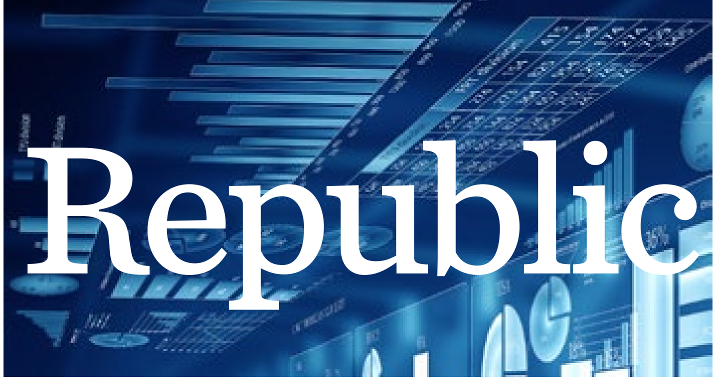


Republic Economic
NEWSLETTER
September 2023 | Vol.31, No.4 | ISSN 1027-5215

Non-Energy Sector Props up the Domestic Economy

OVERVIEW

Available information suggests the non-energy sector provided the bulk of the growth impetus for the second successive quarter, between April and June 2023. During the period, global energy prices declined, and domestic energy sector output was lacklustre. There were encouraging signs in the construction, distribution and manufacturing sub-sectors. The relative strength of the non-energy sector was reflected in the growth in government's non-energy revenue. By comparison, the energy sector recorded a contraction in revenue. Activity in the equity market remained weak with the Composite Price Index declining by 7.3 percent compared to the previous quarter and 12 percent when compared to the similar period in 2022. Based on these developments, Republic Bank estimates that the economy contracted by 2.5 percent in the second quarter of 2023 compared to the first quarter of 2023. Unemployment fell significantly to 3.7 percent from 4.9 percent in the previous quarter.

TRINIDAD AND TOBAGO
KEY ECONOMIC INDICATORS

INDICATOR	2022	2022.2	2023.2 p/e
Real GDP (% change)	2.5	1.8	-2.5
Retail Prices (% change)	5.8	1.5	-0.4
Unemployment Rate (%)	4.9	4.5	3.7
Fiscal Surplus/Deficit ($M)	1,079.9	2,360.8	-678.5
Bank Deposits (% change)	1.1	-0.9	0.3
Private Sector Bank Credit (% change)	11.2	3.3	2.8
Net Foreign Reserves (US$M)	10,998.10	10,845.50	10,451.40
Exchange Rate (TT$/US$)	6.73/6.78	6.73/6.78	6.72/6.78
Stock Market Comp. Price Index	1,332.15	1,381.60	1,216.40
Oil Price (WTI) (US$ per barrel)	94.79	108.93	73.49
Gas Price (Henry Hub) (US$ per mmbtu)	6.42	7.48	2.16

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

ENERGY SECTOR

In the second quarter of 2023, global energy prices declined. The average West Texas Intermediate (WTI) oil price contracted by 3.4 percent compared to the first quarter of 2023, from US$76.08 per barrel (p/b) to US$73.49 p/b. On a year-on-year (y-o-y) basis, the fall was more pronounced, measuring 33 percent. Natural gas prices suffered a larger decline given that the Henry Hub natural gas price averaged US$2.16 per million British thermal units (MMBTU), which was 18.5 percent lower than the average price of US$2.65 per MMBTU in the first quarter of 2023. Compared to second quarter 2022, the Henry Hub natural gas price plunged by 71.1 percent from US$7.48 per MMBTU. Domestic energy production continued to struggle in the second quarter of 2023 as oil, methanol, natural gas, LNG and Ammonia output contracted by 1.1 percent, 4.5 percent, 5.1 percent, 6.6 percent and 7.4 percent, respectively when compared to the previous quarter. One of the bright spots for domestic energy production came from urea, with its output increasing by 84.2 percent on a quarterly basis. Regarding exploration activity, the quarter-on-quarter (q-o-q) fall in both rig days and depth drilled by 4.5 percent and 11.5 percent, respectively, suggests that there was some cooling. Looking at the y-o-y comparisons, rig days and depth drilled contracted by 5.5 percent and 31.4 percent, respectively.

Looking ahead, energy sector production is expected to improve slightly as Touchstone Exploration (September 11, 2023) achieved its forecast natural gas production rate of 60 million cubic feet per day from the recently commissioned

Cascadura facility. On August 16, 2023, full production resumed at Woodside Energy's Angostura facility. Following a safety incident at the end of July 2023, Woodside shut down its offshore production operations at its Angostura facility as a precaution. This was a minor setback for the downstream sector, as the supply of natural gas to some plants at the Point Lisas Industrial Estate was disrupted. However, there are other challenges facing the energy sector. NiQuan Energy was forced to idle its plant as the government, through the Trinidad and Tobago Upstream Downstream Energy Operations Company Limited (TTUDEOCL) terminated its contract with the company on August 14, 2023. This termination was due to sums of money (US$21 million) owed to TTUDEOCL for natural gas contractually given to NiQuan Energy.

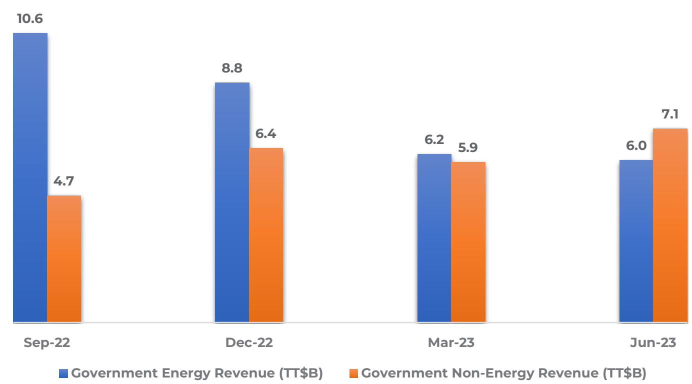
NON-ENERGY SECTOR

Construction sector activity improved slightly in the period, as local cement sales (which are usually a good proxy of activity in the sector) increased by 4.4 percent compared to the first quarter of the year and 4.9 percent y-o-y. There were signs of healthy growth in the distribution sector. New vehicle sales, which are traditionally used as a gauge for activity in the distribution sector, expanded by 15.4 percent q-o-q and 23.1 percent y-o-y. Based on these developments, the retail sales index likely grew in the second quarter of 2023, after an 8 percent y-o-y expansion in the previous quarter. In the first quarter of 2023, the capacity utilisation rate for the manufacturing sector increased to 65.7 percent from 61.6 percent in the previous quarter. While data for the second quarter is unavailable, there were signs that the sector's performance was positive, with loans to the manufacturing sector expanding by 10.3 percent on a quarterly basis and 13.4 percent y-o-y.

FISCAL POLICY

The government recorded a fiscal deficit of $678.5 million in the second quarter of 2023, which was 44 percent lower than the fiscal deficit recorded in the first quarter of this year. In the second quarter of 2022, the government registered a fiscal surplus of $2,360.8 million, with total revenue and total expenditure of $14,503.1 million and $12,142.2 million, respectively. Total revenue for the second quarter of 2023, grew by 8.4 percent q-o-q, mainly due to the 20.8 percent q-o-q rise in non-energy sector revenue to $7.1 billion (Figure 1). However, it should be noted that total revenue contracted by 9.6 percent y-o-y. Based on the sub-par performance of the domestic energy sector, it came as no surprise that revenue from the sector contracted by 3.5 percent q-o-q and 28.6 percent y-o-y. On the expenditure side, government spending increased by 3.6 percent q-o-q, largely owing to the 4.3 percent q-o-q rise in the current component. On a y-o-y basis, government spending increased by 13.5 percent with current expenditure expanding by 11.1 percent. Capital expenditure contracted by 5.2 percent (q-o-q) for the same period but it did increase by 64.9 percent y-o-y.

Figure 1: Energy Sector Revenue vs Non-Energy Sector Revenue ($B)



Source: CBTT

MONETARY POLICY

The Central Bank's Monetary Policy Committee (MPC) maintained the Repo rate at 3.5 percent in its June 30, 2023 announcement. In light of this decision, both the median and average prime lending rates remained unchanged at 7.50 percent and 7.57 percent, respectively. The MPC's decision to hold the Repo rate at 3.5 percent was based on the slow recovery in the domestic economy and a downward trend in inflation rates for the first five months of this year. The decision was further supported by the US Federal Reserve's (FED) slower pace of interest rate increases thus far in 2023 (Table 2). As at June 2023, headline inflation eased to 5.8 percent y-o-y from 7.3 percent and 8.7 percent in March 2023 and December 2022, respectively. Food inflation followed a similar trend, falling from 17.3 percent in December 2022, to 13 percent and 10.1 percent in March 2023 and June 2023, respectively. Core inflation declined from 6.1 percent in March 2023 to 4.8 percent in June 2023.

Table 2: The Federal Open Market Committee (FOMC) Policy Rate Adjustments

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
December 14, 2022	+50	4.25% to 4.50%
February 1, 2023	+25	4.50% to 4.75%
March 22, 2023	+25	4.75% to 5.00%
May 3, 2023	+25	5.00% to 5.25%
July 26, 2023	+25	5.25% to 5.50%
September 20, 2023	+0	5.25% to 5.50%

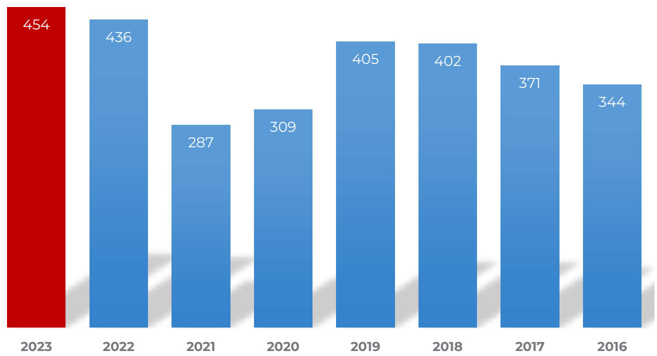
Source: Forbes

Business credit grew by 9.5 percent y-o-y in the second quarter of 2023 compared to 8.8 percent y-o-y as at the end of June 2022. When compared to the previous quarter, business credit expanded by 2.8 percent. Consumer real estate loans increased by 8.5 percent y-o-y and 4.9 percent q-o-q as at the end of June 2023. Commercial bank loans to consumers also showed signs of improvement as it increased by 6.6 percent y-o-y and 1.5 percent q-o-q. The financial system maintained healthy liquidity levels as commercial banks' excess reserves at the Central Bank increased from $6,563.3 million as at the end of March 2023 to $7,012.3 million in the second quarter of 2023. This represented a 6.8 percent q-o-q increase in commercial bank excess reserves. On an annual basis, commercial bank excess reserves increased by 50.5 percent from $4,660.3 million as at the end of June 2022 to $7,012.3 million as at the end of June 2023.

RESERVES

The country's stock of foreign exchange represented by the net foreign position continued to fall in the second quarter. As at the end of June 2023, the net foreign position fell by 1.3 percent q-o-q to US$10,451.4 million (8.3 months of import cover) from US$10,584.8 million (8.5 months of import cover) as at the end of March 2023. Compared to June 2022, the net foreign position contracted by 3.6 percent. During the period April-June 2023, the net sale of foreign currency was 15.2 percent below the amount recorded in the January-March period but approximately 30 percent higher than the amount recorded in same period in 2022.

Figure 3: First 9 months – Number of Homicides



Source: Trinidad and Tobago Police Service (TTPS)

Based on recent data from the TTPS, the number of homicides for the first nine months of 2023 has surpassed that of the previous year, which stood at 436 homicides. Therefore, if no measures are implemented to put a serious dent in crime, Trinidad and Tobago is on course to match or surpass 2022's homicide count of 599 and the resulting homicide rate of 42.59 per 100,000 inhabitants.

OUTLOOK

On July 10, 2023, Moody's Investors affirmed the country's Ba2 rating and moved its outlook from stable to positive. Just over two weeks later, on July 26, 2023, Standard and Poor's affirmed Trinidad and Tobago's BBB- rating with a stable outlook. While these positive ratings reflect the nation's stable democracy and its effective fiscal policies, the high homicide rate is negatively impacting the lives and livelihoods of citizens (Figure 3). The tight foreign exchange market is also a major concern for the business community. However, the fact that more than half of the country's natural gas exports go to the Latin American market, which pays a higher price than the US Henry Hub benchmark price indicates that the country's forex supply will continue to get some support in the second half of 2023. Both the manufacturing and construction sub-sectors are expected to record further growth heading into 2024, while the distribution sector should benefit from the busy Christmas/ pre-Carnival season.

The Economist
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CARIBBEAN UPDATE

The Fourth S

Overview

All things considered, the middle months of 2023, have been, if not good, benign to Caribbean states. The cuts to crude oil production orchestrated by OPEC+ since May, have lifted prices, and consequently increased revenue for oil producing countries. On the flip side, persistent high oil prices increase the costs borne by energy importers, increase inflation pressures, slow overall economic growth, increase the cost of trade and are inimical to the travel industry. While these effects have not yet reached crisis proportions, they are being felt more and more. Meanwhile, regional states are benefiting from what has been a less 'fierce' hurricane season thus far.

Famous for its three Ss, sun, sea and sand, Caribbean tourism continues to recover faster than that of most other destinations. While most states are yet to reach pre-pandemic levels, several are getting close, as arrivals, and even airlift, continue to grow. There is however, a fourth S that now looms large over the region. Long an issue in a couple of the larger islands, safety has traditionally been a given for most regional states, something that existed at the periphery of most people's thoughts. However, across the Caribbean, safety has moved from the periphery to centre stage, as seemingly driven by the same factors, violent crime, typified by homicides, has been increasing over the last decade in most countries. In fact, currently, homicides in most Caribbean countries are at epidemic levels if the World Health Organisation's (WHO) classification of a homicide rate above 10 per 100,000 inhabitants as an epidemic, is applied.

To their credit, the leaders of regional states are attacking the problem on multiple fronts. In addition to intensifying the capabilities and efforts of their own national security agencies, they have pressed senior United States officials on multiple occasions to stem the flow of guns from their country to the region. While there are countries with high homicide rates that also have a vibrant tourism industry, undoubtedly, with less crime the industry would flourish even more, as rampant crime invariably hampers business activity and increases their operating costs. Further, the increasing likelihood of being attacked or killed creates pervasive fear and anxiety in citizens and ultimately diminishes their quality of life. The battle promises to be long and hard, but governments, groups and citizens alike, must do everything they can to ensure that safety becomes the fourth S that the Caribbean is known for.

Anguilla

Anguilla's government has been going through a process of reforming its financial services regulations in order to bring the territory in line with recommendations from the Financial Action Task Force (FATF). Drafts of proposed amendments to the Financial Services Commission Act, the Trusts Act and the Proceeds of Crime Act were released for public consultation and comment up to the end of May. The bills are to be revised based on feedback from the consultation stage, before being presented in the House of Assembly.

After a strong performance that saw first quarter 2023 stay-over arrivals surpass those of 2019, the second quarter did not fare as well. The 24,500 visitors during this period was 4.5 percent less than those of the April-June period in 2019. Total visitor expenditure surged however, with the EC$212.7 million received, dwarfing the first quarter's EC$148 million and almost double the second quarter 2019 figure of EC$108.6 million. Further, Anguilla's near-term tourism prospects are set to get a lift with American Airlines increasing its flights to the island for a three-week period from December 20th, and Tradewind Aviation returning with flights from Puerto Rico from mid-December to April 2024.

Barbados

Barbados Prime Minister Mia Mottley met with Premier Li Qiang on her first official visit to China on June 23rd. Following talks, the Premier indicated that China is ready to work with Barbados in the context of its Belt and Road programme, and enhance cooperation in economic matters, trade and culture. The Barbados PM indicated that her country is willing to strengthen cooperation with China in the fields of agriculture, energy, infrastructure construction, poverty reduction, tourism, culture, education, and climate change mitigation. Ms Mottley also visited Venezuela in early July where bilateral agreements were entered into with the Bolivarian State in aviation, agriculture, education and energy, with the possibility of establishing a new Petrocaribe arrangement between the two countries, being an area of focus.

Following strong year-on-year (y-o-y) growth in first quarter arrivals, the 124,213 visitors in the second quarter of 2023 were a 31.6 percent increase over the visitor numbers for the same period in 2022. However, arrivals for the first quarter and second quarter this year were 10.3 percent and 24.4 percent respectively, lower than the same 2019 periods. Nonetheless, the related increase in economic activity resulted in higher employment. The unemployment rate stood at 8.9 percent in the January-March period, slightly below the rate recorded a year earlier and 3 percentage points below 2019's first quarter rate. The debt-to-GDP ratio was 117.5 percent in June, down from 118.4 percent in March. Foreign reserves stood at $3,108.8 million at the end of June, equivalent to 33 weeks of import cover. On August 5th, Moody's Investors Service upgraded the Barbados government's issuer ratings from Caa1 to B3, with a stable outlook. In mid-August the African Export-Import Bank (Afreximbank) CARICOM office was officially opened in Bridgetown Barbados, cementing the Bank's efforts to promote and develop trade between Africa and the Caribbean.

Developments in Barbados mirror the worrying trends across the region. In 2019, the island had a record 49 homicides, with the number dropping to 42 in 2020. Nonetheless, homicides have still more than doubled since 2012. There were 32 homicides in 2021 and 43 in 2022, which equates to a homicide rate of 14.93 per 100,000 residents (Table 1). Up to July this year, police officials reported 12 homicides, compared to 17 for the same period last year, with the reduction attributed to the hard work of the police.

British Virgin Islands

Following on from first quarter arrivals that were 80 percent higher than in 2022, arrivals for April and May were 51.3 percent higher than in the same two-month period a year ago but were 8.6 percent less than the corresponding 2019 period. In August, a 17-member delegation led by Deputy Premier of British Virgin Islands (BVI) and Minister for Financial Services, Labour and Trade, Lorna Smith visited Guyana to discuss greater collaboration in trade between the two jurisdictions. In addition to an array of sectors such as agriculture, finance and business, facilitating easier and more affordable shipping from Guyana was also discussed.

BVI registered 6 homicides in both the year preceding the COVID-19 pandemic (2019) and the year that saw its greatest decline (2022). Despite the relatively small number, BVI's small population gives the territory a homicide rate of 19.61.

Cayman Islands

With 4 homicides in 2022, Cayman Islands (CI) has the lowest homicide rate of the countries covered in this piece, at 6.42. Following strong y-o-y growth in the first quarter, stay-over arrivals for April and May 2023 were 58.1 percent higher than the same period in 2022, but 14.6 percent less than in 2019. Arrivals are likely to be boosted in the coming months, with the addition of new flights and routes. In July, Cayman Airways announced plans to double its service on its Los Angeles – Grand Cayman route that debuted last year, with twice-weekly flights set to begin in the last quarter of 2023. The airline has also sought approval for a new route between CI and Barbados, tentatively scheduled to start in mid-October. These developments dovetail with the current $400 million upgrade underway at CI's Owen Roberts International Airport that aims to attract more carriers from Europe and Asia along with the private planes of high-end clients. In July, CI was nominated for awards at the World Travel Awards Caribbean & The Americas Gala Ceremony 2023. Several of CI's hotels were nominated for Leading Resort 2023 while a number of tour companies were in the running for Leading Tour Operators 2023.

With government's operational expenditure heading toward $1 billion, in late August, Premier Wayne Panton, in his capacity as Minister of Finance directed state officials to cut spending by 8.5 percent ($47 million) before the end of this year.

Cuba

Inflation in Cuba, like many other countries, has been and continues to be a challenge. Unlike many countries however, Cuba's issues were intensified by a devaluation of the local currency and shortages of basic goods. Falling commodity prices and a gradual recovery in economic conditions have ameliorated conditions somewhat, but the challenges persist. In August the Banco Central de Cuba announced a ceiling of CUP 5,000 (about US$20) on cash transactions, which is expected to lead to a gradual appreciation of the Cuban peso and therefore reduce some inflationary pressure by restraining the quantity of banknotes in circulation.

Cuba's air arrival numbers continue to grow. The island welcomed 1,489,286 international visitors between January and July, 178.4 percent more than in the same period of 2022. The main source markets were Canada (630,041), the United States (99,012), Russia (87,509), Spain (48,762), Germany (41,878) and France (36,549), with the Cuban community abroad contributing 210,019 international travellers. The 2023 figure is, however, just 52 percent of the 2,856,761 visitors Cuba received in the first seven months of 2019, indicating that the country's tourism recovery still has some way to go. Nonetheless the authorities have set themselves the ambitious goal of reaching 3.5 million international tourists in 2023. JetBlue, the first US commercial airline to resume flights to Cuba in 2016, says it will suspend operations on the island from September 17th due to low demand. Delta and United Airlines also plan to cut back on flights to Cuba.

In late August, representatives of 14 western creditor nations that form part of the Paris Club, were in Cuba to salvage a debt agreement on which Cuba is expected to default on payments for a fourth consecutive year. The 2015 Paris Club agreement forgave $8.5 billion of the $11.1 billion in sovereign debt Cuba defaulted on in 1986. Cuba agreed to repay the remainder in annual instalments through 2033. It is estimated that Cuba has failed to pay the creditors more than $500 million. In some encouraging developments, Brazil has signalled its intention to restore trade and political ties with Cuba, with Brazilian health and agriculture experts expected to travel to the island soon. Further, in September, it was reported that Australian independent Melbana Energy, in partnership with Angola state-owned company Sonangol, have made a potentially transformative onshore oil discovery on the island, suggesting a production development could be on the cards.

Dominica

On June 7th, following Article IV consultations, the International Monetary Fund (IMF) team found that the Dominican economy is recovering strongly after the pandemic, with economic growth of 5.7 percent in 2022, driven by a partial rebound in tourism, a substantial increase in agricultural output and climate-resilient construction activity. While Dominica's visitor arrivals continued to improve in the second quarter of 2023, its performance was not as strong as that of the first quarter. The 15,090 visitors over the April – June period was 14.2 percent higher than in 2022 but 24.6 percent lower than in 2019. The shortfall in total visitor expenditure from the pre-pandemic period was even greater at 45.6 percent. Notwithstanding this, in July, Dominica was chosen as the top Caribbean island destination for the second year in a row, in Travel + Leisure's World's Best Awards 2023

In mid-July Dominica lost visa-free access to the United Kingdom (UK) for its citizens, based on concerns that its Citizenship by Investment (CBI) programme presents a risk to the UK. By the end of the month, the government announced plans to make changes to its CBI programme. Prime Minister Roosevelt Skerrit revealed that its CBI programme has discontinued the granting of citizenship to applicants from Iraq, Belarus and Russia and that the government had issued notices of intention to revoke the citizenship of persons who made false declarations or misrepresentations regarding their applications for visas in FATF countries. Like several regional states, Dominica has seen a rise in homicides. From 10 in 2019, 17 homicides were recorded in 2022, equivalent to a rate of 23.5 per 100,000 people.

Dominica's government presented an EC$1.3 billion budget to parliament on July 25th, outlining a variety of new taxes and preserving social programmes that serve the disadvantaged. Recurrent expenditure for the fiscal year 2023-24 is expected to be EC$639.6 million, with capital spending estimates of EC$701.6 million.

Grenada

Grenada continues to be one the few Caribbean countries where the tourism sector has fully recovered from the pandemic. Following the strong performance in the first quarter, the second quarter was even more impressive, with 40,781 stay over arrivals recorded, some 9.5 percent greater than the April – June period in 2019. Further, though the total visitor expenditure was understandably lower than in the first quarter 2023, the EC$179.5 million received represented a much higher increase (46 percent) over the corresponding 2019 period, than the 31.4 percent expansion of the first quarter. It is anticipated that arrivals and revenue will be further lifted with the start of JetBlue's new non-stop Boston to Grenada service from November 4th.

On June 28th, the government concluded wage negotiations with the Public Workers Union, the fifth of the seven bargaining unions for public sector workers it has reached an agreement with. As a result of these agreements, the government will increase public-sector wages by 4 percent in 2023-24 and by 5 percent in 2025.

On July 18th Prime Minister, Dickon Mitchell, stated that gun crime is on the increase in Grenada. He indicated that more illegal firearms have been confiscated from citizens than in previous years, with 31 seized over the first six months of this year, up from 16 over the same period in 2022. He added that 14 homicides were recorded thus far, two of which remained unsolved. This means the Spice Isle's 2022 homicide rate of 7.05 (8 homicides) is likely to more than double this year. In some encouraging news, during the first six months of 2023, the CBI programme made a significant contribution to government revenue, with the EC$157 million earned, surpassing that of any year since the programme's inception in 2014.

Table 1: Homicides in the region

	Homicides 2019	Homicides 2022	Population	2022 Homicide rate
Anguilla	NA	NA	NA	NA
Antigua Barbuda	3	10	99,509	10.05
Barbados	49	43	288,023	14.93
The Bahamas	96	128	400,516	31.96
British Virgin Islands	6	6	30,596	19.61
Cayman Islands	3	4	62,277	6.42
Cuba	500	NA	11,305,652	NA
Dominica	10	17	72,344	23.5
Grenada	16	8	113,475	7.05
Guyana	136	122	794,045	15.36
Haiti	NA	NA	NA	NA
Jamaica	1,339	1,498	2,985,094	50.18
St. Kitts Nevis	12	12	53,871	22.28
St. Lucia	51	76	185.113	41.06
St. Vincent and the Grenadines	37	43	111,551	37.65
Sint Maarten	8	NA	43,966	NA
Suriname	30	47	596,831	7.87

Sources: Homicides – Article and reports; population - Worldometer

Guyana

Homicides in Guyana declined from 138 in 2019 to 122 in 2022, giving a homicide rate of 15.36.

On September 9th it was reported that Guyana's economy grew by a massive 59.5 percent in the first half of 2023, with the non-oil economy growing by 12.3 percent. The mining and quarrying sector grew by 45.2 percent, with strong performances in construction (44.1 percent), services (9.1 percent) and the sugar industry (30.1 percent). The same day, President Irfaan Ali announced that government would be increasing the minimum wage as well as the tax threshold after an analysis of the state of the country's finances.

Guyana's production of gold and bauxite declined in the first quarter of 2023. The Bank of Guyana reported that bauxite production dropped by 17.8 percent, when compared to the same period in 2022, due mainly to a 30.1 percent decrease in the production of Refractory Aggregate Super Calcined (RASC) bauxite. Similarly, gold declarations fell by 5.3 percent, as local and licenced dealers' declarations contracted by some 23.9 percent. On the positive side, on August 22nd, Canadian Gold Company, Omai Gold Mines revealed that it made a gold discovery in its Wenot pit, located in Region Seven, with this discovery following a similar one made in July. Meanwhile, the energy sector keeps motoring along. On June 28th, Canadian oil and gas company, CGX and its partner, Frontera Energy Corporation announced its second successful discovery in the Corentyne Block, Wei-1. In a statement to the media, the joint venturers disclosed that 210 feet of hydrocarbon bearing sands were encountered in the Santonian horizon, approximately 200 kilometers offshore Guyana. In September the Government opened bids for 14 offshore oil blocks available for exploration and development. Six companies and groups submitted bids for the available blocks on September 12th. Venezuela has mounted a protest against this oil block auction, claiming that Guyana does not have sovereign rights over the maritime area and deeming its action a violation of international law.

In early August, Guyana's President visited China. At the end of the visit President Ali pledged to expand cooperation, with both countries agreeing to work together in sectors such as agriculture, energy, mining and manufacturing.

St. Kitts Nevis

St. Kitts Nevis' tourism sector registered an improved performance in the second quarter. The 30,422 visitors in the quarter eclipsed the 29,491 of the first quarter, which seldom happens with regional states. The second quarter arrivals figure was 70.5 percent higher than the same period in 2022. Though it fell short of the 2019 figure by 8.7 percent, the second quarter shortfall was smaller than the comparative shortfall for the first quarter (28.2 percent). A similar development occurred with total visitor expenditure. While total visitor expenditure for Q1 2023 was 21 percent lower than that of Q1 2019, the Q2 2023 figure of EC$113 million was just 12.6 percent less than the equivalent pre-pandemic period.

St. Lucia

St. Lucia's tourism sector continues to recover steadily. The 94,906 visitors the island welcomed in the 2023 April-June period was a 5.5 percent improvement on the 2022 arrivals for the same period, however it was 9.8 percent below the corresponding 2019 figure. First quarter 2023 arrivals were just 5.6 percent adrift of the 2019 figure. Earnings in the sector were even more encouraging, as the EC$792.7 million total visitor expenditure in the second quarter this year was not just 10 percent higher than a year ago, but also 26.7 percent higher than the EC$625.4 million received in 2019. Both arrivals and revenue should be lifted further, with the launch in July of Caribbean Airlines' new service between Barbados and St. Lucia with four flights each week. The prospects of the island's tourism sector over the medium term are also set to improve, as in August, it was reported that St. Lucia's government awarded its cruise port concession to Global Ports Holding, which signed a 30-year deal to operate and upgrade the facilities. Global Ports will invest in an expansion of the existing berth in Pointe Seraphine and the transformation of the retail experience at the cruise port. This upgrade will allow the port to welcome the industry's largest cruise ships, including Royal Caribbean's Oasis-class vessels.

Following 51 in 2019, St. Lucia saw an undesired record high 74 homicides in 2021. This record was eclipsed the following year with 76 homicides in 2022, equivalent to a rate of 41.06. In other developments, a 2.5 percent health and security tax came into effect from July 1st. The new tax will apply to a range of goods and services (excluding food, medicines and medical equipment) and is expected to generate revenue of US$12.22 million per year, which will offset the removal of a 12.5 percent value-added tax on certain building materials in 2023-24. This was done to relieve cost-of-living challenges and drive economic growth.

St. Vincent and the Grenadines

St. Vincent and the Grenadines (SVG) had a homicide rate of 37.65 in 2022, with the 42 homicides that year, an increase from the 38 in 2019. In a December interview, the country's Prime Minister, Ralph Gonsalves explained that many of the reasons for the high murder rate are intertwined with the cocaine trade.

By any yardstick, SVG arrivals in the second quarter were healthy, encouraging even. The 20,866 stay-over visitors over the April – June period was marginally lower than the 21,131 of the first quarter, 55.4 percent higher than the same period in 2022 and perhaps most significantly, 2.8 percent higher than in 2019. Revenue, however, was a somewhat different story. Total visitor expenditure (which includes the different categories of visitors) of EC$45.9 million in the quarter, while a 34 percent increase over the 2022 period, was much lower than the EC$83.5 million of the first quarter and 41.2 percent below the same 2019 period, suggesting a significant drop-off.

During a one-day visit to the island chain on August 5th, President of Afreximbank Dr Benedict Okey Oramah revealed that discussions are being held to make St. Vincent and the Grenadines a major logistics hub for the bank, in terms of the development of ports, industrial parks, and cruise ship handling facilities. While this development holds great promise for increased construction activity over the medium and long term, a near term boost is also on the horizon. On September 12th, government signed a US$120 million (EC$324.3 million) contract with the Overseas Engineering and Construction Company, which signalled the start of the Government's National Road Rehabilitation Project. The project will be completed in phases and will see the employment of over 1,000 nationals over its duration.

Sint Maarten

Sint Maarten's status as one of the few regional territories whose tourism sector has fully recovered from the pandemic has been reinforced thus far in 2023. Stay-over arrivals of 123,201 in the first quarter were 43.4 percent higher than in 2019. Arrivals for April and May 2023 were 14.7 percent higher than the same two-month period in 2019 but were actually 0.3 percent lower than in 2022. The Dutch overseas territory could witness an uptick in visitors for the winter season as, American Airlines plans to ramp up its service between Miami and St. Maarten to three daily flights from December 20, 2023 to January 7, 2024.

Following the conclusion of Article IV Consultations with the International Monetary Fund on July 24th, the Fund advised that while the recovery in tourist arrivals in Sint Maarten was among the fastest in the Caribbean, with current outcomes above the pre-pandemic levels, it still has further to go to reach levels seen before hurricane Irma in 2017. General elections in Sint Maarten are due in January 2024.

Suriname

In August it was reported that the South Korea-based conglomerate SK-Group, is seeking investments in the energy, information and communications technology (ICT), and innovation sectors in Suriname. For his part, Suriname's President Chandrikapersad Santokhi, indicated that his country is open to the technical assistance that the group of companies could provide, and he proposed strengthening cooperation at the level of the two presidents. In even more encouraging developments, following the appraisal of the Sapakara South and Krabdagu wells in August, in mid-September, Total Energies (joint 50-50 operator with APA Corporation) announced the launch of the development studies for a large oil project in Block 58, offshore Suriname. Drilling and testing of three wells confirmed combined recoverable resources close to 700 million barrels for the two fields, located in water depths between 100 and 1,000 metres. The resources will be transferred to a FPSO (Floating Production, Storage and Offloading unit) located 150 km off the Suriname coast, with an oil production capacity of 200,000 barrels per day. The project will represent an investment of approximately $9 billion. The detailed engineering studies will start by the end of 2023 and the Final Investment Decision is expected by the end of 2024 with a first production target in 2028.

On August 20th, Governor of the Central Bank of Suriname (CBvS), Maurice Roemer, indicated that the Bank plans to issue new, larger denominations of SRD 200 and SRD 500 based on macroeconomic developments, inflation, currency depreciation, and the greater demand for currency. After allaying fears that smaller existing denominations would be removed from circulation, he stated that there would be no devaluation of the Surinamese currency and that appreciation and depreciation of the currency would occur through supply and demand and that the CBvS no longer has a fixed exchange rate regime. At month's end, Suriname and the IMF reached a Staff-Level Agreement on the 3rd review of the Extended Fund Facility (EFF). The IMF team indicated that the commitment to fiscal discipline and macroeconomic stability by the Suriname authorities is starting to bear fruit, with pressure on the exchange rate easing in recent months, inflation trending down, and usable international reserves at 4.7 months of import cover at the end of June. Upon completion of this review, Suriname will have access to SDR 39.4 million (about USD 53 million), bringing total programme disbursements to date to SDR 157.6 million (about USD 212 million).

Suriname is set to make history by becoming the first country to sell carbon credits under the framework established by the 2015 UN Paris Agreement. By preserving its vast forest cover, Suriname has managed to store and sequester significant amounts of carbon dioxide, making it an ideal candidate for carbon credit sales. The Paris Agreement allows nations to market emission reductions in the form of credits called "internationally transferable mitigation outcomes" or ITMOs. Other nations or corporations can buy these credits to help meet their own goals of reducing emissions.

The region

The Governor of the Bahamas Central Bank, John Rolle, revealed that the Bahamian economy expanded at a healthy rate during the first half of 2023. As a result, the country is expected to register real GDP growth of around 3 percent this year and moderate further in 2024. In mid-August it was reported that the Bahamas government is examining new initiatives as it aims to be removed from the EU's list of non-cooperative jurisdictions in October. The three components that the Bahamas need to work on are legislation, the reporting portal and the enforcement of laws. On August 23rd, the Prime Minister of the Bahamas, Philip Davis, pledged that the lessons learned from the FTX crypto exchange's collapse will enable the country to better strengthen its regulatory regime and emerge as a regional digital assets hub. He explained that the experience will serve the country well as it moves to upgrade the Digital Assets and Registered Exchanges (DARE) Act – the centerpiece of its digital assets supervisory framework.

On June 29th, management of the IMF approved a Staff-Monitored Programme (SMP) with Haiti covering the period through March 2024. This builds on progress achieved under the previous SMP, which was satisfactorily concluded in May 2023. The new 9-month SMP should contribute to macroeconomic stability by helping Haiti sustain recent policy reforms designed to enhance economic resilience and governance. Net international reserves have been rebuilt, although from a low base; custom duties helped boost fiscal revenue by 50 percent in the first six months of the fiscal year of 2023 starting in October 2022; monetary financing of the budget has declined; and the exchange rate has recently stabilised. Efforts to further stabilise the macroeconomic outlook should continue under the SMP, as well as reforms aimed at reducing governance vulnerabilities. With respect to Haiti's parallel reality, despite skepticism bordering on disapproval by much of civil society, reports suggest the US was preparing to ask the UN security council to approve a Kenya-led military intervention designed to address Haiti's escalating security crisis. Seemingly in response to this development, Haiti's most powerful gang leader led an armed march through the capital city on September 19th during which he called for an uprising to overthrow Haiti's Prime Minister.

The Statistical Institute of Jamaica (STATIN) reported on August 15th, that the 4.5 percent unemployment rate, based on the April 2023 Labour Force Survey, is 1.5 percentage points lower than the figure for the corresponding period in 2022. Jamaica was voted as the Leading Destination at the World Travel Awards (WTA) Caribbean and The Americas ceremony held on August 26th. The island also claimed other titles such as the Caribbean's Leading Cruise Destination, Caribbean's Leading Cruise Port, Caribbean's Leading Tourist Board and the Caribbean's Leading Airport. On September 13th, Standard and Poor's Global Rating (S&P Global) in a release, stated that it has raised Jamaica's long-term foreign and local currency sovereign debt credit rating from B+ to BB- while maintaining a stable outlook, citing the country's commitment "to meeting its ambitious debt reduction targets during the pandemic and related contractions".

Outlook

The cuts to oil production by the members of OPEC + will be maintained to the end of 2023 and possibly into 2024. Over the next six months, the resulting higher oil prices will bolster the revenue inflows of the region's oil producers. However, the negative effects mentioned earlier, such as increased inflation, slowing economic activity and increased travel costs are likely to not only persist but intensify. In this environment, the fiscal accounts of some governments could face challenges due to the rising cost of fuel imports, if the additional costs are not in fact passed on to the public. Also, destinations could see some falloff in arrivals from the anticipated levels, as prospective vacationers opt for lower-cost destinations or forego travel altogether. In some instances, the effect of this, would be to push the return to pre-pandemic visitor arrival numbers further into the future. Across the region, governments, businesses, hotels, and citizens should be mindful that the warmer weather and 'drought like conditions' that has been a feature of what is essentially the region's rainy season, could portend a more active and intense last few months of the current hurricane season.

RECESSION/NO RECESSION

Waiting for the Other Shoe to Drop

When the Russia-Ukraine war started in February 2022, the global economy was still contending with the dislocations associated with the COVID-19 pandemic. Supply chain challenges were constraining the growth of global trade, resulting in shortages in major commodities, which were accompanied by labour shortfalls in some cases. These issues combined with rising shipping costs, to place global prices firmly on an upward trajectory. The outbreak of the war resulted in a significant intensification of these issues, spawning food and energy crises in diverse regions and causing the overall rate of inflation to rise sharply.

Prior to the war, major global central banks viewed the pandemic related price pressures as transitory, expecting them to diminish with the restoration of global supply chains and the removal of COVID-19-related economic restrictions. In this regard, they were hesitant to raise their benchmark (policy) interest rates to combat the inflationary pressures that existed at that time (Rising interest rates result in higher borrowing costs, which normally reduce investment and consumption, controlling demand and inflation in the process). The central banks were also fearful of curtailing the post-pandemic economic recovery of their respective countries. However, with the rapid acceleration of inflation in the wake of the war, the need for central banks to more earnestly focus on containing general price increases soon became apparent. As early as March 2022, the US Federal Reserve (Fed) and the Bank of England (BOE) began to tighten their monetary policy, partly reflected in increases in their benchmark rates. In the second half of the year, they were joined by the European Central Bank (ECB) in the execution of aggressive policy rate increases, which took their respective benchmark rates to their highest levels for many years. While there has been some success, inflation remains well above target levels in the three economies, necessitating further interest rate increases in 2023, albeit at a slower pace.

As complex and influential as they are, it is impossible for central bank policy adjustments to take place in a vacuum. Accordingly, the rapid rise of interest rates over the last eighteen months has stoked fears that the global economy or at the very least, one or all of the three economies US, UK and EU may fall into recession before too long. These concerns have been fueled in part by the potential for the rapid rise in interest rates to squeeze investment and suppress consumer demand to the extent that economic activity contracts in the three economies. This in turn would negatively affect global gross domestic product (GDP). Anxiety has also been building regarding the impact of rising rates on developing economies with significant outstanding foreign debt. The rise in interest rates in these three major economies has caused an increase in the value of their currencies relative to that of many developing nations, thus resulting in an immediate increase in the value of the latter's Dollar, Sterling and Euro external debt. Additionally, the more attractive interest rates, particularly in the US, have resulted in significant capital flight from developing countries. These developments could subdue growth and cause debt crises in these nations, with significant potential negative knock-on effects to the global economy. Given the forgoing, many analysts expected the interest rate increases to bring on a global recession and thereby cause the 'other shoe to drop" so to speak.

Although economic activity has slowed in the US, UK and EU, recessionary conditions have not yet emerged, with consumption and employment displaying a level of resilience that was not previously envisaged. Against this backdrop, the outlook for the global economy remains positive even if it too is also expected to slow in 2023. The IMF projects global GDP growth to fall from 3.5 percent in 2022 to 3 percent in 2023 and 2024, with slower growth due to weaker performances in advanced economies, including the US, UK and EU (Table 1). Beyond IMF's projections, however, are concerns that the full effect of the interest rate increases is yet to be fully felt in the economies in which they were executed. Further, there are other issues besides rising interest rates that are also threatening to derail economic activity, which when combined could prove to be very problematic for specific jurisdictions and the wider global economy. The remainder of this article will focus on developments in these three major economies, as well as some of these challenges.

Table 1: Global GDP (% Change)

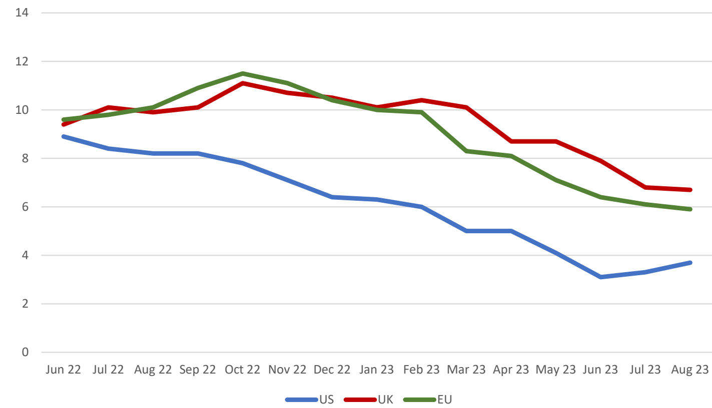
	2022	2023e	2024f
World	3.5	3.0	3.0
Advanced Economies	2.7	1.5	1.4
Developing & Emerging Economies	4.0	4.0	4.1
US	2.1	1.8	1.0
UK	4.1	0.4	1.0
EU	3.7	1.0	1.7

Source: IMF

e – estimate, f - forecast

In the US, the Fed's quest to bring inflation under control through its policy rate adjustments started in earnest with a 25 basis-point increase in March 2022, lifting the Fed Fund rate to the 0.25-0.50 percent range. However, the rate of increase soon accelerated to four successive 75 basis-point hikes between June and November, before eventually returning to 25 basis points advances in 2023. There were also pauses in the policy rate advances in June and September 2023. The Fed Fund rate currently stands in the 5.25-5.50 percent range, substantially above its position in early 2022. Nevertheless, economic activity remains resilient in the face of the rapid increases, with GDP expanding by 2.5 percent year-on-year (y-o-y) in the second quarter of 2023, representing the tenth consecutive period of growth. In terms of the labour market, unemployment increased slightly to 3.8 percent in August but remained close to the pre-pandemic average (3.7 percent). This positive performance has combined with international factors to control the responsiveness of domestic inflation to rising interest rates. Accordingly, the Fed continues to advise that further policy rate increases will likely be warranted, notwithstanding the pause in September, guided as it is by its 2 percent target inflation rate. Nonetheless, there has been notable progress, with y-o-y inflation falling to 3.7 percent in August from 6.3 percent at the start of the year and the post-pandemic peak of 8.9 percent, recorded in June 2022 (Figure 1). These gains, together with the Fed slowing the rate of its interest rate increases and the economic resilience have helped ease recession fears but not remove them. In some quarters, the belief that the full impact of the interest rate increases is yet to be felt, lingers. In any case, this is not the only risk facing the US economy.

Figure 1: Inflation (% Change)



Sources: US-BLS, UK-ONS, ECB

The commercial real estate sector faces the prospect of a crash, which some analysts suggest could rival the 2008 global financial crisis. The sector is facing steeper borrowing costs, given rising interest rates and tighter credit conditions, with lenders uncertain about the country's economic outlook. Further, demand for commercial property has been controlled by the remote work phenomenon, which in turn is resulting in declining property values. These factors have combined to increase the risk of default and have simultaneously made it more difficult for commercial mortgages to be refinanced. With US$1.5 trillion in commercial mortgage debt due by the end of 2025, this could be a considerable obstacle for the US economy to surmount. Fitch Ratings agency suggests that the US$5.8 billion in pooled securities commercial mortgages due in the last 10 months of 2023 will not be able to be refinanced.

After conducting 14 consecutive policy rate increases between December 2021 and August 2023, the Bank of England decided to halt rate hikes at its September monetary policy meeting. The policy rate, the Bank Rate, rose from 0.25 percent in December 2021 to 5.25 percent in August 2023. The decision to pause increases was partly influenced by the fall of inflation to 6.7 percent in August from 10.1 percent at the beginning of 2023 and a peak of 11.1 percent in November 2022. Another important consideration was the BOE concerns regarding the strength of the economy, with activity in the second quarter of 2023 only 0.4 percent above the levels of the same period in 2022. Real GDP growth in the second half of 2023 is also projected to be weaker than initially envisaged, likely a reflection of the impact of previous rate increases. In this environment, unemployment trended up from 3.8 percent in January to 4.3 percent in June. Weak economic activity and rising interest rates have presented significant challenges to the financial sector, with many customers finding it difficult to service existing mortgages. In June, banks, as part of a government initiative, agreed to give homeowners who miss mortgage payments one year grace before taking steps to foreclose. Nevertheless, high interest rates have pushed the cost of new mortgages and the ability to refinance existing facilities beyond the reach of many households. This represents a major risk to the wider economy. With mortgage rates high and rising, the demand in the rental market has increased substantially, stoking notable climbs in rental fees.

Despite continued positive performances, economic growth in the EU is slowing with several challenges confronting the trading bloc. Real GDP expanded by 0.4 percent y-o-y in the second quarter of 2023, down from 1.1 percent in the previous quarter and 4.3 percent in the second quarter of 2022. Factors contributing to the deceleration in the second quarter of 2023 include falling exports and high prices, which restricted domestic consumption. The decline in exports during the quarter was owing to weaker demand from China and the ongoing struggles of the German motor vehicle manufacturing industry. Germany is the largest economy in the EU and only emerged from recession in the first quarter of 2023, with a flat performance. The trade bloc also continues to be affected by the events related to the Russia-Ukraine war, including elevated energy prices, despite notable ease. Notwithstanding these challenges, there has been no significant weakening of the labour market as unemployment remained at 5.9 percent for a third straight month in July, compared to 6.1 percent in July 2022. In terms of the price pressures facing the region, they have not been as responsive to policy rate increases as the ECB would like. Inflation eased slightly in August to 5.9 percent compared to 6.1 percent in July and 10.1 percent in August 2022. Like the US and the UK, the ECB maintains an inflation target of 2 percent and is focused on bringing the rate down to that level. Unlike those countries, however, it did not pause its policy rate increases in September, but instead implemented its tenth consecutive hike, bringing the rates within the 4 – 4.75 percent range from -0.5 – 0.25 in June 2022.

In addition to domestic challenges, these nations and the wider global economy are confronted by slowing growth in China and the threat of continued elevated energy prices, among other issues. As it relates to China's slumping growth, it is largely related to the country's deepening real estate crisis, and falling exports, partly due to weaker demand in key markets. In this environment, employment has been falling, particularly among youths. Continued weakness in the world's second largest economy is likely to apply further downward pressure on global growth. Regarding energy prices, continued efforts by OPEC+ to push international energy prices up through cuts in its supplies could add to global inflation pressures and cause further rate increases among major central banks. This could result in even softer economic conditions globally. The organisation has reduced its output by 2.5 million barrels per day thus far in 2023.

While the global economy has demonstrated an encouraging level of resilience in the face of several challenges, including those identified above, it is by no means out of the woods. The prospects of further interest rate increases and other monetary tightening activities in key economies is concerning enough, but if this is accompanied by crises in real estate, finance and other critical sectors, the fall of the other shoe may be inevitable.