

## **DeLisle Worrell: Barbadians have every reason to be confident of our economic future**

Op-ed article by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, 31 October 2013.

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Barbados is well placed to address the challenging circumstances our economy faces. We have achieved a very high standard of living, the highest among independent Caribbean countries in the Human Development Index, and on par with industrial countries. We rank a respectable 47th of 147 countries in the World Competitiveness Index, and are first among Caribbean countries in the Index. Barbados' economic policy making arrangements are superior and our institutions are world class. Barbados' social and political stability are highly regarded internationally, and the country has good physical infrastructure.

### **How we make policy:**

The stability of our dollar is foremost in the minds of all Barbadians, and the value of the currency is protected by the adequacy of the Central Bank foreign exchange reserves. Every day the Minister of Finance and top policy makers of the Central Bank and Ministries of Finance and Economic Affairs receive a chart of the foreign exchange reserves, and each month this economic team meets to monitor and discuss the latest developments in the economy and to make adjustments as necessary. The team produces an annual forecast which informs fiscal policy: the budget is designed to match foreign exchange outflows to expected inflows, with a mid-year budget correction, if necessary.

### **The recent budget was a world-class effort, which few democracies have emulated:**

A steep decline in our reserves became evident only in May this year and by the first week of June Cabinet had agreed on the magnitude of the adjustment that would be necessary. A national economic consultation on June 24 secured buy-in from the social partners. This was followed by discussions with all stakeholders and the passage of the August 15 budget, by all accounts fit for purpose, of the right magnitude and with appropriate incentives. For a democratic process, this was a remarkably swift reaction.

### **The growth strategy:**

The Barbados economy is fuelled by foreign exchange. We do four things at internationally competitive prices (tourism, international business, rum and green energy) and the foreign exchange we earn and save from these is used to fuel the imports we need for production and consumption. To grow the economy sustainably, we have to grow the foreign exchange earning sectors. Fiscal stimulus is not sustainable, because government doesn't earn foreign exchange. Growth is led by the private sector, while government provides incentives and facilitation. To increase the profitability of our foreign exchange earning sectors we must improve the productivity of labour and the efficiency of capital, make our products and services superior in every market category, enrich our products (sports, heritage and cultural tourism, for example), do targeted marketing and develop new markets. It is critical that we improve service quality and set our standards at the very highest level. There are many success stories in each of these areas and we should always keep them in mind. We should celebrate these achievements, and use them as inspiration for what still needs to be done.

**The fiscal adjustment:**

The fiscal adjustment is designed to stabilize the economy by matching foreign exchange outflows to inflows, and to slow and eventually eliminate the drain on foreign exchange over the next several months. Reserves are held for the purpose of financing imports in the interim, while the measures take effect. We expect reserves to fall during that period, but we expect that once inflows and outflows are brought into balance, our foreign exchange reserves will return to levels that have been sustained since 2008. Barbados has no problem in servicing government debt. Service costs on the external debt are less than 10% for the foreseeable future, and the net public sector ratio to GDP is a moderate 62%.

**Barbadians have every reason to be confident of our future:**

Barbadians have bested the Caribbean through strength of character, sound decision-making, and investing in ourselves. The quality of our lives reflects our achievement. We have beaten the odds before, and we can do it again; experience has taught us that it is not as difficult as it seems, once you buckle down to the task. Patience, persistence, determination and commitment to excellence will win the day.

There is something that each and every Barbadian can contribute to growth: for entrepreneurs it is the development and promotion of projects to prospective foreign investment partners; for government it is the upgrade of business facilitation; and for workers, the improvement of productivity and the development of the Barbadian reputation for excellence.

Finally, the narrative matters. We must together build our self-confidence, by celebrating our successes, to give us energy for tackling the challenges ahead.