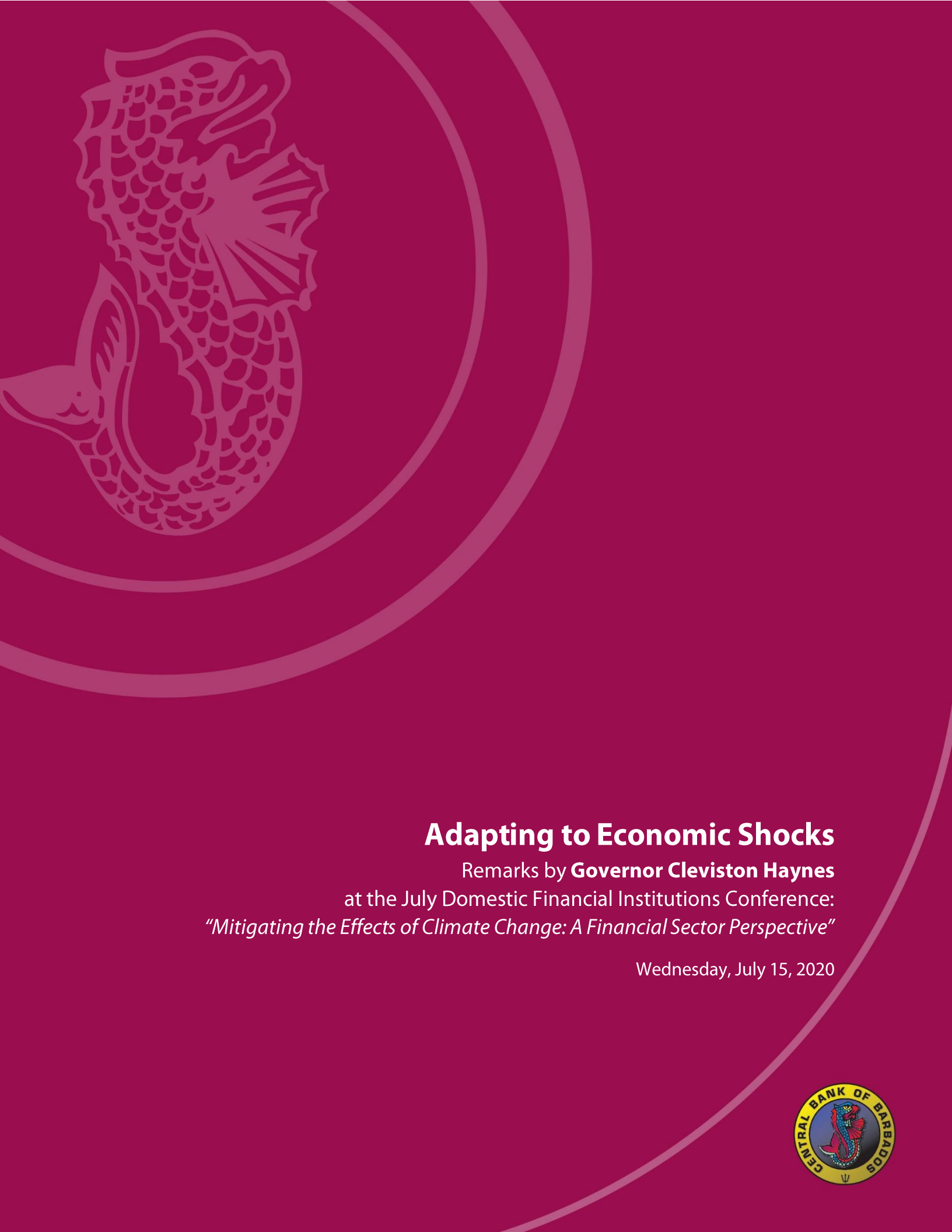




Adapting to Economic Shocks

Remarks by **Governor Cleviston Haynes**
at the July Domestic Financial Institutions Conference:
"Mitigating the Effects of Climate Change: A Financial Sector Perspective"

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Adapting to Economic Shocks

Good morning and welcome to the first Virtual Forum of our 2020 Domestic Financial Institutions Conference (DFIC).

COVID-19 intervened and forced a postponement of our plans for our traditional DFIC back in April. It is now time for us to resume our public outreach. Towards the end of last month, we launched a remodelled Caribbean Economic Forum and, earlier this month, we hosted a webinar on central bank digital currencies. Launching this Virtual Forum today is a recognition that, despite the temporary lockdown and the need for physical distancing, business in the financial sector must move forward.

This pandemic has reminded us of the vulnerability of regional economies. Given that international supply chains may be subject to periodic disruption, it also reminds us of the need to strengthen food and energy security in order for us to enhance the economic viability of this region. Moreover, it has impressed upon everyone the need to be flexible and to demonstrate resilience when faced with challenges.

In my brief remarks this morning, I will focus on how the financial sector has adjusted to the altered environment created by COVID-19 and how, as a country, we can prepare ourselves, from a macroeconomic perspective, to cope with the economic obstacles that we are likely to face.

The financial sector has been at the forefront of adaptation in recent months. First, business closures and lost incomes have induced lending institutions to provide broad-based moratoria on loan payments to their customers, corporates and individuals alike, to enable them to grapple with the economic and financial challenges caused by COVID-19. To some this may be construed as a human face to banking. It, creates an opportunity for renewed interaction between borrowers and creditors in search of mutually acceptable means of extending the social safety net beyond initiatives implemented by Government to minimise the impact of lost livelihoods. Safeguarding the financial welfare of individuals and businesses and ensuring that the private sector has access to working capital remains crucial for accelerating a vigorous economic recovery.

Secondly, the Central Bank has adapted regulatory policy to enable these lending institutions to manage the disruption caused by this crisis and to make available, if necessary, low cost

liquidity support. To date, none of our licensees has had to avail themselves of this facility, a reflection that the size of the pre-COVID -19 capital and liquidity buffers has been adequate to cope with the initial shock. The Bank remains committed to work with its licensees during this challenging period to ensure that financial stability is not impaired.

Thirdly, we have witnessed a fascinating response from the private sector, evidenced by increased domestic e-commerce and greater use of e-banking and digital payments. Reduced in-person transactions and interactions over these past few months have boosted our efforts to reduce the use of paper-based payments instruments such as cash and cheques. We have had a glimpse into the future of how business and payments will be conducted, with preliminary data for the April-June quarter indicating a substantial reduction in cheque usage and increased the use of electronic transfers via the Automated Clearing House.

This transition provides a platform for customers in search of low-cost banking services to alter their banking practices, in response to the fees charged by some institutions. The Bank is keen to encourage further financial inclusion and, as a means of promoting increased transparency, it has committed to publishing select fees of commercial banks on its website. I can announce that the first publication of these fees will be available today. While the list does not include the full range of fees, the Bank has captured some of the most common ones that institutions charge on traditional products, so that persons in the market for personal/retail banking services can compare what various entities are imposing when making their banking decisions. In addition to updating these fees periodically, the Bank may expand the select range of fees. However, each bank is obligated to publish their fee structure on their individual website and to give adequate notice before fee changes.

Over the course of the next few weeks, as we explore how the sector is adapting to the changes in the environment, we will examine in our Virtual Forum themes that touch directly or indirectly on the implications of COVID-19, including the emerging payments landscape, AML practices and policy, financial stability and the psycho-social impacts of COVID-19 itself.

This morning, however, our discussion centres on another issue that accentuates our vulnerability and creates the need for constant adaptation: climate change. We are having this discussion about this phenomenon during the hurricane season, one that again promises to be more active than usual. The timing is fitting, therefore, because this is perhaps the time of the year when we are most reminded of the effects of climate change and the havoc it can wreak on our people and our economies.

We need only to look at the impact on our regional brothers and sisters whose lives were turned upside down as a result of Hurricanes Dorian, Irma, and Maria, among others; or consider the costs of the damage and the losses sustained to understand the magnitude of the environmental, societal and economic consequences of climate change.

In Barbados, we have been spared the fury of recent storms but we have felt the impact of the external shocks caused by climate change. Droughts and floods give rise to increased commodity prices, and our panellists and farmers can tell a dismal story of the impact of drought on our agricultural sector.

Climate change also has the potential to threaten our tourism sector. Beach erosion and Sargassum seaweed can spoil our lovely beaches, and put our number one foreign exchange earner at risk. COVID-19 has shown us just how economically devastating a steep decline in tourism can be.

In our Sir Winston Scott Memorial Lecture last year, Giza Gaspar Martins, argued that while small island states did not cause climate change and while they can't fix it on their own, there are measures that can be taken to mitigate it. At the domestic level, building codes and the quality of physical structures, insurance and access to resilience financing are but some of those measures that will serve as mitigants.

But there is a role also for macroeconomic policy in adaptation to climate change. Too often the destructive forces of climate change create large financing gaps that require financial assistance from abroad. This creates the potential for delays in starting the process of repair and rebuilding. It is for this reason that the Government of Barbados, as part of its domestic and external debt restructurings, negotiated for the inclusion of a provision that allows government to defer payments for two years in the event that a natural disaster strikes. This moratorium on payments would afford us breathing room to enable us to get our economy back on track.

However, we cannot rely on deferred payments alone. It is critical that we continue to strengthen our overall macroeconomic framework and to build buffers that can allow us to react quickly to shocks such as climate change or pandemics. The past two years has focused on this endeavour, the results of which have enabled us to face this pandemic with strengthened public finances, reduced indebtedness and a build-up of international reserves. Critically, the confidence in our progress that these developments have inspired has catalysed Barbados' access to increased level of financial resources from international agencies.

Our international reserves passed \$2.1 billion last week, an unprecedented level up, from just \$440 million two years ago. This stock represents over 28 weeks of import reserve cover that will be further buttressed in the coming months through additional budgetary support from international lending agencies. We have transitioned from selling foreign exchange to banks at a time of high debt service to purchasing foreign exchange even during a period of diminished earnings. It speaks both to increased confidence and to greater diversification of earnings than might have otherwise been thought. This buffer of reserves will allow us to absorb any shocks associated with rising commodity prices or a general pick-up in demand in the coming months without concerns of pressure on the exchange rate.

At the same time, COVID -19 with reduced economic activity, business closures and increased unemployment has weakened revenue from domestic sources. However, this has been partially offset by rising corporation taxes from the international business sector. In recent weeks, government has been building deposits with the Central Bank rather than borrowing as is the custom. This situation will eventually reverse but it is the accumulation of these buffers that will facilitate planned growth enhancing expenditures. Indeed, given the lower revenues expected, we have relaxed our fiscal target for this year, secure in the knowledge that additional budgetary support from the IFIs will further enhance our financing buffers, while permitting Government to increase its focus on capital spending now that economic activity has been reduced. As revenues recover fully, Government will revert to the larger primary balances needed to ensure that fiscal policy remains sustainable and that new debt issuance is managed in a structured manner. It is the combined effect of the reserve accumulation, access to new funding and continued fiscal discipline that will enable government to continue to honour all of its commitments.

These macroeconomic developments serve as the backdrop to our discussion today. Our panel offers the perspectives of both technical experts and those who can give an economic and financial sector viewpoint.

I trust therefore, that this will be an informative and productive session, and that you will leave eagerly anticipating the next session in the series, and committed to adopting policies, promoting practices and lending your voice to efforts to address climate change issues and their impact on our society, environment and economy. We owe it to generations to come!

I thank you.