

DeLisle Worrell: Caribbean economies – has recovery arrived?

Contribution by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, for the CIBC World Markets Panel on the Caribbean, Bridgetown, 9 October 2014.

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Caribbean economies: has recovery arrived?

- For Barbados the answer is: not yet, but we are on course. The key messages we would like to share with you on the economy are:
- Barbados is among the most competitive economies in the Caribbean and Central America, as reported in the Global Competitiveness Index 2014–15;
- Barbados has good economic fundamentals, an appropriate growth and adjustment strategy for our circumstances, and a resilient framework for decision-making;
- Barbados' growth is fuelled by the foreign exchange sectors in which the country is internationally competitive. The growth strategy is based on increased productivity, enhancement of the quality and appeal of the country's products and services, and structural reform of the public sector;
- Barbados' adjustment strategy is to protect the value of the Barbados dollar by aggressive measures to contain aggregate spending in line with foreign exchange availability.

So, how well are we doing?

Our aggregate demand management is working. In August and December of last year the Minister of Finance introduced a major programme of fiscal cuts, aimed to arrest the slide in foreign exchange reserves which began to appear in May last year. Foreign reserves have stabilised, and since the beginning of this year we have observed the normal daily pattern of foreign reserve movements.

The outlook for tourism, Barbados' main foreign exchange earner, has improved. Arrivals have picked up from the UK, Barbados' most important source of visitors, and airlift from the US and Canada, also important markets for us, will increase significantly in the coming winter season. There has been something of a revival in sales to visitors of second homes in Barbados, and Barbados now has five major international hotel chains advertising our tourism product: Hilton, Marriott, Fairmont, Radisson and Sandals. Tourism-related investment in excess of US\$2 billion is expected in the next 3 years.

Barbados remains an aspirational tourism destination, offering accommodation and other services that are of very high quality. The country's competitive position is being strengthened by initiatives to improve productivity and service excellence, the further development of sports tourism (golf, polo, yachting and motor sports, especially), and the development of cultural and heritage tourism. (Bridgetown, once a major trading port, and its garrison, once the defense hub of the British Caribbean, were recently declared UNESCO World Heritage Sites.) A major initiative is on to improve Government's facilitation of business, especially tourism and international business, and to make the system of fiscal incentives more efficient and transparent.

Barbadians remain confident of the future of our international business and financial centre in an interconnected digital world. The globalisation of commerce and finance is the present reality and the inexorable future of the 21st century, and small international financial centres like Barbados play an essential role in improving the efficiency of international transactions and the competitiveness of international firms. There is a small but growing literature on this,

including the forthcoming report on an international conference on this topic which Barbados hosted on September 11.

Barbados bases its appeal to potential investors in our network of Double Taxation Treaties (DTAs) and Tax Information Exchange Agreements (TIEAs), and the fact that our regulatory framework is kept abreast of international standards through reviews by the IMF, World Bank, the Financial Action Task Force on anti-money laundering (FATF) and the Global Forum of the OECD on tax information. In addition the country boasts a small but growing cadre of skilled professionals, and highly competitive support services and infrastructure.

Barbados' growth strategy, led by our private sector, supported by reformed Government services, incentives and infrastructure, will yield steadily improving, sustainable growth over the medium term. However, for 2014 the priority remains economic stabilisation and fiscal consolidation.

So far the correction in the fiscal deficit is only about 2 percent of GDP, compared with almost 6 percent correction which is the target for the current fiscal year. The second half of the fiscal year is expected to yield larger gains, as some measures (such a tax to cover waste management expenses) are biased towards the second half. In addition, Government is tightening fiscal controls with the recent establishment of an independent oversight body for state owned enterprises, and the Barbados Revenue Authority, which began operations in April, is expected to improve the efficiency of revenue administration. The IMF and the Caribbean Technical Assistance Centre are providing assistance with public financial management and tax policy.

The service costs of Barbados' sovereign external debt in 2014 are about 7 percent of the country's foreign exchange earnings on the current account of the balance of payments, and are not expected to exceed 10 percent for the foreseeable future. The domestic financing needs for the target deficit of 6.6 percent of GDP can be met from excess liquidity of financial institutions, over and above the demand they encounter for private sector credit. Domestic financial institutions continue to roll over maturing Government local currency 4 obligations, in the absence of other low risk options with adequate rates of return.

In sum, the Barbados economy is on the right path. We know from experience that sustainable growth is not an overnight phenomenon. Growth may be slow in coming, but when it arrives it will persist, because it will be soundly based on the things we do best. In the meanwhile, we will do all that is necessary to keep the economy steady as we go.