Chapter 6

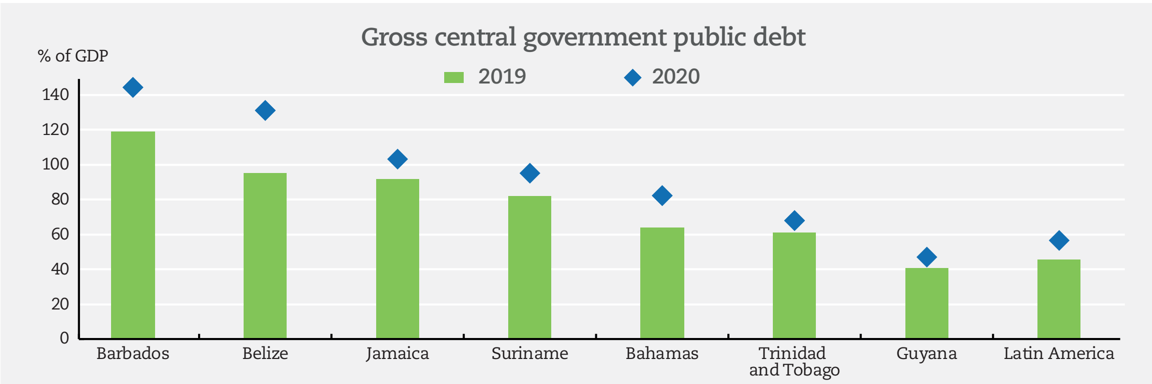
Special feature: The Caribbean

Before the COVID-19 pandemic, the economies of the Caribbean countries were characterised by modest economic growth, high indebtedness, significant vulnerability to different hazards – notably natural hazards – and dependence on tourism and food imports.

Although there are heterogeneities across Caribbean countries, most of them share structural challenges that have been aggravated by the pandemic. This chapter explores the main impacts of the crisis on the Caribbean sub-region, focusing on how this has affected structural vulnerabilities and analysing the policy response to the crisis and the main strategic areas of policy action to build a recovery that is resilient, inclusive and sustainable.

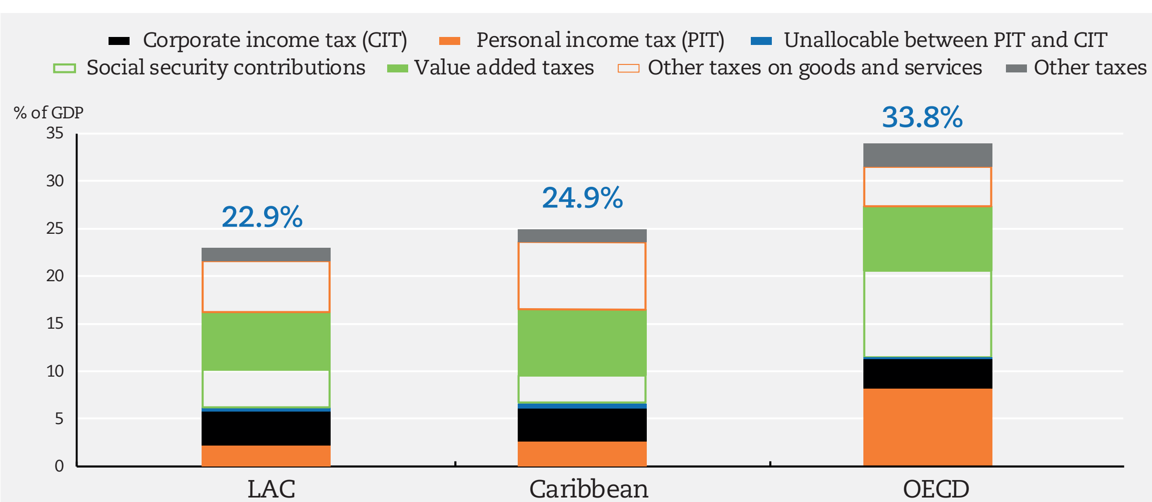
Recovery policies in the Caribbean must address pending economic, social and environmental challenges

Structural challenges have been aggravated by the COVID-19 crisis



Schools have been closed for a long period, with significant socio-economic impact

Fiscal space to address the recovery is limited

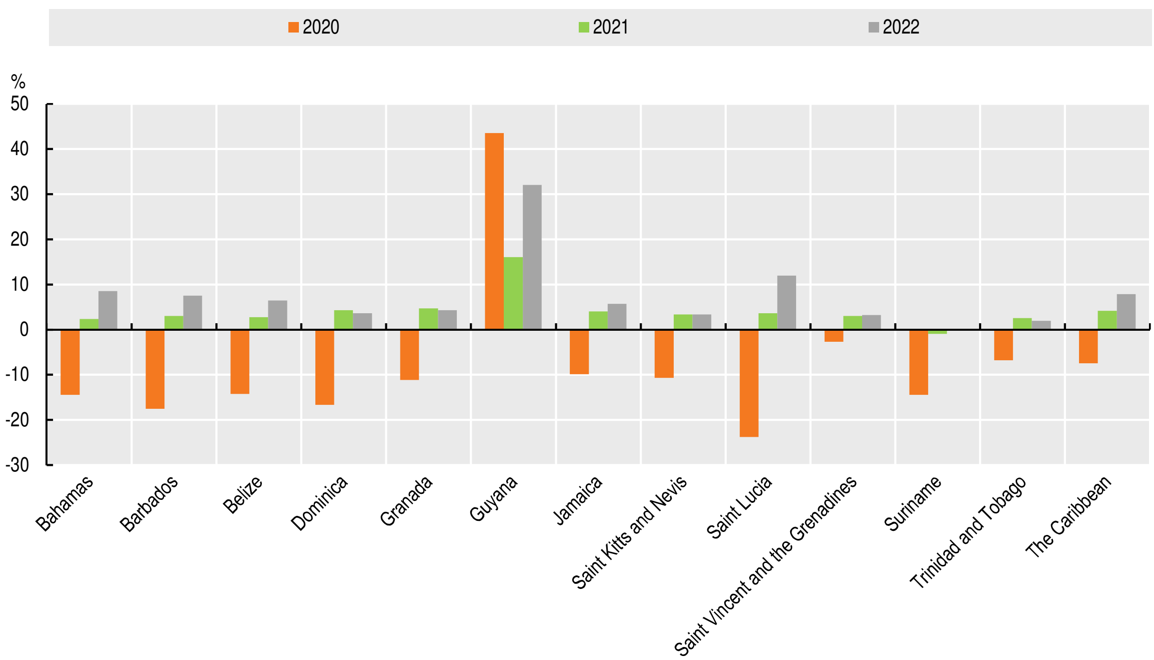


Structural challenges in the Caribbean have been aggravated by the impact of the coronavirus pandemic

The coronavirus pandemic (COVID-19) has had a large-scale effect on the Caribbean economies that has particularly aggravated long-standing vulnerabilities such as slow economic development, low tax revenues and high debt levels.

In terms of economic development, growth in 2021 is forecast to reach 5.2%, which will not be sufficient to compensate for the 7.6% contraction of 2020 and regain the level of output recorded in 2019. Economic growth will be heterogeneous across the sub-region economies, although practically all of them will register growth in 2021 (Figure 6.1).

Figure 6.1. **The Caribbean: GDP growth rate in 2020 and projections for 2021 and 2022**



Source: ECLAC (2020[1]), *Fiscal Panorama of Latin America and the Caribbean 2020: Fiscal Policy Amid the Crisis Arising from the Coronavirus Disease (COVID-19) Pandemic.*

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Economic activity in the Caribbean has been hit by several external shocks (ECLAC, 2020[2]). First, a decline in the economic activity of the region's main trading partners and a collapse in international trade (Chapter 1). Second, a temporary decline in commodity prices (Chapter 1). The Caribbean countries (except Trinidad and Tobago) have benefited from temporary falls in agricultural and energy prices. As a result, most of the countries of the sub-region have been able to absorb the shocks they were experiencing through other channels. However, commodity prices are back to their pre-crisis levels – and even higher – reducing any possible benefits. Third, there has been a decline in remittances. The Eurozone and the United States are the main destinations for migrants from the Caribbean. The sub-region economies most affected by the drop in remittances have been Haiti, where they account for 33% of GDP, Jamaica, where they represent 16%, and Saint Vincent and the Grenadines, Dominica and the Dominican Republic, where remittances represent between 5% and 10% of GDP. Fourth, there has been a lower demand for tourism services and tourist activity could take several years to return to 2019 levels. In the short term, there is a gradual recovery as borders open, but flows will be much lower than before the pandemic. There will also be a fear of potential infection during the trip, accompanied by uncertainty about hospital capacities in destination countries and about new border closures, all of which may lead tourists to postpone travel.

The pandemic is having a negative impact in key Caribbean economic sectors (ECLAC, 2021[3]) .These include tourism, aviation, lodging, restaurants, entertainment and commerce, with less on supermarkets, pharmacies and other nationally considered "essential" services. Non-essential product industries also face problems arising from the lockdown measures that meant the suspension of their activities. Businesses' income has declined significantly, making access to credit difficult and in many cases leading to definitive closures. In some countries, construction has also been hit hard by stoppages and the considerable uncertainty surrounding new projects (ECLAC, 2021[4]) .

The economic shock is expected to cause greater income inequality in all the countries of the Caribbean. Given the limited availability of data in the sub-region, estimates on the impact of the pandemic on poverty and income distribution are only available for the Dominican Republic. For 2020, it is estimated that poverty rose there by 4.4 percentage points, extreme poverty by 2.2 percentage points and the Gini index by between 3% and 3.9%. In addition to income inequality, COVID-19 has exacerbated other vulnerabilities and inequalities in the Caribbean, including access to information and communications technologies (ICT); access to education services; food insecurity; and vulnerability of women and girls, with a significant increase in gender-based violence.

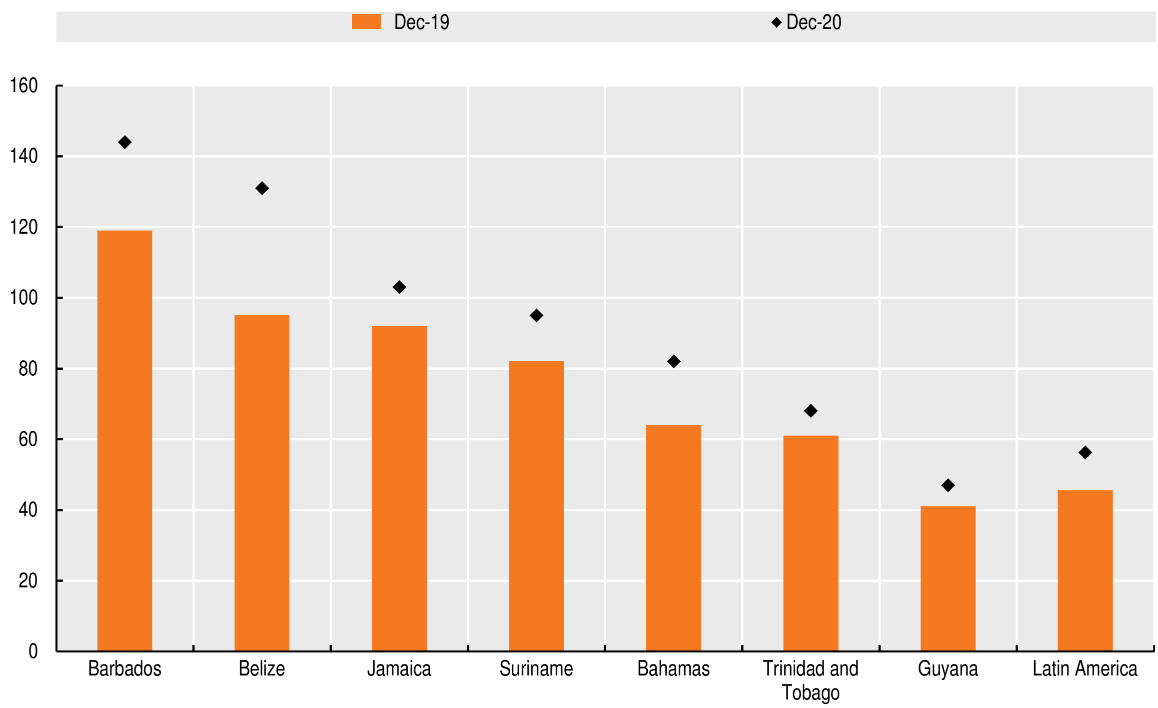
Going forward, the recovery still holds uncertainty from internal and external channels. The dynamics and potential persistence of growth from 2021 onwards are subject to uncertainties arising from uneven progress in vaccination processes within the sub-region, as well as in key partner countries, and the ability of the different Caribbean nations to reverse the structural problems underlying the slow growth path they were on prior to the pandemic (ECLAC, 2021[5]).

Governments must face the complex challenge of supporting the recovery despite a low fiscal space that gives rise to structural challenges such as raising tax revenues and dealing with high levels of public debt. Although with strong heterogeneity, in all of the Caribbean economies fiscal balances (and primary balances) worsened in 2020. For instance, in Belize, the overall fiscal deficit deteriorated from -3.5% of gross domestic product (GDP) in 2019 to -11.4% of GDP in 2020. On a smaller scale, Suriname's overall deficit passed from -9.8% of GDP in 2019 to -10.0% of GDP in 2020. Primary balances also worsened in most of the economies except in Barbados and Jamaica. The larger primary deficit and the fall in GDP also exacerbated negative debt dynamics (ECLAC, 2021[6]).

As a result of the pandemic, there was a considerable increase in debt levels in the Caribbean, which is one of the most indebted regions in the world. Of the seven countries where data were available, three had debt-to-GDP ratios of over 100% at the end of 2020, including Barbados (144%), Belize (131%) and Jamaica (103%) (Figure 6.2). Debt increases for 2020 also varied by country; in economies such as Barbados and Belize debt increased by more than 25 percentage points of GDP, while in Trinidad and Tobago and Guyana by less than 10 percentage points. (ECLAC, 2021[6]).

Debt was already a major challenge for the Caribbean before the pandemic. Policy missteps and fiscal profligacy have not necessarily been the root causes of debt accumulation in the sub-region, but rather the result of the impacts of negative external economic shocks, extreme events and climate change challenges (ECLAC, 2020[12]). High indebtedness has translated into high debt service that consumes a significant part of tax revenue. In the 2009-18 period, average debt service, as a percentage of government income, exceeded 40% in three countries in the Caribbean: Antigua and Barbuda, Barbados and Jamaica. In Jamaica, the average ratio was extreme, at 68%. In the Bahamas, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines this indicator was between 20% and 40% (Bárcena, 2020[8]). This fiscal situation meant that the countries had very little room to compensate for any negative shocks such as disasters, which are recurrent in the Caribbean.

Figure 6.2. **Gross central government public debt in selected Caribbean economies and Latin-American average (% of GDP)**



Source: (ECLAC, 2021[6]), *Fiscal Panorama of Latin America and the Caribbean 2021: Fiscal policy challenges for transformative recovery post-COVID-19*.

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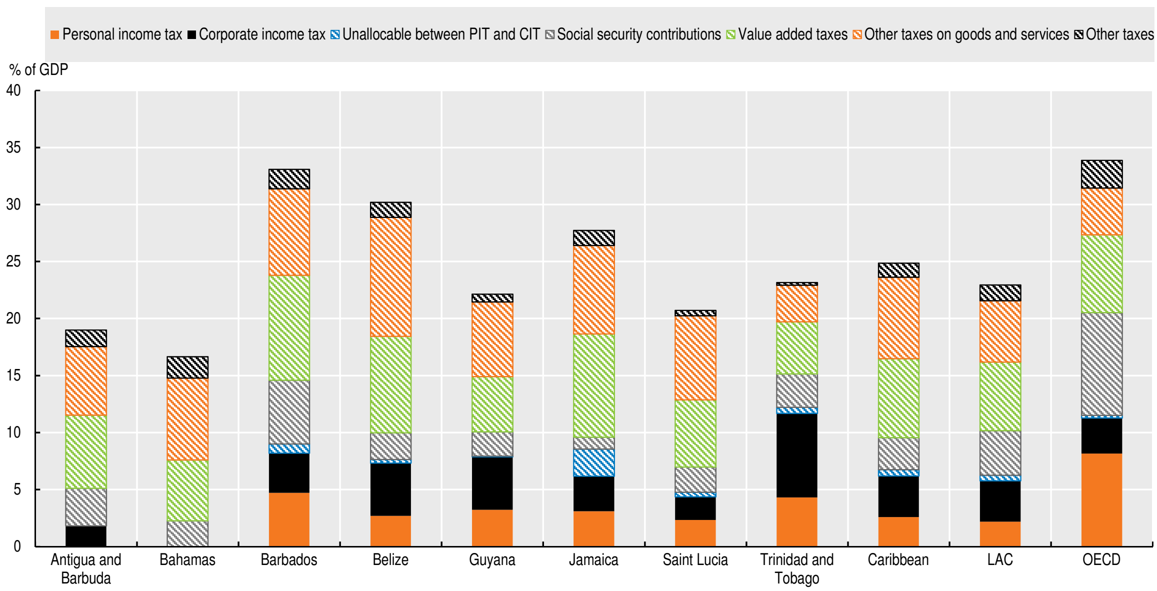
Although with strong heterogeneity across the Caribbean economies, low tax revenues have also limited the fiscal space with which to face the pandemic and support the recovery. Tax-to-GDP ratios were relatively low in the sub-region, with an average of 24.9% of GDP in 2019[1]. This was slightly above the LAC regional average (22.9%) but considerably below the OECD economies (33.8%) (Figure 6.3) (OECD et al., 2021[9]). Since 1990, the average tax-to-GDP ratio of the Caribbean economies has increased by 5.6 points of GDP, a level below South America (9.2 p.p.) and Central America (5.9 p.p.). The increase in revenue collection was mainly driven by the introduction of VAT taxes in 1991 for Jamaica, 1997 for Barbados, 2006 for Belize (the General Sales Tax), 2007 for Guyana and Antigua and Barbuda, 2012 for Saint Lucia and 2015 for the Bahamas. Overall, in 2019, total tax revenues strongly varied among the sub region's economies, going from 16.6% of GDP in Bahamas to 33.1% of GDP in Barbados (OECD et al., 2021[9]).

In addition to the short- and medium-term impact of the COVID-19 crisis, Caribbean countries face longer-term vulnerabilities, including the adverse impacts of climate change, natural hazards and extreme weather events. This is of particular importance for the Caribbean, which is the second-most environmental hazard-prone region in the world (OECD, 2019[10]). Natural disasters are the main environmental challenge, along with concerns about climate change, loss of biodiversity, anthropogenic stressors on freshwater and land-based sources of pollution. The tourism industry, the main export sector of the economy, has also put pressure on natural ecosystems.

Figure 6.3. **Tax structure in selected Caribbean economies and LAC and OECD averages, 2019**



Source: (OECD et al., 2021[9]), *Revenue Statistics in Latin America and the Caribbean 2021.*
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The pandemic has possibly created greater awareness about the need to act collectively to face the – arguably – most pressing global challenge for the future: climate change. Seizing the opportunity to build a more environmentally sustainable recovery will be crucial. The complex environmental challenges will require co-ordination of economic, social and environmental policies and coherent governance frameworks. Some of these challenges are related to climate change adaptation, water resources and solid waste management, energy transition and sustainable transportation (OECD, 2020[11]) .

Policy response to the COVID-19 crisis and main areas of action for the recovery

Caribbean countries have put in place ambitious measures to respond to the immediate impact of the COVID-19 crisis and protect lives and livelihoods. Nonetheless, as the most urgent needs are addressed through specific measures, Caribbean countries will need to undergo structural reforms in key policy areas to build the pillars of a resilient, inclusive and sustainable recovery. This will involve, among others, progressive structural change, an expansion of social protection and progress towards welfare states (ECLAC, 2021[6]).

Maintain emergency transfers to most vulnerable populations and support to the productive sector

Measures to address the emergency and protect lives and livelihoods have been important in some Caribbean countries, and will need to be maintained to support the most vulnerable families, workers and firms.

Temporary monetary transfers should be combined with other measures, such as freezing basic utility payments or deferring debt payments. In the medium and long term, universal, comprehensive and sustainable social protection systems need to be constructed, framed by care societies that guarantee levels of well-being for the population, and which do not rely exclusively on women's unpaid work. Indeed, temporary supportive measures could be used to move towards a more permanent transformation of social protection systems. The universality, comprehensiveness, sufficiency and sustainability of social protection is more important than ever.

Within the framework of recovery strategies, it is crucial to consider options for strengthening pension systems. The emphasis should be placed on increasing coverage, the adequacy of the benefits, financial sustainability and social solidarity as cross-cutting criteria in their formulation.

In addition to monetary transfers and other support measures, some Caribbean countries have implemented emergency feeding programmes. The government of Antigua and Barbuda introduced the COVID-19 Emergency Food Assistance Programme, aimed specifically at older persons living alone, persons with disabilities, and unemployed persons with children. The government of Trinidad and Tobago boosted payments to current recipients of public assistance, including disability assistance grants. In addition, several countries opted to replace school meals programmes with different modalities: for example, a food card in Trinidad and Tobago, and a weekly food kit in Antigua (ECLAC, 2021[4]).

Continuing the support to productive sectors will be of the essence to avert large-scale bankruptcy among MSMEs, and promote pro-employment policies. Some countries in the Caribbean have implemented support programmes for the productive sector. For example, Jamaica has introduced the Business Employee Support and Transfer of Cash (BEST Cash) programme and the COVID-19 Tourism Grant for businesses in the tourism sector. Similarly, Grenada has introduced a payroll support scheme for the tourism sector. In Grenada, additional credit is being made available to hoteliers and small businesses (ECLAC, 2020[12]).

Barbados and Bahamas supplemented unemployment benefits that are part of their social security systems with temporary benefits for contributing persons and the self-employed. In Saint Kitts and Nevis, and Saint Vincent and the Grenadines, the new temporary unemployment benefits provided through the social security system are restricted to insured workers only (ECLAC, 2021[4]).

There have also been support programmes for housing payments for workers who have experienced loss of income owing to the pandemic and are at risk of repossession or eviction. Governments are working with financial institutions to prevent such occurrences. The government of Trinidad and Tobago, for example, is providing a temporary rental assistance grant for individuals and families affected by furlough schemes or termination of employment. Reducing utility bills or allowing deferred payment of them are other relatively easy ways of relieving pressure on household budgets that have been adopted by some countries of the Caribbean (ECLAC, 2020[12]).

Sustaining expansionary fiscal policies

The policy response of the countries of the Caribbean to COVID-19 has been constrained by limited fiscal space, caused by high indebtedness and debt service. Despite this restriction, they have increased spending and have granted credit and guaranteed support (ECLAC, 2020[1]; Bárcena, 2020[13]).

To underpin the recovery, it will be essential to support investment in key sectors, such as non-conventional renewable energy sources; urban electro mobility; universalisation of the digital transformation (OECD, 2020[14]); the pharmaceutical industry, especially with regard to vaccines; the bioeconomy; the care economy; the circular economy; and sustainable tourism. In all of these, there is room for productive and technology policies to create quality jobs and support innovation and export diversification, as well as climate change adaptation and mitigation, and regional co-operation efforts.

Given reduced fiscal space and high levels of indebtedness in Caribbean economies, sustaining an expansionary expenditure policy will require measures to access financing through globally co-ordinated debt management, reducing tax losses in the short term and strengthening tax revenues in the medium term. In the short term, it is essential to eliminate tax evasion, which represents a resource loss of USD 325 billion (6.1% of regional GDP), and to reduce tax expenditures, which account for forgone revenue equivalent to 3.7% of GDP. Similarly adequate debt management, proper fiscal frameworks, including fiscal rules, and a globally co-ordinated debt management under key guidelines will be essential to obtain and manage the needed resources (Chapter 1) (Nieto-Parra and Orozco, 2020[15]). Overall, for fiscal policy to be effective it must take into account the current complex context through well-defined sequencing of actions. It also needs to be backed by a broad consensus built through national dialogue and clear communication strategies (Mora, Nieto-Parra and Orozco, 2021[16]) (Chapter 1).

In the medium term, tax revenue must be progressively increased to make public spending sustainable. In the current complex context, the timing, speed and shape of these increases should be adapted to each country's situation. This requires improving the redistributive power of the tax system by increasing income taxes in a progressive way, extending the scope of property and wealth taxes, reviewing and updating royalties on the exploitation of non-renewable resources, and considering taxes on the digital economy and on goods and services that harm the environment or public health (Mora, Nieto-Parra and Orozco, 2021[16]).

The sustainability and orientation of fiscal policy demand new social and fiscal pacts (Chapter 4). These will be needed to create the consensus required to move forward, pending structural reforms to revive investment, employment, equality, social protection, the closure of gender gaps and climate action, among others (Cabutto, Nieto-Parra and Vázquez-Zamora, 2021[17])

Financing for development: empowering new initiatives

Debt relief initiatives require changes in the international debt architecture, placing particular emphasis on highly indebted economies, regardless of their income level. Traditionally, Caribbean economies, such as Haiti, Saint Vincent and the Grenadines and Dominica, have issued debt through bilateral creditors or multilateral banks (Nieto-Parra and Orozco, 2020[15]). An international sovereign debt restructuring mechanism is needed to deal with obligations to private creditors, as well as a multilateral credit rating agency. At the same time, the heterogeneity of debt profiles and vulnerability in the region require the design of a debt-reduction strategy that does not adopt a one-size-fits-all approach (Nieto-Parra and Orozco, 2020[15]) (Chapter 1). Caribbean economies will benefit from the recent Special Drawing Rights (SDR) issuance agreement, which is a historic allocation of SDRs equivalent to USD 650 billion (about SDR 456 billion) (Chapter 1). SDR allocations are distributed in proportion to countries' participation in the IMF's capital, which is also closely related to the size of their economies. Overall, Caribbean economies will benefit from about SDR 1 806 million supporting the countries' international reserves and making them more resilient financially and ensuring that, in case of urgent need, they can dip into their savings (for instance, for importing vaccines) (IMF, 2021[18]).

The reallocation of SDRs would be in three parts. The first would be to increase funding for the Poverty Reduction and Growth Trust (PRGT), which is already largely financed by SDR borrowing from developed countries. SDRs channelled to the PRGT would only benefit lower-income countries. The second would consist of a trust fund to finance efforts to combat climate change, digital transformation and health-related spending. The third part would support loans from multilateral development banks through the creation of another trust fund.

Latin America and the Caribbean would benefit from a new SDR allocation that would strengthen the external position of some of the smaller and more debt-burdened economies, thereby lowering their risk premium and freeing up resources for pandemic-relief financing.

The launch of multilateral funds, such as the Fund to Alleviate COVID-19 Economics (FACE) proposed by the Government of Costa Rica, can complement initiatives to recycle liquidity from developed to developing countries. Development banks can also help expand liquidity by increasing capitalisation and flexibility in their lending criteria.

Financing initiatives should be accompanied by greater use of innovative instruments such as hurricane clauses and state-contingent debt instruments, with a view to avoiding excessive indebtedness and increasing the capacity of countries to repay and service their debt. This is of high relevance in a sub-region with high exposure to the impact of climate change.

Strengthening health and education

Through the pandemic, Caribbean countries have increased health-care spending on testing for COVID-19, treatment of severe and critical cases, and enhanced public health surveillance. Regional co-operation and co-ordination among Caribbean countries and between them and the rest of LAC should continue to be promoted to strengthen and speed up vaccination processes.

Given the constraints in terms of the logistics of local vaccine distribution, the availability of critical inputs and the limited coverage of health systems, health-care investment should be increased, specifically in primary care, with sustainable schemes that strengthen the public health sector (ECLAC/PAHO, 2020[19]).

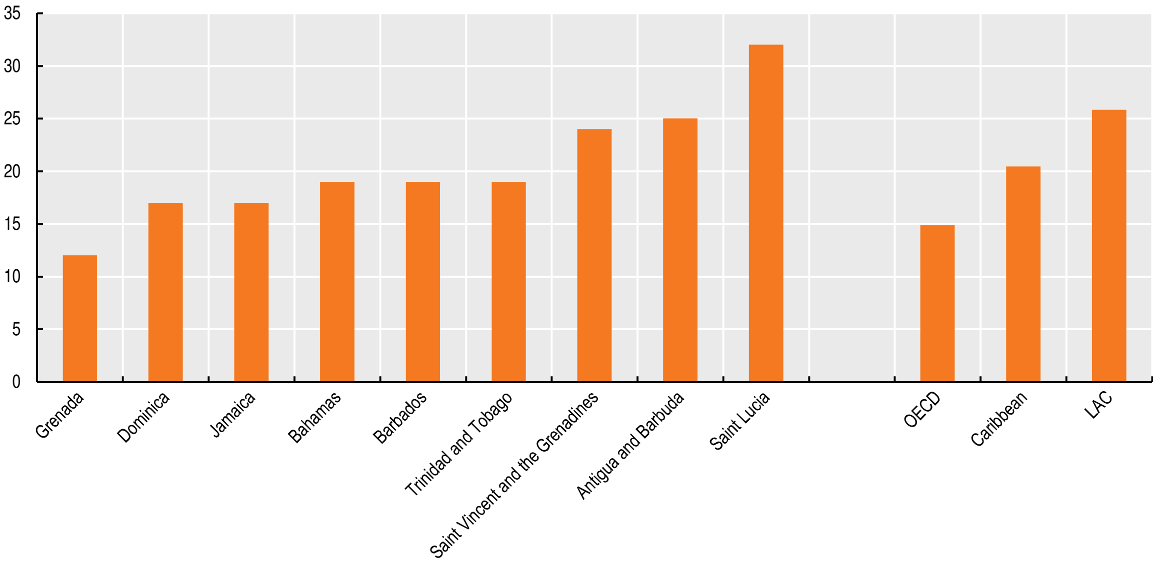
Educational institutions across the Caribbean were forced to close as early as mid-March 2020 as part of measures to curb the spread of COVID-19. Mobile devices were provided for students without Internet connections to access online platforms, and activity packages are being provided at the primary and secondary levels (ECLAC, 2020[12]).

A gradual and safe return to school in co-ordination with the health sector is a pressing need. Many countries in the Caribbean were forced to close schools fully to contain the pandemic. On average, schools closed for 20 weeks across the sub region, a figure below the 26 in all LAC but above the 15 weeks that schools were closed on average in OECD economies (Figure 6.4). Given the impact of the pandemic on the mental health of children and adolescents, due to both increased exposure to the Internet and to social isolation, the strategies for educational continuity and return should prioritise the socio-emotional well-being of students and teachers.

Investment in the care and well-being of children and adolescents is also urgently needed. The region cannot afford to lose a generation as a result of truncated educational trajectories and lack of access to basic conditions to guarantee their rights and well-being.

Figure 6.4. **Full school closures in Caribbean economies compared to LAC and OECD**

Number of weeks of full school closures due to COVID-19



Note: OECD average includes the then 37 member countries. LAC average includes Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela. Updated until 1 May 2021.

Source: (UNESCO, 2020[20]), *Global Monitoring of School Closures caused by COVID-19*, https://en.unesco.org/covid19/educationresponse#schoolclosures.

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Note

1. Simple average that includes eight Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Guyana, Jamaica, Saint Lucia and Trinidad and Tobago.

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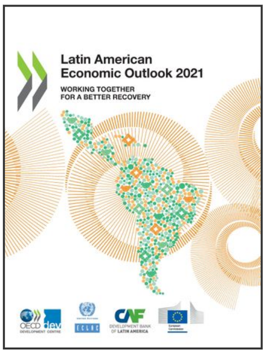

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