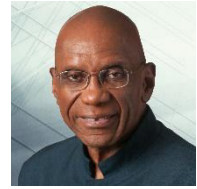




Media Release



Report on Macroeconomic Seminar for Policy Makers and Opinion Leaders

Hosted by

Central Bank of Belize

Belize City, May 30-31, 2018

The Belize seminar on macroeconomic policy exposed economic policy makers, bankers, business people, and opinion leaders to a novel approach to adjustment and growth policies in small open economies with modern financial systems, using tax, Government expenditure and Government borrowing as the principal tools. Effective communications are increasingly important in gaining popular support for policy measures that are in the best interests of economic sustainability. The seminar also provided for dialogue with policy makers and the media on communications tools and strategies.

Introduction

The Central bank of Belize hosted a seminar for economic policy makers, bankers, business people, and opinion leaders on May 30-31, 2018 on the topic “A framework for macroeconomic policy in small open financially integrated economies”. I presented an economic model and a set of practical tools to enable small open economies with modern financial systems that are well integrated internationally (SOFIEs) to manage their exchange rates, maintain competitiveness and achieve sustained growth. Key elements of this framework are fiscal savings, the use of fiscal policy to manage aggregate spending, coordination of fiscal and monetary policy, a daily foreign reserves monitor, a forecast model that links fiscal policy, aggregate demand and imports, and a monitoring and feedback mechanism which enables ongoing adjustment of policy instruments as and when necessary to achieve fiscal, exchange rate and growth targets.

This macroeconomic framework is not guaranteed to succeed, as the current crisis in Barbados demonstrates. However, chances of success may be improved with effective communications, which help opinion leaders and the community at large to appreciate the short term sacrifices that may be necessary to achieve sustainable growth.

The seminar provided an introduction to the macroeconomic framework for the management of SOFIEs, a description of some economic tools that may be used to implement economic policy, and ideas and suggestions on communications techniques and the use of media.

The first session reviewed the recent Barbadian experience, highlighting the competitive strengths of the economy, the recovery in Barbados’ market share of Caribbean tourism, the challenges of low productivity, especially in the public sector, and the impact of the Global Recession on the real estate market in Barbados. The Government’s 2011 Growth and Adjustment Strategy was outlined, and the adjustment measures announced in August and December 2013 were described. The failure to implement that strategy and the associated measures is the difference between a fiscal deficit of 0.5 percent in 2016/17 (the target in the Growth and Adjustment Strategy) and the actual deficit recorded

at 5.7 percent of GDP. The main lesson to be drawn is that decisive leadership is needed in difficult times to carry through with policies, however well designed those policies may be.

The second session of the seminar introduced participants to the main features that distinguish SOFIEs from large economies: their exports and tourism are priced in US dollars, so a devaluation brings no increase in foreign earnings; the economy needs foreign earnings in order to grow, because everything is imported or uses imported products; and, because of the extent of financial integration with the US, exchange controls will always fail in times of crisis. The key to sustainable growth in economies with these characteristics is to maintain prudent fiscal policies at all times.

The third session introduced seminar participants to some practical tools that policy makers may use to detect when the demand for imports is in excess of the foreign exchange that is available in the banking system, to determine whether the shortfall is large and persistent, and to calculate how much fiscal adjustment is needed to bring the external receipts and payments into balance. The most innovative of these tools is a daily tracker of the central bank's foreign reserves, presented so as to make it clearly evident when corrective action is needed to avert a balance of payments crisis.

In the fourth session I reflected on my experience in communicating central bank messages to a wider audience. I reminded seminar participants that the Central Bank of Barbados was a world leader in its early days, when Sir Courtney Blackman was Governor and I was Director of Research. We were among the first central banks to hold regular quarterly Press briefings, and our Annual Reports featured colourful, artistic designs and professionally crafted interiors. The Central Bank of Barbados always spoke to the public in plain English. In recent times the Bank's emphasis has been on its website and on short video presentations, which have been very effective. Economic fora hosted by journalists, each with a panel of economists, financial experts and business persons, are an innovation which has proved very effective in getting messages over to a wide audience.

The topic of the final session of the Belize seminar was visual presentations of statistical data. In that session I gave examples of highly influential charts and data maps, drawn from Internet sources and my own website. I also drew attention to the Barbados *Nation's* information graphic showing all the candidates in the recent General Election, an outstanding example of the way creative infographics can convey large amounts of information at a glance.

Attendance at the Central Bank of Belize seminar was by invitation only, and the seminar attracted full houses on both days. The seminar served to introduce economists and policy makers to tools that they may use to empower domestic economic policy. In contrast, application of the standard policy tools has generally been problematic. Interest and credit limits, reserve requirements, debt management, arbitrary fiscal rules and flexible exchange regimes have all been tried, with unsatisfactory or controversial results. The one thing on which everyone is agreed is that a pegged exchange rate trumps all other policies, if only the peg can be credibly maintained. My framework offers credible mechanisms to maintain an exchange rate peg in all circumstances, if that is what the authorities wish, and provided they implement their stated intentions fully.