

## Ewart S Williams: Lessons from the financial crisis

Address by Mr Ewart S Williams, Governor of the Central Bank of Trinidad and Tobago, at the launch of the Ansa Euro Income Fund, Port-of-Spain, 17 November 2009.

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I am pleased to participate in this ceremony this evening, ***not to endorse the merits of any particular product***, since obviously; it is not something that the Central Bank as Regulator could do. Instead, I want to commend this initiative which, to me, in this challenging economic environment, represents a vote of confidence in the economy and another step towards the development of the capital market.

It is certainly a positive note against the background of the negative hum that has overwhelmed us for the past several months.

Globally, the negative news has been around for much longer – for more than eighteen months or so, following the financial meltdown that has been attributed to a variety of factors, and the sharp global recession that ensued.

Even now when there are signs of recovery, we have become so jaded that most projections are now accompanied by a series of caveats in which the downside risks are given equal prominence.

Now in the US, UK and Eurozone there are signs of recovery – green shoots, we are told – but we are advised not to rule out the possibility of a double-dip recession, meaning another likely downturn in 2010, or an L-shaped recession, meaning that we may just face a prolonged period of slow, tepid growth or virtual stagnation.

I guess the cautiousness that now engulfs policy makers in the advanced economies is, in part, a reflection of how far they have come: how close we have been to a collapse of the global financial system and how deep the recession has been in several of the advanced countries.

I guess that the concerns that now pervade the developed countries also have to do with the recognition of the colossal re-balancing that is taking place in the world – a re-balancing that has meant a shift in the poles of global growth from the US and Europe and for a while Japan, to the new powers – China and India and the smaller economies in Asia along with one or two emerging market countries in Latin America, like Brazil and Chile.

The Caribbean, including us here in Trinidad and Tobago, has also had more than its share of bad news. Up the islands, tourism is sharply down and with unemployment in the US topping 10 per cent, workers' remittances, which are an important source of foreign exchange receipts, for much of the region have plunged. With many regional governments over-burdened with debt, there has been renewed recourse to the IMF and the other multilateral institutions for financial assistance.

Here at home, we have not been spared. After GDP growth averaging 7 percent since 2001, the economy saw a reversal, starting in the fourth quarter of 2008. This has continued into 2009, when we are likely to register negative growth, on an annual basis, for the first time since 1993.

Reading about the recession abroad and seeing it translated into a sharp fall in energy prices, a negative psychology has overtaken consumers who have become cautious and have started to spend less. At the same time, businessmen have postponed investment projects.

I continue to believe that we are fortunate because we still have the fiscal space to maintain demand. There is still sufficient activity going on and enough hope for an early resurgence, to forestall an even more precipitous reduction in employment.

Five years ago, we would have considered an unemployment rate of 5.1 per cent and an inflation rate at a similar level (5 per cent) as the reward for good economic management. But times have changed.

The harsh reality is that our economy was developing at a pace and in a manner that was clearly unsustainable. Bottlenecks had already begun to emerge in several places – in transportation, in the public utilities (electricity and water), in skilled labour and in management. The international recession advanced the inevitable and in my view has given us the opportunity to stop, re-think, re-prioritise and, to learn from our mis-steps.

Take the financial sector; we were able to ride out the international financial crisis virtually unscathed, and to contain contagion from our own domestic financial debacle. To me, this testifies to the underlying strength of our financial system and in particular, its robust capitalization (in the case of the banks), and the system's generally conservative orientation.

That said, our local financial crisis carries clear lessons, some of which are:

- **First**, that to effectively manage a modern financial system, you need state-of-the-art legislation, with penalties and a regime to ensure compliance.
- **Second**, that good governance structures are an indispensable part of the efficient management of financial institutions. Boards of Directors must understand their fiduciary responsibilities and must see protecting depositors or policy-holders as a major part of their responsibility.
- **Third**, external auditors must also be held to account and they must recognize that depositors, creditors and shareholders are looking to them for an independent opinion; and
- **Fourth**, that investors also have a responsibility to understand the trade-off between risk and reward and to remember the old maxim – if it is too good to be true, it probably is.

The present economic downturn also carries powerful lessons that we could refuse to learn, to our peril.

One compelling lesson is that oil and gas brought us to where we are but that our reserves are by no means limitless and indeed they may be even smaller than we would like to believe. On this basis, we need to move quickly to establish a sustainable fiscal position and accelerate efforts at meaningful diversification. This is indeed a daunting task and would require close collaboration between Government and private sector.

If the non-energy export sector is our hope to medium-term economic viability, the inescapable consequence is that we would need to significantly increase our productivity levels. Our recent intensified emphasis on education and training is a step in the right direction but these needs to be complemented by a much great focus on ICT.

Finally, we need to fully exploit the opportunities offered by small business activity in niche industries.

In case you have any doubts, I have tremendous confidence in this economy, in its resilience to overcome the current difficulties and its ability to meet the medium-term challenges that confront us. We like to boast about our native creativity, our enterprising spirit and our ability to overcome hurdles. I happen to believe that all this is true and that when the chips are down we will make the right decisions.

However, we have a knack for putting off the difficult decisions for too long. Let's hope we don't, this time around.

Let me again congratulate Ansa Merchant Bank for showing continued faith in the economy of Trinidad and Tobago.

Thanks for inviting me.