

## **DeLisle Worrell: Barbados – principles underlying its economic strategy and aims**

Remarks by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the XXXIX Meeting of Network of Central Banks and Finance Ministries of Latin America and the Caribbean, sponsored by the Inter-American Development Bank, Washington DC, 9 April 2014.

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The key to successful economic policy in small very open economies (SVOEs) like Barbados is to secure the exchange rate anchor by ensuring the country's reserves of foreign exchange remain at an adequate level.

A second reality for SVOEs is that they do not produce the consumption or intermediate goods they use; these are all imported, as are most items of machinery. The reason is that SVOEs have limited human and physical resources, and they can achieve internationally competitive scale in only a handful of activities.

A depreciation of the exchange rate therefore serves no good purpose, and it has the adverse consequences of high inflation and undermining investor confidence. Fear of devaluation therefore provokes capital flight, because no-one wants to be caught out by the devaluation.

How should the SVOE stabilise the external accounts to sustain adequate foreign reserves and to restore adequacy when reserves have been depleted? The answer: by containing aggregate demand, and thereby limiting the demand for imports, to fall within the supply of foreign exchange. The tools for aggregate demand management are government revenue, expenditure and the strategy for financing government's deficit.

These are the principles underlying the Barbados economic strategy.

The global recession has been a challenge for Barbados. Both our principal foreign exchange sectors (tourism and international business) were hit. And growth stalled in all three of our main markets: the UK, the US and Canada.

What has been our response? To persist with a strategy for adjustment and growth that has served us very well in the past. In the short run aggregate demand has to be cut, in line with the reduced availability of foreign exchange to buy imports. However, our economy has become more resilient in the face of shocks than we used to be. The cumulative real income contraction since 2008 is no more than 3 percent, compared to a 14 percent drop in the early 1990s.

Economic growth will not resume until the foreign exchange sectors get moving again. Barbados remains very competitive in tourism, international business and alcoholic beverages. In the 2013–14 Global Competitiveness Report Barbados outranks its Caribbean and Central American neighbours in 10 of the 12 dimensions included in the Report.

But we know we must do even better. We therefore aim to:

- accelerate the growth of worker productivity;
- upgrade the quality of services offered;
- enrich our product offerings and exploit market niches;
- selectively penetrate promising new markets, and sharpen our focus within well established markets.

The main thing we need from the international community is a better understanding of our reality, and support for these policies. Instead, the IMF, the rating agencies, the Basel

Committee and the OECD have all taken well-meaning initiatives which have in some way threatened the success of our adjustment and growth strategy. We are engaging with these bodies with a view to gaining greater voice to express the realities of economic policy making in SVOEs. We welcome the establishment of small states fora at the IMF and World Bank, the regional consultative groups of the Financial Stability Board, and the peer reviews of the Global Forum. These are all fora we may use to get our message across. This regional network of central banks and finance ministries is a further opportunity to get the message across, and we express our sincere thanks for the invitation to share these thoughts with you.