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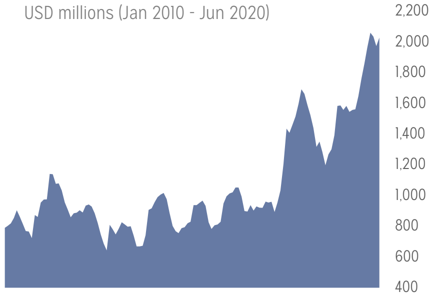
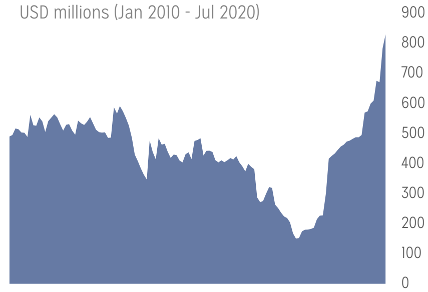
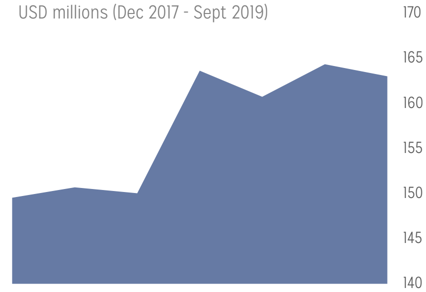
WHY DOES THE EU DELIBERATELY MARGINALIZE SMALL AND VULNERABLE COUNTRIES?

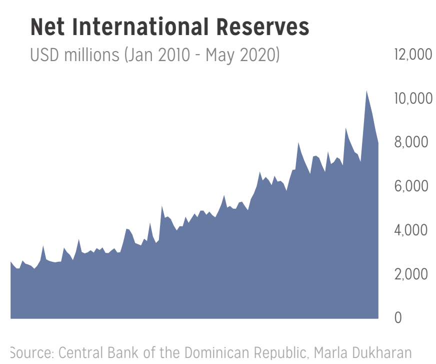
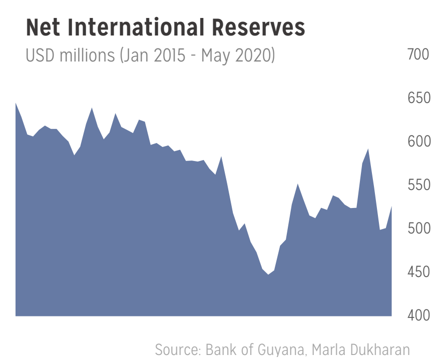
The EU's blatantly discriminatory tax and AML/CFT policy stance has been gnawing at my insides for some time, since I first highlighted it in May 2019. Recently, much of the feedback received from Europeans in particular, cautioned against labeling this discriminatory stance as racist, suggesting perhaps the reason that every single country on the list is a relatively small, weak, non-white former-European colony, is either pure coincidence, or that we are in fact the world's most criminal, corrupt, money-laundering, tax-shielding shady people, who deserved to be named, shamed, and schooled by those who know better. Indeed, the EU's list of high-risk countries, if nothing else, ought to signal strongly to serious money launderers to shift to jurisdictions which will never be so listed – i.e. EU member states and their allies (even if identified by the FATF as presenting strategic deficiencies in their AML/CFT frameworks). Brilliant business strategy, EU!

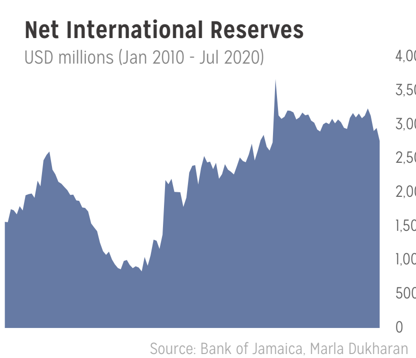
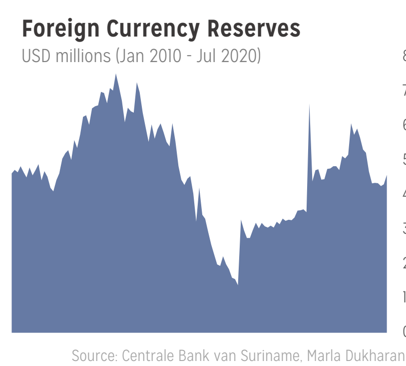
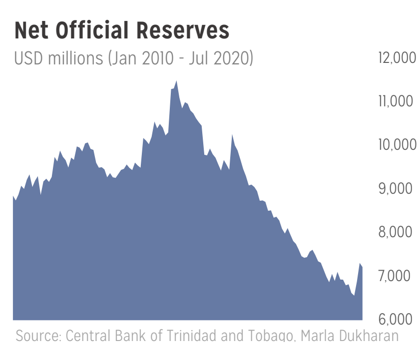
Which brings me to the fundamental issue of the EU's (ever-changing) methodology. In the first place, money laundering and terrorism financing are specific crimes which carry standard legal definitions. The EU's methodology to "identify high-risk third countries having strategic deficiencies in their regime on AML and CFT" goes well beyond the standard definitions to include non-legal criteria such as "International offshore financial centres," "strength of economic ties with the EU," and "a jurisdiction is identified as a least developed country (LDC) by the UN." The methodology stops short of stating how "strength of economic ties with the EU" affects the likelihood of being listed, but the evidence suggests that there is an inverse relationship. Furthermore, it would also appear that this criterion supersedes all others, given that "international offshore financial centres" such as London, New York and Zurich have never been listed, unlike small ones.

Since 1971, the UN has recognized LDCs as "highly disadvantaged in their development process, for structural, historical and also geographical reasons…at risk of deeper poverty and remaining in a situation of underdevelopment…characterized by their vulnerability to external economic shocks, natural and man-made disasters and communicable diseases…in need of the highest degree of attention from the international community. Currently, the 47 LDCs comprise around 880 million people, 12% of the world population…less than 2% of world GDP and around 1% of world trade."

Based on "the particular constraints they face" the EU's methodology purports to exclude LDCs from their list of high-risk jurisdictions, "unless those LDCs are identified as presenting a threat for the EU financial system…or are identified as an offshore financial centre" (which by the way, holds for ALL countries with insignificant "strength of economic ties" to the EU). In essence therefore, the EU makes no exception for LDCs, and indeed, has included LDCs Afghanistan, Cambodia, Myanmar, Uganda, Vanuatu, and Yemen in their most recent list. I believe the UNCTAD has a duty to address with the EU, their ongoing grossly disproportionate discrimination and further marginalization of these most vulnerable and unstable countries. If our greatness is measured by how we treat the weakest amongst us, the EU's reprehensible actions suggest that they have never been and will never be great (again).

	BAHAMAS	BARBADOS	CAYMAN ISLANDS
UPDATE	The economy could contract 15-20% this year, according to the Central Bank. Hurricane rebuilding and the resumption of FDI-based construction projects have provided some stimulus to economic activity. The effect of the sharp contraction in tourism arrivals on FX reserves has been somewhat offset by inflows from government's external borrowings and reinsurance flows related to Hurricane Dorian. The IDB estimated storm damage of USD2.5 billion vs public sector assets of USD229 million. The fiscal deficit resulting from higher public health and social welfare spending, greater capital expenditure to rebuild critical infrastructure impacted by the Hurricane, and the drop in fiscal revenue due to shutdowns (Central Bank estimates a 30% drop this Fiscal Year) could reach 11.6% of GDP this year. The Central Bank expects the deficit to largely be financed through external debt. Banks are taking a more cautious stance on lending, with foreign currency loans to the private sector down 20% y/y in June 2020.	The economy contracted 27% y/y in Q2 2020, translating into a 15% contraction in H1 2020 overall. Unemployment claims rose to 33,000 in the March-June period. Roughly 30% of unemployment claims came from the tourism sector, 17% from distribution, 8% from manufacturing and 6% from construction. Wholesale and retail activity fell 26% y/y from April-June, due to weak consumer demand, reduced business hours and containment measures. Construction activity contracted 9% y/y. NPLs have begun to increase, but the financial system remains well capitalized with record levels of liquidity. International Reserves reached more than USD1 billion in August partly as a result of inflows from new borrowing. Government finances met the renegotiated primary fiscal balance target for the Jan-June period, generating a BBD151.5 million primary surplus (1.6% of GDP), as recent reforms drove substantial gains in revenues from corporations.	The economy is expected to contract by 7.1% y/y in 2020 and recover by 6.4% in 2021. For 2020, the Hotel & Restaurant sector will contract by an estimated 75%, Transportation, Storage & Communication by 15%, Finance/Insurance by 3.8% and Business Service by 1.7%. Unemployment will nearly double in 2020 to 6.9% at year-end and decline in 2021 to 5.1%. Inflation will remain subdued at 0.4% this year, far below the 5.7% in 2019 which was mainly related to rising rents. Government revenues are projected to be 17% below budget and operating & financing expenses will be 13% higher. Government has sought a KYD500 million (USD610 million) line of credit to avoid depletion of cash reserves to be drawn down on an "as needed" basis. Cayman's low debt of KYD266 million and high operating cash balance of KYD383 million at June 2020 from previous fiscal surpluses, means that the government has the flexibility to respond, to cushion the shock and its socioeconomic impacts.
TOURISM	Stay-over: 2020: 349,186 (Jun) -64.4% y/y Cruise pax: 2020: 1,327,084 (Jun) -52.7% y/y	Stay-over: 2020 est: 172,655 (Jun) -54% y/y Cruise pax: 2020 est: 250,881 (Jun) -34% y/y	Stay-over: 2020: 93,558 (Feb) +8.5% Cruise pax: 2020: 448,435 (Feb) -4.3%
GROWTH	1.8% (2019 prelim. est.)	-0.1% (2019 prelim. est.)	2.8% (2019 prelim. est.)
RESERVES	**External Reserves** USD millions (Jan 2010 - Jun 2020)  Source: Central Bank of The Bahamas, Marla Dukharan	**International Reserves** USD millions (Jan 2010 - Jul 2020)  Source: Central Bank of Barbados, Marla Dukharan	**Foreign Reserve Assets** USD millions (Dec 2017 - Sept 2019)  Source: CIMA, Marla Dukharan
OUTLOOK	Central Bank forecasts a contraction of 15-20% in 2020. IMF expects a contraction of 8.3% this year, which is subject to further downward revision.	IMF forecasts an 11-12% contraction this year, which is subject to further downward revision. Growth will return to a medium-term average of 2% as structural reforms are implemented.	The government estimates the contraction this year could be between 7.2-11.4%, largely dependent on the effectiveness of stimulus measures. The recovery for 2021 is now expected to be around 6.4%,

	CUBA	DOMINICAN REPUBLIC	GUYANA
UPDATE	ECLAC's most recent projection is for an 8% contraction in GDP in 2020 - much sharper than their initial 3.7% estimate. Govt's 16 point plan for economic recovery lays out: the decentralization of resource allocation; import substitution; creation of domestic value chains including self-employed, state and non-state actors; greater autonomy for business sector (i.e. deciding production levels, prices, resource allocation), more flexible commercialization in the agro sector; reorient the financial sector towards agro and agroindustrial sectors; decentralized decision-making (not planning) in the state-owned enterprises; allowing part of hard currency earned from exports to be managed by the exporter; creation of a wholesale market; removal of the 10% tax on USD cash entering the banking system; allowing for retail sales in convertible pesos. The Minister of Labor announced the elimination of list of 123 restricted 'self-employment' activities to broaden activities allowed and incentivize domestic linkages.	The Central Bank held its policy rate steady at 3.50% in July and continues to support short-term liquidity. Inflation was 4.35% in July, within target range of 4.0% ± 1.0% with core inflation at 4.1%. Abinader assumed the Presidency on August 16, ratifying Central Bank Governor, signaling a continuation of monetary policy. Gold prices are performing strongly, reaching historical highs above USD1,950/troy ounce. This will have a positive impact on the balance of payments to mitigate to a small degree the massive reduction in tourism. Family remittances have continued to grow y/y in spite of the pandemic, up 18% y/y in May, 26% y/y in June, and 29% y/y in July. This could be related to the release of US government stimulus checks and the US extension of income tax filings/returns. YTD remittances were up 5% y/y for Jan-July 2020. Free zone exports have stabilized and returned to normal levels, supporting the eventual recovery of FX inflows. The high levels of reserves have allowed for a relatively stable exchange rate.	Mixed performance was reported by the Bank of Guyana for Q1 2020, with rice production benefiting from weather conditions and sugar production estimated to have contracted. Gold production expanded as Troy Resources Ltd restarted operations in late January and Guyana Goldfields recorded higher output. Bauxite and diamond output declined. Public investment befitted construction activity while oil & gas sector drove an expansion in services. Lower FDI in the COVID-19 environment drove the Balance of Payments deficit to deepen to USD84 million. Crude oil exports drove the current account deficit down from USD406 million to USD91 million, with a 91% y/y rise in merchandise exports - USD284 million from oil and USD39 million from gold. The Balance of Payments deficit is expected to expand with lower export earnings, FDI and remittances. The total stock of public debt remained virtually flat at USD1.69 billion in March, though expected to increase to fill budget gaps due to the COVID response.
TOURISM	Stay-over: 2020: 984,178 (May) -57% y/y Cruise pax: 2018: 877,500 +43% y/y (*341,005 from USA)	Stay-over: 2020: 1,529,254 (Jul) -63.3% y/y Cruise pax: 2020: 344,485 (Jul) -47.2% y/y	Stay-over: 2019: 282,221 (Nov) +9.5% y/y Cruise pax: n/a
GROWTH	0.5% (2019 prelim. est.)	5.1% (2019 prelim. est.)	4.7% (2019 prelim. est.)
RESERVES	n/a		
OUTLOOK	We expect a contraction in the 10-15% range this year. ECLAC's most recent forecast is for a contraction of 8%.	The IMF expects a contraction of 1.5% in 2020 while the Hotel and Restaurant Association forecasts a contraction of up to 4.7%.	The IMF is expecting growth at 53% this year – still the fastest in the world. But with political uncertainty and the collapse of oil prices, we expect growth to be much lower.

	JAMAICA	SURINAME	TRINIDAD & TOBAGO
UPDATE	The General Election has been scheduled for September 3. The Bank of Jamaica now projects a 7-10% contraction in GDP for FY 2020/2021, expecting weaker performance in Transport, Storage and Communications, Electricity and Water, Construction and Hotels & Restaurants. The economy is not expected to return to pre-COVID levels until FY2022/2023. At 5.7%, inflation is within the BoJ's target range of 4-6%. The exchange rate averaged JMD150 : USD1 for Aug 1-25, depreciating 9.3% y/y, as USD inflows have sharply declined. Growth in remittances has softened the impact, reported up 42% y/y for June – likely related to US stimulus checks. BoJ has intervened with FX sales and the issuance of a USD indexed bond. International reserves declined 6% y/y in July 2020 to USD2.76 billion, estimated at 36 weeks import cover. This is roughly 56% stronger than the international reserves position throughout the Global Financial Crisis. Non-performing loans have increased as expected, but the financial system is sufficiently capitalized.	Suriname's foreign currency reserve position continues to deteriorate, down 25% y/y to USD457 million - an estimated 2.5 months import cover. The pace of growth of the money supply decelerated in June to 39% y/y after averaging 82% in Q1 2020, as the Central Bank financed budget deficits through printing. Gold exports rose 14% y/y in Q1 2020, with improved volumes and favorable price being the only positive developments for external liquidity. The parallel exchange rate continues to show a hefty premium over the official rate, estimated at 125% by the IDB in May 2020. The overvalued exchange rate subsidizes imports and creates incentives for arbitrage, accelerating demand for the already scarce hard currency. Inflation in July reached 38.3% and the construction price index surged 62.7% y/y in Q2 2020. The impending devaluation will drive further upward price pressures and generate the same types of instability as seen between late 2015 and 2017.	The issuance of USD500 million in new debt brought net official reserves up to USD7.2 billion in July - similar to the level of early 2008. The TTD appreciated m/m slightly in July 2020 to TTD6.7788 : USD1.00. The overvalued TTD continues to drain reserves with over USD3 billion lost (excl. USD500 million debt issuance) since the exchange rate reached TTD6.78 in November 2016. All major output indicators are pointing to a significant reduction in economic activity in H1 2020. LNG production averaged 4% below the 2019 level for Jan-June. Average crude oil production fell 3% y/y for Jan-May and average crude oil exports declined 25% y/y. The total number of new vehicles sold for Jan-June 2020 fell 49% y/y. Local sales of cement fell 19% y/y. Crime continues to be a major hinderance to development, with 512 murders recorded in the 12 months to June 2020. Social outcomes deteriorated rapidly since the onset of COVID-19, with 68% of low-income households affected by job losses according to a recent IDB survey.
TOURISM	Stay-over: 2020: 623,360 (Jul) -62.5% y/y Cruise pax: 2020: 449,271 (Jul) -54% y/y	n/a	Stay-over: 2019: 388,576 (Dec) +3.5% y/y Cruise pax: 2019: 66,460 (May) -30.7% y/y
GROWTH	1.0% (2019 prelim. est.)	2.3% (2019 prelim. est.)	0.0% (2019 prelim. est.)
RESERVES			
OUTLOOK	The IMF is forecasting an economic contraction of 4.6% in 2020, while S&P expects a sharper contraction of 13% this year. BoJ projects a 7-10% contraction for FY2020/2021.	We expect a balance of payments crisis in the near future. The IMF is projecting a 4.9% contraction this year, but we believe a double-digit contraction is more likely.	The IMF is projecting an economic contraction of 4.5% this year, but we expect it to be about twice as deep. We also expect a balance of payments crisis and an IMF program by 2022, latest.