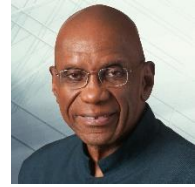




Economic Letter June 2018

Restoring Economic Prosperity



In February this year I reminded everyone that “Barbados has a very competitive economy, with high-end tourist facilities, highly regarded international financial and business services, world-renowned rum and entrepreneurs that are making a name for themselves internationally.

“However, the bad news is that our Government is overspending, and it is failing to deliver public services efficiently. That has stifled the economy’s growth, and eroded the foreign reserves of the Central Bank.”

In January I reprised my seven-point strategy to remove the roadblocks of overspending and Government ineffectiveness. My calculations are that, in order to balance revenues and operational expenses, Government must immediately cut subsidies by 10 percent *and* reduce public sector employment by 1,500 jobs. With the current account in balance, Government should approach the IMF and other international financial institutions for assistance with a programme of renewal of the public sector. There should be specific targets to be achieved by the end of five years, among them cuts in subsidies and jobs for two more years. This programme of structural adjustment would be monitored by the lending institutions on a quarterly basis. In addition, I recommended divestment of carefully selected public assets, a focus on public investments that are foreign funded; and clearing the logjam of private investments that are caught up in Government bureaucracy.

I calculate that this strategy would produce the following results:

- Foreign reserves that return to the equivalent of 12 weeks of imports by the first anniversary of the start of the programme, and continue to rise thereafter;
- A rate of growth that rises to 3 percent by the fifth year;
- A gradual reduction of the debt to GDP ratio, as borrowing requirements abate and growth accelerates;
- A recovery in Government’s creditworthiness at home and abroad, provided there is no tampering with existing debt, as suppliers are paid on time and arrears are fully resolved;
- The Central Bank would be able to reduce interest rates on all Government securities, starting with intervention in the Treasury bill auction, and extending to bonds and debentures as they mature;
- Banks, insurance companies, pension funds and other investors will have renewed confidence in Government securities; and
- A revival of foreign private investment can be expected, with the removal of bureaucratic hurdles and ready availability of foreign exchange.

This adjustment and recovery programme could be the foundation for innovation and the development of new activities of great promise, including renewable energy. With the restoration of dynamic growth, the current economic crisis would be nothing but a faint memory.

A full explanation of my five-year projections may be found in my [Working Paper](#) “A forecasting model for economic policy in Barbados”.