Economic Sustainability and Tourism

Remarks by **Governor Cleviston Haynes** at the BHTA Quarterly Meeting

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I welcome this opportunity to address your quarterly meeting.

Let me use this occasion also to welcome the new CEO of the Barbados Tourism Marketing Inc. Jens Thraenhart. I look forward to continued collaboration with your organisation and with the BHTA, for while our responsibilities may differ, we each share a common objective as it relates to the tourism sector.

In accepting the invitation to speak today, I am conscious of the critical role that the tourism industry plays in sustaining economic activity in this country; aware of the adverse effects that the COVID-19 virus has had on the sector and the economy; and cognisant therefore that the recovery of economic activity and the industry is inextricably intertwined. Against this backdrop, my remarks, this morning, embrace your theme of Economic Sustainability and Tourism.

Global Tourism Trends

Prior to the onset of COVID, international tourism was on a sustained growth path. Increased affluence, improved telecommunications, and affordable international travel enabled international tourism to grow uninterrupted in the decade ending 2019. At the beginning of 2020, the Secretary General of the World Tourism Organisation in anticipation of the continued strong growth was moved to say "in these times of uncertainty and volatility, tourism remains a reliable economic sector."

In hindsight, that optimism proved misplaced. Indeed, the past 21 months have been very challenging for everyone engaged directly or indirectly in international travel and tourism. The World Tourism Organisation estimates that international tourist arrivals fell by 73 percent in 2020, contributing to 70 percent of the decline in nominal world GDP. The direct share in global GDP fell from 4 percent to less than 2 percent. The impact of this reduced activity on jobs, particularly for women and the young, and on foreign exchange earnings provided a stark contrast to the Secretary General's assessment of the outlook for the global industry.

The factors behind this outcome are well-known. The COVID virus, which was already on the radar in January 2020, transitioned into a full-blown pandemic, resulting in wide-scale infections and deaths across the globe. International travel ground to a halt as countries imposed travel restrictions coupled with domestic lockdowns to reduce the risk of the deepening health crisis within their borders.

Encouragingly, the world economy has started to recover from the trauma of 2020, as countries reopen economic activity even as the virus persists. This recovery has been uneven, but the advances in the development of vaccines, general improved confidence, pent-up demand, and an ease in travel restrictions, particularly in the second half of this year, have buoyed international travel and spending in 2021. Even so, international tourism has only registered a partial resurgence as new more contagious variants of the virus continue to emerge, cause new spikes in infections and the re-imposition of protective measures in some countries. This situation continues to be aggravated by an inequitable distribution of vaccines on the one hand, and by vaccine hesitancy on the other.

Economic Sustainability

As a small island that depends on tourism for foreign exchange earnings and jobs, the impact of COVID has been acute. The fall in arrivals was in line with the global outturn, but the overall decline in GDP is estimated at 18 percent for 2020. This substantial loss in output reflects the spill-over effects on the rest of the economy which is heavily reliant on tourism. Our story mirrors that of other tourism-based small island developing states. The loss of this year's winter season further undermined the prospect of a rapid recovery during 2021.

The collapse of tourist arrivals disrupted government's efforts to place the economy on a sustainable growth path. In the 18 months preceding the emergence of the virus, government recorded progress in its fiscal consolidation efforts that were designed to achieve fiscal and debt sustainability after several years of large fiscal imbalances, rising debt and the accumulation of arrears. This strategy, underpinned by a debt restructuring, targeted primary surpluses to free up resources and place the debt stock on a downward trajectory. In FY 2019/20, government achieved its target equivalent to 6 percent of GDP and reduced the debt-to-GDP ratio.

However, the impact of COVID on economic activity depressed government's revenue, including from tourism related taxes, and caused government to raise expenditure as it sought to broaden the safety net and allocate more resources to address the spike in healthcare costs. With the sharp loss in revenue, the earlier promise of substantial primary surpluses was converted to small deficits in each of the last two fiscal years to prevent a total implosion in economic activity.

The financing needs created by the weaker fiscal outturn have been largely covered by funding from the international financial institutions. Government has borrowed significantly during the pandemic and this has had a favourable effect on foreign exchange reserves, which had fallen to five weeks by mid-2018 but which reached historic highs in excess of 40 weeks by September this year.

Pre-COVID, the debt-to-GDP ratio declined in the 18 months to March 2020, partly because of the write-down of debt under the debt restructuring, but also because the large primary balance helped to fund the retirement of some domestic debt. However, despite the increased borrowing during the pandemic, the debt stock over the 18 months ending September rose by $0.7 billion only as the administration continued to retire debt.

The scale of public sector borrowing has been absolutely necessary to cope with the fiscal challenges induced by the pandemic. As we go forward, new debt issuance will be inevitable as the economy recovers. Such borrowing is consistent with the planned debt trajectory of returning the debt ratio to 60 percent by FY2035/36. Moreover, while our overall debt stock has increased temporarily, over the medium term, we anticipate that the debt stock will fall as government returns to a path of fiscal consolidation through primary surpluses and borrowing requirements fall below amortisation payments.

In essence, as government borrows, it is important for citizens and investors to understand how such borrowings are being used. Are the new loans going to service new deficits or are they refinancing old debts? New deficits will add to the stock of debt but strong primary surpluses should have the opposite effect over the medium term.

In the aftermath of the debt restructuring, some individuals have expressed concern about the level of new borrowing. However, I wish to assure you that new borrowing is being undertaken within the context of an integrated plan. Indeed, under the IMF programme, there are specific limits on debt accumulation. In addition, as indicated, one of Government's key structural reforms is its commitment to reducing the debt ratio to 60 percent and this will be captured eventually in a fiscal rule. The uncertainty created by the pandemic makes it difficult to implement the rule immediately, but discussions are ongoing regarding the creation of a bridge to the planned rule. Such rules are increasingly popular across the globe and are intended to create a framework for fiscal discipline by governments. As we have witnessed in the recent past, inability to maintain fiscal discipline can adversely impact credit ratings, the cost of credit, and access to new credit. By committing to such discipline and structuring new borrowings that avoid excessive bunching of repayments or high interest costs, debt will remain sustainable.

Let me take this opportunity to explain the role of the Central Bank in financing of government, for this has policy implications for economic stability. Under the new Central Bank Act of 2020, a number of important amendments intended to limit Central Bank financing to Government, and therefore contribute to long term economic sustainability, have been embedded in the legislation.

First, while the Bank continues to provide short-term financing through its Ways & Means account, the cap is set as the average of the actual three preceding fiscal years rather than the current year forecast. This is likely to give rise to smaller limits during periods of growth and eliminate the risk of excessive financing. It should be noted that since mid-2018, the limit on the Ways & Means has been reduced from 10 percent of revenue to 7.5 percent.

Secondly, under normal circumstances, the Bank will no longer acquire securities via the primary market. This activity was a major weakness in the build-up to the economic crisis and is intended to impose greater discipline on government while promoting increased reliance on private sector financing. Hence, by subjecting itself to market discipline, Government needs to ensure that its long-term economic policies are viewed as credible and sustainable.

Thirdly, under extreme circumstances, these restrictions may be loosened. In this regard, the Bank may acquire securities on the primary market where there is a state of emergency, triggered for example by a severe climatic event or a pandemic. The maximum that can be raised through this mechanism has been capped at 3 percent of GDP, with a maturity not exceeding 5 years. These safeguards are intended to ensure that government has access to adequate funding in unplanned circumstances while avoiding a return to the days of open-ended financing of government's operations by the Central Bank. In addition, by placing these securities on the market, the private sector has an opportunity to add to their investment portfolios, particularly given the dearth of investment instruments currently available.

The recent bond issuance by government on the domestic market falls within the category of securities in which the Bank may invest. However, in making decisions about the level of financing it provides, the Bank takes a number of factors into consideration, including the level of reserves. In the current context, these were recently boosted by the global SDR (special drawing rights) allocation by the IMF to help countries navigate the challenges posed by the pandemic.

Tourism and Economic Sustainability

Over the past few months we have witnessed a gradual upturn in tourism activity, although nowhere near pre-COVID levels. Preliminary data suggest that long-stay arrivals, which were less than 1,500 in February as the sector endured the effects of the National Pause at the beginning of the year, exceeded 25,000 in November, the best performance since the start of the pandemic.

The outlook for jobs, wages and tips, foreign exchange earnings, and tax revenues is positive. Airlift from our traditional markets is returning, and our tourism planners have begun to unlock new markets and gateways to spur activity in the sector. Hoteliers are reporting improved room occupancy and room revenues; more rooms are coming back on stream and even cruise activity has restarted.

The Welcome Stamp programme which acted as an important buffer during the downturn continues to attract interest and is providing vital support to the real estate sector. Anecdotal evidence about hotel and villa bookings suggests that there is likely to be a strong winter season, though not yet at pre-COVID levels.

Emerging variants of the virus continue to represent a significant downside risk to the recovery of the sector and our current forecast is that we are unlikely to return to 2019 levels before 2023/24.

As we consider how we can promote a sustainable economic plan, we need to address both short-term and medium-term perspectives for the growth of the industry, recognising that the sector and, by extension the economy, remain vulnerable to external shocks, natural disasters and climate change.

Ongoing structural reforms and diversification efforts remain critical to the performance of the economy, but we cannot ignore the reality that a robust performance by the tourism sector is needed to generate FX (foreign exchange) earnings and accelerate growth in support of government's fiscal consolidation efforts and promotion of debt sustainability. With the prospects for a stronger sustained recovery of the sector, we anticipate growth of at least 7 to 9 percent in 2022. However, over the medium term by targeting overall growth of at least 3 percent per annum over a sustained period, we can shorten the horizon for attaining our debt target. Tourism has a critical role to play in achieving this objective.

I am not a tourism planner, but today I wish to pose for your consideration three questions that I believe are relevant to how we strategise about the positioning of the industry to enable it to compete globally and enhance Barbados' growth prospects.

Firstly, how can Barbados ensure that it is the destination of choice within the Caribbean? This is your bread and butter issue but remains relevant as the demands of tourists change. Barbados has a mixed product, embracing all market segments. A high repeat clientele, particularly at the upper end of the market, suggests that those who are aware of the island have formed a favourable impression and can be the source of free marketing. However, we need to complement these strengths by:

a. Maintaining a clean and safe environment for locals and tourists alike. A clean environment defines the pride that we have in ourselves and extends the welcome mat to others.

b. Ensuring that the quality of service within and outside of the accommodation environment is consistent and meets international standards. Investment in our people is crucial so that the service quality defines Brand Barbados.
c. Offering an excellent product. This requires ongoing investment, including diversification and enhanced use of technology. The BEST (Barbados Employment and Sustainable Transformation) programme offers an opportunity to strengthen and expand your product and services and enhance your competitive edge.

Secondly, what is the optimal number of tourists that we can carry sustainably? This is always a difficult question but one that we must ask. Countries do have population densities that are greater than our own, but we must examine this question in the context of what is our ideal carrying capacity for visitors if we are to avoid the risk of environmental degradation. The debate between number of tourists and actual spend is central to this question as capping the number of tourists will necessitate greater value added per tourist to sustain economic growth over time. The question therefore is what activities can we introduce to obtain that increased value added?

Thirdly, how can the public and private sector strengthen their alliance to improve outcomes in the sector? A key takeaway from this crisis has been the value of all stakeholders working in harmony to achieve their objectives. The sustained recovery of the tourism sector will require an ongoing partnership between the public and private sectors. Indeed, government has played a major role during the crisis. For example, the BEST programme was designed to save jobs while providing for the sector to undertake investments that strengthen competitiveness and address responses to potential climatic events. A recent count indicates that at least 24 hotels and 31 ancillary services are participating in the programme.

I do believe that a critical element of partnership will be information sharing. It is concerning when I hear that some hotels do not participate in the industry's STR report. Historically, some firms do not participate in the BOP (Balance of Payments) survey. The new Central Bank Act allows for penalties in this case. While we are prepared to impose the fines, if necessary, I can assure you that we are more interested in the information than the revenue, as better information improves decision making for the sector and for the economy.

Conclusion

Public policy must be centred on economic sustainability, whether seen through a macro or a sectoral lens. The tourism sector is central to this long-term sustainability of the economy by providing the foreign exchange needed to underpin our exchange rate policy. Our design of sectoral policy is therefore critical in enabling the sector to grow and contribute through the revenues it generates and contributes to the public finances. If we can redevelop the sector, I am sure that the Secretary General's remarks will be proven true. But it requires all of us to work together for the environment is challenging, not only because of the typical economic and financial factors we normally discuss, but because climatic events will test our resilience. We must be prepared.

We know our responsibilities. Let us implement for the growth of the sector and the economy.