little choice but to withdraw their deposits. Furthermore, in order to free up cash for its client base, SVB was forced to sell some of its assets (which consisted mainly of long-term bonds) at a loss, and as a result, on March 8, 2023, SVB announced that it needed to sell US$2.25 billion in new shares to shore up its balance sheet. This public statement then triggered the fear-induced bank run which resulted in US$42 billion of deposits being withdrawn from customers by the end of March 9, 2023.

Global Implications

Bank Failure Risk?

There is the fear that the combined effect of this shock to the US banking sector and the US FED's aggressive monetary policy approach could altogether erode the value of bank assets, especially government bonds and mortgage-backed securities[2]. Also, smaller US banks (banks with fewer assets) are potentially at greater risk because they have a lower probability of being bailed out by the government compared to larger banks. Furthermore, all US banks and other international banks may become more risk averse[3] and implement stricter lending criteria, which could stifle credit demand and consequently, result in lower interest income/profit for banks (Refer to Chart 2).

Chart 2: How US FED's Strong Monetary Stance and SVB's Collapse affects Bank Profit



Lack of Investment for lesser developed nations?

This fallout in the US banking system has undoubtedly raised some concerns that we are potentially on the cusp of a global recession. Some financial experts also share the view that a post-pandemic worldwide economic dip is overdue and that this recent turmoil in the US banking sector could indeed signal the start of a global downturn. While the situation at SVB and the American financial industry has all but simmered down, investors will still most likely err on the side of caution within the coming months. The negative side effect of this could be a reduction in investments in countries that need it the most, such as the Emerging Market and Developing Economies (EMDEs).

Slowdown in Global Innovation?

With SVB playing a vital role in the provision of financial services for start-ups, tech-centric companies[4] and biomedical research businesses headquartered both inside and outside of the US, a slowdown in global innovation may be witnessed in the short-term.

What does this mean for the Caribbean?

Slowdown in Economic Activity

Small Island Developing States (SIDS), like Caribbean countries, are very sensitive to external shocks. This is because the Caribbean is heavily reliant on products and services from the rest of the globe in order to be fully operational on a daily basis. One example of this over-dependence is its high food and fuel import bills[5].

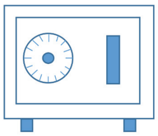
As mentioned earlier, the combined effect of rising US interest rates and the shock to the US banking system could altogether compel banks across the world to avoid risk. Consequently, this can result in tighter lending criteria for banks, which in turn can slow down economic activity. In spite of the negative sentiment about banks in some sections of the public, financial intermediaries do play a crucial role in spurring economic activity by generating momentum for money. In the financial sphere this is also referred to as the multiplier effect but sometimes, this is not easily understood (Refer to Chart 3).

Caribbean central banks, like the Bank of Guyana (BoG), the Central Bank of Trinidad and Tobago (CBTT) and the Eastern Caribbean Central Bank (ECCB), are currently facing these pressures. Coming out of the pandemic, many tourism-dependent economies are eager to restore economic activity, as lockdown measures, flight restrictions and other COVID-19 protocols altogether placed a serious damper on their economies for the majority of the 2020-2022 period. On one hand, respective monetary policy committees will be wary that if they raise interest rates to match international rates, economic activity could decline. While on the other hand, if they choose to hold rates as they are now, regional financial systems may suffer from capital flight.

CAPITAL FLIGHT

This refers to the moving of financial assets and capital from one country's financial system to overseas. For example, if the US raises its interest rates and the Caribbean holds interest rates at its current level, US-backed investments will offer a higher return and thus, will become more attractive than regional-backed investments. This may cause investors to shift their financial assets from the Caribbean to the US to get a higher Return on Investment (ROI).

Chart 3: How Banks Fuel Economic Activity



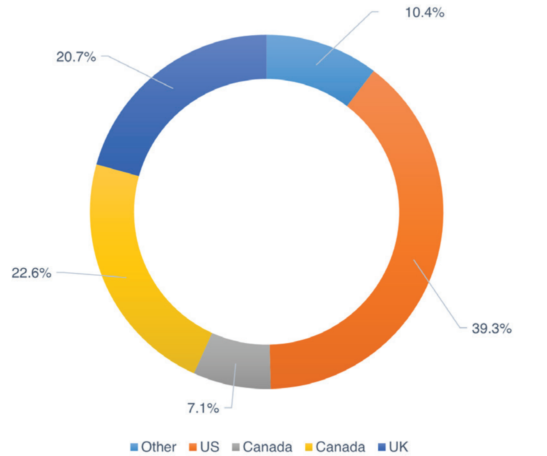
If $100,000 is being held in a vault, this money has no Momentum, which means that it has no chance to multiply or grow in the future.

But what if the bank loans this $100,000 to a baker/food start-up business. With this money the baker can buy ingredients and sell the baked goods to make a profit. Over time, with these earnings, the baker can expand their business and hire new staff.

In this simple example, the $100,000 gathered Momentum and created opportunities for other persons to make a profit. With more bakery outlets, a door was opened for a commercial real estate company or a building contractor to make money. Also, the hiring of additional staff can provide jobs for fresh culinary arts graduates seeking work on the job market.

Tourism-dependent economies in the region, like Barbados and Grenada, may begin to register a slowdown in tourism arrivals because of the combined effect of SVB's collapse and the US FED's robust monetary stance. For Caribbean tourism destinations, the US is one of the main source markets for arrivals (Refer to Chart 4) and in the coming months there is a possibility that the region can see a slight drop in American visitors because of the SVB collapse. But how is it all connected? Simply put, credit demand and domestic consumption in the US will begin to decline in this current high interest rate environment. For example, if consumers desire to take out a loan for the purchase of a house, car, furniture or appliances, they may opt not to do so at this time, unless it is absolutely necessary. The reason for this is that higher interest rates equals higher monthly installments for loan seekers. For persons with mortgages, their mortgage rates will be increased as this type of credit facility has a variable rate[6]. Also, entrepreneurs and CEO's may forego business expansion due to the high cost of borrowing. In fact, businesses may even opt to reduce their costs by paying off their current debts, downsizing their operations or even cutting staff. In summary, US consumption will fall and that means US citizens will utilise the majority of their wages on needs rather than luxury items, like cars, homes and even vacation packages.

Chart 4: Percentage of Stay-Over Visitors by Region for ECCU Territories 2000-2022



Conclusion

Less than two months after SVB's collapse, the US banking system fallout has more or less been contained through the US FED's swift interventions, which consisted mainly of emergency loans made to banks. According to the US FED, a total of 11 US banks pooled together US$30 billion to be deposited into First Republic Bank to help restore confidence within the financial system.

Despite the fears that an exodus of deposits would leave smaller banks vulnerable to being taken over by larger banks, this has not happened in the weeks following SVB's collapse on March 10, 2023. In fact, the opposite occurred, as deposits to small US banks increased marginally by 0.1 percent to US$5.386 trillion in the week ending March 22, 2023 from US$5.381 trillion in the prior week. Meanwhile, deposits to the largest 25 banks contracted by 0.8 percent from US$10.74 trillion to US$10.65 trillion for the abovementioned period.

Furthermore, it should also be noted that the anticipated credit crunch[7] seems to have been delayed or stymied, as the commercial and industrial sector was the only loan category to record a substantial decline in loans (approximately US$30 billion in one week – the biggest decline since June 2021).

However, while the US banking upheaval was subdued, the rest of the globe and especially the Caribbean, should still operate and plan vigilantly for the future. As mentioned earlier, the region is always susceptible to external shocks and this might serve as a warning bell for other global uncertainties that may negatively impact the Caribbean in the short to medium-term.

1 A global recession is defined as a contraction in annual global per capita income

2 Mortgage-backed Securities (MBS) are investment products that are similar to bonds. Each MBS consists of a bundle of home loans and other real estate debt bought from the banks that issued them. Investors in MBS receive periodic payments in a manner similar to bond coupon payments.

3 Risk Averse refers to the act of avoiding risk

4 This is not only restricted to tech companies within US borders, as some of SVB's tech-centric businesses were headquartered outside of the US

5 In 2013, the region's fuel import bill amounted to US$9 billion and in 2022, the Faculty of Food and Agriculture of the St. Augustine campus of the University of the West Indies (UWI) stated that the regional annual food imports averaged US$4.3 billion for the period 2018-2020

6 Credit facilities that have variable rates are subject to changes in interest rates on the market. However, credit facilities with fixed rates are not subject to change and remain at the same level when it was first offered.

7 Credit crunch refers to a sharp decline in available funds for credit facilities from banks