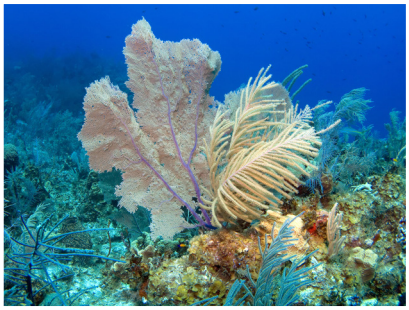
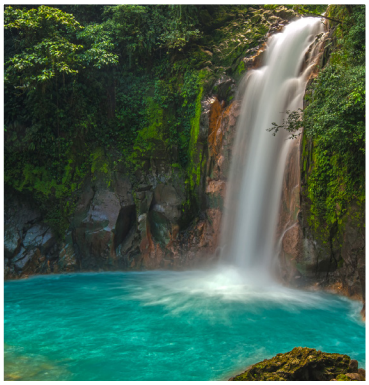
Caribbean Market Overview

Q3 2020





CIBC

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Luis Hurtado
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Summary

The eruption of the COVID-19 pandemic forced many Governments to implement virus containment measures, including mobility restrictions and quarantines, and to substantially increase Government spending to ramp up health services and provide assistance to those losing their jobs. Despite the initial increase in volatility and flight to safety in March and April, the ample liquidity and stimulus measures provided by advanced economies prompted a stabilization and rebound in global equity markets. Moreover, the rate cuts in advanced and emerging economies in addition to a deluge of issuance forced credit curves steeper initially, before quantitative easing, forward guidance, and non-traditional monetary tools gave rise to a reach for yield, pushing investors back into duration in recent weeks. We expect investors to start paying closer attention to financing needs and fiscal strength into 2021 and the medium term as the initial multilateral assistance provided to deal with the pandemic transforms into fiscal adjustment measures, constraining growth in the years to come.

The Caribbean and Central American region was not indifferent to this trend as border closures and mobility restrictions severely impacted one of its largest growth engines, the tourism sector. Despite the significant hit to growth metrics and the aggressive expansionary fiscal measures though, the region has enjoyed a significant rally since our last publication. As with other asset classes around the world, the disconnect between the fundamental picture and the performance of Caribbean and Central American credits has been evident. Initial concerns about the ability of Governments in the region to find much-needed financing were alleviated by rapid multilateral loan negotiations, and in many cases, renewed hopes of IMF stand-by agreements. This was the case with ELSALV and COSTAR, with average yields across their curves dropping 262bps and 140bps, respectively.

Although initially outperforming, JAMAN and DOMREP are now in the middle of the pack. Concerns that Jamaica's fiscal adjustment plan comes at the expense of growth should keep investors wary of JAMAN in the short term. DOMREP's performance was influenced by uncertainties about the presidential election outcome. However, we expect DOMREP to recover some ground into Q4. President-elect Luis Abinader will have a majority in the lower house and the senate with the PRM securing 97 out 190 and 19 out of 32 seats, respectively. Initial comments from the new administration suggest a willingness to deal with fiscal imbalances. Among the measures mentioned to address fiscal concerns are the possibility of broadening the tax base in line with the IMF's recommendation and the consolidation of electricity distribution companies.

PANAMA was the underperformer of the region since our last publication as significant revisions to growth forecasts and large fiscal deficits increased credit rating concerns. We maintain a downward bias with respect to the Government's -9% GDP growth forecast for this year. The spread of the pandemic in the country is still to dictate how quickly internal demand will rebound and the next steps towards the reopening of the borders.

We maintain a pessimistic view on ELSALV and COSTAR on the lack of fiscal reform support in each congress, delays in the approval/ratification of multilateral loans, and higher-than-expected fiscal deficits. However, we recognize that the start of discussions on potential agreements with the IMF could provide support for both credits for the remainder of Q3. The continuation of that trend will depend on any agreements with each congress, 2021 Budget discussions and external issuance approvals during the last part of the year – a scenario difficult to envisage given the minority Governments in both countries. In the case of PANAMA, although the market is likely to continue to give the country the benefit of the doubt, we do not discount the possibility of negative credit actions without a credible fiscal consolidation plan into the medium term. Hence, we would await the announcement of new deficit targets and the culmination of the 2021 Budget and financing needs discussion early in Q4 before getting back on the long PANAMA bandwagon. Finally, we expect DOMREP to benefit from a much stronger fiscal position and the dissipation of electoral uncertainty. Moreover, the possibility of engaging the IMF, although yet to be mentioned, provides a safety net for the credit. Hence, with political uncertainties out of the way and with attainable financing needs for the rest of the year, we continue to favour long DOMREP positions.

- **Bahamas:** The tourism fallout on the back of the COVID-19 pandemic in tandem with the pause in domestic activity due to precautionary lockdowns likely led to a sharp reduction of economic output during H1 2020. Moreover, following the reopening of borders, a spike in the number of confirmed COVID-19 cases in the Bahamas prompted the Government to ban flights from the US effective July 22 and place Grand Bahama on a two-week lockdown beginning July 23. As cases continued to surge, the entire country was effectively placed on a two-week lockdown beginning August 4. The double shocks of Hurricane Dorian and the COVID-19 pandemic have severely compromised productive capacity in The Bahamas. Recent forecasts of the economic contraction for 2020 range from 12.5% (IMF) to 18% (Moody's), with a gradual recovery following from 2021. On the fiscal front, greater spending on healthcare and support for affected individuals and businesses, combined with a fall-off in revenue, worsened the Government's deficit to US$770mln (6.4% of GDP) over the full FY2019/20 ended June 2020, compared to US$215.1mln one year earlier. The Government estimates that its continued fiscal support amid the economic fallout from Dorian and COVID-19, combined with the expected revenue loss, will generate a US$1.3bln deficit (11.6% of GDP) during FY2020/21, pushing total Government debt to US$9.5bln (82.8% of GDP).
- **Barbados:** The Central Bank of Barbados (CBB) reports that a 27% y/y slump in Q2 led to a 15% y/y decline in real GDP in H1 2020. Lower revenue collections, alongside greater capital and external interest spending, reduced the fiscal surplus by US$71.1mln to US$22.0mln during the first quarter of FY2020/21 ended June 2020. However, the primary surplus outturn equivalent to 1.6% of GDP implies the Government may be on track to achieve its revised 1% of target for FY2020/21. The CBB continues to predict a sharp double-digit contraction for 2020, but the magnitude of the decline remains contingent on the extent of the tourism recovery over the rest of the year. Moreover, it anticipates that financing received thus far coupled with additional disbursements expected over the remainder of the year are sufficient to fund any gaps arising from the revised primary surplus target. However, this additional external borrowing combined with instruments issued under the Barbados Optional Savings Scheme and the contraction of the economy further increase the public debt ratio and increase the likelihood of even tighter fiscal consolidation when the crisis abates to achieve stated medium-term targets.
- **Bermuda:** Suspension of flights to Bermuda upon the onset of the pandemic led to unprecedented declines in tourism activity during H1 2020. Total air arrivals contracted 37.7% y/y, while seats sold and air capacity declined 23.5% y/y and 20.6% y/y, respectively, during Q1 2020. The Government has secured emergency liquidity lines of credit with local financial institutions to fund the gap and has increased the public debt ceiling from US$2.75bln to US$2.9bln. In July, the Government also passed a law that discontinues contributions to the Sinking Fund (which stood at 3% of GDP) while running fiscal deficits. The Bermudian economy is expected to contract between 1.5% and 6% in 2020 due to the effects of the COVID-19 pandemic. The COVID-19 shock will likely generate a significant deterioration in the Government's fiscal deficit, delaying its planned attainment of a balanced budget.
- **Costa Rica:** Q1 GDP growth came in at 0.5% y/y. This result, although positive, represents a sharp deceleration from the 2.6% y/y gain posted in the last two quarters of 2019. Such deceleration was, as expected, due to the mobility restrictions and border closures implemented to battle the COVID-19 pandemic. Recent data confirmed a sharp contraction of economic activity, with April and May growth coming in at -8.6% y/y and -10.2% y/y, respectively. Hotels and restaurants dropped -55.7% y/y and -61.3% y/y, respectively, during the same months as the tourism industry suffered the largest consequences from border closures and mobility restrictions. The Ministry of Finance has updated its 2020 fiscal deficit forecast to 9.3% of GDP, 0.7 percentage points higher than in May. It is worth mentioning that the updated estimates take into account the full implementation of the fiscal rule and the 2018 tax reform – a situation difficult to envisage due to the latest exemption of the VAT for some sectors and the surge in the unemployment rate.
- **Dominican Republic:** As expected, quarantines and border closures continued to have ramifications in Q2, with economic activity dropping -29.8% y/y, -13.6% y/y, and -7.1% y/y in April, May and June, respectively. With these numbers, H1 GDP growth is estimated to land at -8.5% y/y. Once again, the sharp contraction in tourist arrivals (100% y/y) in Q2 is one of the main culprits behind this trend**.** Latest fiscal numbers are in line with the Government's updated nominal fiscal deficit for 2020 at DOP233.6bln or 5% of GDP. Although we agreed with the need to adjust the deficit for the current environment, the proposed increase in the deficit likely only accounts for the drop in revenues and the initial increase in pandemic-related spending in health and social assistance during

the last four months of the Medina administration. Hence, we expect further revisions to the deficit as the new Government is installed and announces its economic recovery plan.

- **El Salvador:** With the pandemic first impacting the region in March, Q1 2020 GDP growth came in at 0.8% y/y, below the 2.7% y/y posted a year earlier and the 3.1% y/y increase in Q4 2019. Most recent data point to a sharp deterioration of growth, with economic activity coming in at -15.4% y/y and -15.3% y/y in April and May, respectively. The Central Bank of El Salvador updated its 2020 GDP growth forecast to -6.5% to -8.5%, contrasting with the -5% estimated by the Ministry of Finance in May and the Government's expectations of a 2.5% increase at the start of the year. As stated in our previous reports, we would not be surprised to see further downward revisions as fears of a second wave of COVID-19 pressure reopening plans and as delays in the ratification of multilateral loans impact the Government's ability to continue its social assistance programs and economic reactivation plans.
- **Jamaica:** Real economic activity fell by 2.3% y/y during Q1 2020, largely reflecting declines in the mining and quarrying and hotel and restaurant sectors. The suspension of tourism and non-essential activity likely led to a deeper contraction during H1 2020. The Bank of Jamaica (BOJ) projects that the Jamaican economy will contract between 4% and 7% during FY2020/21, in line with the IMF's estimate of -5.3%, but with caveats given the fluidity of COVID-19 assumptions. The Government has revised its primary surplus target to 3.5% of GDP in response to the expected deterioration of fiscal accounts. While the financing obtained under the IMF's RFI in May was not intended for budget support, the IMF notes that these resources could be utilised, should the need arise, to supplement planned financing from the reprioritization of resources from investment projects, available cash buffers, and funding from other international financial institutions.
- **Panama:** Q1 2020 GDP numbers confirmed our expectations of a sharp deceleration in activity, increasing a mere 0.5% y/y, well below the 3.0% y/y posted in Q4 2019 and the 3.1% y/y gain a year earlier. Mobility restrictions and border closures have forced international organisations and the Government to repeatedly lower the growth forecast for 2020, with the latest estimate from the Cortizo administration suggesting a 9.0% contraction followed by a 4.0% recovery in 2021. Taking into account the updated Government growth forecast for this year, we now expect the 2020 Central Government deficit to reach 9.4% of GDP and the Non-Financial Public Sector (NFPS) deficit to land at 7.5% of GDP, well above the 2.75% deficit permitted by the fiscal responsibility law (FRL). Accordingly, we now estimate public sector debt landing at 57% of GDP. Our assessment of the multilateral loans available to the Government leaves US$2.1bln to be financed via additional multilateral agreements and/or external debt this year.
- **Suriname:** The COVID-19 pandemic and the drop in crude oil prices have harshly disrupted the Surinamese economy, albeit with partial mitigation from the surge in gold prices. Moreover, the easing of restrictions despite the recent rapid climb in the number of confirmed cases increases the likelihood of another wave of lockdown measures, and magnifies uncertainty regarding the prospects for 2020. Since the IMF's April 2020 projected decline of 4%, recent forecasts range from -4.2% (Moody's) and -8% (S&P). Suriname's new Government has assumed the reins amid challenging fiscal and external liquidity pressures and high debt. Reduced revenue, which has taken a toll on Government finances, is expected to further increase the Government's debt burden, while declining FX reserves will further pressure the exchange rate. The new administration has signalled as its first priority its intention to engage various multilateral partners, but it is likely that a more extensive debt restructuring could be on the cards.
- **Trinidad and Tobago:** The downturn in energy markets and the slowdown of the non-energy sector due to containment measures will severely affect Trinidad and Tobago's economic performance in 2020. Latest estimates of economic contraction range from 2.7% to 4.5%. The Government's fiscal support combined with sharply declining revenue collections suggest that the fiscal deficit will worsen to approximately US$2.3bln suggesting a concomitant rise in public debt or 10% of GDP. Further, the volatility of oil prices clouds the recovery of Government revenue with uncertainty, suggesting a concomitant rise in public debt. In addition to external borrowing from international financial institutions, the Government expects to fund its deficit with drawdowns from the Heritage Stabilization Fund, which could reach the access limit of US$1.5bln, and lower the balance on the fund by 23% by the end of the fiscal year.

Chart 1
High Yield - 10Y Against Benchmark

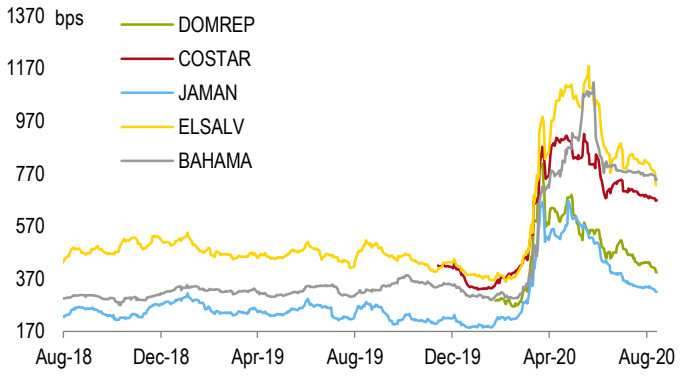
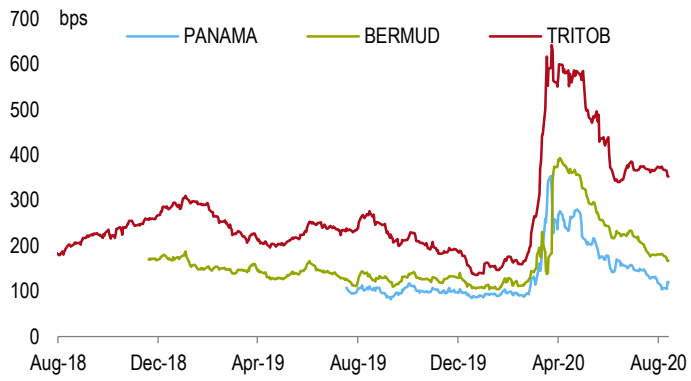
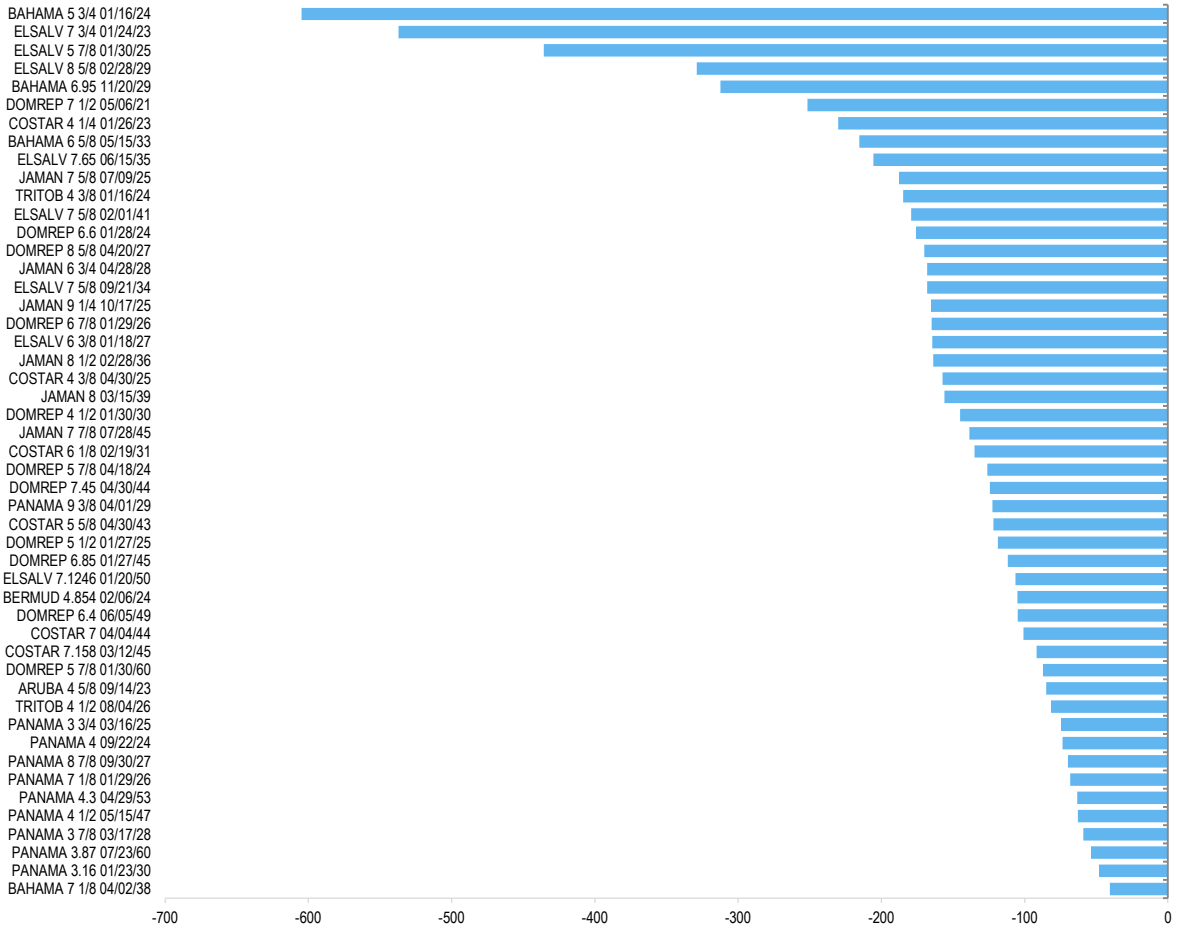


Chart 2
Investment Grade - 10Y Agaist Benchmark



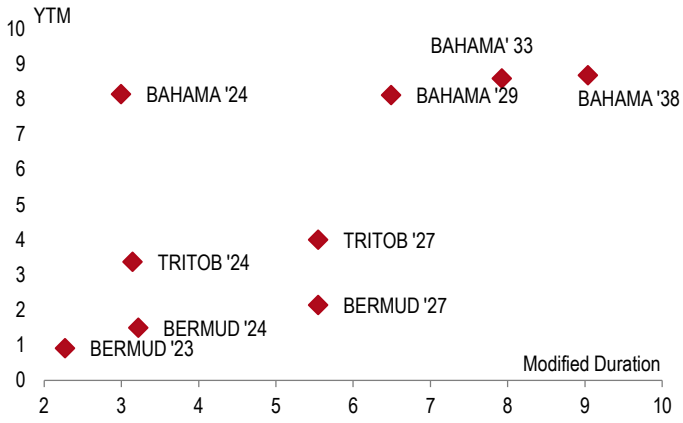
Source: Bloomberg and CIBC Capital Markets – FICC Strategy
10Y bonds are: COSTAR 6 1/8 02/19/31 DOMREP 4 1/2 01/30/30 JAMAN 6 3/4 04/28/28 BAHAMA 6.95 11/20/29 BERMUD 4 3/4 02/15/29
TRITOB 4 1/2 08/04/26 PANAMA 3.16 01/23/30 SURINM 9 ¼ 10/26/26 ELSALV 8 5/8 02/28/29

Chart 3
Caribbean and Central American Bonds Change in Yields Since Last Publication (May 26, 2020)



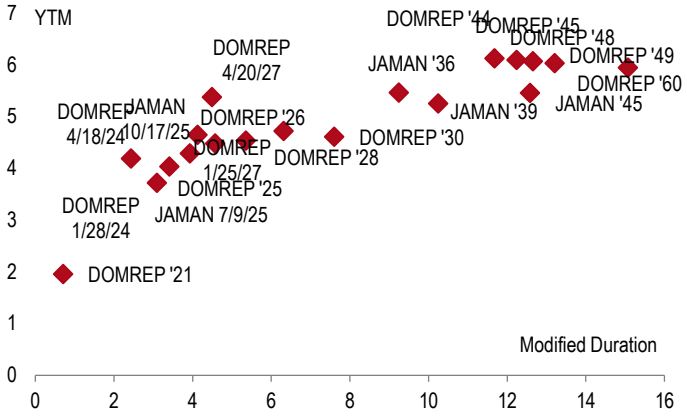
Source: Bloomberg (BVAL) and CIBC Capital Markets – FICC Strategy.

Chart 4
Caribbean – BERMUD, TRITOB and BAHAMA



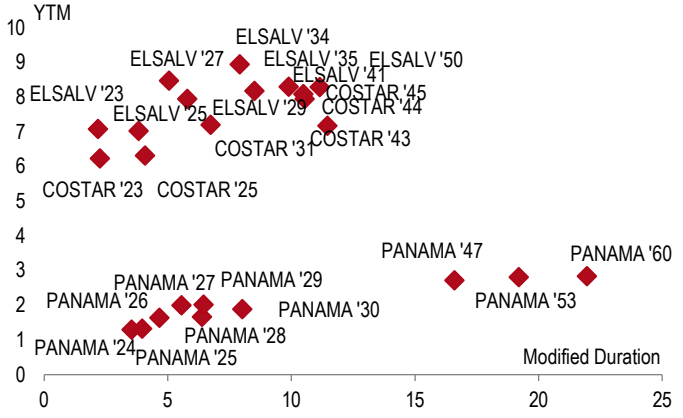
Source: Bloomberg and CIBC Capital Markets – FICC Strategy

Chart 5
Caribbean – JAMAN and DOMREP



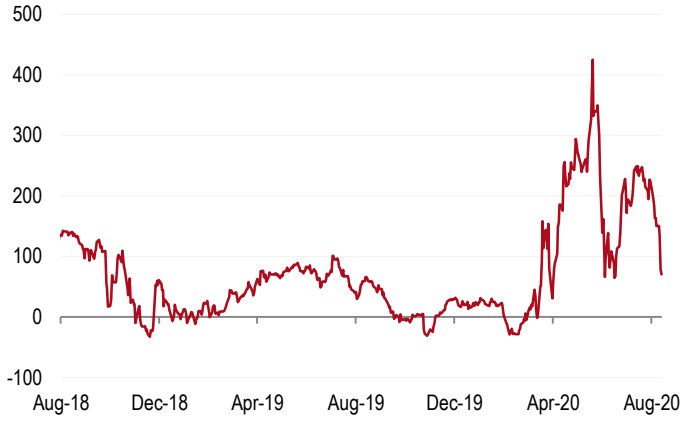
Source: Bloomberg and CIBC Capital Markets – FICC Strategy

Chart 6
Central America – Panama, Costa Rica, and El Salvador



Source: Bloomberg and CIBC Capital Markets – FICC Strategy

Chart 7
ELSALV '25s vs. COSTAR '25s

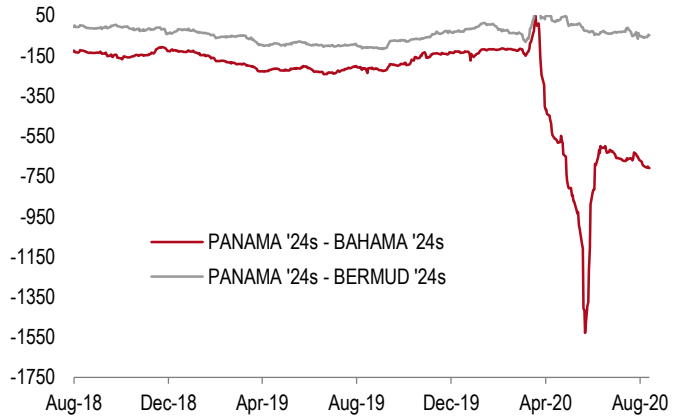


Source: Bloomberg and CIBC Capital Markets – FICC Strategy

Chart 8
COSTAR '45s vs. DOMREP '45s

Source: Bloomberg and CIBC Capital Markets – FICC Strategy

Chart 9
PANAMA '24s vs. BAHAMA '24s and BERMUD '24s



Source: Bloomberg and CIBC Capital Markets – FICC Strategy

Table 1
Public Sector Fiscal Accounts and Debt 2020 or 2020/21

2020 or 2020/21	Primary/Adjusted Balance	Nominal Balance	Gross Government Debt	Net Public Sector Debt	Real GDP Growth
	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Antigua and Barbuda*	-0.8%	-9.4%	90.1%	n.a.	-10.0%
Aruba	-10.3%	-15.7%	86.2%	60.1%	-13.7%
The Bahamas	-5.9%	-9.5%	82.6%	78.9%	-12.5%
Barbados	1.0%	-2.7%	133.6%	128.8%	-11.6%
Belize	-10.5%	-13.2%	132.3%	128.0%	-12.0%
Bermuda	-2.4%	-4.2%	42.5%	12.6%	-6.0%
Cayman Islands	-4.5%	-5.0%	10.7%	n.a.	-7.5%
Costa Rica	-4.6%	-10.2%	70%	n.a.	-6.0%
Dominica*	-3.2%	-4.5%	82.0%	n.a.	-4.7%
Dominican Republic	-4.0%	-6.5%	50.0%	n.a	-6.0%
El Salvador	-11.0%	-14.0%	92.5%	n.a.	-8.5%
Grenada	-0.7%	-2.9%	68.7%	n.a.	-9.2%
Jamaica	3.5%	-2.9%	97.6%	91.5%	-5.6%
Panama	-5.5%	-7.0%	47.0%	n.a.	-2.0%
St. Kitts and Nevis*	-2.8%	-6.8%	58.1%	n.a.	-8.1%
St. Lucia	-3.8%	-6.9%	74.7%	n.a.	-8.5%
St. Vincent and the Grenadines	-3.7%	-9.1%	85.8%	n.a.	-5.5%
Suriname	-6.4%	-10.5%	82.9%	79.0%	-4.9%
Trinidad and Tobago	-6.6%	-10.9%	75.5%	n.a.	-4.5%

Sources: IMF, Bloomberg, CIBC Capital Markets, Standard and Poor's, Moody's.
*Pre-COVID-19 projections for primary fiscal balance and debt
NA: Not available.

Table 2
Ratings of Caribbean Sovereigns

2019 Ratings		
	S&P	Moody's
Aruba	BBB+	NA
The Bahamas	BB	Ba2
Barbados	B-	Caa3
Bermuda	A+	A2
Cayman	NA	Aa3
Costa Rica	B	B2
Dominican Republic	BB-	Ba3
El Salvador	B-	B3
Jamaica	B+	B2
Panama	BBB+	Baa1
Suriname	CCC	Caa3
Trinidad and Tobago	BBB-	Ba1

Ratings Key			
Investment Grade		High Yield	
S&P	Moody's	S&P	Moody's
AAA	Aaa	BB+	Ba1
AA+	Aa1	BB	Ba2
AA	Aa2	BB-	Ba3
AA-	Aa3	B+	B1
A+	A1	B	B2
A	A2	B-	B3
A-	A3	CCC+	Caa1
BBB+	Baa1	CCC	Caa2
BBB	Baa2	CCC-	Caa3
BBB-	Baa3	CC	Ca
		C	C

*-: On review for downgrade

Sources: Bloomberg, S&P, and Moody's

Table 3
Caribbean Bonds and Indicative Prices/Spreads (August 13, 2020)

Bond	Price	Yield	3m Yield Change	Z-Spread	S&P	Moody's	Fitch
Aruba							
ARUBA 4 5/8 09/14/23	100.03	4.61%	-84.95	412.88	BBB+	NA	BB
Bahamas							
BAHAMA 5 3/4 01/16/24	92.66	8.26%	-604.78	790.94	BB	Ba2	NA
BAHAMA 6.95 11/20/29	92.35	8.14%	-312.28	741.20	BB	Ba2	NA
BAHAMA 6 5/8 05/15/33	84.51	8.65%	-215.30	791.03	BB	Ba2	NA
BAHAMA 7 1/8 04/02/38	85.42	8.76%	-40.50	795.26	BB	Ba2	NA
Barbados							
BARBAD 6 1/2 10/01/29	96.27	7.06%	-132.85	667.16	B-	#N/A N/A	NA
Bermuda							
BERMUD 4.138 01/03/23	106.22	1.47%	-99.01	103.54	A+	A2	NA
BERMUD 4.854 02/06/24	111.20	1.53%	-104.93	116.42	A+	A2	NA
BERMUD 3.717 01/25/27	109.41	2.14%	-90.53	161.00	A+	A2	NA
BERMUD 3.717 01/25/29	117.89	2.41%	-81.23	176.42	A+	A2	NA
Costa Rica							
COSTAR 4 1/4 01/26/23	95.59	6.22%	-230.03	594.66	B	B2	B
COSTAR 4 3/8 04/30/25	92.21	6.31%	-157.20	593.76	B	B2	B
COSTAR 6 1/8 02/19/31	92.19	7.20%	-135.04	666.36	B	B2	B
COSTAR 5 5/8 04/30/43	82.79	7.17%	-121.69	628.31	B	B2	B
COSTAR 7 04/04/44	89.99	7.94%	-100.72	710.35	B	B2	B
COSTAR 7.158 03/12/45	90.23	8.08%	-91.58	722.48	B	B2	B
Dominican Republic							
DOMREP 7 1/2 05/06/21	103.94	1.96%	-251.56	143.39	BB-	Ba3	BB-
DOMREP 5 7/8 04/18/24	105.68	4.19%	-125.96	327.58	BB-	Ba3	BB-
DOMREP 6.6 01/28/24	109.26	3.71%	-175.95	341.97	BB-	Ba3	BB-
DOMREP 5 1/2 01/27/25	104.86	4.29%	-118.71	393.73	BB-	Ba3	BB-
DOMREP 6 7/8 01/29/26	111.47	4.48%	-164.84	408.39	BB-	Ba3	BB-
DOMREP 5.95 01/25/27	107.84	4.53%	-171.17	406.19	BB-	Ba3	BB-
DOMREP 8 5/8 04/20/27	118.04	5.37%	-170.02	450.07	BB-	Ba3	BB-
DOMREP 6 07/19/28	108.39	4.72%	-160.57	418.62	BB-	Ba3	BB-
DOMREP 4 1/2 01/30/30	99.20	4.61%	-145.07	397.29	BB-	Ba3	BB-
DOMREP 7.45 04/30/44	116.49	6.12%	-124.15	525.94	BB-	Ba3	BB-
DOMREP 6.85 01/27/45	109.58	6.09%	-111.69	522.97	BB-	Ba3	BB-
DOMREP 6 1/2 02/15/48	105.79	6.06%	-106.83	519.28	BB-	Ba3	BB-
DOMREP 6.4 06/05/49	105.00	6.03%	-104.90	515.46	BB-	Ba3	BB-
DOMREP 5 7/8 01/30/60	98.97	5.94%	-87.06	506.09	BB-	Ba3	BB-
El Salvador							
ELSALV 7 3/4 01/24/23	101.47	7.08%	-536.97	671.54	B-	B3	B-u
ELSALV 5 7/8 01/30/25	95.68	7.02%	-435.71	663.49	B-	B3	B-u
ELSALV 6 3/8 01/18/27	89.80	8.47%	-164.46	781.07	B-	B3	B-u
ELSALV 8 5/8 02/28/29	104.18	7.94%	-328.77	738.48	B-	B3	B-
ELSALV 8 1/4 04/10/32	99.29	8.34%	-232.95	765.69	B-	B3	B-u
ELSALV 7 5/8 09/21/34	89.58	8.94%	-168.03	819.13	B-	B3	B-u
ELSALV 7.65 06/15/35	95.55	8.17%	-205.53	738.91	B-	B3	B-u
ELSALV 7 5/8 02/01/41	93.50	8.29%	-179.10	746.85	B-	B3	B-u
ELSALV 7.1246 01/20/50	87.31	8.28%	-106.36	741.91	B-	B3	B-

Jamaica							
Bond	Price	Yield	3m Yield Change	Z-Spread	S&P	Moody's	Fitch
JAMAN 7 5/8 07/09/25	115.25	4.15%	-187.65	308.16	B+	B2	B+u
JAMAN 9 1/4 10/17/25	120.98	4.64%	-165.29	380.27	B+	B2	B+u
JAMAN 6 3/4 04/28/28	116.86	4.17%	-168.12	339.46	B+	B2	B+u
JAMAN 8 1/2 02/28/36	130.24	5.57%	-163.84	480.37	B+	B2	B+u
JAMAN 8 03/15/39	133.64	5.16%	-156.05	428.59	B+	B2	B+u
JAMAN 7 7/8 07/28/45	132.25	5.49%	-138.57	462.05	B+	B2	B+u
Panama							
Bond	Price	Yield	3m Yield Change	Z-Spread	S&P	Moody's	Fitch
PANAMA 4 09/22/24	110.75	1.30%	-73.58	84.32	BBB+	Baa1	BBB
PANAMA 3 3/4 03/16/25	110.75	1.32%	-74.36	87.71	BBB+	Baa1	BBB
PANAMA 7 1/8 01/29/26	128.51	1.64%	-68.11	125.95	BBB+	Baa1	BBB
PANAMA 8 7/8 09/30/27	145.50	1.99%	-69.68	151.08	BBB+	Baa1	BBB
PANAMA 3 7/8 03/17/28	115.72	1.66%	-59.11	108.87	BBB+	Baa1	BBB
PANAMA 9 3/8 04/01/29	158.04	2.01%	-122.57	145.03	BBB+	Baa1	BBB
PANAMA 3.16 01/23/30	110.99	1.88%	-48.14	123.30	BBB+	Baa1	BBB
PANAMA 6.7 01/26/36	154.18	2.46%	-90.10	149.84	BBB+	Baa1	BBB
PANAMA 4 1/2 05/15/47	133.83	2.71%	-62.83	175.23	BBB+	Baa1	BBB
PANAMA 4 1/2 04/16/50	134.07	2.80%	-63.08	182.99	BBB+	Baa1	BBB
PANAMA 4.3 04/29/53	131.89	2.80%	-63.33	186.49	BBB+	Baa1	BBB
PANAMA 3.87 07/23/60	124.78	2.83%	-53.57	189.85	BBB+	Baa1	BBB
Suriname							
Bond	Price	Yield	3m Yield Change	Z-Spread	S&P	Moody's	Fitch
SURINM 9 1/4 10/26/26	54.77	23.43%	-1627.19	2287.24	CCC	Caa3	CCu
Trinidad and Tobago							
Bond	Price	Yield	3m Yield Change	Z-Spread	S&P	Moody's	Fitch
TRITOB 4 3/8 01/16/24	102.80	3.50%	-184.76	320.67	BBB-	Ba1	NA
TRITOB 4 1/2 08/04/26	103.60	3.82%	-81.68	333.16	BBB-	Ba1	NA

Source: Bloomberg (BVAL) and CIBC Capital Markets – FICC Strategy

Caribbean Economic Review

Caribbean Economic Review

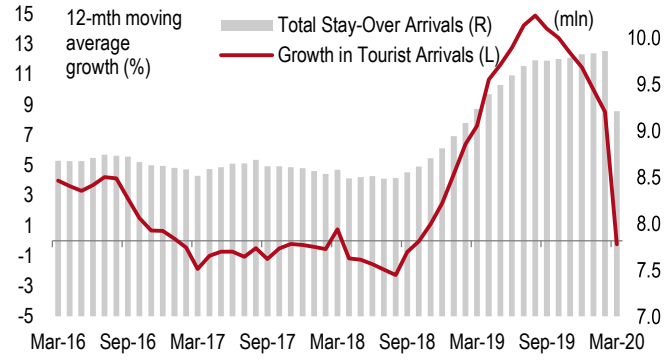
Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

The global effects of the COVID-19 pandemic intensified since our last publication. While the spread of the virus flattened in some markets, the outbreak worsened or resurged in others, compelling those Governments to institute harsher and/or more prolonged lockdowns and curfew orders. Consequently, in its June 2020 World Economic Outlook update, the IMF suggested that the pandemic inflicted a more gruesome impact on global economic output during H1 than originally anticipated. For the region's major trading partners, stay-at-home orders and Government restrictions on mobility deepened the negative economic fallout in Q2 despite the slowing pace of new infections. Specifically, preliminary data suggest that Q2 real GDP plummeted at annualised rates of 32.9% and 43.0% in the US and Canada, following annualised Q1 declines of 5.0% and 8.2%, respectively. Similarly, UK GDP dipped 1.6% y/y in Q1, with a much steeper y/y decline anticipated for Q2. Despite the reopening of several economies toward the end of Q2, global travel remained suppressed largely because of the relentless uncertainty associated with the course of the pandemic, e.g., the new spikes in confirmed cases in the US during July. Meanwhile, oil prices recovered partially since the April 2020 crash, with the price of WTI crude oil stabilizing at around US$40/barrel by the end of July – an OPEC+ deal on supply cuts ended the price war, while demand for crude displayed signs of recovery as economies gradually reopened.

The pandemic's devastating impact on global travel and oil markets reverberated throughout the Caribbean during H1 2020. The virtual shutdown of the region's tourism services coupled with lockdown measures led to broad-based contractions across tourism-dependent markets, though declines were particularly acute in the hotel and restaurant sectors. The suspension of commercial air and cruise-based operations has meant near zero arrivals to the region in Q2 and a greater than 50% plunge in arrivals over the first six months of the year. Most markets have begun welcoming international air travel again, but the tourism recovery in the region has been sluggish due to reduced air capacity, apprehension associated with ever-changing protocols on arrival and return, and travel restrictions on markets still deemed high risk, which in a few cases includes an outright ban on travellers from the US, the region's largest source market. Moreover, since the reopening of borders and after generally successful containment, some markets in the region have experienced a resurgence of positive cases, increasing the likelihood of additional waves of lockdown measures, as very recently instituted in The Bahamas. Meanwhile, the fallout for commodity exporters ensued largely from the containment measures and the reduced price of and demand for oil, although the consequences were likely not as severe as those for tourism-dependents. The subsequent easing of restrictions and the gradual restart of domestic business activity have tapered the number of unemployed persons relative to the initial spikes witnessed in Q2, but unemployment rates likely remain elevated.

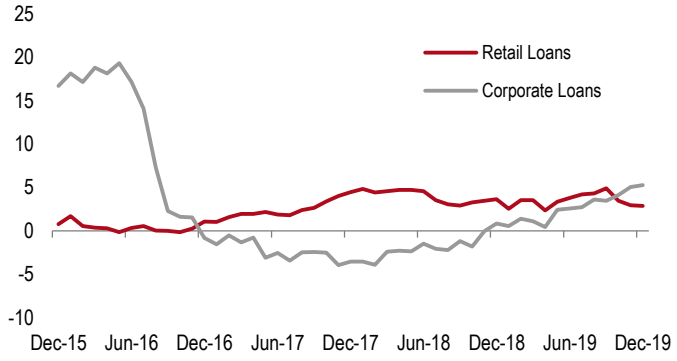
The falloff in global oil prices has led to reduced consumer prices or slower inflation in most markets during H1 2020. With a few exceptions, higher prices of food products partially moderated the decline in the 'transport' and 'housing, utilities, gas and other fuels' sub-components. However, fuel taxes implemented in Curaçao mitigated the drop in oil prices, while consumer prices in Suriname surged since February, with inflation reaching 35.2% y/y in June, attributed to businesses increasing prices to reflect premiums on the parallel exchange rate market.

Chart 1
Trends in Regional[1] Tourist Arrivals



Source: Caribbean Tourism Organization, Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 2
Regional[2] Loan Growth (y/y; %)



Source: Regional authorities and CIBC FirstCaribbean.

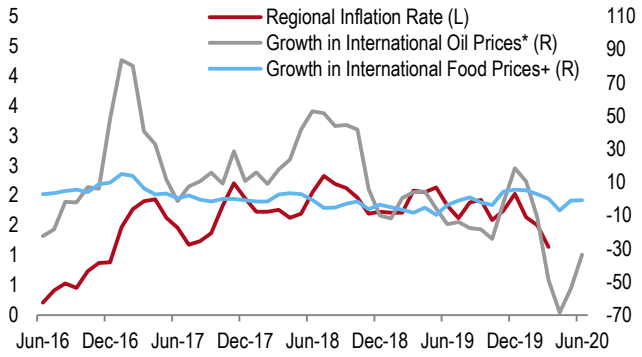
[1] Caribbean region includes: Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, British Virgin Islands, Cayman Islands, Curaçao, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Maarten and St. Vincent and the Grenadines.
[2] Caribbean region includes: Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, Curaçao, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines, Trinidad and Tobago, and Turks and Caicos Islands.

Greater spending on healthcare and support for COVID-19-affected individuals and businesses coupled with plummeting revenue has severely worsened the fiscal accounts of regional Governments, most of which were already heavily weighed down by debt, and underscores the need for even tighter post-pandemic fiscal consolidation as economies recover. Emergency funding from international financial institutions supported the increased budgetary and external financing needs of most markets. Specifically, the IMF provided financial assistance under its emergency lending facilities to The Bahamas, Jamaica, Dominica, Grenada, St. Lucia and St. Vincent, and to Barbados through an augmentation of its regular IMF programme disbursement. The World Bank and the IDB also provided support to several markets to strengthen their respective COVID-19 responses, while Aruba, Curaçao and Sint. Maarten received financial assistance from The Netherlands, albeit with conditions. Meanwhile, the Government of Trinidad and Tobago made legal provision to permit withdrawal of up to US$1.5bln from its Heritage Stabilization Fund during the current year. However, some Governments faced significant financing challenges. The Belizean Government, in particular, announced in mid-June its intention to consult with holders of its US-dollar-denominated 2034 'superbond' on possible capitalisation of interest falling due from August 2020 through to February 2021, while the Government of Suriname sought and received the consent of bondholders to defer a US$15.6mln principal payment that was due on June 30. Further, sovereign credit rating downgrades have deepened the strain on some regional Governments, particularly in Belize, The Bahamas, Trinidad and Tobago, and Suriname.

Subdued domestic activity and lower oil prices, which contained import outflows, coupled with the proceeds of external borrowing led to increased FX reserves in most markets, despite the dwindling of travel receipts for tourism-dependents. However, FX reserves in Belize remained very close to the internationally accepted three-month benchmark, while reserves in Suriname continued to decline amid FX shortages and limited external funding. Reduced domestic demand also began to weigh on demand for credit, with loan growth slowing across some markets. However, banks' loan quality generally has not deteriorated, as businesses and individuals that faced repayment challenges associated with the pandemic likely took advantage of loan moratoria offered by financial institutions.

In June, the IMF revised its projection for global economic growth in 2020 to -4.9% from the -3.0% forecasted in April, with the region's major trading partners, the US, UK and Canada, projected to decline 8.0%, 10.2% and 8.4% respectively. Even though uncertainty remains high due to the ongoing nature of the pandemic, the consensus suggests steep and in several cases double-digit declines in economic activity for the markets of the Caribbean in 2020. The slow tourism recovery is likely to persist for the remainder of the year, and while domestic business activity has restarted in most markets, reducing the number of unemployed persons, some businesses have not survived the crisis, and the tenure for most unemployment benefits has either already ended or will do so shortly. In addition to the limited fiscal support provided by most regional Governments, as well as a thrust to induce capital investment projects, some markets have sought novel avenues for boosting economic activity. Specifically, efforts have been underway to make Citizenship by Investment programmes in the ECCU more attractive by offering new and/or more affordable options, while Barbados' newly launched 'Welcome Stamp' visa, designed to alleviate some of the concerns of a typical 'long-stay visitor' during this period, has the potential to pick up some of the slack left by regular tourism activity.

Chart 3
Regional[3] Inflation and Intl. Commodity Prices (y/y; %)



Source: Regional authorities, International Monetary Fund and CIBC FirstCaribbean.
* Average of U.K. Brent, Dubai and West Texas Intermediate + International Monetary Fund Food Index.

[3] Caribbean region includes Anguilla, Antigua and Barbuda, Aruba, Barbados, Belize, British Virgin Islands, Cayman Islands, Curaçao, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines and Trinidad and Tobago.

Antigua and Barbuda

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Production, Prices, and Employment

The suspension of cruise and airline operations due to the pandemic coupled with restrictions to curtail local transmission likely depressed economic activity during H1 2020.

- During January to February 2020, stay-over arrivals expanded 10.9% y/y. However, a sharp fall-off during March led to an 11.7% y/y contraction during Q1 2020. Cruise-ship passenger and yacht-passenger arrivals also shrank, generating declines in total visitor arrivals and visitor expenditure of 28.6% y/y and 6.5% y/y, respectively. Tourist arrivals likely slumped deeper over H1 2020, as Antigua and Barbados only reopened to international flights on June 4 after a 10-week pause, and with protective screening and protocols.
- The introduction of curfews and the restriction of non-essential services as part of the State of Emergency declared on March 27 likely reduced business activity and increased unemployment in most other economic sectors. A phased restart of domestic business activity got underway from mid-May, but nightly curfews remained in place at least until July 31.

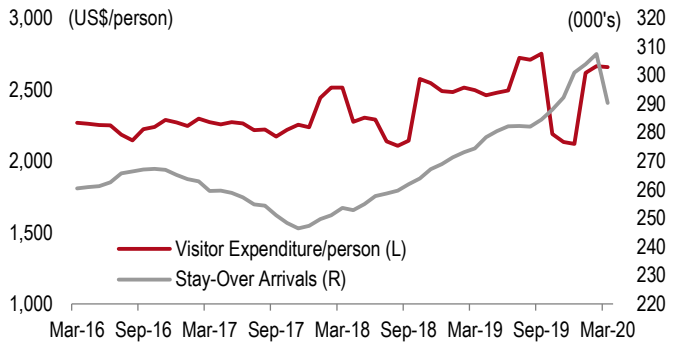
Consumer prices rose modestly (1.2% y/y) during March 2020, reflecting increased prices for food and non-alcoholic beverages (up 1.8% y/y), housing, utilities, gas and fuels (up 1.1% y/y) and transport (up 1.5% y/y).

Developments in Financial Markets

Banks' loan quality and capital adequacy improved, while strong loan demand reduced excess liquidity during 2019.

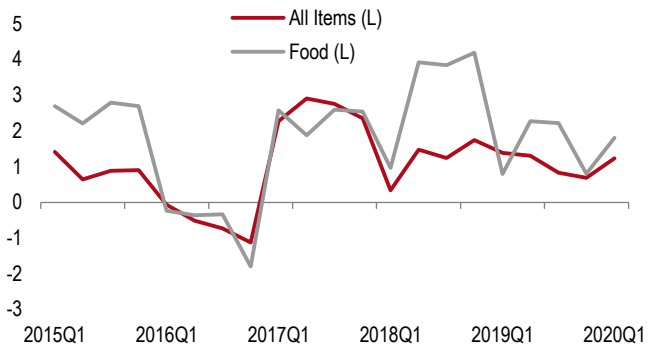
- Loan growth advanced 6.9% y/y, reflecting greater corporate and retail lending. Retail loans grew 2.9% y/y while a 21.6% expansion in business loans eclipsed a 5.3% fall-off in public sector loans and lifted corporate lending 10.6% y/y.
- Meanwhile, retail deposits slipped 6.0% y/y, but corporate and non-resident deposits rose 8.4% and 38.0%, respectively. Total deposits advanced 1.5% y/y.
- Commercial banks' loan-to-deposit ratio rose 3.6 percentage points y/y to 69.2% at December 2019, while the weighted average lending and deposit rates rose from 8.44% to 8.53% and 1.43% to 1.53%, respectively.
- The non-performing loan ratio improved to 5.3% at December 2019 from 6.4% one year earlier, while capital adequacy rose 3.1 percentage points y/y to 39.4%. Banks' annualized return on assets remained unchanged y/y at 1.4% at the end of the same period.

Chart 1
Stay-Over Tourist Arrivals



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean, Caribbean Tourism Organization.

Chart 2
Inflation (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Government Debt

The Government of Antigua and Barbuda's fiscal deficit widened US$10.4mln to US$61.7mln (3.7% of GDP) during 2019 largely because of significantly lower capital revenue and grants, and despite a surge in Citizenship by Investment (CBI) inflows.

- Total Government revenue decreased US$3.7mln. Tax collections declined US$2.7mln, but a US$19.4mln expansion in CBI receipts led to a US$14.1mln increase in non-tax revenue, lifting total current revenue by US$11.4mln (3.8% y/y). Taxes on income and profits, property and international trade, and transactions rose US$0.3mln, US$2.8mln and US$3.1mln, respectively, but taxes on domestic goods and services fell US$8.9mln. Capital revenue and grants also declined, falling US$9.3mln and US$5.8mln, respectively.
- Current spending increased US$5.9mln as a US$9.1mln reduction in personal emoluments partially offset increased spending on goods and services (up US$8.4mln), interest payments (up US$3.2mln) and transfers and subsidies (up US$3.4mln). Capital spending rose US$0.7mln during the year.

Consequently, Central Government debt increased 1.8% y/y to US$1.05bln. However, an 11.9% y/y fall-off in public corporation debt to US$203.7mln led to a 0.7% y/y decline in public debt, to 75.6% of GDP at the end of December 2019.

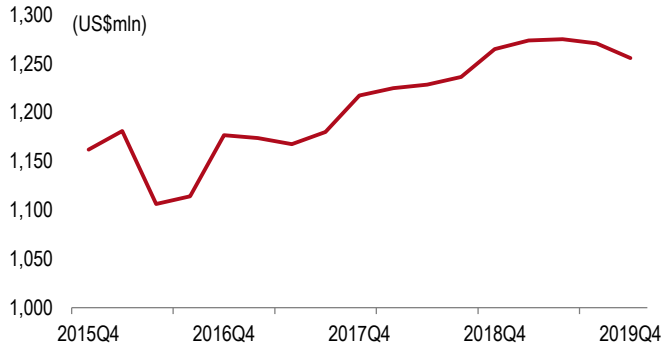
Since then, a dramatic fall-off in Government revenue has worsened the fiscal deficit and created financing challenges thus far in 2020. In addition to an EC$500k grant from the ECCB, the CDB has made available US$13mln in emergency financing to augment the Government's liquidity position.

In response to the pandemic, the Government recently approved adjustments to its CBI programme, including an option for citizenship via donation to the 'University of the West Indies Fund' and the reduction of costs for larger families to add dependents to already approved applications under some options.

Outlook

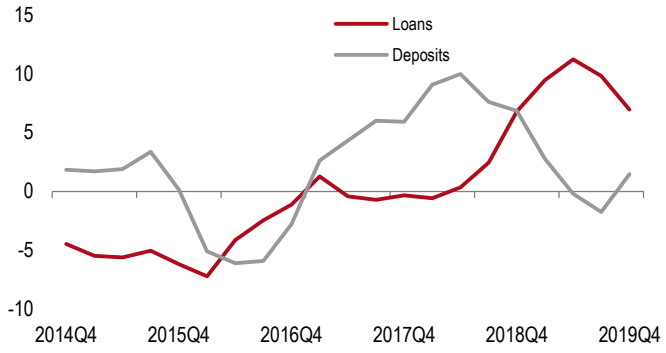
The ECCB projects that real economic activity will contract by 17.8% in 2020 as shutdowns and uncertainty in key source markets continue to adversely affect tourism and auxiliary services in Antigua and Barbuda. The Bank expects declines across all sectors, led by the plunging of the hotel and restaurant (-64%), transport storage and communications (-31%), construction (-10%) and wholesale and retail sectors (-7%). The expected deterioration of the Government's fiscal position due to the fall-off in revenue in tandem with reduced economic activity will like restrict its capacity to provide fiscal support given the already challenged state of finances. Moreover, public debt is expected to increase substantially given funding requirements to finance these gaps.

Chart 3
Public Sector Debt Outstanding



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 4
Growth in Key Balances (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Aruba

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Production, Prices, and Employment

The disruption to domestic activity caused by the restriction of non-essential services and 'shelter-in-place' directives combined with the fall-off in tourism activity likely led to a sharp economic contraction during H1 2020.

- Beginning March 16, the Aruban Government suspended incoming travel as part of its suite of containment measures. Latest available data suggest that total stay-over arrivals fell 0.8% y/y, while visitor nights slipped 4.5% y/y during January to February 2020. Arrivals from the US, which account for approximately 76% of total arrivals, underpinned a 5.8% expansion from North America, but all other markets slipped during the period. Since then, the Aruba Airport Authority recorded a 20% y/y contraction in departing passengers during Q1 2020. Meanwhile, cruise-ship passenger arrivals slipped 12.8% y/y during Q1 2020, alongside 20 fewer calls during the period.
- The Government of Aruba announced a phased plan to lift restrictions from May 18. Further, travel resumed between Aruba, Curaçao and Bonaire on June 15, while international travel recommenced on July 1 from Canada, Europe and the Caribbean and July 10 from the US.

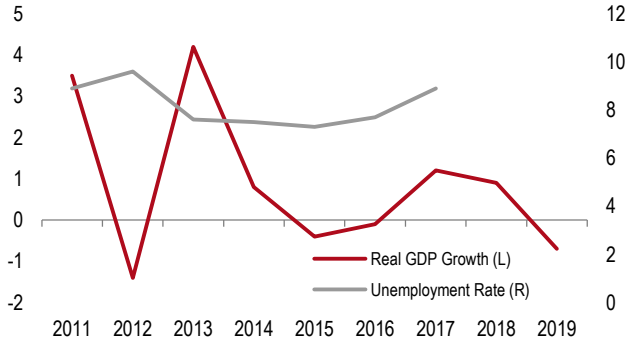
Following a 5.2% increase in consumer prices at December 2019, the inflation rate decelerated to 0.8% at May 2020, likely reflecting the fall-off in international commodity prices and weakened domestic demand.

Developments in Financial Markets

Commercial banks' balance sheets expanded moderately over the 12 months ended May 2020, but loan growth stagnated since December 2019. Meanwhile, loan quality improved y/y and year to date at the end of Q1 2020.

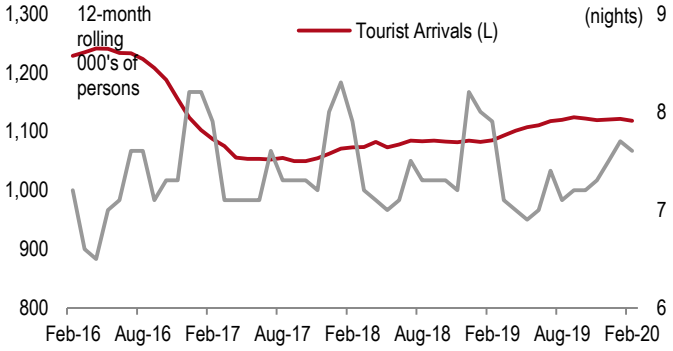
- Loan balances advanced 4.5% y/y. Increased lending to businesses lifted total corporate lending 7.3% y/y, while a 5.3% y/y expansion in mortgage lending eclipsed a 3.7% y/y decline in consumer loans, pushing total retail loans 3.4% higher y/y. Meanwhile, total loans slipped 0.1% for the year to date, as retail loans rose 0.5% but corporate lending fell 1.7%.
- Total deposits also expanded (up 4.1% y/y). Savings and time deposits rose 5.3% y/y and 21.4% y/y, respectively, but demand deposits fell 2.0%.
- Banks' loan-to-deposit ratio rose marginally y/y to 74.8% at April 2020. The average spread narrowed 50bps y/y, as the weighted average lending rate fell 10bps y/y to 6.8% but the weighted average deposit rate rose 40bps y/y to 2.0%. Non-performing loans remained low, falling to 2.9% from 3.7% one year earlier and 3.0% since year-end, while the capital adequacy ratio fell marginally y/y to 31.5% at the end of March 2020. Based on the results of its annual stress testing exercise, the CBA concluded that existing capital and liquidity buffers are adequate to withstand the effects of the COVID-19 pandemic.

Chart 1
Real GDP and Unemployment (%)



Source: Centrale Bank van Aruba and CIBC FirstCaribbean.

Chart 2
Growth in Tourist Arrivals and Length of Stay



Source: Caribbean Tourism Organization, Centrale Bank van Aruba and CIBC FirstCaribbean.

Buttressed by external borrowing from The Netherlands, net foreign assets at the Central Bank rose 9.3% since year-end to US$1.1bln or 25.2 weeks of 2019 imports of goods and services during May 2020. The CBA also announced the suspension of foreign exchange licenses for all outgoing capital transactions, in an effort to safeguard external buffers.

Government Debt

Aruba's fiscal consolidation reforms continued to bear fruit during Q1 2020, as the pandemic-related slump in revenue had not yet set in. Increased tax collections were largely responsible for a US$4.7mln improvement in the fiscal deficit to US$16.3mln.

- Total Government revenue advanced US$7.2mln (4.2% y/y). Tax collections rose US$4.5mln (2.9% y/y) as property, turnover, and foreign exchange taxes rose US$8.2mln, US$0.3mln and $1.0mln, respectively, but taxes on income and profits, commodities and services fell US$2.2mln, US$2.6mln and US$0.1mln, respectively. Non-tax receipts also increased (up US$2.6mln) during the quarter.
- The Government reduced its spending on wages (down US$0.9mln), employers' contribution (down US$0.3mln), wage subsidies (down US$1.8mln), investment (down US$2.7mln) and transfers and subsidies (down US$2.8mln). However, expenditure on goods and services and interest climbed US$2.2mln and US$8.3mln, respectively, giving rise to a US$2.0mln expansion in total outlays.

Public debt stood at US$2.41bln at March 2020, mostly unchanged from the level reported one year earlier (approximately 73.1% of 2019 GDP). Domestic debt rose 6.0% y/y to US$1.19bln, but foreign debt fell 5.5% y/y to US$1.22bln.

Outlook

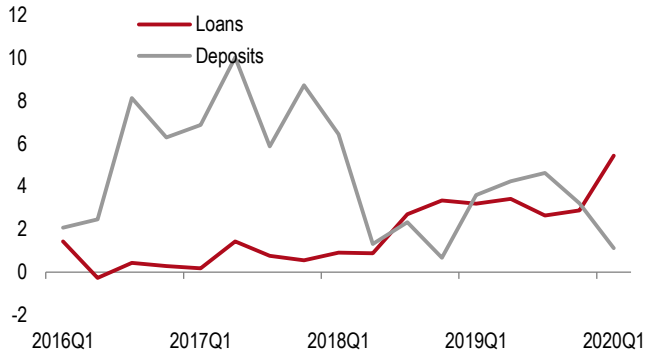
The Aruban economy will no doubt suffer a deep economic contraction in 2020, mostly stemming from the pause in tourism activity and spillover to ancillary sectors. Recent estimates from the Centrale Bank van Aruba indicate declines ranging from 16.4% to 31.3% based on varied assumptions of the speed of the tourism recovery, with the worst case scenario assuming no significant tourism activity for nine months (the remainder of the year). These estimates imply a worsening of expectations since the IMF's April 2020 estimate of -13.7%.

Revenue shortfalls have begun to hinder the administration of emergency fiscal support by the Aruban Government. Following the first tranche of support (US$23.3mln) from The Netherlands in April, the second tranche (US$63.2mln) was approved in May, part of which was for the benefit of the Government's wage subsidy scheme. However, these soft loans made available to the Dutch Caribbean were not without conditions, including the cutting of expenditures and pay-cuts for elected representatives and directors of Government institutions. While Aruba has reportedly met these requirements to qualify for its third aid-package of US$113.3mln, Aruba, Curaçao and Sint. Maarten have joined in objection to the pace required for the implementation of reforms and the establishment of a new entity in The Netherlands to supervise the budgets of the three Dutch Caribbean countries.

Chart 3
Inflation (y/y; %)

Source: Centrale Bank van Aruba and CIBC FirstCaribbean.

Chart 4
Growth in Key Balances (y/y; %)



Source: Centrale Bank van Aruba and CIBC FirstCaribbean.

The Bahamas

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Production, Prices, and Employment

The tourism fallout due to the COVID-19 pandemic alongside the pause of domestic activity resulting from precautionary lockdowns likely led to a sharp reduction of economic output during H1 2020.

- Total visitor arrivals fell 56.1% y/y, with the number of air and sea visitors falling 64.4% and 53.3%, respectively. Similarly, recent data from Nassau Airport Development Company suggest a 57.6% y/y fall-off in international departures, with US departures down 58.7% and non-US departures lower by 51.0% for the six-month period.
- Following the full closure of borders on March 27 and a range of curfews and lockdowns to contain the spread of the pandemic on the islands, the Government began a phased reopening of domestic activity on May 3 and welcomed international passengers again from July 1, but with the requirement of a COVID-19 negative test result. A partial restart of FDI-funded projects and post-hurricane rebuilding efforts also got underway but likely provided limited stimulus to construction output.

Following the reopening of borders, however, a spike in the number of confirmed COVID-19 cases prompted the Government to ban flights from the US effective July 22 and place Grand Bahama on a two-week lockdown beginning July 23. As cases continued to surge, the entire country was effectively placed on a two-week lockdown beginning August 4.

According to the Government's May 2020 Budget Communication, more than 55,000 persons submitted applications to the National Insurance Board for unemployment benefits, representing about 30% of the labour force.

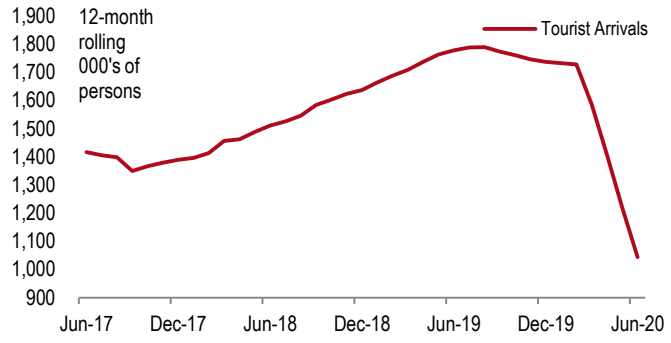
Developments in Financial Markets

Domestic banks' excess liquidity continued to expand, while loan quality improved over the 12 months ended May 2020.

- Surplus liquid assets in commercial banks rose 20.1% y/y to US$2.05bln at March 2020 and further to US$2.07bln at May 2020, with much of the build-up owing to reinsurance receipts in the months immediately following Dorian. The private sector non-performing loan ratio fell to 7.9% y/y at May 2020, compared to 8.9% one year earlier.
- Total loans rose 3.2% y/y at March 2020. Business loans fell 1.9% y/y, but increased lending to the public sector (up 28.3% y/y) pushed corporate lending 12.8% higher. Meanwhile, retail balances remained on par with levels recorded one year earlier as a 1.5% fall-off in mortgage lending counterbalanced a 2.0% rise in consumer loans.
- Deposits of residents rose 12.3% y/y reflecting higher balances of retail (up 8.9% y/y) and corporate deposits (up 15.4% y/y). However, non-resident deposits plummeted 29.0% y/y, lowering total deposit balances 8.2% y/y.

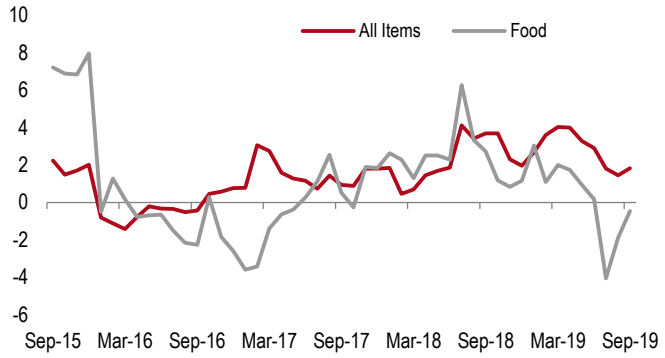
Despite the fall-off in tourism receipts, external reserves remained elevated at the end of June 2020, propped up by the proceeds of a US$250mln loan under the IMF's Rapid Financing Instrument during the month and aided by the reduction of domestic activity, which contained outflows for imports. External reserves rose US$20mln since March 2020 to US$2.03bln at June 2020, representing approximately 22.6 weeks of imports of goods and services.

Chart 1
Growth in Tourist Arrivals



Source: Caribbean Tourism Organization and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



Source: Central Bank of the Bahamas and CIBC FirstCaribbean.

Government Debt

Hurricane-related expenditure was largely responsible for a US$111.5mln widening of the fiscal deficit to US$251.5mln during the first nine months of FY2019/20 ended March 2020.

- Total revenue advanced US$67.9mln (4.0% y/y), largely driven by a US$149.8mln expansion on VAT receipts. Overall, taxes on goods and services grew US$40.7mln (3.7% y/y), but taxes on property, international trade and general stamp taxes fell US$8.7mln (9.3% y/y), US$0.5mln (0.2% y/y) and US$1.3mln (18.0% y/y), respectively.
- Meanwhile, Government spending rose US$179.4mln (9.8% y/y), reflecting greater current (up US$109.2mln or 6.4% y/y) and capital expenditure (up US$70.2mln or 54.8% y/y).

The Government financed its deficit from a combination of domestic and external sources, including the US$250mln IMF disbursement. Consequently, national debt rose to US$8.6bln (75.8% of 2020 estimated GDP) at the end of March 2020. Direct Government debt increased US$414.4mln to US$7.9bln (69.5% of GDP), but contingent liabilities fell US$21.1mln to US$717.8mln (6.3% of GDP).

Since then, greater spending on healthcare and support for COVID-19-affected individuals and businesses combined with a fall-off in revenue have worsened the Government's deficit to US$770mln (6.4% of GDP) over the full FY2019/20 ended June 2020, compared to US$215.1mln one year earlier.

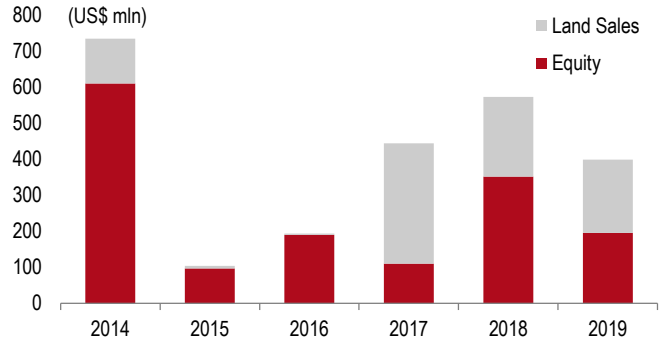
Following the downgrade by Standard and Poor's from 'BB+' to 'BB' on April 16, 2020, Moody's lowered the Government of Bahamas' credit rating two notches from 'Baa3' to 'Ba2' with a negative outlook on June 25, 2020.

Outlook

The double shocks of Hurricane Dorian and the COVID-19 pandemic have severely compromised productive capacity in The Bahamas. Recent forecasts of the economic contraction for 2020 range from 12.5% (IMF) to 18% (Moody's), with a gradual recovery following from 2021. Despite the reopening of borders to international commercial travel on July 1, the subsequent spike in cases in The Bahamas and the reintroduction of lockdowns create additional uncertainty. Further, while the phased resumption of economic activity over H2 will likely reduce the number of unemployment claims, the unemployment rate will likely remain elevated in 2020. The fall-off in international commodity prices will likely contribute to slower inflation and reduced payments for imports in 2020. However, as domestic activity regains momentum over the second half of the year, FX reserve levels could likely come under some pressure due to the slow recovery of tourism receipts, though additional external borrowing from international financial institutions could provide some support.

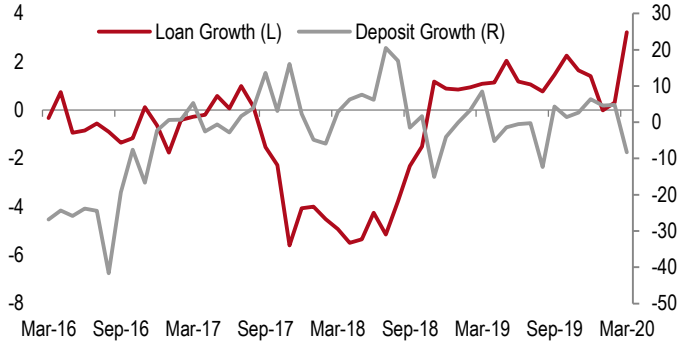
The Government estimates that its continued support amid the economic fallout from Dorian and COVID-19, combined with the expected revenue loss, will generate a US$1.3bln deficit (11.6% of GDP) during FY2020/21, pushing total direct Government debt to US$9.5bln (82.8% of GDP). This sharp deterioration in the fiscal position has forced the Government to develop a revised fiscal adjustment plan, with preliminary estimates suggesting a delay of the 0.5% of GDP fiscal deficit and 50% of GDP debt targets by six years to FY2026/27 and FY2030/31, respectively. However, the IMF cautions that achieving this debt-to-GDP target will require a 4% of GDP primary surplus from FY2024/25 onward.

Chart 3
Foreign Direct Investment (January to December)



Source: Central Bank of the Bahamas and CIBC FirstCaribbean.

Chart 4
Growth in Key Balances (y/y; %)



Source: Central Bank of the Bahamas and CIBC FirstCaribbean.

Barbados

Tiffany Grosvenor-Drakes
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Production, Prices, and Employment

The Central Bank of Barbados (CBB) reports that a 27% y/y slump in Q2 led to a 15% y/y decline in real GDP in H1 2020.

- The suspension of cruise and airline operations around the globe resulted in a 54% y/y decline in long-stay arrivals and 34% fall-off in cruise passenger arrivals during January to June 2020. The resultant closure of hotels and restaurants and the sharp slowdown in business for other tourism service providers reduced activity in the sector by 53.5%, while the output of ancillary sectors, such as the distribution, and transport, storage and communication sectors, fell 12.5% y/y and 7.2% y/y, respectively.
- Agricultural production expanded 3.7%, largely because of increased non-sugar output. The reduced presence of sargassum seaweed supported a rise in fish catches, while production of food crops and chicken also increased, though the latter shrank in June due to excess supply associated with the closure of tourism establishments. Meanwhile, construction output fell 1.5% y/y as an 8.8% fall-off in Q2 overshadowed Q1 gains generated from projects, including the Harrison's Point isolation facility.

Between March and June, unemployment claims climbed by more than 33,000, but tapered off in July as several local business entities began to resume operations. The CBB reports that 30% of claims were associated with hotels and restaurants, while the distribution sector accounted for another 17%. Meanwhile, growth in consumer prices slowed to 2.4% y/y during June 2020 as lower oil prices partially mitigated higher prices for food crops and vegetables.

Developments in Financial Markets

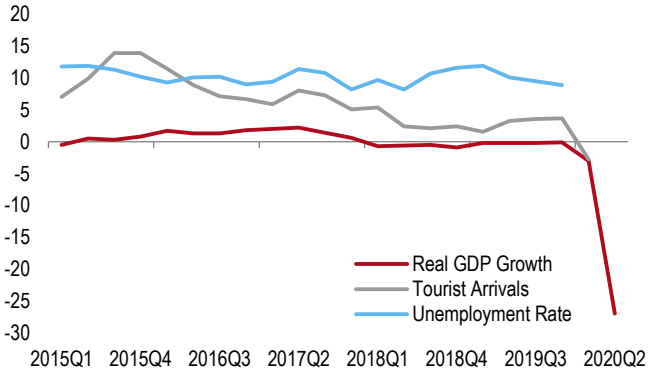
Deposit taking institutions' (DTIs) loan growth remained weak (down 0.3% y/y) over the 12 months ended May 2020. Specifically, lending by credit unions and finance and trust companies increased 3.3% y/y and 0.6% y/y, respectively, but lending by commercial banks fell 1.1% y/y. Transferable deposits fell 5.9% y/y, but other deposits increased 16.2% y/y, generating modest growth in total deposit liabilities (up 2.8% y/y).

Excess liquidity in the banking system continued to rise, with excess cash holdings at the Central Bank representing 20.1% of deposits at the end of June 2020, relative to 17.8% one year earlier. Consequently, banks' weighted average deposit rate remained unchanged y/y at 0.2%, while the weighted average loan rate fell lower (down 38bps y/y) to 6.1% at the end of May 2020. The weighted average mortgage rate in particular fell 28bps to 5.0% at the end of the same period.

Commercial banks' non-performing loan ratio rose only marginally since December 2019 to 6.8% in June 2020, as businesses and individuals that faced repayment challenges associated with the pandemic likely took advantage of loan moratoria offered by financial institutions. Banks' capital adequacy ratio rose to 15.2% at the end of June 2020 from 12.6% one year earlier, while the 12-month return on average assets improved from -1.1% to 0.9% over the same period.

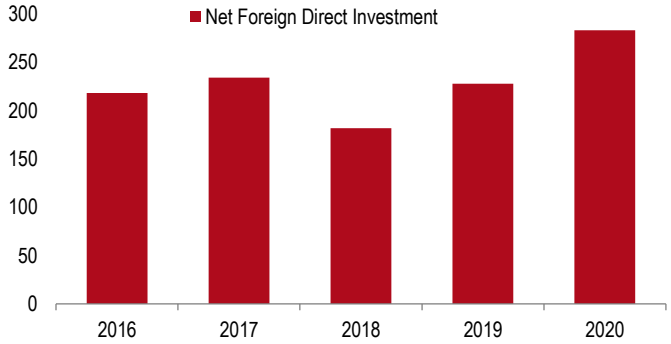
Despite the significant decline in travel-related FX earnings, increased external borrowing from multilateral institutions, reduced domestic demand, and lower oil prices led to a build-up of FX reserves. Gross international reserves rose by US$267.8mln since the end of December 2019 to US$1.01bln, or 26.9 weeks on import cover at the end of June 2020.

Chart 1
Key Economic Indicators (%)



Source: Central Bank of Barbados, Barbados Tourism Marketing Inc. and CIBC FirstCaribbean.

Chart 2
Net Foreign Direct Investment (January - June US$mln)



Source: Central Bank of Barbados and CIBC FirstCaribbean.

Government Debt

Lower revenue collections, alongside greater capital and external interest spending, reduced the fiscal surplus by US$71.1mln to US$22.0mln during the first quarter of FY2020/21 ended June 2020. However, the primary surplus outturn equivalent to 1.6% of GDP implies the Government may be on track to achieve its revised 1% of target for FY2020/21.

- Reduced tax (down US$26.2mln) and non-tax receipts (down US$9.4mln) lowered Government revenue by 9.8% y/y. A US$94.7mln expansion in corporation taxes eclipsed declines of US$27.3mln, US$17.5mln and US$5.3mln in personal, property, and other direct taxes, respectively, and led to a US$44.7mln expansion in direct tax revenue. Improved collections from international business companies, reduced employment coupled with income tax rate adjustments, and delayed issuance of land tax bills influenced this outturn. Meanwhile, reduced consumer spending led to broad-based contractions in indirect tax revenue, which fell US$70.9mln (36.6% y/y). Specifically, VAT, excise taxes, import duties and other indirect taxes declined US$38.4mln, US$14.3mln, US$9.0mln and US$9.2mln, respectively.
- Re-prioritization of spending to accommodate COVID-19-related outlays likely kept non-interest expenditure contained during the period. Current outlays expanded US$20.7mln, largely reflecting the resumption of interest payments on external commercial debt, which rose US$19.8mln. Payments for domestic interest and goods and services increased US$0.4mln and US$1.4mln, respectively, while transfers and subsidies fell US$0.9mln and spending on wages and salaries remained unchanged y/y during the quarter. Capital expenditure also rose (up US$16.0mln to US$21.8mln), mostly attributed to the Water Supply Network Upgrade Project.

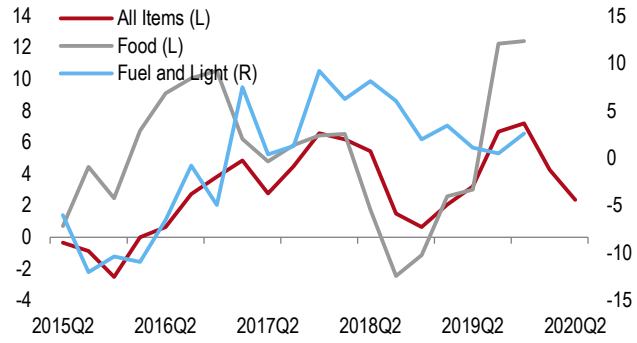
Budgetary support during the quarter included external borrowing from the IADB (US$80mln) and the IMF (US$90mln) – an augmentation of the normal IMF programme disbursement – which resulted in a build-up of deposits at the Central Bank. Consequently, after accounting for amortization during the period, gross public sector debt, including arrears, rose from US$6.18bln at March 2020 to US$6.22bln (124.7% of GDP) at June 2020.

Outlook

The CBB continues to predict a sharp double-digit contraction for 2020, but the magnitude of the decline remains contingent on the extent of the tourism recovery over the rest of the year. Despite the resumption of international commercial flights to Barbados on July 12, global uncertainty, fears surrounding ever-changing protocols on arrival and return, and reduced air capacity continue to restrict arrival growth. The newly launched 'Welcome Stamp' visa, designed to mitigate some of these concerns and boost average spend per visitor, increases capacity to bolster domestic demand but the eventual impact rests on the take-up and on Barbados' ability to keep active COVID-19 cases contained. The push to restart public and private sector projects over H2 could also cushion the impact and allow for a stronger recovery.

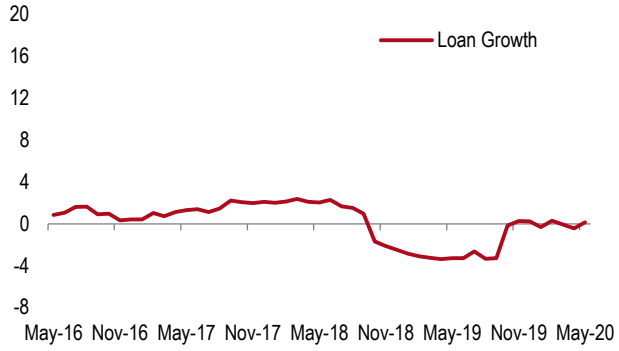
The CBB anticipates that financing received thus far coupled with additional disbursements expected over the remainder of the year are sufficient to fund any gaps arising due to the revised primary surplus target. However, this additional external borrowing, combined with instruments issued under the Barbados Optional Savings Scheme, and the contraction of the economy further increase the public debt ratio, and underscore the increased likelihood of even tighter fiscal consolidation when the crisis abates to achieve stated medium-term targets. As domestic demand regains momentum amid the slow recovery of tourism receipts, FX reserve levels could slip. However, the accumulation of reserves thus far is encouraging and expected external financing over the remainder of year will further augment FX buffers.

Chart 3
Inflation (y/y; %)



Source: Central Bank of Barbados and CIBC FirstCaribbean.

Chart 4
Developments in Credit Market Indicators (%)



Source: Central Bank of Barbados and CIBC FirstCaribbean.

Belize

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Production, Prices, and Employment

Following a subdued performance in 2019, real economic activity contracted 5.8% during Q1 2020, reflecting declines across all three major sectors. The closure of Belize's borders at the end of the quarter, coupled with curfews and restrictions to contain the pandemic, likely deepened the fallout during H1 2020.

- Output in the primary sector fell 6.2% y/y during Q1, reflecting declines in agriculture and fishing of 5.1% y/y and 18.8% y/y, respectively, while the secondary sector slumped 11.7% y/y as output in manufacturing, utilities and construction all contracted during the period. The (largest) tertiary sector also declined (down 5.6% y/y), reflecting lower output across all sub-sectors except Government services. Specifically, activity in the hotel and restaurants sector contracted 22.5% y/y during the quarter.
- Stay-over and cruise-ship passenger arrivals plummeted 39.6% y/y and 39.1% y/y, respectively, during January to April following the closure of Belize's borders to entry at the end of March, while nightly curfews and the restriction of business to essential services reduced productive activity on the island for the year to date. Since then, the Government has begun to ease lockdown restrictions and announced a possible restart to commercial tourism from mid-August.

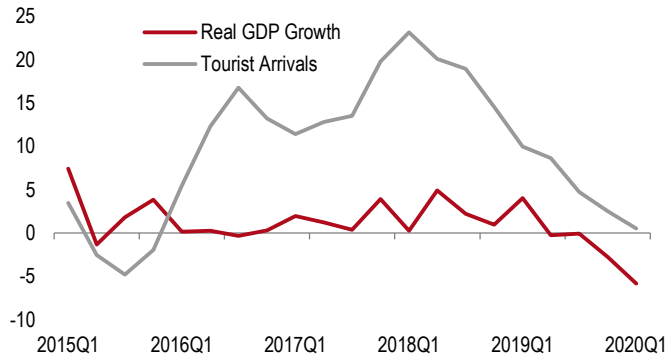
Unemployment likely surged past the 10.4% rate recorded in September 2019, as more than 44,000 persons reportedly filed for COVID-19 Government unemployment benefits. Meanwhile, the consumer price index remained unchanged y/y at May 2020.

Developments in Financial Markets

Domestic banks' balance sheets expanded modestly over the 12 months ended March 2020, while the Central Bank eased its monetary policy in response to the COVID-19 shock.

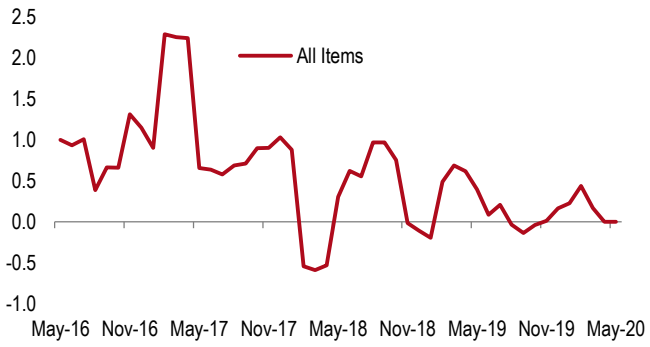
- Total loans and advances rose 5.2% y/y. Personal lending balances slipped 0.9% y/y, but greater lending to the agriculture (up 13.0% y/y), tourism (up 27.6% y/y), construction (up 4.8% y/y) and real estate (up 3.9% y/y) sectors was largely responsible for a 7.5% expansion in non-personal loans.
- Retail and corporate deposits increased 8.0% y/y and 3.8% y/y, respectively, but non-resident deposits fell 3.1% y/y, lifting the total 5.5% y/y.
- The loan-to-deposit ratio rose marginally y/y to 76.2% at March 2020. The weighted average lending rate fell 43bps y/y to 8.78%, but the weighted average deposit rate rose 9bps y/y to 1.28%, narrowing the spread to 7.5% at April 2020. Meanwhile, the Central Bank adjusted its monetary policy on April 1, by lowering domestic banks' statutory liquid asset and cash requirements by two percentage points to 21% and 6.5%, respectively.

Chart 1
Key Economic Indicators (%)



Source: Central Bank of Belize, Caribbean Tourism Organization and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



Source: Central Bank of Belize and CIBC FirstCaribbean.

Gross official international reserves rose 9.1% y/y to US$29.2mln at May 2020 due to external loans from international financial institutions during the month, but remained borderline at 12.4 weeks of 2019 imports of goods and services.

Government Debt

Even before the effects of the pandemic were fully felt, weak economic performance led to a deterioration of the fiscal position. The fiscal deficit worsened US$59.3mln to US$97.7mln during FY2019/20 ended March 2020 and the Government missed its 2% of GDP primary surplus target.

- Current revenue collections fell US$14.4mln. Tax receipts rose US$1.4mln as taxes on income and profits and property increased US$3.0mln and US$0.6mln, respectively, but taxes on goods and services and international trade and transactions fell US$0.6mln and US$1.6mln, respectively. However, non-tax revenue declined US$7.0mln (12.8% y/y) as receipts for licenses rose US$0.2mln but property income and other non-tax revenue fell US$4.7mln and US$2.5mln, respectively. Meanwhile, grants and capital revenue also declined, down US$8.6mln and US$0.2mln, respectively.
- Government spending climbed US$53.5mln (8.7% y/y). Increased spending on wages and salaries (up US$8.6mln), goods and services (up US$5.1mln), interest payments (up US$2.7mln), and subsidies and current transfers (up US$4.3mln) overshadowed a US$3.4mln decline in pension payments, pushing current expenditure US$12.4mln higher y/y. Meanwhile, capital outlays grew US$36.2mln y/y.

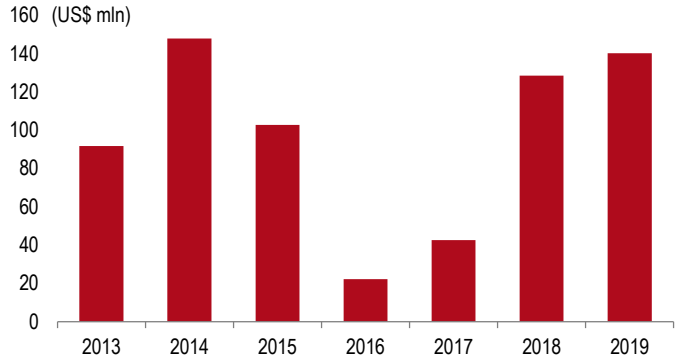
Central Government domestic debt rose 15.7% y/y to US$618.8mln, while public sector external debt increased 3.6% y/y to US$1.31bln at the end of April 2020. Consequently, total public sector debt stood at US$1.94bln (7.1% higher y/y and approximately 104% of 2019 GDP) at the end of the same period.

The COVID-19 shock has severely compounded the strain on the Government's finances. Following the downgrade from 'B-' to 'CCC' on April 16, Standard and Poor's further lowered Belize's long-term sovereign rating to 'CC' on June 30, and placed the rating on 'CreditWatch' with negative implications. Moody's also downgraded Belize's rating from 'B3' to 'Caa1' with a negative outlook on May 12. The most recent actions by credit rating agencies reflect the expectation that the Government is likely to defer the US$13mln interest payment due in August on its 2034 'superbond.'

Outlook

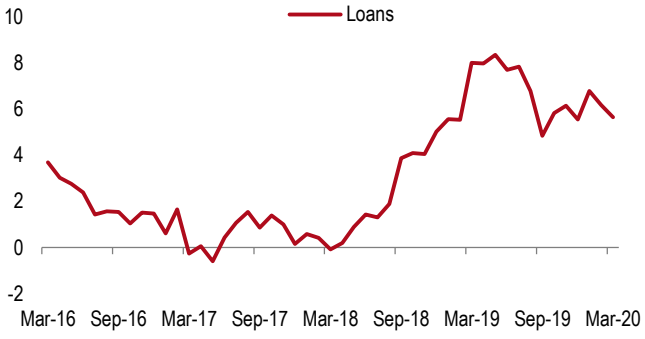
The COVID-19 pandemic will have a devastating impact on the Belizean economy. Since the IMF's April 2020 projection of a 12% decline in real GDP, latest estimates suggest economic activity could contract by as much as 18% in 2020. The collapse of tourism, and by extension foreign exchange earnings and Government revenue, could place tremendous pressure on FX reserves, the Government's financial position and public debt. Even with the ease in restrictions and planned reopening of the border, tourism activity is likely to remain weak for the remainder of the year. Already, the Belizean Government announced in mid-June its intention to consult with holders of its US dollar denominated 'superbond' on possible capitalisation of interest falling due from August 2020 through to February 2021. Finally, despite expected additional funding from international financial institutions, including a US$12.4mln loan from the World Bank to strengthen Belize's COVID-19 response efforts, FX reserves could start to decline again.

Chart 3
Foreign Direct Investment (January–December)



Source: Central Bank of Belize and CIBC FirstCaribbean.

Chart 4
Developments in Credit Market Indicators (y/y; %)



Source: Central Bank of Belize and CIBC FirstCaribbean.

Bermuda

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Production, Prices, and Employment

The suspension of flight operations and the implementation of 'shelter-in-place' measures to curb the spread of the pandemic in Bermuda likely led to steep economic contraction during H1 2020.

- The total value and volume of retail sales expanded during Q1, and specifically by 4.3% y/y and 3.5% y/y, respectively, during March 2020. However, the Government's implementation of 'shelter-in-place' measures and restriction of business activity to essential services from April 4 likely hampered retail sales activity during Q2. A phased reopening of the economy began on May 2, while the final phase commenced on July 1.

- Suspension of flights to Bermuda in the wake of the pandemic led to unprecedented declines in tourism activity during H1 2020. Total air arrivals contracted 37.7% y/y, while seats sold and air capacity declined 23.5% y/y and 20.6% y/y, respectively, during Q1 2020. Arrivals from the US, Bermuda's largest source market, fell 40.7% y/y, while arrivals from all other markets also slumped during the quarter. Meanwhile, cruise-ship passenger arrivals declined 41.8% y/y, but yacht-passenger arrivals increased 96.1% y/y. Bermuda began welcoming international travellers again on July 1, for the first time since March.

Greater than 9,000 applications were submitted in request of the Government's emergency unemployment benefit scheme that was operational from March 24, 2020 and extends for 16 weeks. With the reopening of the domestic economy, some persons have been re-employed, but the unemployment rate has likely risen beyond the 3.8% recorded at November 2019.

Consumer price inflation slowed to 0.3% y/y during March 2020. The prices of food and health and personal care rose 2.3% y/y and 4.3% y/y, respectively, but the prices of rent and transport and foreign travel fell 1.5% y/y and 3.0%, respectively.

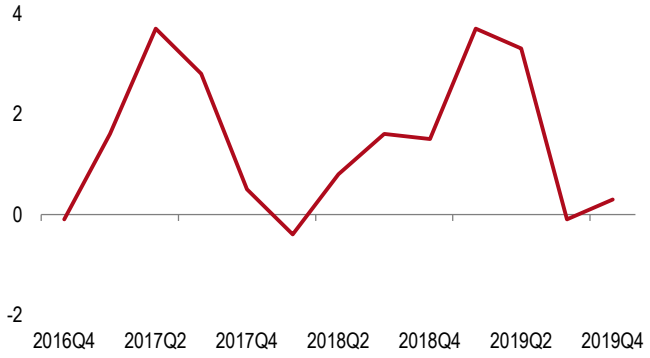
Developments in Financial Markets

Latest available data suggest banks' excess liquidity rose, while loan quality improved during 2019.

- Total loans and advances increased 10.3% y/y to US$8.7bln. Loans to other businesses and services and loans to other financial institutions increased from 6.4% and 16.8% to 10.0% and 17.5% of total loans, respectively. Real estate-related lending, the largest category of outstanding loans, fell from 55.6% to 51.7% of total loans, while all other loans declined from 22.0% to 20.8%.

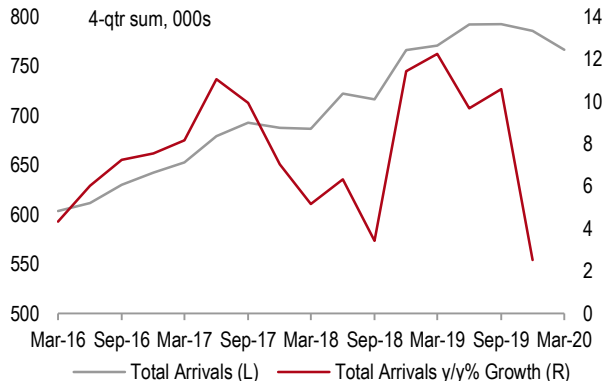
- Total deposits grew 17.9% y/y as a 1.2% y/y fall-off in savings deposits partially offset expansions of 23.8% y/y and 36.0% y/y in demand and time deposits, respectively.

Chart 1
Real GDP Growth (%)



Source: Government of Bermuda and CIBC FirstCaribbean.

Chart 2
Total Tourist Arrivals



Source: Government of Bermuda and CIBC FirstCaribbean.

- As a result, the loan-to-deposit ratio fell to 41.1% at the end of December 2019. The non-performing loan ratio improved 0.7 percentage points y/y to 5.3%, but the Basel III Risk-to-Asset ratio fell 2.6 percentage points y/y to 21.5%. Meanwhile, the annualised return on assets dipped from 1.5% at the end of December 2018 to 1.3% at the end of December 2019.

Government Debt

The Government of Bermuda's latest estimates indicate that its fiscal deficit widened to US$14.6mln, US$22.0mln higher than the US$7.4mln surplus projected for FY2019/20 ended March 2020. Public debt stood at US$2.70bln (US$2.66mln net of the sinking fund), approximately 36% of 2019 GDP at March 2020.

Pandemic-related spending and reduced Government revenue likely led to a significant widening of the fiscal deficit, thus far in FY2020/21. The Government has secured emergency liquidity lines of credit with local financial institutions to fund the gap generated and has increased the public debt ceiling from US$2.75bln to US$2.9bln. In July, the Government also passed a law that discontinues contributions to the Sinking Fund (which stood at 3% of GDP) while running fiscal deficits, as these contributions have also led to increased debt.

On April 16, Standard and Poor's affirmed its 'A+' rating for Bermuda, but changed the outlook from positive to stable.

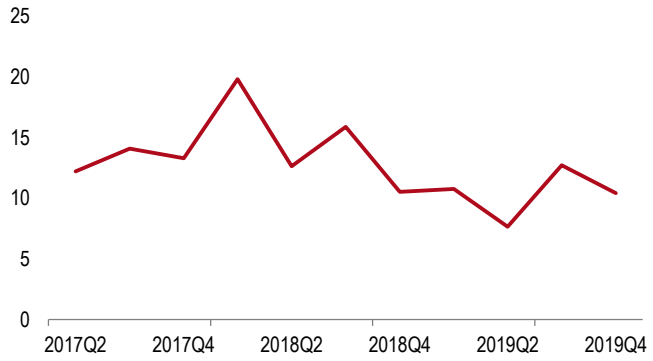
Since then, Moody's affirmed Bermuda's 'A2' rating on June 5, citing its track record with fiscal consolidation that would support debt stabilisation following the COVID-19 shock.

Outlook

The Bermudan economy is expected to contract between 1.5% (Standard and Poor's) and 6% (Moody's) in 2020 due to the effects of the COVID-19 pandemic. The tourism sector and ancillary services will likely feel the brunt of the fallout, but other sectors will likely be negatively affected by 'social distancing' requirements. Meanwhile, the unemployment rate will likely end 2020 higher than in 2019 as the business climate only gradually returns to normalcy.

The COVID-19 shock will likely generate a significant deterioration in the Government's fiscal deficit, delaying its planned attainment of a balanced budget. However, the Government's strong commitment to fiscal reform over the last six years suggests a post-shock return to consolidation that will eventually allow for the achievement of fiscal surpluses.

Chart 3
Current Account Balance/GDP (%)



Source: Government of Bermuda and CIBC FirstCaribbean.

Cayman Islands

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

The fall-off of tourism arrivals due to the effects of the pandemic and measures implemented to contain local spread on the Cayman Islands likely slashed economic activity during H1 2020.

- Latest available data indicate that the number of stay-over arrivals rose 8.6% y/y during 2019 and 8.5% y/y during January to February 2020, but cruise-ship passenger arrivals continued to underperform, falling 5.8% y/y during 2019 and 4.3% y/y during the first two months of 2020, in line with fewer ship calls. Since then, tourist arrivals likely plunged following the closure of the Cayman Islands' borders on March 22. The Government has delayed the phased reopening of borders until October 1.
- Beginning on March 13, the Government placed limits on public gatherings, with 'shelter-in-place' restrictions and nightly curfews coming into effect two weeks later. By June 21, these curfews restrictions were fully removed, but some limitations on public gatherings remain.
- The number of licensed bank and trust companies and insurance companies fell 6.8% and 0.9% to 124 and 687, respectively, while the total number of mutual funds dipped 3.8% y/y during Q1 2020.

The Fall 2019 unemployment rate rose 0.7 percentage points y/y to 3.5% as the labour force increased 6.3% y/y but the number of employed individuals expanded 5.6% y/y. The reduction in business activity since then has likely led to a sharp spike in the number of unemployed individuals.

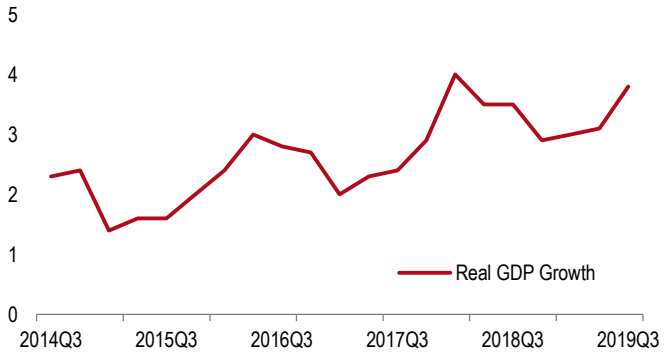
Growth in consumer prices slowed to 3.0% during Q1 2020, compared to 8.4% y/y during Q4 2019. The prices of housing and utilities and transport, in particular, rose 2.1% y/y and 6.0% y/y, respectively.

Developments in Financial Markets

Retail banks' total loans to residents fell 3.5% y/y over the 12 months ended September 2019. Lending to businesses and the Government declined 8.8% y/y and 35.6% y/y, respectively, lowering corporate loan balances 14.8% y/y. In contrast, total retail loans rose 4.0% y/y, reflecting expansions of 3.7% y/y and 5.4% y/y in mortgages and consumer loans, respectively. Total deposits of residents rose 8.2% y/y as corporate deposits increased 11.7% y/y but retail deposits fell 1.0% y/y during the same period.

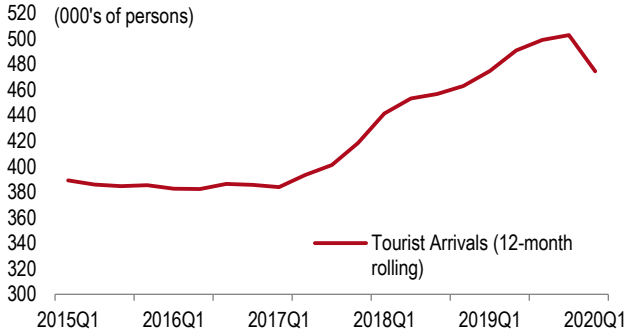
Consequently, liquidity expanded during the period. Meanwhile, the average interest rate spread on KYD loans and deposits narrowed 20bps y/y to 7.36% at June 2019. The weighted average lending rate fell 19bps y/y to 7.65%, while the weighted average deposit rate increased 1bps y/y to 0.32%.

Chart 1
Key Economic Indicators (%)



Source: Cayman Islands Economic and Statistics Office and CIBC FirstCaribbean.

Chart 2
Tourism Indicators



Source: Cayman Islands Economic and Statistics Office, Caribbean Tourism Organization and CIBC FirstCaribbean.

Government Debt

The prudent management of public finances over the last seven years has positioned the Government to deliver a strong response to the COVID-19 crisis.

- Between 2013 and 2019, the Government generated consecutive fiscal surpluses supported by consistently increasing revenues. During 2019, the Government recorded a US$122.5mln fiscal surplus, below the US$158.5mln registered in 2018. Revenue expanded 3.6% y/y to US$1.03bln, but spending also rose 8.6% y/y to $909.5mln.

The Government's fiscal performance has also allowed for steady reduction of debt levels from US$671.9mln (17.1%) in 2013 to US$341.3mln (6.4% of GDP). In 2019 in particular, debt fell US$161.2mln due to the part cash repayment of a bullet bond that matured in November 2019. While the cash repayment represented a significant portion of savings, the Government still had available approximately US$520mln to respond to the crisis.

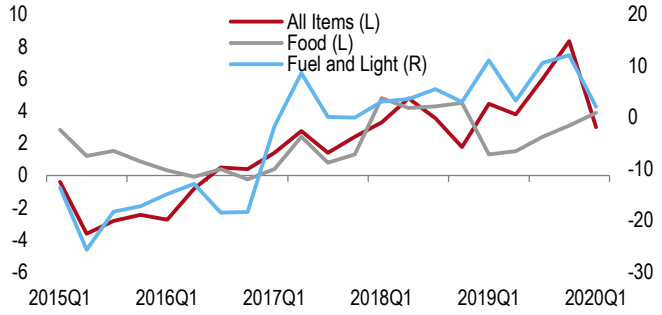
Unlike many other Caribbean markets, the Cayman Islands has maintained its 'Aa3' Moody's credit rating, despite the effects of the COVID-19 pandemic.

Outlook

The Cayman Islands Economic and Statistics Office (ESO) expects that the interruption of tourism activity and policies to control the spread of COVID-19 will generate an economic contraction of between 11.4% and 12.2% in 2020. The ESO expects a 75% collapse of the hotel and restaurant sector, which accounts for approximately 36% of the decline expected for the year. The overall unemployment rate is anticipated to climb to between 11.6% and 12.3%, but the rate specifically for Caymanians is likely to range between 18.7% and 19.7%. Meanwhile, inflation is expected to slow to 0.4%, in line with lower international commodity prices.

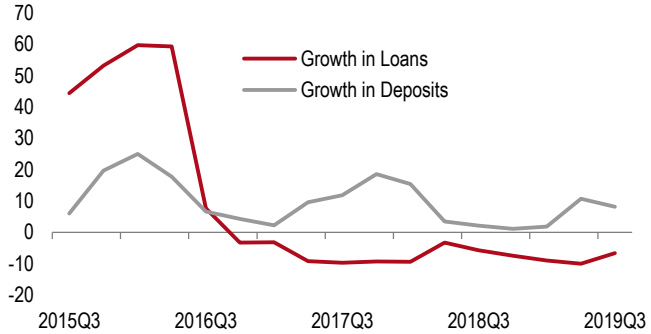
ESO expects that increased Government spending in response to the shock, combined with the projected decline in revenue, will deliver a fiscal deficit of US$300mln to US$320mln in 2020. Despite the accumulation of public savings, ESO considers the possibility of the Government increasing debt through a line of credit to finance the gap and further support affected sectors, in recognition that savings could become depleted more quickly than expected. A US$600mln line of credit would increase the Government's debt-to-GDP ratio to approximately 17.6%. However, this is contingent on successful negotiations with the UK on the relaxation of requirements deemed necessary under law.

Chart 3
Inflation (y/y; %)



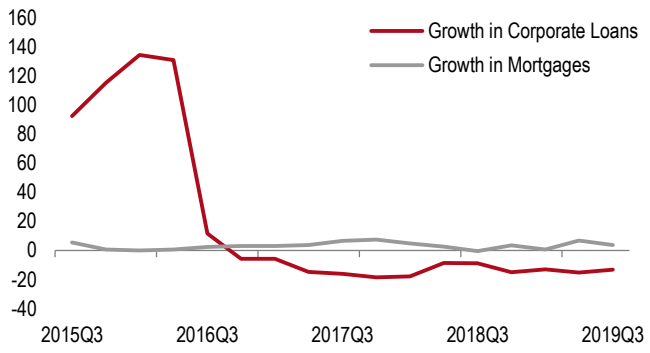
Source: Cayman Islands Economic and Statistics Office and CIBC FirstCaribbean.

Chart 4
Growth in Key Balances (y/y; %)



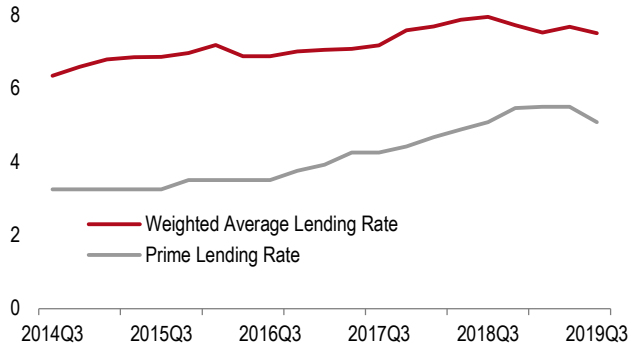
Source: Cayman Islands Economic and Statistics Office and CIBC FirstCaribbean.

Chart 5
Growth in Corporate Loans and Mortgages (y/y; %)



Source: Cayman Islands Economic and Statistics Office and CIBC FirstCaribbean.

Chart 6
Interest Rates (%)



Source: Cayman Islands Economic and Statistics Office and CIBC FirstCaribbean.

Costa Rica

Luis Hurtado
CIBC Capital Markets

Production, Prices and Employment

Q1 GDP growth came in at 0.5% y/y. This result, although positive, represents a sharp deceleration from the 2.6% y/y gain posted in the last two quarters of 2019. Such deceleration was, as expected, due to the mobility restrictions and border closures implemented to battle the COVID-19 pandemic.

- Looking at Q1 GDP by expenditure, fixed capital formation maintained a negative trend, coming in at -7.5% y/y (-8.5% y/y in Q4 2019) due to lower private investments, public sector budget reductions, and delays of infrastructure projects. Private consumption growth decelerated to 0.6% y/y from 2.1% y/y in Q4 2019 given the increase in the unemployment rate, while Government consumption dropped -2.3% y/y during the same quarter. On the external front, total exports increased 2.4% y/y on the back of an 8.4% y/y gain in goods exports, while total imports dropped -1.2% y/y during the same period.
- By industry, information and communications (up 5.6% y/y), manufacturing (up 6.3% y/y), and professional services (up 3.1% y/y) led growth in Q1. Nevertheless, construction, and hotels and restaurants endured sharp contractions, dropping 16.8% y/y and 8.5% y/y, respectively, while education and health services dropped 3.0% y/y.

Recent data confirmed a sharp contraction of economic activity, with April and May growth coming in at -8.6% y/y and -10.2% y/y, respectively. Hotels and restaurants dropped -55.7% y/y and -61.3% y/y during the same months, as the tourism industry suffered the largest consequences from border closures and mobility restrictions. Transport and storage, and commerce also endured severe production declines in May, coming in at -33.0% y/y and -18.9% y/y, respectively. Looking at the external sector, the H1 trade balance showed a US$1.4bln deficit, improving from the US$2.7bln deficit posted a year earlier. This result is explained primarily by the 10.7% y/y drop in imports, while exports declined 1.9% y/y.

July inflation was -0.2% y/y (0.3% m/m), down from June's 0.3% y/y and May's 0.6% y/y and well below the central bank's 3% target. Amid the negative economic shock, the Banco Central de Costa Rica (BCCR) maintained its expansionary monetary policy, cutting rates by 200bps since the start of 2020. Moreover, the BCCR updated its 2020-2021 Macroeconomic program, lowering its 2020 GDP growth forecast to -5.0% from its previous -3.6% estimate and leaving its 2021 growth projection unchanged at 2.3%. It also estimated the current account deficit at 3.2% of GDP and 3.3% of GDP for 2020 and 2021, respectively.

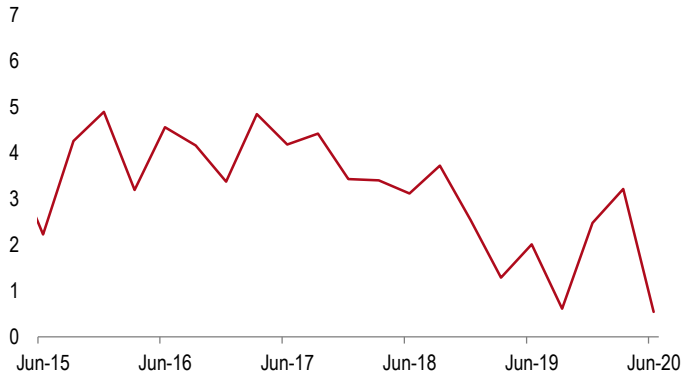
The unemployment rate came in at 24% in Q2 2020, 12.1 percentage points above Q2 2019. The number of employed people reached 1.75mln in Q2 2020, declining 438k from Q2 2019, while the participation rate came in at 55.6%, above the 63% posted in Q2 2019.

Table 1
Key Economic Indicators & Forecast

Key Annual Indicators	2017	2018	2019F	2020F
Real GDP Growth	3.4%	2.6%	1.9%	-5.0% to -7.0%
Inflation (End of Period)	2.6%	2.0%	1.5%	1.5%
Prim. Central Govt Fiscal Balance (% GDP)	-3.1%	-2.3%	-2.7%	-4.6%
Nom. Central Govt Fiscal Balance (% GDP)	-6.2%	-5.9%	-7.0%	-10.2%
Exchange Rate (USD/CRC)	566.0	603.0	569.0	600
Policy Interest Rate (End of Period)	4.75%	5.25%	2.75%	0.75%
Current Account (% of GDP)	-3.1%	-3.1%	-2.5%	-3.5%
Central Gov't Debt/GDP	49%	54%	58.5%	70%

Source: Ministerio de Hacienda, IMF and CIBC Capital Markets

Chart 1
Real GDP (y/y; %)



Source: Bloomberg

Government Debt

June Central Government revenue came in at CRC311.2bln (-29.9% y/y), deteriorating sharply from the US$443.7bln posted in June 2019. Tax revenue amounted to CRC268.9bln, or down 29.9% y/y, as income, sales, and consumption taxes dropped 38.4% y/y, 22.1% y/y, and 62.3% y/y, respectively. On the other hand, total expenses reached CRC627.5bln, up 8.0% y/y. Current expenses increased 11.2% y/y given the 2.6% y/y and 27.6% y/y jumps in salaries and Government transfers, respectively, while capital expenditures dropped 29.8% y/y to CRC32bln. With these numbers, the 12-month nominal deficit reached 7.8% of GDP (6.0% of GDP in June 2019) and the 12-month primary deficit increased to 3.2% of GDP (2.3% of GDP in June 2019).

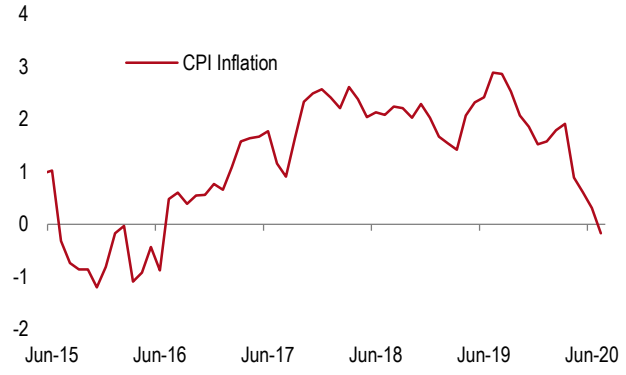
Given the deterioration of growth prospects and the measures implemented to battle the COVID-19 pandemic, the Ministry of Finance updated its 2020 fiscal deficit forecast to 9.3% of GDP, 0.7 percentage points higher than in May. Moreover, it estimated the 2021 deficit at 8.1% of GDP and the Central Government debt to reach 70.2% and 76.6% of GDP in 2020 and 2021, respectively. It is worth mentioning that the updated estimates accounted for the full implementation of the fiscal rule and the 2018 tax reform – a situation difficult to envisage given the latest exemption of the VAT to some sectors and the surge in the unemployment rate.

Financing Requirements, IMF Agreement Negotiation, and Outlook

The Government provided a short-term safety net for investors during H1 2020 by proactively engaging multilaterals to cover its approximately 13% of GDP financing requirements for this year. Moreover, COSTAR has responded well to the Government's announcement that it will start negotiations for a stand-by agreement with the IMF. Although a potential deal should provide insurance against complicated external issuance discussions, the Government and congress have resisted a significant fiscal adjustment attained via a permanent reduction of Government expenses or new revenue sources, respectively.

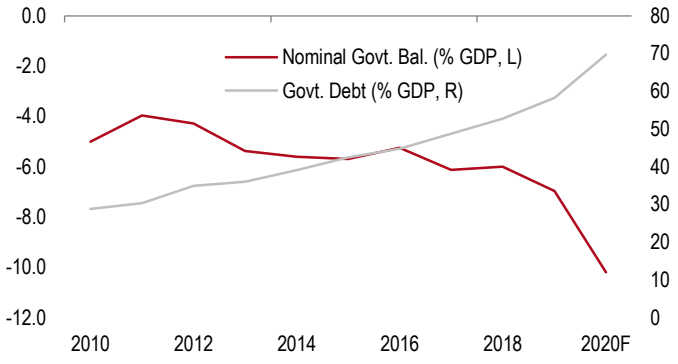
We believe that hopes of an IMF deal should continue to provide support for the credit in August and September with bouts of volatility as congress and the market assess the feasibility of any agreement and updated fiscal numbers are scrutinized. Moreover, we believe delays in the full implementation of the VAT and constant revisions to GDP estimates will lead to at least US$1bln in extra financing needs for this year, likely to be met by the local market. Hence, we would treat any COSTAR rally carefully as headlines on expenditure cuts, revenue and loan approval risks inundate local newspapers. We expect the nominal deficit to jump above 10% of GDP given the uncertainties related to the payment of tax deferrals, VAT exemption, and risks of further downward revisions to growth.

Chart 2
Inflation (y/y; %)



Source: Ministerio de Hacienda, CIBC Capital Markets

Chart 3
Central Government Deficit and Debt (% of GDP)



Source: Ministerio de Hacienda, CIBC Capital Markets

Curaçao

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

The closure of Curaçao's borders on March 17, followed by curfews and 'shelter at home' measures, including a full lockdown, resulted in a steep economic contraction during H1 2020, following four consecutive years of economic decline.

- Stay-over arrivals expanded 5.4% y/y during January to February but slumped 55.6% y/y during March, generating a 14.7% contraction during Q1 2020. All major markets registered declines during the quarter and greater than 50% declines during March in particular. Cruise-ship arrivals also began to feel the pinch from March (down 37.0%), declining 7.9% y/y during Q1 2020.
- Since then, the Government of Curaçao has gradually lifted restrictions and reopened its borders, welcoming international travel from Aruba and Sint. Maarten on June 15 and from Belgium, Canada, China, France, Germany, Italy, Spain and The Netherlands from July 1. With several other markets added to the list, excluding the US, close to 3,000 passengers landed by mid-July, most of whom were from The Netherlands.

Fuel taxes introduced by the Government in March and April likely mitigated the decline in crude oil prices, contributing to 2.7% y/y growth in consumer prices during April 2020. The prices of food, housing, and transport and communication rose 5.6% y/y, 3.1% y/y and 1.5% y/y, respectively.

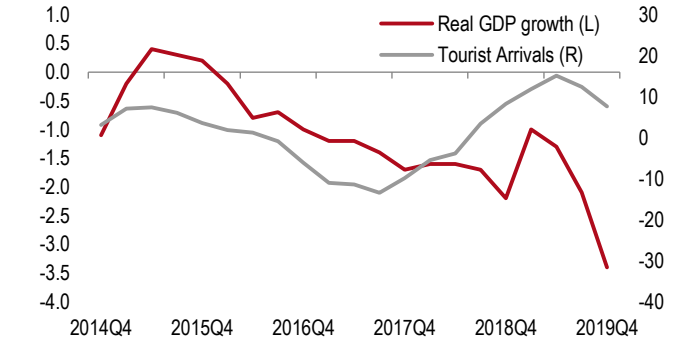
While measures have been put in place to avert massive COVID-19-related job losses, unemployment likely worsened since the last reported rate of 21.2% in April 2019. Further, failed negotiations with the Kelsch Group resulted in the lay-off of approximately half the workers at the Isla Refinery during H1 2020.

Developments in Financial Markets

Monetary policy aimed at reducing the outflow of official FX reserves continued to reduce excess liquidity during Q1 2020. However, this trend has since lost momentum due to a temporary easing of conditions in response to the pandemic.

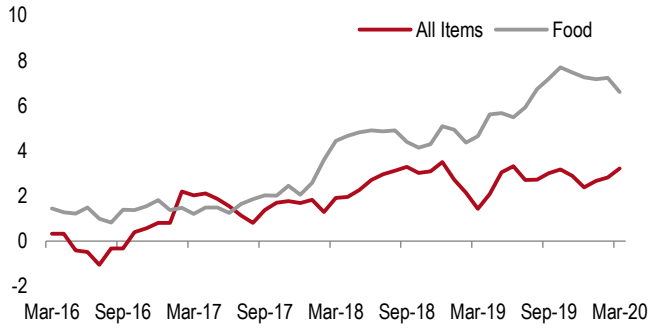
- Following the March 2020 rise in the reserve requirement from 18% to 19%, the Centrale Bank van Curaçao en Sint Maarten (CBCS) maintained the requirement at 19% in May but lowered the interest rate on 'Certificates of Deposit' to support liquidity during the COVID-19 pandemic. The current account balance of commercial banks at the CBCS declined 46.8% y/y to US$204.6mln at March, but rose to US$285.4mln at May 2020. Meanwhile, the gross official FX reserves of the Monetary Union, excluding gold, increased 15.7% y/y to US$1.51bln (15.7 weeks of imports of goods and services) at May 2020, buttressed by liquidity support received from The Netherlands.
- Loan balances expanded 2.7% y/y during April 2020, reflecting increased lending to both the corporate and retail segments. Greater lending to businesses pushed corporate loans 3.4% higher y/y, while a 3.7% expansion in mortgage loans eclipsed a 0.6% y/y fall-off in consumer lending, lifting retail lending 1.7% y/y.
- Deposit balances registered a 0.1% uptick as retail and non-resident funding rose 1.1% y/y and 2.4% y/y, respectively, but corporate deposits slipped 0.8% y/y.

Chart 1
Key Economic Indicators (%)



Source: Central Bank of Curaçao and St. Maarten and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



Source: Central Bank of Curaçao and St. Maarten and CIBC FirstCaribbean.

Government Debt

Preliminary data suggest that the Government of Curaçao recorded a US$26.0mln improvement in its fiscal balance to a US$4.1mln surplus in 2019, likely reflecting greater efforts at fiscal consolidation. However, the CBCS suggests that unprocessed commitments partially offset by expected dividend payments could result in a deficit for the year.

- Government receipts rose US$9.5mln as a US$38.4mln expansion in tax revenue eclipsed a US$28.9mln fall-off in non-tax revenue. Taxes on income and profits, property, and goods and services rose US$4.5mln, US$0.9mln and US$35.3mln, respectively, but taxes on international trade and transactions fell US$3.4mln. In addition to ongoing efforts to enhance tax compliance, the Government increased excises on alcohol and tobacco, and increased the sales tax rate on imports from 6% to 9% effective September 1, 2019. A 75% increase in waste disposal charges was also implemented on the same date. The decline in non-tax revenue reflected the transfer of reserves by some Government institutions in 2018 that did not occur in 2019.
- Government expenditure declined US$16.5mln during the year. Outlays for goods and services, transfers and subsidies, wages and salaries and interest declined US$2.6mln, US$12.0mln, US$3.7mln and US$0.7mln, respectively, but other spending increased US$2.5mln.

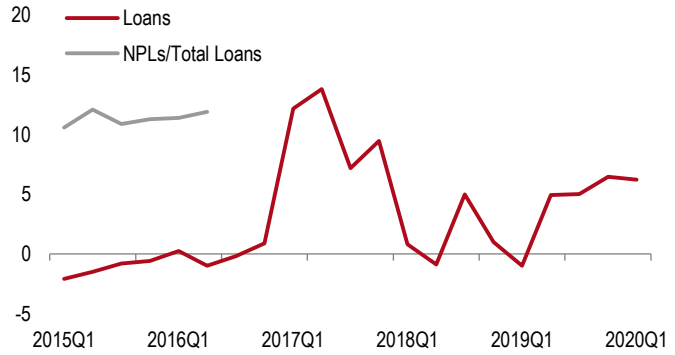
Total public debt rose 0.8 percentage points to 52.0% of GDP at the end of the period. Repayment of arrears to the public pension fund, APC, led to a 24.5% y/y reduction in domestic debt to US$268.7mln, while foreign debt rose 2.3% y/y to US$1.34bln at December 2019, despite the repayment of arrears to the Dutch Government during Q3 2019.

Outlook

The COVID-19 pandemic will render significant fallout, against the backdrop of an already challenged economic environment. Despite the phased restart to tourism activity that began in June, the hindrance of commercial travel due to the resurgence of the virus in some source markets suggests a very gradual recovery. Further, failed negotiations with the Kelsch Group regarding the ownership and operation of the Isla Refinery compound the dire consequences of the pandemic on Curaçao's economy. With the search for a new refinery operator now underway, the future of the refinery remains uncertain. The IMF's latest projections indicate a 23% decline in economic activity in 2020, with GDP reaching pre-pandemic levels only in 2023.

The deterioration of the Government's fiscal position will generate a substantial increase in debt, though much of the Government's 2020 deficit will likely be financed through concessionary funding from The Netherlands. Following the first tranche of support (US$98.7mln) from The Netherlands in April, the first and second parts of the second tranche (US$113.7mln) were approved in May and June, respectively, the latter part of which was linked to the Government's wage subsidy scheme. These soft loans made available to the Dutch Caribbean were tied to certain conditions, including the cutting of expenditures and pay-cuts for elected representatives and directors of Government institutions. However, Curaçao did not fully meet these requirements – the deliberations of which sparked unrest – and therefore did not qualify for its third aid-package. Aruba, Curaçao and Sint. Maarten have joined in objection to the pace required for the implementation of reforms and to the establishment of a new entity – the Caribbean Reform Entity – to supervise the budgets of the three Caribbean countries.

Chart 3
Developments in Credit Market Indicators (%)



Source: Central Bank of Curaçao and St. Maarten and CIBC FirstCaribbean.

Dominica

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

The COVID-19-related disruption of tourism activity and associated rippling across ancillary sectors, along with the curtailment of non-essential movement, likely reversed Dominica's economic recovery during H1 2020.

- After rebounding in 2019, total visitor arrivals and visitor expenditure declined 16.6% y/y and 19.9% y/y during Q1 2020. Specifically, stayover arrivals contracted 22.5% y/y, with arrivals from all major markets falling except those from Canada (up 7.1% y/y). Cruise-ship passenger arrivals dipped 12.4% y/y with 7.8% y/y fewer calls, while yacht-passenger arrivals and excursionists slumped 97.1% y/y and 88.7% y/y, respectively. The Government of Dominica announced the closure of borders to all travellers effective March 28, implying a worsened tourism fallout over H1 2020. Dominica opened its borders to nationals and residents on July 15 as part of its first phase of reopening, while all other visitors were allowed from August 7, during the second phase.
- June 30 marked the end of a three-month State of Emergency that initially included nightly curfews, weekend lockdowns, closure of schools and day cares, and limitations on non-essential businesses. The Government gradually eased restrictions over the period, but business activity likely declined significantly during Q2.

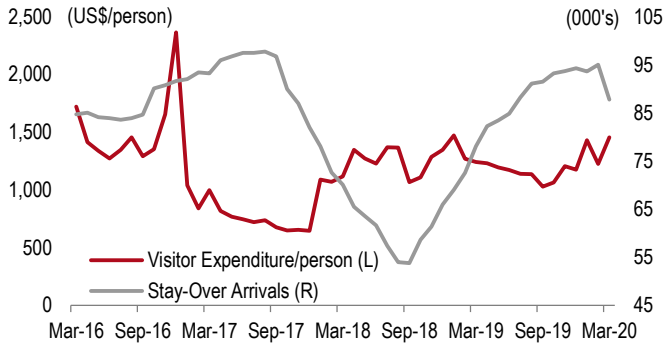
Lower oil prices likely contributed to a 1.0% y/y fall-off in consumer prices at March 2020. The price of food and non-alcoholic beverages increased 0.6% y/y, but the prices of housing, utilities and gas and fuels, and transport fell 3.3% y/y and 0.9% y/y, respectively.

Developments in Financial Markets

Excess liquidity fell during 2019 as loan balances increased amid declining deposits. Banks' loan quality and profitability improved during the year.

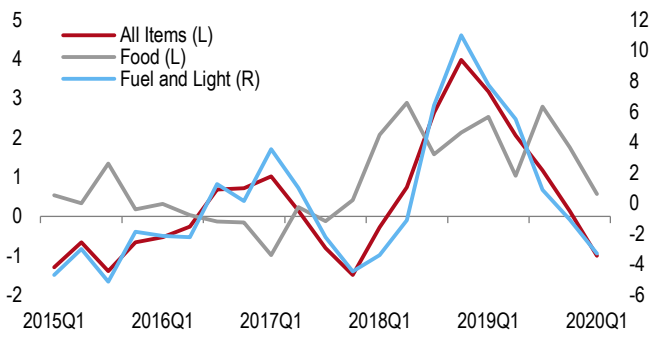
- Total loans grew 2.6% y/y. Retail loans fell 2.4% y/y, but corporate loans rose 6.5% y/y. A 69.0% expansion in lending to the public sector eclipsed an 11.3% y/y fall-off in lending to businesses.
- Deposit balances dipped 9.0% y/y as retail and corporate deposits fell 1.8% y/y and 19.4% y/y, respectively, but non-resident deposits rose 3.6% y/y.
- Consequently, the loan-to-deposit ratio rose to 52.9% at December 2019 from 46.9% one year earlier. The weighted average lending rate fell 11bps to 7.49%, but the average deposit rate rose 6bps to 1.75%, reducing the average spread 17bps to 5.74% at December 2019.
- Banks' non-performing loan ratio declined 4.8 percentage points y/y to 12.2%, while the annualised return on assets improved from -0.8% to 2.9% at December 2019.

Chart 1
Stay-Over Tourist Arrivals



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Government Debt

A plunge in Citizenship by Investment (CBI) inflows coupled with increased spending worsened the Government of Dominica's fiscal deficit by US$61.9mln to US$105.2mln during 2019.

- Total revenue collections contracted US$41.5mln. Tax revenue increased US$11.2mln (7.5% y/y), but a US$7.9mln plunge in CBI receipts reduced non-tax revenue by US$49.0mln (42.4% y/y). Taxes on domestic goods and services fell US$2.9mln, but taxes on income and profits, property and international trade and transactions advanced US$10.4mln, US$1.6mln and US$2.1mln, respectively. Capital revenue rose US$0.4mln, but grant receipts declined US$4.0mln.
- Meanwhile, current expenditure rose US$53.5mln as greater spending on goods and services (up US$34.2mln), interest payments (up US$2.3mln) and transfers and subsidies (up US$17.6mln) overshadowed reduced outlays for personal emoluments (down US$0.5mln). Capital spending also rose (up US$33.1mln) during the year.

Central Government debt stood at US$411.0mln at December 2019, 16.6% higher than at December 2018. When combined with a 1.3% y/y rise in public corporations' debt, public debt rose 6.2 percentage points y/y to 80.6% of GDP.

Since then, direct costs in response to the pandemic coupled with plummeting revenue have worsened the Government's fiscal position and created large financing gaps. The Government reported a fall-off in CBI revenue for April and has estimated declines of 30% and 20% over April to June 2020 for taxes collected by Customs and Inland Revenue, respectively.

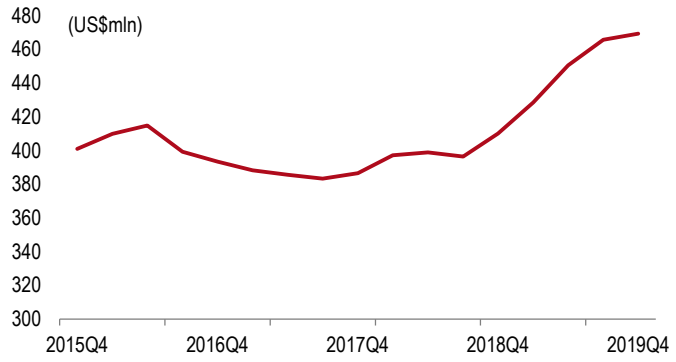
In addition to an EC$500k grant from the ECCB, the IMF approved a US$14mln disbursement to Dominica under its Rapid Credit Facility in April, intended to mitigate fiscal and external pressures. Further, the CDB made available US$2.5mln in emergency financing in May, while the World Bank provided a total of US$9.6mln over two disbursements in April and June toward the strengthening of Dominica's COVID-19 response under the OECS Regional Health Project.

In response to the pandemic, the Government placed on hold increases in its CBI costs scheduled for 2020 and has expanded the definition of 'dependants,' aiming to make the programme more attractive to extended families.

COVID-19: Developments, Policy Responses and Outlook

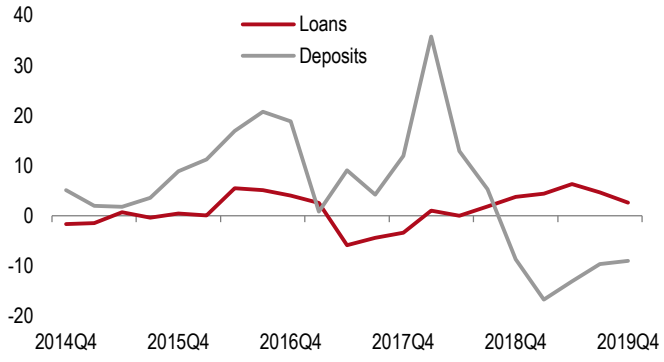
The ECCB projects that Dominica's real GDP will contract by 8.7% in 2020, largely driven by declines in the hotel and restaurant, and transport storage and communication sectors. The Bank expects that construction output will remain robust supported by ongoing reconstruction in the public sector and the continuation of CBI-funded projects, including Anichi Resorts, Jungle Bay Hotel and Tranquility Beach Hotel. However, the deceleration of CBI receipts or fewer-than-expected grants could worsen the expected outcome. Meanwhile, the Government's fiscal deficit will likely widen considerably in 2020, pushing public debt even higher.

Chart 3
Public Sector Debt Outstanding



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 4
Growth in Key Balances (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Dominican Republic

Luis Hurtado
CIBC Capital Markets

Production, Prices and Employment

Q1 2020 growth came in at 0% y/y as the first repercussions of border closures and quarantines were felt throughout the economy in March. The first-quarter result presented a sharp deceleration from the 5.8% y/y posted in Q4 2019 and the 5.7% y/y a year earlier.

- Looking at the Q1 results, Government consumption increased 9.7% y/y , well above the 6.1% y/y posted in Q1 2019, in line with the Government response to the pandemic. The increase in Government consumption offset the sharp deceleration of private consumption to 1.8% y/y (+4.9% y/y in Q1 2019) and of fixed capital formation to 0.7% y/y (+10.0% y/y in Q1 2019) and the 11.2% y/y decline in exports (+6.2% y/y in Q1 2019). The contraction in exports is explained by the 34.8% y/y decline in export services amid the 26.1% y/y decline in tourism income due to border closures since March 19, 2020.
- By industry, hotels, bar, and restaurants (down 17.4% y/y) posted the largest decline in Q1 as the Government placed mobility restrictions and closed borders. Mining (-9.6% y/y), construction (-3.2% y/y), and transportation and storage (-3.0% y/y) also experienced contractions as activity came to a halt during the second half of March. On the other hand, the 12.3% y/y, 9.0% y/y, and 5% y/y increases in health, financial services, and utilities were the top performers during the first quarter of the year.

As expected, quarantines and border closures continued to influence in Q2, with economic activity dropping -29.8% y/y, -13.6% y/y, and -7.1% y/y in April, May and June, respectively. With these numbers, H1 GDP growth is estimated to land at -8.5% y/y. Once again, the sharp contraction of tourist arrivals (100% y/y) in Q2 is one of the main culprits behind this trend. As stated in previous notes, tourism, as represented by the hotels, bars and restaurants sector (7.9% of GDP), accounts for approximately 36% of total exports and 25% of total FX generation in the country. Hence, it is not surprising to see the significant correlation between economic activity and large decline in tourist arrivals expected for 2020.

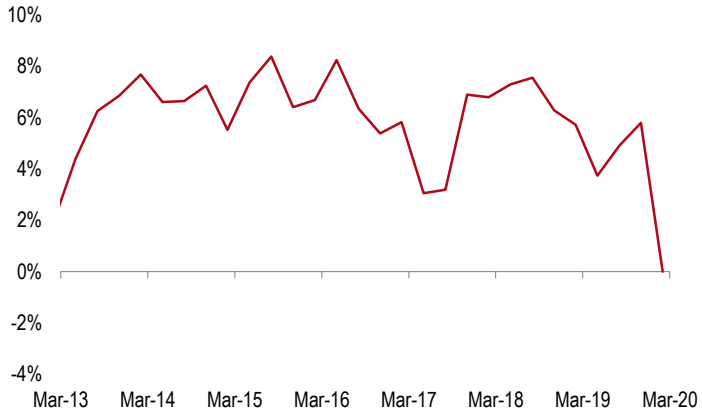
Looking at prices, June inflation came in at +1.7% m/m (+2.9% y/y) as transport, housing, and food and non-alcoholic beverages increased 4.9% m/m, 2.3% m/m, and 2.0% m/m, respectively. The BCRD kept the overnight rate at 3.5%, its historical minimum, during Q2. Although we expect the BCRD to maintain the overnight rate at the current level for the rest of 2020, it is important to watch for any change in sentiment as core prices accelerate to 3.5% y/y, their highest level since 2014.

Table 1
Key Economic Indicators & Forecast

Key Annual Indicators	2017	2018	2019	2020F
Real GDP Growth	4.6%	7.0%	5.1%	-5% to -7%
Inflation (End of Period)	3.3%	1.2%	3.7%	3% to 4%
NFPS Primary Fiscal Balance (% GDP)	-0.9%	0.3%	0.2%	-4.0%
NFPS Nominal Fiscal Balance (% GDP)	-3.5%	-2.4%	-2.3%	-6.5%
Exchange Rate (USD/DOP)	48.1	50.2	52.9	57.2
Policy Interest Rate (End of Period)	6.0%	5.5%	4.5%	3.5%
NFPS Debt (% of GDP)	36.9%	37.6%	42%	50%

Source: Bloomberg, BCRD, Ministerio de Hacienda, IMF, World Bank, CIBC Capital Markets

Chart 1
Real GDP (y/y; %)



Source: Bloomberg

Government Debt

January-May 2020 Central Government revenues reached DOP242bln, dropping 12.1% y/y, well below the 8.9% y/y gain during the same period in 2019. Looking at the breakdown of revenues for the same period, tax revenue came in at DOP209.5bln (-18.4% y/y). Of this amount, DOP75.5bln (-12.6% y/y) came from income taxes, while taxes on property dropped 49.8% y/y to DOP2.1bln and taxes on good and services reached DOP119.6bln (down 20.3% y/y). On the other hand, January-May 2020 total expenses came in at DOP353.3bln or up 18.6% y/y, up from the 16.4% y/y posted in the same period a year earlier. Current expenditures rose 17.7% y/y to DOP318.2bln, driven by the 8.9% y/y , 4.9% y/y and 19.9% y/y increase in salaries, interest, and subsidies, respectively. Capital expenditures increased 27.1% y/y to DOP35.0bln. With these numbers, the 12-month Central Government nominal deficit reached DOP177.9bln or 3.8% of GDP while the primary deficit came in at DOP50.0bln or 1.2% of GDP.

These numbers are in line with the Government's updated nominal fiscal deficit for 2020 at DOP233.6bln or 5% of GDP. Although we agree with the need to adjust the deficit to the current environment, the proposed increase in the deficit likely only accounts for the drop in revenues and the initial increase in pandemic-related spending in health and social assistance in the last four months of the Medina administration. Hence, we expect to see further revisions to the deficit as the new Government is installed and announces its economic recovery plan.

Financing Requirements, Recent Credit Rating Actions and Outlook

On June 22 the Ministry of Finance officially updated its budget and financing needs for 2020 to DOP233.6bln, from the original DOP110.2bln. Amortizations for 2020 were also revised higher to DOP163.6bln, from the previous DOP136.0bln. With the US$2.5bln issuance in January and the DOP18.3bln issued in local markets, the Government had already obtained 61.8% of its pre-COVID-19 financing needs. Nevertheless, as our preliminary calculations in Table 2 show, the Government would have to go into the markets for another US$2.25bln for the remainder of 2020. Of that amount, we expect the Government to place around US$250mln in domestic markets, in line with its budgeted local issuance of DOP100.7bln this year, and the remaining US$2.0bln to come through a combination of additional multilateral loans or external issuance in late Q3 / early Q4.

Despite the higher financing needs, we expect DOMREP to recover ground following the presidential election. President-elect Luis Abinader will have a majority in the lower house and the senate with the PRM securing 97 out 190 and 19 out of 32 seats, respectively. Initial comments signal a willingness to deal with fiscal imbalances. Among the measures mentioned to address fiscal concerns are the possibility of broadening the tax base in line with the IMF's recommendation and the consolidation of electricity distribution companies.

The country will likely continue to enjoy one of the best economic growth stories in the Caribbean post COVID-19, and its fiscal situation, although deteriorating, is not as precarious as those in the rest of the region (e.g., ELSALV, COSTAR). Moreover, the possibility of engaging the IMF, although yet to be mentioned, provides a safety net for the credit. Hence, with political uncertainties out of the way and with attainable financing needs for the rest of the year, we continue to favour long DOMREP positions.

Chart 2
Inflation (y/y; %)

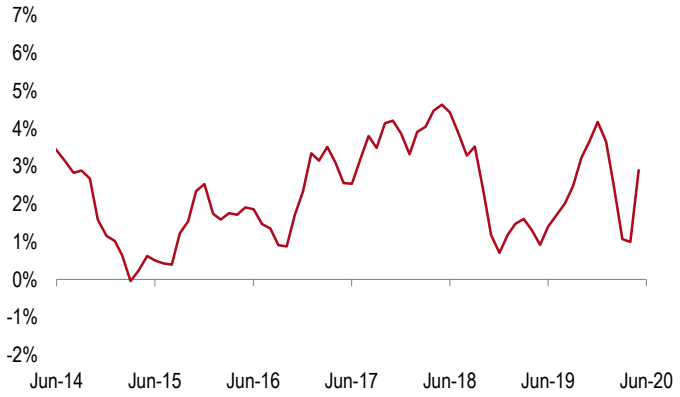


Table 2
Government Financing Needs and Sources (US$bln)

Total financing needs update – DOP397.2	**7.24**
- Fiscal Deficit 2020 - DOP 110.2bln	4.26
- Amortization 2020 - DOP136.0bln	2.98
Less:	
- Local Markets issuance year-to-date - DOP18.3bln	0.42
- External Issuance	2.50
- IMF - RFI	0.65
- Local debt placement to pension funds - DOP40bln	0.73
- Occupational risks fund - USD222mln or DOP11.8bln	0.21
- World Bank -	0.25
- Central Bank - DOP12bln	0.22
To be financed for the remainder of 2020	**2.25**
- In local markets – DOP13.6	0.25
- In external markets	2.00

Source: Ministerio de Hacienda and CIBC Capital Markets

El Salvador

Luis Hurtado
CIBC Capital Markets

Production, Prices and Employment - Pre-COVID-19

With the pandemic first impacting the region in March, Q1 2020 GDP growth came in at 0.8% y/y, below the 2.7% y/y posted a year earlier and the 3.1% y/y increase in Q4 2019. Quarantines in effect since the second half of March explain the deceleration of growth during the first quarter.

- Looking at the Q1 results by industry, the financial, construction, and commerce sectors contributed the most to growth, coming in at 10.5% y/y, 4.1% y/y, and 2.0% y/y, respectively. On the other hand, manufacturing (-2.6% y/y), professional activities (-8.7% y/y), hotels and restaurants (-5.8% y/y), and transportation and storage (-2.6% y/y) all presented declines amid the strict COVID-19 containment measures implemented in March.
- By expenditure, private consumption came in at 1.6% y/y, slightly above the 1.5% y/y posted in Q4 2019, while public consumption growth increased to 1.0% y/y from -0.8% y/y in Q4 2019 and fixed capital formation decelerated to 3.7% y/y after posting a 13.7% y/y gain in Q4 2019. On the external front, exports dropped -0.43% y/y, well below the 6.8% y/y gain posted in Q4 2019, while imports contracted 1.8% y/y compared to 1.7% y/y in Q4 2019.

Most recent data point to a sharp deterioration of growth, with economic activity coming in at -15.4% y/y and -15.3% y/y in April and May, respectively. Moreover, remittances dropped -40% y/y and -18% y/y in April and May, respectively, before recovering somewhat in June and posting a 9.8% y/y increase. Despite June's recovery, year-to-date remittances are down -8.0% y/y, posing a significant threat to consumption indicators as remittances accounted for US$5.6bln or 21% of GDP in 2019.

Exports also show a sharp contraction since the pandemic started, dropping 52.6% to US$742mln in Q2 2020. With this number, H1 2020 total exports reached US$2.2bln or -27.6% y/y. Nevertheless, the H1 2020 trade balance deficit came in at US$2.7bln (down 8.3% y/y), as consumption, intermediate, and capital goods declined 9.1% y/y, 23.1% y/y, and 15.7% y/y, respectively.

Looking at prices, June inflation was -0.2% y/y, in line with the drop in energy prices and the contraction of local demand. Utilities prices showed a 2.6% y/y decline, while transport (down -7.% y/y) also contributed to this trend.

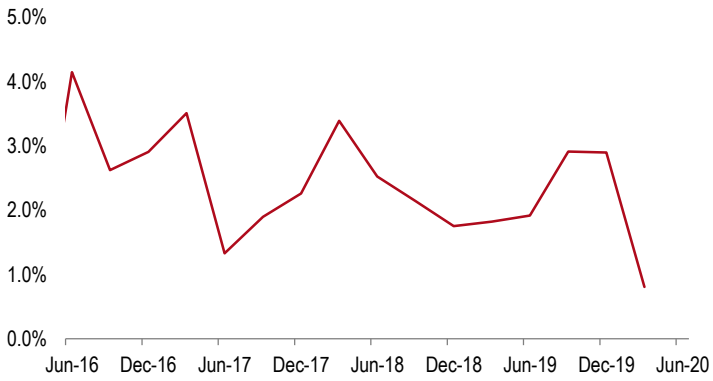
The Central Bank of El Salvador updated its 2020 GDP growth forecast to -6.5% to -8.5%, contrasting with the -5% estimated by the Ministry of Finance in May and the Government's expectations of a 2.5% increase at the start of the year. As stated in our previous reports, we would not be surprised to see further downward revisions as fears of a COVID-19 second wave pressure reopening plans and as delays in the ratification of multilateral loans impact the Government's ability to continue its social assistance programs and economic reactivation plans.

Table 1
Key Economic Indicators & Forecast

Key Annual Indicators	2017	2018	2019	2020F
Real GDP Growth	2.3%	2.4%	2.4%	-8.5%
Inflation (End of Period)	2.0%	0.4%	0.0%	0% to 1%
Prim. NFPS Fiscal Balance (% GDP)	0.7%	0.9%	0.6%	-9% to -13%
Nom. NFPS(% GDP)	-2.5%	--2.7%	-3.1%	-12% to -16%
Current Account (% of GDP)	-1.8%	-4.8%	-2.1%	-2% to -4%
Public Sector Debt/GDP	69.4%	69.4%	73.3%	90% to 95%

Source: IMF, Bloomberg, Portal de Transparencia Fiscal, and CIBC Capital Markets

Chart 1
Real GDP (y/y; %)



Source: Bloomberg

Government Debt

The numbers released by the Central Bank of El Salvador indicate that Non-Financial Public Sector (NFPS) revenue (including donations) reached US$1.3bln in Q2 2020, dropping 24.5% y/y, in line with the 23.2% decline in tax revenue. On the other hand, Q2 2020 NFPS expenses soared 34.0% to US$2.2bln, the largest quarterly increase recorded for the entirety of the data set reported at the Central Bank (starting in 1994). Current expenses increased 43.6% y/y to US$2.1bln, driven by the 173.7% y/y, 4.4% y/y and 19.3% y/y increase in current transfers, interest, and consumptions expenses, respectively, while capital expenditure increased 14.9%. The 12-month NFPS nominal deficit (including donations and pensions) came in at US$1.9bln or 7.7% of GDP (-2.6% of GDP in Q2 2019). The 12-month primary deficit came in at US$866.4mln or 3.5% of GDP (+1.0% of GDP in Q2 2019).

In our Q2 publication, we stressed that the drop in revenues in Q1 together with the expenditure increase announced by the Government was just the tip of the iceberg. Our initial estimate suggested that the current crisis could bring the nominal fiscal deficit to a range of between 12.3%-16.0% of GDP. Q2 numbers confirm our initial expectations, while downward revisions to growth and subsequent drops in revenue should push the deficit to the higher end of the range.

Financing Requirements

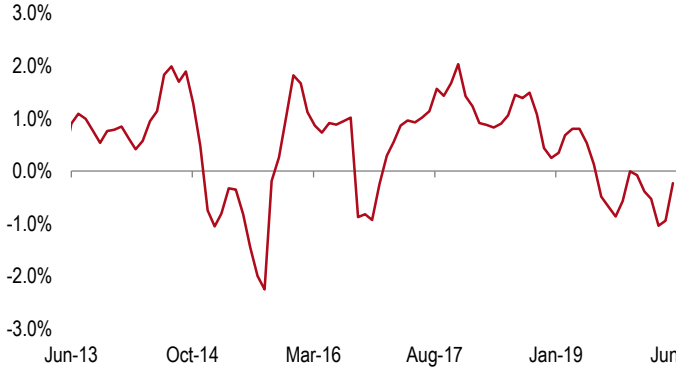
Congress has continued to ask for an extraordinary budget to ratify the loans already negotiated, a situation that has prevented the money from being disbursed to the Government. With the recent US$1bln external issuance we calculate that EL Salvador still needs to find another US$1bln in financing sources this year (assuming ratification of the close to US$1bln already negotiated with multilaterals).

Although there is the option to approach the IMF for assistance, the recent departure of Nelson Fuentes from the Ministry of Finance should at the very least put that move on hold until the February 2021 legislative election. Moreover, although the crisis may push the Government to accelerate negotiations, we expect them to be very difficult given the current lack of support from congress and the Government's unwillingness to increase taxes.

Outlook

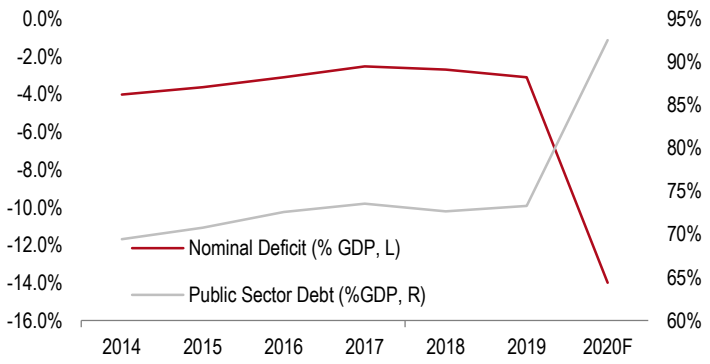
We maintain a high level of caution on the credit. Fiscal, financing and rollover risks are likely to remain high until there is an agreement with the IMF and that is unlikely until after the legislative election on February 28, 2021. Moreover, we maintain our downward bias towards growth, with the high end of the central bank's -6.5% to -8.5% growth forecast being our base case scenario for now, and we expect public sector debt to increase to over 90% of GDP given the US$3bln in extra issuance approved by congress and the decline in growth.

Chart 2
Inflation (y/y; %)



Source: Bloomberg and CIBC Capital Markets

Chart 3
Government Debt and NFPS Deficit



Source: Ministerio de Hacienda and CIBC Capital Markets

Grenada

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

Plummeting tourist arrivals and the cessation of non-essential activities likely generated a severe contraction of economic activity during H1 2020.

- Stay-over arrivals advanced 14.1% y/y during January to February 2020, but a 55.0% y/y contraction in March led to a 9.6% y/y fall-off in Q1 2020. The number of cruise ship passengers, yacht passengers and excursionists also declined (down 17.1% y/y, 14.8% y/y and 25.0% y/y, respectively). Total visitor arrivals and expenditure fell 15.7% y/y and 12.6% y/y, respectively, during the quarter. Further, the closure of borders on March 22 implies zero visitor arrivals during Q2. Since then, the Government reopened the country's borders to regional travel on July 15 and to international tourists on August 1.
- After confirmation of the first COVID-19 case in March, the Government issued emergency orders restricting non-essential movement that culminated in a 21-day full lockdown to contain the spread of the virus. A gradual relaxation of protocols followed, with domestic business activity resuming from May 11.

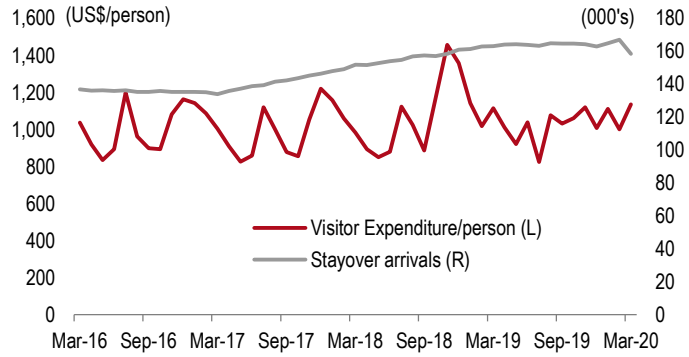
Consumer prices fell marginally (0.2% y/y) at March 2020, likely reflecting the decline in international oil prices. The price of food and non-alcoholic beverages rose 0.9% y/y, but the prices of housing, utilities, gas and fuels, and transport fell 0.1% and 2.5% y/y, respectively.

Developments in Financial Markets

Sluggish loan growth amid growing deposits increased excess liquidity during 2019, while commercial banks' credit quality and profitability improved.

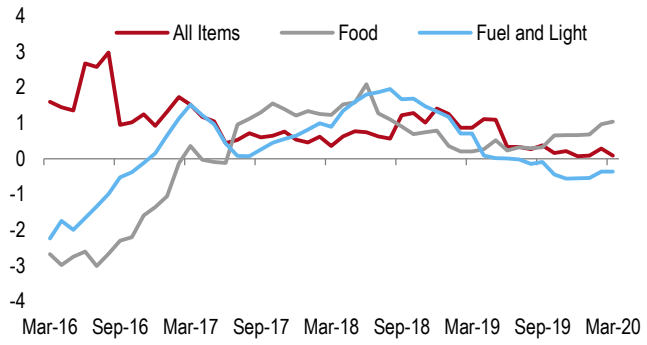
- Corporate loans advanced 3.9% y/y, but a 1.5% y/y contraction in retail loans lowered growth of total loans and advances to 0.5% y/y. Lending to businesses expanded 6.8% y/y, but loans to the public sector fell 17.0% y/y.
- Meanwhile, total deposit balances increased 3.5% y/y as demand and savings deposits rose 11.3% y/y and 1.7% y/y, respectively, but time deposits fell 4.8% y/y.
- Consequently, the loan-to-deposit ratio declined 1.6 percentage points y/y to 53.4% at December 2019, while the average lending and deposit rates fell 34bps y/y and 7bps y/y to 7.21% and 1.24%, respectively.
- Banks' non-performing loan ratio continued to improve, falling to 2.2%, while the annualised return on assets rose from 1.0% at December 2018 to 1.4% at December 2019. However, the capital adequacy ratio fell 1.3 percentage points y/y to 11.9% at year-end.

Chart 1
Stay-Over Tourist Arrivals



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Government Debt

The Government of Grenada produced a US$51.5mln (4.3% of GDP) fiscal surplus during 2019, a little below the US$57.3mln surplus recorded one year earlier. However, its primary surplus of 6.1% of GDP greatly surpassed the 3.5% of GDP target.

- Tax revenue advanced US$5.5mln (2.0% y/y) as increased taxes on property (up US$3.8mln), domestic goods and services (up US$1.5mln) and international trade and transactions (up US$1.2mln) eclipsed a US$1.0mln fall-off in taxes on income and profits. Non-tax revenue also rose (up US$1.5mln), contributing to a US$7.0mln expansion in current revenue. However, grant receipts declined US$2.2mln (6.2% y/y).
- Current spending rose US$13.8mln (6.1% y/y), but capital outlays fell US$3.2mln (9.9% y/y). Greater spending on personal emoluments (up US$1.4mln), goods and services (up US$6.5mln) and transfers and subsidies (up US$6.5mln) overshadowed a US$0.5mln dip in interest payments.

The Government's surplus position allowed for a further reduction of its debt, with Central Government debt declining 4.5% y/y to US$699.3mln. Total debt of public corporations also fell (down 42.1% to US$24.3mln), lowering total public debt 6.6 percentage points to 59.7% of GDP at the end of December 2019.

Since then, the Government has invoked the Escape Clause of its Fiscal Responsibility Law (FRL) in response to the pandemic. Fiscal responsibility over the last five years and accumulated Government deposits have enabled the Government to provide fiscal support to affected sectors. However, the Government reported that capacity has been constrained due to declining tax collections, particularly from April 2020, and its commitment to remaining fiscally responsible.

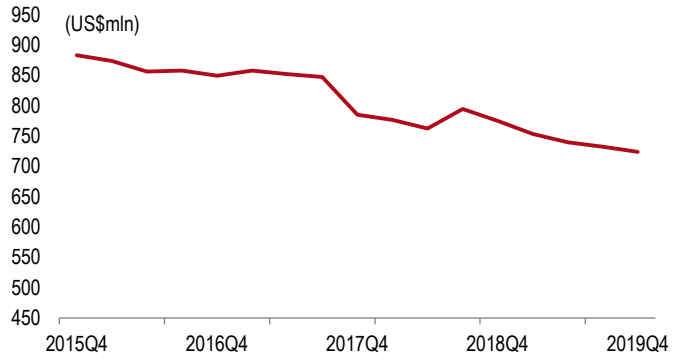
In addition to an EC$500k grant from the ECCB, the IMF approved a US$22.4mln disbursement to Grenada under its Rapid Credit Facility in April, intended to mitigate fiscal and external pressures. Further, the CDB made available US$5.9mln in emergency financing in May, while the World Bank provided two disbursements of US$2.5mln each in June toward the strengthening of Grenada's COVID-19-response under the OECS Regional Health Project.

Outlook

Following seven consecutive years of economic expansion, the ECCB projects a 16.4% economic contraction in 2020 led by the tourism fallout and reflecting broad-based declines across all major sectors. The bank expects a 68% plunge in the hotel and restaurant sector, followed by 50%, 17% and 13% declines in the transport storage and communication, construction and distribution sectors, respectively. Further, most students of the St. Georges University have returned to their home countries, with the University permitting the option to attend classes virtually until the end of year.

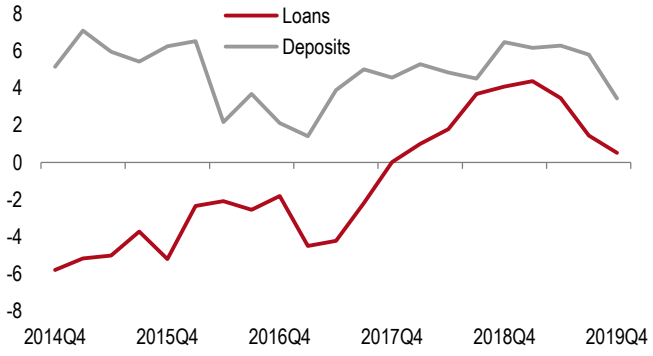
The IMF expects a deterioration in the fiscal accounts to a 0.7% of GDP primary deficit and a 2.9% of GDP fiscal deficit in 2020. However, once the pandemic fades and the economy recovers, the Government has committed to returning to the parameters of the FRL and maintaining macroeconomic stability.

Chart 3
Public Sector Debt Outstanding



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 4
Growth in Key Balances (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Guyana

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

Lower-than-expected earnings stemming from the volatility of oil prices, restrictive measures to limit the spread of the global pandemic, and the lingering political crisis led to increased uncertainty and dampened Guyana's economic prospects during H1 2020.

- The implementation of nightly curfews and the restriction of activities, excluding critical services, coupled with the closure of all airports and seaports in mid-March, constrained business activity. Since then, the Government began easing restrictions on June 18, while the restart of commercial travel has been delayed until August 15.
- Since the commencement of oil production in December 2019, Guyana celebrated its first oil shipment in February of just over one million barrels, earning US$55mln. Since then, the second one-million-barrel shipment earned just US$35mln in May 2020, owing to the collapse of oil prices.
- Meanwhile, the outcome of the March 2020 presidential election, which was marred by legal dispute, has led to a challenged political environment and increased uncertainty regarding economic policy amid the pandemic. Five months after voters went to the polls, President Irfaan Ali was finally sworn in on August 2.

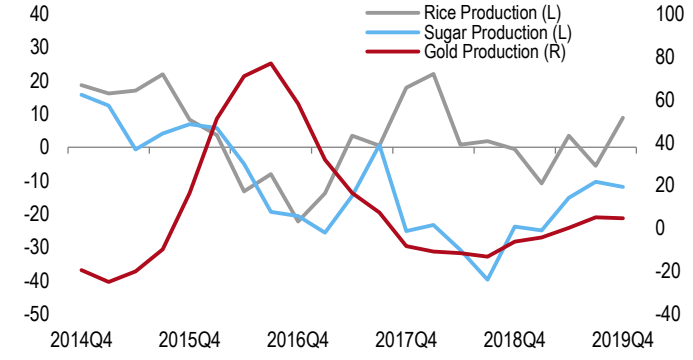
Consumer price inflation slowed to 1.6% y/y during May 2020. The price of food increased 4.2% y/y, but the prices of housing and transportation and communication dipped 0.4% y/y and 0.3% y/y, respectively.

Developments in Financial Markets

Stronger growth in deposits relative to loans kept excess liquidity high over the 12 months ended March 2020. Commercial banks' loan quality improved, while capital adequacy fell, but remained at acceptable levels.

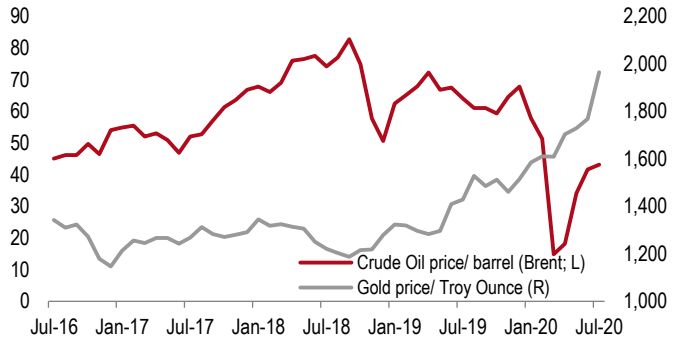
- Resident loan balances at commercial banks rose 10.4% y/y, largely reflecting an 8.7% y/y expansion in private sector loans. Specifically, lending to businesses and for real estate mortgages advanced 19.3% y/y and 5.7% y/y, respectively, but consumer loans dipped 0.9% y/y. Meanwhile, loans to the public sector increased 29.4% y/y.
- Total deposits of residents grew 11.1% y/y. Private sector balances increased 14.8% y/y as deposits of consumers and businesses expanded 12.4% y/y and 22.2% y/y, respectively. Meanwhile, balances of non-bank financial institutions rose 4.8% y/y, but public sector deposits declined 10.0% y/y.
- Excess reserves held at the Bank of Guyana rose 6.3% to US$141mln at the end of March 2020, while commercial banks' weighted average lending rate fell 102bps y/y to 9.01% and the small savings rate fell 3bps y/y to 0.97% at the end of the same period. Banks' non-performing loan ratio improved to 11.1% from 12.3% one year earlier, but the capital adequacy ratio fell 1.8 percentage points y/y to 26.6% at March 2020. Banks' return on assets fell from 0.56% during Q1 2019 to 0.42% during Q1 2020.

Chart 1
Key Economic Indicators (y/y; %)



Source: Bank of Guyana and CIBC FirstCaribbean.

Chart 2
Key Commodity Prices (US$)



Source: Bank of Guyana, International Monetary Fund, Central Bank of Trinidad and Tobago and CIBC FirstCaribbean.

The Bank of Guyana's net international reserves fell 3.2% y/y to US$499.2mln (1.6 months of import cover) at the end of March 2020, but increased to US$526.7mln at May 2020, marginally higher than in May 2019.

Government Debt

The Central Government registered a US$3.1mln improvement in its fiscal surplus to US$31.5mln during Q1 2020, reflecting a steeper fall-off in Government expenditure relative to revenue.

- Total Government revenue contracted US$11.6mln (4.1% y/y). Tax receipts rose US$19.9mln but non-tax revenue fell US$3.1mln, limiting the expansion in current revenues to US$16.8mln (6.7% y/y). Income tax, taxes on production and consumption and taxes on international trade increased US$9.5mln (9.2% y/y), US$9.2mln (8.8% y/y), and US$1.2mln (4.8% y/y), respectively. However, capital receipts fell US$28.4mln (94.1% y/y) due to a substantial reduction in grants during the quarter.
- Government spending also fell (down US$14.7mln or 5.8% y/y), largely due to a US$20.4mln fall-off in capital outlays, partially attributed to the lack of a 2020 Budget. However, capital spending on the health sector rose 40.8% y/y. Current expenditure on personal emoluments and transfer payments increased US$7.7mln (10.9% y/y) and US$11.3mln (12.9% y/y), respectively, but spending on goods and services and debt fell US$12.4mln (26.2% y/y) and US$0.9mln (7.0% y/y), respectively, increasing the total 2.6% y/y.

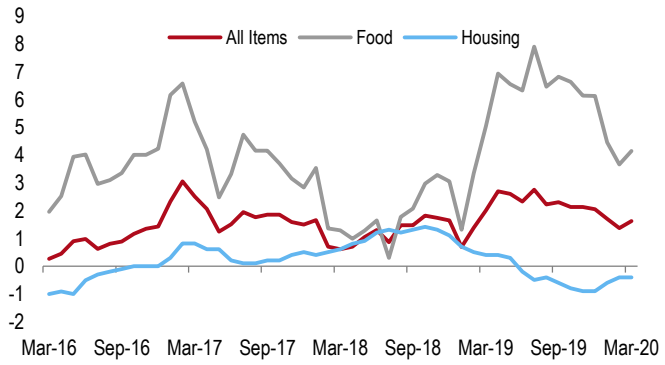
Public debt rose 1.2% y/y to US$1.69bln at March 2020 as domestic debt fell 0.7% y/y to US$392.4mln but external debt increased 1.7% y/y to US$1.27bln, respectively.

Outlook

Guyana was poised to deliver five one-million-barrel shipments in 2020, with its third oil lift scheduled for July, but slower production levels due to precautionary measures and challenges related to crew rotations have delayed production objectives. Further, the volatility in oil markets suggests that originally anticipated earnings of US$300mln in 2020 could be slashed by almost half, while social distancing measures will likely restrict domestic business activity for the remainder of the year. Despite the effects of the pandemic, including lower oil prices, latest IMF and World Bank estimates suggest Guyana could still post a strong growth performance in 2020, albeit much slower than originally expected.

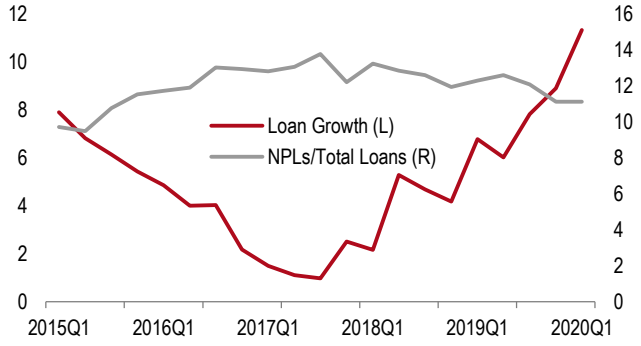
The swearing-in of Guyana's new President has likely brought to an end the political uncertainty that hampered the Government's response efforts. Support thus far has been limited to the strengthening of the health sector, tax-waivers on COVID-19 medical supplies, tax deductions for donations made by businesses to health institutions, deferred corporate and individual taxes, and removal of VAT on water, electricity and domestic travel. Now, the conclusion of the election will likely result in a more comprehensive policy response. It also paves the way for the Government to gain access to the Natural Resource Fund (NRF) to aid in the COVID-19 fight. The NRF, which stood at US$98mln (including two royalty payments totaling US$8.6mln) on August 2, remained inaccessible, as it is governed by law that requires prior approval by Parliament and reports by various committees, including a Public Accountability and Oversight Committee and an Investment Committee, not yet established.

Chart 3
Inflation (y/y; %)



Source: Bank of Guyana and CIBC FirstCaribbean.

Chart 4
Developments in Credit Market Indicators (%)



Source: Bank of Guyana and CIBC FirstCaribbean.

Jamaica

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

Real economic activity declined by 2.3% y/y during Q1 2020, largely reflecting declines in the mining and quarrying and hotel and restaurant sectors. The suspension of tourism and non-essential activity likely led to a deeper contraction during H1 2020.

- Value-added in the manufacturing sector rose 2.2% y/y in Q1 2020 as output of food, beverages and tobacco registered a 0.1% uptick, but other manufacturing expanded 5.3% y/y due primarily to increased production of refined petroleum. Mining and quarrying activity fell 35.8% y/y as production of both alumina and bauxite declined during the quarter. Output in the hotel and restaurant sector declined 14.1% y/y, as stay-over arrivals decreased by 18.9% y/y and cruise-ship passenger arrivals declined 28.6% y/y, largely reflecting the impact of the pandemic on global travel markets.
- The Government of Jamaica closed its borders to all incoming travel on March 21, and since then, stay-over arrivals slumped 58.2% y/y during H1 2020 with arrivals from all major source markets down during the period. Arrivals from the US, Canada and Europe fell 59.4% y/y, 51.1% y/y and 61.8% y/y, respectively. Meanwhile, cruise-ship passenger arrivals contracted 50.2% y/y, in line with 44.4% fewer calls during the period. Following a 12-week closure, Jamaica's borders reopened to international travel on June 15, but with strict protocols.
- Restrictive measures to contain the spread of the virus, including curfews, limits on gatherings and restrictions on non-essential activity, have been gradually relaxed to a nightly curfew and 20-person allowance on public gatherings in July 2020.

Latest available data suggest Jamaica's unemployment rate fell 0.7 percentage points y/y to 7.3% at January 2020. However, widespread layoffs owing to the pandemic likely led to a spike in the unemployment rate during H1 2020.

Consumer prices rose 4.8% y/y during March 2020, within the Bank of Jamaica's (BOJ) target range of 4% to 6%. The price of food and non-alcoholic beverages and the price of transport and housing, water, gas, electricity and other fuels rose 6.9% y/y and 5.7% y/y, respectively, but the price of transport fell 0.3% y/y.

Developments in Financial Markets

The effects of the pandemic began to weigh on demand for credit and accumulation of deposits over the five months to May 2020, while loan quality, capital adequacy and profitability slipped during Q1 2020.

- Commercial banks' total loans and advances declined 5.6% year to date, reflecting fall-offs in personal lending to residents (down 7.8%) and non-residents (down 2.2%), as well as reduced balances of corporates (down 3.6%).
- Meanwhile, total deposits declined 2.4% year to date as demand deposits rose 0.3%, but savings and time deposits fell 1.7% and 8.0%, respectively.
- The non-performing loan ratio increased 0.2 percentage points to 2.4% at March 2020, while the capital adequacy ratio slipped marginally to 14.2% since the end of December 2019. The average return on assets fell to 0.3% during Q1 2020, compared to 0.6% during Q1 2019.

The BOJ kept its policy rate unchanged at 0.5% in June 2020, citing that monetary conditions were suitable for inflation remaining within the target range. The weighted average lending rate continued to decline, falling 95bps y/y to 12.35% at March 2020. The Government's Treasury Bill rate also fell 34bps y/y to 1.85% at the end of the same period.

Net international reserves held by the BOJ declined 6.7% since December 2019 to US$2.95bln at the end of June 2020. This outturn largely reflected BOJ FX interventions in excess of US$300mln during April to May in response to market shortages. However, the IMF disbursement of US$520mln under its Rapid Financing Instrument (RFI) in May led to an expansion in gross official reserves, which represented 38.1 weeks of imports of goods and services at the end of the same period, up from 22.9 weeks at the end of December 2019. Despite the BOJ's FX interventions, the JMD/USD exchange rate depreciated sharply (11.6% year to date) to 148.0:1 at the end of July 2020.

Government Debt

Reduced economic activity led to revenue shortfalls, which worsened the Government of Jamaica's fiscal deficit by US$135.0mln to US$158.8mln during the first two months of FY2020/21 ended May 2020.

- Revenue and grants plummeted US$181.6mln (25.7% y/y), largely reflecting a US$185.9mln slump in tax revenue. Non-tax revenue rose US$13.2mln (22.1% y/y), but capital revenue and grants fell US$6.2mln and US$2.7mln, respectively.

- Spending on programmes increased US$29.7mln (12.6% y/y), but all other categories of expenditure fell during the period. Outlays for wages and salaries and interest declined US$26.4mln (9.4% y/y) and US$20.5mln (14.7% y/y), respectively, the latter largely reflecting a fall-off in external interest payments. Capital spending also decreased (down US$29.4mln or 40.1% y/y).

Since the end of FY2019/20, public sector debt rose 1.3% to US$15.05bln at May 2020. Total Central Government debt increased 1.3% to US$14.17bln, as increased external debt, largely reflecting the IMF borrowing during the month, eclipsed a decline in domestic debt obligations. Meanwhile, the net debt of public bodies rose US$9.6mln to US$490.1mln over the same period.

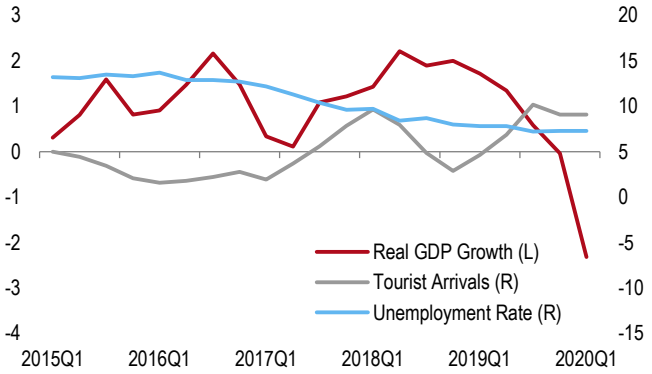
On April 16, Standard and Poor's affirmed Jamaica's 'B+' sovereign credit rating, but revised the outlook from stable to negative, citing the expected effects of the COVID-19 pandemic. Meanwhile, Moody's latest report on June 4 suggested its 'B2' rating for Jamaica remains appropriate despite the severity of the shock.

Outlook

The BOJ projects that the Jamaican economy will contract between 4% and 7% during FY2020/21, in line with the IMF's estimate of -5.3%, but with caveats given the fluidity of COVID-19 assumptions. While the BOJ anticipates a broad-based decline, the tourism, mining, distributions and transport storage and communication sectors will likely feel the brunt of the economic fallout.

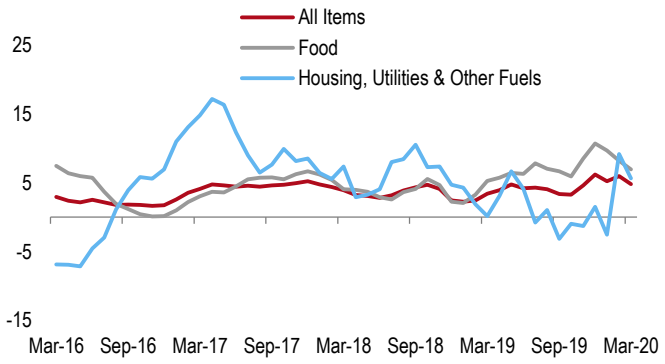
Lower tourism receipts and remittance inflows will result in a significant widening of the current account deficit, creating an enlarged external financing gap. Thus, FX reserves and the JMD/USD exchange rate will likely remain under significant pressure, though external borrowing from the international financial institutions and lower oil imports should partially mitigate this impact. The Government has revised its primary surplus target to 3.5% of GDP in response to the expected deterioration of fiscal accounts. While the financing obtained under the IMF's RFI in May was not intended for budget support, the IMF notes that these resources could be utilised should the need arise, to supplement planned financing from the reprioritization of resources from investment projects, available cash buffers, and funding from other international financial institutions.

Chart 1
Key Economic Indicators (%)



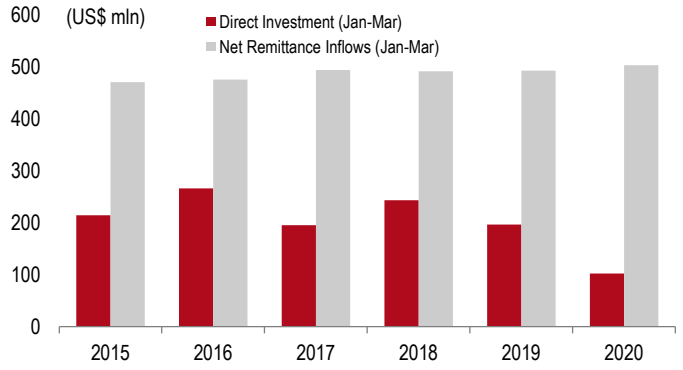
Source: Planning Institute of Jamaica, Bank of Jamaica, Caribbean Tourism Organization, Jamaica Tourist Board and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



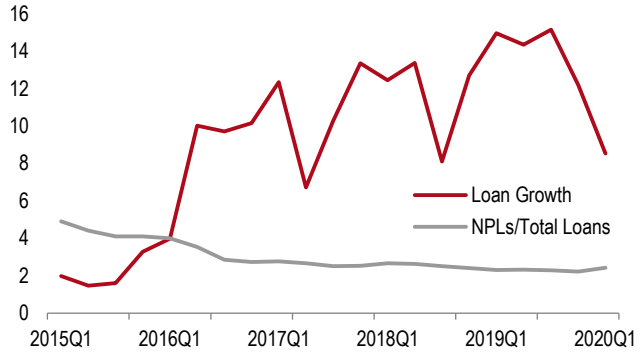
Source: Bank of Jamaica and CIBC FirstCaribbean.

Chart 3
Foreign Direct Investment and Remittances



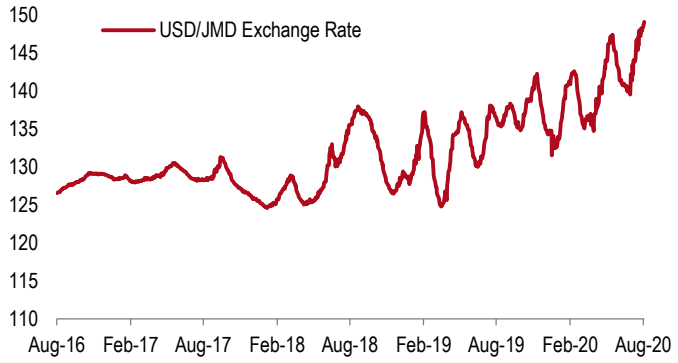
Source: Bank of Jamaica and CIBC FirstCaribbean.

Chart 4
Developments in Credit Market Indicators (%)



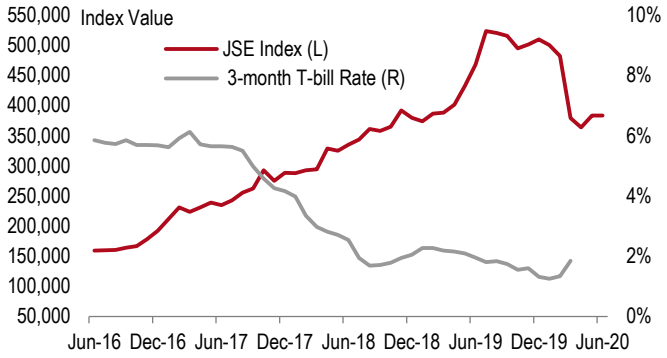
Source: Bank of Jamaica and CIBC FirstCaribbean.

Chart 5
US$JMD Exchange Rate



Source: Bank of Jamaica and CIBC FirstCaribbean.

Chart 6
Developments in Capital Market Indicators



Source: Bank of Jamaica and CIBC FirstCaribbean.

Panama

Luis Hurtado
CIBC Capital Markets

Production, Prices, and Employment

Q1 2020 GDP numbers confirmed our expectations of a sharp deceleration in activity, increasing a mere 0.5% y/y, well below the 3.0% y/y posted in Q4 2019 and the 3.1% y/y gain a year earlier. Mobility restrictions and border closures have forced international organisations and the Government to repeatedly lower growth prospects for this year, with the latest estimate from the Cortizo administration suggesting a -9.0% contraction followed by a 4.0% recovery in 2021.

- Mining and quarrying (up 103.8% y/y) increased the most in Q1 2020, accelerating from the 83.1% and 79.4% posted in Q3 2019 and Q4 2019, respectively, as Minera Panama ramps up production during its first year of operations. Agriculture and forestry, transport, storage and communications, and utilities also posted increases, coming in at 6.0% y/y, 4.4% y/y, and 1.4% y/y, respectively.
- On the other hand, community and social services (down 10.1% y/y), construction (down 6.9% y/y), hotels and restaurants (down 5.3% y/y), manufacturing (down 4.9% y/y), wholesale and retail trade (down 2.9% y/y), and real estate, renting and business activities (down 2.6% y/y) all posted declines during the quarter.

Most recent indicators continue to paint a grey picture for growth this year. Economic activity came in at -34.7% y/y and -40.9% y/y in April and May, respectively. With these numbers, growth in the January 2020-May 2020 period contracted 13.9% y/y, in line with global and local growth concerns. Moreover, the Panama Canal's toll revenues decelerated to 0.2% y/y, down from 3.5% y/y during the same period in 2019, while total ship transit and net tonnage declined 7.8% y/y and 1.6% y/y, respectively.

Q1 2020 current account deficit came in at US$26.4 mln, a significant reduction from the US$927.58mln deficit posted in Q1 2019. Goods exports reached US$499.4mln (up 218.6% y/y), as non-agricultural goods increased 331.9 % y/y, in line with the increase in copper exports from Minera Panama. Moreover, goods imports declined 22.8% y/y to US$2.2bln as consumption, intermediate and capital goods dropped 18% y/y, 16.7% y/y, and 34.9% y/y, respectively. With these numbers the 12-month current account deficit reached US$2.6bln or -4.0% of GDP, down from the 5.2% deficit at the end of 2019, while foreign direct investments amounted to US$4.7bln or 7.35% of GDP.

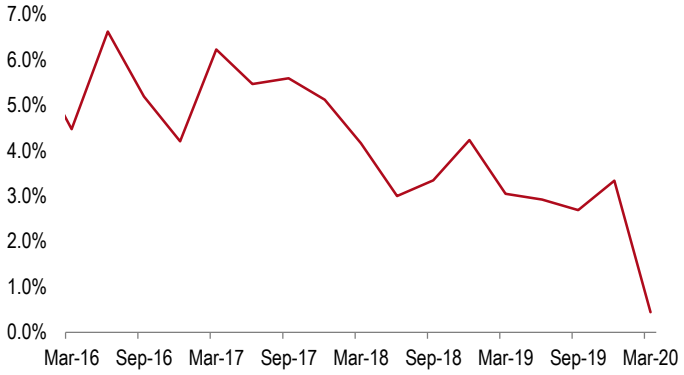
March inflation came in at -0.4% m/m (-0.8% y/y), remaining below 1% for the seventeenth consecutive month. By sector, transportation (down 3.7% y/y), communications (down 1.6% y/y), recreation and culture (down 1.4% y/y), food and non-alcoholic beverage (down 0.8% y/y), and alcoholic beverages and tobacco (down 0.8% y/y) all posted declines.

Table 1
Key Economic Indicators & Forecast

Key Annual Indicators	2017	2018	2019	2020F
Real GDP Growth	5.6%	3.7%	3.0%	-9.0% to -11.0%
Inflation (End of Period)	0.5%	0.2%	-0.1%	-0.5%
Adjusted NFPS Fiscal Balance (% GDP)	-1.0%	-1.1%	-1.3%	-6.0%
Nom. NFPS Fiscal Balance (% GDP)	-1.7%	-2.9%	-3.1%	-7.5%
NFPS Debt/GDP	37.6%	39.4%	38.5%	57%

Source: Ministerio de Economia y Finanzas, IMF and CIBC Capital Markets

Chart 1
Real GDP (y/y; %)



Source: Bloomberg

Government Debt

H1 2020 Central Government revenue reached US$2.2bln, dropping 34.1% y/y, a deterioration from the 4.5% y/y contraction during the same period in 2019. Tax revenue reached US$1.7bln (down 37.2% y/y) as income, property, and valued-added taxes declined 35.2% y/y, 51.6% y/y, and 37.6% y/y, respectively. Non-tax income amounted to US$500mln, contracting 18.2% y/y. At the time of this report, updated Central Government expenses were not available. Nevertheless, the sharp decline in revenue is in line with the US$5.7bln deficit expected for this year as per the revised Government figures published in May. Hence, taking into account the updated Government growth forecast for this year (-9.0%), we now expect the 2020 Central Government deficit to reach 9.4% of GDP and the NFPS deficit to land at 7.5% of GDP, well above the 2.75% deficit permitted by the Fiscal Responsibility Law (FRL), Accordingly, we now foresee public sector debt landing at 57% of GDP.

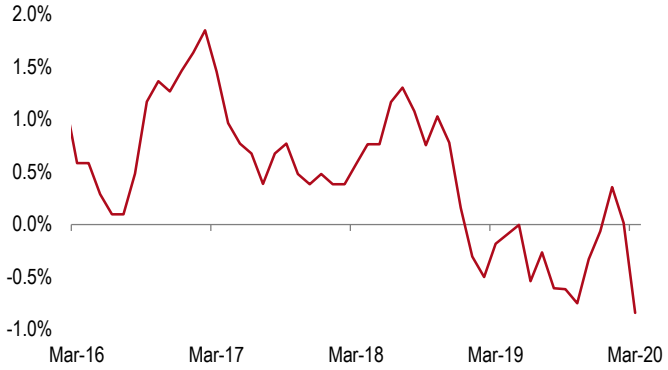
With regards to the 2021 Budget, initial Government projections (congress debate still pending) suggest a NFPS nominal deficit of US$4.5bln or approximately 7.0% of GDP with current growth estimates. We expect the Government to present a modification to the current 2.5% nominal deficit allowed by the FRL law in 2021 and to present a new medium-term fiscal consolidation plan in early Q4.

Financing Requirements, Recent Credit Rating Actions and Outlook

With regards to the financing requirements for this year not much has changed since our last publication. The Panamanian Government had almost entirely secured its pre-pandemic financing needs for 2020. Nevertheless, the reduction in revenues and increased expenditures should increase the Central Government deficit by another US$3.5bln. Our assessment of the multilateral loans available to the Government suggests the Government has already tapped or would be granted access to at least US$1.7bln in resources via this route, leaving US$2.1bln to be financed via additional multilateral agreements, and external debt. Hence, we expect the Government to go into external markets in early Q4 as financing needs for this year and 2021 are recalibrated.

We maintain a downward bias with respect to the Government's -9% GDP growth forecast for this year. The spread of the pandemic in the country is still to dictate how quickly internal demand will rebound and the next steps towards the reopening of the borders. Moreover, although the market is likely to continue to give PANAMA the benefit of the doubt, we do not discount the possibility of negative credit actions without a credible fiscal consolidation plan into the medium term. Hence, we await the announcement of new deficit targets and the culmination of the 2021 budget and financing needs discussion before getting back on the long PANAMA bandwagon.

Chart 2
Inflation (y/y; %)



Source: Bloomberg

Table 2
Government Debt and Deficits

Total financing needs before COVID-19 - US$3.9bln	**6.49%**
- Fiscal Deficit 2020 - US$2.2bln	3.64%
- Amortization 2020 - US$1.7bln	2.85%
Less:	
- Pre-Financed - US$1.2bln	1.90%
- Bond Issuance - US$2.5bln	4.11%
To be financed pre COVID-19 - US$288.7mln	**0.47%**
Nominal deficit increase due to COVID-19 – US$3.5bln	5.76%
To be financed for the rest of the year - US$3.79bln	**6.23%**
Multilateral agreements	
- IMF - US$510mln	0.84%
- IDB - US$780mln	1.28%
- World Bank - US$40mln	0.07%
- CAF - US$350mln	0.58%
- Other multilaterals / new issuance - US$2.1bln	**3.47%**

Source: Ministerio de Economia y finanzas, CIBC Capital Markets

St. Kitts and Nevis

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

The global travel shock in tandem with national shutdowns in response to the global pandemic likely suppressed economic activity during H1 2020.

- St. Kitts and Nevis' borders remained shut at the end of July, after officially closing on March 25. Latest available data indicate that stay-over arrivals fell 20.1% y/y during Q1, reflecting declines from all key source markets. A 27.0% fall-off in cruise ship calls contributed a 42.1% y/y contraction in cruise-ship passenger arrivals into St. Kitts and Nevis, while the number of excursionists slipped 3.6% y/y. However, yacht-passenger arrivals remained strong, growing 36.4% y/y. Total visitor arrivals and visitor expenditure decreased 39.9% y/y and 29.0% y/y, respectively. The continued closure of borders throughout Q2 implies a steeper tourism contraction over H1 2020.
- The Government introduced restrictions on domestic business activity not deemed essential from the end of March, and imposed a series of full lockdowns with 24-hour curfews, permitting only essential workers to leave their homes in specific periods. Though curfews have been shortened and restrictions gradually lifted, domestic activity across most economic sectors likely shrank during the period.

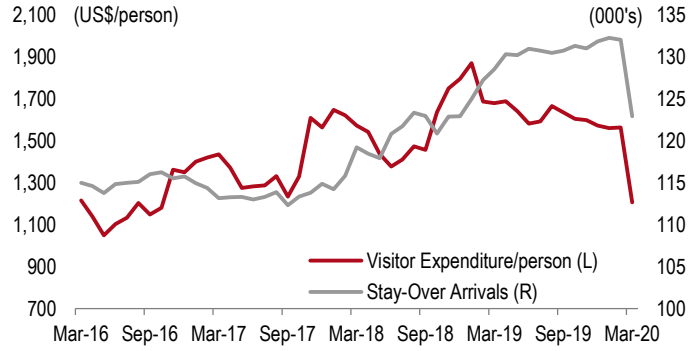
Consumer prices fell 1.1% y/y during March 2020. The price of food and non-alcoholic beverages increased 1.6% y/y, but the prices of housing, utilities, gas and fuels fell 0.2% y/y, while transport declined 9.3% y/y.

Developments in Financial Markets

Commercial banks' excess liquidity remained elevated during 2019, while credit quality remained a challenge.

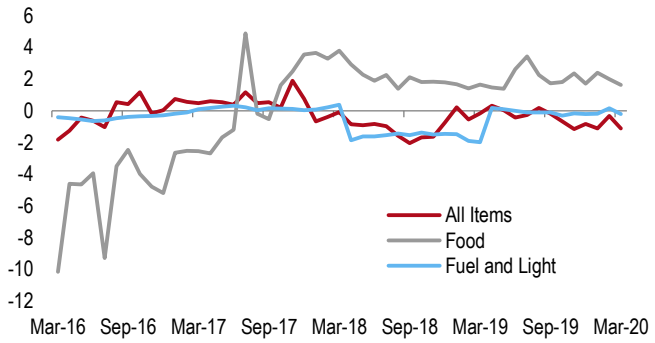
- Total loans and advances rose 3.4% y/y. Lending to businesses and the public sector rose 14.4% y/y and 0.5% y/y, respectively, lifting corporate loan balances 4.9% y/y, while retail lending advanced 1.7% y/y.
- Total deposits grew 1.1% y/y as retail and corporate balances increased 4.9% y/y and 0.6% y/y, respectively, but non-residents deposits declined 10.0% y/y.
- Consequently, the loan-to-deposit ratio rose marginally y/y to 42.0% at the end of December 2019. Meanwhile, the weighted average lending rate fell 17bps y/y to 7.89%, but the weighted average deposit rate rose 1bps y/y to 1.72%
- Banks' non-performing loan ratio remained elevated during 2019, declining only marginally to 24.0% at year-end. Banks' annualised return on assets fell from 1.32% to 0.85%, but the capital adequacy ratio rose 0.5 percentage points to 17.8% at the end of the same period.

Chart 1
Stay-Over Tourist Arrivals



Source: Caribbean Tourism Organization, Eastern Caribbean Central Bank and CIBC First Caribbean

Chart 2
Inflation (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Government Debt

Greater capital spending amid a fall-off in capital revenue was largely responsible for a US$15.5mln reduction in the Government's fiscal surplus to US$17.1mln during 2019 relative to 2018.

- Current revenue advanced US$15.2mln, reflecting greater collections of both tax and non-tax revenue. Tax receipts rose US$6.0mln (3.0% y/y) as increased taxes on income and profits (up US$1.1mln), domestic goods and services (up US$4.2mln) and international trade and transactions (up US$1.4mln) eclipsed a US$0.7mln fall-off in property taxes. Meanwhile, a US$14.1mln expansion in CBI receipts boosted non-tax revenue (up US$9.2mln). Grant revenue also increased (up US$1.6mln), but capital revenue fell US$9.9mln during the year.
- Increased spending on personal emoluments (up US$4.8mln) and transfers and subsidies (up US$11.8mln) overshadowed lower expenditure on goods and services (down US$7.9mln) and interest payments (down US$1.0mln), pushing total current spending US$7.6mln (2.7% y/y) higher. Capital expenditure and net lending expanded US$15.2mln (13.6% y/y).

Central Government debt increased marginally (0.1% y/y) to US$419.4mln, but public corporations' debt rose 14.4% y/y to US$183.7mln. Total public debt stood at 57.3% of GDP at the end of December 2019.

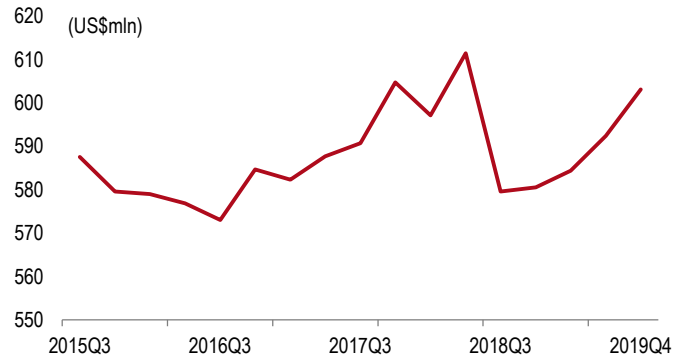
Since then, the Government's revenue likely declined, particularly in Q2 2020, due to reduced business activity. However, the Government noted that significant financial surplus balances accumulated over recent years have allowed it to implement its EC$120mln stimulus package to support social services and affected businesses.

The ECCB has provided financial support through grants of EC$500k to each member Government. Further, in response to the pandemic, the Government of St. Kitts and Nevis has temporarily reduced the required contribution for families under its CBI programme from US$195k to US$150k, the same fee required for individuals.

Outlook

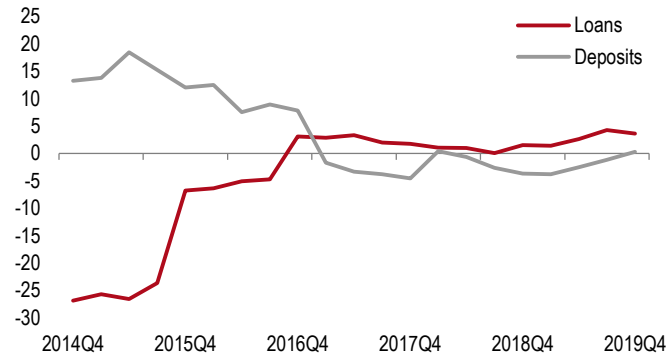
Latest ECCB projections suggest a 16.1% contraction in real economic activity in 2020, largely stemming from the collapse of tourism activity. The hotel and restaurant sector is projected to plummet by 65%, while declines of 29%, 15% and 10% are forecast for the transport storage and communication, distribution, and construction sectors. While domestic activity has restarted, the indefinite closure of St. Kitts and Nevis' borders clouds the tourism recovery with uncertainty. Meanwhile, stimulus spending combined with reduced tax collections will lead to a deterioration of Government finances in 2020. Further, because of the Government's high dependence on CBI revenue, underperformance of the programme could worsen this outcome, hamper tourism-related foreign investment and decelerate the implementation of the Government's capital works programme.

Chart 3
Public Sector Debt Outstanding



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 4
Growth in Key Balances (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

St. Lucia

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

The collapse of the tourism sector, exacerbated by the disruption of most other productive activity, likely shaved a significant portion off St. Lucia's real GDP during H1 2020.

- Total visitor arrivals and visitor expenditure declined 16.4% y/y and 21.9% y/y, respectively, during Q1 2020. Reduced arrivals from all main markets led to a 20.1% y/y fall-off in stay-over arrivals, while the number of cruise-ship passenger arrivals, yacht-passenger arrivals and excursionists fell 15.7% y/y, 5.8% y/y and 41.7% y/y, respectively. Near-zero tourist arrivals during Q2 likely led to deteriorated H1 performance. St. Lucia's borders closed on March 23; the country welcomed its first international commercial flight on July 9, after reopening its borders on June 4.
- To prevent local transmission, the Government implemented a seven-day, 24-hour curfew from April 1-7, followed by partial commercial shutdowns, which resulted in over 13,000 layoffs. Full operations of domestic business activity resumed on May 18, but nightly curfews and the ban of social gatherings remained in effect until July 10.

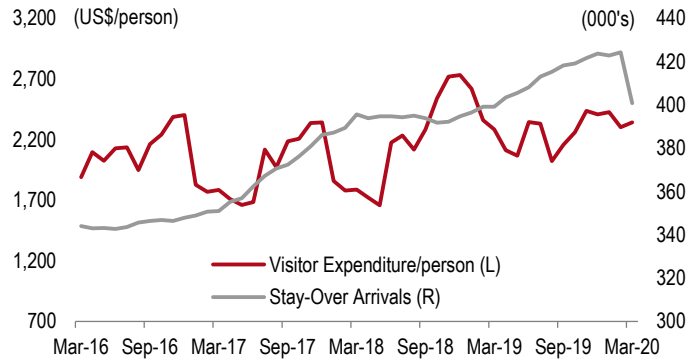
Consumer prices dipped 2.7% y/y at March 2020. The prices of food and non-alcoholic beverages, housing, utilities, gas and other fuels, and transport fell 2.9% y/y, 5.6% y/y and 2.2% y/y, respectively.

Developments in Financial Markets

Commercial banks' credit to the private sector remained sluggish but loan quality improved during 2019.

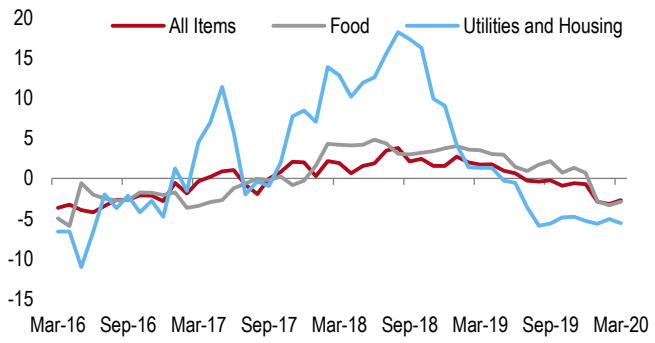
- Total loans and advances fell 1.2% y/y. Retail loans rose 1.9% y/y, but reduced lending to businesses (down 6.8% y/y) overshadowed greater lending to the public sector (up 7.0% y/y), lowering corporate loans by 4.8% y/y.
- Total deposits increased 1.8% y/y as retail, corporate and non-resident deposit balances expanded 1.0% y/y, 2.7% y/y and 1.1% y/y, respectively.
- The loan-to-deposit ratio fell 2.4 percentage points y/y to 78.3% at December 2019, while the weighted average lending and deposit rates declined 38bps y/y and 1bps y/y to 7.56% and 1.42%, respectively, at the end of the same period.
- Banks' non-performing loan ratio improved from 10.0% in December 2018 to 8.2% in December 2019. However, the capital adequacy ratio fell 3.3 percentage points y/y to 15.9%, while the annualised return on assets slipped from 1.86% to 1.54% during Q4 2019.

Chart 1
Stay-Over Tourist Arrivals



Source: Caribbean Tourism Organization, Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Government Debt

The Government's fiscal deficit widened US$12.3mln to US$54.4mln (2.7% of GDP) during 2019, primarily on account of reduced Citizenship by Investment (CBI) receipts and increased current spending.

- Tax revenue advanced US$8.7mln (2.3%) as taxes on income and profits, domestic goods and services, and international trade and transactions rose US$3.5mln, US$5.1mln and US$1.1mln, respectively, but taxes on property declined US$1.1mln. In contrast, a US$16.2mln (61.1%) contraction in CBI inflows led to a US$11.9mln reduction in non-tax revenue. Overall current revenue fell US$3.3mln (0.8% y/y), while capital revenue remained negligible and grants rose US$0.9mln (6.9% y/y).
- Current spending expanded US$9.8mln (2.5% y/y), reflecting higher outlays for personal emoluments (up US$12.2mln) and transfers and subsidies (up US$2.4mln), which overshadowed reduced expenditure on interest payments (down US$2.4mln) and goods and services (down US$2.4mln). Meanwhile, capital spending remained mostly unchanged at US$87.1mln.

Consequently, Central Government debt rose 4.6% y/y to US$1.22bln, while debt of public corporations fell 0.5% y/y to US$71.4mln. Total public debt increased 2.7 percentage points to 67% of GDP at the end of December 2019.

Since then, spending to support the economy amid significantly lower revenues reported over April to June 2020 in particular has generated substantial financial gaps, compelling the Government to consult with financial institutions to obtain financial relief.

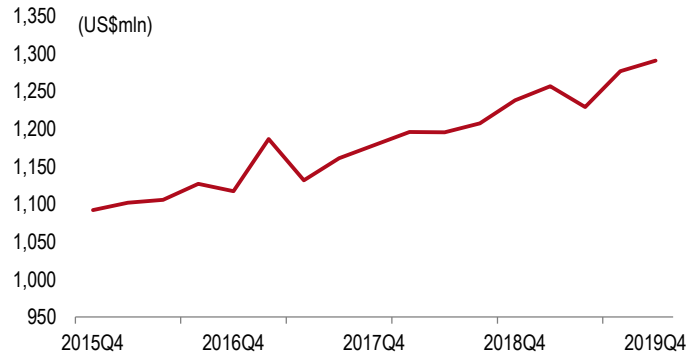
In addition to an EC$500k grant from the ECCB, the IMF approved a US$29.2mln disbursement to St. Lucia under its Rapid Credit Facility in April, intended to mitigate fiscal and external pressures. Further, the CDB made available US$10.8mln in emergency financing in May, while the World Bank provided disbursements of US$10.5mln and US$5mln in April and June, respectively, toward the strengthening of St. Lucia's COVID-19 response and the health sector.

In an effort to ease the pressure on Government finances, St. Lucia launched a COVID-19 Relief Bond in May, as a new option under its CBI portfolio, expected to run until year-end. The non-interest bearing bond, which must be held for five to seven years depending on the size of the family, implies a lower outlay than the US$100k required under its lowest-priced option. The Government also reduced some of the contribution requirements under its other options.

Outlook

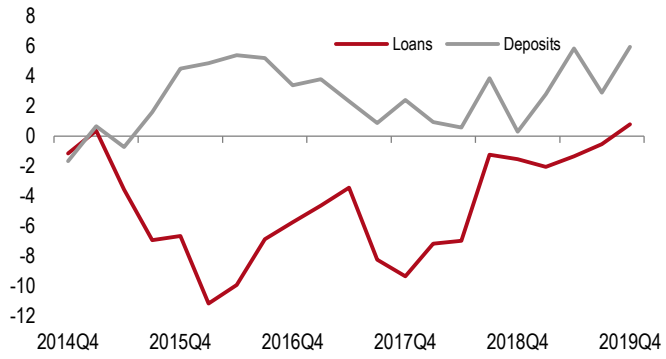
The IMF forecasts an 8.5% decline in real economic activity in 2020 underpinned by a greater than 50% fall in tourism exports and assuming that infrastructure projects get underway in H2. The downturn in the tourism sector will likely induce a negative fallout in the distribution and transport storage and communication sectors, while reduced demand will likely stymie activity in most other economic sectors. Further, the recent fiscal developments along with revenue shortfalls suggest a significant widening of the fiscal deficit in 2020, and a notable increase in public debt. The IMF noted that the St. Lucian Government has committed to consider a follow-up long-term arrangement with the Fund should economic, fiscal and financing conditions deteriorate beyond expectations.

Chart 3
Public Sector Debt Outstanding



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 4
Growth in Key Balances (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Sint Maarten

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

The COVID-19 pandemic has struck in the middle of Sint. Maarten's recovery from Hurricane Irma's devastation in 2017. The closure of borders on March 22, followed by curfews and an eventual full lockdown, reversed the rebound in tourism activity and generated a significant economic fallout during H1 2020.

- Stay-over arrivals continued to recover during January to February, growing 15.9% y/y, but plummeted 62.7% y/y during March, generating a 13.4% contraction during Q1 2020. All major markets registered declines during the quarter and greater than 50% declines during March specifically. Meanwhile, the weak performance of cruise-ship passenger arrivals from the start of the year worsened in March, ending the quarter with a 35% y/y contraction.
- A phased reopening of domestic activity began on May 10. The Government allowed travel from select Caribbean markets on June 22 and officially reopened its borders to international tourists on July 1, excluding those travelling from the US (Sint. Maarten's largest source market).

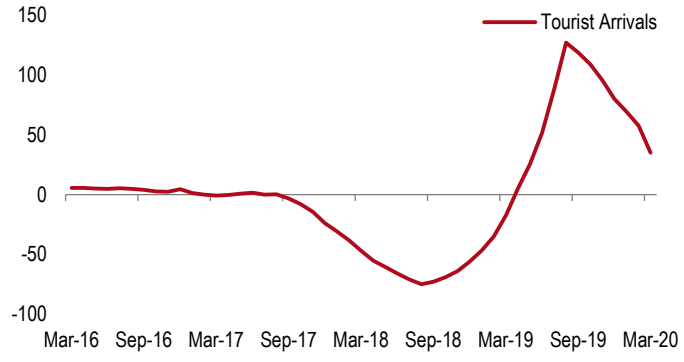
The Sint. Maarten Department of Statistics reported 0.2% y/y growth in consumer prices during Q1 2020, likely influenced by the drop in crude oil prices.

Developments in Financial Markets

Monetary policy aimed at reducing the outflow of official FX reserves continued to reduce excess liquidity during Q1 2020. However, this trend has since lost momentum due to a temporary easing of conditions in response to the pandemic.

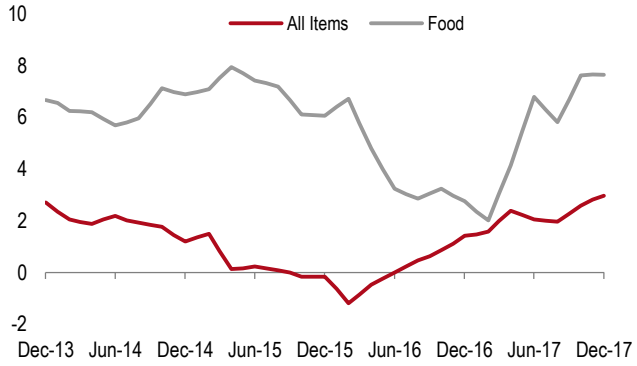
- Following the March 2020 rise in the reserve requirement from 18% to 19%, the Centrale Bank van Curaçao en Sint Maarten (CBCS) maintained the requirement at 19% in May, but lowered the interest rate on 'Certificates of Deposit' to support liquidity during the COVID-19 pandemic. The current account balance of commercial banks at the CBCS declined 46.8% y/y to US$204.6mln at March 2020 but rose to US$285.4mln at May 2020. Meanwhile, the gross official FX reserves of the Monetary Union, excluding gold, increased 15.7% y/y to US$1.51bln (15.7 weeks of imports of goods and services) at May 2020 buttressed by liquidity support from The Netherlands.
- Commercial bank loan balances dipped 0.5% y/y during April 2020 as a 5.6% fall-off in corporate lending overshadowed a 5.7% rise in retail lending. Mortgages and consumer loans increased 3.3% y/y and 10.3% y/y, respectively, but a 4.0% y/y fall-off in business loans was largely responsible for a 5.6% decline in corporate lending.
- Total deposits expanded 3.3% y/y, reflecting increased balances of retail (up 1.7% y/y), corporate (up 0.2% y/y) and non-resident deposits (up 17.5% y/y).

Chart 1
Key Economic Indicators (%)



Source: Central Bank of Curaçao and St. Maarten and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



Source: Central Bank of Curaçao and St. Maarten and CIBC FirstCaribbean.

Government Debt

The recovery of economic activity in Sint. Maarten led to a US$35.9mln improvement in the fiscal deficit during 2019 as Government revenue expanded 13.9% y/y.

- A US$25.1mln expansion in tax receipts was largely responsible for a US$29.7mln increase in revenue. Concessions and fees, licences, and other revenues also rose (up US$0.1mln, US$3.4mln and US$1.1mln, respectively).
- Total expenditure declined marginally by US$6.0mln (2.3% y/y) as lower spending on wages and salaries (down US$2.1mln), social security (down US$4.0mln) and goods and services (down US$0.2mln) eclipsed higher outlays on subsidies (up US$0.1mln), interest payments (up US$0.2mln) and other expenditure (up US$0.1mln).

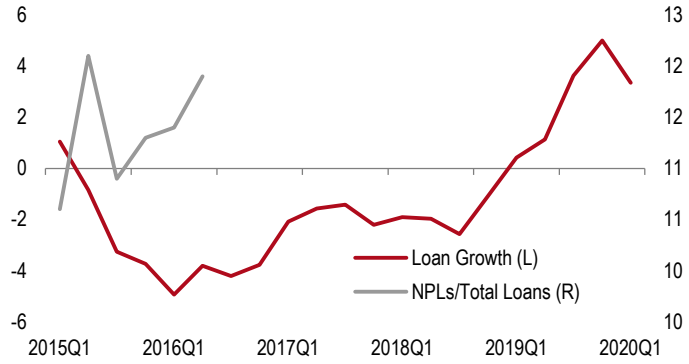
Debt stood at US$431.3mln (40.1% of GDP) at December 2019. Domestic debt fell US$28.76mln y/y to US$66.8mln as the Government paid a portion of its arrears toward the public pension fund, APS, and the social security bank, SZV. Conversely, foreign debt rose US$29.2mln y/y to US$364.4mln, largely because of an US$18.4mln bond issuance in May 2019, which was allocated to the Dutch State, and a US$15.1mln bridge loan from the Dutch State for the reconstruction of the airport.

Outlook

The disruption caused by the pandemic has thrown Sint. Maarten's economic recovery into a tailspin. Despite the phased restart to tourism activity introduced in May, commercial travel continues to be hindered by the resurgence of the virus in some source markets, particularly Sint. Maarten's largest source market, the US. While there is consensus on a severe economic fallout for 2020, the fluid nature of the situation clouds the outlook with significant uncertainty. While Moody's latest estimates suggest a 10% economic contraction, the IMF's most recent projections indicate a 23% decline in 2020.

The Government's emergency fiscal support amid shrinking Government revenue has generated substantial financing gaps, and remains highly dependent on funding from The Netherlands. Following the first tranche of support (US$28.0mln) from The Netherlands in April, the first and second parts of the second tranche (US$29.6mln) were approved in May and June, respectively, the latter part of which was linked to the Government's wage subsidy scheme. These soft loans made available to the Dutch Caribbean were tied to certain conditions, including the cutting of expenditures, and pay-cuts for elected representatives and directors of Government institutions. The Netherlands has also requested an increase in the pensionable age from 62 to 65 in Sint. Maarten. However, Sint. Maarten had not fully met these requirements and, therefore, had not qualified for its third aid-package. Moreover, Aruba, Curaçao and Sint. Maarten have joined in objection to the pace required for the implementation of reforms and the establishment a new entity – the Caribbean Reform Entity – to supervise the budgets of the three Caribbean countries.

Chart 3
Developments in Credit Market Indicators (%)



Source: Central Bank of Curaçao and St. Maarten and CIBC FirstCaribbean.

St. Vincent and the Grenadines

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

Although the Government has not implemented curfews, lockdowns or a State of Emergency, as in most of its regional counterparts, economic activity in St. Vincent and the Grenadines likely dampened during H1 2020.

- The borders of St. Vincent and the Grenadines remained open, but the suspension of most commercial airline services and cruise operations led to a fall-off in visitor arrivals. During Q1 2020, reduced arrivals from the US, Canada, the UK, Caribbean and all other markets led to a 19.0% y/y contraction in the number of stay-over visitors, while cruise-ship passenger arrivals also fell (down 31.7% y/y). However, yacht-passenger arrivals rose 12.9% y/y, while the number of excursionists increased 156.2% y/y. Overall, total visitor arrivals and visitor expenditure fell 24.6% y/y and 7.7% y/y, respectively. The negative tourism outturn likely deepened over H1 2020, as the country only welcomed its first international commercial flight on July 11 since arrivals ceased in March.
- The slump in tourism activity reverberated to related sectors and led to significant increases in unemployment. Other domestic business activities largely continued without restrictions, but requirements for social distancing, including the cancelation of the 'Vincy Mas' carnival and the suspension of entertainment activities, likely led to a further drag on growth.

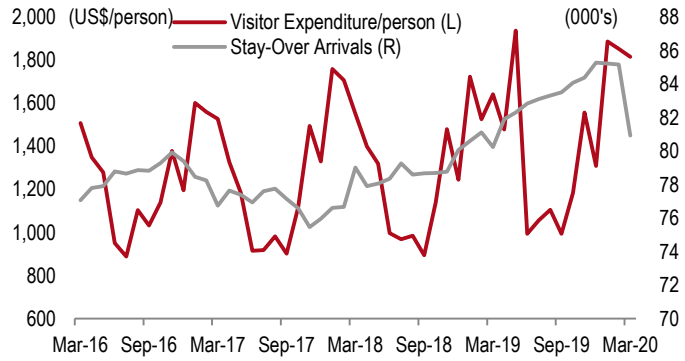
Growth in consumer prices slowed 0.4% y/y during March 2020. The prices of food and non-alcoholic beverages increased 2.1% y/y, but the price of housing, utilities, gas and other fuels and transport fell 0.7% y/y and 0.6%, respectively.

Developments in Financial Markets

Subdued loan demand alongside strong deposit growth increased excess liquidity over the year to December 2019.

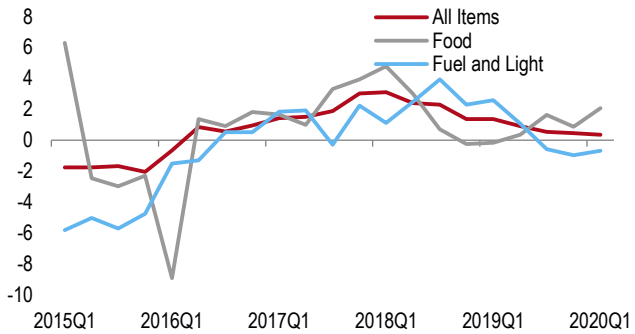
- Banks' credit balances slipped 1.9% y/y. Retail loans advanced 0.4% y/y, but loans to businesses and the public sector fell 3.7% y/y and 17.1% y/y, respectively, reducing corporate lending 8.2% y/y.
- Total deposits advanced 8.7% y/y as retail and corporate deposits rose 0.7% y/y and 26.5% y/y, respectively, but non-resident deposits fell 5.2% y/y.
- Consequently, the loan-to-deposit ratio fell 6.7 percentage points y/y to 62.4% at December 2019, while the weighted average lending and deposit rates both fell 10bps y/y to 8.30% and 1.68%, respectively.
- The non-performing loan ratio improved marginally y/y to 6.4%, while the annualised return on assets rose from 0.5% during Q4 2018 to 1.1% during Q4 2019. However, banks' regulatory capital to risk-weighted assets ratio fell 6.2 percentage points to 17.0% at the end of the year.

Chart 1
Stay-Over Tourist Arrivals



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Government Debt

Increased current and capital spending partially mitigated by higher grant receipts worsened the Government's fiscal deficit by US$12.4mln to US$24.8mln during 2019.

- Current revenue rose US$1.1mln (0.5% y/y). A US$8.7mln expansion in taxes on goods and services eclipsed reductions of US$2.8mln, US$3.8mln and US$1.6mln in taxes on income and profits, property and international trade and transactions, respectively, generating a US$0.5mln uptick in tax receipts, while non-receipts rose US$0.6mln. Meanwhile, capital revenue and grants advanced US$9.2mln (61.0% y/y).
- Capital expenditure climbed US$11.7mln (32.0% y/y), while current spending expanded US$11.0mln (5.2% y/y). The expansion in current outlays reflected greater spending on personal emoluments (up US$5.9mln), goods and services (up US$0.7mln), interest payments (up US$0.8mln), and transfers and subsidies (up US$4.1mln).

Public debt increased 1.7% y/y to US$622.8mln (75.5% of GDP) at December 2019, as Central Government debt rose 2.0% y/y to US$574.0mln but public corporation debt fell 0.8% y/y to US$48.9mln.

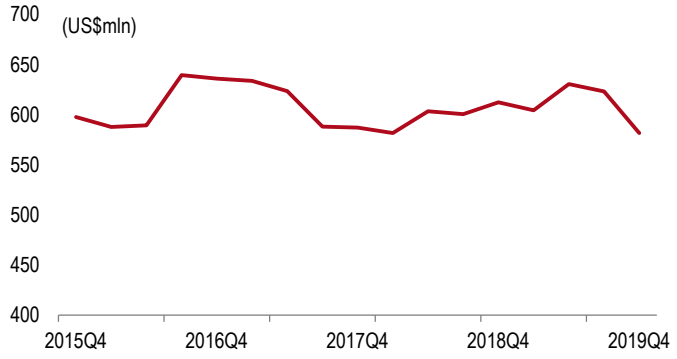
Since then, the Government reported that its revenue collection fell only marginally (0.1% y/y) during H1 2020 due to a 9.5% y/y expansion in Q1, attributed to the non-existence of a tight lockdown. However, expenditure increased 12.1% y/y, reflecting a 6.6% y/y rise in current spending and a US$9.6mln expansion to capital outlays to US$15.5mln, generating increased financing requirements.

In addition to an EC$500k grant from the ECCB, the IMF approved a US$16mln disbursement to St. Vincent and the Grenadines under its Rapid Credit Facility in May, intended to help cover fiscal and balance of payments needs. Further, the CDB made available US$11.3mln in emergency financing in May, while the World Bank provided two disbursements of US$4.5mln each in April and June, toward the strengthening of St. Vincent's COVID-19 response as part of the OECS Regional Health Project.

Outlook

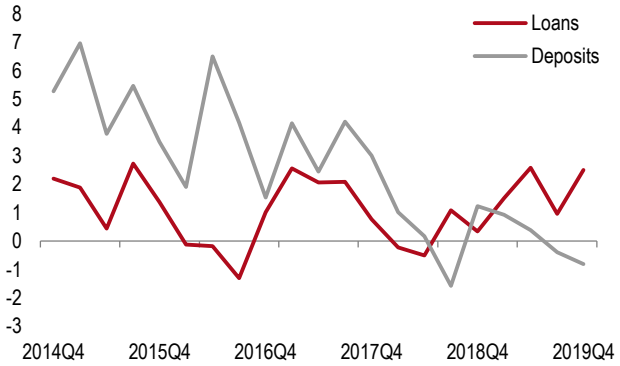
The ECCB expects a 5.3% economic contraction for St. Vincent and the Grenadines suppressed by the tourism fallout and spillover to related sectors. The Bank projects a 25% drop in tourism GDP, followed by 22.2% and 16.9% declines in distribution and transport storage and communication, respectively. Pressure on fiscal revenue is likely to mount over the remaining of the year, generating a notable rise in the fiscal deficit and financing requirements. The IMF notes that, while public debt will increase temporarily, the implementation of fiscal consolidation measures post the pandemic would prevent debt levels from becoming unsustainable.

Chart 3
Public Sector Debt Outstanding



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Chart 4
Growth in Key Balances (y/y; %)



Source: Eastern Caribbean Central Bank and CIBC FirstCaribbean.

Suriname

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

Oil market volatility, restrictive measures imposed to contain the spread of the virus, and the political uncertainty that surrounded the May 2020 general election likely generated a major economic fallout during H1 2020.

- The results of the May 25 election ended the 10-year rule of President Desi Bouterse of the National Democratic Party, who demanded a vote recount in some areas. Eventually, the Progressive Reform Party (PRP) was declared the winner, with 20 seats (up from nine), and formed a coalition with three other parties to acquire 33 of 51 seats in the National Assembly, which elected President Chan Santokhi of the PRP on July 16.
- In addition to the closure of all international borders, the Government of Suriname imposed several rounds of lockdown, the latest in response to a surge in cases that followed the general election, after having almost zero active cases. Since then, the Government has begun to ease restrictions though cases have continued to rise, but international borders remain closed.

The effects of restrictions and social distancing requirements likely led to a surge in Suriname's unemployment rate, last reported at 9.4% in 2018. Meanwhile, after recording single digits over the last two years, consumer prices started to surge from February 2020. Consumer price inflation reached 35.2% y/y during June 2020, attributed to businesses increasing prices to reflect the premium on parallel market exchange rates.

Developments in Financial Markets

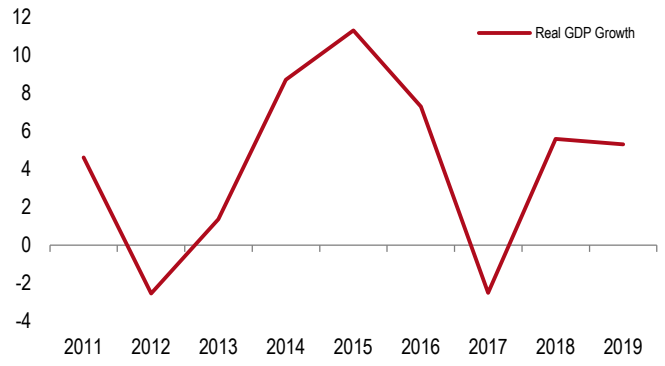
Total loans and advances fell 7.2% y/y over the 12 months ended April 2020 as an 11.2% y/y decline in corporate lending, largely due to reduced balances to the public sector, overshadowed a 7.2% y/y expansion in retail loans.

- Total loans and advances remained on par with levels recorded one year earlier. A 54.0% y/y fall-off in lending to the public sector eclipsed a 23.7% y/y expansion in business loans and lowered corporate balances 6.0%. Meanwhile, mortgages and consumer loans expanded 25.8% y/y and 10.8% y/y, respectively, pushing retail loans 11.9% y/y higher.
- Loans denominated in foreign currency declined 15.9% y/y. Corporate loan balances fell 15.5% y/y, reflecting reduced lending to businesses (down 17.3%) and the public sector (down 10.3%), while retail loan balances declined 21.3% y/y, reflecting fall-offs in consumer loans (down 8.6% y/y) and mortgages (down 12.8% y/y).

Total deposits decreased 1.7% y/y at April 2020, as deposits denominated in local currency expanded 3.0% y/y but foreign currency deposits dipped 5.1% y/y.

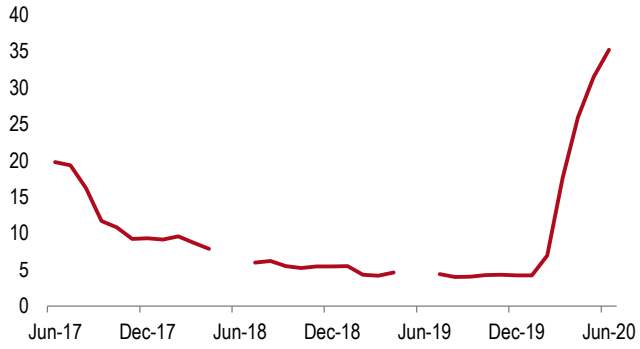
The average interest spread increased 80bps y/y to 6.7% at April 2020, as the weighted average lending rate rose 30bps y/y to 15.2%, but the weighted average deposit rate fell 50bps y/y to 8.5%.

Chart 1
Real GDP Growth (%)



Source: Centrale Bank van Suriname and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



Source: Centrale Bank van Suriname and CIBC FirstCaribbean.

International reserves continued to trend downward, falling 15.2% y/y to US$527.5mln (equivalent to about 12.7 weeks of imports of goods and services) at the end of June 2020. In response to shortages, the Government has imposed various restrictions on foreign exchange transactions, including on the sales of foreign currency to individuals. The official SRD/US$ remained stable at 7.46:1 at the end of the same period.

Government Debt

The pandemic has led to a further deterioration of the fiscal balance and has severely compromised the Government's liquidity thus far in 2020. Suriname's debt rose from US$2.98bln at the end of 2019 to US$3.66bln at the end of May 2020, largely reflecting a 140% surge in Central Bank financing over the period. Total domestic debt rose 68.2% to US$1.65bln, while external debt rose 0.5% to US$1.99bln due to an uptick in balances owed to bilateral creditors.

Further, the Government of Suriname sought the consent of bondholders to amend repayment terms of its US$125mln December 2023 bond, issued in December 2019 for the acquisition of Afokaba hydroelectric dam from Alcoa. Consent was granted to defer the US$15.6mln principal payment that was due on June 30.

Consequently, Moody's downgraded Suriname's credit rating from 'B3' to 'Caa3' on July 7, citing the high probability of a distressed debt exchange following solicitation of consent. Meanwhile, Standard and Poor's lowered Suriname's foreign currency credit rating from 'CCC+' to 'SD' on July 13, noting that it viewed the amendment of bond terms as a distressed default, before raising it on July 16 to 'CCC' in view of the completion of the restructuring.

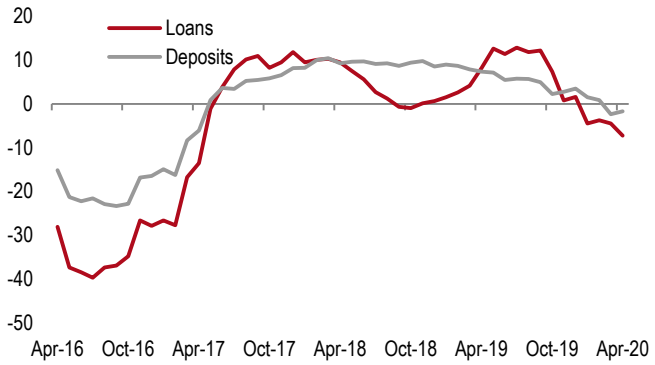
Outlook

The COVID-19 pandemic and the associated drop in crude oil prices have harshly disrupted the Surinamese economy, albeit partially mitigated by the surge in gold prices. Moreover, the easing of restrictions despite the recent rapid climb in the number of confirmed cases increases the likelihood of another wave of lockdown measures, and magnifies uncertainty regarding prospects for 2020. Since the IMF's April 2020 projected decline of 4%, recent forecasts range from -4.2% (Moody's) to -8% (Standard and Poor's).

Suriname's new Government has taken over the reins amid challenging fiscal and external liquidity pressures and high debt. Reduced revenue, which has taken a toll on Government finances, will likely increase the Government's debt burden further, while declining FX reserves will further increase the pressure on the exchange rate. The new administration has signalled that one of its first priorities is to engage with various multilateral partners, but it is likely that a more extensive debt restructuring could be on the cards.

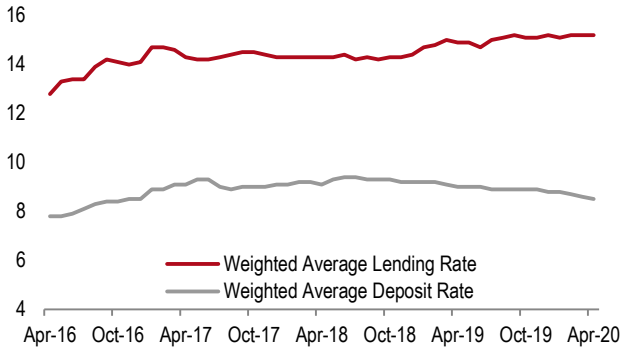
Moody's noted that the consent documentation for deferral of the principal payment that was due on June 30 included covenants regarding the transfer of dividends from Staatsolie and royalties and PPA from IAMGOLD into a fund to service the Government's outstanding Eurobonds. Additionally, bondholders have agreed to waive the principal payment due on December 30, and instead spread it over six equal instalments, if the Government enters into an IMF-funded program.

Chart 3
Growth in Key Balances (y/y; %)



Source: Centrale Bank van Suriname and CIBC FirstCaribbean.

Chart 4
Interest Rates (%)



Source: Centrale Bank van Suriname and CIBC FirstCaribbean.

Trinidad and Tobago

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

Lower energy demand associated with the global pandemic in tandem with 'stay-at-home' orders to curb local transmission of COVID-19 likely constrained domestic economic activity during H1 2020.

- Energy output displayed a weak performance during Q1 2020, and likely worsened during Q2. Crude oil production fell 1.7% y/y, while the output of natural gas, liquefied natural gas, and ammonia declined 5.5% y/y, 7.2% y/y and 3.1% y/y, respectively. Further, total depth drilled and the number of rig days slumped 48.0% y/y and 41.5% y/y, respectively. In contrast, the production of methanol rose 6.3% y/y.
- Meanwhile, indicators of non-energy output also imply a subdued outturn. Domestic production of cement increased 3.1% y/y, but local sales slipped 0.7% y/y during Q1 2020. Additionally, new motor vehicle sales contracted 51.3% y/y during January to May 2020, suggesting a fall-off in output of the distribution sector, while lacklustre demand for credit likely restricted gains in the financial and insurance sector.
- The Government introduced a slew of containment measures from mid-March, including border closure and 'stay-at-home' orders, which restricted non-essential services. A six-phased reopening of the domestic economy was launched on May 9, but the country's borders remain closed at the time of this publication.

Retail prices rose 0.4% y/y during March 2020 as core and food prices increased 0.2% y/y and 1.2% y/y, respectively.

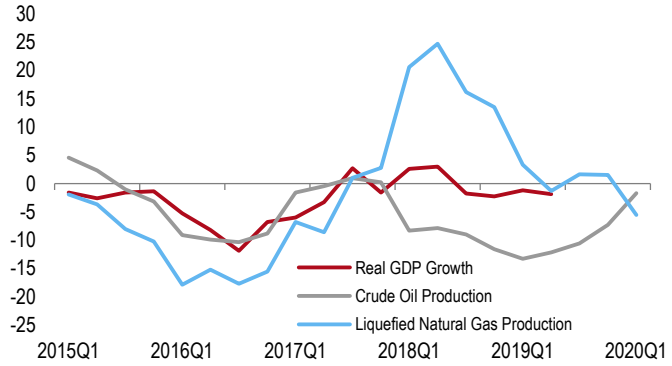
Developments in Financial Markets

The weaker domestic economic environment slowed the pace of loan accumulation during the first three months of 2020.

- Loan growth in the banking system slowed to 0.5% year to date as retail and corporate lending rose 0.4% and 0.6%, respectively. Loans to the public sector and to businesses registered modest upticks of 0.7% and 0.8%, respectively, while household mortgages expanded 1.2% year to date but consumer loans fell 1.0% year to date.
- Deposits balances rose 0.3% year to date as demand deposits fell 1.9% but savings and time deposits increased 1.4% and 4.4%, respectively.
- Consequently, the loan-to-deposit ratio rose marginally to 66.5% at March 2020. Commercial banks' non-performing loan ratio improved marginally y/y to 2.9%, while the capital adequacy ratio fell marginally y/y to 21.2% at the end of Q1 2020. However, banks' average return on assets fell to 1.8% at the end of the same period, compared to 3.9% at the end of Q1 2019.

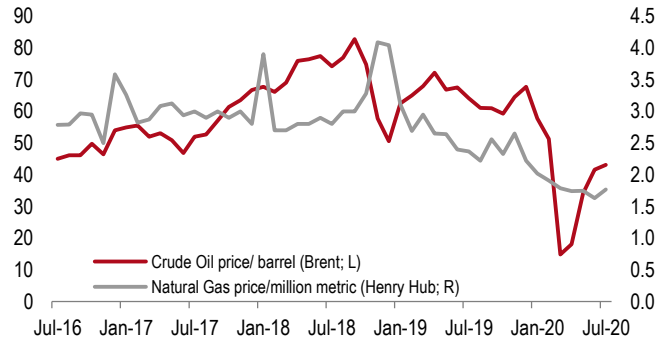
In March, the Monetary Policy Committee of the Central Bank reduced the Repo rate by 150bps to 3.5% and lowered the reserve requirement on commercial bank deposits by 3% to 14% (the first since 2004), aimed at shoring up short-term liquidity in the financial system and signalling a reduction in interest rates.

Chart 1
Key Economic Indicators (y/y; %)



Source: Central Bank of Trinidad and Tobago and CIBC FirstCaribbean.

Chart 2
Key Commodity Prices (US$)



Source: International Monetary Fund, Central Bank of Trinidad and Tobago and CIBC FirstCaribbean.

Subdued domestic activity stymied the demand for FX from CBTT, while external borrowing and withdrawal from the Heritage Stabilization Fund (HSF) likely bolstered FX reserves. The CBTT's net official FX reserves rose 5.5% y/y to US$7.3bln (8.5 months of import cover) over the first six months of 2020. The TTD/USD exchange rate remained unchanged y/y at 6.78:1 at the end of June 2020.

The Trinidad and Tobago composite stock price index fell 6.6% y/y during June 2020 and 10.7% since December 2019.

Government Debt

A substantial revenue shortfall overshadowed a more modest reduction in expenditure and led to a US$521.4mln deterioration of the Government's fiscal deficit to US$794.3mln during the first six months of FY2019/20 ended March 2020.

- Current revenue plummeted US$469.4mln (15.5% y/y) as the fall-off in energy prices contributed to a US$251mln (30.4% y/y) decline in energy revenue, and lower domestic demand led to a US$218.4mln (9.9% y/y) contraction in non-energy collections. Tax receipts fell US$378.0mln (16.2% y/y), largely reflecting a US$383.8mln (24.5% y/y) reduction in taxes on income and profits. Meanwhile, taxes on international trade fell US$3.5mln (1.8% y/y), but taxes on goods and services rose US$9.3mln (1.6% y/y), US$6.1mln of which related to an expansion in value-added tax receipts. Non-tax revenue also fell, down US$91.4mln (13.0% y/y).
- Current expenditure declined US$108.2mln (2.3% y/y), mostly because of reduced transfers and subsidies (down US$141.3mln or 7.1% y/y) due to normalisation following closure costs associated with Petrotrin in the previous year. In contrast, outlays for wages and salaries, goods and services and interest payments rose US$23.3mln (3.5% y/y), US$0.9mln (0.2% y/y) and US$8.9mln (3.3% y/y), respectively. Capital spending and net lending also rose (up US$28.5mln), moderating the fall in total expenditure to US$79.7mln (2.3% y/y).

A US$79.6mln withdrawal from the HSF helped to finance the Government's fiscal deficit during the period.

Central Government debt rose 1.6 percentage points y/y to 60.1% of GDP. Specifically, Central Government domestic debt increased 0.9 percentage points y/y to 43.5% of GDP and Central Government external debt rose 0.7 percentage points y/y to 16.6% of GDP. Total gross public sector debt expanded from 73.5% at the end of March 2019 to 79.3% at the end of March 2020.

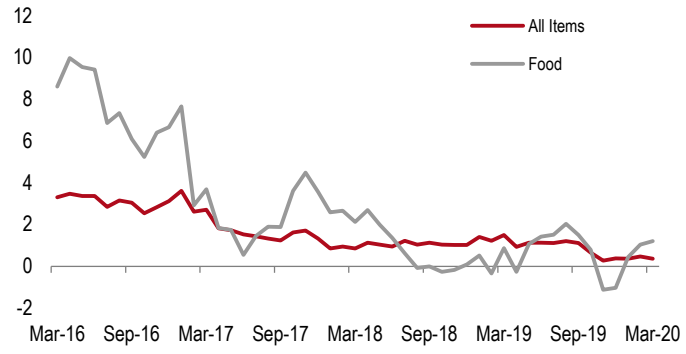
Following Standard and Poor's lowering Trinidad and Tobago's Sovereign rating from 'BBB' to 'BBB-'on March 26, Moody's affirmed its 'Ba1' rating but changed the outlook to negative, citing the exacerbation of downside risks emanating from the shock to energy prices.

Outlook

The downturn in energy markets and the slowdown of the non-energy sector due to containment measures will severely affect Trinidad and Tobago's economic performance in 2020. Latest estimates of economic contraction range from 2.7% (Standard and Poor's) to 4.5% (IMF).

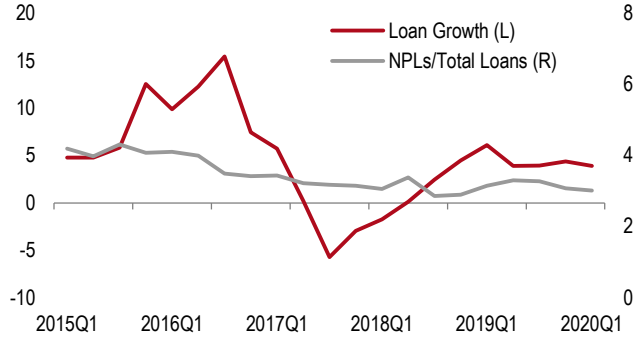
The Government's fiscal support combined with sharply declining revenue collections suggest that the fiscal deficit will worsen to approximately US$2.3bln or 10% of GDP. Further, the volatility of oil prices clouds the recovery of Government revenue with uncertainty, suggesting a concomitant rise in public debt. In addition to external borrowing from international financial institutions, the Government expects to fund its deficit with drawdowns from the HSF, which could reach the access limit of US$1.5bln, and lower the balance on the fund by 23% by the end of the fiscal year. These funding options will likely shore up FX reserves levels amid the expected deterioration of the country's external current account.

Chart 3
Inflation (y/y; %)



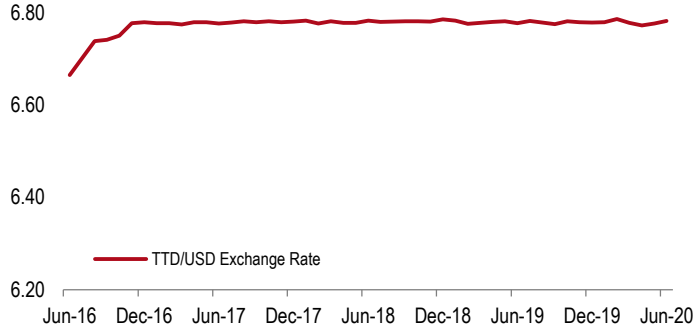
Source: Central Bank of Trinidad and Tobago and CIBC FirstCaribbean.

Chart 4
Developments in Credit Market Indicators (%)



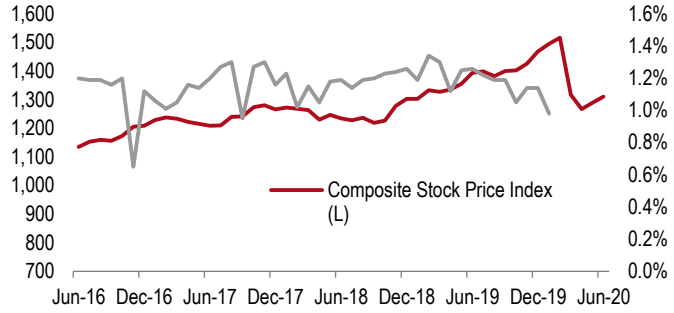
Source: Central Bank of Trinidad and Tobago and CIBC FirstCaribbean.

Chart 5
US$/TTD Exchange Rate



Source: Central Bank of Trinidad and Tobago and CIBC FirstCaribbean.

Chart 6
Capital Market Indicators



Source: Central Bank of Trinidad and Tobago and CIBC FirstCaribbean.

Turks and Caicos

Tiffany Grosvenor-Drakes
CIBC FirstCaribbean

Production, Prices, and Employment

The closure of ports of entry to commercial passengers along with lockdown measures to curtail the spread of the COVID-19 pandemic likely led to a severe contraction in real economic activity during H1 2020.

- In the absence of any tourist arrival statistics for 2020, the closure of borders on March 24 implies a dramatic reduction in arrivals and tourism activity during H1 2020. Borders reopened to international tourists on July 22.
- Meanwhile, curfews and restrictions of non-essential work likely also contributed to a fall-off in non-tourism activity during the period. The approximately four-month hiatus ended on July 20.

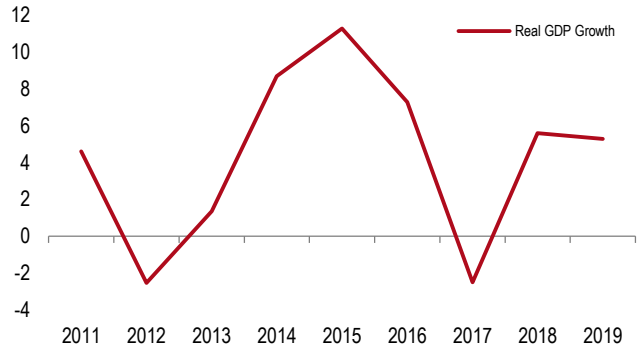
The pause in the tourism sector and the closure of other businesses likely led to an increased level of unemployment, last recorded at 7% in 2019.

Developments in Financial Markets

Loan quality and capital adequacy improved over the 12 months to March 2020. Loan growth remained modest, contained by a fall-off in lending to the public sector, while deposit growth sustained its momentum.

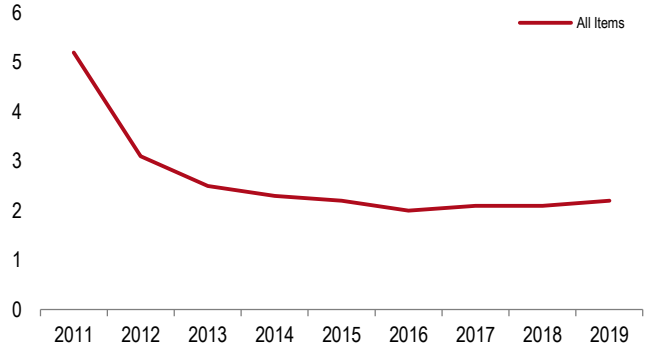
- Loan balances advanced 1.0% y/y. Corporate lending increased 0.6% y/y as a 2.9% expansion in business loans eclipsed a 57.1% contraction in lending to the public sector, attributed to the Government paying down its debt. Specifically, credit to the tourism (up 12.3% y/y) and construction sectors (up 3.9% y/y) rose during the period. Meanwhile, retail loans increased 1.4% y/y. Mortgages rose 2.7% y/y but consumer loans slipped 0.4% y/y.
- Total deposits increased 4.6% y/y as retail and corporate deposits rose 6.7% y/y and 7.3% y/y, respectively, but non-resident deposits fell 6.0% y/y.
- Consequently, the loan-to-deposit ratio fell from 60.5% at the end of Q1 2019 to 58.4% at the end of Q1 2020. The non-performing ratio improved marginally y/y to 5.3% at Q1 2020, while the capital adequacy ratio improved 4.2 percentage points y/y to 30.3% at the end of the same period.

Chart 1
Key Economic Indicators (GDP Growth; %)



Source: Turks and Caicos Statistical Office, S&P and CIBC FirstCaribbean.

Chart 2
Inflation (y/y; %)



Source: Turks and Caicos Statistical Office, S&P and CIBC FirstCaribbean.

Government Debt

The Government's strong record of fiscal surpluses has led to the accumulation of strong cash reserves to support its response to the COVID-19 shock during FY20/21.

- Increased spending on health and other support mechanisms combined with revenue shortfalls likely led to drawdowns from Government savings during the first quarter of FY2020/21 ended June 2020. The Government reported a possible US$18.5mln shortfall in April, the first month of lockdown, noting that savings could disappear quickly if this result persisted over the next couple of months.
- Government savings were estimated at US$210mln, US$172mln of which was liquid and US$140mln of which was unencumbered at the end of FY2019/20.

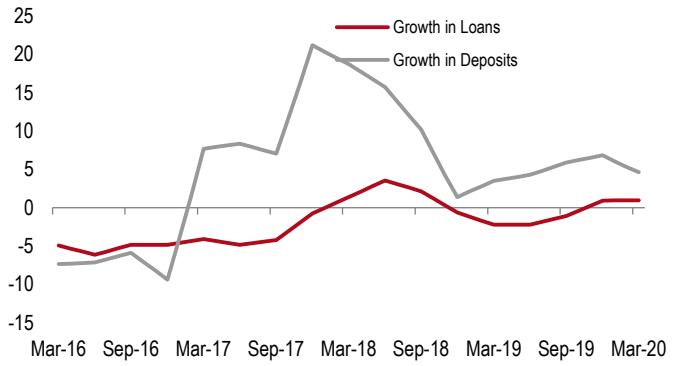
Total Government debt fell to US$3.0mln (0.2% of GDP) at the end of March 2020.

Outlook

The Statistics Department of the Turks and Caicos Islands (TCI) estimates a real GDP decline of greater than 15% in 2020, while Standard and Poor's believes the fallout could be as much as a 24.6% contraction. Although borders reopened on July 22, the tourism recovery will likely be very gradual given global uncertainty and reduced travel capacity. Moreover, the spike of cases in TCI's largest source market, the US, also clouds TCI's tourism recovery.

The Government has budgeted a deficit of US$73mln for FY2020/21, but has acknowledged that revenue shortfalls will likely create a much larger financing gap. In addition to the drawdown of cash reserves, the Government plans to fund the gap through lines of credit, grant funding and other loans, where necessary. While public debt could likely increase during the year, the Government noted that indicators agreed with the UK remain in place, except for the provision of the budget surplus.

Chart 3
Growth in Key Balances (y/y; %)



Source: Turks and Caicos Financial Services Commission and CIBC FirstCaribbean.

About CIBC

CIBC is a leading North American financial institution. From Personal, Business, and Commercial Banking to Wealth Management and Capital Markets businesses, our 45,000 employees provide a full range of financial products and services to 10 million clients in Canada, the United States and around the world.

For more than 150 years, CIBC has been a strong community partner that makes a positive impact through our corporate giving, sponsorships and the volunteer spirit of our team members. In 2019, CIBC invested more than $78 million in community organizations across Canada and the U.S., including over $57 million in corporate contributions and nearly $21 million in employee-led fundraising and giving.

Canadian Personal and Business Banking

Canadian Personal and Business Banking provides clients across Canada with financial advice, products and services through a team in our banking centres, as well as through our direct, mobile and remote channels.

Our goal is to build a modern consumer and business relationship bank to help our clients achieve their ambitions by focusing on three key strategic priorities:.

- Winning at relationships
- Delivering market-leading solutions
- Being easy to bank with

Canadian Commercial Banking and Wealth Management

Canadian Commercial Banking and Wealth Management provides high-touch, relationship-oriented banking and wealth management services to middle-market companies, entrepreneurs, high-net-worth individuals and families across Canada. We also provide asset management services to institutional investors.

We are focused on building and enhancing client relationships, being Canada's leader in financial advice and generating long-term, consistent growth. To deliver on this, our three strategic priorities are:

- Scaling commercial banking
- Increasing agility and efficiency in wealth management
- Deepening client relationships across our bank

U.S. Commercial Banking and Wealth Management

U.S. Commercial Banking and Wealth Management provides high-touch, relationship-oriented commercial, personal and business banking, as well as wealth management services to meet the needs of middle-market companies, executives, entrepreneurs, high-net-worth individuals and families in the U.S. markets we serve

Our goal is to build the best-in-class commercial and wealth management bank for our chosen client segments and markets with a focus on developing deep, profitable relationships leveraging the full complement of CIBC's products and services across our North American platform. To deliver on this, our three key strategic priorities are:

- Growing organically by adding and deepening our client relationships and selectively entering additional markets and specialty businesses
- Continuing to build a strong U.S. operating platform by investing appropriately in our growth
- Maintaining our risk discipline through selective evaluation of new opportunities, portfolio diversification, and quality of funding sources

Capital Markets

Capital Markets provides integrated global markets with products and services, investment banking advisory and execution, corporate banking solutions, and top-ranked research to corporate, Government and institutional clients around the world.

Our goal is to be the leading capital markets franchise for our core clients in Canada and the lead relationship bank for our key clients globally by delivering best-in-class insight, advice and execution. To enable CIBC's strategy and priorities, we collaborate with our partners across our bank to deepen and enhance client relationships. To deliver on our goal, our three key strategic priorities are:

- Being the leading capital markets platform in Canada for our core clients
- Building a North American client platform with global capabilities
- Increasing connectivity across CIBC to deliver better service for clients

About CIBC FirstCaribbean

CIBC FirstCaribbean International Bank is a relationship bank offering a range of market-leading financial services through our Corporate Investment Banking, Wealth Management, and Retail Banking segments.

Headquartered in Warrens, Barbados, we provide banking services to our clients through approximately 3,100 employees, in 100 branches and offices. We are one of the largest, regionally listed financial services institution in the English and Dutch-speaking Caribbean.

As a member of the CIBC Group of companies, we share with them an organizational culture based on core values of Trust, Teamwork, and Accountability.

CIBC FirstCaribbean operates within a well regulated environment, under the supervision of the ten banking regulators across our 16 markets, including Antigua and Barbuda, Aruba, The Bahamas, Barbados, British Virgin Islands, Cayman Islands, Curaçao, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines, Trinidad and Tobago and Turks and Caicos Islands.

CIBC FirstCaribbean is traded on the stock exchanges of Barbados, Trinidad and Tobago, The Bahamas and Eastern Caribbean.

A full service institution, we lead the market in providing innovative solutions for our clients, including:

- State-of-the-art branch banking which is currently being rolled out across the region, featuring a functional, ergonomic environment with electronic, seated queuing systems for service identification and prioritization; dedicated corporate banking facilities and wealth management services in an upscale, lounge-type setting
- A range of electronic banking solutions for full service in quick time, including an enhanced internet and mobile banking service.
- Enhanced private banking service for Domestic Wealth Management clients, including Platinum Service priority access in branches, dedicated wealth management centres, financial advice by certified financial planning experts and Platinum cards services for the discerning customer.
- Support for corporate clients with best-in-class relationship management products and services.

CIBC FirstCaribbean is focused on developing strong relationships with its clients and is committed to being a best practice institution, with a focus on listening to and working closely with our clients to help them achieve what matters to them.

Notes

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