

DeLisle Worrell: Keeping the economy stable and achieving growth

Featured address by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the BCCI Finance & investment Luncheon Seminar, Bridgetown, 28 October 2015.

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By dint of economic policies suited to our circumstances the Barbados economy has been kept stable ever since the onset of the global economic recession, now seven years ago. Foreign exchange reserves have been protected by fiscal contraction to reduce spending and importation, to ensure the balance between inflows and outflows of foreign exchange is maintained. As a result, foreign reserves remain adequate, and economic policy and the future development of the economy remain firmly in our own hands. As I have often said, the great value of adequate reserves is that Barbadians are our own economic bosses.

The challenge before us remains, to use our mastery of our destiny to take actions that further the economic development of our country. I invite you to join me in assessing the advantages Barbados brings to the international markets in which we do business, our performances in those markets, the obstacles we face, and how we may overcome them and accelerate the pace of economic development over the coming years.

Our advantages

We are rich in the resources that matter for tourism, international business, culture and other services that can attract business to our shores. These include our equitable climate, our geographical location, our abundant sunshine, the fact that English is our native language, and the physical beauty of our island.

We have enhanced our appeal to visitors and investors – and bettered the quality of our own lives – by the investment we have made over the years in health, education, roads, our port and airport, public utilities and our system of law and order. As a result, Barbados has the reputation of being a safe, salubrious country, and it scores highly in indexes of freedom and transparency.

Barbados outshines most of the competition in the majority of global indexes which offer comparisons among countries. We are Number One in Latin America and the Caribbean in *The Global Innovation Index*, published by the UN World Intellectual Property Organisation (WIPO) and others; first in the Caribbean in *The Global Tourism Competitiveness Report*, published by the World Economic Forum; and second only to Panama in the Caribbean and Central America in *The Global Competitiveness Report*, published by the same body.

Among factors which work to Barbados' advantage are the quality of our institutions, our Social Partnership, the relative development of our business and financial markets, local internet penetration and international connectivity.

The quality of life in Barbados is high, attested to by the *Human Development Report*, published by the United Nations Development Programme (UNDP). In recent reports Barbados is credited with high human development, an indication that in terms of what our salaries will buy, as well as educational and health status, Barbadians live as well as people do in some advanced countries. We have all but eliminated dilapidation in housing, access to electricity, water and sanitation is universal, and homelessness has been reduced to a level that many rich countries would envy. We have our very wealthy, and our poor people, but on the whole we are a remarkably egalitarian society.

Our economic performance

The Barbados economy runs on foreign exchange, as I have often said. We live quite well, by international standards, by selling the goods and services we produce at competitive prices for

foreign currency, and using that foreign currency to import everything we need for our modern lifestyles. Our main focus is therefore always on the activities that earn us foreign exchange: tourism and related activities, international business and financial services, and rum, chemicals and a few other manufactured goods.

There is one sector where we have the potential to increase output without the use of foreign exchange, and it is in the energy sector. Every day in Barbados we produce far more energy than we could possibly use, but almost all of it is completely wasted, because it is in the form of heat generated on our roofs and other surfaces that absorb and reflect the sun's rays. We currently harvest a small amount to heat water. However, affordable photovoltaic systems now provide an opportunity to businesses and middle class households to generate all their electricity needs. Of course, we would need a means of supplying electricity at night. It has been shown that with a combination of solar and wind energy, plus biofuels and storage, Barbados could become self-sufficient in electricity generation. It is an opportunity we cannot afford to pass up.

Barbados' tourism is rising to the challenges of the 21st century. The Barbados brand is highly regarded, and developments in the sector have largely enhanced the quality and appeal of the Barbadian tourism product. The visitor experience has been enhanced by top quality sports, dining, shopping, music, culture and heritage. Our visitors are in search of authentic experiences, and we continue to enrich our offerings in ways that are Barbadian and Caribbean, which Barbadians can also enjoy.

The strength of the Barbados International Business and Financial Centre is that it is focussed on attracting international companies to set up businesses of substance in Barbados, to employ Barbadian skills to perform tasks of various kinds for their international operations. We offer a strong network of Double Taxation Agreements (DTAs) and Bilateral Investment Treaties (BITs), and a world-class regulatory framework. Why would companies want to do these activities in Barbados rather than in Toronto, New York or Luxembourg? The advantages mentioned above are the obvious answer, plus the fact that the skills these companies need cost less in Barbados than in their home countries.

The Barbadian manufactured products which command significant export sales are those which have achieved a name for themselves. Chief among them are our branded rums. Our producers of chemical products for household use have also been successful in racking up sales in the Caribbean region.

The obstacles we face

If Barbados were fully to realise the plans and projects currently being implemented or under serious discussion in tourism, international business, sugar and its products, and in alternative energy, the country's sustained growth rate rises to 5 percent or more. In contrast, Central Bank's current projection for growth is no more than 2 percent in two years' time. The difference could be transformative: at 5 percent per annum GDP doubles every 15 years; at 2 percent it takes 35 years.

The measures that make the difference are within the purview of all of us, and do not depend critically on any external circumstance.

It is important to persist with and complete the process of fiscal consolidation, to reduce the ratio of debt to GDP, eliminate Government arrears and restore Government's international credit worthiness. In this way, periodic apprehensions about the Central Bank's ability to defend the value of our currency on the interbank market become a thing of the past, and the investment community will have a resurgence of confidence.

The quality and efficiency of our public services needs to be very significantly upgraded. The inefficiency of our bureaucracy is at the top of the list of factors that inhibit business activity in Barbados.

A priority item for attention by the Social Partnership is the ever widening gap between unit labour costs and the average worker's contribution to output. We live in a globally competitive world, and the engines of our growth will not perform at their best if worker productivity and engagement does not improve significantly. We must close the gap that has worsened over more than a decade, and achieve productivity gains that can be shared with workers.

Ongoing reviews of the incentive regimes for private investment are necessary to ensure that the overall thrust of government policy continues to provide incentives for investment in foreign earning activities and in green energy solutions. Also, we should ensure that incentives that have served us well, such as duty free imports of computers, are maintained, and that any remaining inconsistencies in the incentive regime are removed.

The bottom line

Barbadians remain firmly in charge of our own destinies, and we have the resources and talent to realise a path to a future of greater prosperity. That path does involve some tough challenges: in too many areas we are not up to speed with the finest services and products that are on offer in the industrialised world, and outmoded and inefficient processes will need to be discarded. Our own collective decisions on the timing of these inevitable changes will determine the extent of our economic success, and the speed with which we are able to improve the livelihoods of all Barbadians. Faster growth increases the size of the pie to be shared among everyone; that must be our focus.