

A Summary of Caribbean Economies' Policy Responses to the Covid-19 Pandemic

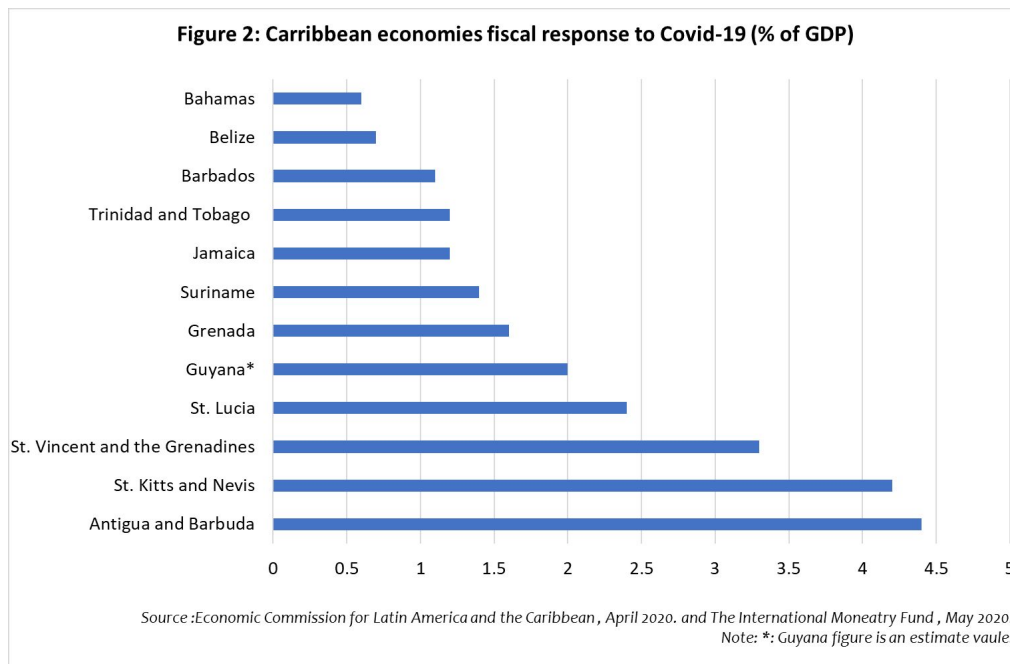
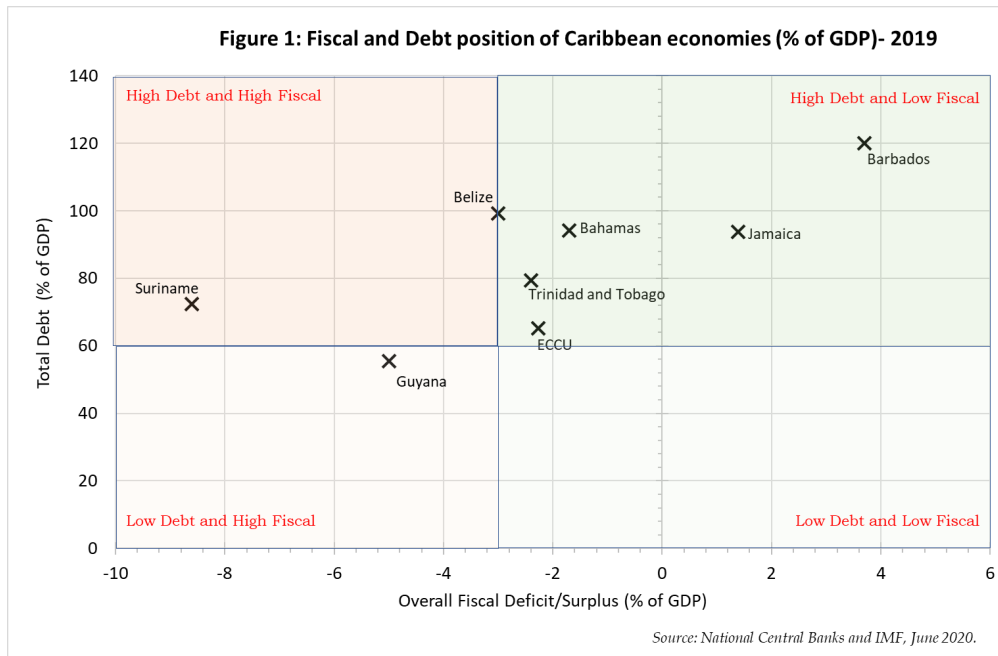
By Julia Jhinkoo-Ramdass

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The pandemic is crippling the economies of rich and poor countries alike, but for many low-income and fragile states, the economic shocks can become debilitating. The way forward from this new reality that we all face is still unknown on so many levels for every one of us. Governments have been implementing large-scale fiscal programmes geared towards easing the effects of the COVID-19 pandemic. These fiscal programmes are aimed at mitigating and containing the economic fallouts and saving lives by providing the appropriate health care and equipment. In the Caribbean, the responses to date by the respective governments have been heavily constrained due to their exposure to external shocks and their limited fiscal space. Governments have been responding through aggressive social distancing measures and granting support packages for individuals and firms. In this new unknown environment, four external shocks have been identified for Caribbean economies; these are a combination of supply and demand, (Rosenblatt and Zegarra 2020):

- (1) Tourism is identified as the sector most affected globally by the coronavirus. Other sectors are experiencing stress in supply chains, but the global tourism industry is experiencing an unprecedented shock. Even if the travel restrictions can be removed safely, if the world is in recession, tourism will continue to be affected.
- (2) A combination of factors is contributing to low oil and gas prices, geopolitical on the supply side, combined with the sharp slowdown in large economies on the demand side.
- (3) Gold is a leading export for Guyana and Suriname. The price of gold tends to increase during periods of global financial stress, but it also becomes more volatile. On the side of imports, disruptions in transport and global supply chains might limit access to key basic goods, including food and both intermediate and capital goods required for production and investment.
- (4) Risk aversion and financial turbulence make it more difficult for Caribbean countries to access external finance at a reasonable cost.

The fiscal strain on Caribbean economies is currently very intense; many of them have high debt levels and fiscal deficits (Figure 1). The Covid-19 pandemic has now exacerbated the fiscal strain on Caribbean economies, forcing many governments to source funds to provide the relief and assistance needed for its citizens and businesses. Caribbean economies have spent between one per cent and four per cent of GDP to mitigate the immediate effects of Covid-19 on their economies - Figure 2, (Bárcena 2020) .



The world is still in uncharted territory, and globally each country's policy responses are still evolving because of the high level of uncertainty that exists from the Covid-19 pandemic. Each country's response to date has been hinged on its fiscal stance and the financial resources the country has and can access. Table 1 seeks to highlight the Caribbean economies policies from the IMF Policy Tracker¹ - last updated May 29, 2020, (The International Monetary Fund 2020) and from the (Beuermann, Álvarez and Vera-Cossio 2020). The social welfare programmes of the Caribbean economies all seem to have similar initiatives such as cash transfers to the

¹ The IMF policy tracker summarizes the current economic status and the key economic responses governments are taking to limit the human and economic impact of the COVID-19 pandemic. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

Reopening strategy															
Presentation of strategy and timeline	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Start reopening strategy	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■

Source: Adapted from Beuermann, Álvarez and Vera-Cossio 2020 and IMF Policy Tracker, May 2020.

The policy responses to date of Caribbean economies for short-term relief and economic support have been hinged on the fiscal capacity of each country, and this is limited. The IMF has been providing emergency financing to countries to deal with the economic impact of the Covid-19 pandemic. Table 2 shows the Caribbean countries that have accessed the emergency financing.

Country	Type of Emergency Financing	Amount Approved in SDR million	Amount Approved in US\$ Million	Date of Approval
The Bahamas	Rapid Financing Instrument	SDR 182.4	US\$ 250	June 1, 2020.
Barbados	Augmentation of Extended Fund Facility	SDR 66.15	US\$ 91	June 3, 2020.
Dominica	Rapid Credit Facility	SDR 10.28	US\$ 14	April 28, 2020.
Grenada	Rapid Credit Facility	SDR 16.4	US\$22.4	April 28, 2020.
Haiti	Rapid Credit Facility	SDR 81.9	US\$ 111.6	April 17,2020.
Jamaica	Rapid Financing Instrument	SDR 382.9	US \$520	May 15,2020.
St. Lucia	Rapid Credit Facility	SDR 21.4	US\$29.2	April 28,2020.
St. Vincent and the Grenadines	Rapid Credit Facility	SDR 11.7	US\$16	May 20,2020.

Source: Emergency Financing and Debt Relief, The International Monetary Fund, June 2020²

Notes:

- The Rapid Credit Facility (RCF) provides rapid concessional financial assistance with limited conditionality to low-income countries (LICs) facing an urgent balance of payments need. The RCF was created under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund’s financial support more flexible and better tailored to the diverse needs of LICs, including in times of crisis. The RCF places emphasis on the country’s poverty reduction and growth objectives.*
- The Rapid Financing Instrument (RFI) provides rapid financial assistance, and is available to all member countries facing an urgent balance of payments need. The RFI was created as part of a broader reform to make the IMF’s financial support more flexible to address the diverse needs of member countries. The RFI replaced the IMF’s previous emergency assistance policy and can be used in a wide range of circumstances.*

Caribbean countries should proceed with caution in trying to increase their fiscal space to ensure they do not incur debt burdens that their fragile states cannot bear. They need to ensure they negotiate favourable financing conditions in order recover from the shocks stemming from the pandemic. *“More and better targeted measures will be required from governments. The crisis will very likely continue throughout 2020 and beyond. In the face of increasing fiscal constraints to meet rising social demands, better targeting mechanisms will be necessary.”* (Beuermann, Álvarez and Vera-Cossio 2020). Also, as we enter the Hurricane season there is need to have fiscal buffers in place to deal with any natural disasters that may occur.

² <https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker#WHD>

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Julia Jhinkoo-Ramdass is an Economist currently working with the Caribbean Economic Research Team.