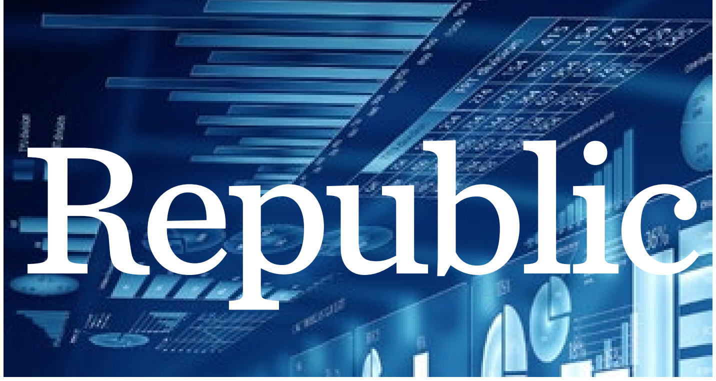

Republic Economic

NEWSLETTER

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Gain and Pain

OVERVIEW

With the fourth quarter of 2020 beginning at the tail end of this country's first surge, the number of COVID-19 cases was relatively high at over 2,600. The first quarter of the new year was much better, as despite clandestine backyard jams and Carnival 'tabanca' events, the total number of new COVID-19 cases over the three-month period fell by two-thirds to less than 900. With some restrictions rolled back, a greater part of the non-energy sector was able to operate. The energy sector, which remained relatively unrestricted, had mixed fortunes, with output gains in some commodities countered by 'gas pain' in the form of continued sub-par production of natural gas. Based on these developments Republic Bank estimates that economic activity grew by 5 percent in the first quarter compared to the fourth. The Composite Stock Price Index grew by 1.5 percent to reach 1,323.5 at the end of March. Interestingly, the Market Turnover Value ($138.4 million) and the Number of Transactions (1,323,000) for March 2021 were the highest values since the $263.6 million and 1,733,000 transactions of March 2020, a year earlier. The country's foreign reserves, typified by net foreign position, stood at US$10,058 million at the end of March, down from US$10,308.1 million at the end of 2020.

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATOR	2020	2020.1	2021.1 p/e
Real GDP (% change)	-7.8	-1.1	5.0
Retail Prices (% change)	0.6	0.28	0.3
Unemployment Rate (%)	Na	Na	Na
Fiscal Surplus/Deficit ($M)	-16,772.0	-5,000.20	-2,895.4
Bank Deposits (% change)	7.85	0.29	-1.46
Private Sector Bank Credit (% change)	-0.56	-0.39	0.24
Net Foreign Reserves (US$M)	10,308.1	9,666.9	10,058.0
Exchange Rate (TT$/US$)	6.72/6.78	6.72/6.78	6.73/6.78
Stock Market Comp. Price Index	1,323.10	1,317.10	1,343.50
Oil Price (WTI) (US$ per barrel)	39.17	45.34	58.09
Gas Price (Henry Hub) (US$ per mmbtu)	2.03	1.91	3.56

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

ENERGY SECTOR

Following the nadir reached by energy prices in the Quarter Like No Other (2nd quarter 2020), prices had a relatively solid recovery in the second half of the year. Rising global oil consumption along with the maintenance of production cuts by the OPEC+ group of oil producers, saw a stronger increase in prices in the first quarter of 2021. West Texas Intermediate (WTI) crude oil averaged US$58.09 per barrel in the quarter, 36.7 percent up from the fourth quarter 2020 price and 28 percent higher than the first quarter a year earlier. The gas price gain was even more impressive with the US$3.56 per million British thermal units (mmBtu) in the first quarter, some 41 percent greater than the price in the previous quarter and 86 percent higher than the price a year ago.

In some more positive developments, oil production and price increased at the same time, as the trend of declining oil output was checked. The 58,372 barrels per day (b/d) produced in the first three months of 2021 was 4 percent higher than the December quarter and 1.9 percent higher than the 57,305 b/d of the same quarter a year earlier (year on year or y-o-y). Gas output also improved, although while the average production of 2,871 million standard cubic feet per day (mmscf/d) was 13.7 percent higher than the previous quarter, it was still 18.8 percent lower y-o-y. The average gas production of 2,698 mmscf/d from October to March, was in fact significantly lower than government's budgeted production level of 3,200 mmscf/d (Figure 1). In early May BHP Billiton announced first oil production from its Ruby project. When ongoing development work is completed later this year, Ruby will have a production capacity of 16,000

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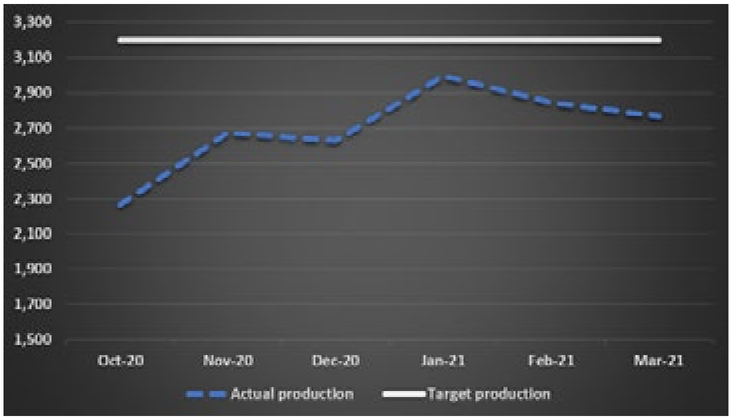
barrels of oil per day and 80 mmscf/d of natural gas. Rig days and depth drilled at 248 and 49,848 feet respectively, were significantly below fourth quarter figures but were still much higher than the same exploration benchmarks at the start of 2020.

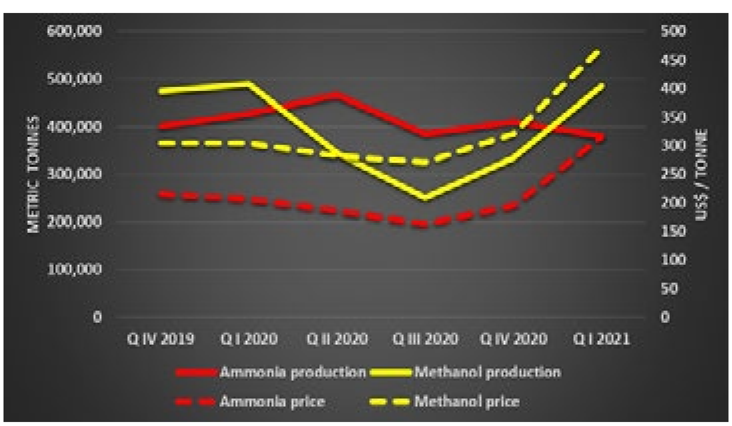
Figure 1: Natural gas production – mmscf/d



Source: Ministry of Energy and Energy Industries

Liquified natural gas (LNG) output improved by 13.8 percent from the figure recorded at the end of 2020, although it was still more than 35 percent short of the first quarter 2020 level. In the petrochemical sector, things were also generally better than they had been for a few quarters. With global manufacturing steadily recovering, the demand for, and consequently the price of, petrochemical commodities rebounded. At US$471.30 per metric tonne, the average price of methanol was 46.8 percent higher than the December quarter, while ammonia registered an even sharper price increase of almost 62 percent to reach US$315.70 per metric tonne (Figure 2). The prices of both commodities were over 50 percent higher y-o-y. In tandem with the price increases, methanol output in the quarter jumped by 45 percent, however, ammonia production fell by 7.3 percent.

Figure 2: Ammonia and Methanol production and price



Source: Central Bank of Trinidad and Tobago, Ministry of Energy and Energy Industries

NON-ENERGY SECTOR

As the sub-sectors that faced the least restrictions on their operations, pharmacies, supermarkets, hardware stores and financial institutions, all likely fared relatively well in the first quarter. Judging by retail sales data for the first three quarters of 2020, with the continued shutdown of the entertainment sector and all social gatherings, retailers of clothes, cosmetics and jewelry most likely continued to struggle. Although the manufacturing sector generally faced minimal restrictions early in the year, momentum likely slowed due to weaker domestic and regional demand.

Guided by a 1.4 percent contraction in cement sales, it appears that construction activity slowed in the first quarter of 2021 compared to the previous quarter. A 4.6 percent y-o-y increase in cement sales is encouraging however, as it suggests that the construction activity at the start of this year was greater than that of the first quarter of 2020, when the sector was not yet impacted by COVID-19 restrictions. In the trade and repair sector, first quarter new vehicle sales at 2,420 were 31.8 percent lower than the December quarter and 8.3 percent lower that the first quarter of 2020. This is not entirely surprising, as the continued economic uncertainty and restrictions on movement and activity curbed sales during the period. Additionally, coming on the heels of the mini-surge in purchases that occurred in late 2020 as people sought to acquire new vehicles before the new-year price increases, dealers were destined to face lacklustre demand in the first quarter.

FISCAL POLICY

On February 10th, the Minister of Finance, Colm Imbert, disclosed that actual revenue for the first four months of the 2020/2021 fiscal year was $1.8 billion (13 percent) lower than the budgeted amount. The main causes of the shortfall were identified as decreased tax revenue from oil and gas companies which were directly related to depressed prices and lower output, as well as a $1.43 billion drop in non-tax revenue. Notwithstanding the first quarter gains with respect to oil, it appears that this trend continued. During his presentation of the Mid-Year Review of the 2020/2021 Budget on June 9th, Minister Imbert indicated that government's revenue for the first seven months of the fiscal year was approximately $2.5 billion below the budgeted amount. Looking at the components of revenue, the actual revenue from individuals and non-energy companies was marginally below what was expected, with the lion's share of the shortfall coming from the energy sector. Minister Imbert explained that two-thirds of T&T's revenue comes from gas, while less than one-third comes from crude oil, with the corollary being that the lower price and production of gas has a significant impact. Based on the minister's comments, expenditure, the other component of the country's fiscal position, is expected to increase.

MONETARY POLICY

The Central Bank of Trinidad and Tobago (CBTT) has maintained its monetary policy initiatives of March 2020. While liquidity remains high, it has come down from the highs of 2020 to a daily average of around $8 billion in March 2021. Interest rates have remained low. Following the decline from 7.89 percent in March last year, the commercial banks' average basic prime lending rate has remained at 7.57 percent since. Despite high liquidity and lower interest rates, in the prevailing environment, it is not surprising that credit growth has not taken off. Private sector credit grew by just 0.24 percent in the first three months of the year, with the March balance of $60,745 million just 0.08 percent higher than that of March 2020. Consumer credit contracted by 1.39 percent in the first quarter of 2021 and was actually 3.83 percent below the March 2020 balance. Commercial bank total deposits also decreased, falling by 1.46 percent in the first quarter to $121,353 million.

Average food prices increased by 1.7 percent in the fourth quarter, relative to the third. This was reversed in the new year, with average food prices over the first three months of 2021, 0.6 percent lower than the December quarter. Overall inflation continued to be benign, with average first quarter prices just 0.3 percent higher than the previous quarter and 0.9 percent up from the first quarter of 2020.

OUTLOOK

Consumption of crude oil has been rising as economic activity increases in more of the world (particularly the developed world) as more people get vaccinated. The Energy Information Administration (EIA) forecasts that global consumption of oil will average 97.7 million b/d for all of 2021, a 5.4 million b/d increase from 2020. Due in large part to OPEC+ decision to increase production, global oil output is expected to rise to match global consumption, leading to a relatively balanced oil market in the second half of this year. While some moderation in price is expected, EIA forecasts that WTI crude oil will average US$62 per barrel this year. Similarly, growth in US natural gas used outside of power generation as well as increasing LNG exports are reflected in higher natural gas prices this year. The EIA expects natural gas (Henry Hub) to average US$3.07 per mmBtu in 2021. While it is not known how domestic oil production will fare for the rest of the year, the first quarter output gain is encouraging and gives hope that production this year will improve on that of 2020. The same cannot be said for gas. Though a number of gas projects are currently in development, none will have any impact before 2022, which suggests that the 'gas pain' will persist, with production likely to remain below 3,000 mmscf/d for the rest of this year.

Over the next 6 months, despite the first quarter gains with oil and petrochemicals, with weak gas production, this country's revenue will continue to fall short of what was budgeted. The significant restrictions on business operations and movement of people implemented from May, will undoubtedly curb economic activity, particularly in the non-energy sector and put increased pressure on government's revenue and expenditure. During the recent Mid-Year Review, the Minister of Finance indicated that revenue for the current fiscal year is expected to be $5 billion less than budgeted, with the approximately $3 billion in supplementary appropriation being an increase in expenditure. This approximately $8 billion 'unplanned event' when added to the expected/budgeted deficit of $8.2 billion, suggests that this 2020/2021 fiscal year could see a deficit in the region of $16.2 billion. By the end of this year, T&T's debt to GDP ratio will be notably higher than the 80.7 percent of December 2020.

Citizens would have been encouraged by the moderation in the numbers of new COVID-19 cases in early June, and hopeful that continuation or even acceleration of this trend will see the roll back of the more restrictive measures in the coming weeks. While a resurgence of the spread of the virus cannot be ruled out, it becomes less likely with each passing week as more people get vaccinated. The second half of the year should see the beginning of economic recovery as many businesses and individuals alike begin the task of restarting their efforts to earn. In this environment, inflation should remain low and credit demand will likely be weak, as many may hold off on big-ticket purchases until they are more confident about their recovery and that of the economy. As has happened in other parts of the world, the pandemic strain currently being felt by many citizens will dissipate as restrictions are gradually lifted and people have more choices and control.

The Economist
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Making the Best of a Tough Situation

Overview

Approximately 15 months ago, COVID-19 was declared a pandemic and since then, the world has not been the same. The Caribbean suffered, but tourism-dependent economies were hit the hardest due to disruptions in global air travel, international cruise lines and other close-contact industries. However, as the region enters the second half of 2021, there is reason for optimism. Despite the growing concerns over the emergence of deadly variants, the available evidence suggests that the vaccines are helping to reduce the number of cases and COVID-related deaths. Also, some destinations like Antigua and Barbuda, British Virgin Islands (BVI), Cayman Islands, Dominica and St. Kitts and Nevis recently received Level 1 classification from the US Centres for Disease Control and Prevention (CDC). This rating represents the lowest risk level for COVID.

Most Caribbean territories are aiming to achieve herd immunity before the end of 2021 and with good reason. Lengthy lockdowns, border-closures and curfews have all but stifled economic activity and now that the world's major economies are beginning to regain some momentum, the regional states want to avoid being left behind.

Anguilla

During the first quarter of 2021, stay-over arrivals contracted by 80.6 percent year-on-year (y-o-y). However, the country is making strides with its vaccination programme. On June 11th, 2021, approximately 61 percent of the population received at least one dose and 39 percent were fully vaccinated. This bodes well for the island destination, as it seeks to revitalize the tourism sector in the latter half of 2021. In late May, Anguilla re-opened its borders to foreigners but is also seeking to attract digital nomads, entrepreneurs, students and families who wish to settle in Anguilla for up to a year. The Anguilla Tourist Board (ATB) is preparing to launch its official reopening campaign in the US. After earning a Level 1 classification from the CDC, the Ministry of Tourism is ready to ramp up its promotional activities and prepare for an influx of visitors to its shores.

Barbados

According to the Central Bank of Barbados (CBB), the economy contracted by 19.8 percent y-o-y in the first three months of 2021. The decline in economic activity was mainly due to a 96 percent contraction in tourism output. As a result, gross foreign reserves fell by $86 million to $2.6 billion for the period. Pandemic-related disruptions not only impacted the tourism sector, but also caused considerable fiscal slippage. After making encouraging progress under the IMF-supported Barbados Economic Recovery and Transformation programme (BERT), the country has experienced a marked deterioration in its fiscal accounts due to the pandemic. Barbados recorded a fiscal deficit equivalent to 4.6 percent of GDP in the first quarter of 2021, compared to a 0.6 percent surplus a year earlier. Additionally, public debt increased to 152.5 percent of GDP by the end of March 2021, from 117 percent in March 2020. On the bright side, the country remains committed to achieving the targets set under BERT. Upon achieving all but one of its quantitative targets for end-March 2021, the government received a disbursement of US$24 million. This augurs well, as the country looks to record an improved economic performance in the second half of 2021. However, achieving herd immunity will be a key factor and for now, the vaccination drive is progressing at a commendable speed. As at June 14th, 2021, approximately 22 percent of the population was already fully vaccinated.

British Virgin Islands

For the BVI, financial services contribute approximately two-thirds of total government revenue. During the first half of 2020, incorporations dropped to its lowest level since 2003. As a result of this poor performance in the first 6 months of the year, the total number of company registrations fell to the lowest level on record, 22,362 in 2020, after 26,150 incorporations in 2019. However, the BVI is doing well in its fight against the coronavirus. As at June 20th, 2021, the country recorded 248 total cases and unfortunately one death since the onset of the pandemic. With 20,278 doses given and 7,873 persons (26.2 percent of the population) fully vaccinated, the country is off to a good start with its vaccination programme. Furthermore, the tourism sector is preparing to commence normal operations, as cruise sector partners and state agencies work together to encourage all frontline tourism workers to get vaccinated. "Vaccinate to Participate" is the name of the programme and the British Virgin Islands Ports Authority (BVIPA) is hoping that this vaccination drive will help the cruise sector return to pre-pandemic levels. Recently, the relevant authorities also took a significant step to reopen its tourism industry, with the removal of the quarantine requirement for fully vaccinated travellers.

Cayman Islands

In the first quarter of 2021, long-stay arrivals contracted by 98.5 percent y-o-y. Nevertheless, Caymanians are hopeful that a meaningful increase in economic activity will occur in the second half of the year, being the first Caribbean country to achieve herd immunity. As at June 8th, 2021, 73 percent of the population received at least one dose and 60 percent were fully vaccinated. Furthermore, the jurisdiction continues to lead the way in the Caribbean regarding the fight against the pandemic, given that it is officially the first country in the region to commence genome sequencing of local COVID-19 cases. Consequently, this initiative helped to improve testing efficiency, since samples were no longer required to be sent to the Caribbean Public Health Agency (CARPHA).

Cuba

Tough US sanctions and pandemic-related disruptions are having an adverse effect on Cuba's tourism sector. During the first four months of 2021, long-stay arrivals decreased by 83 percent. As a result, foreign exchange earnings dwindled over the last year and in May 2021, soaring international food and shipping prices created a food crisis in the jurisdiction. Despite these challenges, Cuba is positioned to offer much-needed aid to the region in its fight against the pandemic. Currently, it is the only country in Latin America and the Caribbean developing COVID-19 vaccines and some CARICOM members are already exploring the option of acquiring Cuban vaccines. Looking ahead, local businesses may receive a well-timed impetus for growth, with the recent approval of legal status for private businesses that were operating under the title of "self-employed" for decades. This reform can potentially help thousands of private sector businesses ranging from eateries and garages to construction and beauty salons. However, no specific timeframe was given for when this law will be effective.

Dominica

Although Dominica recorded an 89 percent contraction in stay-over visitors during the first quarter of 2021, there have been some encouraging developments. The country's vaccination programme is running smoothly and as at June 14th, 2021, around 25 percent of the population was fully vaccinated. In the month of May, the tourism sector was planning to welcome cruise ships in June but unfortunately, the reopening was delayed to late July due to concerns over a recent COVID-19 outbreak on a Royal Caribbean cruise line. Nonetheless, the tourism sector is expected to receive a long-term boost with the construction of a US$370 million international airport in Wesley. The Dominican government and the Montreal Management Company Establishment Limited (MMCE) recently signed an agreement for the construction of the International Airport of Dominica, which is set to be completed by 2025. The new airport will facilitate large commercial and cargo flights from across the globe. The project is expected to create 3,000 jobs in the construction phase.

Grenada

Grenada is doing well to curb the spread of the coronavirus within its borders. As at June 17th, 2021, Grenada recorded only 191 total COVID-19 cases and zero deaths since the beginning of the pandemic. As at June 11th, 2021, 16 percent of the local populace received at least one dose while 9 percent (9,514) were fully vaccinated. Approximately 70 percent of hotel workers are fully-vaccinated and although the nation has one of the lowest infection rates in the region, the current administration is not ready to throw caution to the wind. In fact, a decision was taken to extend the State of Emergency (which was due to expire July 14th) until November. Despite the double-digit contraction (91.4 percent) in long-stay visitors during the first four months of the year, the tri-island state remains committed to tourism investment. Recently, the Caribbean destination received a US$67 million concessional loan from the Import Export Bank of China to help upgrade the Maurice Bishop International Airport. In addition, Grenada is set to benefit from World Bank funding (US$17 million), which will go toward the improvement of air transport and resilience of airport infrastructure.

Guyana

The IMF predicts that Guyana will be the fourth-fastest growing economy in 2021, with real GDP growth of 16.4 percent. Furthermore, the fund also forecasts that the country will have the highest per capita oil production in the world by 2026 and this projection is backed by the growing number of oil finds off its coast. In June 2021, ExxonMobil revised its projections for crude oil production in the South American country to 800,000 barrels of oil per day (b/d) by 2025 and 1 million b/d by 2027. However, these projections are likely to be revised upward in due course, since they do not include the recent oil discovery at Longtail-3. The Inter-American Development Bank (IDB) estimates that oil production will increase by 46.7 percent y-o-y by the end of 2021. This growth in hydrocarbon output augurs well for the nation as it can potentially grow the country's Natural Resource Fund (NRF) to around US$500 million by the end of this year.

St Kitts and Nevis

St. Kitts and Nevis is making good progress with its vaccination programme. The Ministry of Health successfully inoculated 61 percent of the target population with a first dose and now, around 10,400 persons are fully vaccinated. The twin-island state is also doing well to contain the spread of the coronavirus, as it has one of the lowest infection rates in the Caribbean with only 279 total cases and unfortunately, one death (as at June 18th, 2021). At this juncture, the government is optimistic that herd immunity can be achieved by October 2021 and hopes to fully re-open the tourism sector by that time. Prior to that, the country is preparing to welcome back vaccinated cruise passengers in July, 2021 as part of its phased reopening. Like other tourism-dependent economies in the region, St. Kitts and Nevis desperately needs its tourism industry to fully recommence operations as soon as possible. In the first quarter of the year, long-stay arrivals contracted by 90.4 percent, but the sector seems set to benefit from further investment. The government recently announced its intent to use funds from its Citizenship by Investment (CBI) programme to construct a second cruise pier, which will have the capacity to dock three cruise ships at the same time.

St Lucia

In April, the government presented its EC$1.2 billion budget with no additional taxes. Based on the projected figures for revenue and total expenditure, the government envisages a fiscal deficit of EC$383 million for 2020/2021. Due to the pandemic-induced economic contraction and additional debt from regional and international financial institutions, St. Lucia's debt to GDP increased to 86.5 percent by the end of 2020. However, government plans to make fiscal adjustments that are geared toward reducing the country's debt burden to within the Eastern Caribbean Currency Union's (ECCU's) target of 60 percent of GDP by 2035. For now, the nation remains focused on achieving herd immunity and revitalizing its tourism sector as quickly as possible. St. Lucia encountered some challenges in battling the virus and as at June 18th, 2021, the country recorded 5,188 total cases and 80 deaths since the onset of the pandemic. Vaccination progress has been relatively slow thus far, with 16.3 percent of the population having already received a first dose and 11.5 percent fully vaccinated (as at June 17th, 2021). There are a few developments that may benefit the island destination, including the launch of two additional American Airlines flights from Dallas and New York this summer and the easing of on-island protocols for fully vaccinated visitors.

St. Vincent and the Grenadines

Following the La Soufrière volcanic eruptions on April 9th, 2021, the Caribbean Development Bank (CDB) coordinated a multi-tiered response to address the crisis. This approach will provide support via the Caribbean Disaster Emergency Management Agency. Some experts believe that this natural disaster eroded approximately 50 percent of St. Vincent and the Grenadines' GDP. Further, preliminary estimates revealed that the agriculture sector suffered tremendous losses in vegetable crops (100 percent), tree crops (90 percent) and root crops (80 percent). Thankfully, the eruptions have now subsided and the country is focused on rebuilding. Residents from the orange zone are allowed to return but unfortunately, this is not the case for red zone inhabitants. However, there is reason for optimism, even in these trying circumstances. Although massive clean-up and restoration operations are ongoing in St. Vincent, the Grenadines are in pristine condition as they were unaffected by the volcanic eruptions. This stretch of small islands can potentially play a major role in the significant expansion of the nation's yachting sector. Furthermore, Sandals Resorts International (SRI) is hiring 500 locals through its latest recruitment drive. This initiative will provide citizens with employment and training opportunities with the majority of these jobs in the construction sector.

Sint Maarten

Due to a significant collapse in tourism activity in 2020, Sint Maarten suffered an economic contraction of around 25.6 percent. Liquidity support from the Netherlands provided some much-needed relief for businesses and self-employed citizens. However, by the end of last year the primary fiscal deficit and government debt increased to 10.2 percent of GDP and 64.7 percent of GDP, respectively. During the first quarter of 2021, tourism activity declined with long-stay arrivals contracting by 54 percent. But there are signs of revival in the tourism sector, as Sint Maarten benefitted from the return of Celebrity Cruises to its shores in the month of June. Also, the airport is preparing to re-open to visitors from Europe and North America on July 1st, 2021.

Suriname

The country is progressing slowly with its vaccination programme. As at June 20th, 2021, only 31,396 persons (5.4 percent of the population) were fully vaccinated and for now, Suriname will most likely receive vaccines in tranches. In mid-June, the country announced that it was due to receive an additional 160,000 AstraZeneca vaccines from the Netherlands by the end of the month. This will undoubtedly be welcomed given the spike in cases in early June. The latest figures reveal that the nation registered 20,298 total cases and 477 deaths as at June 20th, 2021. However, cases were trending down in mid-June, which was definitely a good sign.

Suriname has a hefty debt burden (in excess of 150 percent of GDP at the end of 2020) and in recent years, has found it challenging to maintain its debt commitments. The government failed to meet a March 31st deadline to pay US$49.8 million in external debt service on its US$125 million notes (due 2023) and its US$550 million notes (due 2026). This debt service was in fact rescheduled with accrued interest from October-December 2020, when the authorities announced plans for a broad government restructuring and requested a standstill of debt service on its two global notes. As a result of this default, on April 1st, Fitch Ratings downgraded Suriname's Long-Term Foreign Currency Issuer Default Rating (IDR) to 'RD' from 'C'. The government of Suriname continues to negotiate with creditors, with the country's participation in an IMF programme being a key factor in arriving at a solution. At the end of April, Suriname entered into a three-year, US$690 million Extended Fund Facility (EFF) arrangement with the IMF.

Outlook

In April, 2021, the IMF predicted that the Caribbean will experience growth this year. According to the fund, the tourism-dependent economies and the commodity-exporters will expand by 1.4 percent and 6 percent, respectively. However, this forecast may prove to be optimistic. In any case, the extent to which the Caribbean economy grows over the short-term will depend heavily on how fast the region and the rest of the world attains herd immunity. In the meantime, the IMF introduced a plan to rid the world of the pandemic. The plan aims to vaccinate 40 percent of the global population by the end of 2021 and 60 percent by the end of 2022.

Over the second half of 2021, the commodity-based economies are expected to perform better than the tourism-dependent states. However, there may be mixed results for the tourism-based jurisdictions, as some are doing better than others in mitigating the spread of the virus and have greater access to vaccines. With the global supply of vaccines expected to increase in the next three months, the situation will most likely improve for the tourist destinations, but progress may be slower-than-expected. The presence of COVID variants combined with the uneven distribution of vaccines can further stymie progress, but persistence, commitment and resolute action will contribute to overcoming these challenges going forward. For the time being, Caribbean states are trying to make the best of a tough situation.

The Impact of the Divergent Global Economic Recovery on Key Industries

The IMF, in its April 2021World Economic Outlook, confirmed that the global economy contracted by 3.3 percent in 2020, which though severe, was below the 4.4 percent slide it projected just six months prior. The better-than-expected outturn is attributable to the extraordinary fiscal and monetary policy initiatives that many countries adopted to mitigate the economic impact of the COVID-19 virus. Governments directed substantial fiscal resources toward the health sector, businesses and households to save lives, protect small enterprises, preserve jobs and provide a cushion for the vulnerable in society, among other things. At the same time, most central banks adopted very accommodative stances, reducing their policy interest rates to record low levels in many cases and rolling out aggressive asset purchasing programmes (bond purchases) where practicable. The aim of these programmes is to facilitate greater lending in the financial sector by boosting system liquidity. As a consequence of these actions, the fall in economic activity, as harsh as it had been, was prevented from being much worse. The IMF suggests that without these sizeable interventions, the contraction in real global GDP could have been three times larger, registering in the vicinity of 10 percent.

With the start of COVID-19 vaccination programmes in late 2020 and their subsequent intensification in early 2021, the outlook for the global economy improved considerably. This optimism is grounded in the hope that the vaccines would develop a level of herd immunity that may drastically reduce the incidence and severity of the virus in an increasing number of nations and thereby, reduce the need for economic restrictions. The improved performance of the global economy will also be aided by continued fiscal support, particularly in advanced economies and accommodating monetary policy, with central banks expected to remain focused on stimulating growth heading into 2022. Overall, the IMF projects global economic activity to expand by 6 percent in 2021, before easing to 4.4 percent in 2022. In terms of the broad categories, advanced economies are projected to grow by 5.1 percent and 3.6 percent in 2021 and 2022, respectively, while emerging and developing economies are anticipated to expand by 6.7 percent and 5 percent during the same periods (Table 1).

Despite this positive outlook, there is a huge cloud of uncertainty still hanging over the global economy. Firstly, the emergence of new strains of the virus in some regions raises concerns over the efficacy of the vaccines as it relates to those variants. This, in addition to the inequitable distribution of vaccines, could prove to be a major hindrance to global economic activity heading into 2022. While most of the advanced economies are taking significant steps to build herd immunity by the end of 2021, their stranglehold on vaccine supplies thus far may have dire consequences for much of the developing world. Not only will such countries have to contend with successive rounds of infections and the unfortunate loss of life, but the related economic strains may limit growth over the next two years. Simply put, until the vaccines become widely available and the bulk of the virus-related strains confronting global health care systems is alleviated, restrictions can only be lifted in pockets. This means that the global economy will continue to face severe constraints. Encouragingly, the US has pledged to donate 500 million vaccine doses to low and lower-middle income countries over the next two years, while some manufacturers are preparing to sell shots on the international market (China has already sold vaccines to several countries). However, despite these developments most developing countries are not expected to achieve herd immunity before 2022.

Tourism

According to the world Travel and Tourism Council, the industry lost US$4.5 trillion and 62 million jobs in 2020, as tourist arrivals took a 74 percent nosedive. The global tourism industry is not expected to fully recover before 2023, based on the current outlook for the global economy. The sector is expected to be blighted by high unemployment and underemployment in key source markets for some time, while the inability of many destinations to achieve herd immunity in the near future will cause restrictions to linger. Notwithstanding some pent up demand, consumer confidence in the cruise industry and to a lesser extent, air travel is only expected to return gradually. For as long as it remains a credible threat, even in a few regions, the virus will be a significant impediment to the tourism sector. This is yet another argument for a more coordinated and equitable global vaccination programme. In 2021, many prospective tourists from key source markets may choose to visit destinations that are approaching herd immunity and closer to home, for fear of infection or being caught in tightening border restrictions, in the case of a spike in the spread of the virus. It is likely that the tourism sector that emerges in the wake of the COVID-19 virus, may be much different from the standpoint of the measures that would be required to protect tourists and workers in the sector. For instance, the health and hygiene requirements, including temperature scans, vaccine passports, destination and hotel certification may become permanent features of the industry. This means that screening at international ports will become more stringent.

Table 1: Global GDP Growth (%)

	2020e	2021f	2022f
World	-3.6	5.8	4.1
Advanced	-4.7	5.2	3.6
US	-3.5	6.4	3.5
Emerging Market & Developing Economies	-2.0	6.6	4.9
Latin America & the Caribbean	-7.0	4.5	3.1

Source: IMF
e – Estimate; f- Forecast

The severity of the economic impact of the pandemic has been divergent when we consider the experience of individual countries. Economies that are reliant on tourism and commodities were hit hardest, especially in the cases where tight fiscal resources limited government's response. Because such countries do not possess the wherewithal, the extent to which they could have responded to the health crisis and engaged in counter-cyclical spending in 2020, was limited. This of course implies that they have even less capacity to provide any meaningful fiscal stimulus now. Because of these fiscal constraints and limited access to vaccines to this point, the affected economies will recover much slower than advanced nations. In this regard, the global economy is likely to experience a multispeed recovery. Moreover, this could create a situation where actual global growth registers at a level below IMF projections, with several developing economies unlikely to return to pre-pandemic output levels before 2023.

Against this backdrop, one may ask what are the implications for the sectors on which the Caribbean depends, especially tourism? After all, the performance of these sectors, together with how soon the region can build herd immunity, will determine the pace and sustainability of the Caribbean's recovery. The rest of this article is devoted to how the global tourism, energy and gold industries will likely progress heading into 2022.

Energy

With improving economic activity and expanding vaccination programmes in several countries, the global demand for energy products has risen appreciably above 2020 levels. For instance, the US based Energy Information Administration (EIA) estimates that global crude oil consumption in April 2021 was 15.8 million barrels per day (b/d) above the levels of the same month a year ago, but still 4 million b/d below April 2019 levels. This increased demand has helped to push oil prices substantially above 2020 levels, with the West Texas Intermediate price averaging US$58.09 per barrel (p/d) in the first quarter of 2021, compared to US$45.34 and US$27.96 in the first and second quarters of 2020, respectively. The rise of prices has also been supported by the ongoing agreement between OPEC and a few other producers (OPEC+ alliance) to cut output by 7 million b/d. In April 2021, Saudi Arabia volunteered to remove an additional 1 million b/d from the market. However, OPEC+ has agreed to gradually reverse the production cuts, starting in May 2021, with 350,000 barrels expected to be returned to the market in that month, followed by another 350,000 in June and 450,000 in July. While this is expected to contain the rise of prices to some extent, EIA projections still place oil prices well above 2020 levels (US$39.17 p/b) in both 2021 and 2022, at US$61.85 p/b and US$56.74 p/b, respectively.

Gas prices, which generally move in the same direction of oil prices, are also expected to benefit from the improved economic conditions. The Henry Hub price, which reflects US energy market conditions, is projected to average US$3.07 per million British thermal units (MMBTU) in 2021, up from US$2.03 in 2020. Prices are expected to fall to US$2.93 in 2022. This outlook is based on the expected growth in US liquefied natural gas (LNG) exports and rising domestic natural gas consumption among residential, commercial, and industrial customers.

Gold

One major effect of the pandemic was that it exerted a tremendous amount of downward pressure on US Treasury yields and the US dollar in 2020, with global equity markets experiencing massive plunges during the height of global lockdown measures. Against this backdrop, the investment demand for gold shot up, prompting the precious metal to trade at record high levels in August 2020 (US$2,067 per troy ounce). However, with the US economy on the rebound in 2021 and treasury yields rising early in the year, gold prices fell in the first quarter to average $1,794 per troy ounce from $1,874 in the fourth quarter of 2020. This occurred amid signs that the decline in the dollar may have hit bottom. Gold and the US dollar normally have an inverse relationship, where a fall in the value of the dollar causes increased investment in gold, thereby bidding up its price. Additionally, the prospect of higher treasury yields represent guaranteed returns to investors, unlike gold, for which returns are realised only by price increases. Therefore, higher yields tend to pull investors away from gold. The reverse is also true. The increased yields in early 2021 were driven by concerns that inflation could rise as the economy recovers from the pandemic. Nevertheless, the Federal Reserve has indicated that it is prepared to tolerate a short-term rise in inflation. There is the view that the increase in inflation could be short-lived, since it is due in part to a release in pent up demand and temporary labour and other shortages related to the pandemic. The effects of these developments are expected to dissipate as the economy continues to grow. The Fed's statement helped to quell inflationary fears to some extent. It should be noted though, that rates of inflation which are beyond healthy levels (2 percent is considered ideal) for extended periods will apply downward pressure on the value of the US dollar. While gold prices are not expected to return to the highs of 2020, ongoing COVID-19-related uncertainty is likely to produce an environment in which prices remain at encouraging levels for producers heading into 2022, despite some moderation.

The outlook for these sectors is based on the assumption that ongoing efforts to bring the COVID-19 pandemic under control will be successful and global economic restrictions will be increasingly removed in 2021 and 2022. However, we should not be surprised if there are yet a few more twists, as the uncertainty surrounding the virus is still very pervasive. Aside from the emergence of new strains of the virus and the inequitable vaccine distribution among nations, there is a worrying level of vaccine hesitance in some jurisdictions, where supply is abundantly available. This may sprout new rounds of infections and the re-introduction of lockdowns. Until the spread of the virus is brought under control at the global level, key sectors and by extension the world's economy will continue to register performances that are well below potential.

While gold prices are not expected to return to the highs of 2020, ongoing COVID-19-related uncertainty is likely to produce an environment in which prices remain at encouraging levels for producers heading into 2022, despite some moderation.