

DeLisle Worrell: Managing the open economy in a time of crisis

Address by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the Bermuda International Business Association (BIBA) Investment Conference, Bridgetown, 28 October 2010.

* * *

Let me begin this morning by reminding you of the message of my press release last week: the success of the US\$200m bond raised in July is an international vote of confidence in prospects for the Barbadian economy and the conduct of economic policy. That confidence is entirely justified: the economy is stable, in the midst of the continuing international storm. The peg is secure, backed by \$1.4 billion in reserves. We have had to dip into those reserves, but to a lesser extent than in 2009. The foreign exchange reserves are monitored each day, by the principal economic policy makers in government and the central bank. The fiscal outcomes are closely monitored, in order to stay on track to achieve the deficit targets of the Government's Medium Term Fiscal Strategy. We continue to ride out this storm. We have suffered some damage, but our vital systems remain intact, ready for action once the tempest abates.

The growth strategy is appropriate, and can be ramped up when international economic conditions permit, in particular when overseas travel by residents of the UK, US and Canada gathers momentum, and when mainstream airlines return to profitability, so that arrivals are no longer driven so much by special incentives. Once that happens, average expenditures per tourist should recover, and with them, the contribution of the sector to Barbados' foreign earnings, employment and GDP.

As a mature tourism destination, Barbados needs to constantly refresh and diversify its tourism product, to give first time visitors a reason to prefer Barbados over the competition, to win their hearts so they will want to return, and to repay the loyalty of our long term friends, who come year after year. We aim to do that by providing a quality tourism experience, by building a significant presence in the lucrative high end of the market, and by providing an increasingly diverse range of ancillary services, so that visitors may enjoy our culture and heritage, engage in sports competitions, and share in our initiatives to protect and enhance the physical environment of the country. In addition, the Crop Over festival, which has over the past three decades opened up an entirely new tourism market among the Barbadian Diaspora, continues to grow steadily.

Tourism is by far Barbados' most important source of foreign exchange, contributing about two-thirds of our earnings on the current account of the balance of payments, and almost 20 percent of the country's GDP. Any strategy for renewal of growth has to start with that sector. Most of the remainder of inflows of foreign currency on the current account come from other services, mainly international business and financial services, which all together contribute another 20 percent or more. Services of all kinds now provide Barbados with almost 85 percent of all foreign earnings, with exports of sugar, manufactured goods, and oil to Trinidad for refining, down to no more than about 15 percent.

The international business and financial sector constitutes the second plank in Barbados' growth strategy. Our international business and financial sector is based on an expanding network of double taxation treaties, and financial regulation that is of an internationally acceptable standard. In addition, we have a small but growing pool of expertise in the legal, accounting and financial services needed in this sector, and our wages for these skills are highly competitive, by international standards. To crown it all, we offer these services in a superior environment: we are in a convenient time zone, in the tropics, with excellent infrastructure and first class international connections, and we speak English.

In every sector and activity, growth will be driven by the private sector, not the government. It is the thousands of decisions made by rich Barbadians, not-so-rich, ordinary and poor Barbadians, and by those who have an interest in investing in Barbados, that will determine how soon and how swiftly the economy will grow. Every one of us faces the need to make decisions about how we cope and make our way forward in very uncertain circumstances, whether we are taximen, policemen, administrators, teachers, information specialists, entertainers, engineers, managers, whatever our calling and however we make ends meet. Careful but innovative decisions, sensitive to the realities of the economic situation, are our ticket to renewed growth, once external circumstances permit.

The fact that growth in Barbados is led by the private sector is something we all know, but it nonetheless bears repetition. The transformation of the Barbadian economy, over the past five decades, from a sugar-exporting economy to one that has become a byword internationally for high quality tourism and international business and financial services, is the result of the many initiatives of private Barbadians and friends of Barbados, who have uncovered the economy's potential for transforming itself, and have invested accordingly, in building the required infrastructure, and in equipping themselves with appropriate skills.

Government and the Central Bank have played a vitally important role in this economic development, but it is, quite appropriately, a supportive and facilitating role, with two remarkable exceptions. The first is the origin and nature of Barbados' international business and financial sector. At the outset, in the late 1970s, Government determined that Barbados would seek to provide actual services to international companies from offices located in Barbados, and that those services would be subject to income tax, albeit at the preferential rate available to companies that earn foreign exchange exclusively. That decision, and the network of double-taxation treaties that support it, have served as the foundation for Barbados' sound reputation in the sector.

The success of the Crop Over festival in creating a new tourism niche is the second example of a successful government initiative. In this case, ironically enough, success was achieved in a totally unexpected way. The festival was moved to its present date to provide an additional reason for visitors from our usual tourist markets to visit during the low season for tourism. Instead, the idea of Crop Over as a way of diversifying the tourism product happened to come on stream just as an entirely new potential source of visitors was developing: the Barbadian Diaspora. The Diaspora had now grown in size and earning power to the point where many could contemplate annual visits. Here was an opportunity for them to return at a time convenient for those with school age children, and when there was lots to see and do, with plentiful opportunities to meet old friends and socialise.

These two successes are the exception. Against them we have to set the many government initiatives over the years that have failed and been abandoned. They cover a wide range, including agriculture, manufacturing, tourism, and financial services. The reasonable conclusion is that government has a role to play in economic growth, in collaboration with the private sector, but that it is the investment of the private sector that underpins expansion, year after year. Government support is especially important in the early development of new initiatives. However, the probability of success of new initiatives, based on past experience, is quite low, so we must avoid overblown expectations, and we must be prepared to recognize and abandon things that clearly have no future.

The day-to-day role of Government, and of the Central Bank, is to provide information on the performance of the international markets which are of principal interest to Barbadians, and the potential implications for Barbados. In addition, government may provide support for the private sector in strategic areas and activities. In the tourism sector, Government has provided support measures to maintain tourism competitiveness in a tough market. It has negotiated to maintain airlift to Barbados, it has joined with other Caribbean countries to protest the inequity of treatment in the way the UK travel tax is being applied, and it has provided support and guarantees for private investment in a major tourism project. One area

which still cries out for attention is support for refurbishment and upgrade of hotels, previously profitable, whose credit-worthiness has been weakened by the international recession.

In the international business and financial sector government inevitably plays a leading role in expanding the network of double taxation treaties, and, in collaboration with the Central Bank and other regulatory agencies, in strengthening the oversight of the sector.

The prospects for the Barbadian economy are very good, but we must be patient, because little by way of economic activity can be done in Barbados without a supply of foreign exchange. Over-ambitious stimulus will merely eat into the country's foreign exchange reserves, with no lasting benefit of jobs or income. We have no good option but to wait out the global recession, until the observed pickup in inward investment strengthens, and is accompanied by stronger inflows from tourism, international business and financial services, and other sources of foreign exchange.

Fortunately unemployment has increased only modestly, although many businesses are reaching the end of their tether after two years of insufficient cash flow, and there may be some worsening. However, we should not grow impatient just when the end may be in sight: tourist numbers are up, the UK market appears to have stabilised, and there is reason to be hopeful about the winter tourist season.

Barbados is well positioned to take advantage of the recovery when it comes. The country has a good name, we boast a diversified tourism product, and a business and financial centre that is grounded on a sustainable foundation of double taxation treaties and regulation that is constantly upgraded in accordance with the best international guidance. Economic performance is overseen by an integrated arrangement for collaboration between government and the Central Bank, supported by our internationally renowned social partnership arrangements, as well as a range of formal and informal opportunities for discussion and dialogue. Essential partners in these arrangements are the communications media, because they are the ones who convey the message to the individual Barbadians, investors and tourists, whose decisions will ultimately decide the pace of economic expansion.

Given our resources and the structure of our economy, we are doing at least as well as could be expected, perhaps a little better; and we have encouraging prospects, including in areas where we are just getting up to speed, such as alternative energy.

This is not to make light of the formidable challenges we face. In the tourism sector, financing is needed for the refurbishment and upgrade of properties which cannot qualify for the borrowing they need for this work, because of the prolonged recession. In the international business and financial sector there remains a serious data and information deficit. We are making efforts to address this, with the help of funding from the European Union, and the Central Bank has enquired about the possibility of collaboration in a joint initiative of the Financial Stability Board and the IMF on improving data flows in the international financial sector. Barbados' well regarded systems of supervision of international banks are constantly being upgraded, and Government is proceeding with legislation and implementation of equally strong supervisory arrangements for the rest of the sector. Although Barbados remains untainted by international financial malfeasance, this is another area where upgrading is an ongoing exercise.

In addition, there are new initiatives afoot. In tourism, the renewed foray into the Brazilian market seems to make sense, in view of the market potential just of one or two urban centres of that vast nation, and of Brazil's growing interest in the Caribbean, most obviously in the case of Guyana. Encouragingly, it appears that the promoters have a multi-year perspective, perhaps as a result of their reflection on the previous abortive exploration of this market.

New initiatives are also appearing in the area of alternative energy systems. Government has just concluded a loan agreement with the Interamerican Development Bank for support of

these activities, and Central Bank will soon announce the formation of an alternative energy network based on a new website, www.aen.bb, to facilitate collaboration and an exchange of ideas towards the implementation of alternative energy systems.

In sum, the world economic storm has not yet abated, and the good ship Barbados has taken on water, but we are in no danger of sinking, and in much better shape than countries much larger, better endowed and richer than ourselves. We know from our past experience that we are a resilient, inventive people, and we have strong institutions of governance and collaboration between government and people, to inform decision making by government, by businesses and by individual households. There are formidable challenges ahead. The world economy is riven by an unprecedented degree of uncertainty, and we will be buffeted by changing winds over which we have no control. But we must have confidence, be sensible about what we can control and what we have to accept as given, in order to be poised to resume course when the storm at last is all over.