

We Must Increase Our Productivity



Dr. DeLisle Worrell, Governor
Central Bank of Barbados

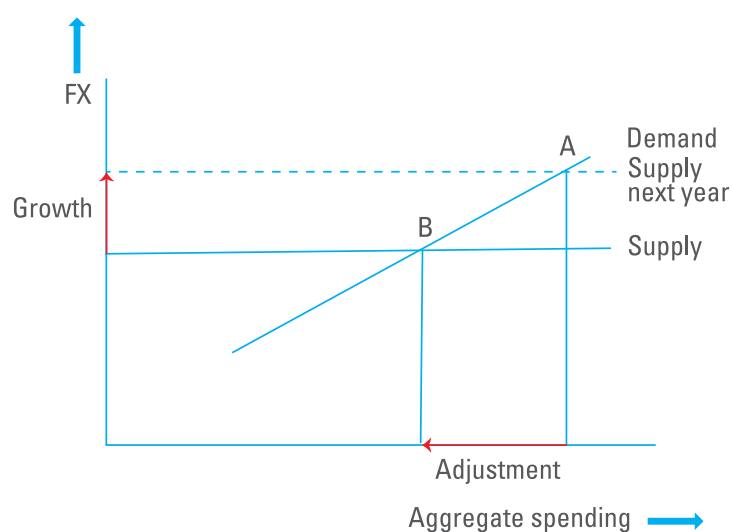
At the recently concluded Spring Meetings of the IMF and World Bank I took the opportunity to speak to our progress with economic adjustment policy in Barbados, and to enlarge on the prospects for growth in Barbados and the rest of the Caribbean.

Economic adjustment

The Barbados economy is an engine that runs on foreign exchange, and we must therefore gauge our spending on imports of goods and services every year according to the amount of foreign exchange inflows we can expect for the year. Figure 1 illustrates how we determine what we can afford. The year's expected inflow is shown by the horizontal supply line. The amount to be spent on imports will be greater, the greater is spending power in the country. The line showing the demand for foreign exchange therefore slopes up to the right. If total spending power is expected to be at Point A, available foreign exchange inflows will be insufficient, and we will have to run down foreign reserves with the Central Bank to make up the difference. That can only be a temporary expedient, however, and permanent measures must be taken to bring total spending down so that imports are compressed to what can be afforded, at Point B.

FIGURE 1.

GROWTH AND ADJUSTMENT

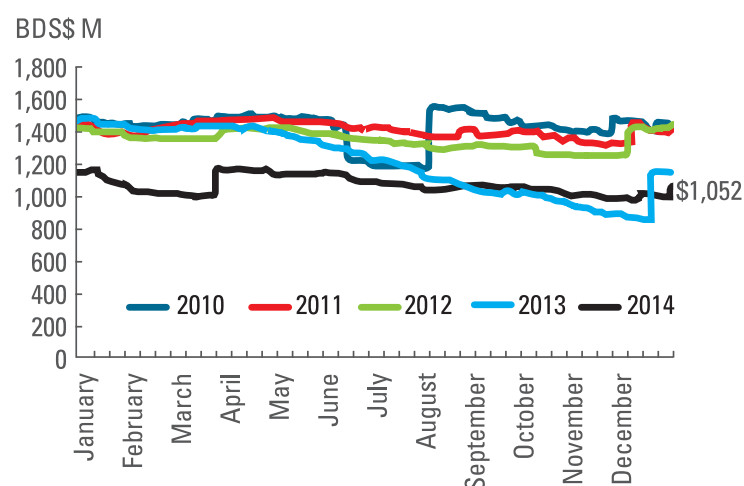


“Barbadians are demanding a Government that costs less to run, and delivers services much more efficiently.”

Now consider Figure 2, which shows the Central Bank's foreign reserves every working day for the years from 2010 to 2014. It is immediately clear that 2013 is different: from about May that year, foreign reserves are declining at an unusual rate, and persistently. As you may recall, by the end of June 2013 a national economic consultation was convened, at which it was announced that Government expenditure would be cut, and additional revenue raised, so as to cut total spending in the economy and reduce the fiscal deficit. Those measures were introduced in August and December of that year. The measures had their intended effect, as may be seen from Figure 2. The 2014 line has reverted to the normal pattern of the years prior to 2013.

FIGURE 2.

INTERNATIONAL RESERVES



Government remains committed to the objective of reducing the fiscal deficit to levels between 2 to 3 percent of GDP, as targeted in the medium term fiscal strategy.

Economic growth

Economic growth in Barbados and the Caribbean is driven by higher productivity, product and service quality enhancement, the strength of the Caribbean Brand, the development of new markets and products, and greater efficiency of Government facilitation of business. In every one of these areas Barbados has already made some headway, except for Government facilitation of business.

Quality enhancement

Tourism is Barbados' main business, and the country is well established as a high end, aspirational destination. Recent investment in top quality accommodation has increased supply capacity in our prime market segment, and the visitor experience has been enhanced by sporting facilities for golf, polo, yachting and motor sports; by the development of diverse cultural and heritage products; and by the emergence of world class shopping and new attractions.

High quality is also the hallmark of Barbados' international business and financial services sector. The sector was founded on our network of double taxation agreements and bilateral investment treaties, and Government has been at pains to ensure that the regulatory framework is kept abreast of the highest regulatory standards, as promulgated by the Basel Committee on Banking Supervision, the Financial Stability Board, the Financial Action Task Force on anti-money laundering, and the Global Forum on the exchange of tax information.

New products

Barbados, like the rest of the Caribbean, has begun to make a name for itself in music and the visual arts, through the initiative of individuals of exceptional talent. Cultural products and services have become an important enhancement to Barbados' tourism product, and have enhanced the country's appeal to international investors and potential residents.

The growth of renewable energy production has the potential to be a game changer for Barbados, raising the potential growth of the economy by several percentage points. It now appears to be feasible to generate all the country's electricity needs using wind and solar power, with adequate storage and a modest backup capacity. The saving in foreign exchange would be the equivalent of a 10-15% export windfall, and it would be realised every year. The green energy sector is in its infancy, but it is an infant of great promise.

New markets

The Barbadian diaspora is the most remunerative new market that has been developed in the last three decades, and it continues to grow in importance. Annual visits of Barbadians from the diaspora have helped to realise the potential of Cropover as a foreign exchange earner, and Barbadian cultural practitioners have enlarged their audience through opportunities throughout the Caribbean region and the diaspora. An increasing number of Barbadian nationals returning home to retire make a significant contribution to foreign inflows as well.

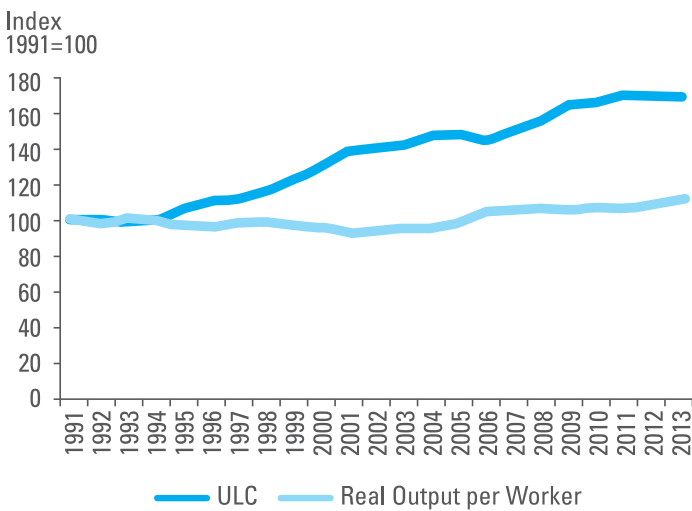
Barbados looks to develop new markets for tourism, international business, rum, other exports and cultural products, in Latin America, Europe, the Middle East, China and elsewhere. To be successful the market penetration strategy must be pursued resolutely into the medium term, in the face of the setbacks that invariably arise, and should be supported by appropriate incentives.

Productivity

The National Productivity Council reports a trend of productivity increases over the past 5 years of only one percent per year, in contrast to the unit cost of labour, which rose 2 percent per year. (See Figure 3.) There is an urgent need to accelerate the growth of labour productivity in Barbados

FIGURE 3.

PRODUCTIVITY AND LABOUR COST



Business facilitation

The inefficiency of the Government bureaucracy is reported as the biggest obstacle to business operations in Barbados in the World Economic Forum's *Global Competitiveness Report*. (See Figure 4.) In the World Bank's *Doing Business Report* Government's business facilitation is also poorly rated. The upgrade of public service efficiency must now receive top priority. Barbadians are demanding a Government that costs less to run, and delivers services much more efficiently.

FIGURE 4.

DOING BUSINESS

