

Social Partnership Must Devise Strategies to Address Barbados' Productivity



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On July 31, I made a presentation to the Social Partnership Meeting on the country's progress with our strategy for economic adjustment and growth. I will share with you the main points of my presentation.

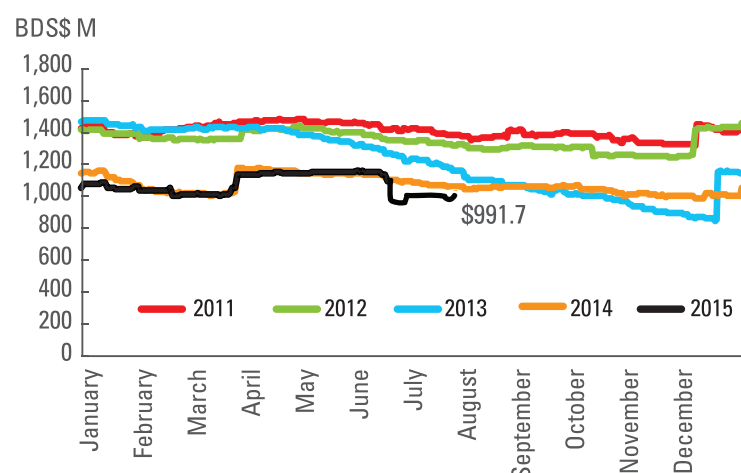
In the course of the last two and a half years, Barbados has offered the world a textbook illustration of how a small economy that depends on foreign exchange for its prosperity adjusts when those foreign exchange levels decline. In the accompanying Figure 1, you see the picture of the daily balance of foreign exchange inflows and outflows. Each year is plotted as a separate line in a distinct colour. When a surplus of foreign exchange is sold to the Central Bank the foreign reserves increase, and whenever the demand exceeds the supply of foreign exchange and banks buy from the Central Bank, the reserves fall.

You can see that a persistent shortage of foreign exchange began to appear in May 2013, and by the end of that month it was clear that fiscal measures would be needed to dampen the demand for imports. The August 2013 measures proved insufficient: reserves continued to fall. However, with the December fiscal package the reserves stabilised, and the normal pattern of foreign exchange market behaviour has been evident ever since.

FIGURE 1.
BALANCE OF PAYMENTS

Daily International Reserves

As at July 29th, 2015 the IR stood at \$991.7 million which is equivalent to 14.5 weeks of import cover.



The focus of policy has shifted to the strategies that will stimulate economic growth. Growth is being led by the products and services that Barbados produces at internationally competitive prices: tourism and related services; international business and financial services; rum, chemicals and other exports; and green energy. The foreign exchange earned and saved by these activities provides the finance for the wide range of imports the economy needs.

As is now well known, Barbados saw an increase of over 14 percent in long stay arrivals in the first half of the year. Forecast expenditure on hotels, tourism projects and infrastructure that have been confirmed amounts to \$1.7 billion over the next three years, with another \$1.5 billion in projects being discussed. A recent international competitiveness report published by the World Economic Forum puts Barbados ahead of our Caribbean competition, confirming the advantages that our country offers with respect to infrastructure, health, safety and security, environmental sustainability and ICT readiness.

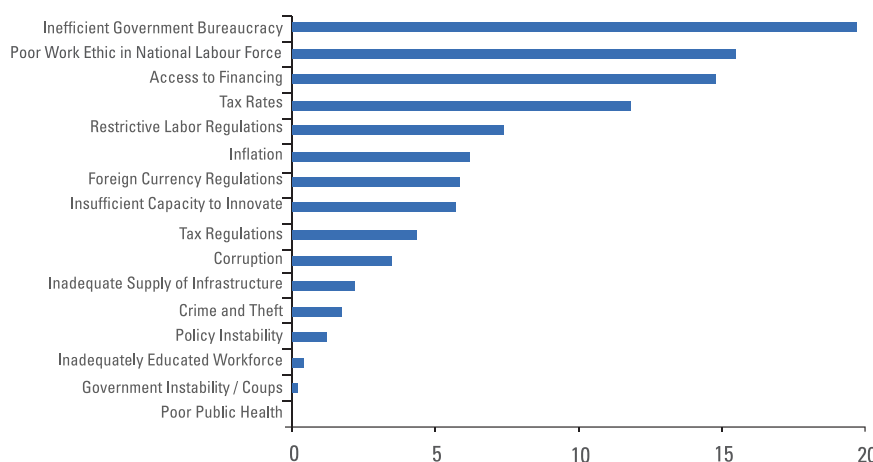
There is a need to improve labour productivity throughout the economy. A gap has opened up between the cost of labour and the productivity of the average worker over the past two decades.

The Barbados Government has established its commitment to fiscal consolidation, reducing the deficit from 12 percent of GDP in 2013 to under 7 percent last year and setting a target of 4 percent this year. However, that deficit must be further reduced in future years, in order to reduce the ratio of debt to GDP. Government will need to borrow to finance the deficit, adding 4 percent of GDP to the debt stock this year. With real growth expected at just about one percent and very low inflation, the GDP will likely increase by less than 4 percent, and there will therefore be an increase in the debt to GDP ratio.

Another major challenge faced by Government is the implementation of measures to improve the efficiency of the public service. In recent reports by the World Economic Forum, the Barbados Government's bureaucratic inefficiency is consistently cited as a major drag on the country's competitiveness and growth prospects (See Figure 2). The World Economic Forum report also shows how every member of the Barbadian workforce may contribute positively to our country's growth: second only to the Government bureaucracy as a drag on competitiveness is poor work attitudes in our labour force, with 70% of workers not fully engaged in their work. All that is necessary is for each worker to be fully engaged in their work. If each of us is engaged, we will not only be helping our country's growth and our own future prospects, but we will also find our lives more enriched by having developed a passion for what we do.

FIGURE 2.
CHALLENGES

The Most Problematic Factors for Doing Business in Barbados



Finally, there is a need to improve labour productivity throughout the economy. A gap has opened up between the cost of labour and the productivity of the average worker over the past two decades. The Social Partners must devise and implement deliberate strategies that will improve productivity.