

Regional dialogue to share experiences on fiscal responses to the crisis generated by the COVID-19 pandemic

The Caribbean perspective

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UNITED NATIONS

ECLAC



COVID-19 Observatory
in Latin America and the Caribbean
Economic and social impact

Transmission channels of the COVID-19 crisis in Latin America and the Caribbean

**A drop in
international trade**

**Falling
commodity
prices**

**Heightened risk aversion
and worse global
financial conditions**

**Less demand for
tourism services**

**Expected decline in
remittances**

Impact of COVID-19 in the Caribbean

Domestic challenges

- Revenue and income losses
- Drop in investment
- Increasing unemployment
- Increased indigence and poverty
- Failure of small and medium sized businesses
- Challenges to the financial system

External challenges

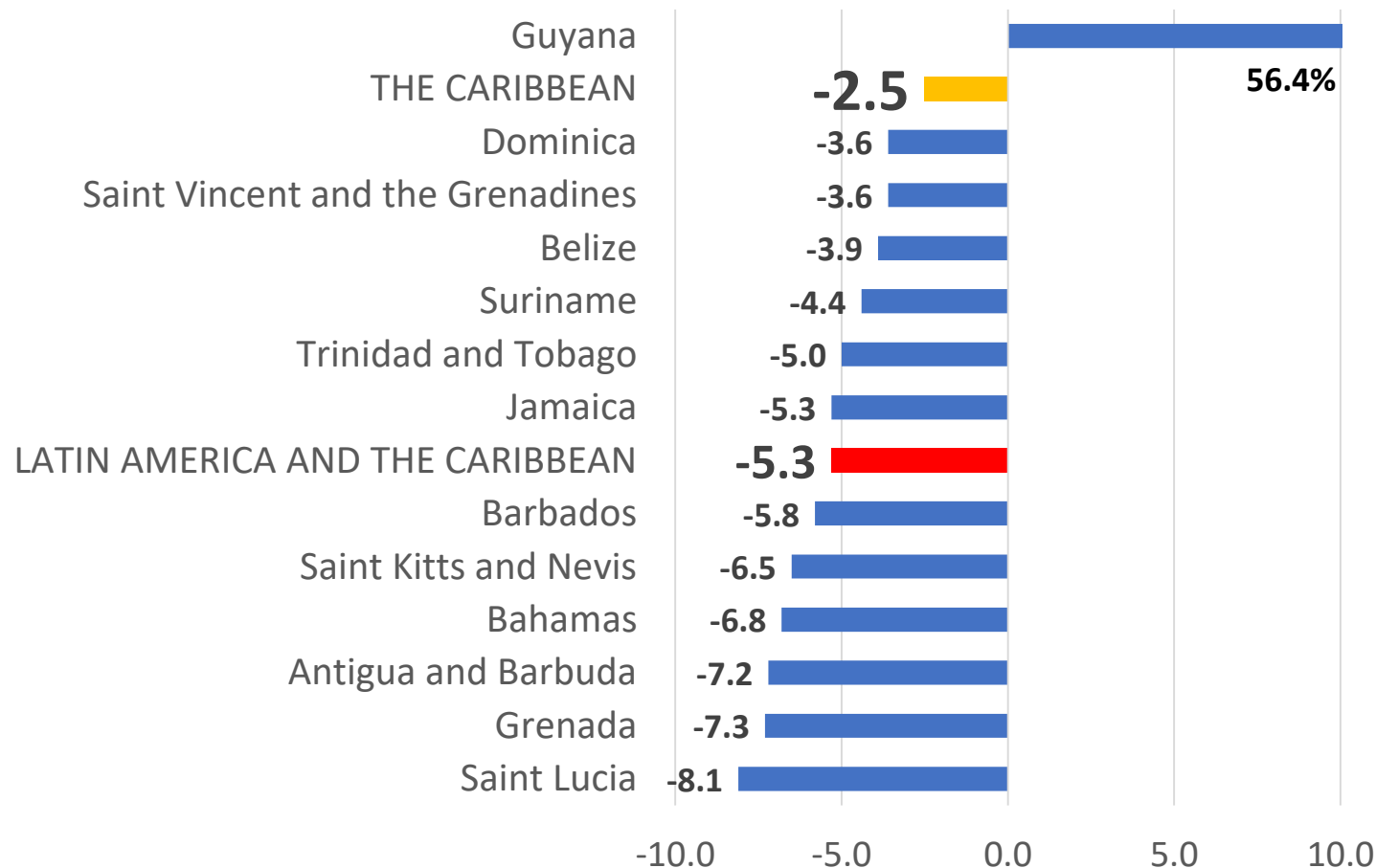
- Near shutdown of air and cruise travel causing an immense blow to the tourism sector
- Stress in related supply chains: agriculture, construction, hotels, restaurants
- Sharp contraction in larger economies
- Contraction of commodity prices
- Contraction in FDI flows and remittances
- Disruption in transport and global supply chains,
- Risk aversion for external investors and financial turbulence
- Restrictions in foreign exchange availability

The countries best positioned to weather this crisis are those with fiscal space and external buffers (e.g. sovereign wealth funds and international reserves).

For most of Caribbean economies, limited fiscal space pose a significant challenge towards recovery.

Caribbean GDP growth is expected drop in 2020 by -2.5 with a downward bias

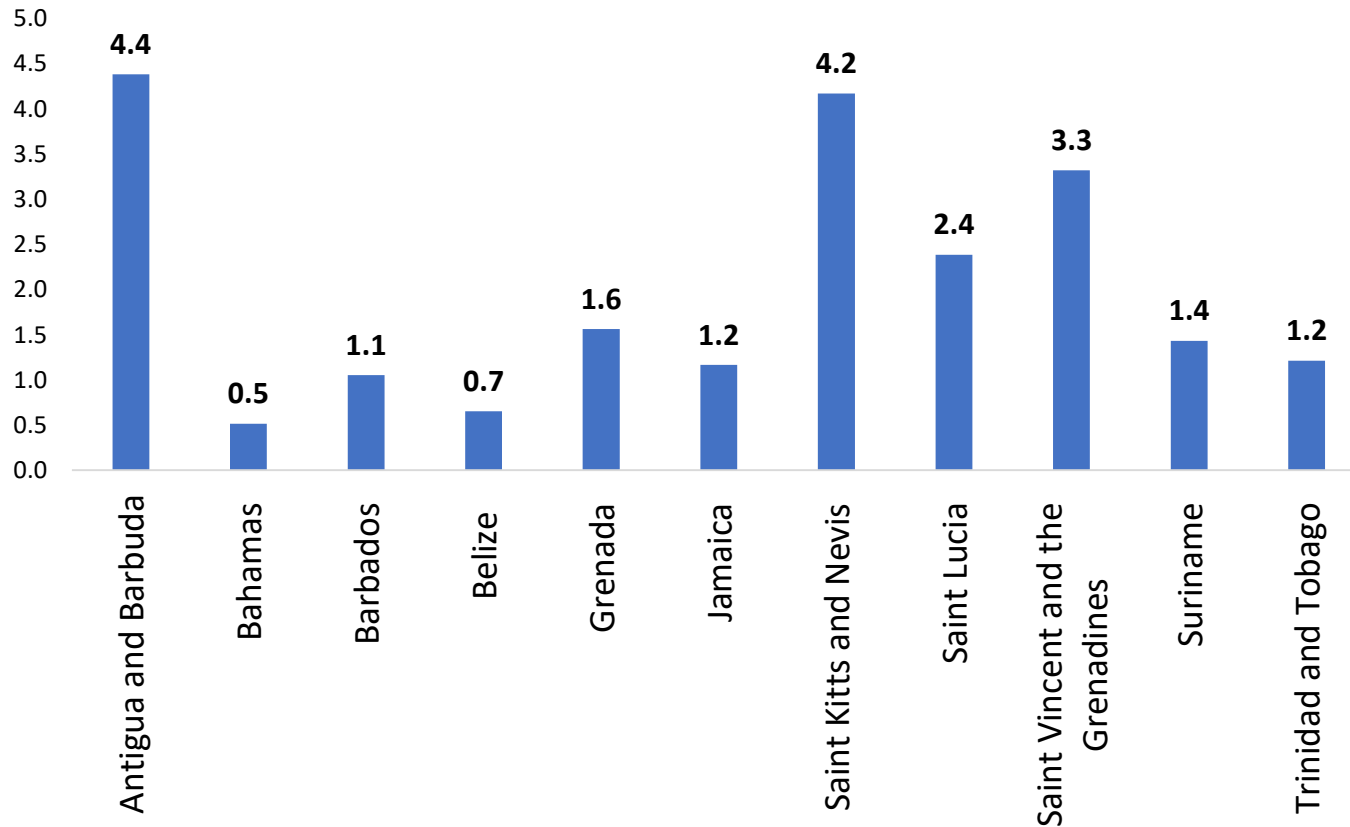
THE CARIBBEAN: PROJECTED GDP GROWTH RATES, 2020
(Percentages)



Source: ECLAC.

Caribbean countries are spending between 1 and 4% of GDP to tackle the COVID-19 crisis

SIZE OF FISCAL PACKAGES
(Percentage of GDP)

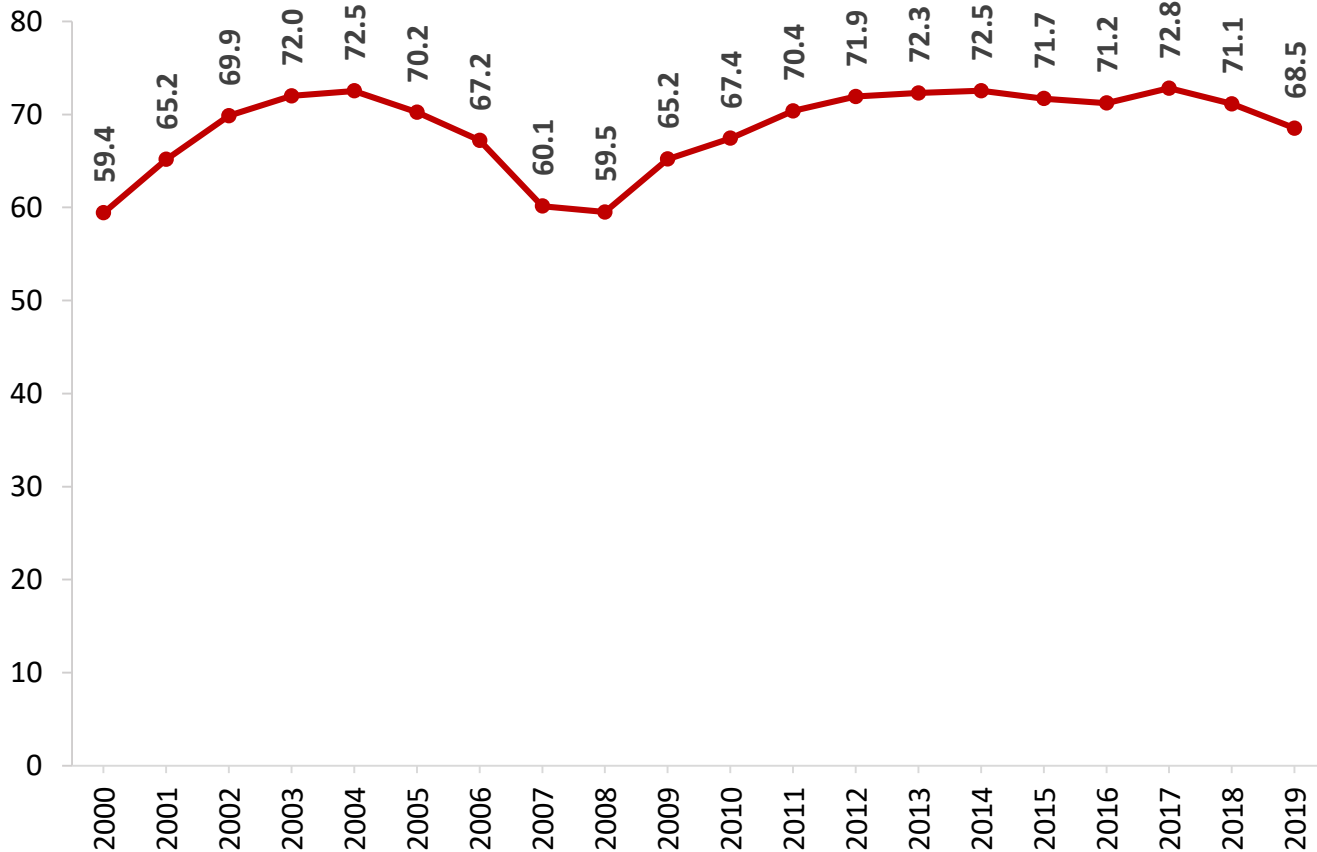


- **Limited fiscal packages focused on:**
 - Social security programs: cash transfers to unemployed, salary relief grants and food cards to children affected by school closure.
 - Loan deferrals and liquidity support for SMEs, individuals and corporations, particularly in the tourism sector.
- **Increased health care spending on:**
 - Testing and treatment of COVID-19 severe and critical cases.
 - Enhanced public health surveillance.

Source: ECLAC.

High level of debt and interest payments limit public expenditure

THE CARIBBEAN (13 COUNTRIES): GROSS PUBLIC DEBT OF CENTRAL GOVERNMENTS, 2000–2019
(Percentages of GDP)

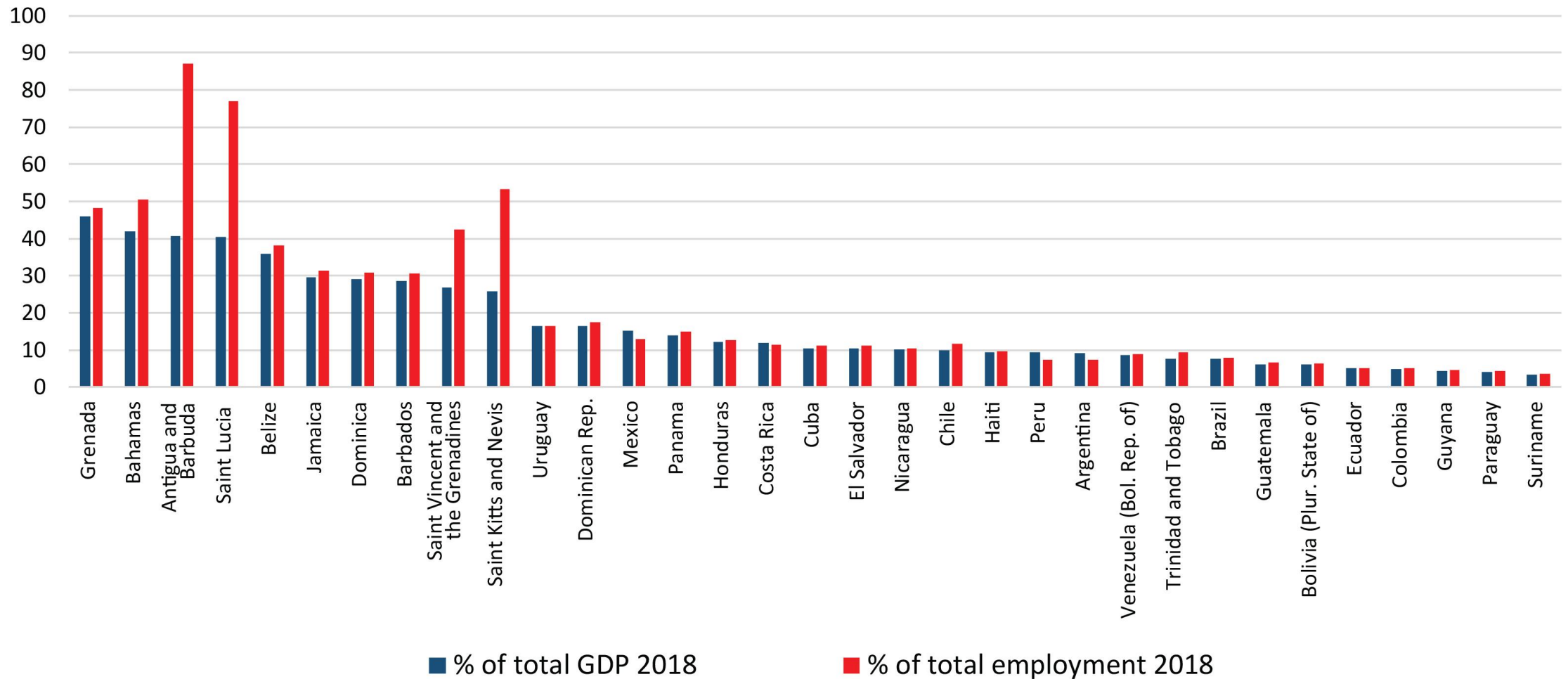


Source: ECLAC.

- Caribbean economies have the highest debt ratios in the world.
- Reductions in production and income and increases in borrowing will further increase debt burdens.
- Regardless of an increase in public debt, decreases in GDP will raise debt ratios which can affect credit ratings and cost of borrowing.
- Debt is rooted in external shocks, compounded by impact of natural disasters and inherent social and economic structural weaknesses.

The Caribbean most affected by the collapse in tourism

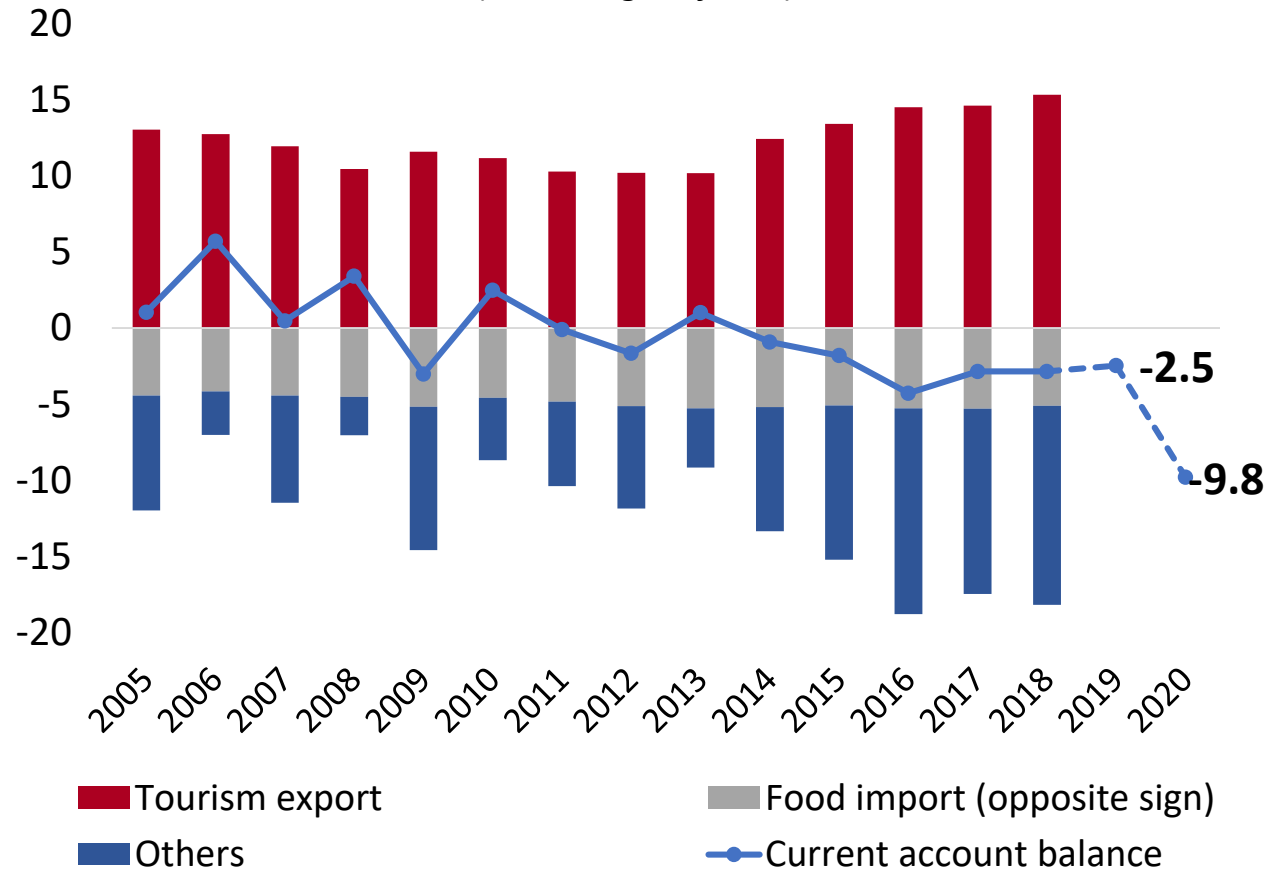
LATIN AMERICA AND THE CARIBBEAN: SHARE OF TOURISM IN GDP AND EMPLOYMENT, 2018
(Percentages)



Source: ECLAC.

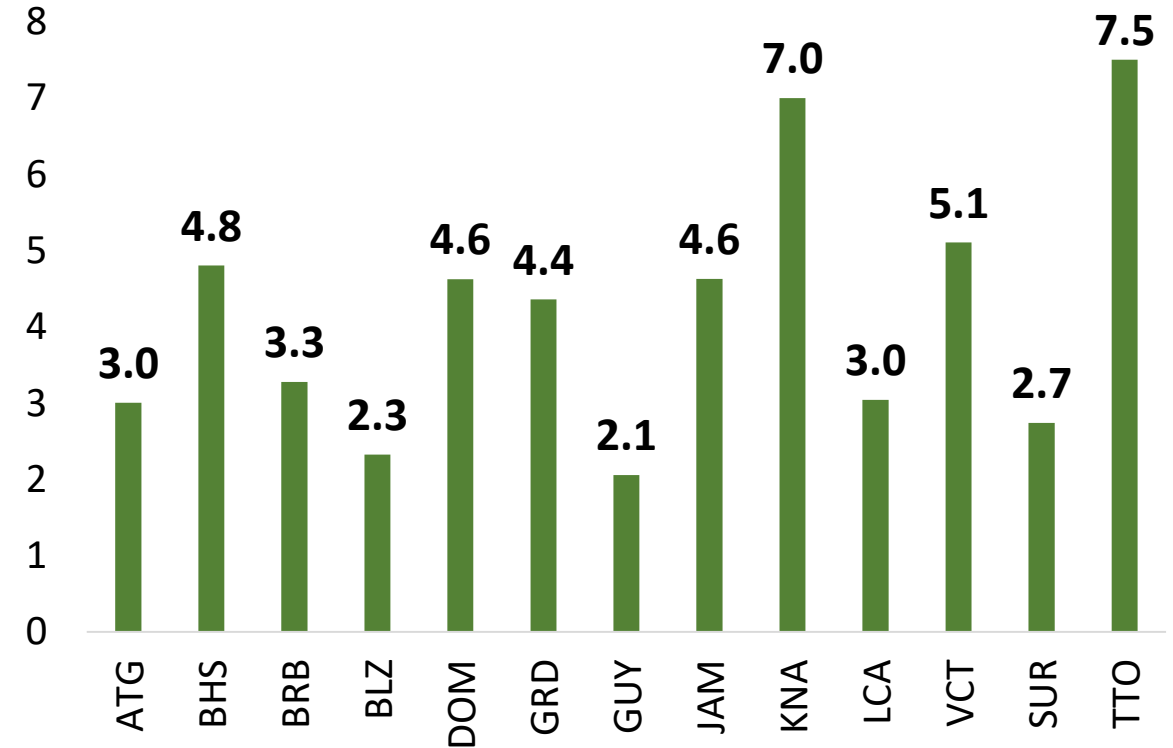
Reduced foreign exchange availability and food security

THE CARIBBEAN: CURRENT ACCOUNT BALANCE
(Percentages of GDP)



Note: figures for 2019 and 2020 are IMF forecast.

THE CARIBBEAN: NET INTERNATIONAL RESERVES
(Months of import)



Note: the figure for Suriname is gross international reserves. Figures are at the end of 2019 for ECCU countries and Barbados, at the end of January 2020 for Guyana, at the end of March 2020 for Bahamas, Jamaica, Suriname and Trinidad and Tobago and at 18 March 2020 for Belize.

The assistance provided by IFIs and development agencies falls short of the needs of the region to fight the effects of the pandemic

- Support offered by IFIs, regional development banks and bilateral donors is basically for medical equipment or cash flow to affected sectors and groups.
- Despite this assistance an increase in debt levels will be inevitable.
 - Some economies were already affected by natural disasters prior to the start of the pandemic.
 - Countries need to expand their expenditure at a time of falling tax revenue.
 - Governments will have to support the recovery through increased expenditure.
 - Moreover, the recovery path of Caribbean countries will be more difficult from those of other economies due to their productive structure and as a result of the potential destructive effects of the upcoming hurricane season.

Considered as middle or high income countries, Caribbean countries confront the lack of access to liquidity at concessional terms

- At the same time that their fiscal space narrows, Caribbean countries will witness a significant decline in external finance as FDI dries up.
- Countries will face greater restrictions to access foreign exchange:
 - With further and significant pressure on the balance of payments and external stability,
 - Which will impact negatively on domestic economic and social conditions given the strong linkages between the external and internal sectors of economic activity.
- Yet Caribbean countries, due to their classification as upper middle and high income countries, do not have access to alternative sources of financing:
 - Caribbean countries have very limited access to concessional external finance or access to special trade treatments.
 - At the same time the Caribbean has witnessed a decline in ODA.

Policy proposals to support economic recovery with a people-centered approach

- Rigorous public health surveillance for early detection of new COVID-19 cases and for preventing a second wave of infections.
 - Improved access to testing as necessary condition for reopening the economy.
 - Economic relief/employment insurance for period of quarantine/isolation to encourage citizens to submit for testing.
- Targeted increases in social spending.
- Tax relief to (small and medium size) businesses in affected sectors can bring much needed relief.
- Central banks should continue to ease tightening financial conditions by increasing liquidity and cutting interest rates.

All Caribbean countries must increase their fiscal space and need more favourable financing conditions independently of their income per capita levels

- Access to new financing sources and mechanisms.
- Low-cost, flexible credit lines.
- Moratorium, forgiveness, restructuring and/or relief of debt and the related interest.
- The leaders of the G20 countries must allow multilateral organizations to grant loans at favourable interest rates and provide debt relief especially for heavily indebted countries, postponing payment deadlines or forgiving the debt.
- Otherwise, payments will be impossible and fiscal space will be compromised.
- *Exceptional measures to face an unprecedented crisis. There will be no progress without international cooperation and solidarity.*

The crisis induced by the COVID-19 underscores the importance of ECLAC's proposal for building resilience and reducing debt

- The effects of the pandemic on economies that are structurally vulnerable and prone to shocks makes it **imperative to build resilience**.
- ECLAC's proposal links building **resilience to the reduction of debt** and recommends the creation of the Caribbean Resilience Fund (CRF).
- A globally coordinated **debt deleveraging mechanism** with a climate component to address the global debt overhang problem: **standstills and debt moratorium**.
- Urgency of coordination and interaction between multilateral institutions, donor countries, and small States debtor countries.
- Member States will require flexible support from multilateral institutions, including lines of emergency financing.

COVID-19 will bring about lasting changes

- Regional governments must re-evaluate disaster response measures in the era of the COVID-19 pandemic.
- Relief for debt service payments can be extremely useful in supporting financing needs. **The ECLAC resilience fund proposal has the potential to offer much needed long-term relief particularly to middle income countries.**
- Acceleration of the debt swap initiative and establishment of the ECLAC Climate Resilience Fund is needed, given the impact of the pandemic and the potential for an active hurricane season in 2020.
- Food security measures should be further explored given the region's high dependence on food importation and the reduced access to foreign exchange.

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