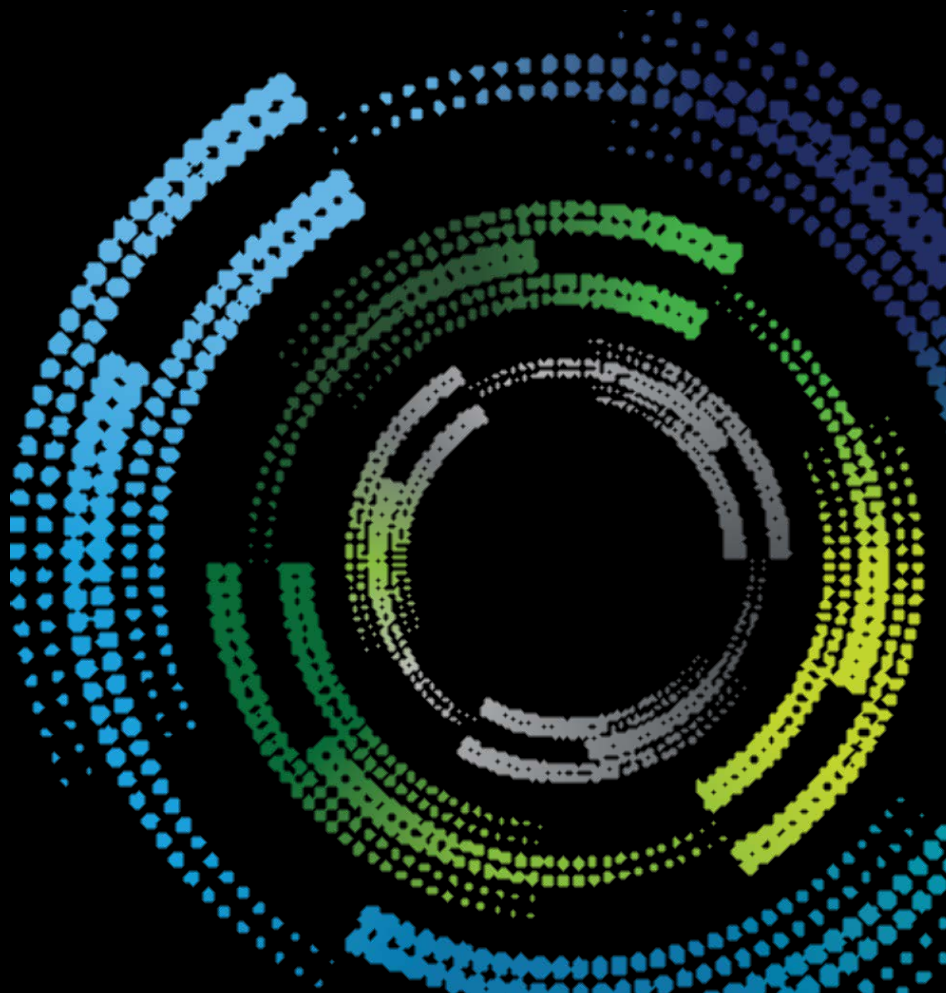




A tale of pandemics, economics and realities

April 2020



Introduction

Economics, pandemic, stimulus, moratorium and recovery have become buzz words in recent weeks. COVID-19 has impacted all countries both healthwise and economically and has quickly changed life as we know it to be.

To give a perspective for the unassuming countries with deep seated reserves and hitherto strong economies have been left scrambling to decipher and determine how to save sectors from totally collapsing. The fragile nature of industries such as travel, tourism, entertainment and sports has been swiftly exposed.

Spare a thought for vulnerable economies like Barbados which is in the midst of tax reform and a reasonably austere Barbados Economic Recovery and Transformation (BERT) program. With its heavy dependence on tourism, Barbados' recovery plan will be hit for six and government's obligation to ensure that the most vulnerable in the society are not left behind has necessitated a swift response to introduce measures to cushion the blow, albeit for a very short while.

In the absence of any given precedent or template for dealing with this gloomy situation, government is forced to be adopt a fluid response mechanism to both the health and economic challenges presented by COVID-19. What will be most important is the integrity and transparency of the policies being enforced. How governments, companies and countries survive this crisis will largely depend on their ability to adapt to the initial turmoil, while not wasting the opportunities that will be presented for a recalibration of focus and strategies and finding innovative ways to transact.

The stimulus - What's in the package?

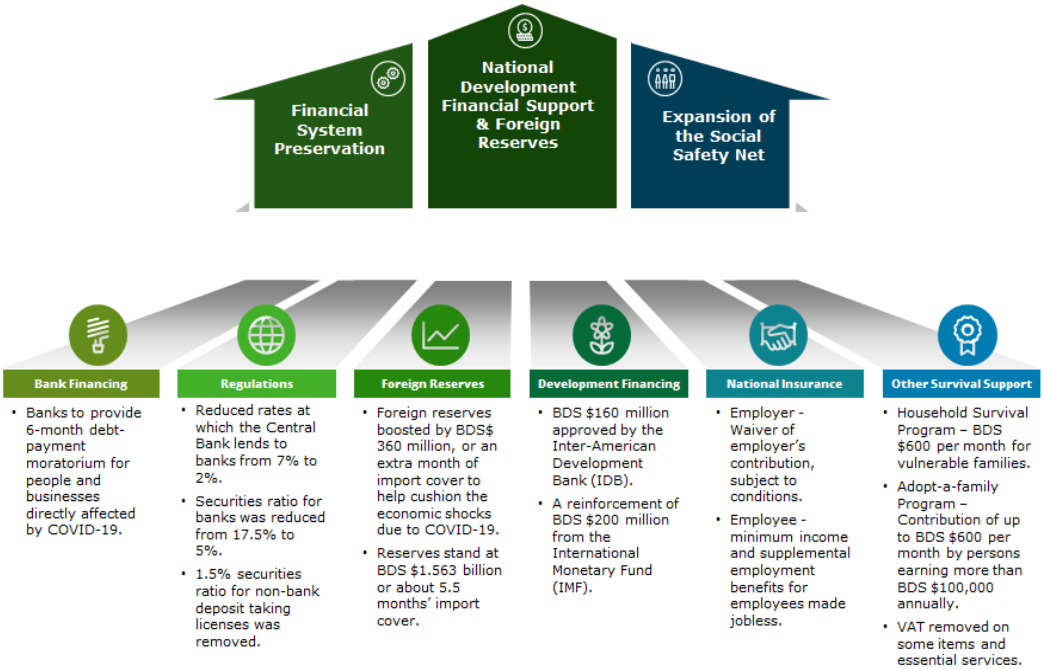
Barbados, as well as several islands in the Eastern Caribbean announced a suite of response measures to combat the spread of COVID-19. The measures are designed to mitigate the impact of COVID-19 on the economy and includes limits on public gatherings, curfews that restrict the movement of all non-essential personnel and intensified screening at ports of entry.

The Caribbean Governments have also introduced measures and programs that are intended to provide relief for businesses and

individuals that require critical support to better cope in an environment of restricted physical contact due to the threat of COVID-19.

The below illustration outlines the initiatives to be undertaken by the Barbados Government as part of its fiscal stimulus package in addition to measures to be implemented by the banking sector to support the stability of the financial system.

Also outlined are the sources of financial support made available by multilateral institutions to support national development.



Barbados COVID-19 Fiscal Stimulus Package, Financial System Preservation and National Development Financing, Barbados

Comparison of stimulus measures implemented in Barbados and selected Caribbean islands

A brisk comparison of the stimulus packages implemented across the Eastern Caribbean and indeed in most countries across the world, shows that they have been similarly fashioned to: recapitalise health systems; mobilise macro-

economic levers (i.e monetary, fiscal, and structural policies) share and implement best practices to support workers and all individuals, employed and unemployed, particularly the most vulnerable; and keep businesses afloat, with special support packages in hardest hit sectors, especially travel and tourism.

	Antigua	Barbados	*Dominica	Grenada	Jamaica	Montserrat	St Lucia	St Kitts & Nevis	St Vincent & Grenadines
Recapitalisation of healthcare system	●	●		●			●	●	
Supplemental income packages	●	●		●	●	●	●	●	●
Debt moratorium	●	●		●	●		●	●	
Insurance premium moratorium							●		
Deferral or reduction of essential utility bills payments	●	●		●			●		●
Prepayment of pension and unemployment benefits		●					●		●
Soft loans/provision of funds to certain businesses				●	●		●	●	●
Price control on certain health and cleaning supplies				●	●			●	
Tax payment deferral or Tax waiver/credit		●		●	●		●	●	●
Fuel rebate on certain public transportation operators							●		

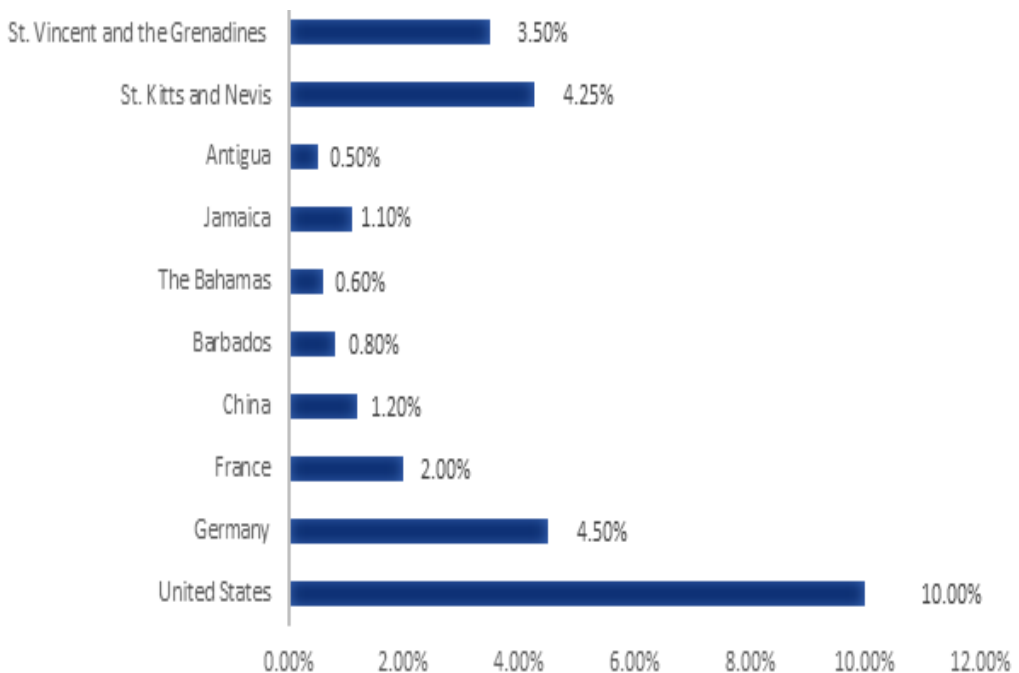
We await further details of the fiscal stimulus packages to be disseminated by the Governments of Antigua and Barbuda in the coming weeks.

*No information on a stimulus package was available for Dominica.

Value of COVID-19 fiscal stimulus packages as of March 2020, as a share of GDP

This table shows the current cost (as a percentage of economic output) of Barbados and selected other economies in the Caribbean and internationally, including China and the United States.

It is noteworthy that the alignment of expenditure on public health measures to levels of transmission is variable. Countries are determining which measures are to be taken at each level and reviewing the situation regularly.



Source: IMF Policy Tracker



The impact

The Barbados Revenue Authority recently announced that the filing and payment deadlines for the payment of taxes was extended to 30 April 2020, without penalties and interest being incurred. This is similar to what has been implemented in other Caribbean islands where extensions have been granted for business tax payments, even though the timeline for these deferrals are limited to 15 - 30 days.

It can be argued that this limited deferral time may not benefit companies in the context of the present economic conditions but merely defer the payment of tax to a further date when the effects of the crisis have worsened, and business activity has not returned to pre-COVID-19 levels.

Meeting tax payment obligations will be a challenge for many companies and individuals where cash flows are disrupted by the abrupt halt to business activity.

It is critical that tax policy is designed in such a way that any negative effects on business continuity are minimized and simultaneously, that it does not allow the tax revenue base to be eroded to the extent that economic stability and funding for social security is jeopardized.

The final determination on whether these measures are achieved will be known post COVID-19.

So far, the cost of Barbados' fiscal stimulus measures represents 0.8% of GDP. Add that to the opportunity cost of diverting from the BERT program and it may be easy to conclude that the true impact may not be known until possibly 12-24 months later. Yet there are more questions than answers.

- When will the COVID-19 pandemic end?
- What are the economic impacts of the coronavirus outbreak post-recovery in the short term and the long term?
- How might COVID-19 impact the future fiscal burden that society carries?
- How will COVID-19 impact the social infrastructure in the post-recovery long term and the already aging population?

The debate

There is a genuine concern that after all of the moratoria and other all-encompassing rescue schemes, there could be a legacy of companies so paralyzed with debt that countries will have an extended time lag before any possible economic recovery.

While urgency is essential, governments are challenged with the task of juggling its limited resources between stimulus packages, protecting taxpayers and sustaining the main levers of the economy. An interesting watch will be the speed and ability of the tourism industry to rebound from these ashes.

Major global airlines are suffering significant dives in revenue and given that they have large fixed costs structures, cost cutting will not be the swiftest solution. Accordingly, the speed at which airlines can recover will impact how soon tourists can get back to traveling in large numbers.

Governments will be hard-pressed to offer bail outs because of their competing priorities of keeping small and medium-sized businesses, the engine room of the economy, afloat. Moreover, potential travelers furloughed by their employers will have reduced disposable incomes which are unlikely to be spent on vacations.

This pandemic has unearthed the paucity of the Business Continuity Plans (BCPs) leveraging technology for most, if not all of the larger companies in the region. The inertia in leveraging remote-working and flexi-working models, the inadequacy or non-existence of e-commerce platforms, and the limited business-to-business and business-to-person payments infrastructure has contributed in major part to social chaos and unnecessary disruption.

But this may yet be the time for COVID-19 opportunities in the form of tech savvy entrepreneurs finding solutions to enable seamless BCPs and for efficient call centres that facilitate local home deliveries from restaurants, stores and supermarkets, thereby ensuring safety.

Governments will continue to battle the paradox of, saving businesses from bankruptcy and creating a safety net for workers who are being laid off. In the meantime, GDP will plummet to worrying lows, investments will be sluggish and younger persons will be required to shoulder the responsibility of paying off the country's additional debt built up in managing the pandemic.

Ultimately, the success of recovery will depend on policy responses that ensure workers retain their jobs are not evicted and business

is preserved. It is critical that public health measures to stop disease spread are balanced with adaptive strategies to encourage community resilience and social connection.

This is an equal challenge for advanced and small open economies. Advanced economies with deeper pockets can comfortably fund a significant increase in priority capital and social expenditure even as tax revenues are dampened by the abrupt halt to business activity in various sectors. The challenge is even greater for small open economies like Barbados with large fiscal deficits, debt restructuring programs and underperforming sectors. Indeed, these small open economies may inevitably need to resort to financing and grants from the global community.

So with the dichotomy between saving human lives and saving economies, governments in the region will in due time have the unenviable task of explaining whether the benefits of social distancing outweighed the battering economies endured.



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