ISSN 1728-5445

SERIES

STUDIES AND PERSPECTIVES 115

ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN

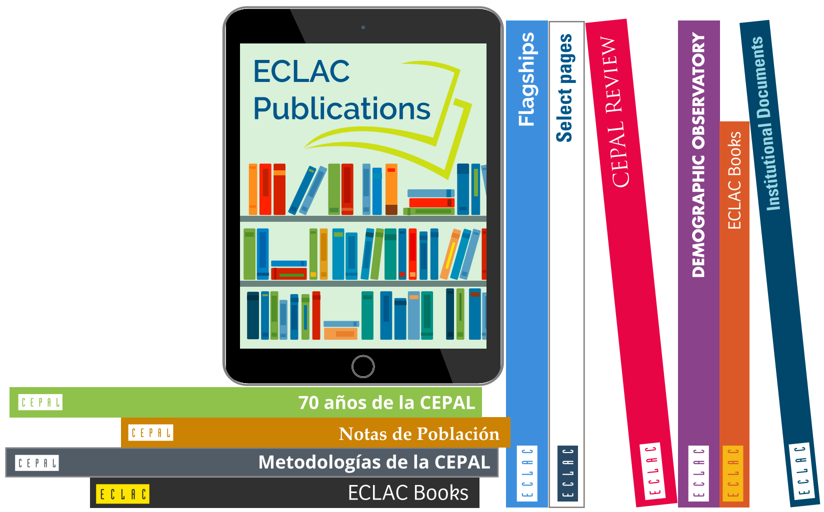
Economic Survey of the Caribbean 2022

Dillon Alleyne
Michael Hendrickson
Sheldon McLean
Machel Pantin
Nyasha Skerrette

UNITED NATIONS

ECLAC

Thank you for your interest in this ECLAC publication



Please register if you would like to receive information on our editorial products and activities. When you register, you may specify your particular areas of interest and you will gain access to our products in other formats.

Register

www.cepal.org/en/publications

www.instagram.com/publicacionesdelacepal

www.facebook.com/publicacionesdelacepal

www.issuu.com/publicacionescepal/stacks

www.cepal.org/es/publicaciones/apps

UNITED NATIONS

ECLAC

SERIES

STUDIES AND PERSPECTIVES | **115**

ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN

Economic Survey of the Caribbean 2022

Dillon Alleyne

Michael Hendrickson

Sheldon McLean

Machel Pantin

Nyasha Skerrette

UNITED NATIONS

ECLAC

This document was prepared by Dillon Alleyne, Deputy Director of the Economic Commission for Latin America and the Caribbean (ECLAC) subregional headquarters for the Caribbean, and by Sheldon McLean, Coordinator of the Economic Development Unit, Michael Hendrickson, Economic Affairs Officer, Machel Pantin, Associate Economic Affairs Officer, and Nyasha Skerrette, Economic Affairs Assistant, all of the same office.

The views expressed in this document, which has been reproduced without formal editing, are those of the authors and do not necessarily reflect the views of the Organization or the countries it represents.

United Nations publication
ISSN: 1728-5445 (electronic version)
ISSN: 1727-9917 (print version)
LC/TS.2023/6
LC/CAR/TS.2023/1
Distribution: L

Printed at United Nations, Santiago
S.22-01297

This publication should be cited as: D. Alleyne and others, "Economic Survey of the Caribbean 2022", *Studies and Perspectives series-ECLAC Subregional Headquarters for the Caribbean*, No. 115 (LC/TS.2023/6-LC/CAR/TS.2023/1), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

Contents

Tables

Figures

Abstract

This survey examines the economic performance of economies of the Caribbean in 2021 and the first few months of 2022 and comprises five chapters. The first chapter gives an overview of global, regional and subregional economic performance in the Caribbean. The second provides an analysis of the subregion's fiscal performance and debt burden. The third looks at monetary policy and their impacts. The fourth is focused on the external sector, while the fifth concludes.

I. Global and subregional performance

A. Global analysis and performance

The global economy returned to positive growth in 2021, as the development and roll out of vaccines and a gradual easing of restrictions led to improved performance. This worldwide optimism, however, was tempered in early 2022 due to the onset of the Russian-Ukraine conflict. This war has heightened supply side constraints, arising from global supply chain disruption, increased energy, grain and food prices in general and escalated inflation, which was very low in the first year of the pandemic. The consequences have been very negative for the global economic recovery.

To address the inflationary effects and rising expectations, Central Banks in developed countries have been raising interest rates to put pressure on demand and to eventually cool inflationary expectations. The United States Federal reserve policy of raising interest, has appreciated the US dollar relative to other countries. While fighting inflation has emerged as the major macroeconomic priority, the downside is a fall in real investment, a decline in real incomes especially among the poor and vulnerable in all countries and an increase in fiscal stress for countries that were already in debt distress, due to COVID-19 related expenditures.

Under-tightening of inflationary policies, would further entrench the inflation process, erode the credibility of central banks, and increase inflation expectations. As is well known, this would only increase the eventual cost of bringing inflation under control. Over-tightening risks pushing the global economy into an unnecessarily harsh recession. The policy prescription is to be very surgical with inflation reduction, but with a lack of global policy coordination this is difficult (IMF 2022). It is anticipated that global inflation will peak in late 2022 but will remain elevated for longer than previously expected, probably until 2024.

The role of China is crucial in stimulating global trade at the moment, however, the frequent lockdowns under its zero COVID policy have taken a toll on the economy, especially in the second quarter of 2022.

In addition, the property sector, representing about one-fifth of economic activity in China, is rapidly weakening. Given the size of China's economy and its importance for global supply chains, this will weigh heavily on global trade and activity.

Turning to the global economic performance and prospects, the impact of the pandemic on the global economy is clear as global growth was -3% in 2020 and jumped to 6% in 2021. All major countries and regions grew positively in 2021, with the most outstanding being India and China with growth rates of 8.7 and 8.1%, respectively. The growth of the United States was lower at 5.7%. As in the global financial crisis of 2008–2009 the emerging and developing economies grew by 6.0% which was higher than the growth of 5.2% among advanced economies. Latin America and the Caribbean, which usually brings up the rear, grew by 6.5%.

Growth prospects for the World economy in 2022 is forecasted at a mere 3.2% coming on the heels of the conflict in Ukraine. China, which is beset with new COVID-19 outbreaks and supply chain issues will see a mere 3.2% growth, while India will grow by 6.8%. Advanced economies will grow by 2.4% and emerging and developing economies, the main drivers of world output will grow by 3.7%.

Table 1
Global economic performance and prospects, 2020–2022
(Percentages)

	2020	2021	2022
Advanced economies	-4.4	5.2	2.4
Emerging market and developing countries	-1.9	6.6	3.7
Euro area	-6.1	5.2	3.1
Latin America and the Caribbean	-6.9	6.5	2.7
China	2.2	8.1	3.2
India	-6.6	8.7	6.8
United States	-3.4	5.7	1.6
World	-3.0	6.0	3.2

Source: International Monetary Fund, World Economic Outlook, October 2022; Economic Commission for Latin America and the Caribbean.
Note: Projections for 2022.

B. Caribbean growth performance and prospects

Turning now to the Caribbean, most countries in the region experienced positive growth in 2021. The Caribbean average growth was 5.1%, with the goods producers growing at 3.8% and the service producers at 6.5%. The emerging juggernaut in the Caribbean is now Guyana with its vast oil reserves and considerable growth rates of 18.5% in 2021. As a result the Caribbean excluding Guyana grew by 3.5%. When Guyana is also excluded from among the good producers growth rate was -0.3%. This negative growth is due to the declines in Trinidad and Tobago of -0.5% and Suriname of -2.8%. Despite the elevated prices for goods, including hydrocarbons, Trinidad and Tobago has not been able to capitalize on this and Suriname is going through a period of economic restructuring. With respect to services, all the economies except Saint Kitts and Nevis (-3.8%) experienced positive growth. The opening of the tourism markets saw improved performance among this group and growth varies between 13.7% (The Bahamas) to 0.5% Saint Vincent and the Grenadines.

Despite the war in Ukraine and the inflationary effects it is projected that growth will be positive among the countries of the subregion in 2022. For the Caribbean as a whole growth is anticipated to be some 10.4% while the goods and service producers will grow by 15.5% and 5.4% respectively. When Guyana is excluded from among the regional economies growth falls to 4.6% and 3.5% among the goods producers. Guyana's growth is anticipated to be as high as 52% in 2022. Among the other goods producers Suriname and Trinidad and Tobago are expected to grow by 1.5% and 3.7% respectively. Turning to the service producers, growth is expected to vary between 13.7% (Anguilla) and 2.7% Saint Vincent and the Grenadines.

Table 2
Caribbean GDP growth rates, 2019–2022
(Percentages)

	2019	2020	2021	2022[a]
Anguilla	5.5	-29.9	11.1	13.7
Antigua and Barbuda	4.9	-20.2	5.3	7.5
Bahamas	1.9	-23.8	13.7	8.5
Barbados	-0.7	-14.0	0.7	5.9
Belize	2.0	-16.7	9.8	5.8
Dominica	5.5	-16.6	6.5	5.7
Grenada	0.7	-13.8	5.7	3.7
Guyana	5.4	43.5	18.5	52.0
Jamaica	0.9	-9.9	4.6	2.8
Monserrat	7.0	-5.3	8.0	4.4
Saint Kitts and Nevis	4.2	-14.2	-3.9	5.0
Saint Lucia	-0.1	-20.4	7.0	8.0
Saint Vincent and the Grenadines	0.4	-5.3	0.7	2.7
Suriname	1.1	-15.9	-2.8	1.5
Trinidad and Tobago	-0.2	-7.4	-0.5	3.7
The Caribbean[b]	**1.1**	**-9.2**	**5.1**	**10.4**
Goods Producers	**0.9**	**-1.6**	**3.8**	**15.5**
Service Producers	**1.3**	**-15.9**	**6.5**	**5.4**
Caribbean excluding Guyana	**0.8**	**-13.1**	**3.5**	**4.6**
Goods producers excluding Guyana	**0.2**	**-9.4**	**-0.3**	**3.5**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.
[a] Forecast.
[b] Aggregates are weighted averages.

Due to the fact that overall growth rate were starting from a low economic base due to the closure of Caribbean economies under COVID-19, an index of production using 2019 as the base period can be informative. The results suggest that for the subregion as a whole growth in 2021 was below 2019 level with an index of (95.4). When Guyana (170) is included among the goods producers the index rises to (102.1%), which is above the 2019 level. For the service producers the index was 89.6% which is below the 2019 income level. Only Montserrat (102.1%) was above the 2019 level among the service producers.

In 2022 the Caribbean index is anticipated to be (105.4), with the goods producers having an index of (117.9) and the service producers with an index of (95.4).

Table 3
Caribbean GDP growth rates index, 2019–2022
(2019=100)

	2019	2020	2021	2022[a]
Anguilla	100	70.1	77.9	88.6
Antigua and Barbuda	100	79.8	84.0	90.3
Bahamas	100	76.2	86.6	94.0
Barbados	100	86.0	86.6	91.7
Belize	100	83.3	91.4	96.7
Dominica	100	83.4	88.8	93.9
Grenada	100	86.2	91.2	94.5
Guyana	100	143.5	170.0	258.4
Jamaica	100	90.1	94.2	96.9
Monserrat	100	94.7	102.3	106.8
Saint Kitts and Nevis	100	85.8	82.4	86.6
Saint Lucia	100	79.6	85.2	92.0
Saint Vincent and the Grenadines	100	94.7	95.4	98.0
Suriname	100	84.1	81.7	83.0
Trinidad and Tobago	100	92.6	92.2	95.6
The Caribbean[b]	**100**	**90.8**	**95.4**	**105.4**
Goods Producers	**100**	**98.4**	**102.1**	**117.9**
Service Producers	**100**	**84.1**	**89.6**	**94.5**
Caribbean excluding Guyana	**100**	**86.9**	**89.9**	**94.0**
Goods producers excluding Guyana	**100**	**90.6**	**90.3**	**93.4**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.
[a] Forecast.
[b] Aggregates are weighted averages.

C. Unemployment

The growth performance of the economies has a direct impact on unemployment. Unfortunately, consistent unemployment data for the Caribbean are not available. The table reports some data for a number of countries, but these are not always up to date. Only in the case of four countries are the data complete and these are Belize, Jamaica, Saint Lucia and Trinidad and Tobago. In the case of Jamaica where the data set is complete there has been an uptick in unemployment as a result of the crisis. The unemployment rate rose from 6.5% in 2020 to 8.35% in 2021.

A similar conclusion can be drawn for Trinidad and Tobago where the unemployment rate rose form 3.5% in 2019 to 4.5 % in 2021.In the case of Saint Lucia the unemployment rate was 20.4% in 2020 and fell to 19.5% in 2021 reflecting the strong growth in that year. In the case of Belize, the unemployment rate jumped from 9.0% in 2019 to 13.7% in 2020.The last time such a high rate was experienced was in 2012 where the rate was 14.4%.

Table 4
Unemployment rates, 2014–2021
(Percentages)

	2014	2015	2016	2017	2018	2019	2020	2021
Bahamas	13.8	12.0	12.7	9.8	10.0			
Barbados	12.2	9.8	8.3	8.6	8.3	8.4		
Belize	11.6	10.1	9.5	9.3	9.4	9.0	13.7	10.2
Grenada	24.5	22.9						
Guyana					14.0	13.5		
Jamaica	9.1	13.5	8.6	7.4	5.5	5.0	6.5	8.4
Saint Lucia				18.9	19.1	15.3	20.4	19.5
Suriname	5.5	7.2	9.7	7.5	9.4	10.5		
Trinidad and Tobago	2.5	2.4	3.2			3.5	4.2	4.5

Source: International Labour Organization ILOSTAT and Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

II. Fiscal and debt performance

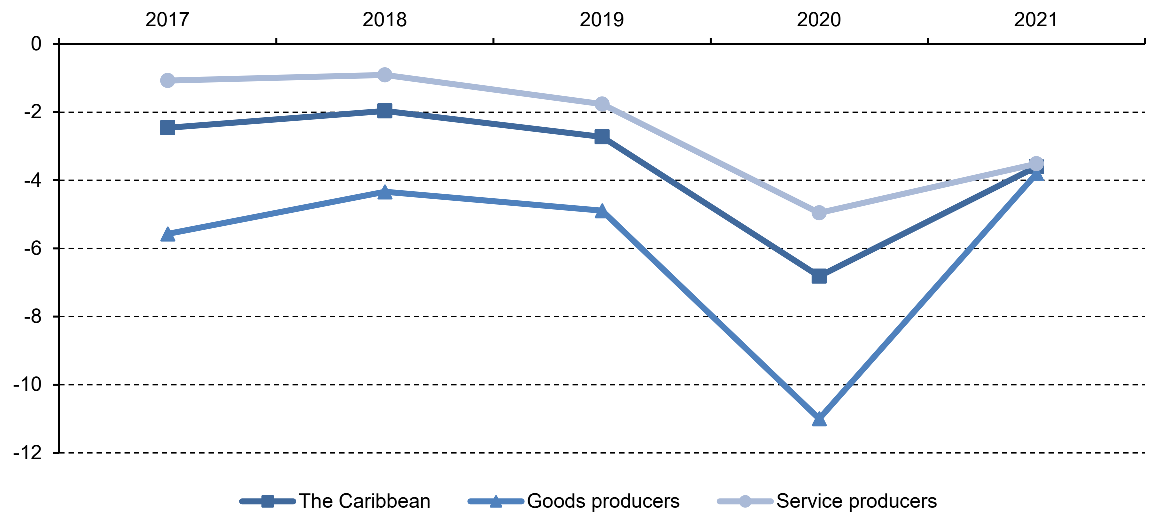
This section analyses the recent fiscal performance of the subregion as it continues to recover from the major fallout it suffered from the COVID-19 pandemic and seeks to improve public finances as a platform for more robust economic growth.

A. Fiscal

Marking a turnaround from the height of the pandemic, the fiscal deficit contracted by 3.2 percentage points to 3.6% of GDP in 2021. This stemmed mainly from significant deficit reductions among the goods producers spearheaded by Suriname and Belize. Saint Kitts and Nevis also achieved a significant decline in its deficit. Suriname embarked upon a programme of fiscal retrenchment to address severe fiscal imbalances that had affected the country's macro-stability and credit ratings in recent years. This led to a reduction in the deficit by 15.2 percentage points, leading to a surplus of 1.7% of GDP in 2021. The country entered into a 36 month Extended Fund Facility arrangement with the IMF for US$688 million. As part of the agreement, the government raised taxes in the highest income brackets, increased the sales tax on imports and increased gold mining royalities. These and other measures led to a sharp increase in revenue from 18.4% of GDP in 2020 to 28.2% of GDP in 2021.

Similarly, Belize moved to address its fiscal imbalance that had led to an unsustainable debt position. The country benefited from debt relief under its debt for conservation swap that contributed to a substantial debt reducing expenditure (10.1 percentage points decline and 10.5 percentage points contraction in its fiscal deficit to 0.7% of GDP in 2021. Saint Kitts and Nevis benefited from a doubling of revenues from its Citizen by Investment (CBI) programme that aided in deficit reduction. Trinidad and Tobago's deficit fell by 1.9 percentage points to 9.4% of GDP as revenues were bolstered by higher fuel prices. By contrast, the deficit expanded by 6.1 percentage points to 12.7% of GDP in The Bahamas on account of higher transfers to help households and small businesses during the pandemic and increased outlays on the health sector. Similarly, the deficit grew by 3.6 percentage points to 7.2% of GDP in Dominica driven by an increase in capital expenditure aimed at stimulating the economy.

Figure 1
Overall fiscal deficit, 2017–2021
(Per cent of GDP)

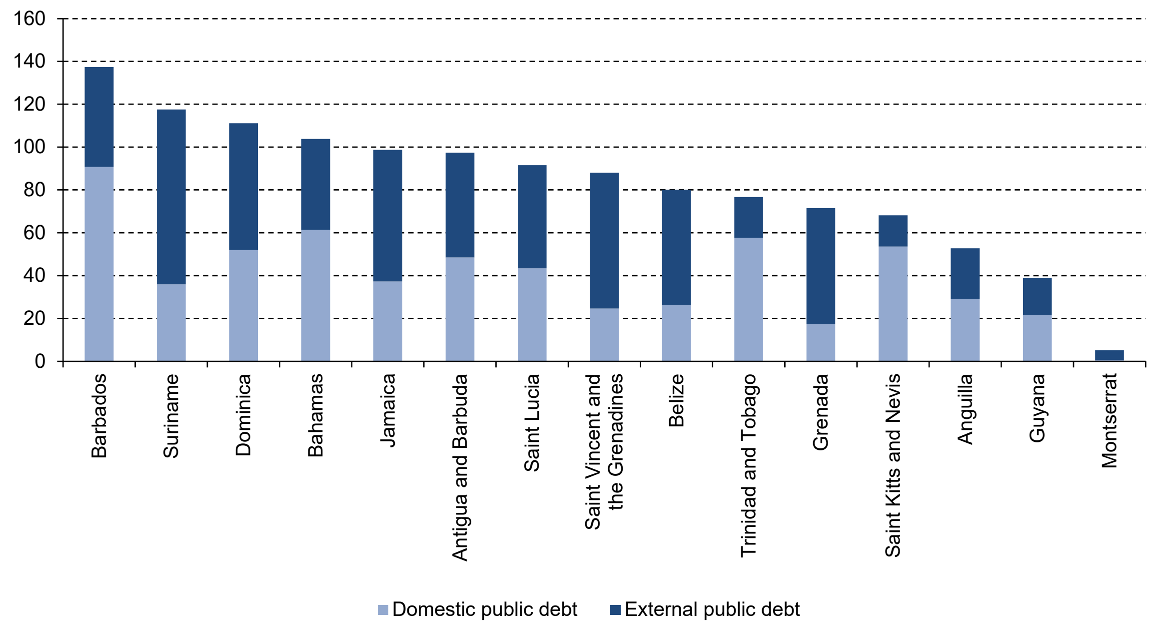


Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

B. Debt

Partly due to growth in GDP, the average debt to GDP ratio declined from 94.4% in 2020 to 90.8% in 2021. The goods producers were the main drivers of the contraction in debt with a 10.9 percentage points decline compared with 0.3 percentage points for the service producers. The main contributors to the decline in debt were Belize, Guyana and The Bahamas with declines of 24.4, 8.8 and 7.7 percentage points, respectively. Belize, as was suggested before, undertook a debt conversion for marine conservation with The Nature Conservancy (TNC). Under the arrangement, Belize was able to repurchase US$553 million of the country's public debt from bondholders at a 45% discount, through a blue loan that was arranged by TNC (TNC, 2022). This led to a US$189 million reduction in principal due on the debt. Further, under that transaction, Belize commits to placing 30% of its ocean under protection by 2026. Guyana's debt ratio fell due to a substantial 47% increase in nominal GDP, due mainly to the expansion of oil production that offset significant growth in domestic debt and more modest rise in external debt. Domestic debt expanded owing to the inclusion of the government's overdraft with the Bank of Guyana. Meanwhile the decline in the debt ratio in the Bahamas stemmed from higher nominal GDP which helped to deflate the debt. Among the other countries, Trinidad and Tobago's debt contracted by 5.4 percentage points. Suriname's debt burden eased significantly owing to a significant rise in inflation that reduced its debt ratio. Moreover, to improve its serious debt situation, Suriname reached an agreement with its Paris Club creditors to restructure its external debt. Crucially, this restructuring will free up US$34 million in fiscal space over the next three years.

Figure 2
Total public debt, 2021
(Per cent of GDP)



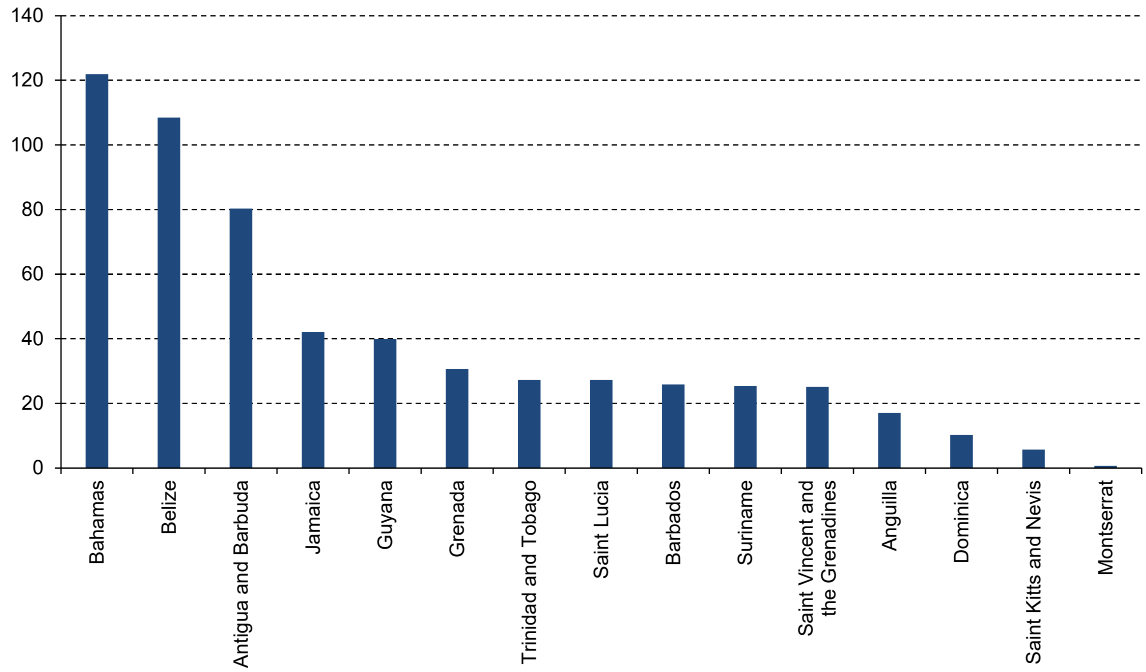
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

C. Debt Service Payments

Average debt service payments as a percentage of government revenue increased by 4.4 percentage points to 39.2% in 2021. Debt service continued to rise despite the recovery in economic activity. The higher debt service ratio was underpinned by a hike in the ratio for the goods producers from 28.7% of revenue in 2020 to 50.3% of revenue in 2021. This was far above their average of 28.9% for the last five years. The increase in the debt service ratio among the goods producers was mainly driven by Belize and Suriname. Belize's ratio expanded by a substantial 86.3 percentage points reflecting the impact of the debt buyback, as the government paid BZ$ 1,105.8 million to external bondholders to repurchase and retire the 2034 US dollar Bond debt. If the debt buyback is excluded, Belize's debt service ratio falls by 7.0 percentage points to 15.1% of government revenue. In addition, the Caribbean's average debt service ratio would fall to 33.0% of government revenue, and the goods producers average would fall to 26.9%. The debt service ratio of The Bahamas rose by 12.5 percentage points to 121.9% of revenue fuelled by an 18.8% growth in debt service, owing to growth in debt in last few years, alongside a fall in revenue. Suriname's debt service to revenue ratio rose by 5.1 percentage points to 25.4% in 2021,but was below the average for the last five years of 30.6%. The increase in 2021 resulted from a significant growth in debt in 2020, partly to cope with the COVID-19 pandemic and election spending.

Meanwhile, the debt service ratio for the service producers declined by 1.8 percentage points to 35.2%. The largest declines in debt occurred in Barbados, Jamaica and Grenada (11.5, 8.0 and 3.8 percentage points). The reduction in the debt service to revenue ratio in Barbados was underscored by a decline in debt service payments that outweighed the increase in revenue. Jamaica's debt service ratio contracted by 8.0 percentage points as growth in revenue was buoyed by the recovery in economic growth and surpassed the increase in debt service payments. Similarly, Grenada's ratio declined owing to firm growth in revenues that offset an uptick in debt service costs. Conversely, the debt service ratio of The Bahamas rose by 12.5 percentage points to 121.9% of revenue fuelled by an 18.8% growth in debt service, owing to growth in debt in last few years, alongside a fall in revenue.

Figure 3
Total debt service 2021
(Per cent of government revenue)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

III. Monetary Policy and Prices

In 2021, the monetary policy stance of Central Banks in the Caribbean region was mainly accommodative as they sought to mitigate the lingering impact of the COVID-19 restrictions on the various Caribbean economies. The measures used by the respective monetary authorities sought to increase liquidity to stimulate both consumers spending as well as investment.

Some of the accommodative monetary measures included the maintaining or reducing the lending rates and focusing on stabilizing exchange rates. For instance, the Central Bank of Barbados kept the benchmark bank rate at 2% and maintained the fixed exchange rate peg of BD$2 = US$1. In the ECCU, the weighted average lending rate was reduced to 6.8% in 2021 from 7.2% in 2020. The ECCB also kept the exchange rate fixed at EC$ 2.7 = US$ 1. In Trinidad and Tobago, the Central Bank's repo rate remained unchanged at 3.5%, while the commercial banks lending rate declined to 7.04% in 2021 from 7.29% in 2020. In Guyana, the central bank's discount rate and reserve requirement rate both remained unchanged at 5% and 10% respectively in 2021 from the previous year.

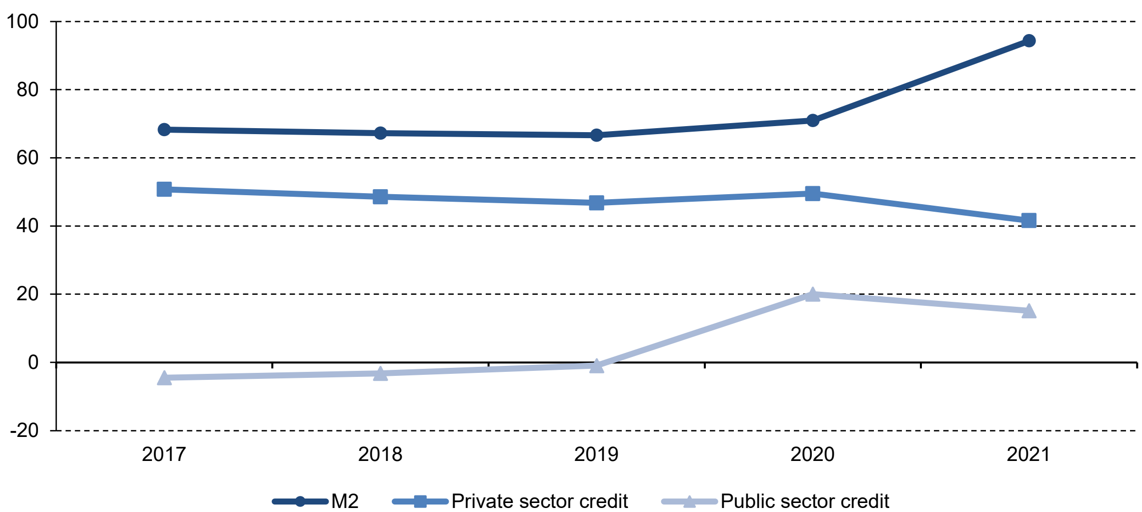
In Jamaica, the Central Bank tightened its monetary policy to ensure that the annual price increase remained within the inflation target of 4.0% to 6.0% and to maintain exchange rate stability. Accordingly, the Bank of Jamaica raised the policy interest rate to 2.50% in 2021 from 0.5% in 2020 and increased the rate on its Standing Liquidity Facility (SLF) to 4.50% in 2021. Notably, in August 2021, inflation breached the upper limit of the Central Bank's inflation targeted range, due to significant increases in international commodity prices and shipping costs spilling over to the local prices.

In Suriname, there was an urgent need for tight monetary policy as the country suffered the spill-over effects of a recent and significant currency devaluation, the shift to a floating exchange rate regime in June 2021, a rapid rise in public debt, and inflation which was imported from the rise in international commodity prices and shipping costs. Furthermore, the country embarked on fiscal consolidation as it sought to address its high public debt. Subsequently, Suriname adopted a more modern monetary policy framework labelled the "Reserve Money Targeting Regime" which set targets for the basic money supply, economic growth and inflation forecasts. Despite this consolidating direction, average lending rates in declined marginally to 14.7% in 2021 from 14.8% in 2020.

A. Money supply and credit

The overall accommodative monetary policy stance facilitated a liquidity expansion in the in the region. This was reflected by the increase in the M2 (narrow money plus savings deposits and time deposits) in the banking system. Data on monetary aggregates for 2021 was not readily available for the ECCU countries at the time of writing. It can be observed for the countries with data, M2 as a percentage of GDP increased to 94.3% in 2021 from 70.9% in 2020, a 23.4 percentage points increase (see figure 4). The largest increase in M2 was recorded in Suriname, a 23.50% increase, then by Jamaica of 17.06% increase, followed by Guyana of 12.91% increase. The increases in M2 reflected the increase in liquidity in the respective countries. For Guyana, the increase in liquidity was driven by increased revenues from the export of oil.

Figure 4
M2 and domestic credit to the private and public sector, 2017–2021
(Per cent of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

The Caribbean also recorded an overall contraction in the average domestic credit in 2021. Credit to the private sector decreased to 41.6% of GDP in 2021 from 49.6% in 2020. Countries such as Suriname, Guyana, Trinidad and Tobago, and Belize all experienced increases in private sector credit of 17.6%, 10.4%, 2.7%, and 2.6% respectively. However, this was tempered by the contractions in private sector credit in the Bahamas and Barbados of -1.5% and -0.7% respectively.

Credit to the public sector declined to 17.7% in 2021 from 21.7% in 2020. The major driver in the decrease was Guyana, which saw credit to the public sector decrease by 102.8 percentage points in 2021. This decrease reflected the change in public finance in the country as the government was earning windfall revenues from the oil sector, thus reducing its need to borrow. Suriname and Belize experienced declines in the public sector credit by 6.5% and 6.4% respectively. In contrast, the Bahamas, Barbados, and Trinidad and Tobago incurred increases in public sector credit by 14.0%, 4.8%, and 1.2% respectively.

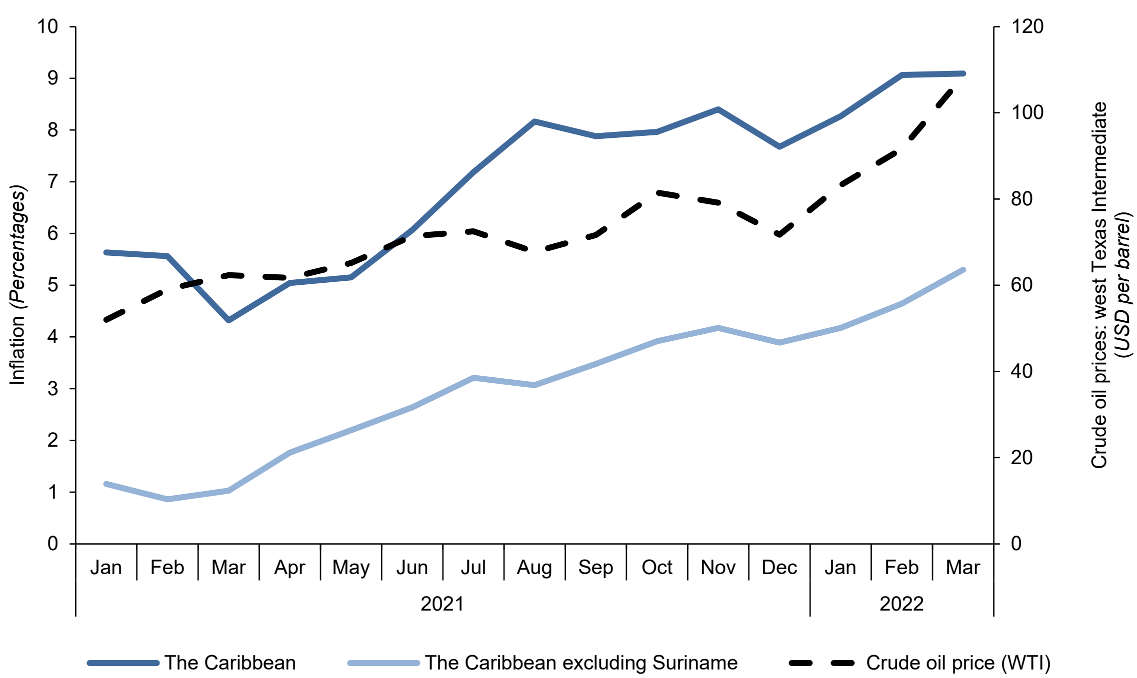
B. Inflation

In 2021, the Caribbean recorded a substantial increase in prices. This could be seen by the (y-o-y) average inflation of 7.7% in December 2021, up from 4.3% in December 2020. Suriname was the main outlier for the inflation as it experienced an inflation rate as high as 60.7% in December 2021, a rate which was unchanged from December 2020. When Suriname was excluded from the Caribbean average, the recorded (y-o-y) inflation was 3.9% in December 2021, up from -0.1% in December 2020.

Oil prices experienced a bullish trend throughout 2021. In fact, West Texas Intermediate (WTI) oil prices were US$52 per barrel in January 2021 and increased to $71.71 by December 2021. The growth in oil prices were largely driven by demand and supply imbalances. In February 2022, Russia invaded Ukraine which contributed to pushing oil prices over the US$100 per barrel benchmark. As the oil prices were high, it caused an increase in fuel costs, which in turn was felt at the gasoline pump in the Caribbean economies. Increases in fuel costs contributed to the inflationary pressures in the Caribbean.

Inflation in Suriname was recorded at 63.8% in January 2021 and remained at high levels throughout the year. The inflation in Suriname was largely due to the effects of the 90% currency devaluation in 2020 and the shift to a floating currency in 2021. In March 2021, the Central Bank allowed the exchange rate to fluctuate in a band, with a Sur$16.30 upper limit and a Sur$14.29 lower limit. The exchange rate was floated in June, which caused a depreciation to Sur$ 21.274 per US$1. The effects of the depreciation filtered into local prices, causing the inflation rate to eventually peak at 74.4% in August 2021. By March 2022, the inflation rate remained relatively unchanged at 62.2%, representing a continuation in inflationary prices locally.

Figure 5
Inflation and West Texas intermediate oil prices, Jan 2021–Mar 2022



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data; U.S. Energy Information Administration.

IV. External sector developments

A. Tourism arrivals

The Caribbean tourism sector rebounded in 2021 after a devastating downturn in 2020 prompted by the onset of the COVID-19 pandemic. However, for some economies, a more robust recovery was limited by multiple waves of increased COVID-19 case numbers either domestically or in most cases, across major tourism source markets. Among the fourteen Caribbean countries assessed, tourism stay-over arrivals expanded by 56.5% in 2021, a substantive improvement from the observed contraction of 71.5% in 2020, yet slower than anticipated.

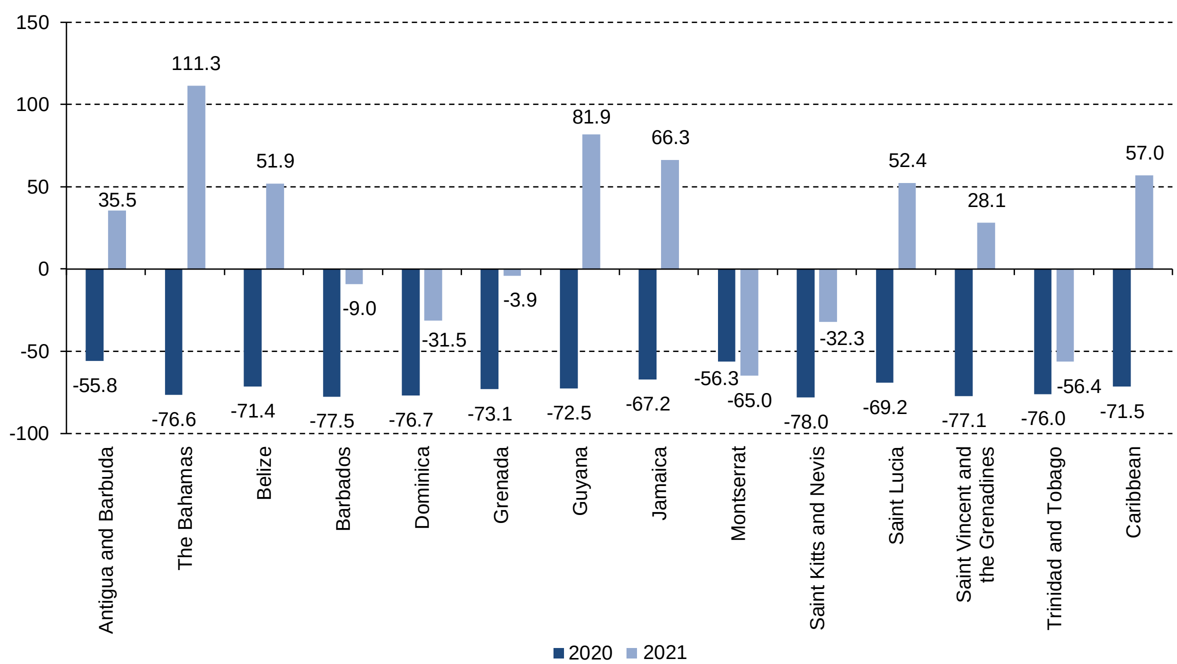
The recovery across the subregion was mixed as eight of the fourteen economies reported positive growth in average tourism arrivals in 2021 relative to 2020. Five of those economies, namely, The Bahamas, Guyana, Jamaica, Saint Lucia, and Belize, reported growth above 50%. The Bahamas reported the highest growth rate of 111.3% among all economies. The primary drivers of these improvements were increased vaccinations across source destinations, improved testing facilities, relaxing of travel and border restrictions, pent up demand for travel, relaunching of the tourism industry at more destinations, and the restoration of some short-haul air capacity into the subregion. Further, tourism service providers have adapted to the challenges faced through building partnerships and collaborations to attract visitors while ensuring a safe and healthy visitor experience. Despite the improved growth performance, tourism arrivals among all Caribbean economies trail pre-pandemic levels in 2019 by an average of 34.9%. Caribbean governments have provided support to the sector by introducing policies to stimulate the return of airlift to the subregion, fostering better market access, providing support for unemployed workers in the sector, and increasing regulatory harmonization across the subregion.

Alternatively, arrivals in economies such as Barbados, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, and Trinidad and Tobago contracted by 9.0%, 31.5%, 3.9%, 65.0%, 32.3%, and 56.4% respectively relative to 2020. The primary factors contributing to the weak performance of these economies were ongoing waves of COVID-19 outbreaks locally, slow restoration of air capacity, and sluggish easing of restrictions. The closure of LIAT in 2020 with no clear replacement to facilitate inter-island travel within the OECS has also contributed to reduced travel within the Caribbean.

The performance of the cruise industry in 2021 remained weak as cruise passengers and the number of cruise calls were lower than expected. Extremely limited cruise activity restarted in late 2020 with the implementation of strict measures requiring full vaccination among passengers and crew members along with other agreed protocols to reduce the spread of the COVID-19 virus. However, ongoing challenges related to the ongoing COVID-19 pandemic prevented a stronger recovery in the industry and so, cruise activity did not pick up until the end of the second quarter of 2021Among the eleven countries reporting, cruise passenger arrivals contracted by 45.2% on average following a 69.3% contraction in 2020. Nine of the eleven reporting economies observed more than 60% contraction in cruise passenger arrivals in 2021 relative to 2020. Among the destinations receiving cruise passengers, The Bahamas reported the smallest reduction of 16.0% relative to 2020 (1,115,181 persons in 2021) while Grenada reported the largest decline relative to 2020 of 84.6% (25,027 cruise visits in 2021). Trinidad and Tobago reported no visits due to continued restrictions for COVID-19.

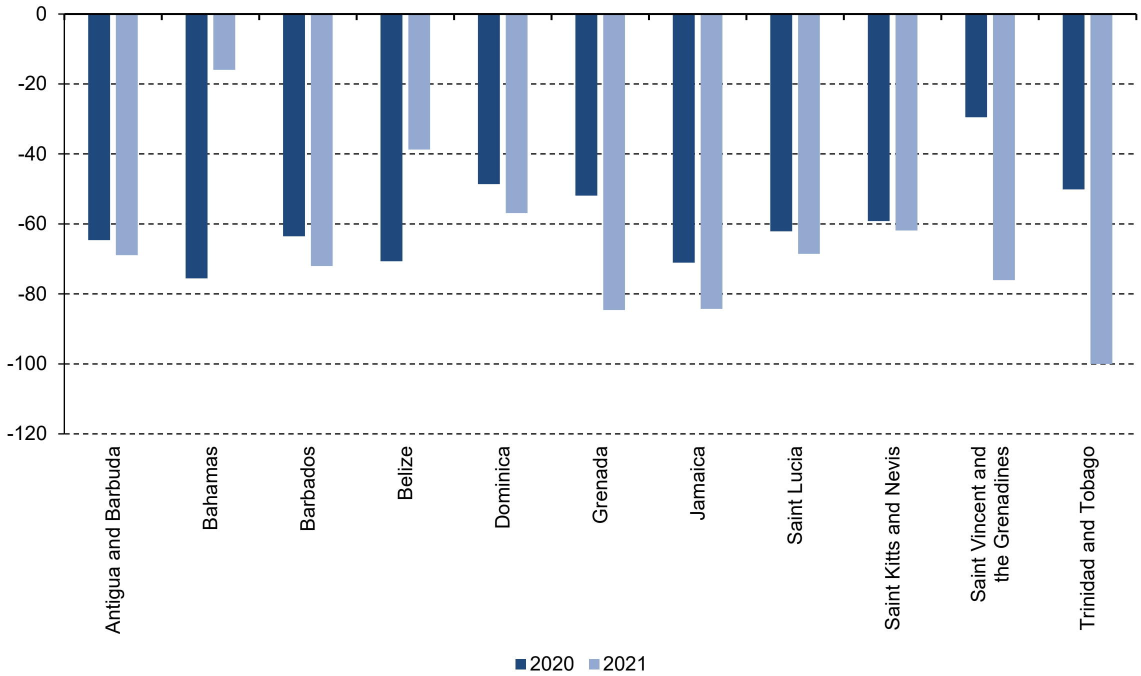
Among the fourteen Caribbean economies assessed, the outlook for the tourism industry in 2022 is expected to be one of continued improvement as economic activity continues to pick up, airlift increases, and travel confidence and demand increases. Caribbean economies must also continue to collaborate with regional partners and governments to support the industry. For the cruise industry, continued implementation of health standards and safeguards is expected to support further recovery. The downside risk to the continued recovery in the tourism sector relates to emergence of highly transmissible and more virulent strains of the COVID-19 virus, the ongoing Ukraine-Russia war, and a slowdown in global GDP growth, particularly in major tourism source markets.

Figure 6
Year-on-year growth in tourism stay-over arrivals, 2020–2021
(Percentages)



Source: ECLAC on the basis of official figures.

Figure 7
Year-on-year growth in cruise ship arrivals, 2020–2021
(Percentages)



Source: ECLAC on the basis of official figures.

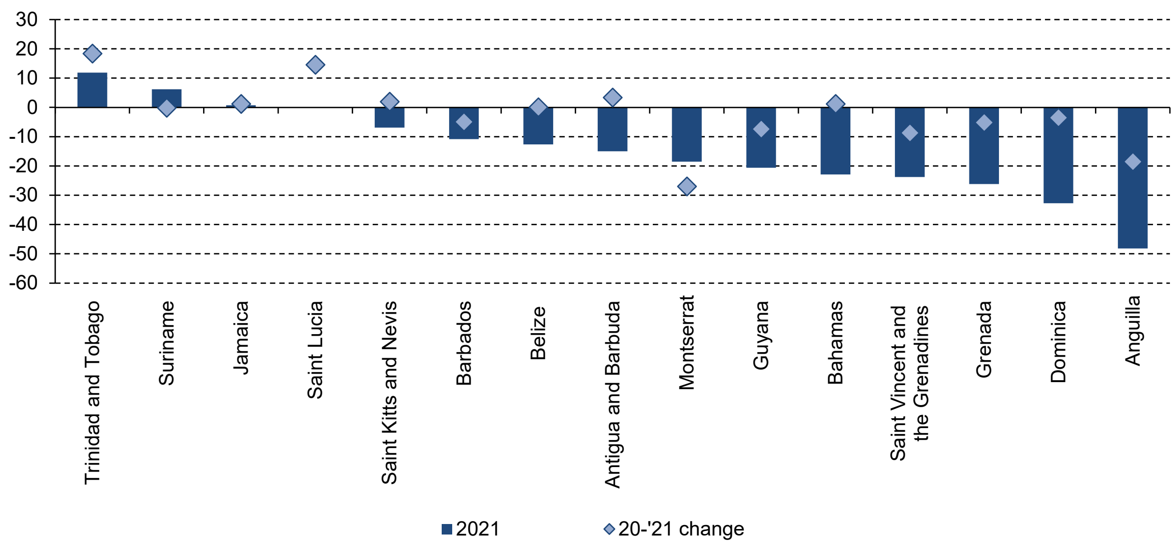
B. Current account

The average current account balance in the Caribbean widened to -14.7% of GDP in 2021 relative to -12.3% of GDP in 2020. The performance across the subregion was mixed, however, more than half of the economies (eight out of fifteen) reported varying degrees of deterioration in the current account position by the end of 2021 (figure 4). A major driver of this deterioration was merchandise trade imbalance from rising commodities prices resulting from supply chain instability triggered by the COVID-19 pandemic. Among the 15 economies assessed, Trinidad and Tobago had both the largest current account surplus along with the most sizeable improvement in their current account position (improved by 18.4 percentage points to a surplus of 11.9% of GDP). Montserrat, on the other hand, experienced the largest deterioration in their current account balance (fell from a surplus of 8.4% of GDP to a deficit of 18.6%) while the Anguillan economy had the largest current account deficit (48.2% of GDP) among all economies. Rising inflation and higher fuel prices coupled with increased demand as these economies reopened for tourism would be the primary contributors to these contractions.

For the service producing economies, the current account deficit widened by 4.1 percentage points to 18.6% of GDP. For most of the tourism dependent economies, increased economic activity as COVID-19 restrictions were slowly lifted combined with rising energy prices and inflation led to an increase in merchandise imports. At the same time, exports decreased, and the overall effect was a greater merchandise trade imbalance. Further, for some tourism dependent economies, the recovery in travel receipts was slower than expected. There were, however, some notable exceptions such as the economies of Antigua and Barbuda, The Bahamas, Jamaica, Saint Lucia, and Saint Kitts and Nevis where recovery in tourism earnings bolstered the services account sufficiently to realize an improvement in the overall current account position.

The performance among the goods producing economies varied with differing factors driving the respective outcomes. Among the four goods producing economies, the current account deficit of 6.5% of GDP in 2020 narrowed to 3.8% in 2021. The observed improvement was solely fueled by a strengthening in the current account position for the Trinidad and Tobago economy. In particular, there was an improvement in both the merchandise imports and exports relative to 2020 as capital imports for energy sector projects increased, international commodity prices rose, and external demand improved. This improvement was, however, tempered by a widening of the current account deficit in the Guyanese economy. This was due to a decline in the merchandise trade surplus from importation of the Liza Unity Floating Production Storage and Offloading (FPSO) vessel and higher net payments of services. For Belize and Suriname, the current account remained roughly the same in 2021 as in 2020.

Figure 8
Current account balance, 2021
(Percentage of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.

As the service producing economies continue to further relax COVID-19 restrictions, the service account is likely to continue to improve. However, the goods balance will continue to be affected by high energy prices impacted by the ongoing Ukraine-Russia war, rising commodity prices and recessionary pressures in major tourism source markets. As Guyana continues to build its energy sector, the merchandise trade balance will be impacted. For Trinidad and Tobago, its current surplus will be impacted by future energy prices. While the balance of payment current account deficit across the Caribbean is likely to improve there are several factors that can negatively impact this improvement by the close of 2022; particularly a slowdown in global economic activity, high inflation and high energy prices.

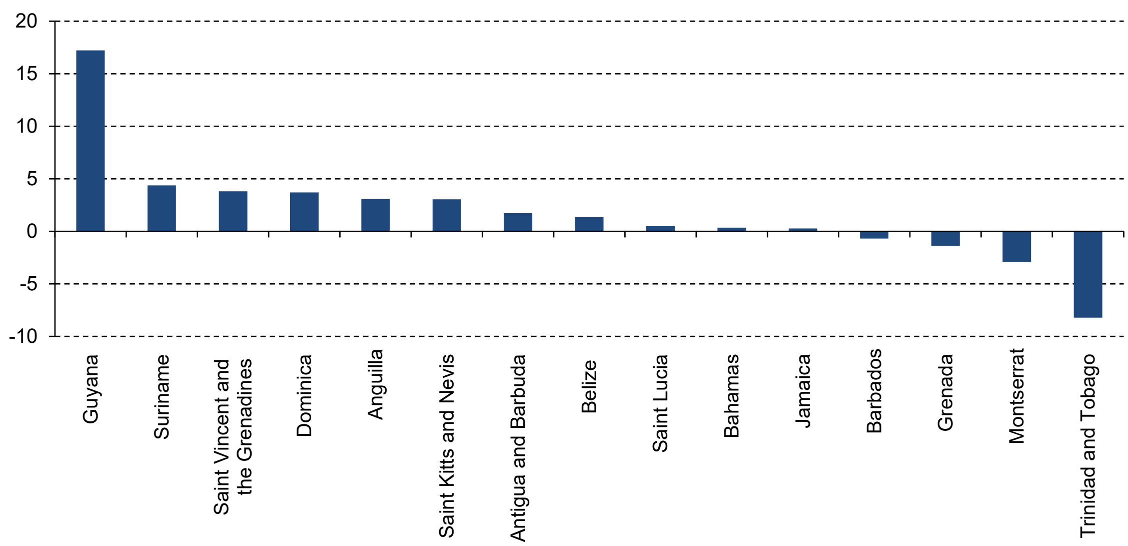
C. Foreign Direct Investment

The role of Foreign direct investment (FDI) is important as it cretes employment, is a souce of foreign exchnage and in some cases helps in technology transfer and the upgrading of local skills. FDI inflows for the Caribbean increased in 2021 to US$ 371.3 (table 5); up from US$ 303.7 in 2020. The average FDI inflows, as a per cent of GDP, also increased by 1.8 percentage points to 9.6% in 2021 (figure 9). However, excluding Guyana, average FDI inflows increased by 0.6 percentage points to 6.3%.

Among the goods producing economies, that contribute 70.8% of the total FDI among the 15 Caribbean countries assessed, the average FDI inflows as a per cent of GDP increased by 3.8 percentage points to 15.5%. This increase primarily resulted from investments in the energy sector in the Guyanese economy which currently stands as the leading recipient of FDI among all Caribbean economies. In Guyana, FDI inflows increased by 17.6 percentage points to reach 55.5% of GDP as activities related to the hydrocarbon sector and the oil exploration project in the Liza field progressed. Excluding Guyana, the FDI for the remaining goods producers plummets to 2.1% of GDP in 2021 relative to 2.9% of GDP in 2020. A substantial decline in FDI in the Trinidad and Tobago economy, which dropped by 8.2 percentage points to -3.2% of GDP, was the primary contributor to this outcome. This was largely due to the slowdown in the energy sector related to unplanned maintenance at certain energy facilities and the closure of some petrochemical plants.

For the service producing economies, who contribute 29.2% of the total FDI among the 15 Caribbean economies assessed, FDI inflows increased slightly by 1.0 percentage points to 7.5% of GDP. The improvement observed in most of these economies was primarily related to increased investments in the tourism sector and its supporting industries relative to significant slowdown in 2020. FDI is expected to improve in 2022, given the sizeable pickup in economic activity. However, there is some downside risk related to the ongoing Ukraine-Russia war, ongoing COVID-19 disruptions particularly in the cruise sector, and a potential slowdown in global economic activity.

Figure 9
Year-on-year change in foreign direct investment inflows, 2021
(Percentage of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Table 5
Foreign direct investment inflows, 2021

	FDI inflows, 2021		Year-on-year change (*Percentages*)
	Per cent of GDP	US$ millions	
Anguilla	26.6	80.6	3.1
Antigua and Barbuda	7.1	104.3	1.7
Bahamas	4.8	541.0	0.3
Barbados	4.9	237.0	-0.7

	FDI inflows, 2021		Year-on-year change (*Percentages*)
	Per cent of GDP	US$ millions	
Belize	5.1	127.8	1.4
Dominica	8.1	44.0	3.7
Grenada	12.9	144.2	-1.4
Guyana	55.5	4 468.1	17.6
Jamaica	2.2	320.5	0.3
Montserrat	0.9	0.6	-2.9
Saint Kitts and Nevis	4.6	40.0	3.0
Saint Lucia	2.6	46.7	0.5
Saint Vincent and the Grenadines	7.3	65.3	3.8
Suriname	4.4	124.0	4.4
Trinidad and Tobago	-3.2	-777.6	-8.2
The Caribbean	**9.6**	**371.1**	**1.8**
Goods Producers	**15.5**	**985.6**	**3.8**
Service Producers	**7.5**	**-175.3**	**1.0**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

V. Conclusion

In 2021 the world began recovering from the economic shock of COVID-19. Global growth bounced back from the large contraction as restrictions on movement and economic activity gradually lifted. The Caribbean also showed some resilience as it returned to average growth of 3.5% (excluding Guyana) following a massive contraction of 13% in 2020. The overall recovery was mixed, as five economies posted growth of below 1%, with three of them contracting. Guyana posted the highest growth rate for a second year, with the production from its new oil industry producing double-digit GDP growth once again.

In 2020 subregional governments responded to the crisis with expansive fiscal policy to fund health care responses and supported affected businesses and workers.These measures led to the average fiscal balance more than doubling and the average total public debt ratio increasing by more than 20 percentage points. In 2021 most countries were able to improve their fiscal position and bring the average closer to 2019 values. Conversley, total public debt only fell by four percentage points, suggesting that some extra effort or assitance is need to tackle this issue.

The global recovery in 2021 led to further issues as rapidly increasing demand resulted in supply chain bottlenecks that caused inflation to rise worldwide. The rise in energy prices contributed to widening of merchanise trade deficits in most of the service producing economies. Rising inflation was compounded in early 2022 with the Russian Invasion of Ukraine and its subsequent effects on food and fuel prices. Some Caribbean policymakers reacted to these developments with fiscal and monetary policy responses. While coordination of both monetary and fiscal policies is necessary, the lack of an environment conducive to growth means that fiscal buffers cannot be easily built especially by those countries that are debt stressed. This increases overall vulnerability in the face of climate change and natural disasters.

In light of the challenges fiscal policy must work in tandem with monetary policy; in this process the food security of the most vulnerable is important. As part of the adjustment, investing in expanding productive capacity: human capital, digitalization, green energy, and supply chain diversification can make economies more resilient when the next crisis comes (IMF 2022).

For 2022 the outlook is stronger: growth is projected at 4.6% (excluding Guyana), with all economies expected to have positive growth. The further easing of restrictions in 2022 following the outbreak of the Omicron variant of the COVID-19 virus at the start of the year has seen countries relax their border restrictions and tourist arrrivals begin to approach pre-2020 levels in some countries. There are some downside risks to the projection: continued high inflation stemming from global supply chain issues, as well as the war in Ukraine may weight heavily on global growth. This may in turn impact the Caribbean's chances for sustained strong growth in the near future.

Bibliography

ECLAC (Economic Commission for Latin America and the Caribbean) (2022), *Economic Survey of Latin America and the Caribbean, 2022* (LC/PUB.2022/9-P/Rev.1), Santiago.

ILO (International Labour Organization) (2022), ILOSTAT "ILO modelled estimates database", [online database] https://ilostat.ilo.org/data/.

IMF (International Monetary Fund) (2022), *World Economic Outlook, October 2022*, Washington D.C.

TNC (The Nature Conservancy) (2022), "Case Study: Belize debt conversion for marine conservation" [online] https://www.nature.org/content/dam/tnc/nature/en/documents/TNC-Belize-Debt-Conversion-Case-Study.pdf.

U.S. Energy Information Administration (2002), *Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma [DCOILWTICO]*, FRED, Federal Reserve Bank of St. Louis, [online database] https://fred.stlouisfed.org/series/DCOILWTICO, 25 April 2022.

Series

Studies and Perspectives-The Caribbean

Issues published

A complete list as well as pdf files are available at
www.cepal.org/en/publications

115. Economic Survey of the Caribbean 2022, Dillon Alleyne, Michael Hendrickson, Sheldon McLean, Machel Pantin and Nyasha Skerrette (LC/TS.2023/6; LC/CAR/TS.2023/1), 2023.
114. Preliminary overview of the economies of the Caribbean 2021–2022, Dillon Alleyne, Michael Hendrickson, Sheldon McLean, Machel Pantin and Nyasha Skerrette (LC/TS.2022/233; LC/CAR/TS.2022/8), 2023.
113. Statistical literacy: an enabler of statistical capacity development in the Caribbean, Shirelle Floyd, Iskuhi Mkrtchyan, and Abdullahi Abdulkadri (LC/TS.2022/227; LC/CAR/TS.2022/7), 2023.
112. Digital inclusion in Caribbean digital transformation frameworks and initiatives: a review, Dale Alexander, Lika Døhl Diouf and Kwesi Prescod (LC/TS.2022/226; LC/CAR/TS.2022/6), 2023.
111. The ageing Caribbean: 20 years of the Madrid Plan of Action, Nekehia Quashie and Francis Jones, (LC/TS.2022/225; LC/CAR/TS.2022/5), 2023.
110. Science, technology and innovation for sustainable development: lessons from the Caribbean's energy transition, Laverne Walker and Jônatas de Paula (LC/TS.2022/217; LC/CAR/TS.2022/4), 2022.
109. Addressing gender disparities in education and employment: a necessary step for achieving sustainable development in the Caribbean, Abdullahi Abdulkadri, Samantha John-Aloye, Iskuhi Mkrtchyan, Candice Gonzales, Shari Johnson and Shirelle Floyd (LC/TS.2022/114; LC/CAR/TS.2022/3), 2022.
108. Preliminary overview of the economies of the Caribbean 2020–2021, Dillon Alleyne, Michael Hendrickson, Sheldon McLean, Machel Pantin, Nyasha Skerrette and Keron Victor (LC/TS.2022/49; LC/CAR/TS.2022/2), 2022.
107. A review of the status of institutional mechanisms for sustainable development planning in the Caribbean, Catarina Camarinhas and Ivica Trumbic (LC/TS.2022/16; LC/CAR/TS.2022/1), 2022.
106. Economic Survey of the Caribbean 2021, Dillon Alleyne, Michael Hendrickson, Sheldon McLean Machel Pantin and Nyasha Skerrette (LC/TS.2021/222; LC/CAR/TS.2021/8), 2022.

STUDIES AND PERSPECTIVES

Issues published:

ECLAC

Economic Commission for Latin America and the Caribbean (ECLAC)
Comisión Económica para América Latina y el Caribe (CEPAL)
www.eclac.org

LC/TS.2023/6