Safely Unwinding Fiscal and Monetary COVID-19 Measures, while Protecting the Vulnerable

Caribbean Ministerial Meeting with IMF Managing Director,
Kristalina Georgieva
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Intervention by
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Good afternoon, Ms. Kristalina Georgieva, Managing Director; Mr. Bo Li and Ms. Antoinette Sayeh, Deputy Managing Directors, International Monetary Fund; distinguished Prime Ministers and Ministers; Central Bank Governors; Executive Directors of the IMF; ladies and gentlemen.

Our Caribbean countries are currently sorting out the appropriate timing and scale of unwinding the extraordinary COVID-19 fiscal and monetary measures that we adopted to support our societies.

Before delving more deeply into exit strategy considerations, I must emphasize that the Caribbean region has been hit particularly hard by the pandemic as many of the economies are highly dependent on tourism. As a whole, the region experienced sharp contractions in economic activity last year and early this year, totally erasing several years of growth.

In response to the COVID-19 shock, our policy makers swiftly implemented a comprehensive set of unprecedented fiscal, monetary and regulatory measures to mitigate the negative fallouts on our populations. Across the region, Governments' fiscal actions included the provision of tax cuts, tax deferrals and grants to households and businesses as well as direct funding for health infrastructure and medical equipment and personnel. Meanwhile, Central Banks lowered their policy rates, injected substantial amounts of liquidity in the banking systems and introduced regulatory moratoria on the treatment of deferred loan payments and restructured facilities.

The implementation of these policy measures was essential for our economies to weather the immediate challenges, including shoring up our health systems and protecting the disadvantaged who have been disproportionately affected by the pandemic. At the same time, the measures have further constrained fiscal space, added to already elevated debt levels, contributed to credit rating downgrades in some cases, and increased the risks to financial stability.

We are now well into the second year of the pandemic and the end of the crisis is still very uncertain. Despite this, generally good progress on vaccine access has provided an impetus for Caribbean economies to re-open and ultimately return to growth, although vaccine hesitancy remains a problem in achieving herd immunity. The tremendous uncertainty is therefore impacting how we schedule the unwinding of policy measures as there are still immediate needs to be addressed. For example, one particular concern is how to safely restore high quality education for our young people, a key investment for our sustainable future.

Overall, we recognize that the withdrawal of COVID-19 support measures is not an easy undertaking. On the fiscal front, the policies translated into higher government expenditures at a time when government revenues contracted. Initially, most countries provided broad-based fiscal support. Over time, this blanket approach has given way to more targeted channeling of fiscal resources to those households and businesses most affected by the pandemic: many of these households are very poor and many of these businesses are small, service-oriented entities.

The global increase in food and energy prices and the move towards monetary tightening in some developed and emerging market economies are spilling over directly into the Caribbean, given our integration into commodity and financial markets. The resultant increase in domestic inflation and the potential for capital outflows are therefore putting pressure towards higher interest rates in a moment where short term economic growth prospects are still fragile.

On the regulatory and supervisory side, since the onset of the pandemic our supervisors have been in "high alert mode." Having relaxed some criteria for loan classification and amended the treatment of non-performing loans, there continues to be a great need for heightened monitoring of our financial institutions. In this regard, increased communication between regulators and the financial institutions is required; we are capturing additional data from the financial institutions in order to ascertain "true" changes in asset quality, profitability, liquidity and solvency. Importantly as well, regulators are striving to be flexible, standing ready to adapt to the changing environment, while maintaining the highest supervisory standards.

We therefore recognize that withdrawing regulatory measures must be approached in a judicious manner. Fortunately for us, most of our financial institutions entered the crisis with strong capital buffers. Premature unwinding can hamper our economic recovery efforts, cause insolvency challenges and increase unemployment. On the other hand, keeping the measures in place for too long may result in substantial deterioration in asset quality. As a result, timing is critical, and our supervisors have shaped their approach taking into account each country's circumstances.

Trinidad and Tobago, and other countries in the region, have received excellent technical assistance from the IMF and other institutions as we navigate through the financial stability issues highlighted by the pandemic. We have also significantly bolstered the collaboration among regional regulators, particularly with respect to banks and insurance companies with branches and subsidiaries across the Caribbean.

Let me take this opportunity to reiterate the Caribbean region's appreciation to the Fund for its strong support to our countries during the pandemic. We have benefitted from financial resources via the lending facilities—in this regard we look forward to the early conclusion of the program with Suriname—; timely policy advice; tailored and pragmatic technical assistance from your capable staff at headquarters and the Caribbean Technical Assistance Center (CARTAC); and more recently, the general increase in SDR allocations.

But the region's economies are still not at pre-pandemic levels. Moreover, the tremendous vulnerabilities of our small nations to natural disasters—borne out by the volcanic activity in St. Vincent and the Grenadines and the earthquake in Haiti this year; climate change more generally; and the vicissitudes of international markets—are not borne out in our current access to concessional international finance. We believe that the IMF can play a significant role in helping to redress this gap through further direct funding or as a catalyst to drawing in resources from other sources.

The Caribbean region looks forward to continued engagement with the International Monetary Fund as the global community navigates its way through the current crisis.