

## **DeLisle Worrell: Coping with the economic crisis**

Address by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, to the Lions Club of Christ Church West, Christ Church, 8 January 2011.

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Thanks for the opportunity to address you tonight. Let me commend you for the work that the Lions' organisation has done, in this country and worldwide, to strengthen the bonds of civil society. We have grown to appreciate that voluntary organisations, religious organisations, sporting clubs, cultural clubs and other service organisations constitute an essential part of the fabric that hold civilised society together. Too many of us still believe that our civic responsibility ends at the ballot box, that once we have voted we have done our duty to society, and we can get back to purely selfish pursuits. Not so. The society lives and breathes through the multitude of daily interactions among all its members, and we have a responsibility to help to guide and influence these interactions, in whatever way is open to us. We must seek every possible avenue to do so, with a view to bettering our society as a whole, and to taking care of our brothers, sisters and neighbours. That is the only way for us to ensure our own happiness. The vote offers each one of us a vital tool to empower ourselves, but it is only one tool of many which are available to us. Organisations such as the Lions, with their international network and strong tradition of good works, are also a tool for personal empowerment. You are to be commended for the work you do, and I am sure you also derive immense personal fulfillment from your involvement with your organisation.

This evening I want to talk about how individuals and small enterprises are coping with the economic crisis, as far as I can tell. I need to remind you that the Barbados economy is not an abstraction; it is thousands of us ordinary people finding ways to make ends meet, as best we can, and having to do so in very uncertain circumstances. It is a tribute to Barbadian ingenuity that the country has made such notable economic strides and improvements in the quality of all our lives, with so few physical resources. Barbadians are down to earth, as demonstrated by the reaction to the recent budget austerity measures. We had a sense that if the countries from which we derive our foreign exchange weren't doing very well, there was no way we would avoid feeling the pinch. We have to depend on the British, the Americans, the Canadians and people from our other source countries to lead us out of these woods. Until they do, we must be watchful, but patient. Although the signs are encouraging, we are not yet confident of recovery, so we must continue to be in a holding pattern, and make do as best we can.

### **The impact on individuals**

Too many jobs have been lost as a result of this recession and the unemployment rate has risen to about 11 percent of our workforce. Some of those who have been laid off have found part time or informal work, with a consequent reduction in wages. However, the number of people seeking jobs, who have found nothing suitable for as long as a year or more, is now quite high. What is more, many of those still in jobs have suffered reduced hours, poor sales and reduced income. The overall result is that family incomes have typically not kept up with inflation in the past two years, and for many families earnings are substantially lower than they were before the recession.

Families in this situation have no option but to reduce their spending. Difficult as this may be, the average Barbadian household may in a better position to adjust than is the typical American household, because Barbadians do not like debt. I would expect that the amount we are committed to pay to service our debt obligations of all kinds is far lower than is the case in America, as a percentage of our incomes. Debt service is an obligation you cannot easily cut back on, though there is a possibility of renegotiating the terms of mortgages and

other debt, if your income has been drastically reduced. On the other hand, our utility bills take up a higher portion of our income than is typical in America. In any event, we have little option but to adjust to whatever happens to our incomes. It was an airport taximan who said to me that if you've lost your job and you don't know where your next month's income is coming from, it makes no sense to borrow to pay your rent.

So let me say something about the various ways that I have observed, in various places and at different times, that people have managed to cope with adversity of the kind we are witnessing in Barbados and in most of the countries of the Caribbean.

One way to take advantage of a period of enforced idleness is to invest in developing your own personal skills and knowledge, through education or training. To do that, of course, you must at least have a source of livelihood, perhaps through a spouse who is working, or by moving back in with parents or relatives. If you can afford to, this may be the best option, because it enhances your chances of success in future job search, it fills in what would otherwise be a gap in your CV, and it avoids the potentially demoralising chore of job seeking in a market where more jobs are being lost than are being created.

You may also want to volunteer in a profession or activity in which you have skills, experience or qualification, for little or no pay in the first instance. Again this option depends on your having a source of income or support. Volunteering gives structure to your working week, and the systematic activity involved gets you accustomed to the rhythms of working life, for those who are entering the work force for the first time. It also brings you to the notice of potential employers, who may seek out your services when their companies' fortunes improve to the point where they are able to resume hiring. Even when there is little prospect of a permanent job volunteerism still makes sense, because it contributes to your sense of self-worth, and the satisfaction you get from contributing to the institution, community or society, in the realm of culture, sport, education or similar activity can be a source of great fulfillment.

This is an especially trying time to be entering the labour force for the first time. You will need to be systematic and persistent in your job search. Don't be afraid to seek assistance wherever you may find it, in pointing you to the right person to whom to address an application, in helping you to look out for suitable opportunities, in helping you to stay focused and stay positive, and in providing a shoulder to cry on when everything seems to be going against you.

Pensioners have been hard hit by the financial crisis. The interest they earn on their financial investments has declined, just as prices have started to climb, and the value of their assets, especially liquid and financial assets, may well have declined. In such circumstances some pensioners have had to come out of retirement, often to take unskilled jobs.

Times of recession put a high premium on managing your money carefully. It's not as difficult as it sounds. You don't have to be an accountant, and you don't have to be one of those fiercely self-disciplined individuals who makes a note of every purchase. What works for Monica and myself is to keep all our receipts; once every month Monica sits down, adds up everything, compares it with my monthly salary, and figures out whether we're in deficit or surplus, and by how much. If you do that every month for a few months, you develop a sense of your spending patterns, and you are able to pinpoint, without much difficulty, the things that you might well do without, which take you over budget. In normal times you will want to put aside a little every month, to add to the reserve against a rainy day. When times get tough you may have to suspend this additional saving for a while. But only if things get really dire will you want to dip into that reserve.

The prolonged recession also poses challenges for small businesses. Their cash flows are diminished, but their expenses remain much the same: wages, utilities, interest payments, VAT, NIS, office supplies, and inputs for fabrication, finishing or retailing. Government has offered some temporary relief on NIS payments, but nonetheless most small businesses are faced with a need to cut back on overheads. It is best to make a medium term adjustment

plan, with the help of a bank or financial adviser, rather than to attempt to dig yourself out of a hole in a hurry. In extreme cases it should be possible to arrange debt restructuring with your bankers, if the alternative is to build up arrears which you have no means of paying.

### **How much longer before things start to improve?**

We're already seeing some positive signs (in tourism, for example), but it is too early to say. We shouldn't rush. After making all this sacrifice for the past 2 years, we cannot afford to jump the gun, only to find that we are spending more on imports than our foreign exchange earnings will support. It is better to err on the side of caution. Only when it is very clear that we have emerged from the recession, when foreign exchange inflows are robust once again and foreign reserves are building up without any need for foreign borrowing for general purposes, only then can we confidently ramp up employment generating activities. In this way we cannot be caught wrong-footed if the recovery turns out to be more sluggish than expected.

All in all, Barbadians have kept level heads in the current crisis. We have accepted that we must tread water for a while, until the prospects for tourism and international business services, which are the main sources of our foreign exchange, are clearly established on a new path of expansion. We must respect that foreign exchange limit because there is no way we can be self sufficient and maintain our standard of living. Thankfully, we can tread water for a while without sacrificing that standard of living. We have been doing so for the last 24 months. We are not yet sure when the storm will end, so that we can start making progress once more. There are signs of a break in the clouds, but it's too early to be sure. In the meanwhile, things have been kept stable: we have been able to pay for the things we need to import out of the receipts from tourism, international business, other exports, foreign investment and modest government borrowing from abroad. As a result we have not had to dip into the country's reserve of foreign assets, which remain almost at the level of a year ago, at about \$1 ½ billion. Barbados has a good name in tourism and in international business, and we are poised to resume growth when international economic conditions improve. In the meanwhile, things are by no means dire. We are doing as well as we may, under the circumstances, and our best strategy is to be patient while doing what we can to equip ourselves with the knowledge and skills we will need for the recovery, whenever it comes.